

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 24-16 Financial Audit

Department of State's Antiterrorism
Assistance Program: Audit of Costs
Incurred by Miracle Systems LLC



**MARCH
2024**

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On September 1, 2017, the Department of State (State) awarded a time and materials task order with \$17,704,868 in Afghanistan-related funding budgeted for option years 2, 3, and 4, to Miracle Systems LLC (Miracle Systems). The task order supported an antiterrorism assistance program and funded training, mentoring, and consultations at the Joint Afghanistan Training Center to help Afghanistan build a wide range of capabilities to detect, deter, and apprehend terrorists. State modified the Afghanistan-related task order option years nine times; the modifications decreased the funding to \$14,769,184 and extended the period of performance from August 31, 2022, through February 28, 2023.

SIGAR's financial audit, performed by KPMG LLP (KPMG), reviewed \$14,730,869 in costs charged to the task order from September 1, 2019, through February 28, 2023. 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 award; (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 KPMG's report for the precise audit objectives.

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

March 2024

Department of State's Antiterrorism Assistance Program: Audit of Costs Incurred by Miracle Systems LLC

SIGAR 24-16-FA

WHAT SIGAR FOUND

KPMG identified one material weakness and two significant deficiencies in Miracle Systems' internal controls, and two instances of noncompliance with the terms of the task order. For example, KPMG tested all 840 timesheets submitted during the period of review and found that Miracle Systems did not consistently maintain records nor provide adequate documentation to support hours recorded on the timesheets. In addition, KPMG found that Miracle Systems incorrectly invoiced contractors' labor hours and charged them to the incorrect option year in 2 of 37 tested transactions. SIGAR notified Miracle Systems of the deficiencies and compliance issues prior to publication of this report.

Because of the deficiencies in internal controls and the instances of noncompliance, KPMG identified \$77,778 in total questioned costs. The questioned costs consisted of \$76,796 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval—and \$982 in ineligible costs—costs prohibited by the task order and applicable laws and regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Labor	\$982	\$65,043	\$66,025
Other Direct Costs	\$0	\$11,753	\$11,753
Total Costs	\$982	\$76,796	\$77,778

KPMG identified one prior audit report that was relevant to Miracle Systems' task order. The report contained five findings that could have a material effect on the SPFS or other financial data significant to the audit objectives. KPMG conducted follow-up procedures and concluded that Miracle Systems had taken adequate corrective action on three of the five findings. KPMG noted that the issues associated with the two unaddressed prior findings were repeated under this audit.

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

WHAT SIGAR RECOMMENDS

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

- Determine the allowability of and recover, as appropriate, \$77,778 in questioned costs identified in the report.**
- Advise Miracle Systems to address the report's three internal control findings.**
- Advise Miracle Systems to address the report's two noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

March 12, 2024

The Honorable Antony J. Blinken
Secretary of State

We contracted with KPMG LLP (KPMG) to audit the costs incurred by Miracle Systems LLC (Miracle Systems) under a task order awarded by the Department of State (State) to support the antiterrorism assistance program.¹ The task order required Miracle Systems to provide training, mentoring, and consultations at the Joint Afghanistan Training Center to help Afghanistan build a wide range of capabilities to detect, deter, and apprehend terrorists. KPMG reviewed \$14,730,869 in costs charged to the task order from September 1, 2019, through February 28, 2023. Our contract with KPMG required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$77,778 in questioned costs identified in the report.**
- 2. Advise Miracle Systems to address the report's three internal control findings.**
- 3. Advise Miracle to address the report's two noncompliance findings.**

KPMG discusses the results of the audit in detail in the attached report. We reviewed KPMG's report and related documentation. We also inquired about KPMG's conclusions in the report and the firm's compliance with applicable standards. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on Miracle Systems' Special Purpose Financial Statements, or conclusions about the effectiveness of internal control over financial reporting or on compliance with laws and other matters. KPMG is responsible for the attached auditor's report, dated January 26, 2024, and the conclusions expressed therein. However, our review disclosed no instances in which KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

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

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-271)

¹ The task order no. is SAQMMA17F2030 under contract no. 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, 2019 to February 28, 2023

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

MIRACLE SYSTEMS, LLC

Table of Contents

	Page
Background.....	1
Work Performed.....	2
Objectives, Scope, and Methodology	2
Summary of Results	5
Independent Auditors' Report.....	7
Special Purpose Financial Statement.....	9
Notes to the Special Purpose Financial Statement	10
Notes to Questioned Costs Presented on the Special Purpose Financial Statement.....	12
Independent Auditors' Report on Internal Control over Financial Reporting Based on an Audit of a Special Purpose Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	13
Independent Auditors' Report on Compliance and Other Matters Based on an Audit of a Special Purpose Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	15
Schedule of Findings and Questioned Costs	16
Status of Prior Audit Findings	22
Appendix A – Miracle Systems' Responses to Audit Findings	25
Appendix B – Auditors' Rebuttal	26



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

Transmittal Letter

January 26, 2024

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

KPMG LLP (we or our) hereby provides to you our final report, which reflects results from the procedures we completed during our audit of the Miracle Systems, LLC (Miracle Systems) Special Purpose Financial Statement for the period from September 1, 2019 to February 28, 2023, and the related notes to the Statement (the Statement) with respect to Contract No. GS00Q144OADS128, Task Order No. SAQMMA17F2030 (Task Order) for the Joint Afghanistan Training Center.

