

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 16-27 Financial Audit**

## USAID's Support for the American University of Afghanistan: Audit of Costs Incurred by the American University of Afghanistan



MARCH  
2016

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On August 1, 2013, the U.S. Agency for International Development (USAID) awarded a 5-year, \$40 million cooperative agreement with an initial obligation of \$10 million to the American University of Afghanistan (AUAF). The funding was intended to be used to (1) strengthen academic and professional development, (2) enhance the quality of programs, (3) expand programs for women, and (4) increase the university's financial self-sufficiency. After six modifications, funding has increased to \$21 million, and the period of performance is expected to continue through July 31, 2018.

SIGAR's financial audit, performed by Mayer Hoffman McCann P.C. (MHM), reviewed \$15,855,843 in expenditures charged to the cooperative agreement from August 1, 2013, through July 31, 2015. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in AUAF's internal controls related to the cooperative agreement; (2) identify and report on instances of material noncompliance with the terms of the cooperative agreement and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether AUAF has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of AUAF's Special Purpose Financial Statement. See MHM's report for the precise audit objectives.

In contracting with an independent audit firm and drawing from the results of the audit, SIGAR is required by auditing standards to review the audit work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances where MHM did not comply, in all material respects, with U.S. generally accepted government auditing standards.

March 2016

## USAID's Support for the American University of Afghanistan: Audit of Costs Incurred by the American University of Afghanistan

SIGAR 16-27-FA

### WHAT THE AUDIT FOUND

MHM identified five deficiencies, three of which were considered significant deficiencies, in AUAF's internal controls, and four instances of noncompliance with the terms and conditions of the cooperative agreement. Specifically, MHM found that AUAF did not have adequate management oversight and charged the agreement for non-program-related and unallowable costs. As a result, MHM questioned \$68,418 in ineligible costs. In addition, AUAF failed to obtain USAID approval and did not retain documentation related to emergency evacuation expenses, resulting in \$29,496 in unallowable costs. MHM also found that AUAF did not provide adequate management oversight of overtime and timekeeping policies, which resulted in \$9,295 in ineligible overtime costs.

As a result of these internal control deficiencies and instances of noncompliance, MHM identified \$107,209 in total questioned costs, consisting of \$77,713 ineligible costs—costs prohibited by the cooperative agreement, applicable laws, or regulations—and \$29,496 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
International Staff Salary	\$25,523	\$0	\$25,523
National Staff Salary	\$18,515	\$0	\$18,515
International Staff Fringe Benefits	\$7,955	\$0	\$7,955
Indirect Costs	\$25,720	\$29,496	\$0
<b>Totals</b>	<b>\$77,713</b>	<b>\$29,496</b>	<b>\$107,209</b>

MHM obtained and reviewed prior audits and evaluations pertinent to AUAF's activities under the program. MHM identified two prior audit reports that could have a material impact on the Special Purpose Financial Statement. In these reports, MHM followed up on five findings related to the scope of this audit. After reviewing and assessing documentation, MHM determined that AUAF had taken adequate corrective action on four of the five findings. The fifth finding concerned noncompliance for performing the annual financial audit—an issue repeated in this audit.

MHM issued an unmodified opinion on AUAF's Special Purpose Financial Statement, noting that it presents fairly, in all material respects, program revenues, costs incurred and reimbursed for the period audited.

### WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$107,209 in questioned costs identified in the report.
2. Advise AUAF to address the report's five internal control findings.
3. Advise AUAF to address the report's four noncompliance findings.



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

March 31, 2016

The Honorable Gayle E. Smith  
Administrator  
U.S. Agency for International Development

Mr. Herbert Smith  
USAID Mission Director for Afghanistan

We contracted with Mayer Hoffman McCann P.C. (MHM) to audit the costs incurred by the American University of Afghanistan (AUAF) under a U.S. Agency for International Development (USAID) cooperative agreement to support AUAF.<sup>1</sup> MHM's audit covered \$15,855,843 in expenditures charged to the cooperative agreement from August 1, 2013, through July 31, 2015. Our contract 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 responsible agreement officer at USAID:

1. **Determine the allowability of and recover, as appropriate, \$107,209 in questioned costs identified in the report.**
2. **Advise AUAF to address the report's five internal control findings.**
3. **Advise AUAF to address the report's three noncompliance findings.**

The results of MHM's audit are further detailed in the attached report. We reviewed MHM's report and related documentation. Our review, as differentiated from an audit 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 AUAF's Special Purpose Financial Statement. We also express no opinion on the effectiveness of AUAF's internal control or compliance with the cooperative agreement, laws, and regulations. MHM is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where MHM did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

We will be following up with your agency to obtain information on the corrective actions taken in response to our recommendations.

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

(F-069)

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<sup>1</sup> USAID awarded cooperative agreement number 306-A-13-00004-00 to AUAF. The funding was intended to strengthen academic and professional development programs, enhance the quality of programs, expand programs for women, and increase the university's financial self-sufficiency.

**AMERICAN UNIVERSITY OF AFGHANISTAN**

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. 306-A-13-00004-00 to support  
the American University of Afghanistan

For the Period August 1, 2013 to July 31, 2015

# AMERICAN UNIVERSITY OF AFGHANISTAN

## Financial Audit of Costs Incurred Under Cooperative Agreement No. 306-A-13-00004-00 to support The American University of Afghanistan

For the Period August 1, 2013 to July 31, 2015

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**Mayer Hoffman McCann P.C.**

**An Independent CPA Firm**

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February 12, 2016

Enclosed is the final report on the financial audit of costs incurred under Cooperative Agreement No. 306-A-13-00004-00 awarded by the United States Agency for International Development (USAID) to the American University of Afghanistan (AUAF) to support AUAF. The audit covers the period August 1, 2013 through July 31, 2015.

The following items are included in the report:

- Summary
- Independent Auditor's Report on Special Purpose Financial Statement
- Special Purpose Financial Statement
- Notes to Special Purpose Financial Statement
- Notes to Questioned Costs Presented on Special Purpose Financial Statement
- Report on Internal Control Over Financial Reporting Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with *Government Auditing Standards*
- Report on Compliance and Other Matters Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with *Government Auditing Standards*
- Detailed Audit Findings
- AUAF's Response to Detailed Audit Findings
- Auditor's Rebuttal to AUAF's Response to Detailed Audit Findings

Sincerely,

Mayer Hoffman McCann P.C.

Marcus D. Davis, CPA  
Shareholder

# AMERICAN UNIVERSITY OF AFGHANISTAN

## Financial Audit of Costs Incurred Under Cooperative Agreement No. 306-A-13-00004-00 to support The American University of Afghanistan

For the Period August 1, 2013 to July 31, 2015

### **Background**

On August 1, 2013, the United States Agency for International Development ("USAID") awarded Cooperative Agreement No. 306-A-13-00004-00 ("Agreement") in the amount of \$40,000,000 to the American University of Afghanistan ("AUAF") to support AUAF for the period August 1, 2013 through July 31, 2018. The initial obligated amount was \$10,000,000 but after subsequent modifications, the total obligated fund was increased to \$21,093,557. The Agreement included AUAF cost sharing in the amount of \$62,886,799, as well as funding from other United States Government ("USG") sources in the amount of \$6,992,975. This resulted in a total program amount of \$109,879,774. The initial USAID funding supports a portion of the core faculty and international staff salaries and security costs. The four main objectives of the program are to: (1) strengthen academic and professional development; (2) enhance the quality of programs; (3) expand programs for women; and (4) increase financial self-sufficiency.

