

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 21-49 Financial Audit**

Department of State's Office of Antiterrorism  
Assistance Program in Afghanistan: Audit of  
Costs Incurred by Miracle Systems LLC  
Identified Almost \$8 Million in Questioned Costs

**In accordance with legal requirements, SIGAR has redacted certain information deemed  
proprietary or otherwise sensitive from this report.**



SEPTEMBER  
2021

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On September 1, 2017, the Department of State's (State) Bureau of Diplomatic Security awarded a \$ [REDACTED] task order to Miracle Systems LLC (Miracle Systems) to support State's Office of Antiterrorism Assistance (ATA) program in Afghanistan. ATA's mission is to provide country-specific training and equipment to foreign law enforcement and security organizations to enhance their capacity to detect, deter, counter, and investigate terrorist activities. The original task order included a 1-year period of performance, and 4 option years, which together could allow the program to run until August 31, 2022. After 79 modifications, 12 of which impacted work in Afghanistan, total funding increased to \$ [REDACTED] for the base year and option year 1 combined.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed \$ [REDACTED] in costs charged to the task order for Afghanistan-related activities from September 1, 2017, through August 31, 2019. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in Miracle Systems' internal controls related to the task order; (2) identify and report on instances of material noncompliance with the terms of the task order and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether Miracle Systems has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Miracle Systems' Special Purpose Financial Statement (SPFS). See Conrad'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 Conrad did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

### September 2021

## Department of State's Office of Antiterrorism Assistance Program in Afghanistan: Audit of Costs Incurred by Miracle Systems LLC Identified Almost \$8 Million in Questioned Costs

### SIGAR 21-49-FA

### WHAT SIGAR FOUND

Conrad identified three material weaknesses and two significant deficiencies in Miracle Systems' internal controls, and five instances of noncompliance with the terms of the task order. For example, Conrad questioned \$4,565,496 of labor costs charged to State because Miracle Systems did not provide evidence that consultants working on the project met the qualifications required by the task order. Conrad also found that Miracle Systems double-charged State for \$627,390 in payroll taxes, and applied danger pay and post hardship differential allowances to \$1,213,908 in travel time and overtime hours worked.

Conrad identified \$7,980,360 in total questioned costs, consisting of \$6,139,062 in unsupported costs—costs not supported with adequate documentation or that do not have required prior approval—and \$1,841,298 in ineligible costs—costs prohibited by the task order and applicable laws and regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Danger pay, hardship allowances	\$1,213,908	\$0	\$1,213,908
Payroll taxes	\$627,390	\$0	\$627,390
Missing qualifications	\$0	\$4,565,496	\$4,565,496
Overtime pre-approval not obtained	\$0	\$394,017	\$394,017
Timekeeping procedures	\$0	\$1,132,513	\$1,132,513
Insufficient support for costs	\$0	\$47,036	\$47,036
<b>Total Costs</b>	<b>\$1,841,298</b>	<b>\$6,139,062</b>	<b>\$7,980,360</b>

Conrad did not identify any prior audit reports that were relevant to Miracle Systems' task order.

Conrad issued a modified opinion on Miracle Systems' SPFS, noting that the total questioned cost amount is material to the Special Purpose Financial Statement.

### WHAT SIGAR RECOMMENDS

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

- 1. Determine the allowability of and recover, as appropriate, \$7,980,360 in questioned costs identified in the report.**
- 2. Advise Miracle Systems to address the report's five internal control findings.**
- 3. Advise Miracle Systems to address the report's five noncompliance findings.**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

September 15, 2021

The Honorable Antony Blinken  
Secretary of State

We contracted with Conrad LLP (Conrad) to audit the costs incurred by Miracle Systems LLC (Miracle Systems) under a task order from the U.S. Department of State's Bureau of Diplomatic Security to support an Office of Antiterrorism Assistance (ATA) program in Afghanistan.<sup>1</sup> ATA's mission is to provide country-specific training and equipment to foreign law enforcement and security organizations to enhance their capacity to detect, deter, counter, and investigate terrorist activities. Conrad reviewed \$ [REDACTED] in costs charged to the task order from September 1, 2017, through August 31, 2019. Our contract with Conrad 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 contracting officer at the Department of State:

- 1. Determine the allowability of and recover, as appropriate, \$7,980,360 in questioned costs identified in the report.**
- 2. Advise Miracle Systems to address the report's five internal control findings.**
- 3. Advise Miracle Systems to address the report's five noncompliance findings.**

Conrad discusses the results of the audit in detail in the attached report. We reviewed Conrad'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 Miracle Systems' Special Purpose Financial Statement. We also express no opinion on the effectiveness of Miracle Systems' internal control or compliance with the task order, laws, and regulations. Conrad is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which Conrad did not comply, in all material respects, with 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 completion for the recommendations to [sigar.pentagon.audits.mbx.recommendation-followup@mail.mil](mailto: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-207)

<sup>1</sup> The task order number is SAQMMA17F2030 under contract number GS00Q140ADS128.

**Miracle Systems, LLC**

Financial Audit of Costs Incurred Under  
Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
Awarded by Department of State's  
Bureau of Diplomatic Security  
Office of Antiterrorism Assistance Program

For the period September 1, 2017 through August 31, 2019

## Table of Contents

	Page
Transmittal Letter	
Background	1
Work Performed	2
Objectives, Scope, and Methodology	2
Summary of Results	5
Summary of Miracle Systems' Responses to Audit Findings	8
Independent Auditor's Report on the Special Purpose Financial Statement	9
Special Purpose Financial Statement	12
Notes to the Special Purpose Financial Statement	13
Notes to Questioned Costs Presented on the Special Purpose Financial Statement	15
Independent Auditor's Report on Internal Control	18
Independent Auditor's Report on Compliance	20
Schedule of Findings and Questioned Costs	22
Appendices:	
Appendix A: Miracle Systems' Responses to Audit Findings	36
Appendix B: Auditor's Rebuttal to Miracle Systems' Responses to Audit Findings	47



June 16, 2021

To the Board of Directors  
Miracle Systems, LLC  
Arlington, Virginia

Special Inspector General for Afghanistan Reconstruction ("SIGAR")  
Arlington, Virginia 22202

Conrad LLP (referred to as "Conrad" or "we") hereby provides to you our final report, which reflects results from the procedures we completed during our audit of Miracle Systems, LLC ("Miracle Systems") Special Purpose Financial Statement ("SPFS") for costs incurred under Task Order No. SAQMMA17F2030 ("Task Order") issued under Contract No. GS00Q14OADS128 ("Contract") awarded by the Department of State's ("State") Bureau of Diplomatic Security, Office of Antiterrorism Assistance ("ATA") program for the period of September 1, 2017 through August 31, 2019.

On March 19, 2021, we provided SIGAR with a draft report reflecting our audit procedures and results. Miracle Systems received a copy of the report on May 6, 2021; 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 Miracle Systems. Miracle Systems' 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 of this Task Order.

Sincerely,

A handwritten signature in blue ink that reads "Conrad LLP".

Sam Perera, CPA, CFE, CITP, CGMA  
Partner

## **Miracle Systems, LLC**

Financial Audit of Costs Incurred Under  
Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
Awarded by Department of State's  
Bureau of Diplomatic Security  
Office of Antiterrorism Assistance Program

For the Period of September 1, 2017 through August 31, 2019

### **Background**

On September 1, 2017, the United States Department of State's ("State") Bureau of Diplomatic Security awarded a Task Order No. SAQMMA17F2030 ("Task Order") under the One Acquisition Solution for Integrated Services – Small Business ("OASIS SB") Contract No. GS00Q14OADS128 ("Contract") to Miracle Systems, LLC ("Miracle Systems") to support State's Office of Antiterrorism Assistance ("ATA") program. The Task Order's period of performance began on September 1, 2017, with four option periods ending on August 31, 2022. The Task Order was for professional services to be provided in various regions worldwide.

OASIS SB is designed to address agencies' need for a full range of service requirements that integrate multiple professional service disciplines and ancillary services/products with the flexibility for all contract types and pricing at the task order level. OASIS SB is a family of 7 separate Government-wide Multiple Award, Indefinite Delivery, Indefinite Quantity ("MA-IDIQ") task order contracts that span 28 North American Industry Classification System ("NAICS") Codes and 6 NAICS Code Exceptions under the economic subsector 541, Professional, Scientific, and Technical Services.

ATA's mission is to provide country-specific training and equipment to foreign law enforcement and security organizations to enhance their capabilities and capacity to detect, deter, counter, and investigate terrorist activities. To support ATA's mission, the Task Order requires Miracle Systems to provide a variety of professional and staffing services, including law enforcement and military subject matter expertise, cyber professionals, and monitoring officers. In addition, Miracle Systems is required to provide a wide range of complex program management functions, including program-specific management, quality management, employee management, interfaces for government oversight, and plans for controls, communications, risk management, and workflow.

As detailed in the Summary of Task Order below, the initial approved budget for the Task Order, as it relates to the Afghanistan region, was \$ [REDACTED] for the base year with a period of performance from September 1, 2017 through August 31, 2018. ATA modified the Task Order 79 times, for a variety of technical, financial, and administrative reasons and it also exercised option year 1. Of the 79 modifications, only 12 modifications had an impact on funding in Afghanistan. Total funding under the base year and option year 1 combined, as it relates to the Afghanistan region, was increased to \$ [REDACTED].

**Miracle Systems, LLC**

Financial Audit of Costs Incurred Under  
 Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
 Awarded by Department of State's  
 Bureau of Diplomatic Security  
 Office of Antiterrorism Assistance Program

For the Period of September 1, 2017 through August 31, 2019

**Summary of Task Order and Modifications**

Task Order No. SAQMMA17F2030	Original Budget and Period of Performance			Modified Budget and Period of Performance		
	Budget (\$)	Start	End	No. of Modifications	Final Approved Budget (\$)	End
Base Year	\$ [REDACTED]	09/01/2017	08/31/2018	46	\$ [REDACTED]	No Change
Option Year 1	[REDACTED]	09/01/2018	08/31/2019	48	[REDACTED]	No Change
<b>Total</b>	\$ [REDACTED]			<b>79<sup>1</sup></b>	\$ [REDACTED]	

**Work Performed**

Conrad LLP (“Conrad”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of Task Order No. SAQMMA17F2030 for the Kabul region and apportioned domestic costs, as mentioned above, of Miracle Systems, LLC’s (“Miracle Systems” or “Organization”) Special Purpose Financial Statement (“SPFS”) for costs incurred under ATA totaling \$ [REDACTED] for the period September 1, 2017 through August 31, 2019.

**Objectives, Scope, and Methodology**

**Audit Objectives**

The objectives of the audit of the aforementioned awards include the following:

- *Special Purpose Financial Statement* – Express an opinion on whether Miracle Systems’ SPFS for the award presents fairly, in all material respects, the 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.

<sup>1</sup> There are 46 modifications that affected the base year and 48 that affected the option year 1. Fifteen of the modifications affected both the base year and option year 1.



**Miracle Systems, LLC**

Financial Audit of Costs Incurred Under  
 Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
 Awarded by Department of State's  
 Bureau of Diplomatic Security  
 Office of Antiterrorism Assistance Program

For the Period of September 1, 2017 through August 31, 2019

- *Internal Controls* – Evaluate and obtain a sufficient understanding of Miracle Systems’ internal controls related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether Miracle Systems complied, in all material respects, with the award requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with the 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 Miracle Systems 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**

A summary of the program to be audited is as follows:

Task Order No.	Task Order Period		Audit Period		Audit Amount
	Start	End	Start	End	Cost (\$)
SAQMMA17F2030					
Base Year	09/01/2017	08/31/2018	09/01/2017	08/31/2018	\$ [REDACTED]
Option Year 1	09/01/2018	08/31/2019	09/01/2018	08/31/2019	[REDACTED]
<b>Total:</b>					\$ [REDACTED]

**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 October 14, 2020, with representatives of Miracle Systems, Conrad, 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, establish key contacts throughout

## **Miracle Systems, LLC**

Financial Audit of Costs Incurred Under  
Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
Awarded by Department of State's  
Bureau of Diplomatic Security  
Office of Antiterrorism Assistance Program

For the Period of September 1, 2017 through August 31, 2019

the engagement, and schedule status briefings. We also discussed the timeframe for the completion of the audit.

### Planning

During our planning phase, we performed the following:

- Obtained an understanding of Miracle Systems;
- Reviewed the Task Order and modifications;
- Reviewed regulations specific to the Department of State that are applicable to the Task Order;
- Performed a financial reconciliation; and
- Selected samples based on our sampling techniques. Based on our approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports and based upon the risk assessment and materiality 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 to medium to low risk for inclusion in our test of transactions. None of the populations were homogeneous in nature, which means none of the costs are identical in nature, thus statistical sampling was not used. All samples were selected on a judgmental basis.