On October 11, 2023, we provided SIGAR with a draft report reflecting our audit procedures and results. Miracle Systems received a copy of the report on December 4, 2023 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.

Sincerely,

KPMG LLP

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

Background

On September 1, 2017, the U.S. Department of State's (State) Bureau of Diplomatic Security awarded time and materials Task Order No. SAQMMA17F2030 (Task Order) under the One Acquisition Solution for Integrated Services – Small Business (OASIS SB) Contract No. GS00Q14OADS128 to Miracle Systems, LLC (Miracle Systems) to support the Antiterrorism Assistance (ATA) program for the Joint Afghanistan Training Center. The time and materials Task Order utilizes fixed hourly rates for direct labor and materials reimbursed at cost. The five-year (one base year and four option years) Task Order had an initial period of performance from September 1, 2017 to August 31, 2022, and included funding for work in Afghanistan and a number of other jurisdictions. The Task Order had 161 modifications, one of which extended the period of performance to February 28, 2023. Fourteen modifications pertained to funding associated with the work in Afghanistan.

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 in Afghanistan, the Task Order required Miracle Systems to provide training, mentoring, and consultations at the Joint Afghanistan Training Center to help Afghanistan build a wide range of capabilities to detect, deter, and apprehend terrorists. To achieve this objective, Miracle Systems provided various professional and staffing services, including law enforcement and military subject matter expertise, cyber professionals, and monitoring officers. In addition, Miracle Systems was 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.

Established in 2003, Miracle Systems specializes in project management support, engineering services, financial consulting, information technology systems, training services, and cyber mission support. In 2023, subsequent to the completion of the Task Order, Miracle Systems was acquired by Renovus Capital Partners and now operates as a unit of Aretum, LLC.

As detailed in the following Summary of Task Order and Modifications, the initial cumulative approved Afghanistan-related funding budget for option years 2, 3, and 4 was \$17,704,868 with a cumulative period of performance from September 1, 2019 to August 31, 2022. State modified the Afghanistan-related funding or period of performance associated with these option years nine times. These modifications decreased the Afghanistan-related funding to \$14,769,184 and the period of performance was extended from August 31, 2022 to February 28, 2023.

MIRACLE SYSTEMS, LLC

Financial Audit of Costs Incurred Under
Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030
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Bureau of Diplomatic Security
Office of Antiterrorism Assistance Program

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	Number of Funding or Period of Performance Modifications	Final Approved Budget (\$)	End
Option Year 2	\$9,638,646	9/1/2019	8/31/2020	5	\$5,540,919	No Change
Option Year 3	\$6,958,197	9/1/2020	8/31/2021	2	\$8,075,895	No Change
Option Year 4	\$1,108,025	9/1/2021	8/31/2022	2	\$1,152,370	2/28/2023
Total	\$17,704,868			9	\$14,769,184	

Work Performed

KPMG LLP (KPMG) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct an audit of Miracle Systems' Special Purpose Financial Statement (SPFS) for the Task Order for the period September 1, 2019 to February 28, 2023. This represents a closeout audit. The total costs incurred reported by Miracle Systems were \$14,730,869.

Objectives, Scope, and Methodology

Audit Objectives Defined by SIGAR

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

- *Internal Controls* – Evaluate and obtain a sufficient understanding of Miracle Systems' internal controls related to the award, assess control risk, and identify and report on significant deficiencies and material internal control weaknesses.
- *Special Purpose Financial Statement* – Express an opinion on whether Miracle Systems' SPFS for the award presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. government, and balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.

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

- *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 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

The scope of this audit includes all revenues/funds received and costs incurred during the period September 1, 2019 to February 28, 2023, related to Afghanistan funding within Task Order No. SAQMMA17F2030, with a total incurred cost of \$14,730,869. This is a closeout audit as the end of the period of performance occurred during the audit period.

Methodology

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

Entrance Conference

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

Planning

During our planning phase, we performed the following:

- Obtained an understanding of Miracle Systems' organizational structure and entity-level controls
- Obtained an understanding of Miracle Systems' internal controls related to the award within relevant business processes
- Reviewed the Task Order and subsequent modifications, including approved direct labor rates
- Performed inquiries of those charged with governance, management, and others regarding risks of material misstatement
- Reviewed State and other regulations that were applicable to the Task Order
- Reviewed previous Miracle Systems audit and other relevant reports

MIRACLE SYSTEMS, LLC

Financial Audit of Costs Incurred Under
Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030
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Bureau of Diplomatic Security
Office of Antiterrorism Assistance Program

- Reconciled the detailed accounting records to the trial balance and financial statement schedules. We performed data analysis to understand trends, identify outliers from such trends or unusual transactions, and prepare data for sampling. Based on our approved Audit Plan, we used the reconciled detailed accounting records and, based upon the risk assessment and materiality included as part of the approved Audit Plan, we selected statistically valid samples using our firm's sampling tools.