Our audit covers the period of performance of August 1, 2013 through July 31, 2015 during which AUAF incurred costs totaling \$15,855,843.

The Agreement was modified six times as of July 31, 2015. Those modifications that have a significant impact on the original Agreement are as follows:

<u>Modification No.</u>	<u>Effective Date</u>	<u>Significance</u>
3	9/14/14	Increased the total USAID obligated amount to \$13,093,557 and removed the requirement for the deposit of advance funds to an interest bearing account
5	3/12/15	Increased the total USAID obligated amount to \$21,093,557

AUAF is a private Afghan university and non-government and not-for-profit organization, established on July 26, 2004 and registered with both the Ministry of Higher Education and Ministry of Economy of Afghanistan. AUAF offers undergraduate and graduate level education service using an American curriculum. It also offers professional development courses including business development, management, leadership, information technology, project management and financial management. In addition to the formal education and professional development courses, AUAF is implementing projects related to business development and leadership courses to the Afghan business women running small businesses and those who want to start a new business in order to assist them to establish or grow their business.

### **Work Performed**

Mayer Hoffman McCann P.C. ("MHM") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of AUAF's Special Purpose Financial Statement ("SPFS") for costs incurred under the Agreement for the period August 1, 2013 through July 31, 2015.

# AMERICAN UNIVERSITY OF AFGHANISTAN

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. 306-A-13-00004-00 to support  
The American University of Afghanistan

For the Period August 1, 2013 to July 31, 2015

## **Objectives, Scope and Methodology**

### **Objectives**

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

- *Special Purpose Financial Statement* – Express an opinion on whether AUAF's SPFS for the Agreement 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.
- *Internal Controls* – Evaluate and obtain a sufficient understanding of AUAF's internal controls related to the Agreement; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether AUAF complied, in all material respects, with the Agreement 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 AUAF 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 included all costs, including indirect costs, incurred during the period August 1, 2013 through July 31, 2015 under the Agreement. An indirect cost rate was not charged to the Agreement. Rather, costs considered as indirect were charged to the indirect costs cost category. Our testing of indirect costs included sampling individual transactions charged to the indirect costs cost category to ensure the costs were reasonable, allowable and allocable to the Agreement.

Audits in accordance with *Government Auditing Standards* require, among other things, that auditors performing the audits obtain 24 hours of continuing professional education every 2 years, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years. We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of performing all fieldwork located in Afghanistan. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the



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For the Period August 1, 2013 to July 31, 2015

continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

## **Methodology**

In order to accomplish the objectives of this audit, we designed our audit procedures to include the following:

### **Entrance Conference**

An entrance conference was held on August 26, 2015 with representatives of MHM, HLB Ijaz Tabussum & Co. ("HLB"), AUAF, SIGAR and USAID participating via conference call.

### **Planning**

During our planning phase, we performed the following:

- Obtained an understanding of AUAF;
- Reviewed the Agreement and all modifications;
- Reviewed regulations specific to USAID that are applicable to the Agreement;
- Performed a financial reconciliation; and
- Selected samples based upon our approved sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high or medium risk for inclusion in our test of transactions. If the population of a given cost category tended to be large in number of transactions and homogeneous in nature, we selected a statistical sample of the costs. None of the populations were homogeneous in nature, thus statistical sampling was not used. All samples were selected on a judgmental basis. Our sampling methodology for judgmental samples was as follows:
  - For accounts that appeared to contain unallowable and restricted items according to the terms of the Agreement, OMB Circular A-21, *Cost Principles for Educational Institutions*, and any other applicable regulations, we tested 100% of the transactions.
  - 100% of related party transactions.

# **AMERICAN UNIVERSITY OF AFGHANISTAN**

## **Financial Audit of Costs Incurred Under Cooperative Agreement No. 306-A-13-00004-00 to support The American University of Afghanistan**

**For the Period August 1, 2013 to July 31, 2015**

- High risk cost categories – sampled transactions that were greater than \$15,900 not to exceed 50% of the total amount expended for each cost category.
- Medium risk categories – sampled transactions that were greater than \$31,800 not to exceed 20% of the total amount expended for each cost category.
- Low risk categories – sampled transactions that were greater than \$31,800 not to exceed 10% of the total amount expended for each cost category, not to exceed 50 transactions in total for all accounts comprising low risk categories.

If the results of a sample indicated a material error rate, our audit team consulted with the Audit Manager and Project Director as to whether the sample size should be expanded. If it appeared that based upon the results of the sample, an entire account was deemed not allowable, we did not expand our testing, but instead questioned the entire account.

- Subcontracted a portion of the fieldwork to HLB, an independent chartered public accounting firm with an office located in Kabul, Afghanistan.

### **Internal Control Related to the SPFS**

We reviewed AUAF's internal controls related to the SPFS. This review was accomplished through interviews with management and key personnel, review of policies and procedures, identifying key controls within significant transaction cycles, and testing those key controls.

### **Compliance with Agreement Requirements and Applicable Laws and Regulations**

We reviewed the Agreement and modifications and documented all compliance requirements that could have a direct and material effect on the SPFS. We assessed inherent and control risk as to whether material noncompliance could occur. Based upon our risk assessment, we designed procedures to test a sample of transactions to ensure compliance.

### **Corrective Action on Prior Findings and Recommendations**

We requested all reports from previous engagements in order to evaluate the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. See the Review of Prior Findings and Recommendations subsection of this Summary for this analysis.

### **Special Purpose Financial Statement**

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Agreement and general ledger;
- Traced receipt of funds to the accounting records; and

# AMERICAN UNIVERSITY OF AFGHANISTAN

## Financial Audit of Costs Incurred Under Cooperative Agreement No. 306-A-13-00004-00 to support The American University of Afghanistan

For the Period August 1, 2013 to July 31, 2015

- Sampled and tested the costs incurred to ensure the costs were reasonable, allowable and allocable to the Agreement.

### Exit Conference

An exit conference was held on December 1, 2015 via conference call. Participants included MHM, HLB, AUAF, SIGAR and USAID. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting.

### Summary of Results

Our audit of the costs incurred by AUAF under the Agreement with USAID identified the following matters. Findings are classified as either internal control or compliance or combination of internal control and compliance.

### Auditor's Opinion on SPFS

We issued an unmodified opinion on the fairness of the presentation of the SPFS. However, we did identify \$107,209 of questioned costs as follows:

Finding Number	Nature of Finding	Matter	Questioned Costs	Total Cumulative Questioned Cost
2015-1	Internal control – significant deficiency  Compliance	Non-program related costs and/or ineligible costs claimed	\$68,418	\$68,418
2015-2	Internal control – significant deficiency  Compliance	Overtime and timesheets not in accordance with AUAF employee manual	\$9,295	\$77,713
2015-3	Internal control – significant deficiency  Compliance	Missing or insufficient source documentation to support expenses	\$29,496	\$107,209
2015-4	Internal control – deficiency	Lack of financial management control over allowances	None	\$107,209

## AMERICAN UNIVERSITY OF AFGHANISTAN

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. 306-A-13-00004-00 to support  
The American University of Afghanistan

For the Period August 1, 2013 to July 31, 2015

Finding Number	Nature of Finding	Matter	Questioned Costs	Total Cumulative Questioned Cost
2015-5	Internal control – deficiency	Missing documents in personnel files	None	\$107,209
2015-6	Compliance	Annual audit not performed or not performed in a timely manner	None	\$107,209

### **Internal Control Findings**

Our audit discovered five internal control findings, consisting of three significant deficiencies and two deficiencies. See Independent Auditor's Report on Internal Control on page 16. The complete management responses from AUAF to each of the internal control findings can be found in Appendix A to this report.

