



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/VIETNAM'S ENVIRONMENTAL ASSESSMENTS AND REMEDIATION PROJECT

AUDIT REPORT NO. 5-440-15-001-P
November 12, 2014

MANILA, PHILIPPINES



Office of Inspector General

November 12, 2014

MEMORANDUM

TO: USAID/Vietnam Mission Director, Joakim Parker

FROM: Regional Inspector General/Manila, Matthew Rathgeber /s/

SUBJECT: Audit of USAID/Vietnam's Environmental Assessments and Remediation Project
(Report No. 5-440-15-001-P)

This memorandum transmits our final report on the subject audit. We have considered carefully your comments on the draft report and have included them, without attachments, in Appendix II.

The report includes nine recommendations to help the mission address the issues identified by our audit. We acknowledge management decisions on Recommendations 1 through 9 and final actions on Recommendations 1 through 7 and 9. Please provide the necessary documentation to obtain final action on the open recommendations to the Audit Performance and Compliance Division in the Office of the Chief Financial Officer. Recommendations 1 through 7 and 9 are closed upon issuance of this report.

I appreciate the cooperation and courtesy extended to my staff during the audit.

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Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directives System
CDCS	country development cooperation strategy
COR	contracting officer’s representative
DQA	data quality assessment
IPTD	in-pile treatment desorption
M&E	monitoring and evaluation
MOU	memorandum of understanding
PMP	performance management plan
RIG	Regional Inspector General

SUMMARY OF RESULTS

The U.S. and Vietnamese Governments joined forces in 2009 to remove dioxin from the grounds of Da Nang Airport (shown in the photo below). The highly toxic chemical was a contaminant in Agent Orange, one of the herbicides stored at the airport some 50 years ago during the Vietnam War. Over time, it seeped into the soil and sediment. The Vietnamese Red Cross estimated up to 3 million of Vietnamese were exposed to the chemical, including children born with birth defects.



The amount of dioxin in seven areas of the airport exceeds the maximum acceptable levels recommended by the U.S. Environmental Protection Agency and the World Health Organization. (Image provided by USAID/Vietnam, July 23, 2009)

To address that legacy and help the Vietnamese Government develop the skills to conduct environmental assessments and remediation in the future, USAID/Vietnam launched the Environmental Assessments and Remediation Project on September 29, 2009. At the time of the audit fieldwork, the overall project was worth \$75 million, and the estimated completion date was March 31, 2017. As of March 31, 2014, the mission had obligated \$56,552,054 and disbursed \$27,545,230 for six contracts awarded to three contractors implementing the project (listed in Appendix III).

The project's original purpose was to remove contaminated soil and sediment from the airport and dispose of it in a secure landfill. Activities included developing engineering designs, plans, and specifications to remove the waste, and conducting a comprehensive environmental assessment.¹ However, based on the assessment's results, USAID and the Vietnamese Government changed course and decided to treat the contaminated soil and sediment through in-pile thermal desorption (IPTD) (shown in the photos below). In this process, the soil and sediment are heated to 335 C (635 F), which breaks down the molecules that bind the dioxin, thus causing it to lose much of its toxicity.



USAID funded an IPTD treatment facility (left) that uses heating wells (right) to remove dioxin from soil and sediment. (Photos by Tetra Tech Inc., February 12, 2014, and Terra Therm Inc., April 23, 2014)

The project has two treatment phases² to accommodate the large amount of contaminated soil and sediment identified in the environmental assessment. In addition, it has expanded to include an assessment of dioxin contamination at Bien Hoa Airbase in southern Vietnam near Ho Chi Minh City. The project's funding also expanded from \$7.35 million to \$88 million mainly because of the change in approach and the additional amount of contaminated soil and sediment. (Appendix IV has a chronology of the budget increases.)

RIG/Manila conducted this audit to determine whether USAID/Vietnam's Environmental Assessments and Remediation Project is on track to complete the cleanup of dioxin contamination within the expected time frame and budget. The audit concluded that generally it is on track and has made some notable accomplishments. For example, the project:

- Improved the diplomatic relationship and working partnership between the United States and Vietnam.

¹ Projects like this must have assessments to comply with Title 22 of the Code of Federal Regulations, Part 216, USAID's environmental compliance procedures, and Foreign Assistance Act, Section 611 (a).