### Internal Controls Related to the Task Order

We reviewed Miracle Systems' internal controls related to the Task Order to gain an understanding of the implemented system of internal control to obtain reasonable assurance of Miracle Systems' financial reporting function and compliance with applicable laws and regulations. This review was accomplished through interviews with management and key personnel, reviewing policies and procedures, and identifying key controls within significant transaction cycles and testing those key controls.

### Compliance with the Task Order's Requirements and Applicable Laws and Regulations

We performed tests to determine whether Miracle Systems complied, in all material respects, with the Task Order's requirements, the Federal Acquisition Regulations ("FAR"), and other applicable laws and regulations. We also identified and reported on instances of material noncompliance with terms of the Task Order and applicable laws and regulations, including potential fraud or abuse that may have occurred.

## **Miracle Systems, LLC**

Financial Audit of Costs Incurred Under  
Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
Awarded by Department of State's  
Bureau of Diplomatic Security  
Office of Antiterrorism Assistance Program

For the Period of September 1, 2017 through August 31, 2019

### Corrective Action on Prior Findings and Recommendations

We requested prior audit reports from Miracle Systems. We also conducted a search of SIGAR, State, and other Federal agency websites to identify previous engagements that could have a material effect on Miracle Systems' SPFS. For those engagements identified, Conrad evaluated the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS.

### Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Task Order and applicable general ledgers;
- Documented procedures associated with controlling funds, including bank accounts and bank reconciliations;
- Traced receipt of funds to the accounting records;
- Reviewed personnel costs to ensure they were supported, authorized, reasonable, and allowable; and
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Task Order, and reasonable.

### Exit Conference

An exit conference was held on March 11, 2021, via conference call. Participants included representatives from Conrad, Miracle Systems, SIGAR, and the Department of State. During the exit conference, we discussed the preliminary results of the audit and reporting process.

### **Summary of Results**

Upon completion of our audit of the costs incurred by Miracle Systems under the Task Order, we issued a qualified opinion on the SPFS and identified five findings which questioned \$7,980,360 in costs charged to the Task Order. We have summarized the details of these results in the Findings and Questioned Costs subsection below. Our summary is intended to present an overview of the audit results and is not intended to be a representation of the audit's results in their entirety.

**Miracle Systems, LLC**

Financial Audit of Costs Incurred Under  
 Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
 Awarded by Department of State's  
 Bureau of Diplomatic Security  
 Office of Antiterrorism Assistance Program

For the Period of September 1, 2017 through August 31, 2019

Auditor's Opinion on the SPFS

Conrad issued a qualified opinion on the fairness of the presentation of the SPFS. We identified \$7,980,360 in total questioned costs, which comprised \$1,841,298 in ineligible costs, and \$6,139,062 in unsupported costs. Ineligible costs are explicitly questioned because they are unreasonable, prohibited by the award provisions or applicable laws and regulations, or not award related. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

Findings and Questioned Costs

The five findings listed below are classified as either an internal control deficiency or non-compliance. If both classifications were identified, then a combination of both were presented. Internal control findings were classified as a significant deficiency or a material weakness based on their impact on Miracle Systems' SPFS. In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. Evidence of such items was not identified by our testing.

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2021-01	Non-Compliance; Internal Control – Material Weakness	Ineligible danger pay, post differential allowances, and withholding tax charged to the program	\$1,841,298	\$0	\$1,841,298
2021-02	Non-Compliance; Internal Control – Material Weakness	Lacked sufficient evidence of staff qualifications	\$0	\$4,565,496	\$6,406,794

## Miracle Systems, LLC

Financial Audit of Costs Incurred Under  
 Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
 Awarded by Department of State's  
 Bureau of Diplomatic Security  
 Office of Antiterrorism Assistance Program

For the Period of September 1, 2017 through August 31, 2019

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2021-03	Non-Compliance; Internal Control – Significant Deficiency	Overtime pre-approval was not obtained in accordance with the Task Order	\$0	\$394,017	\$6,800,811
2021-04	Non-Compliance; Internal Control – Material Weakness	Lacked adherence to timekeeping procedure	\$0	\$1,132,513	\$7,933,324
2021-05	Non-Compliance; Internal Control – Significant Deficiency	Lacked sufficient evidence to support the adequacy of costs incurred	\$0	\$47,036	\$7,980,360
<b>Total Questioned Costs</b>			<b>\$1,841,298</b>	<b>\$6,139,062</b>	<b>\$7,980,360</b>

### Internal Control Findings

Our audit identified five internal control findings, three material weaknesses, and two significant deficiencies in Miracle Systems' internal controls. See Independent Auditor's Report on Internal Control on page 18.

### Compliance Findings

The results of our testing disclosed five instances of non-compliance. See the Independent Auditor's Report on Compliance on page 20.

In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. Evidence of such items were not identified by our testing.

## **Miracle Systems, LLC**

Financial Audit of Costs Incurred Under  
Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
Awarded by Department of State's  
Bureau of Diplomatic Security  
Office of Antiterrorism Assistance Program

For the Period of September 1, 2017 through August 31, 2019

### Review of Prior Findings and Recommendations

Based on our request and research on prior engagements pertinent to Miracle Systems' activities under the Task Order, we did not identify any prior engagements with audit reports issued that contained findings and recommendations relevant to the audit scope that could have a material effect on the SPFS or other financial data significant to the audit objectives.

### **Summary of Miracle Systems' Responses to Findings**

Miracle Systems partially agrees with finding 2021-01 and disagrees with findings 2021-02, 2021-03, 2021-04, and 2021-05. Miracle Systems was given two weeks to provide their full management responses. However, no new information or documentation was provided to support their responses.



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

To the Board of Directors  
Miracle Systems, LLC  
Arlington, VA

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

### Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of Miracle Systems, LLC ("Miracle Systems") and the related notes to the Special Purpose Financial Statement, with respect to the Task Order No. SAQMMA17F2030 issued under Contract No. GS00Q14OADS128, awarded by the Department of State's Bureau of Diplomatic Security, Office of Antiterrorism Assistance, as listed under the **Summary of Task Order** section of this report, for the period of September 1, 2017 through August 31, 2019.

### 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 requirements provided by the Office of the Special Inspector General of Afghanistan Reconstruction ("SIGAR"). Management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the Special Purpose Financial Statement that is free from material misstatement, whether due to fraud or error.

### Auditor's 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.

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 Miracle Systems' 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 Miracle Systems' 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 qualified audit opinion.

### **Basis for Qualified Opinion**

We identified \$7,980,360 in questioned costs resulting from significant deficiencies and material weaknesses in internal controls and non-compliance with the terms and conditions of the Task Order. The total questioned cost amount is considered material to the Special Purpose Financial Statement.

### **Qualified Opinion**

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received, and costs incurred by Miracle Systems for the Task Order No. SAQMMA17F2030 issued under Contract No. GS00Q14OADS128, for the period of September 1, 2017 through August 31, 2019, in accordance with the basis of accounting described below.

### **Basis of Accounting**

We draw attention to Note 2 to the Special Purpose Financial Statement, which describes the basis of presentation and accounting. As described in Note 2 to the Statement, the Statement is prepared by Miracle Systems on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Restriction on Use**

This report is intended for the information of Miracle Systems, the United States Department of State's, Bureau of Diplomatic Security, Office of Antiterrorism Assistance program, 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.



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

In accordance with *Government Auditing Standards*, we have also issued our reports dated June 14, 2021 on our consideration of Miracle Systems' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts, 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 Auditing Standards* in considering Miracle Systems' internal control over financial reporting and compliance.

The image shows a handwritten signature in blue ink that reads "Conrad LLP". The signature is written in a cursive, flowing style.

Lake Forest, California  
June 14, 2021

**Miracle Systems, LLC**

Financial Audit of Costs Incurred Under  
 Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
 Awarded by Department of State's  
 Bureau of Diplomatic Security  
 Office of Antiterrorism Assistance Program

For the Period of September 1, 2017 through August 31, 2019

**Special Purpose Financial Statement**

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>			<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	
Revenues:						
Labor	\$ ██████████	\$ ██████████	\$ -	\$ -	\$ -	(3)
ODC	██████████	██████████	-	-	-	
Total revenues	██████████	██████████	-	-	-	
Costs incurred:						
Direct Labor (Base Year CLIN 003 and Option Year 1 CLIN 046)	██████████	██████████	487,131	6,092,026	6,579,157	(A)
Other Direct Costs (Base Year CLIN 004 and Option Year 1 CLIN 047)	██████████	██████████	<u>1,354,167</u>	<u>47,036</u>	<u>1,401,203</u>	(B)
Total costs incurred	\$ ██████████	\$ ██████████	<u>\$1,841,298</u>	<u>\$ 6,139,062</u>	<u>\$ 7,980,360</u>	
Outstanding fund balance	\$ ██████████	\$ ██████████				

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

## **Miracle Systems, LLC**

Financial Audit of Costs Incurred Under  
Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
Awarded by Department of State's  
Bureau of Diplomatic Security  
Office of Antiterrorism Assistance Program

For the Period of September 1, 2017 through August 31, 2019

### **Notes to the Special Purpose Financial Statement<sup>2</sup>**

#### **(1) Status and Operation**

Miracle Systems, LLC ("Miracle") was organized under the laws of the Commonwealth of Virginia on May 28, 2003. Miracle Systems, LLC's primary business activity is providing program management, systems development, engineering and training services, cyber security and financial consulting to the federal government. Miracle provides domestic and international experience in supporting mission critical Federal requirements throughout the United States, Africa, and Afghanistan and other countries. The company also performs various services, including financial statements, and maintenance requirements. The company is recognized as a limited liability corporation by the Internal Revenue Service; therefore, the company's shareholders are liable for federal and state income taxes on the company's taxable income.

#### **(2) Summary of Significant Accounting policies**

The accompanying Special Purpose Financial Statement ("Statement") includes costs incurred under Task Order No. SAQMMA17F2030 for the Joint Afghanistan Training Center ("JATC"), Camp Watan Afghanistan, embedded staff for the period September 1, 2017 through August 31, 2019. Because the Statement presents only a selected portion of the Operations of Miracle it is not intended to and does not present the financial position, changes in assets or cash flows of Miracle.

These special purpose financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Expenses are recognized following the cost principles of Title 48, Part 31 of the Code of Federal Regulation, where in certain types of expenses are not allowable and are limited as to reimbursement.

#### **(3) Revenue**

As of August 31, 2019, Miracle reported income of \$ [REDACTED] for the period under audit.

#### **(4) Cost Categories**

The budget categories, represented by the Contract Line-Item Numbers ("CLINS") reflect budget line items presented within the final approved Contract along with associated modifications to the task order dated September 1, 2017.

---

<sup>2</sup> These Notes to the Special Purpose Financial Statement are the responsibility of Miracle Systems.

## **Miracle Systems, LLC**

Financial Audit of Costs Incurred Under  
Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
Awarded by Department of State's  
Bureau of Diplomatic Security  
Office of Antiterrorism Assistance Program

For the Period of September 1, 2017 through August 31, 2019

### **Notes to the Special Purpose Financial Statement**

Direct Labor. Labor represents labor costs incurred on a Time and material CLIN. Upon the execution of Modification M002, effective date September 22, 2017, from inception through June 2018 the labor cost included the Afghanistan income tax levied on the labor and included danger pay and post differential. Upon the issuance of ATA's Contractor Officer Representative Memo to Miracle on August 28, 2018, danger pay and post differential were removed from direct labor and moved to the Other Direct Costs ("ODC") charge line. Effective July 1, 2018, following the signing of the Afghan Assistance Tax Exemption Agreement the withholding tax on the consultants was removed.

Labor - ODC. ODC represents consultant danger pay, post differential, travel costs, insurance and other indirect costs for actual costs incurred in the performance of this task order. A fee for General and Administrative costs is added to travel costs. Effective July 1, 2018, following the signing of the Afghan Assistance Tax Exemption Agreement the Corporate Income and Gross Receipts tax were removed from the ODC charge line.

#### **(5) Reconciliation**

As of August 31, 2019, there remains an outstanding Government of Afghanistan, Ministry of Finance tax item for 2018. Taxes levied against Miracle remain in the amount of \$ [REDACTED]. The ATA Contracting Officer and Department of State authorized payment of this liability on March 19, 2021.

## Miracle Systems, LLC

Financial Audit of Costs Incurred Under  
Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
Awarded by Department of State's  
Bureau of Diplomatic Security  
Office of Antiterrorism Assistance Program

For the Period of September 1, 2017 through August 31, 2019

Notes to Questioned Costs Presented on the Special Purpose Financial Statement<sup>3</sup>

### (A) Direct Labor

Miracle Systems reported a total of \$ [REDACTED] for Direct Labor costs for the period September 1, 2017 through August 31, 2019.

For the first 10 months of the Base Year, post differential and danger pay allowances were combined with direct labor costs.