### **Compliance Findings**

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we performed tests of its compliance with certain provisions of the Agreement and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of the SPFS. The results of our tests disclosed four instances of noncompliance related to this audit. See Independent Auditor's Report on Compliance on page 19. The complete management responses from AUAF to each of the compliance findings can be found in Appendix A to this report.

### **Review of Prior Findings and Recommendations**

We requested copies of prior engagements including audits, reviews and evaluations pertinent to AUAF's activities under the Agreement. We identified 5 findings and recommendations from prior engagements that could have a material effect on the SPFS and reviewed the corrective actions taken to address the findings and recommendations. AUAF has taken adequate corrective action on 4 out of the 5 prior findings and recommendations. The one finding for which adequate corrective action was not taken was related to the fact that the annual financial audit was not completed for the years ended June 30, 2012 and 2013. During our testing, we noted the annual financial audit for years ended June 30, 2012 and 2013 was finally completed on December 4, 2014. In addition, the annual financial audit for year ended June 30, 2014 has not yet been started. See Status of Prior Audit Findings on page 21 for a detailed description of the prior findings and recommendations.

# **AMERICAN UNIVERSITY OF AFGHANISTAN**

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. 306-A-13-00004-00 to support  
The American University of Afghanistan

For the Period August 1, 2013 to July 31, 2015

## **Summary of AUAF's Responses to Findings**

AUAF agrees with 5 out of 6 findings and recommendations and partially disagrees with 1 of the 6 findings. The following represents a summary of the response provided by AUAF to the finding in which it partially disagreed. The complete responses received can be found in Appendix A to this report.

- 2015-03: AUAF disagrees with Recommendation 1 of this finding by stating that due to the emergency of the situation, the costs should not be questioned.



## **INDEPENDENT AUDITOR'S REPORT ON SPECIAL PURPOSE FINANCIAL STATEMENT**

Board of Directors  
American University of Afghanistan  
Kabul, Afghanistan

### **Report on the Special Purpose Financial Statement**

We have audited the accompanying Special Purpose Financial Statement of American University of Afghanistan (AUAF) under Cooperative Agreement No. 306-A-13-00004-00 (Agreement) with the United States Agency for International Development (USAID) to support the AUAF for the period August 1, 2013 through July 31, 2015, and the related notes to the Special Purpose Financial Statement.

### ***Management's Responsibility for the Special Purpose Financial Statement***

Management is responsible for the preparation and fair presentation of the Special Purpose Financial Statement in accordance with the methods of preparation described in Note 1. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements (including the Special Purpose Financial Statement) that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the Special Purpose Financial Statement based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement, except as it relates to continuing education and peer review requirements as discussed in the following paragraph.

*Government Auditing Standards* require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every 2 years, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years. We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of performing all fieldwork located in Afghanistan. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional



education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Special Purpose Financial Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Special Purpose Financial Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Special Purpose Financial Statement 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Special Purpose Financial Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, program revenues, costs incurred, and reimbursed by AUAF under Cooperative Agreement No. 306-A-13-00004-00 for the period August 1, 2013 through July 31, 2015 in accordance with the basis of accounting described in Note 1.

### ***Restriction on Use***

This report is intended for the information of the American University of Afghanistan, the United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction, 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 USC 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 6, 2016 on our consideration of AUAF'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 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 internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government*

Board of Directors  
American University of Afghanistan  
Darulaman Road  
Kabul, Afghanistan

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*Auditing Standards* in considering AUAF's internal control over financial reporting and compliance.

A handwritten signature in blue ink, reading "Morgan Hoffman M. Com P.C.".

Irvine, California  
February 6, 2016



**AMERICAN UNIVERSITY OF AFGHANISTAN**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. 306-A-13-00004-00

**Special Purpose Financial Statement**

For the Period August 1, 2013 through July 31, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>			<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	
Revenues:						
Award: 306-A-13-00004-00	\$ 17,500,000	\$ 15,932,291	\$ -	\$ -	\$ -	(3)
Total revenues	<u>17,500,000</u>	<u>15,932,291</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
International staff salary	8,211,889	7,224,538	25,523	-	25,523	(A)
National staff salary	1,074,572	1,129,230	18,515	-	18,515	(B)
International staff fringe benefits	1,698,101	1,655,758	7,955	-	7,955	(C)
National staff fringe benefits	196,344	209,257	-	-	-	
Security	3,041,686	2,730,372	-	-	-	
Indirect costs	<u>3,277,408</u>	<u>2,936,688</u>	<u>25,720</u>	<u>29,496</u>	<u>55,216</u>	(D)
Total costs incurred	<u>17,500,000</u>	<u>15,885,843</u>	<u>77,713</u>	<u>29,496</u>	<u>107,209</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ 46,448</u>	<u>\$ (77,713)</u>	<u>\$ (29,496)</u>	<u>\$ (107,209)</u>	(8)

See Notes to Special Purpose Financial Statement  
and Notes to Questioned Costs Presented on Special Purpose Financial Statement

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Financial Audit of Costs Incurred Under  
Cooperative Agreement No. 306-A-13-00004-00 to support  
the American University of Afghanistan

Notes to Special Purpose Financial Statement<sup>1</sup>

For the Period August 1, 2013 to July 31, 2015

## (1) **Basis of Presentation**

The accompanying Special Purpose Financial Statement (SPFS) includes costs incurred under Cooperative Agreement No. 306-A-13-00004-00 (Agreement), for the period August 1, 2013 through July 31, 2015. Since the SPFS presents only a selected portion of the operations of AUAF, it is not intended to and does not present the financial position, changes in financial position, or cash flows of AUAF. The information in the SPFS is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction (SIGAR), accounting principles generally accepted in the United States of America, and is specific to the aforementioned Agreement.

Expenditures reported on the SPFS are required to be presented in accordance with accounting principles generally accepted in the United States of America and, therefore, are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*.

## (2) **Foreign Currency Conversion Method**

For purposes of preparing the SPFS, AUAF converts its expenses that were paid in Afghanistan (local currency) into U.S. dollars (reporting currency) by applying the weighted average monthly rate based on the exchange bank rate of the prior month.

## (3) **Revenue**

As of July 31, 2015, AUAF has reported \$15,932,291 in revenue from the United States Agency for International Development (USAID) under the Agreement. For the period August 1, 2013 through July 31, 2015, AUAF has invoiced a total of \$15,885,843 to USAID. The balance of \$46,448 represents advances received to cover costs that have not yet been incurred and/or billed to USAID. Also, see note 8 for details of outstanding fund balance.

## (4) **Costs Incurred by Budget Category**

The budget categories presented and associated amounts reflect the budget line items presented within the final, USAID-approved Agreement budget.

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<sup>1</sup> The Notes to the Special Purpose Financial Statement are the responsibility of AUAF

# **AMERICAN UNIVERSITY OF AFGHANISTAN**

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Cooperative Agreement No. 306-A-13-00004-00 to support  
the American University of Afghanistan

Notes to Special Purpose Financial Statement

(Continued)

**(5) Currency**

All amounts presented are shown in U.S. dollars, the reporting currency of AUAF. Costs incurred in a foreign country and recorded in a foreign currency have been converted to U.S. dollars consistent with AUAF's foreign currency conversion policy.

**(6) Status of Financial Reporting to AUAF**

The SPFS, as presented, reflects all expenditures incurred and reported on the SF-425s and SF-1034s submitted to USAID as of July 31, 2015.