Internal Controls Related to the Task Order

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

Special Purpose Financial Statement

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

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

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

Corrective Action on Prior Findings and Recommendations

We considered prior Miracle Systems audit report findings that could have a significant effect on the SPFS or other financial data significant to the audit objectives, which included discussing the report and findings with management, reviewing evidence of revised policies and procedures, and other applicable recommended corrective actions contained within the report. We used this information to assess risk and determine the nature, timing, and extent of our audit procedures, including determining the extent to which testing the implementation of the corrective actions was applicable to the audit objectives.

Exit Conference

We held an exit conference on September 27, 2023, via conference call. Participants included representatives from KPMG, Miracle Systems, SIGAR, and State. During the exit conference, we discussed the preliminary results of the audit and reporting process.

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

Summary of Results

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

Auditors' Opinion on the SPFS

We issued an unmodified opinion on the SPFS.

We identified \$77,778 in total questioned costs, which comprised \$982 in ineligible costs and \$76,796 in unsupported costs. Ineligible costs are explicitly questioned because they are unreasonable, prohibited by the Task Order provisions or applicable laws and regulations, or are not related to the Task Order. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

Findings and Questioned Costs

The three findings listed below are classified as internal control deficiencies. Internal control findings were classified as a material weakness or significant deficiency based on the severity of the deficiency identified.

In performing our testing, we considered whether the information obtained during our testing resulted in either identified or suspected material fraud, waste, or abuse. We did not identify evidence of material fraud, waste, or abuse as a result of our testing.

Finding Number	Finding Name	Classification	Ineligible Costs	Unsupported Costs	Cumulative Questioned Costs
2023-01	Ineffective Controls Over Review of Hours Worked	Material Weakness in Internal Control & Noncompliance	\$0	\$76,796	\$76,796
2023-02	Inadequate Review of Invoices	Significant Deficiency in Internal Control & Noncompliance	\$982	\$0	\$77,778
2023-03	Inadequate Supervision over Excess Hours Preapproval	Significant Deficiency in Internal Control	\$0	\$0	\$77,778
Total Questioned Costs			\$982	\$76,796	\$77,778

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

Internal Control Findings

We reported on Miracle Systems' internal control over financial reporting relevant to the SPFS. We identified one material weakness and two significant deficiencies in Miracle Systems' internal control. See Independent Auditors' Report on Internal Control over Financial Reporting on page 13.

Compliance Findings

We reported on Miracle Systems' compliance with laws, regulations, and the contract / Task Order relevant to the SPFS. We did not identify any instances of noncompliance subject to reporting under *Government Auditing Standards* in the Independent Auditors' Report on Compliance and Other Matters on page 15.

We identified two instances of noncompliance with relevant provisions of the Task Order and applicable laws and regulations that have a less than material effect on the SPFS. Noncompliance with a material effect would indicate that Miracle Systems materially misstated the SPFS. Because these instances do not have a material effect on the SPFS, they are not reported in the Independent Auditors' Report on Compliance and Other Matters under *Government Auditing Standards*. However, these instances of noncompliance are included as Finding 2023-01 and 2023-02 in the Schedule of Findings and Questioned Costs and the table on page 5.

Review of Prior Findings and Recommendations

We inquired of Miracle Systems, State, and SIGAR personnel regarding whether there were reports related to previous engagements. We noted one prior audit report that contained five findings and recommendations that could have a significant effect on the SPFS or other financial data significant to the audit objectives. Based on the results of our audit procedures, we determined that Miracle Systems did not take corrective action on two of the previous findings and therefore they were repeated under this audit. The remaining three findings are closed. See Status of Prior Audit Findings on page 22 for a detailed description of the prior findings and recommendations.

Summary of Miracle Systems' Responses to Audit Findings

Miracle Systems concurred with the conditions communicated in our audit findings but did not consider Finding 2023-01 to have a monetary impact. The following is a summary of Miracle Systems' response:

- Finding 2023-01: Ineffective Controls Over Review of Hours Worked. Miracle Systems concurred with the internal control finding but maintained that discrepancies in timekeeping documentation did not result in questioned costs because such costs were in line with various pre-approvals communicated to State.

Reference to Appendices

Appendix A contains Miracle Systems' responses to the audit findings, and Appendix B contains the auditors' response to Miracle Systems' comments.



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

Independent Auditors' Report

To Miracle Systems, LLC
7315 Wisconsin Avenue STE 400W
Bethesda, Maryland 20814

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

Report on the Audit of the Special Purpose Financial Statement

Opinion

We have audited the Special Purpose Financial Statement – contractual basis of Miracle Systems, LLC (Miracle Systems) for the period from September 1, 2019 to February 28, 2023, and the related notes to the Statement (the Statement) with respect to Contract No. GS00Q14OADS128, Task Order No. SAQMMA17F2030 (Task Order) for the Joint Afghanistan Training Center.

In our opinion, the accompanying Statement referred to above presents fairly, in all material respects, the revenues and costs incurred of Miracle Systems for the Task Order for the period September 1, 2019 to February 28, 2023 in accordance with the relevant provisions of the Task Order.