During our audit of these costs, we noted:

- (1) Danger Pay and Post Hardship Differential allowances were applied to overtime, which resulted in total ineligible costs of \$456,581. See Finding No. 2021-01 in the Schedule of Findings and Questioned Costs section of this report.
- (2) Danger Pay and Post Hardship Differential allowances were applied to travel hours, which resulted in total ineligible costs of \$30,550. See Finding No. 2021-01 in the Schedule of Findings and Questioned Costs section of this report.
- (3) Miracle Systems was unable to provide evidence that consultants met the qualification requirements outlined in the Task Order for eight consultants tested. This resulted in total unsupported costs of \$5,035,295. See Finding No. 2021-02 in the Schedule of Findings and Questioned Costs section of this report. For the purpose of presenting the questioned costs in the SPFS, of this \$5,035,295, there were \$469,799 of ineligible costs associated with danger pay and post differential allowances that were already questioned in Finding 2021-01. Therefore, the net questioned costs in relation to unsupported qualifications are \$4,565,496.
- (4) State's pre-approval of overtime for 11 pay periods tested was not obtained as required by the Task Order. This resulted in total unsupported costs of \$635,411. See Finding No. 2021-03 in the Schedule of Findings and Questioned Costs section of this report. For the purpose of presenting the questioned costs in the SPFS, of this \$635,411, there were \$241,394 of unsupported costs already questioned due to unsupported consultant qualifications in Finding 2021-02. Therefore, the net questioned costs in relation to overtime not approved in advance are \$394,017.

---

<sup>3</sup> These 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.

## Miracle Systems, LLC

Financial Audit of Costs Incurred Under  
Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
Awarded by Department of State's  
Bureau of Diplomatic Security  
Office of Antiterrorism Assistance Program

For the Period of September 1, 2017 through August 31, 2019

### Notes to Questioned Costs Presented on the Special Purpose Financial Statement

- (5) Timesheets were not completed in accordance with Miracle Systems' timekeeping policy for 162 timesheets tested. This resulted in total unsupported costs of \$2,023,086. See Finding No. 2021-04 in the Schedule of Findings and Questioned Costs section of this report. For the purpose of presenting the questioned costs in the SPFS, of this \$2,023,086, there were \$633,821 of unsupported costs for consultant qualifications already questioned in Finding 2021-02 and \$256,752 of unsupported costs due to overtime not approved in advance already questioned in Finding 2021-03. Therefore, the net questioned costs due to the irregularities in timesheets are \$1,132,513.

As a result of these findings, we have questioned a total of \$487,131 in ineligible costs and \$6,092,026 in unsupported costs.

#### **(B) Other Direct Costs**

Miracle Systems reported a total of \$ [REDACTED] for Other Direct Costs ("ODCs") for the period September 1, 2017 through August 31, 2019 which included the following subcategories: post differential, danger pay, travel per diem, general and administrative costs ("G&A") on travel ([REDACTED]), Defense Base Act insurance, [REDACTED] monthly fee, Afghanistan Ministry of Finance ("MOF") tax, Directorate of Defense Trade Controls ("DDTC") registration, and Afghanistan business license.

For the remaining two months of the Base Year and 12 months of the Option Year 1, post differential and danger pay allowances were reported under ODCs.

During our audit of these costs, we noted:

- (1) Danger Pay and Post Hardship Differential allowances were applied to overtime, which resulted in total ineligible costs of \$726,777. See Finding No. 2021-01 in the Schedule of Findings and Questioned Costs section of this report.
- (2) Afghanistan payroll withholding taxes were incurred and charged under ODCs when payroll taxes were already included in the fully burdened labor rates. This resulted in total ineligible costs of \$627,390. See Finding No. 2021-01 in the Schedule of Findings and Questioned Costs section of this report.

## **Miracle Systems, LLC**

Financial Audit of Costs Incurred Under  
Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
Awarded by Department of State's  
Bureau of Diplomatic Security  
Office of Antiterrorism Assistance Program

For the Period of September 1, 2017 through August 31, 2019

### Notes to Questioned Costs Presented on the Special Purpose Financial Statement

- (3) Miracle Systems did not provide sufficient documentation to support travel costs which resulted in total unsupported costs of \$7,036. See Finding No. 2021-05 in the Schedule of Findings and Questioned Costs section of this report.
- (4) Miracle Systems did not provide sufficient procurement documentation for one vendor which resulted in total unsupported costs of \$40,000. See Finding No. 2021-05 in the Schedule of Findings and Questioned Costs section of this report.

As a result of these findings, we have questioned a total of \$1,354,167 in ineligible costs and \$47,036 in unsupported costs.



## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Board of Directors  
Miracle Systems, LLC  
Arlington, Virginia

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 of Miracle Systems, LLC ("Miracle Systems") representing revenues received and costs incurred for the Task Order No. SAQMMA17F2030 issued under Contract No. GS00Q14OADS128, awarded by the Department of State's Bureau of Diplomatic Security, Office of Antiterrorism Assistance ("ATA") program for the period of September 1, 2017 through August 31, 2019, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated June 14, 2021 with a modified opinion .

### Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement, we considered the Miracle Systems' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Miracle Systems' internal control. Accordingly, we do not express an opinion on the effectiveness of the Miracle Systems' 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. During our audit we identified a total of five



deficiencies in internal control as described in the accompanying Schedule of Findings and Questioned Costs. Findings 2021-01, 2021-02, and 2021-04 are considered to be material weaknesses, and Findings 2021-03 and 2021-05 are considered to be significant deficiencies.

### **Miracle Systems' Response to Findings**

Miracle Systems' response to the findings identified in our audit is included verbatim in Appendix A. Miracle Systems' 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 Miracle Systems' 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.

### **Restriction on Use**

This report is intended for the information of Miracle Systems, the Department of State's Bureau of Diplomatic Security, Office of Antiterrorism Assistance program, 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.

The image shows a handwritten signature in blue ink that reads "Conrad LLP". The signature is written in a cursive, slightly stylized font.

Lake Forest, California  
June 14, 2021



## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Board of Directors  
Miracle Systems, LLC  
Arlington, Virginia

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 of Miracle Systems, LLC ("Miracle Systems") representing revenues received and costs incurred for the Task Order No. SAQMMA17F2030 issued under Contract No. GS00Q14OADS128 awarded by the Department of State's Bureau of Diplomatic Security, Office of Antiterrorism Assistance ("ATA") program for the period of September 1, 2017 through August 31, 2019, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated June 14, 2021 with a modified opinion.

### Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the Task Order are the responsibility of the management of Miracle Systems.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Miracle Systems' Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Task Order, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. 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 five instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2021-01, 2021-02, 2021-03, 2021-04, and 2021-05.

## **Miracle Systems' Response to Findings**

Miracle Systems' response to the findings identified in our audit is included verbatim in Appendix A. Miracle Systems' 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 results 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 internal control. Accordingly, this communication is not suitable for any other purpose.

## **Restriction on Use**

This report is intended for the information of Miracle Systems, the Department of State's Bureau of Diplomatic Security, Office of Antiterrorism Assistance program, 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.

The image shows a handwritten signature in blue ink that reads "Conrad LLP". The signature is written in a cursive, slightly stylized font.

Lake Forest, California  
June 14, 2021

## Miracle Systems, LLC

Financial Audit of Costs Incurred Under  
Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
Awarded by Department of State's  
Bureau of Diplomatic Security  
Office of Antiterrorism Assistance Program

For the Period of September 1, 2017 through August 31, 2019

### Schedule of Findings and Questioned Costs

#### **Finding 2021-01: Ineligible danger pay, post differential allowances, and withholding tax charged to the program**

**Nature of Finding:** Non-compliance and Internal Control – Material Weakness

#### **Criteria:**

**Miracle Systems Timekeeping Policy for the ATA program** states the following:

"The Company provides a timesheet which must be submitted within [REDACTED]  
[REDACTED]...Overtime is considered hours in excess of the  
standard semi-monthly pay period..."

**OASIS Small Business Contract, section B.3.4, Labor outside the Continental United States,** states, in part:

"...The Department of State Standardized Regulations (DSSR) is the controlling regulations for allowances and benefits available to all U.S. Government civilians assigned to foreign areas. For task orders issued under OASIS SB, Contractor civilians assigned to foreign areas may receive the allowances and benefits in the DSSR but, shall not receive allowance and benefits in excess of those identified in the DSSR..."

**DSSR 040(k), Definitions** states, in part:

"Basic compensation means the rate of compensation fixed:... (3) administratively in conformity with rates paid by the Government for work of a comparable level of difficulty and responsibility in the continental United States, before any deduction is made and without taking into consideration any additional compensation such as overtime pay, night pay differential, hazard differential, extra pay for work on holidays, post differential, and allowances; except that for teachers defined in subsection n, hereof, basic compensation means the rate of compensation fixed by the military departments of the Department of Defense for the position held by an individual (including any appropriate increments for having completed a higher level of academic preparation) before any deduction is made and exclusive of all allowances, differentials, or other additional compensation."

**DSSR 655, Danger Pay Allowance on Detail,** states:

"Employees on detail at a danger pay post may be granted the danger pay allowance at the prescribed rate for all days of detail at such post except for days of absence from the post in a post or area not designated for the danger pay allowance. Note: Danger Pay is paid only for hours for which basic compensation is paid."

**DSSR 542, Hardship Differential on Detail from the US or Other Posts - Applicable Rates** states:

"After acquiring eligibility as described in Section 541, the hardship differential for subsequent days of detail at differential posts during that period of absence shall be granted at the rate prescribed for each such differential post. This section shall also apply to an employee who has no post. Note: Hardship Differential is paid only for hours for which basic compensation is paid."

**DSSR 654.1 Danger Pay Applicable to Post - Commencement**, states:

"Danger pay allowance commences on the date of designation by the Secretary of State for employees present at the post on assignment or detail, and on the date of arrival at post for subsequently assigned or detailed employees or for employees returning to post after temporary absence."

**DSSR 531.1, Hardship Differential Allowance Applicable to Post – Commencement – Newly Appointed or Transferred Employees**, states, in part:

"The hardship differential prescribed for an employee's post shall commence as of the latest of the following dates:

- a. date of employee's arrival at a new post;
- b. date of entrance on duty, if the employee was recruited locally (Section 031.3);
- c. effective date of assignment, if employee is already at the new post on detail or leave;
- d. the effective date on which a post is classified for differential at a rate higher than zero."

**Miracle Systems Timekeeping Policy for the ATA program** states the following:

"Danger pay is effective immediately and applies to labor hours incurred while in Danger Pay designated areas in-country on official business (excluding hours incurred traveling to/from country)..."

**Task Order SAQMMA17F2030, Modification No. 2** states, in part:

"The purpose of this modification is to: 1) Add pricing to include Afghan taxes. Afghan payroll taxes are added to the fully-burdened rate as shown on the continuation page. Afghan Business Receipts Tax and Afghan Corporate Tax are billable as ODCs..."

**FAR 31.201-2 (Determining allowability)** states in part:

"(a) A cost is allowable only when the cost complies with all of the following requirements:

...(4) Terms of the contract...

(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported."

**Condition:** Conrad tested the entire population of danger pay allowance, post hardship differential allowance, and Afghanistan Tax Withholdings to determine if the costs charged to the Task Order were supported, accurate, and allowable. The total population consisted of 35 consultants who worked on the program. During our testing, we noted the following exceptions and questioned costs:

- 1) Miracle Systems charged ineligible Danger Pay and Post Hardship Differential Allowances.

- a) In 33 out of the 35 consultants tested, Danger Pay and Post Hardship Differential allowances were applied to overtime hours worked which is a violation of the Department of State's Standardized Regulations ("DSSR") governing allowances. This resulted in a total of \$1,183,358 in questioned costs.
  - b) In 24 out of the 35 consultants tested, Danger Pay and Post Hardship Differential allowances from September 2017 through May 2018 were applied to travel hours to the post rather than the date of arrival at the destination which is a violation of the DSSR governing allowances and Miracle Systems' policy. This results in a total of \$30,550 questioned costs.
- 2) Miracle Systems incurred and charged Afghanistan payroll withholding taxes under Other Direct Costs. However, Miracle Systems' fully burdened labor rates charged to the Task Order are already inclusive of Afghanistan payroll withholding taxes, as approved in the Task Order Modification No. 2. This resulted in the payroll taxes being double charged and \$627,390 in questioned costs.

**Questioned costs are included in the table below:**

<b>Observation</b>	<b>No. of Instances</b>	<b>Questioned Costs</b>
Danger Pay and Post Hardship Differential allowances were applied to overtime hours worked	33	\$1,183,358
Danger Pay and Post Hardship Differential allowances from September 2017 through May 2018 were applied to travel hours	24	30,550
Double charged payroll taxes to the Government	5	\$627,390
<b>Total Questioned Costs</b>		<b>\$1,841,298</b>

**Cause:** Miracle Systems does not have policies or procedures in place that require supervisor review to ensure that Danger Pay and Post Differential allowances are only applied to allowable hours under the DSSR and that the Afghanistan payroll taxes are allowable under the Task Order.