**(7) Indirect Costs**

AUAF did not charge indirect costs based upon an approved indirect cost rate, but rather directly charged international and national administrative staff salaries under this cost category as approved in the budget. Indirect costs were awarded in an amount not to exceed \$4,098,137 for the life of the Agreement.

**(8) Outstanding Fund Balance**

As of July 31, 2015, there was an outstanding fund balance in the amount of \$46,448. This outstanding fund balance will be used by AUAF to cover costs to be incurred during the remaining period of performance of the Agreement.

# AMERICAN UNIVERSITY OF AFGHANISTAN

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. 306-A-13-00004-00 to support  
the American University of Afghanistan

Notes to Questioned Costs Presented on Special Purpose Financial Statement<sup>2</sup>

For the Period August 1, 2013 through July 31, 2015

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are deemed to not be allowable in accordance with the terms of the Agreement and applicable laws and regulations. Unsupported costs are those costs for which no or inadequate supporting documentation was provided for our review.

## (A) International Staff Salary

AUAF reported international staff salary in the amount of \$7,224,538 for the period August 1, 2013 through July 31, 2015. During our review of these costs, we noted the following ineligible costs, which resulted in questioned costs. See Finding 2015-1.

	<u>Questioned Costs</u>
Salary of employee who was terminated in June 2013, prior to the Agreement start date, was claimed in September 2013	\$11,489
Salary for professors who teach at Professional Development Institute, which should be funded by AUAF's matching funds	<u>14,034</u>
Total questioned international staff salary	<u>\$25,523</u>

## (B) National Staff Salary

AUAF reported national staff salary in the amount of \$1,129,230 for the period August 1, 2013 through July 31, 2015. During our review of these costs, we noted the following ineligible costs, which resulted in questioned costs.

<u>Finding Number</u>	<u>Observation</u>	<u>Questioned Costs</u>
2015-1	Employee bonus for non-program related personnel	\$ 9,220
2015-2	Overtime pay not in accordance with AUAF employee manual	<u>9,295</u>
Total ineligible costs for national staff salary		<u>\$18,515</u>

<sup>2</sup> The Notes to Questioned Costs presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only and as such are not part of the audited Special Purpose Financial Statement.

# AMERICAN UNIVERSITY OF AFGHANISTAN

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. 306-A-13-00004-00 to support  
the American University of Afghanistan

Notes to Questioned Costs Presented on Special Purpose Financial Statement

(Continued)

## (C) International Staff Fringe Benefits

AUAF reported international staff fringe benefits in the amount of \$1,655,758 for the period August 1, 2013 through July 31, 2015. During our review of these costs, we noted the following ineligible costs, which resulted in questioned costs. See Finding 2015-1.

	Questioned Costs
Housing allowances claimed for an employee terminated prior to the start of the Agreement	\$2,661
Allowances not prorated for new hired or terminated employees	4,592
Allowances for professors that should be funded through AUAF matching funds	<u>702</u>
Total questioned international staff fringe benefits	<u>\$7,955</u>

## (D) Indirect Costs

AUAF reported indirect costs in the amount of \$2,936,688 for the period August 1, 2013 through July 31, 2015. During our review of these costs, we noted the following, which resulted in questioned costs.

Finding Number	Observation	Questioned Costs
Ineligible costs:		
2015-1	Non-program related and ineligible costs claimed	<u>\$25,720</u>
Total ineligible costs		<u>25,720</u>
Unsupported costs:		
2015-3	Travel costs missing invoices and lacked the President's and USAID's approval	<u>29,496</u>
Total unsupported costs		<u>29,496</u>
Total questioned indirect costs		<u>\$55,216</u>



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF THE SPECIAL PURPOSE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
American University of Afghanistan  
Kabul, Afghanistan

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 of the American University of Afghanistan (AUAF) representing revenues received and costs incurred under Cooperative Agreement No. 306-A-13-00004-00 (Agreement) with the United States Agency for International Development (USAID) for the period August 1, 2013 through July 31, 2015, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated February 6, 2016, except as it relates to continuing education and peer review requirements as discussed in the following paragraph.

*Government Auditing Standards* require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every 2 years, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years. We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of performing all fieldwork located in Afghanistan. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

**Internal Control over Financial Reporting**

In planning and performing our audit of the Special Purpose Financial Statement, we considered AUAF's internal control over financial reporting (internal control) to determine the audit procedures that were appropriate in the circumstances for the purpose of expressing our opinion on the Special Purpose Financial Statement, but not for the purpose of expressing an

opinion on the effectiveness of AUAF's internal control. Accordingly, we do not express an opinion on the effectiveness of AUAF's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses, significant deficiencies and deficiencies.

*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. The items reported in the accompanying Detailed Audit Findings as Findings 2015-4 and 2015-5 are considered to be deficiencies.

*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 did identify three deficiencies in internal control, described in the accompanying Detailed Audit Findings as Findings 2015-1, 2015-2 and 2015-3 that we consider to be significant deficiencies.

### **AUAF's Response to Findings**

AUAF's response to the findings identified in our audit is included verbatim in Appendix A. AUAF's response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

This report is intended for the information of the American University of Afghanistan, the United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction, 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. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

A handwritten signature in blue ink, reading "Mayer Hoffman McLean P.C.".

Irvine, California  
February 6, 2016





**Mayer Hoffman McCann P.C.**

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**REPORT ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF THE SPECIAL PURPOSE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
American University of Afghanistan  
Kabul, Afghanistan

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 of the American University of Afghanistan (AUAF) representing revenues received and costs incurred under Cooperative Agreement No. 306-A-13-00004-00 (Agreement) with the United States Agency for International Development (USAID) for the period August 1, 2013 through July 31, 2015, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated February 6, 2016, except as it relates to continuing education and peer review requirements as discussed in the following paragraph.

*Government Auditing Standards* require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every 2 years, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years. We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of performing all fieldwork located in Afghanistan. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether AUAF's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including the aforementioned Agreement, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance



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with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. As we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. The results of our tests disclosed four instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Detailed Audit Findings as Findings 2015-1, 2015-2, 2015-3 and 2015-6.

### **AUAF's Response to Findings**

AUAF's response to the findings identified in our audit is described included verbatim in Appendix A. AUAF's response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

This report is intended for the information of the American University of Afghanistan, the United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction, 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. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.



Irvine, California  
February 6, 2016

## **AMERICAN UNIVERSITY OF AFGHANISTAN**

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. 306-A-13-00004-00 to support  
the American University of Afghanistan

### **Status of Prior Findings**

For the Period August 1, 2013 to July 31, 2015

We requested copies of prior engagements including audits, reviews and evaluations pertinent to AUAF's activities under the program. We reviewed the corrective actions taken to address findings and recommendations from prior engagements that could have a material effect on the SPFS. There were two prior engagements with findings and recommendations that were included in the scope of our audit. These engagements identified five findings with a potential material effect on the SPFS and/or control deficiencies effect on the cooperative agreement. Based on our review, adequate corrective actions were implemented on four of the five prior findings.

### **USAID Office of Inspector General's (OIG's) audit of USAID's Afghanistan's Support to the American University of Afghanistan**

There were two prior findings and recommendations identified in the USAID OIG audit of USAID's Afghanistan's Support to the American University of Afghanistan that covers the program activities implemented for the period of August 2008 through May 2010 (Audit Report No. 5-306-11-002-P), dated November 5, 2010. Based upon our review, adequate corrective action was taken on both findings and recommendations as described below.