² The main rationale for having two phases instead of one was because of the limited amount of land available at the airport to build the treatment facility. Each phase lasts about 3 months; at the time of the audit, the first phase was in progress and scheduled to be done in mid-September 2014.

- Established a memorandum of understanding (MOU) on May 6, 2011, with Vietnam's Ministry of National Defense for its support in project implementation.
- Established a MOU on November 15, 2013, with Vietnam's Air Defense Air Force Command, Da Nang Power Co. Ltd., and Thanh Khe Power Branch for continuous power supply with a preferential rate.
- Provided more than 7,000 hours in health and safety training.
- Developed a 3-D video of the IPTD treatment technology and posted it on YouTube.
- Aired a public service announcement on the project for 15 days on one of the Da Nang television channels with the local government's approval.
- Facilitated numerous site tours for local and international media, Vietnamese Government officials, and other foreign government officials.

Despite these accomplishments, potential risks could still delay the project. They include getting results back from the IPTD treatment in Phase I that fall below cleanup standards; difficulty getting the treated soil and sediment cool enough to be hauled out; more soil and sediment than expected may need to be excavated and treated in Phase II; and inclement weather during the next rainy season.

The following weaknesses need to be addressed.

- The project did not have a formal risk management plan (page 5).
- Some activities did not have the intended results (page 6). CDM, the construction management contractor, did not fully implement capacity-building activities for the Vietnamese Government, and its community outreach activities did not reach residents near the project site.
- The performance measurement for capacity building was not clear or realistic (page 7).
- The mission did not finalize its performance management plan (PMP) (page 8).
- CDM reported inaccurate performance data (page 9). Some were underreported, while others were unsupported.

We recommend that USAID/Vietnam:

1. Implement a formal risk management plan with updated potential risks and documented responses to address them (page 6).
2. Implement the training plan for the Vietnamese Government (page 7).
3. Implement a plan to work with the Vietnamese Government on allowing CDM to have direct access to local residents (page 7).

4. Implement clearly defined performance indicators to measure the progress in capacity building to achieve that objective (page 8).
5. Implement realistic, ambitious targets for project performance indicators to measure progress in capacity training for the Vietnamese Government and local construction workers (page 8).
6. Implement the monitoring and evaluation plan for the project with the appropriate performance indicators that align with USAID/Vietnam's performance management plan (PMP) and country development cooperation strategy (CDCS) (page 8).
7. Implement its PMP to align with the CDCS results framework, as required by ADS 203.3.3 (page 9).
8. Perform a second data quality assessment (DQA) of the project that includes reviewing source documentation for the reported data, as required in ADS 203.3.11 (page 10).
9. Require CDM to implement procedures to verify reported data before submitting them to the mission (page 10).

Detailed findings appear in the following section. Appendix I has information on the scope and methodology. Our evaluation of management comments is included on page 11, and the full text of management comments without attachments appears in Appendix II.

AUDIT FINDINGS

Project Did Not Have Formal Risk Management Plan

Office of Management and Budget (OMB) Circular A-123 states:

Internal control . . . is a means of managing the risks associated with Federal programs and operations. Managers should define the control environment (e.g. programs, operations, or financial reporting) and then perform risk assessments to identify the most significant areas within that environment [to implement the type of controls needed]. Continuous monitoring and testing should help to identify . . . ineffective controls.

Planning to manage risks is an essential component of effective project management used by other U.S. agencies like the Centers for Disease Control and the Department of Defense to consider all possible outcomes, identify potential risks, and establish procedures to minimize their impacts on a project's success.

For the Vietnam remediation project, CDM prepared a summary of potential risks for Phase I in July 2011 and another one for Phase II in January 2013. However, they did not include action plans to address the identified risks. According to CDM's chief of party, even though they are not required to update the information in the assessment and the identified risks, they believe updates are needed and will be helpful in project management.

For example, one summary ranked risk of additional excavation being required for the contaminated soil and sediment as "very unlikely" or "somewhat unlikely." Since Tetra Tech Inc., the contractor hired to dig and haul at the site, has already excavated more than what Phase I called for and probably will need to excavate more, the risk needs to be updated to "very likely."

Another example is the potential risk of delays in confirming soil and sediment sampling results to identify and treat potential contaminants. A summary ranked this risk as "somewhat unlikely" and "negligible." However, that needs to be updated to "significant" because CDM and Terra Therm Inc., the contractor that designed IPTD and implementing the treatment process, have had to ship samples overseas because there were no reliable labs in Vietnam and all shipments had to be approved by the Vietnamese Government.