**Effect:** Lack of effective supervisory review controls and policy and procedures resulted in Miracle Systems claiming costs that are ineligible under the Task Order. Ineligible cost items claimed caused excessive costs being charged to the U.S. Government and a potential misuse of funds.

**Questioned Costs:** Ineligible questioned costs identified totaled \$1,841,298, which included \$1,183,358 in ineligible allowances applied to overtime, \$30,550 ineligible allowances applied to travel hours, and \$627,390 payroll taxes incorrectly charged to the program.

**Recommendation:**

- (1) We recommend that Miracle Systems either provide additional documentation supporting the approval of the questioned charges for danger pay, post hardship differential, and Afghanistan tax withholdings, or return \$1,1841,298 in ineligible costs.

- (2) We recommend that Miracle Systems develop and implement policies and procedures to ensure that only allowable hours are used to compute Danger Pay and Post Differential allowances and incurred costs, such as payroll taxes, are not double charged.

**Finding 2021-02: Missing or insufficient evidence to support staff members met the qualifications as required by the Task Order**

**Nature of Finding:** Non-compliance and Internal Control – Material Weakness

**Criteria:**

**Task Order SAQMMA17F2030 Section C.10** states the following:

" The Contractor shall be responsible for providing professional personnel and integrated services in accordance with the listed labor categories and descriptions (which are not all inclusive) included in this TORP<sup>4</sup>. This includes professional personnel with proven expertise in law enforcement, security, administrative support, subject matter experts, instructors, executive management personnel, human resources personnel, Government acquisitions support, analysts, consultants, technical writers, other combinations thereof as described herein, to meet the operational training needs of the DOS, and Bureau of Diplomatic Security along with other offices identified with the U.S. Department of State at the time of Task Order..."

**FAR 31.201-2** (Determining allowability) states in part:

"(a) A cost is allowable only when the cost complies with all of the following requirements:

...(4) Terms of the contract...

(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported."

**Condition:** Conrad judgmentally selected 10 out of 35 consultants' records to determine if the costs incurred were adequately supported and allowable. During our testing of the consultants' qualifications requirements per the description for each labor category outlined in the Task Order, we noted the following exceptions:

- For seven out of 10 consultants tested, Miracle Systems did not provide any evidence to support that the consultants met the qualifications required in the Task Order for their respective labor category. Some of the critical qualification requirements are summarized below:

Position Title	Qualification Requirements	No. of Consultants	Questioned Costs
Lead Instructor	<ul style="list-style-type: none"> <li>▪ Ten years of active participation in an assignment requiring the same skills that will be taught when delivering the ATA approved curriculum.</li> <li>▪ Teaching or instructing an adult education program, secondary school, college, military installation, or industrial establishment in the appropriate field(s).</li> <li>▪ Specialized training including instructor certification from a recognized local, state, or federal Law Enforcement training facility.</li> </ul>	1	\$ <span style="background-color: black; color: black;">████████</span>

<sup>4</sup> Task Order Request for Proposals ("TORP")



Position Title	Qualification Requirements	No. of Consultants	Questioned Costs
	<ul style="list-style-type: none"> <li>▪ Experience in training of foreign nationals in an international environment.</li> </ul>		
Mentor	<ul style="list-style-type: none"> <li>▪ Seven years of experience facilitating instructor development to include familiarity with current adult education standards.</li> <li>▪ Instructor certification from a recognized local, county, municipal, state, or federal law enforcement institution or military organization.</li> <li>▪ Five years of experience interacting on a professional level with foreign nationals.</li> <li>▪ Ten years of experience from a recognized local, county, municipal, state, or federal law enforcement institution or military.</li> <li>▪ Ten years of experience in one or more of the following fields: Explosive Ordnance Disposal Technician, Academy or Training development, Law Enforcement, Physical Security, Tactical Operations, and Protective Operations.</li> <li>▪ Expert knowledge of a variety of specialized tactical disciplines to provide mentoring and advice to DS/T/ATA partner nations.</li> </ul>	5	██████████
Resident Logistician	<ul style="list-style-type: none"> <li>▪ Seven years of experience in a military or police supply organization that includes the readiness of special operations tactical equipment.</li> <li>▪ Understanding of logistical and fiscal support of overseas operations and the ability to solve real world problems under short deadlines.</li> </ul>	1	██████████
<b>Total</b>		<b>7</b>	<b>\$ 4,291,305</b>

- For 1 out of 10 consultants tested, who held the titles of Mentor and Lead Instructor, there was no evidence provided that the consultant had “instructor certification from a recognized local, county, municipal, state, or federal law enforcement institution or military organization” as required in the Task Order for the respective labor category. This resulted in total questioned costs of \$743,990.

**Questioned costs are included in the table below:**

Observation	No. of Instances	Questioned Costs
Missing evidence to support the consultants met the qualifications required in the Task Order	7	\$4,291,305
Consultant did not meet the qualification required in the Task Order	1	743,990
<b>Total Questioned Costs</b>		<b>\$5,035,295</b>

**Cause:** Miracle Systems does not have a formal review process to determine if personnel who are transitioned from an incumbent vendor are qualified under the terms of the Task Order. In addition, Miracle Systems does not require that staff obtain and retain documentation of qualifications for

consultants transitioned or hired to ensure that the consultants meet the qualification requirements outlined in the Task Order. Miracle Systems indicated that the consultants noted above had transitioned from the incumbent vendor and the transitioning staffs' qualifications were reviewed during the multiple kick off meetings upon notice of the award. In addition, Miracle Systems said they inquired with ATA leadership at the State Department whether there were consultants they preferred to exclude from the new task order to which ATA had responded that they had no objection to anyone. However, there was no evidence provided to support these statements.

**Effect:** The lack of sufficient evidence to demonstrate consultant qualifications increases the risk that Miracle Systems may have utilized or hired unqualified personnel to work on the program which can result in negative or unsatisfactory results in carrying the performance of the program objectives.

**Questioned Costs:** Unsupported questioned costs identified due to unsupported qualifications for all labor costs charged for consultants, including danger pay and post differential allowances totaled \$5,035,295.

**Recommendation:**

- (1) We recommend that Miracle Systems provide evidence showing that these consultants met the qualifications requirements or return \$5,035,295 of unsupported costs.
- (2) We recommend that Miracle Systems develop policies and procedures to ensure a qualification review process is in place for personnel who are transitioned from an incumbent vendor and maintain documentation on the decisions made during the review process.
- (3) We recommend that Miracle Systems develop and implement policies to obtain and retain documentation of qualifications for consultants hired or transitioned to ensure that the consultants meet the qualification requirements outlined in the Task Order.

**Finding 2021-03: Overtime (OT) pre-approval was not obtained in accordance with the terms of the Task Order**

**Nature of Finding:** Non-compliance and Internal Control –Significant Deficiency

**Criteria:**

**Task Order SAQMMA17F2030 Section 12** states the following:

“Overtime must be pre-approved in advance and support must be included with the invoice...”

**Miracle Systems Timekeeping Policy for the ATA program** states, in part:

"In accordance with contract GS00Q14OADS128/SAQMMA17F2030, section C.12, overtime (excess hours) must be pre-approved in advance. Prior to the start of each pay period, each staff member needs to submit an overtime approval request by email to the ATA government manager, Miracle Systems program manager, and the ATA Contracting Officer Representative (COR) ..."

**FAR 31.201-2** (Determining allowability) states in part:

“(a) A cost is allowable only when the cost complies with all of the following requirements:  
...(4) Terms of the contract...”

**Condition:** Conrad judgmentally selected 16 out of 48 pay periods to determine if the overtime reported and costs charged to the ATA program were supported, accurate, and properly approved in accordance with the terms of the task order. These 16 pay periods covered the payroll for 31 consultants out of a population of 35, and 253 timesheets out of a population of 702. During our testing, we noted the following exceptions:

- For 11 out of the 16 pay periods tested, Miracle Systems requested overtime approval from the State but the State did not respond nor approve the overtime request and evidence of such approval was not obtained. The identified instances where overtime approval was not obtained resulted in total questioned costs of \$635,411.
- For 5 out of 16 pay periods tested, overtime approval from State was obtained after the pay period started. This is not in accordance with the Task Order requirement; however, we did not question the cost because the overtime hours were subsequently approved by State.

**Cause:** Miracle Systems does not have a process in place to obtain approval for overtime when the funding agency does not respond to request for overtime. Miracle Systems stated that they requested prior overtime approval from the Department of State but did not receive a response. Miracle Systems was able to provide emails in support of this statement in all but two instances. Additionally, Miracle Systems did not develop or implement procedures to request approval of overtime prior to the start of the pay period in accordance with the Task Order.

**Effect:** Failure to obtain overtime approval in advance resulted in excessive hours being charged to the Task Order which led to an overcharge of funds to the U.S. Government.

**Questioned Costs:** Unsupported questioned costs in relation to overtime charged totaled \$635,411.

**Recommendation:**

- (1) We recommend that Miracle Systems provide the appropriate source documentation to properly substantiate that the overtime costs claimed were allowable or return \$635,411 of unsupported costs.
- (2) We recommend that Miracle Systems develop a process to obtain approval for overtime when the funding agency does not respond to the overtime request, as well as internal control procedures to ensure adherence to the Task Order requirements for requesting overtime hours.

**Finding 2021-04: Timesheets were not completed in accordance with Miracle Systems’ timekeeping procedure**

**Nature of Finding:** Non-compliance and Internal Control – Material Weakness

**Criteria:**

**Miracle Systems Timekeeping Policy for the ATA program** states the following:

"The Company provides a timesheet which must be submitted within [REDACTED]  
[REDACTED] ...

...Prior to submission, each Consultant/staff member must have your operational supervisor and/or designee, sign the invoice/timesheet, to validate all hours worked and claimed are valid..."

**FAR 31.201-2** (Determining allowability) states:

"(a) A cost is allowable only when the cost complies with all of the following requirements:

- (1) Reasonableness.
- (2) Allocability.
- (3) Standards promulgated by the CAS Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances.
- (4) Terms of the contract.
- (5) Any limitations set forth in this subpart...

(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported."

**Condition:** Conrad judgmentally selected 16 pay periods out of a total of 48 to determine if the time reported by consultants were accurate, allowable, and adequately supported. These 16 pay periods covered the payroll for 31 consultants out of a population of 35, and 253 timesheets out of a population of 702. During our testing, we noted the following exceptions:

Observation	No. of Instances	Questioned Costs
Timesheet was certified prior to the end of the pay period.	16	\$ 273,283
Timesheet was certified and submitted to Miracle Systems prior to the end of the pay period, and missing supervisor’s certification date.	1	31,380
Timesheet was pre-dated as the end of period and submitted to Miracle Systems prior to the end of the pay period.	110	1,327,753
Timesheet was missing certification date.	12	91,874
Timesheet was missing certification date and submitted to Miracle Systems prior to the end of the pay period.	19	256,531

Observation	No. of Instances	Questioned Costs
Timesheet was missing supervisor approval.	3	23,931
Timesheet was missing supervisor approval and submitted to Miracle Systems prior to the end of the pay period.	1	18,334
<b>Total Questioned Costs</b>	<b>162</b>	<b>\$ 2,023,086</b>

**Cause:** Miracle Systems lacked a clear and comprehensive policy for supervisory review of timesheets to ensure that timesheets were properly certified, dated, and approved.

**Effect:** Improperly prepared and approved timesheets question the validity of the hours certified on the timesheets and raises the risk of unallowable costs charged to the U.S. Government.

**Questioned Costs:** Unsupported questioned costs due to the irregularities in timesheets identified totaled \$2,023,086.

**Recommendation:**

- (1) We recommend that Miracle Systems provide the appropriate source documentation to properly substantiate that the time charge was allowable, or return \$2,023,086 of unsupported costs.
- (2) We recommend that Miracle Systems develop a clear and comprehensive policy for supervisory review of timesheets to ensure timesheets are properly certified, dated, and approved.

## **Finding 2021-05: Insufficient evidence to support travel and procurement costs incurred**

**Nature of Finding:** Non-compliance and Internal Control – Significant Deficiency

### **Criteria:**

**Miracle Systems' Procurement Policy & Procedures** states the following:

#### 1.2 Competitive Bidding

"Miracle Systems supports competition in a free marketplace as the best means to receive the best value in terms of cost, capability, and quality. Miracle Systems will conduct, whenever possible and practical, competitive bidding for products and services..."

#### 1.3 Sole-Source Procurements

"Occasionally, a situation will arise where the normal competitive process is not beneficial and sole source procurement is authorized. These situations will be treated as exceptions to the normal Miracle Systems acquisition policy and must be approved by the President."