- (1) USAID OIG auditors recommended that any subcontracts entered into by AUAF should be approved by USAID Mission. During our testing of the Agreement, we noted AUAF subcontracted its security services to the Afghan Ministry of Interior's Afghanistan Public Protection Force, which was approved in the Agreement. As such, the corrective action has been adequately implemented.
- (2) USAID auditors recommended AUAF develop and implement a standard procurement policy and procedures. During our testing of the Agreement, except for the security services that was approved in the Agreement as indicated in recommendation (1) above, there were no services or purchases that required a procurement process. AUAF did develop standard procurement policies and procedures and incorporated them into its standard manual dated December 8, 2014. As such, the corrective action has been adequately implemented.

### **Business Review Report**

There were three prior findings and recommendations identified in the Business Review Report of AUAF dated September 23, 2014, which was prepared by Ernst & Young Ford Rhodes Sidat Hyder, that could have a material effect on the SPFS. Based upon our review, adequate corrective action was taken on two of the three findings as described below.

- (1) The report noted that there was a lack of an internal audit function at AUAF. Per discussion with AUAF management, an internal auditor was hired in early 2015 but resigned in June

## **AMERICAN UNIVERSITY OF AFGHANISTAN**

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### **Status of Prior Findings**

(Continued)

2015 and the position is currently vacant. In the interim, the Finance Department has assumed the internal audit function until another internal auditor can be hired. As such, the corrective action has been adequately implemented.

- (2) The auditors noted that the position of the Finance Director and Chief Financial Officer were vacant. During our testing, we noted AUAF hired a Finance Director and a Deputy Finance Director in 2015. As such, the corrective action has been adequately implemented.
- (3) The auditors noted that the annual financial audit was in process and had not yet been completed for the years ended June 30, 2012 and 2013. During our testing, we noted the annual financial audit for years ended June 30, 2012 and 2013 was completed on December 4, 2014 which was late. In addition, the annual financial audit for year ended June 30, 2014 has not been commenced. As such, the corrective action has not been adequately implemented. See Finding 2015-6 in the Detailed Audit Findings section of this report.

# AMERICAN UNIVERSITY OF AFGHANISTAN

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. 306-A-13-00004-00 to support  
the American University of Afghanistan

## Detailed Audit Findings

For the Period August 1, 2013 to July 31, 2015

### Finding Number 2015-1: Non-Program Related Costs and/or Ineligible Costs Claimed

#### Nature of Finding:

Internal control – significant deficiency  
Compliance

#### Condition:

During the testing of International and National Staff Salaries and Benefits and Indirect Costs, we noted the following non-program related and/or ineligible costs were claimed.

<u>Observation</u>	<u>Number of Transactions With Errors</u>	<u>Amount</u>
International staff salary:		
Salary of employee who was terminated in June 2013, prior to the Agreement start date, was claimed in September 2013	1	\$ 11,489
Salary for professors who teach at Professional Development Institute, which should be funded by AUAF's matching funds	<u>4</u>	<u>14,034</u>
Subtotal international staff salary	<u>5</u>	<u>25,523</u>
National staff salary:		
Year-end bonus was allocated for personnel who worked in the Procurement Department	<u>1</u>	<u>9,220</u>
International staff fringe benefits:		
Allowance of employee who was terminated in June 2013, prior to the Agreement start date, was claimed in September 2013, and the employee was provided housing, but also received a housing allowance	1	2,661
Full month allowances were claimed for employees who were either hired or terminated during the period 7/1/14 through 7/31/15 when the allowances should have been prorated.	18	4,592
Allowances associated with salaries for professors who teach at Professional Development Institute, which should be funded by AUAF's matching funds	<u>4</u>	<u>702</u>
Subtotal international staff fringe benefits	<u>23</u>	<u>7,955</u>

# AMERICAN UNIVERSITY OF AFGHANISTAN

## Financial Audit of Costs Incurred Under Cooperative Agreement No. 306-A-13-00004-00 to support the American University of Afghanistan

### Detailed Audit Findings

(Continued)

<u>Observation</u>	<u>Number of Transactions With Errors</u>	<u>Amount</u>
Indirect costs:		
Previous President had accrued 15 days paid leave prior to July 2014; however, salary was not charged to the Agreement prior to July 2014	1	\$19,006
Fuel for generator was not an approved item in the budget	1	2,988
Airfare associated with an emergency relocation were claimed for individuals who did not work under the program	5	1,738
Lodging costs associated with an emergency relocation were claimed for individuals who did not work under the program	2	1,738
Visa application fees associated with an emergency relocation were claimed for individuals who did not work under the program	<u>2</u>	<u>250</u>
Subtotal indirect costs	<u>11</u>	<u>25,720</u>
Total non-program related and ineligible costs claimed	<u>40</u>	<u>\$68,418</u>

#### Criteria:

Cooperative Agreement No. 306-A-13-00004, Section A.2, *Period of Agreement*, states, in part:

“...(b)...allowable costs incurred by the Recipient shall be reimbursable during the period beginning on August 01, 2013...”

The costs associated with the PDI represent matching costs per Cooperative Agreement No. 306-A-13-00004, Section A.10, *Cost Sharing*, which states, in part:

“AUAF’s total cost share...will be supplemented by students’ tuition revenue, and revenue generating activities such as the courses offered by the Professional Development Institute (PDI)...”

OMB Circular A-21, *Cost Principles for Educational Institutions*, Section C, *Basic considerations*, states, in part:

# AMERICAN UNIVERSITY OF AFGHANISTAN

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## Detailed Audit Findings

(Continued)

“...2. Factors affecting allowability of costs. The tests of allowability of costs under these principles are: (a) they must be reasonable; (b) they must be allocable to sponsored agreements under the principles and methods provided herein; (c) they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (d) they must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items...”

### **Cause:**

Lack of adequate management oversight over financial reporting resulted in non-program related and ineligible costs being claimed against the Agreement.

### **Effect:**

Reporting non-program related and ineligible costs raises concerns about the propriety of AUAF's billing and the extent of such charges. It also raises concerns that other non-program related and ineligible costs may have been incurred and reported.

### **Questioned Costs:**

Total questioned costs of \$68,418 are comprised of the following:

International staff salary	\$25,523
National staff salary	9,220
International staff fringe benefits	7,955
Indirect costs	<u>25,720</u>
Total questioned costs	<u>\$68,418</u>

### **Recommendation:**

- (1) We recommend that AUAF return \$68,418 to USAID for ineligible costs.
- (2) We recommend that AUAF provide training to its staff and require adequate supervisory review to ensure that only allowable costs are claimed under the Agreement.

# AMERICAN UNIVERSITY OF AFGHANISTAN

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. 306-A-13-00004-00 to support  
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## Detailed Audit Findings

(Continued)

### Finding Number 2015-2: Overtime and Timesheets not in Accordance with AUAF Employee Manual

#### Nature of Finding:

Internal control – significant deficiency  
Compliance

#### Condition:

Overtime pay for national staff exceeded the allowed overtime limit set forth by the AUAF payroll policy in 210 out of 4,182 overtime transactions as follows. This overtime was charged to the national staff salary cost category.

<u>Observation</u>	<u>Number of Transactions With Errors</u>	<u>Amount</u>
Employee whose monthly salary is less than \$700 but paid in excess of 40 hours of overtime	210	\$9,295

In addition, during testing of 609 national staff and 259 international staff timesheets, AUAF did not follow its established policies and procedures when reviewing and approving the timesheets. These errors did not result in questioned costs as other evidence existed for review to support that the cost claimed was reasonable, allowable, and allocable to the Agreement.