The probability of increased electricity costs for IPTD also needs to be updated from "somewhat unlikely" to "very likely" because the estimated cost in the summary was \$3 million, but mission officials said it would most likely be more.

The mission did not use the information provided in these summary reports to manage the potential risks of the project because they did not understand the importance of the reports.

They said they have been in continuous discussions with the contractors on the possible options to address the excavation and treatment of the extra amount of contaminated soil and sediment for Phase II and the adverse impacts of the next rainy season. However, those discussions were not documented in a formal risk management plan.

The mission officials said they did not have a formal plan because USAID did not require one. In addition, they said they thought the project's team had been addressing all problems, and so there was no need to have a formal plan.

However, implementing a formal risk management plan for the project not only allows the mission to comply with the OMB A-123 circular, but also helps it address potential risks before they become actual problems. Moreover, without a documented risk management plan, managers might not have the most updated, analyzed information and solutions to use when making decisions. To ensure that USAID/Vietnam has a plan to address potential risks, we make the following recommendation.

***Recommendation 1.** We recommend that USAID/Vietnam implement a formal risk management plan with updated potential risks and documented responses to address the identified risks.*

Some Activities Did Not Meet Intended Results

One of the objectives of the construction management contract awarded to CDM is to build the Vietnamese Government's capacity to assess and evaluate approaches for dioxin remediation, and to gain skills and knowledge to implement large environmental remediation projects. CDM is required to implement measures to work with Vietnamese Government agencies and officials and build their capacity throughout the project. In addition, the contract requires supporting other ad hoc project activities such as community meetings and outreach.

Capacity building. The contract requires CDM to provide one training per calendar year (starting in 2013) for up to ten officials. In addition, the contractor needs to provide one half-day meeting every 4 months for U.S. and Vietnamese Government project stakeholders to review progress and discuss successes and challenges.

Even though the contractor conducted the required number of trainings and meetings, it still needs to implement additional training to build capacity on environmental assessment. So far, the project has only conducted training activities on the remediation process for Vietnamese Government officials.

Mission officials said the first 2 years of the project were spent establishing relationships and working with the Vietnamese Government on the necessary approvals required to implement activities and complete project requirements. Therefore, they said, the project did not focus on the training until it could make sufficient progress on implementation.

In March 2014—more than 4 years after the launch of the initial project in 2009—the mission assessed capacity to determine the types of training needed. At the time of the audit, the training plan was not finalized, however, because mission officials said they were seeking an agreement with Vietnamese Government to support the activities in the plan.

Without building the capacity of the Vietnamese Government on implementing and managing environmental assessments and remediation, its employees will not have the skills and knowledge to address other sites. To ensure that training activities meet the intent of the contract, we are making the following recommendation.

Recommendation 2. We recommend that USAID/Vietnam finalize and implement the training plan for Vietnamese Government agencies.

Community outreach. The intent of these activities was to disseminate information about the purpose of the project so people living near the airport could have a better understanding and appreciation of it. To accomplish that, in July and August 2012 CDM conducted an information needs assessment as part of its implementation plan. The assessment showed that the residents, as well as government officials, community leaders, and members of the media did not have enough information about the project and asked for more on the activities, schedule, and health and safety issues.

As a result, CDM conducted community outreach workshops for all of these groups except for the residents; the Vietnamese Government would not give the project's staff access to them.

So to get information to the residents, as well as the public, CDM used public service announcements on local television channels and other media. However, the mission could not confirm whether that information had reached the residents because it was not allowed to conduct surveys.

CDM also decreased the number of community outreach activities because Vietnamese officials were complaining about the excessive number of government-sanctioned events taking place.

Without being fully informed about the project's purpose and progress, residents cannot appreciate the support the U.S. Government is providing to their community. Even though the project is prohibited from working with the local residents, we are making a recommendation to address the issue described above.

Recommendation 3. We recommend that USAID/Vietnam implement an action plan to work with the Vietnamese Government to allow the project to have direct access to the local residents.

Performance Measurement for Capacity Building Was Not Clear or Realistic

According to ADS 203.3.2, USAID uses performance indicators as "the basis for observing progress and measuring actual results compared to expected results." ADS 203.3.9 describes performance indicator targets as "specific . . . results to be achieved within an established time frame." They must be ambitious yet realistic.