**Miracle Systems' Travel-Related Guidance and Resources effective June 2020** states the following:

"...Travelers must prepare a Travel Reimbursement Form. All supporting receipts must be legible and attached to this form...."

#### ...Lodging

Whenever possible, lodging receipts should be itemized and indicate the bill was paid in full. The itemized receipt should be reflective of only business-related expenses...."

#### ...Transportation – POV

An image or PDF of a google map that includes trip mileage must be included for any such reimbursements for all POV travel..."

**FAR 31.201-2** (Determining allowability) states:

"(a) A cost is allowable only when the cost complies with all of the following requirements:

- (1) Reasonableness.
- (2) Allocability.
- (3) Standards promulgated by the CAS Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances.
- (4) Terms of the contract.
- (5) Any limitations set forth in this subpart...

(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported."

**FAR 31.201-3** (Determining reasonableness) states in part:

"(a) A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. Reasonableness of specific costs must be examined with particular care in connection with firms or their separate divisions

that may not be subject to effective competitive restraints. No presumption of reasonableness shall be attached to the incurrence of costs by a contractor...

(b) What is reasonable depends upon a variety of considerations and circumstances, including...  
 (2) Generally accepted sound business practices, arm's-length bargaining, and Federal and State laws and regulations..."

**Condition:** During our testing of Other Direct Costs ("ODCs"), we noted documentation supporting travel costs and procurement documentation were either missing or were insufficient to support the costs incurred as followed:

Travel

- Conrad judgmentally selected 48 samples out of a population of 340 for Travel. During our testing, we noted the following nine exceptions:

Observation	No. of Instances	Questioned Costs
Missing sufficient documentation to substantiate per diem costs	4	\$ 1,071
Missing sufficient documentation to substantiate mileage costs	2	123
Missing sufficient documentation to substantiate per diem, mileage, and lodging costs	1	1,095
Missing supporting documentation for travel general liability insurance	2	3,219
<b>Total</b>	<b>9</b>	<b>\$ 5,508</b>

- In addition, Miracle Systems utilized a travel agency to book all airfare for its business travel and charged a flat service fee for each booked airfare. However, Miracle Systems did not provide documentation to support procurement efforts for acquiring the travel agency in accordance with its procurement policies for this vendor. As such, booking fees associated with all of the 20 airfare samples tested totaling \$ [REDACTED] were questioned, of which \$ [REDACTED] represents G&A.

The above noted exceptions resulted in \$7,036 questioned costs for Travel.

Procurement

- Miracle Systems utilized an Afghanistan tax firm in filing for employee payroll taxes and its Afghanistan Business License. However, Miracle Systems did not provide documentation to support procurement efforts for acquiring the tax firm in accordance with its procurement policies for this vendor. This resulted in all fees charged by this vendor totaling \$40,000 to be questioned.

**Cause:** Miracle Systems lacked policies and procedures for retaining documentation supporting travel costs and procurement decisions to ensure cost reasonableness and compliance with its internal policies and federal regulations. In addition, Miracle Systems lacked procedures for how to determine the cost reasonableness for sole source procurements. Miracle Systems indicated that it exercised the option to



pursue an exception through a sole source procurement with its President approving the procurement of the two vendors noted in the condition. Miracle Systems said that the President had verbally approved these vendors. However, no evidence was provided to support the cost reasonableness and the President's approval of these sole source procurements. In addition, Miracle Systems did not have its travel policy in place until June 2020 and did not adequately train its staff and management to ensure supporting evidence is provided when requesting travel reimbursement prior to implementation of its policy. Miracle Systems indicated that supporting documentation for travel costs was not available due to its administrative oversight.

**Effect:** The lack of sufficient evidence to support the costs claimed raised doubts that: (1) the goods or services charged to the U.S. Government were actually purchased, (2) the correct amount was charged, or (3) the costs were adequately supported to ensure cost reasonableness for government procurements.

**Questioned Costs:** The total unsupported questioned costs due to insufficient evidence to support travel and procurement costs charged to this Task Order totaled \$47,036.

**Recommendation:**

- (1) We recommend that Miracle Systems provide the appropriate source documentation to properly substantiate that the travel and procurement related costs claimed were allowable or reimburse the government for the \$47,036 of unsupported costs.
- (2) We recommend that Miracle Systems develop comprehensive policies and procedures which requires that sufficient supporting documentation is maintained for their procurement efforts to support cost reasonableness for travel and procurement costs incurred.
- (3) We recommend that Miracle Systems strengthen its policies and procedures surrounding sole source procurements by requiring a cost analysis to demonstrate cost reasonableness.
- (4) We recommend that Miracle Systems provide training to its staff and management on its June 2020 travel policy to ensure all supporting evidence is obtained prior to processing travel reimbursements.

**Miracle Systems, LLC**

Financial Audit of Costs Incurred Under  
Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
Awarded by Department of State's  
Bureau of Diplomatic Security  
Office of Antiterrorism Assistance Program

For the Period of September 1, 2017 through August 31, 2019

Miracle Systems' Responses to Audit Findings

Included on the following pages are Miracle Systems' responses received to the findings identified in this report.



1621 North Kent St, Suite 1000 | Arlington | VA 22209 | 571-748-7551 | Fax: 202-315-3261

---

May 18, 2021

Ms. Mia Doan  
Conrad LLP  
23161 Lake Center Drive, Suite 230  
Lake Forest CA 92630

RE: Special Inspector General of Afghanistan Reconstruction (SIGAR) Financial Incurred Cost Audit of Contract No. SAQMMA17F2030 - Antiterrorism Assistance Program (ATA)

Subject: Miracle Systems, LLC Response to Audit Findings for the Period September 1, 2017 - August 31, 2019

Dear Ms. Doan:

**Introduction:**

At all times relevant Miracle Systems, LLC headquartered at 1621 N. Kent Street, Suite 1000, Arlington, Virginia 22209, recognize as paramount that direct assistance is an important part of the United States Government (USG) ATA contract, to support U.S. National Security Objectives. Oversight of these programs is critical, and we welcome SIGAR's continuing examination of these efforts. While there is no way to eliminate risk completely or guarantee a result in undertaking such a critical and paramount effort. Miracle Systems, LLC is acutely conscious of the trust that has been placed with us to safeguard taxpayer funds while implementing contract terms and conditions in support of the national interest. We are always looking at ways to refine and adopt improvements to our systems and look forward to continuing to work with SIGAR and its partners in that regard. The above referenced audit report looks closely at a series of risk assessments and other critical areas. This was done to ensure appropriate risk mitigation measures are in place and that USG funds are safeguarded, consistent with contract terms and conditions and other congressional requirements. SIGAR's audit did not identify waste, fraud or abuse, in the execution of the Department of State Antiterrorism Assistance (ATA) Contract. While the audit report examines and calls attention to the general management of the ATA contract that could potentially impact direct support, the findings and Miracle Systems, LLC support to the ATA contract produce diametrically opposed results and the report fails to acknowledge the full range of risk mitigation measures Miracle Systems, LLC subsequently implemented. With exception of two findings with which Miracle Systems, LLC agrees, the audit report findings fail in three regards: (1) it lacks adequate means to support the findings; (2) it fails to satisfy the burden of showing that the issues raised were clear and indisputable, (3) the auditor, in the exercise of its discretion, is satisfied that the findings were appropriate under the circumstances. Miracle Systems, LLC takes exception to the statement in the Conrad LLP report, "We identified and reported on instances of material non-compliance with the terms of the task order and applicable laws and regulations, including potential fraud or abuse that may have occurred." Clearly the audit report places an onerous burden on Miracle Systems, LLC and the fundamental rule of law, Miracle Systems, LLC does not believe that standard has been met, the findings and Miracle Systems, LLC success in supporting to the ATA contract produce diametrically opposed results. Furthermore, the Company disputes the Summary of Results of Conrad LLP as set forth in our response.



1621 North Kent St, Suite 1000 | Arlington | VA 22209 | 571-748-7551 | Fax: 202-315-3261

---

Miracle Systems, LLC on behalf of its subcontractors, partners, and itself, by and through the undersigned respectfully submit the following Affirmative Defenses and Responses to the audit report, Miracle Systems, LLC reserves its right to supplement this response at any time as the facts and circumstances giving rise to the audit report become known to or through the course of this review. Miracle Systems, LLC do not waive any future factual or legal arguments that may be omitted in this response. Furthermore, this answer shall not in any way be a waiver or deemed a waiver of any of Miracle Systems, LLC's rights or remedies under state or federal law, including, without limitation, the right to have such matters adjudicated by a court of law.

## AFFIRMATIVE DEFENSES AND RESPONSES

### First Issue - Affirmative Defense and Response Issue 2021-01

#### Danger Pay and Post Differential Allowances

The ATA Staffing Contract is missing specific contract language associated with standard work hours. As a result, Miracle Systems, LLC had deferred to the Government Manager, Diplomatic Security Special Agent [REDACTED], and the Contracting Officer Representative (COR) for what is deemed a standard workday. As Special Agent [REDACTED] had responsibility for the ATA Afghanistan level of effort, budget, and accountability for the program, he also established the staffing level of effort and associated Joint Afghanistan Training Center (JATC) training days and hours when soliciting quotes for staffing services.

Per Special Agent [REDACTED], the Afghanistan staff are required to work a standard six-day work week, at 10 hours a day. And certain staff to include the Lead Instructors, the Mentor assigned to the Embassy, are expected to perform additional hours each week.

On September 6, 2018, COR [REDACTED] published a COR memo indicating they had "...identified a potential discrepancy in the calculation and billing of post differential and danger pay allowance for contractor personnel performing in OCONUS locations." Then on September 10, 2018, COR [REDACTED] published a COR memo "...to provide the applicable regulations for post differential and danger pay allowance for contractor personnel performing in OCONUS locations under contract GS00Q14OADS128, order SAQMMA172030 with Miracle Systems, LLC." Subsequently Miracle Systems, LLC immediately came into conformance of the latest guidance, and in turn, notified its staff of the immediate change as it relates to their compensation Danger and Post Differential allowances.

On September 19, 2018, Miracle Systems, LLC was made aware of the Armed Services Board of Contract Appeals (ASBCA) appeal ASBCA No. 60171 date 18 July 2016, where the Government argued any additional hours in-excess of 40 hours that they worked per week should be considered overtime and not subject to the [REDACTED]% pay supplement. The ASBCA concluded "that an employee's pay for his normal or usual work hours under the contract constitute its basic compensation". As is similar in our instance overtime (excess hours) pay is not applicable to the contract; and second, "despite working significant hours in-excess of 40 hours per week", Miracle Systems, LLC nor, "CACI employees were not paid overtime premium." The opinion goes on to state "overtime is defined in the Federal Acquisitions Regulations (FAR) as "time worked by the contractor's employee in-excess the employee's normal work week". FAR.2.101. Thus, the FAR does not consider work in-excess of 40 hours to be overtime if it is



1621 North Kent St, Suite 1000 | Arlington | VA 22209 | 571-748-7551 | Fax: 202-315-3261

---

part of the employee's "normal week." The hours worked here, were part of the CACI employee's normal work week and thus not considered overtime under the FAR definition. The Appeals Board held in favor of the appellant. The danger pay and post differential allowance Miracle Systems, LLC paid its staff is consistent with these findings. On September 21, 2018, Miracle Systems, LLC conveyed notice of this case to the CO and COR for their own consideration, but that Miracle Systems, LLC will continue to adhere to the direction provided in the COR Memos dated September 6 & 10, 2018.

On October 3, 2018, COR [REDACTED] notified Miracle Systems, LLC via email, "Please be advised we are rescinding the attached memo. [September 6, 2018 memo] We will revert to procedures and business practices as in existence prior to the date of this memo." Per that direction, Miracle Systems, LLC had continued to invoice danger pay and post differential on all labor hours. For the last 28 billing cycles, ATA has continued to approval payment of all invoices in full.

We encourage Conrad LLP continue to work with Contracting Officer [REDACTED] for additional specifics on what he received from the Department of State (DOS) Legal Office. The guidance provided via the COR Memo was as much as the CO/COR would put in writing to Miracle Systems, LLC. It is Miracle Systems, LLC understanding that Conrad LLP has already initiated said request with the Department of State, so it is reasonable to assume that office will promptly provide those internal DOS findings/justifications for the order to revert to procedures and business practices as in existence prior to the date of October 3, 2018 COR Memo.

The Q&A Section of the question solicitation asked, TORP Section 1.4.1, page 42; "The solicitation states that OT, danger pay, post diff should be zero for the purposes of this proposal. Could the government confirm that the offerors will be able to propose these costs as a result of a contract modification upon award?"