<u>Observation</u>	<u>Number of timesheets with Errors</u>	
	<u>National Staff</u>	<u>International Staff</u>
Missing name and signature of employee	0	33
Missing name and signature of approver	0	5
Missing name and signature of Human Resource reviewer	608	259
Timesheet prepared prior to the end of pay period	609	259
Timesheet approved prior to the end of pay period	<u>607</u>	<u>259</u>
Total errors on timesheets tested	<u>1,824</u>	<u>815</u>

#### Criteria:

AUAF Employee Handbook, Section I.3, *Overtime*, states, in part:



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## Detailed Audit Findings

(Continued)

### “...Limits on Overtime Assignments

- All staff making a salary of less than \$700 per month shall not be assigned overtime in excess of 40 hours per month.
- All staff making a salary of \$701 to \$1,500 per month shall not be assigned overtime in excess of 32 hours per month...

### Exceptions

This policy does not apply to drivers and radio operators, who are sometimes required to work on weekends and holidays as well as on weekdays...”

AUAF Employee Handbook, Section I.2, *Time Sheets*, states:

“All employees must complete monthly timesheets and submit them to their supervisor for approval. Time sheets show all days and hours worked during the pay period, any time off from work and the reasons for the time off (i.e. holiday, sick leave, vacation, unpaid leave).

After approval, the timesheets shall be sent to the Human Resources (HR) Office for review, and, if necessary, correction. All questions or problems regarding timesheets should be addressed to the supervisors responsible for the relevant department.

Timesheets are due and must be submitted to the HR Office at the end of each pay period. Failure to submit a timesheet on the appropriate day may result in delayed payment.”

OMB Circular A-21, *Cost Principles for Educational Institutions*, Section C.4.d., *Allocation and documentation standard*, states, in part:

“...(4) Federal requirements for documentation are specified in this Circular, Circular A-110, “Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations,” and specific agency policies on cost transfers...”

OMB Circular A-110, Subpart C, *Post-Award Requirements*, Section .21, *Standards for financial management systems*, states, in part:

“...(b) Recipients’ financial management systems shall provide for the following...”

# AMERICAN UNIVERSITY OF AFGHANISTAN

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. 306-A-13-00004-00 to support  
the American University of Afghanistan

## Detailed Audit Findings

(Continued)

“(3) Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes...

(6) Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award...”

### **Cause:**

Management did not enforce its overtime and timekeeping policies due to management’s negligence and a general lack of management oversight.

### **Effect:**

Failure to enforce its overtime policy resulted in \$9,295 of excess overtime costs charged to the Agreement. In addition, timesheets not signed and properly approved, or prepared and approved prior to the end of the pay period raises concerns of the validity of the timesheets as well as whether or not they reflect the actual time incurred.

### **Questioned Costs:**

Total questioned national staff salary costs are \$9,295.

### **Recommendation:**

- (1) We recommend that AUAF return \$9,295 to USAID for ineligible overtime costs.
- (2) We recommend that AUAF provide training to all employees emphasizing the need to adhere to established overtime and timesheet policies, and perform adequate supervisory review.

# AMERICAN UNIVERSITY OF AFGHANISTAN

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. 306-A-13-00004-00 to support  
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## Detailed Audit Findings

(Continued)

### Finding Number 2015-3: Missing or Insufficient Source Documentation to Support Expenses

#### Nature of Finding:

Internal control – significant deficiency  
Compliance

#### Condition:

AUAF charged travel costs associated with an emergency relocation to the Agreement. These costs were included in the indirect costs cost category. The following observations were noted related to travel costs associated with this emergency relocation.

<u>Observation</u>	<u>Number of Transactions With Errors</u>	<u>Amount</u>
Missing invoice for airfare and lack of USAID approval	21	\$12,300
Lack of USAID approval	24	9,120
Missing invoice, lack of President's approval and lack of USAID approval	<u>9</u>	<u>8,076</u>
Total costs for missing and insufficient support	<u>54</u>	<u>\$29,496</u>

#### Criteria:

Cooperative Agreement No. 306-A-13-00004, Attachment C, *Standard Provision*, Required as Applicable Standard Provisions for Non-U.S. Nongovernmental Organizations, *Travel and International Air Transportation (June 2012)*, states, in part:

#### “...a. PRIOR BUDGET APPROVAL

Direct charges for travel costs for international air travel by individuals are allowable only when each international trip has received prior budget approval...

The Agreement Officer (AO) may approve, in writing, international travel costs that have not been incorporated in this award. To obtain AO approval, the recipient must request approval at least three weeks before the international travel, or as far in advance as possible...”

# AMERICAN UNIVERSITY OF AFGHANISTAN

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. 306-A-13-00004-00 to support  
the American University of Afghanistan

## Detailed Audit Findings

(Continued)

AUAF Employee Handbook, Appendix I, Travel Policy, states, in part:

“...travel reimbursements will only be paid for AUAF official business trips that have been authorized in advance. An official travel-authorization form indicating the purpose of the trip, destination, means of transport, locations, and period of the travel, must be filled in by the traveler, authorized by his or her direct supervisor, and approved by the president or CAO...”

OMB Circular A-21, *Cost Principles for Educational Institutions*, Section C.4.d., *Allocation and documentation standard*, states, in part:

“...(4) Federal requirements for documentation are specified in this Circular, Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations," and specific agency policies on cost transfers...”

OMB Circular A-110, Subpart C, *Post-Award Requirements*, Section .21, *Standards for financial management systems*, states, in part:

“...(b) Recipients' financial management systems shall provide for the following...

(7) Accounting records including cost accounting records that are supported by source documentation...”

### **Cause:**

According to management, due to the emergency relocation, many of the supporting documents were not maintained, and obtaining the president's and USAID's approval was not practical. An email was sent to USAID requesting approval prior to the evacuation. However, USAID requested additional documentation for the relocation before the costs would be approved but due to the emergency of the situation, AUAF was unable to provide the additional documentation requested to obtain an official approval. Finally, AUAF did not have an emergency evacuation plan and policies and procedures in place to ensure all supporting documentation can be maintained and adequate approvals can be obtained during an emergency situation.

### **Effect:**

Failure to obtain approvals and maintain source documentation resulted in an inability to demonstrate that costs incurred were allowable and allocable.

# **AMERICAN UNIVERSITY OF AFGHANISTAN**

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. 306-A-13-00004-00 to support  
the American University of Afghanistan

## **Detailed Audit Findings**

(Continued)

### **Questioned Costs:**

Total questioned indirect costs due to lack of approval and documentation were \$29,496.

### **Recommendation:**

- (1) We recommend that AUAF either provide adequate supporting documentation to USAID to demonstrate the costs were properly supported and contained all required approvals, or return \$29,496 to USAID for the missing or insufficiently supported indirect costs claimed.
- (2) We recommend AUAF develop an emergency evacuation plan that includes emergency procedures for obtaining and documenting approvals of costs, as well as retaining documentation to support costs claimed and establish policies and procedures to obtain approval and maintain documentation.

# AMERICAN UNIVERSITY OF AFGHANISTAN

Financial Audit of Costs Incurred Under  
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## Detailed Audit Findings

(Continued)

### Finding Number 2015-4: Lack of Financial Management Control over Allowances

#### Nature of Finding:

Internal control – deficiency

#### Condition:

AUAF's housing policy requires international employees to be provided with housing or be given a housing allowance. Additionally, AUAF has a transportation allowance whereby full time national staff can either take an AUAF-provided shuttle or receive a monthly transportation allowance. As a matter of practice, employees can switch between the housing and the housing allowance at the beginning of each semester, as well as switch between the shuttle and transportation allowance. No approvals are required to switch between the two.