Unclear definition. The performance indicator for building the Vietnamese Government's capacity on environmental remediation tracks the number of hours government officials spend training in the areas of health and safety, environmental assessment, and/or remediation. However, the data reported for this indicator combined the hours that the officials and local people working on the project spent in training, instead of just the officials. More importantly, the majority of the data reported for the indicator were the number of hours local workers spent being trained on health and safety. According to CDM, this happened because mission did not explain the type and format of data they required clearly.

Unambitious targets. The performance indicator measuring capacity-training hours did not have an established target for FY 2013, but it did have a reported result: 5,817 hours. For the other years, targets were set too low and clearly underestimated, as shown in Table 1 below.

Table 1. Targets for Fiscal Years 2013 to 2016 (Audited)

Indicator	2013	2014	2015	2016
<i>Number of person hours of training completed in the areas of health and safety, environmental assessment and/or remediation supported by USG assistance</i>	0	260	260	100

Mission officials said this occurred because they struggled early on in the project to determine the appropriate performance indicators to measure progress as this project is the first of its kind for USAID. Therefore, the project did not have a comprehensive monitoring and evaluation (M&E) plan in place to measure progress and relied on CDM's program monitoring plan. That plan lacked clarity on how to measure the overall progress. In addition, they added, the contracting officer's representative (COR) position turned over several times, which caused some delays.

Without the appropriate project performance indicators in place, along with realistic and ambitious targets, the mission cannot determine whether the project is on track to achieve its objective. Therefore, we are making the following recommendations.

Recommendation 4. We recommend that USAID/Vietnam implement clearly defined performance indicators to measure the progress in capacity building to achieve the project's objectives.

Recommendation 5. We recommend that USAID/Vietnam implement realistic, ambitious targets for performance indicators to measure progress in capacity training for the Vietnamese Government and other stakeholders.

Recommendation 6. We recommend that USAID/Vietnam implement the monitoring and evaluation plan for the project with the appropriate performance indicators that align with its performance management plan and country development cooperation strategy.

Mission Did Not Finalize Its Performance Management Plan

According to ADS 203.3.3:

A [PMP] is a tool to plan and manage the process of monitoring, evaluating, and analyzing progress toward achieving results identified in a CDCS and project [logical framework] to inform decision-making, resource allocation, learning, and adapting projects and programs. Each mission must prepare a mission-wide PMP that includes performance indicators, baseline data, and targets for the CDCS results framework and project framework . . . Four to six months after CDCS approval is the right timeframe to develop PMPs.

ADS 203.4 states, “Missions must develop a Project Monitoring and Evaluation (M&E) plan . . . and include it as an annex to their project appraisal document.” The plan is an integral part of the mission-wide PMP, which includes higher-level indicators from the CDCS results framework as well as other relevant indicators and evaluation questions from all project M&E plans. These indicators help missions to monitor and assess progress toward achieving CDCS results. According to ADS 203.3.3, missions should prepare their mission-wide PMP 4 to 6 months after the CDCS is approved

The CDCS for Vietnam dated on September 30, 2013 was approved on November 8, 2013. Yet 7 months later—at the time of the fieldwork—the mission had not finished its PMP. This occurred because the mission was still in the process of assessing and revising the M&E plans of most, if not all, projects. The M&E officer tasked with the completing the PMP said she has been working with each technical team to finalize the process that also included revising the performance indicators and targets for the M&E plan of the environmental remediation project. She said she was confident that the mission would have a finalized PMP soon.

Without a PMP in place, the mission does not have the necessary performance measures for the results achievement identified in the CDCS logical framework. Because the PMP is a key tool for monitoring progress of projects as well as the overall achievement of the mission’s development strategy, its completion is essential. Moreover, the Agency reports overall successes from these plans to Congress and the public. Therefore, we make the following recommendation to address the issue.

***Recommendation 7.** We recommend that USAID/Vietnam implement its performance management plan to align with the country development cooperation strategy results framework, as required by Automated Directives System 203.3.3.*

CDM Reported Inaccurate Performance Data

According to ADS 203.3.11, performance data have to meet five quality standards—validity, integrity, precision, reliability, and timeliness. Further, the Government Performance and Results Modernization Act requires that a DQA must be conducted for indicators—that are reported to Congress and the public—every 3 years. The DQA should examine the data in light of the five standards above, reviewing the systems and approaches for collecting data and whether they are likely to produce data of an acceptable quality over time. The process entails detailed reviews of contractors’ records used for data reporting.