The Government response was: "OT should be priced, the hours are set at zero; danger pay, and post diff are numbers set by the government as allowed, depending on the post." As further stated herein overtime (excess hours) pay is noted as being excluded from basis compensation. There was no premium for overtime (excess hours) as these were considered normal hours that comprise a work week.

This statement supports the concept of Part 22 of the FAR, governing the application of labor law to government contracts, specifies that, when government contractor employees work more than 40 hours a week, if they are overseas, the hours are customary for the area, and they are not paid a premium for hours greater than 40 hours, these long hours are considered are part of the normal work week.

Again, reiterating the language from Special Agent [REDACTED], "The Afghanistan staff are required to work a standard six-day work week, at 10 hours a day. And certain staff to include the Lead Instructors, the Mentor assigned to the Embassy, are expected to perform additional hours each week."

In compliance with the October 3, 2013 memo from COR [REDACTED], Miracle Systems, LLC has reverted to procedures and business practices as in existence prior to the date of the Memo in submitting its invoices to DOS Charleston, the COR and ATA Budget Office each month. Each invoice included the calculation of danger pay and post differential for all hours worked. These invoices were approved and subsequently processed for payment in full.



1621 North Kent St, Suite 1000 | Arlington | VA 22209 | 571-748-7551 | Fax: 202-315-3261

---

Accordingly, Miracle Systems, LLC disagrees with your audit findings that there is a negative impact to the Department of State in the amount \$1,183,358.

### **Danger Pay and Post Differential Allowances**

Invoicing discrepancies associated with inadvertent payment of danger pay or post differential pay was rectified following notice of the discrepancy. Miracle Systems, LLC believed it has appropriately reimbursed the Department of State for these billing errors. The Company researched this matter further and accepts your assessment of \$30,550. Our initial research into this matter has determined the credit was not given to the Department of State and the audit findings appears to be correct.

Under Section 651 “definitions” the Department of State Standardized Regulations (DSSR) provides:

Danger Pay allowance means the additional compensation of up to 35 percent over basis compensation ‘granted to employees (section 031 and 040i) for service at danger pay post, pursuant to Section 5928.’

Under Section 652 of the DSSR “Scope” in the applicable section, it provides that. Subject to overtime pay:

Danger pay allowance is designed to provide additional compensation to all U.S. Government civilian employees, including Chiefs of Mission, for service at places in foreign areas where there exist conditions of civil insurrection, civil war, terrorism, or wartime conditions which threaten physical harm or imminent danger to the health or well-being of an employee.

Because “overtime pay” is noted as being excluded from basis compensation by its definition, we examined those references to overtime pay that are contained in the contract. The contract incorporates a tailored version of Standard FAR clause 52.222-2.

Miracle Systems, LLC in fact paid no overtime premiums to its staff who worked on the task order but did pay the danger pay and post differential based upon their hourly straight time rates, which reflected the actual hours worked by those staff estimated at between [REDACTED] workweeks required by the task order. Miracle Systems, LLC had continued to invoice danger pay and post differential on all labor hours. For the last 28 billing cycles, ATA has continued to approval payment of all invoices in full.

Under the terms and conditions of the contract, (which includes the provisions of the DSSR), the Government may not require Miracle Systems, LLC employees or its subcontracts, or independent contractors to work hours in excess of 40 hour per week as a matter of course, not subject to overtime (excess hours) pay, and then assert that the proportionate amount of their wages for hours greater that 40 per week would be considered “additional compensation”, for which danger pay was inapplicable. In accordance with the terms and conditions of the contract, the traditional 40-hour week was an illusory figure with no clear meaning. As a result, it cannot be used to justify an arbitrary reduction of Miracle Systems, LLC employees, subcontractors and independent contractors entitlement to danger pay and post differential.

**Taxes** – Prior to June 1, 2018, Miracle Systems, LLC was required to pay, and at the direction of the Department of State, taxes due to the Afghanistan Government in the amount of \$627,390.26.

The Treaty was signed in 2018 and effective for periods beginning after June 1, 2018. Miracle Systems, LLC has furnished copies of all the remittances to Conrad LLP. [REDACTED] (formerly the [REDACTED]) has advised us that there is still an amount owing for 2018 of \$[REDACTED]. Through intensive negotiations the Afghanistan Government waived the penalties. We will be requesting reimbursement from the Department of State for this amount. In addition, under separated cover Miracle Systems, LLC has forwarded Conrad LLP the



1621 North Kent St, Suite 1000 | Arlington | VA 22209 | 571-748-7551 | Fax: 202-315-3261

---

latest update from [REDACTED] concerning the tax situation.

Due to administrative oversight from Miracle Systems, LLC the amount in question was invoiced in our burdened rates and as an ODC, agrees with the audit conclusion with respect to the \$627,390. Miracle Systems, LLC is requesting this amount be reduced by the \$ [REDACTED] of Corporate income taxes due to the Afghanistan Government because the estimated tax payments were less than the actual tax due as Miracle was directed to stop the tax payments to Afghanistan.

## **Second Issue-Affirmative Response and Defense - Issue 2021-02 Section C.10**

### **Staff Qualifications Not Vetted.**

Upon notice of award, during the multiple kick off meetings, transitioning staff qualifications were reviewed and subsequent discussions with the incumbent and the ATA Afghanistan program government manager, Diplomatic Security Special Agent [REDACTED], that the transitioning staff have demonstrated qualification and performance levels that meet or exceed the qualifications noted in the position descriptions. As part of the award and a requirement in the contract, the predecessor's staff were reviewed and offered the right of first refusal to continue their positions under the new award. Miracle Systems, LLC inquired with ATA leadership whether there was any staff member they prefer not be extended an offer to continue to support this contract; the answer was a resounding no, and that all were welcome to continue to support this new contract.

The staff at Joint Afghanistan Training Center (JATC) are subject to internal reviews of their own instructional performance when training the Afghanistan trainers. Further, the staff are overseeing the instructional development of assigned Afghanistan staff. Of the original staff members who conveyed from the incumbent and remain on this contract, they continue to perform all duties as assigned to the client's satisfaction.

The Miracle Systems, LLC Program Manager (PM) and the ATA Contracting Officer Representative (COR) conduct weekly staff meetings wherein the staffing roster and deployment eligibility is reviewed. At any point had the Contracting Officer or ATA Afghanistan Program Manager Special Agent [REDACTED] questioned an individual's competency or qualifications, Miracle Systems, LLC would have addressed the matter immediately. Furthermore, it is at the direction of the ATA Afghanistan Program Manager that individual staff deployments are controlled. No staff member's deployment is scheduled/supported without the ATA Afghanistan PM providing approval for that staff member to perform in that assigned role.

The Contracting Officer and his Representative have not identified any staffing discrepancy that Miracle Systems, LLC has not immediately taken the appropriate and necessary action to rectify the discrepancy, whether that includes additional documentation or replacement of the staff member. Therefore, the staff's qualifications remain reasonable for the duties assigned.

Miracle Systems, LLC consistently provided the highest quality professional personnel and integrated services in accordance with the terms of the contract to meet the operational needs of the Department of State in supporting this training effort, consistent with the requirements of Executive Order (EO) 13495 ("Non-displacement of qualified workers under Service Contracts"). The EO and its enumerated clauses has a significant impact on the composition of Miracle Systems, LLC workforce, its hiring process, and like with the instant contract the predecessors' employees and its obligations to recognize and negotiate with the staff. The EO provided immediate



1621 North Kent St, Suite 1000 | Arlington | VA 22209 | 571-748-7551 | Fax: 202-315-3261

---

guidance and restrictions on Miracle Systems, LLC, the existing workforce for the awarded contract and demands a rigorous level of due process and compliance.

Miracle Systems, LLC disagrees with your audit findings that there is a negative impact to the Department of State in the amount of \$5,035,295.03.

### **Third issue - Affirmative Response and Defense. Issue 2021 - 03 - C.12 Overtime and Miscellaneous**

Miracle Systems, LLC recognizes the criticality of ensuring all anticipated labor and expenses are accounted for in advance, as operationally feasible. As such, Miracle Systems, LLC made all reasonable efforts to seek overtime (excess hours) approvals from the ATA Afghanistan program government manager, Diplomatic Security Special Agent [REDACTED]. As the proffered documentation reflects, overtime (excess hours) requests were repeatedly submitted to Special Agent [REDACTED] via email, on which the COR had been copied for their own awareness and records. Meanwhile, the same procedure to secure overtime (excess hours) approvals from other ATA Managers for their respective programs was met with success wherein the PMs responded in timely fashion. Miracle Systems, LLC suffered no illusion that Special Agent [REDACTED] had the authority to approve the overtime (excess hours) as he had demonstrated prior responsibility for the ATA Afghanistan level of effort, budgeting, and accountability for the program. To include establishing the staffing level of effort and associated Joint Afghanistan Training Center (JATC) training days and hours when soliciting quotes for staffing services. Miracle Systems, LLC staff, deployed to Kabul, Afghanistan reported labor hours consistent with the government managers directed training schedule. Typical Contract Clause H-25 entitled "Hours of work and Overtime" provides in relevant part states that:

Work within the Continental limits of the United States and its possessions shall not normally exceed eight (8) hours per day or forty (40) hours per normal work week. Work hours OCONUS (outside the Continental United States) shall correspond to hours worked but comparable Government personnel, provided a maximum of forty hours is not exceeded.

All overtime must be approved in advance by the issuing Contracting officer. Overtime will be paid at one and a half times the base labor rates on contract for such overtime worked in excess of forty (40) hours per week

Emergency overtime in case of extreme emergency where delay would endanger accomplishment of essential theater missions, the contracting officer shall authorize overtime. The State Department's Standardized Regulations (DSSR) does not define "overtime" except for use in Chapter 800 which deals with compensatory time off for government employees. See DSSR §811(b).

Miracle Systems, LLC focused on fulfilling the level of effort explicitly directed by the Program Manager Special Agent [REDACTED]. Our failure to adhere to the governments directed work schedule, in the absence of specific contrary language in the contract about work schedules, would have been portrayed that Miracle Systems, LLC was not delivering services as directed. As such, Miracle Systems, LLC demonstrated transparency in our communications leading up to the incurrence of overtime and the subsequent invoicing of those hours. Timesheets were included in the invoice to Charleston and ATA including COR, CO and Budget Office, and subsequently all invoices were approved as invoiced. Per ATA internal procedures, the ATA Budget office requires ATA Afghanistan Program Manager Special Agent [REDACTED] to review the invoice prior to approving Charleston's fulfillment of the invoice. While Miracle System is not privy to internal approvals granted/rejections, its apparent





1621 North Kent St, Suite 1000 | Arlington | VA 22209 | 571-748-7551 | Fax: 202-315-3261

---

that the invoices were complete, accurate and approved resulting in prompt payment for proscribed services rendered. There has been no occasion where Miracle Systems, LLC invoiced for any overtime after it had been declined by the government representatives.

As cited by your office, the OASIS Small Business Contract, section B.3.4 and FAR 31.201-2 Determining Allowability, speaks directly to “reasonableness” and “the contracting officer may disallow all or part of a claimed cost that is inadequately supported. Based on the facts and supporting evidence proffered during this audit, Miracle Systems, LLC strongly affirms our invoicing for overtime (excess hours) where approvals were sought and not responded to were allowable, transparent, reasonable, and accepted by all approving entities. The fact that ATA Government Managers, Budget Office and the Contracting Officer did not reject the successive overtime (excess hours) requests, or subsequent invoicing for the months identified which included full and transparent documentation, therefore substantiates the charges were reasonable, allowable, and allocable costs.<sup>1</sup> Consequent to the invoicing for the recorded level of effort, Miracle Systems, LLC compensated our staff in full for the labor incurred in fulfilling their assigned duties against the assigned work schedule. Suggesting that Miracle Systems, LLC invoiced more than the approved hours by the DOS and may be required now to recoup overtime (excess hours) labor compensation associated with a government managers purposeful dereliction of responsibilities, despite demonstrating well beyond reasonable efforts to secure approvals for the directed scope of work, is inequitable and unreasonable, especially as the questioned of overtime (excess hours) incurred.

Miracle Systems, LLC worked diligently with our deployed staff to accurately identify in advance the anticipated overtime (excess hours) required for the approaching pay period. Once assembled and reviewed for accuracy, those requests for approval are sent to the client. To prevent boiler plate requests that do not consider the evolving government assigned activities at JATC for the approaching pay period, these requests are submitted after the start of the pay period.

For the reasons set forth above, Miracle Systems, LLC disagrees with your audit findings that there is a negative impact to the Government in the amount of \$635,411.