#### Criteria:

AUAF Employee Handbook, Section III, *Employee Benefits, International Employees*, states, in part:

“...5. Housing – AUAF will provide international employees with furnished housing in AUAF leased or owned facilities according to AUAF policies and standards...Employees that choose to live in private housing will be paid an allowance of \$1,200 per month...”

AUAF Additional Compensation Policy for Faculty dated September 12, 2013, Table for Full Time National Staff states, in part:

Benefits	Amount	Period of Payment	Eligibility Criteria
Transportation	Using shuttles or \$50 allowance	Monthly	\$50 paid if not using shuttles

OMB Circular A-21, *Cost Principles for Educational Institutions*, Section C.4.d., *Allocation and documentation standard*, states, in part:

“...(4) Federal requirements for documentation are specified in this Circular, Circular A-110, “Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations,” and specific agency policies on cost transfers...”

OMB Circular A-110, Subpart C, *Post-Award Requirements*, Section .21, *Standards for financial management systems*, states, in part:

“...(b) Recipients' financial management systems shall provide for the following...”

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## Detailed Audit Findings

(Continued)

“(3) Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes...”

(6) Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award...”

### **Cause:**

AUAF's policies and procedures over allowances were not adequately designed to safeguard against the possibility of an employee receiving both the housing or transportation benefit, as well as the cash benefit.

### **Effect:**

Lack of management approval to switch between receiving a benefit and the cash payment in lieu of the benefit increases the risk for both the benefit and the cash payment being made to the employee.

### **Questioned Costs:**

None

### **Recommendation:**

- (1) We recommend that AUAF revise its Employee Handbook and specifically require that management approval be obtained before an employee can switch between receiving a benefit and the cash payment.
- (2) We recommend that AUAF review all employees to ensure that no employee is receiving both the benefit and the cash payment.

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## Detailed Audit Findings

(Continued)

### Finding Number 2015-5: Missing Documents in Personnel Files

#### Nature of Finding:

Internal control – deficiency

#### Condition:

The following documents were not present at the Human Resources Department during the testing of personnel files for 33 international staff and 121 national staff. Without these documents, it is unclear as to whether the individuals were qualified for the positions they held. No costs were questioned as other documentation existed to support the allowability and allocability of the costs incurred.

<u>Observation</u>	<u>Number of Missing Documents</u>	
	<u>National Staff</u>	<u>International Staff</u>
Resignation letter and exit checklist	1	3
Staff requisition form	65	10
Job advertisement	88	16
Résumé	5	0
Job application	3	1
Interview sheets/notes	70	16
Educational/experience certificates	94	3
Copy of passport	3	0
Personal data	2	1
Performance appraisals	0	2
Leave record	2	10

#### Criteria:

AUAF Employee Handbook, Section II, *Employment Policies*, states, in part:

##### “1. Recruitment

AUAF recruitment for open positions follows fair and transparent processes. AUAF accepts applications for employment regardless of gender, age, religion, political affiliation, or sexual preference.

Written and electronic announcements will generally be posted for open positions and include the job title, brief description of position, required qualifications, application details, and application deadline. Senior administrators may make exception to this policy...



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## Detailed Audit Findings

(Continued)

### “8. Supervision and Performance Evaluation

AUAF supervisors provide regular feedback, support, coaching, training, and mentoring to the employees supervised by them. Written performance evaluations are typically provided to all employees on an annual basis. Performance evaluations are usually prepared by an employee's immediate supervisor and reviewed by the second level supervisor using the university's performance appraisal forms. Both strengths and weaknesses in performance are identified, with the objective of improving work performance during the upcoming year...”

AUAF Employee Handbook, Section IV, *Leave Policies*, states, in part:

#### “IV. LEAVE POLICIES

AUAF provides all long-term and full-time staff with the leaves described below. Temporary and intern staff are not provided with these leave entitlements. The HR Office maintains records of all leave accrual and used...”

AUAF Employee Manual, Appendix XI, *Employee Exit Policy*, states, in part:

#### “...Procedures

1. Supervisor or Human Resources with approval from senior management gives employee a termination letter or employee gives a resignation letter to their supervisor. Alternately, the employee may direct the resignation to the president, copied to the director of Human Resources.
2. A copy of the resignation letter will be given to Human Resources.
3. Human Resources will forward an Employee Exit Checklist to the employee to complete prior to the employee's last day. This will include returning all university property...”

OMB Circular A-21, *Cost Principles for Educational Institutions*, Section C.4.d., *Allocation and documentation standard*, states, in part:

“...(4) Federal requirements for documentation are specified in this Circular, Circular A-110, “Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations,” and specific agency policies on cost transfers...”

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## Detailed Audit Findings

(Continued)

OMB Circular A-110, Subpart C, *Post-Award Requirements*, Section .21, *Standards for financial management systems*, states, in part:

“...(b) Recipients’ financial management systems shall provide for the following...

(7) Accounting records including cost accounting records that are supported by source documentation...”

OMB Circular A-110, Subpart C, *Post-Award Requirements*, Section .53, *Retention and access requirements for records*, states, in part:

“...(b) Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report...”

### **Cause:**

AUAF did not have an adequate human resource database or filing system to record, maintain and update employee files. Additionally, AUAF did not have an adequate retention policy requiring management to retain personnel documents.

### **Effect:**

Failure of management to obtain and maintain the essential personnel documentation can result in the hiring of unqualified employees who may not have the skill set necessary for which they are being funded by a federal agency. Additionally, failure to maintain all personnel records to support decisions for hiring, compensation, leave, promotion and termination can potentially result in questioned personnel costs.

### **Questioned Costs:**

None

### **Recommendation:**

- (1) We recommend that AUAF provide training to its human resources personnel emphasizing the need to document and maintain complete personnel files.
- (2) We recommend AUAF develop retention policies and procedure that specifically list all essential personnel documentation necessary to be maintained at the human resource personnel.

# AMERICAN UNIVERSITY OF AFGHANISTAN

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## Detailed Audit Findings

(Continued)

### **Finding Number 2015-6: Annual Audit Not Performed or was not Performed in a Timely Manner**

#### **Nature of Finding:**

Compliance

#### **Condition:**

The annual financial audit for year ended June 30, 2014 has not yet been performed. Additionally, the annual financial audits for years ended June 30, 2012 and 2013 were not performed in a timely manner. These audits were completed on December 4, 2014. This condition was also reported in the Business Review Report of AUAF dated September 23, 2014.

#### **Criteria:**

Cooperative Agreement No. 306-A-13-00004, Attachment C, *Standard Provision*, Required as Applicable Standard Provisions for Non-U.S. Nongovernmental Organizations, *Accounting, Audit, and Records (June 2012)*, states, in part:

“...b. Audits.

(1) The recipient must have an annual audit conducted in accordance with the "Guidelines for Financial Audits Contracted by Foreign Recipients" issued by the USAID Inspector General, for any recipient fiscal year in which the recipient expends a combined total of \$300,000 or more in all USAID awards...

(i) The audit report must be submitted to USAID within 30 days after receipt of the auditor's report, but no later than nine months after the end of the period audited...”

#### **Cause:**

AUAF was unaware of the annual audit requirements required by USAID as AUAF did not properly review all the requirements of the term of the cooperative agreement, nor did it have a policy to do so.

#### **Effect:**

Failure to perform a required annual audit and submit it in a timely manner resulted in AUAF's inability to demonstrate that it had complied with the audit requirements of the Agreement.

#### **Questioned Costs:**

None

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Detailed Audit Findings

(Continued)

### **Recommendation:**

We recommend that AUAF establish a policy and include it in its employee manual to review all of its U.S. funded awards and document all compliance requirements to ensure it meets all requirements, including audit requirements.