Underreported data. The audit verified the reported data of the two project performance indicators with progress results in FY 2013 and identified a discrepancy of 44 percent in one of them, as shown in Table 2 below.

Table 2. Discrepancies for Performance Indicators Reviewed (Audited)

Indicator Name	Reported Result FY 2013	Actual Result FY 2013	Percentage Difference
<i>Cubic meters (m3) of dioxin-contaminated soil excavated</i>	45,520	45,514	0

<i>Number of person hours of training completed in the areas of health and safety, environmental assessment and/or remediation supported by USG assistance</i>	5,817	8,314	(43)
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Unsupported reported data. The audit verified the amount of contaminated soils and sediments excavated in cubic meters reported on the quarterly progress report, as of March 31, 2014, and found discrepancies in the reported data, as shown in Table 3 below.

Table 3. Discrepancies for Reported Data on Quarterly Progress Report as of March 31, 2014 (Audited)

Indicator Name	Reported Result	Source Document	Percentage Over (Under) Stated
<i>Cubic meters (m3) of dioxin-contaminated soil excavated for Phase I</i>	47,527	47,144	1
<i>Cubic meters (m3) of dioxin contaminated soils and sediment excavated for Phase II</i>	7,703	8,310	(7)

These discrepancies occurred because the DQA the mission conducted in May 2014 did not include a review of source documentation for the data, and CDM did not discover the errors because it did not verify the data prepared by Tetra Tech and Terra Therm before reporting the information to the mission.

The mission official who conducted the assessment did not fully understand the required review process because she had not been trained to conduct a DQA. To address this issue, the mission has already asked its program development office for training and assistance to complete the review.

Management decisions based on incorrect reported data could have a negative effect on the project’s budget and program needs. Therefore, we make the following recommendations to address the problem areas.

Recommendation 8. We recommend that USAID/Vietnam perform a second data quality assessment of the project that includes reviewing source documentation for the reported data, as required in Automated Directive System 203.3.11.

Recommendation 9. We recommend that USAID/Vietnam require CDM to implement procedures to verify reported data before submitting them to the mission.

EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, USAID/Vietnam agreed with all nine recommendations. We reviewed management's comments and supporting documentation, and we acknowledge management decisions on Recommendations 1 through 9, as well as final action on Recommendations 1 through 7 and 9. A detailed evaluation of management comments follows.

Recommendation 1. USAID/Vietnam agreed that risk management planning is important in the design and implementation of a program, particularly the current project. However, the mission decided not to adopt a formal risk management plan but instead implemented procedures to identify and update project risks on a regular basis as well as document actions in response to those risks. We acknowledge the mission's management decision and final action.

Recommendation 2. USAID/Vietnam agreed with the recommendation and implemented a capacity-building plan for environmental assessments in September 2014. We acknowledge the mission's management decision and final action.

Recommendation 3. USAID/Vietnam agreed with the recommendation and is implementing a plan to attain host government permission to conduct open town hall meetings and direct surveys with local residents. The mission will send quarterly letters to the Vietnam government reiterating the need for interaction with local residents. Further, the mission will discuss this issue in its regular meetings with these same government officials. We acknowledge the mission's management decision and final action.

Recommendation 4. USAID/Vietnam agreed with the recommendation and took action to refine performance indicators to measure the progress in building the capacity of government officials. We acknowledge the mission's management decision and final action.

Recommendation 5. USAID/Vietnam agreed with the recommendation. The mission has refined the targets for the capacity-building indicators. We acknowledge the mission's management decision and final action.

Recommendation 6. USAID/Vietnam agreed with the recommendation but suggested rewording the recommendation to better align with ADS 203 as follows: "We recommend that USAID/Vietnam implement the M&E plan for the activity with the appropriate performance indicators that align with its performance management plan and country development cooperation strategy." However, the M&E plan is for the mission's "project," not activity. Therefore, the wording was not changed. Since the mission is actively implementing the revised M&E plan for the project, we acknowledge the mission's management decision and final action.

Recommendation 7. USAID/Vietnam agreed with the recommendation. The mission finalized and approved its mission-wide PMP on August 14, 2014. We acknowledge the mission's management decision and final action.