Basis of Opinion

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

Emphasis of Matter – Basis of Accounting

We draw attention to Note 2 of the Statement, which describes the basis of accounting. The Statement is prepared by Miracle Systems on the basis of the relevant provisions of the Task Order referred to above, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the relevant provisions of the Task Order referred to above. As a result, the Statement may not be suitable for another purpose. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Special Purpose Financial Statement

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



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

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

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

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

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

Restriction on Use

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated January 26, 2024 on our consideration of Miracle Systems' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Miracle Systems' 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.

KPMG LLP

Washington, DC
January 26, 2024

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
 Special Purpose Financial Statement¹
 For the Period September 1, 2019 to February 28, 2023

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	
Revenues:					
Direct Labor	\$ 9,943,653	9,906,877	982	65,043	(A)
Other Direct	4,817,176	4,815,913	—	11,753	(B)
Contract Access Fee	8,355	8,079	—	—	
Total Revenues	<u>\$ 14,769,184</u>	<u>14,730,869</u>	<u>982</u>	<u>76,796</u>	
Costs Incurred:					
Direct Labor	\$ 9,943,653	9,906,877	982	65,043	(A)
Other Direct Costs	4,817,176	4,815,913	—	11,753	(B)
Contract Access Fee	8,355	8,079	—	—	
Total Costs Incurred	<u>\$ 14,769,184</u>	<u>14,730,869</u>	<u>982</u>	<u>76,796</u>	

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

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

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
Notes to the Special Purpose Financial Statement²
For the Period September 1, 2019 to February 28, 2023

(1) Status and Operation

Miracle Systems, LLC (Miracle Systems) was organized under the laws of the Commonwealth of Virginia on May 28, 2003. Miracle Systems' primary business activity is providing program management, systems development, engineering and training services, cybersecurity, and financial consulting to the federal government. Miracle Systems provides domestic and international experience in supporting mission-critical federal requirements throughout the United States, Afghanistan, and other countries and the continent of Africa. Miracle Systems also performs various services, including financial statements, and maintenance requirements. Miracle Systems also performs services customarily incident thereon, including financial statements, and maintenance requirements.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Special Purpose Financial Statement (the Statement) has been prepared to recognize revenues earned and costs when incurred that are allowable in accordance with the cost principles of Title 48, Part 31 of the Code of Federal Regulations and the terms of Task Order No. SAQMMA17F2030 (Task Order).

Basis of Presentation

The information in the Statement is presented in accordance with the requirements of the aforementioned Task Order specified by the Special Inspector General for Afghanistan Reconstruction (SIGAR). Because the Statement presents only a selected portion of the operations of Miracle Systems, it is not intended to, and does not, present the financial position, net income, changes in equity, or cash flows of Miracle Systems.

Budgeted versus Actual Revenues and Costs Incurred

Budgeted revenues and budgeted costs incurred are based on the final funded amounts per the Task Order and subsequent modifications for each cost category. Actual revenues and costs incurred represent revenues earned and costs incurred and allowable as described in the Basis of Accounting above.

² These Notes to the Special Purpose Financial Statement are the responsibility of Miracle Systems, LLC.

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
Notes to the Special Purpose Financial Statement
For the Period September 1, 2019 to February 28, 2023

(3) Revenues

Miracle Systems reported revenues earned of \$14,730,869 associated with the Task Order for the period September 1, 2019 to February 28, 2023.

(4) Cost Categories

The cost categories, represented by the Contract Line-Item Numbers (CLIN), reflect budget line items for which allowable costs are eligible for reimbursement as defined by the Task Order and subsequent modifications applicable for the period September 1, 2019 to February 28, 2023:

- Direct labor (CLINs 098, 170, and 267) represents labor costs incurred for time and materials based on Miracle Systems' approved fully burdened labor rates.
- Other direct costs (CLINs 099, 171, and 268) represent costs incurred at approved labor rates for danger pay and post hardship differential allowances, as well as travel, insurance, and other direct costs incurred in the performance of the Task Order.
- Contract access fees (CLIN 269) represent costs incurred associated with fees charged by the General Services Administration (GSA) for use of the GSA Multiple Award Schedule.

(5) Subsequent Events

Miracle Systems has evaluated subsequent events from the Statement date through January 26, 2024, the date at which the Statement was available to be issued. On March 31, 2023, Miracle Systems was acquired by Aretum, LLC. This acquisition does not have an effect on the amounts in the Statement or disclosures. Miracle Systems did not identify any other subsequent events that would have required adjustment or disclosure in the financial statements.

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

Notes to Questioned Costs Presented on the Special Purpose Financial Statement³
For the Period September 1, 2019 to February 28, 2023

(A) Direct Labor

Miracle Systems, LLC (Miracle Systems) reported a total of \$9,906,877 for direct labor revenues and costs incurred for the period September 1, 2019 to February 28, 2023. During our audit of these costs, we identified:

- (1) Timesheets were certified by an individual on behalf of the contractor that incurred the hours without evidence from the contractor that the certified hours were accurate for 18 reviewed direct labor timesheets. This resulted in total unsupported direct labor costs of \$65,043. See Finding No. 2023-01 in the Schedule of Findings and Questioned Costs section of this report.
- (2) Miracle Systems did not properly allocate costs associated with two timesheets to the Task Order period of performance. This resulted in total ineligible costs of \$982. See Finding No. 2023-02 in the Schedule of Findings and Questioned Costs section of this report.