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AUAF's Responses to the Detailed Audit Findings

For the Period August 1, 2013 to July 31, 2015

Included on the following pages is AUAF's response received to the findings identified in this report.



# AMERICAN UNIVERSITY *of* AFGHANISTAN

20<sup>th</sup> January 2016

To: Mayer Hoffman McCann, Independent CAP firm

**Subject: AUAF official responses to draft audit report by MHM**

**1- In reference to finding 2015-1, recommendation 1:**

*During this period AUAF transitioned its accounting systems to an even more robust system. At the initial stages of transition, finance staff were not that much familiar with accounting software, and we were still training this staff, so sometimes it was difficult for them to correctly identify the codes and charge expenses to the relevant code. All the amounts mistakenly charged to USAID were the transactions during this transition period. Right now all the staff has been trained, and so it has full understanding and control over the system. Accordingly, the auditors and USAID should be assured that AUAF has taken appropriate mitigating steps to prevent such mistakes from recurring. **Otherwise, in regard to the specific amount questioned in this finding, AUAF confirms this amount and will return it back to USAID.***

**2- In reference to finding 2015-1, recommendation 2:**

*As mentioned above in response to 2015-1 recommendation 1, finance staff has been trained and has sufficient understanding of the new accounting system, with all expenses charged to correct accounts. In addition, AUAF would like the auditors and USAID to note that AUAF is further developing the capacity of finance staff by holding trainings inside Afghanistan and sometimes outside.*

**3- In reference to finding 2015-2, recommendation 1:**

*This amount will be returned back to USAID and it will be adjusted to upcoming advance requests. However, there are some months in years in which AUAF needs to process the salaries before end of month for example: AUAF have a winter break each year from 15<sup>th</sup> of December*

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Department of Finance

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## AMERICAN UNIVERSITY *of* AFGHANISTAN

till 3<sup>rd</sup> of January, so salaries for December are always process before end of month. Please advise AUAF if this proposal is unacceptable.

Furthermore, AUAF would like to note that there are times when our employees are out of the country and must submit their timesheets through email. Because they were electronically submitted, these timesheets do not have an express written approval, as is the case with hand-written timesheets.

### **4- In reference to finding 2015-2, recommendation 2:**

AUAF does not dispute this finding. AUAF notes that it continuously trains staff to keep them up to date for our policies and international standards. However, AUAF will start focusing more on specialized trainings for staff, with even more attention given to necessary and applicable policies.

### **5- In reference to finding 2015-3, recommendation 1:**

For this recommendation, the auditors have requested documentation for certain costs that AUAF cannot reasonably provide. At the time these costs were incurred, the security situation in Afghanistan was extremely dangerous, and safety of staff was the utmost priority. It was not reasonably possible to maintain the type and extent of documentation requested by the auditors. Notably, AUAF alerted USAID to these events even before they occurred, but was unable to wait for USAID's approval, given the dangerous circumstances for its staff. For these understandable reasons, AUAF respectfully maintains that these costs should not be questioned. We believe that this is consistent with applicable law. In a case called *BearingPoint*, ASBCA No. 55354 , 09-2 BCA 34,289 (Oct. 16, 2009), it was held that a contractor in Iraq for USAID did not need to show detailed contemporaneous documents of its incurred costs, particularly where the inability to maintain this documentation was not the fault of the contractor.

AUAF respectfully requests that the auditors consider this response and not question the costs at issue in this recommendation. AUAF would be happy to discuss this issue further with USAID.

### **6- In reference to finding 2015-3, recommendation 2:**

AUAF has been developing an emergency plan which contains detailed explanation of actions AUAF will take during emergency. This plan identifies the amount of money AUAF will need during emergency situation. The plan is already shared with USAID, and soon it will be finalized.



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### **7- In reference to finding 2015-4, recommendation 1:**

*AUAF will revise its Employee Handbook and add a clause for such allowances.*

### **8- In reference to finding 2015-4, recommendation 2:**

*AUAF performs a cross-check of payroll and other payments regularly to make sure all payments are made in the correct amount to the correct person. However, to address this recommendation, AUAF will review and further develop its internal controls, policies, and procedures.*

### **9- In reference to finding 2015-5, recommendation 1:**

*AUAF will provide trainings to its HR personnel.*

### **10- In reference to finding 2015-5, recommendation 2:**

*As per the policy of AUAF, each personnel file contains a checklist according to which documents are kept within files. In addition, AUAF is reviewing its internal controls, policies, and procedures to be sure that it is collecting and maintaining such documentation to the maximum extent possible. AUAF would like to note, however, that there are some support staff positions for which it can be difficult to obtain all the required documents for personnel files. This is because, for example, the individuals that are hired for these positions are illiterate. AUAF respectfully requests that USAID consider this fact, and (if necessary) provide any clarifying guidelines or instruction.*

### **11- In reference to finding 2015-6, recommendation 1:**

*We confirm that annual audit at AUAF was delayed, but there were some reasons for that delay, which were already shared with USAID. AUAF was supposed to start the annual for its fiscal year 2013-14 by September 2014, but due to the severe security situations in Kabul during presidential elections period AUAF did an emergency evacuation to its all International staff and the entire university was off for three consecutive months. Furthermore, on Aug 2014 two main personnel from finance department (CFO and Director of Finance) left their jobs. Also there was a system transition in finance department through which finance moved its records from QuickBooks to MS Dynamics GP.*





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*Considering the above three points the audit for FY2013-14 was delayed. Right now 20<sup>th</sup> January 2015, the procurement procedures are already done and audit firm is selected to conduct two years audit for AUAF. The fieldwork is going to start by 15<sup>th</sup> of February 2016. The official letter submitted to USAID for delay in audit is annexed to this document.*

*To inform USAID about the delays we sent them an official letter explaining all the reasons. At the initial stage our aim was to get approval from USAID to conduct annual audits for two years altogether. The moment we send official letter to USAID, we received an email from SIGAR stating that SIGAR will conduct the audit for two years related to USAID-AUAF cooperative agreement. So we changed the discussion and requested from USAID for approval of accepting SIGAR audit as suffice to our annual audit, which was approved by USAID. So now annual audit for USAID is done, and the audit for AUAF and other USG sources is pending. The emails exchanged between USAID and AUAF for this matter is annexed to this document.*

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Auditor's Rebuttal to AUAF's Responses to Detailed Audit Findings

For the Period August 1, 2013 to July 31, 2015

AUAF agreed with 5 of the 6 findings noted AUAF partially disagreed with Finding Number 2015-3. We have reviewed management's responses and provided the following rebuttal to the finding to which AUAF disagreed.

**Finding Number 2015-3: Missing or Insufficient Source Documentation to Support Expenses**

AUAF partially disagrees with this finding. Specifically, AUAF disagrees with Recommendation 1 related to the questioned costs. AUAF states that due to an emergency situation, final USAID approval for the travel costs in question could not be obtained. AUAF also references a case referred to as BearingPoint, ASBCA No. 55354, 09-2 BCA 34,289 (Oct. 16, 2009), where USAID did not require detailed contemporaneous documents, particularly when the issue is not the contractor's fault. We concluded that lack of prior approval is not in compliance with the cooperative agreement, attachment C, OMB Circular A-21, Section C.4.d, OMB Circular A-110, Subpart C and USAID international travel requirements. If AUAF believes that such documentation is not required in an emergency situation, it should have followed-up with USAID to obtain approval immediately following the emergency situation. Accordingly, this portion of our recommendation remains unchanged.

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- prevent fraud, waste, and abuse; and
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## Public Affairs

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