---

<sup>1</sup> Under government rules, regulations, and practices for negotiating contracts, the prices for contracts between Miracle Systems, LLC and the United States depended on the purported actual costs that Miracle Systems, LLC incurred in performing previous government contracts. In addition, the final amount paid to Miracle Systems, LLC Time and Material government contracts depended on the actual costs incurred and agreed upon rates in completing the particular contract. Finally, Miracle Systems, LLC submissions of public vouchers and requests for payments were based on purported actual costs and agreed to labor rates incurred in their performance of government contracts. Therefore, Miracle Systems, LLC had to maintain accurate records of the material, labor and other costs that were actually incurred in performing each contract. By contracting with the United States, Miracle Systems, LLC agreed to maintain its books and records in a condition and in a manner consistent with the cost accounting standards, contract cost principles, and contract cost procedures in applicable federal regulations. Each government contract required Miracle Systems, LLC to maintain records of materials and labor expended on each specific contract.



#### **Fourth Issue Affirmative Response and Defense. Issue 2021 - 04. Miracle Timekeeping Procedure**

ATA Afghanistan staff work against a training schedule set forth there in Kabul, Afghanistan. It appears that the staff member's timesheets were reviewed/submitted by their operational supervisor in Kabul ahead of time in anticipation of the forthcoming end of pay period. It was accepted/processed because the team member fulfilled the hours reported, otherwise the reported hours would have been amended accordingly. It is worth noting an early submission, consequently resulted in a reminder that they are to resubmit the timesheet after the conclusion of the pay period, to ensure accuracy and because the Miracle Systems, LLC Program Manager and timekeeping team reconcile all timesheets once all have been collected and accounted for. Miracle Systems, LLC detailed review and internal checking begins at the conclusion of the pay period to ensure efforts are not redundant or confused by resubmissions with corrections. While not infallible, the staff at Miracle Systems, LLC focus their energies on the review of the hours section of the timesheet, and on occasion inadvertently overlook the date stamp and signature block because once the hours are validated, the accurate sheets are immediately transposed into our timekeeping records. Meanwhile, those requiring correction or clarification are returned to the staff member.

Despite the administrative oversight associated with timesheet submission dates, or omission of signatures, Miracle Systems, LLC HQ always validated and confirmed the reported hours were accurate and consistent prior to invoicing the government. Miracle Systems, LLC acknowledges we have no remedy for the noted discrepancies dating back to the dates in question. All timesheets were included in the invoice to DOS Charleston, the COR and ATA Budget Office each month. These invoices were approved and subsequently processed for payment in full.

Per ATA internal procedures, the ATA Budget office requires ATA Afghanistan Program Manager Special Agent [REDACTED] to review the invoice prior to approving DOS Charleston's fulfillment of the invoice. The ATA Government Managers, Budget Office and the Contracting Officers did not reject the recorded time, or subsequent invoicing that included full and transparent documentation, therefore recognizing the labor hours were reasonable, allowable, and allocable costs.

The mission of Miracle Systems, LLC was successful in supporting the directed training schedule and efforts of the Department of State in Afghanistan. This is reflected in our CPAR from the DOS.

Miracle Systems, LLC disagrees with your audit findings that there is a negative impact to the Department of State in the amount of \$2,023,086.

#### **Fifth Issue Procurement - Travel - [REDACTED] - 2021-5**

In the initial months following award, Miracle Systems, LLC underwent several internal changes to procedures and documentation. Like all contracts, the ATA contract has unique requirements and reporting procedures. As a practical matter, the Federal Travel Regulations (FTR) do not apply directly to contractor travel. Instead, allowable costs for a contractor's travel and transportation allowances are governed by FAR 31.205-46. This provision states that costs for lodging incurred by a contractor travelling on official business under a Government contract are allowable if they do not exceed, on a daily basis, the "maximum per diem rates" in effect at the time of travel in one of the three different Government travel regulations- The FAR, DOD's Joint Travel Regulations (JTR) and the State



1621 North Kent St, Suite 1000 | Arlington | VA 22209 | 571-748-7551 | Fax: 202-315-3261

---

Department's Standardized Regulations (DSSR), as applicable for different geographic areas. The allowable costs for contractor transportation are addressed at FAR 31.205-46(a)(1).

As a result of retraining the incumbent staff on a new manner of reporting per diem, and formulating our own country specific reporting procedures, we experienced some minor administrative oversights. The subordinated invoices were provided to the government, along with complete and transparent documentation, and the invoices were all paid in full without client objection or request for clarity. Miracle Systems, LLC has since been recognized by the client for our exceptionally well assembled, accurate and consistent reporting of labor and expenses. The Contracting Officer and his Representative have not identified any invoicing discrepancy without Miracle Systems, LLC taking the appropriate and necessary action to rectify the discrepancy, whether that includes clarification or submission of a revised invoice.

As cited from the Cost Control section of the Contractor Performance Assessment Report (CPAR), "The contractor implemented several improvements to invoicing procedures to include additional supporting documentation as recommended by agency financial audits, creation of calculation tables to support DBA insurance, post differential, and danger pay costs, and addition of table of contents/summaries and highlights to facilitate Government review of invoices."

Regarding the procurement of [REDACTED] and [REDACTED], Miracle Systems, LLC exercised the option to pursue an exception through its President as cited in the Miracle Systems, LLC Procurement Policy & Procedure.

On September 1, 2017, Miracle Systems, LLC was awarded the contract from the incumbent Alutiiq, and accepted the contract conveyance of assigned rights from the incumbent and thereafter assumed, undertaken, and agreed hereafter to pay, perform and discharge all services in accordance with the prime contract terms and all the liabilities, obligations, and commitments.

Having assumed responsibility to provide immediate continuity of travel services with the staff currently assigned to the contract, it was a cost efficient and low risk decision to adopt the services of [REDACTED]. [REDACTED] continues to provide timely and cost-effective service, with a marginal transaction fee assessed per transaction. The transaction fees along with the associated air fare is clearly identified in all travel request documentation submitted to the client and is included in the associated program invoice to DOS Charleston. Miracle Systems, LLC President's approval to treat this procurement as an exception continues to be reasonable and justified from all accounts.

The cost and planning for travel require a significant amount of planning and fore thought. Several Airlines and multiple days of travel are necessary to deliver a staff member to or from Afghanistan using the most cost beneficial and Fly America compliant routings. Utilization of a travel service avoids many of the pitfalls of international travel by minimizing or eliminating fees associated with flight cancellations and rebooking flights. It is not unusual to travel over a three-day period to successfully arrive at the destination, making the utilization of a 24-hour travel service a cost saving initiative.

Similarly, with [REDACTED] (formerly the [REDACTED]), they were recommended by both the incumbent and the U.S. Embassy liaison for doing business in Afghanistan. Miracle Systems, LLC entered into a contractual agreement and power of attorney, as already proffered, which were critical to the performance of the



1621 North Kent St, Suite 1000 | Arlington | VA 22209 | 571-748-7551 | Fax: 202-315-3261

---

scoped business in Afghanistan. Along with all matters related to the Afghanistan taxes, extra caution in selecting a viable service provider in a recognized corrupt business space. The sole sourcing of a tax firm based on the recommendations of both the incumbent and U.S. Embassy liaisons was deemed appropriate and reasonable at that time. The [REDACTED] continues to provide timely and cost-effective service, with a consistent monthly service fee that is clearly identified in all tax related invoicing and documentation submitted to DOS Charleston and is included in the associated program invoice. Miracle Systems, LLC President's approval to treat this procurement as an exception continues to be reasonable and justified from all accounts.

Accordingly, Miracle Systems, LLC disagrees with your audit findings that there is a negative impact to the Department of State in the amount of \$ [REDACTED], \$ [REDACTED], and \$40,000.00.

#### Summary

As cited from the Regulatory Compliance section of the CPAR, "The contractor complied with all contract terms and conditions."

In summary and for all the foregoing reasons, Miracle Systems, LLC worked tirelessly to support the Department of State under this contract and believes the Company has been fully open and transparent in its dealings, has maintained the highest standards of professionalism and ethics in dealing with our customer and believes our invoices to the Department of State be accepted as submitted with no diminution with the exception of Issue 2021-04 and 2021-06 for the Credit due of \$627,390.26 and \$30,549.56 respectively.

Please do not hesitate to contact the undersigned at [REDACTED] with any questions or additional information.

Respectfully,

[REDACTED]  
[REDACTED]  
Chief Financial Officer

**Miracle Systems, LLC**

Financial Audit of Costs Incurred Under  
Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
Awarded by Department of State's  
Bureau of Diplomatic Security  
Office of Antiterrorism Assistance Program

For the Period of September 1, 2017 through August 31, 2019

**Auditor's Rebuttal to Miracle Systems' Responses to Audit Findings**

Miracle Systems provided a general response to the audit report and a response to each finding. Miracle Systems partially agreed with Finding 2021-01 and did not agree with Findings 2021-02, 2021-03, 2021-04, and 2021-05. We have reviewed Miracle Systems' responses and provided the following rebuttals:

***General Response:***

Miracle Systems stated that the audit findings and Miracle Systems' support to the ATA contract produce diametrically opposed results and that the report fails to acknowledge the full range of risk mitigation measures Miracle Systems subsequently implemented. Miracle Systems further stated that except for two issues with which Miracle Systems agrees, the remainder of audit report findings fail in three regards:

- (1) it lacks adequate means to support the findings;
- (2) it fails to satisfy the burden of showing that the issues raised were clear and indisputable; and
- (3) the auditor, in the exercise of its discretion, is satisfied that the findings were appropriate under the circumstances.

In addition, Miracle Systems took exception to the statement in the Conrad LLP report, "We identified and reported on instances of material non-compliance with the terms of the task order and applicable laws and regulations, including potential fraud or abuse that may have occurred." Miracle Systems stated that the audit report places an onerous burden on Miracle Systems and the fundamental rule of law, Miracle Systems does not believe that standard has been met, and the findings and Miracle Systems' success in supporting to the ATA contract produce diametrically opposed results.

***Auditor's Rebuttal to General Response:***

Miracle Systems has mischaracterized the auditor's roles and responsibilities. As stated in the Independent Auditor's Report, the audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the SPFS. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the SPFS, whether due to fraud or error. Also, the auditor is required to obtain sufficient and appropriate evidence in order to provide the basis of our opinion. It is Miracle Systems' responsibility to account for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. Failure to provide such support could prompt the contracting officer to disallow all or part of a claimed cost that is inadequately supported. Miracle Systems' claim that its support to the ATA contract produce diametrically opposed results does not alleviate its responsibility to maintain sufficient and adequate evidence in support of costs incurred under the ATA contract. Miracle Systems

**Miracle Systems, LLC**

Financial Audit of Costs Incurred Under  
Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
Awarded by Department of State's  
Bureau of Diplomatic Security  
Office of Antiterrorism Assistance Program

For the Period of September 1, 2017 through August 31, 2019

**Auditor's Rebuttal to Miracle Systems' Responses to Audit Findings**

stated above that except for two of the findings, the audit report findings fail in three regards and our responses are below:

- (1) The findings are all fully developed with applicable criteria cited, and as such, our findings are adequately supported.
- (2) The findings are clear as stated and again all applicable criteria are cited in support of the findings.
- (3) Auditor used its professional judgment in determining if sufficient and appropriate evidence exists in order to provide the basis of our findings and opinion. This is in compliance with *Government Auditing Standards*.

With regard to the procedures, we performed that Miracle Systems quoted and took exception to, as cited in all findings identified, Miracle Systems did not provide sufficient and appropriate evidence to demonstrate the SPFS is free from material misstatement and as such a qualified opinion was issued. Miracle Systems also agreed with two of the findings which further demonstrates our findings are valid and supports our conclusion.

**Response and Rebuttal to Specific Findings:**

**Finding 2021-01: Miracle Systems partially agreed with the finding and provided the following response:**

**1. Danger Pay and Post Hardship Differential allowances applied to overtime hours**

- a. Miracle Systems stated that specific contract language associated with standard work hours is missing in the ATA contract. Miracle Systems also indicated that, according to the Government Manager, Diplomatic Security Special Agent [REDACTED], staff in Afghanistan are required to work a standard six-day work week, with 10 hours worked each day. Miracle Systems stated that the State Department's COR [REDACTED] published a memo on September 6, 2018 instructing that post hardship differential and danger pay cannot be applied to overtime. On October 3, 2018, the COR sent an email to Miracle Systems rescinding the memo and observing, "We will revert to procedures and business practices as in existence prior to the date of this memo."

**Auditor's Rebuttal:**

- Miracle Systems' timekeeping policy states, "Overtime is considered hours in excess of the standard semi-monthly pay period." In carrying out its policy, Miracle Systems' billing during the audit period demonstrated that its standard semi-monthly pay period equates to 8 hours a day, even when the hours recorded are based on a 10-hour workday. For example, if a semi-monthly

## Miracle Systems, LLC

Financial Audit of Costs Incurred Under  
 Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
 Awarded by Department of State's  
 Bureau of Diplomatic Security  
 Office of Antiterrorism Assistance Program

For the Period of September 1, 2017 through August 31, 2019

### Auditor's Rebuttal to Miracle Systems' Responses to Audit Findings

period consists of 11 working days, Miracle Systems would bill 10 hours a day for the first eight days and 8 hours on the ninth day totaling 88 as regular hours. Then the remaining 2 hours on the ninth day and 20 hours for the next 2 days were billed as overtime. This billing approach occurred during our entire audit period.