(B) Other Direct Costs

Miracle Systems reported a total of \$4,815,913 for other direct costs for the period September 1, 2019 to February 28, 2023. During our audit of these costs, we noted that six timesheets were certified by an individual on behalf of the contractor that incurred the hours without evidence from the contractor that the certified hours were accurate. This resulted in total unsupported other direct costs of \$11,753. See Finding No. 2023-01 in the Schedule of Findings and Questioned Costs section of this report.

³ The Notes to Questioned Costs Presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes and as such are not part of the audited Special Purpose Financial Statement.



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

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

To Miracle Systems, LLC
7315 Wisconsin Avenue STE 400W
Bethesda, Maryland 20814

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement – contractual basis of Miracle Systems, LLC (Miracle Systems) for the period from September 1, 2019 to February 28, 2023, and the related notes to the Statement (the Statement), with respect to Contract No. GS00Q14OADS128, Task Order No. SAQMMA17F2030 (Task Order) for the Joint Afghanistan Training Center. We have issued our report thereon dated January 26, 2024.

Report on Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2023-01 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2023-02 and 2023-03 to be significant deficiencies.



Miracle Systems' Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Miracle Systems' responses to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Miracle Systems' responses were not subjected to the other auditing procedures applied in the audit of the Statement and, accordingly, we express no opinion on the responses.

Purpose of This Report

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

KPMG LLP

Washington, DC
January 26, 2024



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

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

To Miracle Systems, LLC
7315 Wisconsin Avenue STE 400W
Bethesda, Maryland 20814

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement – contractual basis of Miracle Systems LLC (Miracle Systems) for the period from September 1, 2019 to February 28, 2023, and the related notes to the Statement (the Statement), with respect to Contract No. GS00Q14OADS128, Task Order No. SAQMMA17F2030 (Task Order) for the Joint Afghanistan Training Center. We have issued our report thereon dated January 26, 2024.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Miracle Systems' Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the Statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

KPMG LLP

Washington, DC
January 26, 2024

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
Schedule of Findings and Questioned Costs
For the period September 1, 2019 through February 28, 2023

Finding 2023-01: Ineffective Controls Over Review of Hours Worked

Classification: Material Weakness in Internal Controls and Noncompliance

Condition: Miracle Systems' timekeeping and timesheet certification controls did not operate consistently during the period under audit. As a result, during our testing over the entire population of 840 timesheets to determine whether the incurred costs related to the timesheets were allowable and allocable to the Task Order, we noted that Miracle Systems did not consistently maintain records and did not provide adequate documentation to support the hours recorded on the timesheets. Specifically:

- 18 timesheets with Direct Labor costs, of which six of these also contained Other Direct Costs, were certified by an individual on behalf of the Miracle Systems contractor without evidence from the contractor that the certified hours were accurate. This resulted in unsupported questioned costs.
- 3 timesheets were certified by the contractor prior to the last day worked in the pay period, though the contractor's supervisor certified the timesheet after the last day worked in the pay period.
- 91 timesheets were certified by the contractor but were missing the contractor's certification date.
- 29 timesheets were certified by the contractor's supervisor but were missing the supervisor's certification date.
- 3 timesheets were certified by the contractor and their supervisor but were missing both the contractor's and supervisor's certification date.
- 3 timesheets were certified by the contractor but were missing the supervisor's certification.
- 1 timesheet was certified by the contractor's supervisor prior to the contractor's certification date.

Criteria:

Federal Acquisition Regulation (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:

- (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.

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
Schedule of Findings and Questioned Costs
For the period September 1, 2019 through February 28, 2023

(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."

Miracle Systems' Accounting Policies, Estimating Policies & Procedures Manual:

- "Labor distribution reports will be prepared and controlled according to the following minimum standards:
 - Labor charging – Consistent with the cost principles found in 48 CFR 31.2 or FAR 31.2, all employees are required to ensure all labor is recorded to accurately reflect the work performed and must be supported to provide reasonable assurance that time charges are accurate, allowable and properly allocated. Miracle Systems' accounting system and personnel ensure segregation of responsibilities for labor-related activities (e.g., separating direct labor from indirect labor) and assurance that the process and procedures are evident, clear-cut, and reasonable. Miracle Systems ensures maintenance of all internal controls are continually verified and any violations remedied through prompt and effective action...
 - Time sheets must be signed by employees and the supervisor only after they have been fully completed for the payroll period...
 - Corrections to time sheets are to be made by cross-out and new entry, with no erasures or whiteouts. Corrections are then initialed by the employee and supervisor..."
- "In the event an employee is not available to sign or correct their timesheet, due to absence, their approving Client Supervisor may approve on their behalf. The Client Supervisor can change the employee's time sheet or sign on behalf of the employee but cannot do both. If the Client makes changes to an employee's time sheet, then HR will have to accept or reject that timesheet. When an employee returns, they are asked to sign hard copy of their timesheet to file."

Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control Integrated Framework 2013*, states that "the organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels."

Cause: Miracle Systems transitioned to a new timekeeping application to improve internal controls and better comply with timekeeping requirements. However, the timekeeping application was not in use for the entire period under audit and did not remediate all deficiencies previously identified. Further, Miracle Systems did not fully identify, analyze, and respond to new risks prompted by the change, such as consistent enforcement and documentation of alternative procedures for when internet connectivity is unreliable or unavailable.

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
Schedule of Findings and Questioned Costs
For the period September 1, 2019 through February 28, 2023

Effect: Ineffective timesheet review controls increase the risk of noncompliance with relevant regulations and overcharging the U.S. government.

Questioned Costs: We identified \$76,796 in unsupported questioned costs.

Recommendations:

- (1) We recommend that Miracle Systems provide supporting documentation to demonstrate that \$76,796 incurred costs claimed were allocable to the Task Order, and complied with applicable cost principles in accordance with FAR or return the unsupported amount to the Department of State.
- (2) We recommend that Miracle Systems develop and implement a process to fully identify, analyze, and respond to new risks prompted by changes to the internal control system, including those risks pertaining to accurate and reliable timekeeping practices.

MIRACLE SYSTEMS, LLC

Financial Audit of Costs Incurred Under
Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030
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Office of Antiterrorism Assistance Program
Schedule of Findings and Questioned Costs
For the period September 1, 2019 through February 28, 2023

Finding 2023-02: Ineffective Invoice Review

Classification: Significant Deficiency in Internal Controls and Noncompliance

Condition: Miracle Systems' controls over invoice compilation and review did not operate effectively to ensure contractor labor was properly charged to the correct Task Order option year. As a result, during our testing over timesheets submitted on all 37 invoices to the Department of State to determine whether the costs were allowable and allocable to the Task Order, we identified two instances in which Miracle Systems incorrectly invoiced contractor labor hours to an incorrect Task Order option year. For example, labor hours performed during the Task Order option year September 1, 2018 to August 31, 2019, were charged instead to the Task Order option year September 1, 2019 to August 31, 2020.

Criteria:

Task Order SAQMMA17F2030, clause C.14 Period of Performance:

"The period of performance for this contact is a base period of one (1) year and four (4) twelve-month option periods.

Base Period: 09/01/2017 – 08/31/2018
Option Period One: 09/01/2018 – 08/31/2019
Option Period Two: 09/01/2019 – 08/31/2020
Option Period Three: 09/01/2020 – 08/31/2021
Option Period Four: 09/01/2021 – 08/31/2022"

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:

- (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."

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
Schedule of Findings and Questioned Costs
For the period September 1, 2019 through February 28, 2023

Miracle Systems Invoicing Guidelines:

- “In the case of late posting charges (DBA, travel expenses, etc.), Miracle Systems will utilize a unique/new invoice number that differentiates it from the prior invoice for that period of performance. The late posted charges will also be specific to the program, using the appropriate period of performance.”

Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control Integrated Framework 2013*, states that “the organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.”

Cause: Miracle Systems did not consistently enforce requirements for contractors to timely record and communicate labor hours and did not finalize and implement corrective action plans to develop standard operating procedures for the review and approval of invoices, including review of the period of performance compared to when labor was incurred.

Effect: Ineffective invoice review controls may result in Miracle Systems billing the Department of State for ineligible costs and noncompliance with relevant regulations.

Questioned Costs: We identified \$982 in ineligible questioned costs.

Recommendations:

- (1) We recommend that Miracle Systems coordinate with the Department of State to increase funding for Task Order Option Years 1 and 3 or return \$982 to the Department of State for costs incurred in excess of the amount obligated for Task Order Option Years 1 and 3.
- (2) We recommend that Miracle Systems implement corrective action plans to consistently review invoices to determine the proper allocation of costs incurred against Task Order period of performance as required by FAR.
- (3) We recommend that Miracle Systems reinforce the importance of timely recording and communicating labor hours in the period in which the labor was performed.

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
Schedule of Findings and Questioned Costs
For the period September 1, 2019 through February 28, 2023

Finding 2023-03: Ineffective Control over Preapproval of Excess Hours

Classification: Significant Deficiency in Internal Controls

Condition: Miracle Systems' control over the preapproval of excess hours did not operate effectively during the Task Order period. As a result, during our testing of 33 timesheets with hours in excess of standard hours (Excess Hours) to determine whether Miracle Systems obtained preapproval for the Excess Hours in accordance with Miracle Systems' policies, we identified two instances where Miracle Systems did not comply with its own policies. In one instance, Miracle Systems was unable to provide Contracting Officer Representative (COR) approval of Excess Hours. In another instance, Miracle Systems was able to provide COR approval of Excess Hours but was unable to provide the underlying document containing the hours approved by the COR.

Criteria:

Miracle Systems' *Excess Hours Approval*

- "The Miracle Systems Program Manager will not sign/approve any timesheet that includes Excess Hours when the corresponding Excess Hours Request has not been approved in writing by the COR."