Recommendation 8. USAID/Vietnam agreed with the recommendation and decided to conduct a second DQA in FY 2015. The target date for completion is December 31, 2014. We acknowledge the mission's management decision.

Recommendation 9. USAID/Vietnam agreed with the recommendation and established a procedure to verify volume data by requiring the contractors to meet to confirm all excavated volume numbers after the completion of final survey. We acknowledge the mission's management decision and final action.

SCOPE AND METHODOLOGY

Scope

We conducted this performance audit in accordance with generally accepted government auditing standards. They require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

The purpose of this audit was to determine whether USAID/Vietnam's Environmental Remediation Project is on track to complete the cleanup of dioxin contamination within the expected time frame and budget. As of March 31, 2014, the mission had awarded six contracts to conduct environmental assessments and remediation at Da Nang Airport and Bien Hoa Airbase. As of this date, the mission had obligated \$55,185,568 and disbursed \$26,874,744 for these awards. Because this was a performance audit that looked at project implementation rather than specific financial transactions, the team did not audit the disbursements.

The audit covered project activities up to May 31, 2014. In planning and performing it, the audit team assessed significant controls that USAID/Vietnam used to monitor project activities and ensure that CDM was providing adequate management and oversight of them. We assessed the mission's policies and procedures for monitoring CDM's progress in complying with the contractual requirements and for verifying that the project's activities funded by USAID conform to the terms and conditions of the awards.

In addition to the significant controls, we assessed contractors' daily, weekly, monthly, and quarterly reports, as well as their annual work plans, M&E plans, internal controls, and CORs' files. We also attended and held meetings with the mission and all three the contractors to discuss project status and observed the treatment structure to validate achievements. We examined the mission's FY 2013 annual self-assessment of management controls, which it is required to perform to comply with the Federal Managers' Financial Integrity Act of 1982, to check whether the assessment cited any relevant weaknesses.

We conducted fieldwork from June 6 to July 2, 2014, at USAID/Vietnam in Hanoi and project contractors in Da Nang. We also visited the treatment site at Da Nang Airport.

Methodology

To answer the audit objective, we first identified the project's main goals and significant risks. We met with key personnel at the mission and reviewed relevant documentation that they provided. We gained an understanding of the project design and how USAID planned to monitor and measure the results. Through interviews, documentation, and data analysis, the audit team obtained an understanding of (1) the project's main goals, (2) how the mission and CDM monitor implementation, (3) how the mission checks the quality of the data reported, and (4) whether the mission and the three contractors were aware of any allegations of fraud or other potential illegal acts or noncompliance with laws and regulations.

To verify reported results, we tested the results of the two performance indicators that had reported data in FY 2013. We also traced reported results to the implementers' supporting documents. Furthermore, we verified the health and safety records of all three contractors to determine whether they have been complying with the health and safety requirements of the project. We used judgmental sampling to select laboratory test sample results for verification. The selection was based on specific site areas where the contractors regularly conducted sampling.

Because the audit testing was conducted on judgmental samples, the results and conclusions were limited to the items and areas tested, and could not be projected to the entire population. Nonetheless, we believe our substantive testing was sufficient to support the audit's findings.

During site visits, we verified the existence of reported deliverables and whether the site complied with USAID's branding requirements. We interviewed the contractors' employees and inspected the IPTD structure as well as the treatment facility. We also interviewed officials with the Vietnamese Government, Da Nang Airport Authority, and local government, as well as local workers to gain an understanding of whether the project is meeting their expectations and of their experiences in working with the implementing partners and USAID.

MANAGEMENT COMMENTS



MEMORANDUM

TO: Regional Inspector General/Manila **Date:** October 24, 2014

FROM: USAID/Vietnam Mission Director, Joakim Parker /s/

SUBJECT: Management Response to Recommendations in Draft Report on Audit of USAID/Vietnam’s Environmental Assessments and Remediation Project (Report No. 4-431-14-XXX-P), September 19, 2014

Thank you for the draft report on the subject audit. USAID/Vietnam is pleased with the report’s conclusion that “the project generally is on track and has made some notable accomplishments.” In stating that bilateral cooperation to date on what is an ongoing program has already “improved the diplomatic relationship and working partnership between the United States and Vietnam,” the report concurs with what the many U.S. and Vietnamese officials have stated about the impact of the program toward one of its most important goals.