- Furthermore, Miracle Systems is required to submit overtime requests in advance, as described in finding 2021-03 and its responses. Miracle Systems did submit these excess hours as overtime hours as stated in the timesheets to the COR for approval. This further demonstrates that Miracle Systems considers these excess hours as overtime and it contradicts itself in indicating these are regular work hours.
- Simply stating to revert to its procedures and business practices does not mean Miracle Systems can set aside applicable policy and procedures and governing Departmental Regulations. As such, Miracle Systems did not strictly follow the guidance in its policy and practices for what was considered overtime.
- We did not see any language in the contract task order or subsequent modifications that discusses the allowability of the 60-hour regular work week or defines the standard work hours.

As such, Miracle Systems internal time keeping procedures are for an 8-hour regular workday and any excess hours are considered overtime. Our finding, questioned amount, and recommendations remain unchanged.

- b. Miracle Systems cites an Armed Services Board of Contract Appeal (ASBCA) appeal case dated in 2016 which indicated there's no requirement for a 40-hour regular work week. In addition, Miracle Systems stated that during the solicitation process for this project, the government response to one of the Q&A questions that was raised was "Overtime should be priced, the hours are set at zero; danger pay, and post differential are numbers set by the government as allowed, depending on the post. As further stated herein overtime (excess hours) pay is noted as being excluded from the basis of the compensation. There was no premium for overtime (excess hours), as these were considered normal hours that comprise a work week."

#### **Auditor's Rebuttal:**

- It is unclear how the referenced ASBCA appeal case is applicable to Miracle Systems or the scope of the audit, if it is even applicable. As stated by Miracle Systems, the case was conveyed to the CO and COR but Miracle Systems did not further assert if the CO or COR responded or concurred when the case was presented to them. Also as stated earlier, according to Miracle Systems' internal timekeeping procedures, regular work hours are hours worked during a standard semi-monthly pay period, at 8 hours a day. Whether or not any premium amount should be applied to overtime hours is not relevant to this finding's condition.

**Miracle Systems, LLC**

Financial Audit of Costs Incurred Under  
Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
Awarded by Department of State's  
Bureau of Diplomatic Security  
Office of Antiterrorism Assistance Program

For the Period of September 1, 2017 through August 31, 2019

**Auditor's Rebuttal to Miracle Systems' Responses to Audit Findings**

For the reasons explained above, our finding, recommendations, and the questioned costs of \$1,183,358 related to this aspect of the finding remain unchanged.

**2. Danger Pay and Post Hardship Differential allowances applied to travel hours**

Miracle Systems agreed with the finding related to \$30,550 of ineligible danger pay and post hardship differential allowances applied to travel hours and will refund the government.

**3. Afghanistan payroll withholding taxes billed twice**

Miracle Systems agreed with the finding related to payroll withholding taxes being double charged to the Government. However, Miracle Systems stated it has provided, and Conrad did receive an excel spreadsheet and some email correspondences occurred in January 2021 between Miracle Systems and its tax firm in Afghanistan at the conclusion of fieldwork. These documents cited that Miracle Systems owed \$ [REDACTED] in additional Corporate Income tax to the Afghanistan government and will seek reimbursement from the U.S. Government for the income tax that they will be paying. Miracle Systems requested that the finding's questioned amount of \$627,390 be reduced by \$ [REDACTED] for tax owed and for which they are seeking reimbursement.

**Auditor's Rebuttal:**

- The additional Corporate Income tax does not have any impact on this finding as the finding questions the employees' withholding taxes being double charged to the Government. In addition, based on the documents provided, it was stated that the documentation and the tax owed are at a draft stage and appear to be estimated. It was also unclear if Miracle Systems had actually paid the aforementioned tax to the Afghanistan Government. Finally, Miracle Systems did not provide further evidence and documentation to demonstrate that the estimated taxes owed were properly supported. As such, the finding and questioned costs of \$627,390 remain unchanged. If Miracle Systems believes that they are entitled to reimbursement for additional Corporate Income taxes, they can request that directly from State.

**Finding 2021-02: Miracle Systems did not agree with the finding and provided the following response:**

Miracle Systems stated that the qualifications of transitioning staff were reviewed during multiple kick-off meetings upon notice of the award. Miracle Systems also claimed that it inquired with ATA leadership about whether or not there was any staff member that ATA preferred not be extended an offer to continue



**Miracle Systems, LLC**

Financial Audit of Costs Incurred Under  
Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
Awarded by Department of State's  
Bureau of Diplomatic Security  
Office of Antiterrorism Assistance Program

For the Period of September 1, 2017 through August 31, 2019

**Auditor's Rebuttal to Miracle Systems' Responses to Audit Findings**

to support this contract. ATA answered "no." Furthermore, Miracle Systems indicated that its Program Manager and the ATA COR conducted weekly staff meetings wherein the staffing roster and deployment eligibility were reviewed, and Miracle Systems took immediate action to rectify any staffing discrepancy identified. Therefore, Miracle Systems concluded that the staff's qualifications remained reasonable for the duties assigned.

**Auditor's Rebuttal:**

- As stated in our condition, these are verbal comments from Miracle Systems but Miracle Systems did not provide any evidence to support its statements. In the absence of supporting documentation, we were unable to verify if the transitioning staff met the qualifications required in the Task Order. In addition, our finding did identify one individual that did not meet the requirement for the position. As such, \$5,035,295 remain questioned as unsupported and the finding and recommendations remain unchanged.

**Finding 2021-03: Miracle Systems did not agree with the finding and provided the following response:**

1. Miracle Systems stated that it made all reasonable efforts to seek Overtime approvals from the ATA Afghanistan program government manager, Diplomatic Security Special Agent [REDACTED], but did not get a response. Miracle Systems also stated that timesheets were included in all invoices submitted to the Department of State and there was no occasion where Miracle Systems invoiced for any overtime after it had been declined by the government representatives.

**Auditor's Rebuttal:**

- As stated in our criteria, the Task Order explicitly states that overtime must be pre-approved in advance. Submitting overtime requests without receiving approval does not give Miracle Systems permission to charge the overtime hours. Miracle Systems did not provide evidence of such approval.
2. Miracle Systems cited the Typical Contract Clause H-25 entitled "Hours of work and Overtime" which contained the definition of overtime and argued that the DSSR does not define overtime except for use in Chapter 800 which deals with compensatory time off for government employees.

**Auditor's Rebuttal:**

- It is unclear where Miracle Systems cited the Typical Contract Clause H-25 from and how it can be used as a criterion for this program. We had reviewed the terms of the contract and did not find any reference to a Typical Contract Clause. In addition, what is defined as overtime should

**Miracle Systems, LLC**

Financial Audit of Costs Incurred Under  
Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
Awarded by Department of State's  
Bureau of Diplomatic Security  
Office of Antiterrorism Assistance Program

For the Period of September 1, 2017 through August 31, 2019

**Auditor's Rebuttal to Miracle Systems' Responses to Audit Findings**

be consistent with Miracle Systems' internal policies and practice as discussed in our rebuttal to Finding 2021-01 previously. Miracle Systems is not in compliance with their own policies and practices.

3. Miracle Systems stated the timesheets were also submitted as part of the monthly invoice and the COR approved the invoices. In addition, Miracle Systems cited the FAR 31.201-2 that the COR may disallow all or part of a claimed cost that is inadequately supported. Given that the COR did not reject the successive overtime or subsequent monthly invoicing should make the overtime reasonable, allowable, and allocable.

**Auditor's Rebuttal:**

- The COR's approval of invoices, which included costs of overtime, occurred subsequent to when the work was performed. Since the Task Order required all overtime to be approved in advance and support must be included with the invoice, this compliance requirement has not been met.

For the reasons explained above, the finding, recommendations, and questioned costs of \$635,411 remain unchanged.

**Finding 2021-04: Miracle Systems did not agree with the finding and provided the following response:**

Miracle Systems stated that the staff member's timesheets were reviewed/submitted by their operational supervisor in Kabul ahead of time in anticipation of the forthcoming end of pay period. This was accepted/processed because the team member ultimately fulfilled the hours reported, otherwise the reported hours would have been amended accordingly. Miracle Systems acknowledged its administrative oversight associated with timesheet submission dates or omission of signatures. Miracle Systems further indicated that they have no remedy for the noted discrepancies dating back to the dates in question.

**Auditor's Rebuttal:**

Miracle Systems' explanation does not resolve the finding. As stated in the finding, entering and approving timesheets in advance raises substantial doubt about the validity of the hours certified on the timesheets. As such, the finding, recommendations, and questioned costs of \$2,023,086 remain unchanged.

**Finding 2021-05: Miracle Systems did not agree with the finding and provided the following response:**

**Miracle Systems, LLC**

Financial Audit of Costs Incurred Under  
Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
Awarded by Department of State's  
Bureau of Diplomatic Security  
Office of Antiterrorism Assistance Program

For the Period of September 1, 2017 through August 31, 2019

**Auditor's Rebuttal to Miracle Systems' Responses to Audit Findings**

1. Travel:

- Miracle Systems indicated that allowable costs for a contractor's travel and transportation allowances are governed by FAR 31.205-46 which stated that lodging costs incurred by a contractor travelling on official business under a Government contract are allowable if they do not exceed the "maximum per diem rates" in effect at the time of travel.
- Miracle Systems also stated that allowable costs for contractor transportation are addressed in FAR 31.205-46(a)(1).
- Miracle Systems acknowledged its administrative oversights due to retraining the incumbent staff on a new manner of reporting per diem and formulating its own country specific reporting procedures. However, Miracle Systems argued that all invoices and related supporting documentation submitted to the State Department were paid in full without client objection or request for clarity.

**Auditor's Rebuttal:**

- Miracle Systems cited FAR 31.205-46 to demonstrate that lodging costs are allowable if they do not exceed the "maximum per diem rates." During our testing we noted one instance related to missing lodging support which was stated in Finding 2021-05. For this case, the staff member was reimbursed in a lump sum amount which included per diem, mileage, and lodging costs. There was no indication in the support of how much was claimed under different travel categories. We requested further support and clarification from Miracle Systems, however, it was communicated that supporting documentation was not available.
- Miracle Systems also cited FAR 31.205-46(a)(1) for allowable transportation costs. FAR 31.205-46(a)(1) states, in part: "...Costs for transportation may be based on mileage rates, actual costs incurred, or on a combination thereof, provided the method used results in a reasonable charge..." During our testing we noted two instances related to missing mileage support which was stated in Finding 2021-05. For these cases, Miracle Systems did not provide documentation supporting the mileage claimed. Miracle Systems conceded that its failure to document the distance travelled was an administrative oversight.

2. Procurement:

- Regarding the procurement of [REDACTED], Miracle Systems stated that it exercised the option to pursue an exception through its President as cited in the Miracle Systems Procurement Policy & Procedures. Miracle Systems also indicated that it was a cost efficient and low risk decision to

**Miracle Systems, LLC**

Financial Audit of Costs Incurred Under  
Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030  
Awarded by Department of State's  
Bureau of Diplomatic Security  
Office of Antiterrorism Assistance Program

For the Period of September 1, 2017 through August 31, 2019

**Auditor's Rebuttal to Miracle Systems' Responses to Audit Findings**

continue using the services of [REDACTED] from the incumbent to ensure continuity of travel services as the agency had been providing timely and cost-efficient services to the incumbent.

- Regarding the procurement of [REDACTED], Miracle Systems also stated that it exercised the option to pursue an exception through its President. Miracle Systems claimed that [REDACTED] was recommended by both the incumbent and the U.S. Embassy liaison for doing business in Afghanistan, therefore, the sole sourcing was deemed reasonable at that time.

**Auditor's Rebuttal:**

- Miracle Systems did not provide any evidence to support the President's approval of the sole source procurement for [REDACTED] and [REDACTED]. It was communicated that the President's approval was granted verbally during the internal contract kick off meetings, however, no meeting minutes were available. In addition, Miracle Systems did not provide any sole source justification to support the cost reasonableness for these procurements. The fact that [REDACTED] was inherited from the incumbent and [REDACTED] was recommended by both the incumbent and the U.S. Embassy liaison is not a documentation waiver. Miracle Systems is not exempt from providing supporting documentation to demonstrate procurement efforts for acquiring these vendors.

## 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](http://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](http://www.sigar.mil/fraud)
- Email: [sigar.pentagon.inv.mbx.hotline@mail.mil](mailto:sigar.pentagon.inv.mbx.hotline@mail.mil)
- Phone Afghanistan: +93 (0) 700-10-7300
- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

## Public Affairs

Public Affairs Officer

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