Cause: Miracle Systems did not establish policies and procedures to retain Task Order records throughout the lifecycle of the Task Order, including records of individuals no longer employed with Miracle Systems. Miracle Systems implemented corrective actions to address internal control deficiencies previously identified but they were not implemented for the entire period under audit.

Effect: Ineffective controls over maintaining documentation of preapproval of Excess Hours may result in claiming costs that are unallowable under the terms of the Task Order.

Questioned Costs: We did not identify questioned costs associated with this finding as preapproval of these hours was not required under the terms of the Task Order.

Recommendations:

- (1) We recommend that Miracle Systems implement their *Excess Hours Approval* policy so that timesheets with excess hours are not approved without documentation that the COR approved these excess hours and that Miracle Systems establish policies and procedures to ensure that such documentation is readily accessible.

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
Status of Prior Audit Findings
For the period September 1, 2019 to February 28, 2023

KPMG inquired from Miracle Systems, SIGAR, and State personnel regarding reports related to previous engagements that directly related to the objectives of the audit. Based on the results of these inquiries, KPMG noted one prior audit report (SIGAR 21-49 Financial Audit) that contained five findings and recommendations that could have a significant effect on the Special Purpose Financial Statement and other financial data significant to the audit objectives. We conducted follow-up procedures to assess risk and the nature, timing, and extent of audit procedures. Based on the results of such procedures, we determined that Miracle Systems did not take corrective action on two of the previous findings and therefore they were repeated under this audit. The remaining three findings are closed. Corrective actions and the status of the findings are summarized below:

Audit Report: SIGAR 21-49 Financial Audit, "Department of State's Office of Antiterrorism Assistance Program in Afghanistan: Audit of Costs Incurred by Miracle Systems LLC" for the period of September 1, 2017 through August 31, 2019, which was conducted by Conrad LLP, and issued on June 16, 2021.

- **Finding 2021-01: Ineligible danger pay, post differential allowances, and withholding tax charge to the program** – The audit firm identified three circumstances in which ineligible costs were charged to the Task Order, which included:
 - (a) For 33 out of the 35 contractors tested, danger pay and post hardship differential allowances were applied to overtime hours worked, which violated State's Standardized Regulations (DSSR) governing allowances and resulted in \$1,183,358 in ineligible questioned costs.
 - (b) For 24 out of the 35 contractors tested, danger pay and post hardship differential allowances were applied to travel hours to the post rather than the date of arrival at the destination in violation of DSSR governing allowances and resulted in \$30,550 in ineligible questioned costs.
 - (c) Incurring and charging Afghanistan payroll withholding taxes under other direct costs when Miracle Systems' fully burdened labor rates charged to the Task Order already included Afghanistan payroll withholding taxes resulted in \$627,390 in ineligible questioned costs.

Status – Closed

As the awarding agency, State responded to the findings associated with Miracle Systems claiming danger pay and post hardship differential on overtime hours incurred (2021-01-a). State concurred with Miracle Systems' position that the questioned costs were allowable and that "Miracle Systems' practice was compliant" as these hours were not deemed overtime and Miracle Systems billed all hours at regular rates in accordance with the DSSR.

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
Status of Prior Audit Findings
For the period September 1, 2019 to February 28, 2023

State and Miracle Systems concurred with the audit finding that claiming danger pay and post hardship differential on travel hours was inappropriate (2021-01-b). Miracle Systems indicated they implemented internal controls over calculating post hardship differential and danger pay, which included validating each contractor's eligibility based on their arrival in Afghanistan and excluding hours associated with travel. This audit did not identify new instances of this condition.

State and Miracle Systems concurred that Miracle Systems double charged for payroll withholding taxes (2021-01-c). Miracle Systems indicated they transitioned to a time and attendance system designed to reduce susceptibility to double billing such charges. Miracle Systems also indicated they implemented additional invoice review policies and procedures. This audit did not identify new instances of this condition.

- **Finding 2021-02: Missing or insufficient evidence to support staff members met the qualifications as required by the Task Order** – The audit firm noted that Miracle Systems did not provide sufficient evidence that contractors who claimed labor costs met qualifications, or held sufficient certifications, as required by the Task Order for the respective labor category.

Status – Closed

Department of State indicated in their response to the findings that all contractors subject to the findings were vetted with State and approved to work on the contract under the assigned labor categories. Miracle Systems indicated they implemented a process to formally document the candidate vetting and approval process for all new contractors that support the Task Order. This audit did not identify new instances of this condition.

- **Finding 2021-03: Overtime preapproval was not obtained in accordance with the terms of the Task Order** – The audit firm noted that evidence of overtime approval from State was not sufficiently evidenced, or evidence was unable to be provided, prior to Miracle Systems' contractors charging overtime/excess hours.

Status – Open

State concurred with Miracle Systems that the questioned costs were allowable and that cited hours were not overtime and therefore did not require preapproval. Miracle Systems implemented policies and procedures for obtaining Contracting Officer's Representative (COR) approval for "Excess Hours" in advance of timesheet approval and invoicing. Finding 2023-03 describes two instances during the audit period in which Miracle Systems was unable to provide evidence that the COR had approved Excess Hours during the audit period. As such, corrective action has not been adequately implemented and the finding was repeated in this audit. See Finding 2023-03.

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

Status of Prior Audit Findings

For the period September 1, 2019 to February 28, 2023

- **Finding 2021-04: Timesheets were not completed in accordance with Miracle Systems' timekeeping procedure** – The audit firm noted that timesheets invoiced to State were partially incomplete and/or did not show evidence of sufficient certification. These observations included timesheet certification prior to the end of the pay period, timesheets missing supervisor certification, and timesheets missing a certification date.

Status – Open

Findings 2023-01 and 2023-02 describe deficiencies consistent with those identified in the previous audit. Miracle Systems implemented a new time and attendance system during the audit period that prevented the future dating of labor hours and required supervisory review and approval of all recorded hours. However, an individual certified hours on behalf of the contractor without documentation that the certified hours were accurate. As such, corrective action has not been adequately implemented and the issues appeared under this audit. See Findings 2023-01 and 2023-02.

- **Finding 2021-05: Insufficient evidence to support travel and procurement costs incurred** – The audit firm noted that they were unable to obtain sufficient documentation to substantiate costs related to travel and procurement. These costs included insufficient documentation to support per diem costs, mileage costs, lodging costs, general liability travel insurance, and procurement costs related to a tax firm in accordance with procurement policies.

Status – Closed

Miracle Systems implemented additional invoice review policies and procedures, which included requirements for the inclusion of supporting documentation for all amounts charged to the Task Order. This audit did not identify new instances of this condition.

MIRACLE SYSTEMS, LLC

Financial Audit of Costs Incurred Under
Contract No. GS00Q14OADS128 Task Order No. SAQMMA17F2030
Awarded by Department of State's
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Appendix A – Miracle Systems' Responses to Audit Findings
For the period September 1, 2019 to February 28, 2023

Miracle Systems' Response to Audit Findings

2023-01 and 2023-03 Material weakness in internal control and non-compliance. \$76,796.

It is Miracle Systems' position that Finding 2023-01 and Finding 2023-03 were internal control findings and not financial or monetary findings.

2023-01 ATA Afghanistan staff worked against a training schedule set forth in Kabul, Afghanistan by the Government COR. The work schedules, arrival to Afghanistan, departure and all significant events were preapproved, consistently reported, and approved by the COR throughout the term of the contract.

Afghanistan was a hostile work environment, and at the time there were internet challenges and other issues which prevented individuals to timely sign their time sheets. For employees to continue to be paid in a timely manner and in compliance with our policy, a proxy was identified that could successfully input the time for the employees in the Deltek Costpoint system. Full and complete back-up, including timesheets rate differential calculations and ODC's, were submitted to the customer in advance of invoicing to assure approval and acceptance of the costs and hours incurred.

Review of the Prior Findings and Recommendation. The primary discrepancies noted evolved from our transition from paper time sheets to the Deltek system for time and reporting. The update in control was recommended in the prior audit, however the recommended changes were not reported to Miracle Systems until after the next option period was underway. The recommendations were implemented as soon as it was feasible under the new reporting system.

Finding 2023-02 Ineffective invoice Review \$982.

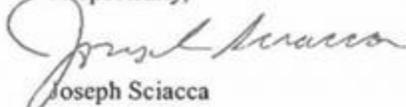
The Auditor identified two instances where costs were invoiced to the incorrect task order totaling \$982. This was an error on the part of Miracle Systems as the old option year expired and a new option year began. The costs were submitted to the Customer and the amount in question was subsequently paid. Had the Company invoiced the costs on the correct Task Order it would have been approved and paid. As the period of performance has expired and funds de-obligated it is no longer possible to re-invoice these costs on the correct Task Order. As a percentage of Direct labor of \$9,906,877 this error is .00991% of costs.

Because of the di-minimis amount of this error, Miracle Systems requests these invoices be accepted as submitted.

In summary, over the duration of this contract, Miracle Systems worked closely with the Customer to ensure accurate costs were approved and billed timely and accurately. Any deviation from the company's policy was to support the customer mission.

Miracle Systems requests the costs as submitted be accepted.

Respectfully,



Joseph Sciacca

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

Appendix B – Auditors' Rebuttal

For the period September 1, 2019 to February 28, 2023

We reviewed Miracle Systems' response to the audit findings presented in our draft report and noted that Miracle Systems concurred with our internal control deficiencies but disagreed with the monetary impact of Finding 2023-01. When management's response to our findings is inconsistent with the findings, conclusions or recommendations in the draft report and we disagree with the response, we explain the reasons for our disagreement. Miracle Systems concurred with internal control finding 2023-01 – Ineffective Controls Over Review of Hours Worked but maintained that discrepancies in timekeeping documentation did not result in questioned costs because such costs were in line with various pre-approvals communicated with the Department of State. However, Miracle Systems did not provide additional evidence to support the questioned costs associated with this finding. As audit evidence was not provided to us to support this finding, we did not change our report finding.

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.

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

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

SIGAR's Mission

Public Affairs Officer

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