This memorandum transmits the Mission’s response to each of the audit recommendations, plans for corrective actions and documentation of corrective actions taken thus far. In addition, we have included via attachment some points of clarification for consideration in preparing the final version of the report. Our responses are listed below.

Recommendation 1: We recommend that USAID/Vietnam implement a formal risk management plan with updated potential risks and documented responses to address the identified risks.

Actions Planned/Taken: USAID/Vietnam agrees that risk management planning is important in the design and implementation of a program – particularly a program such as this one. OMB Circular A-123 defines responsibilities related to internal control for all internal and program operations and the process for assessing internal control effectiveness, as well as important internal control standards. It provides flexibility in our identifying and implementing the specific procedures necessary to ensure effective internal control, including risk management. The Mission and its contractors have conducted risk management planning and follow up; the draft

report itself cites planning and other documentation (along with meetings) used by the Mission and its contractors. Although the Mission is not required to have a particular form of “formal risk management plan” and does not plan to adopt one, the Mission accepts the findings that in some cases the implementation of its risk management did not stay fully up to date and did not fully document relevant processes. The Mission therefore accepts the recommendation to better update potential risks in planning documents and to better document actions in response to risks. The Mission’s actions to date in response are as follows:

- Formalize the existing Danang Project Expanded Mission Management Team. The formalized team met on October 7 to discuss its terms of reference; current risks relevant to the program were also discussed. (See Attachment A1)
- The Mission Danang Project Team, defined as the Office of Environment and Social Development (ESD) staff who have formal responsibilities for the program, will draft key risk scenarios as they arise, including options. Each key risk will be defined by the Mission Danang Project Team and in consultation with Mission Management, including the Mission Director. The Mission has already drafted such a document on a key issue related to volume. (See Attachment A2)
- The Mission Danang Project Team will periodically review risk-related documentation prepared by its contractors and ensure that they accurately capture current risk discussions and decisions so that they are up to date. These reviews will be documented. The document known as the “Issue Log” will be shared and discussed with Mission management on actions. These issues will also be the subjects for discussion at the quarterly meetings of the Danang Project Expanded Mission Management Team.
- The Mission Danang Project Team will continue to meet weekly to discuss overall program progress including updates on program risks. These weekly meetings will be documented and key issues will be raised with the Mission Director and, if needed, the broader Danang Project Expanded Mission Management Team. (See Attachment A3)
- These actions have been taken to update the potential risks identified in the report:
 - Additional excavations/excess soil and sediment volume. A five percent contingency fund was set aside in Tetrattech’s original contract to absorb funding for additional excavations for the project, as excess volume is typical for soil remediation projects. This contingency fund provided funding and allowed for forward progress in the field for the additional excavations required during Phase 1. In addition, the Phase 2 excavation schedule was expedited from the originally planned 2015 dry season to the 2014 dry season to enable sufficient time to react to any Phase 2 additional excavations. As such, Phase 2 excavations are ahead of project schedule. Finally, the Mission is exploring solutions to mitigate excess volume risks (see Attachment A2) with the Government of Vietnam.
 - Delays in confirmatory sampling: Using overseas labs to analyze samples was part of the original project plan to maintain quality control and data consistency. The primary cause of delays in confirmatory sampling is the long turnaround time

required for labs to analyze for dioxin, regardless of the location of the lab. The main risk noted in the RIG report relates to managing open excavations while confirmatory soil samples are being processed. The majority of earth moving activities at the project are now complete and open excavations were/are closely managed through dust and erosion control measures and environmental monitoring. The Mission Danang Project Team has also explored ways to expedite the turn-around time on samples. Documentation of these updates to the risk identified by the report is being prepared.

- Increased electricity costs: The Mission proactively mitigated the risk of electricity cost increases by negotiating a fixed electricity category tariff with the Government of Vietnam (documented in the November 15, 2013 MOU cited in the RIG report), and by allowing for a 20% contingency for energy in the CDM contract. The Mission Danang Project Team will continue to closely monitor electricity consumption and expenditures during thermal treatment as part of the processes discussed above, and will document those discussions.

Recommendation 2: We recommend that USAID/Vietnam finalize and implement the training plan for Vietnamese Government agencies.

Actions Planned/Taken: USAID/Vietnam agrees with the recommendation. The Mission finalized the capacity building plan for environmental assessments in September 2014. (See Attachment B1) The training plan will be implemented between September 2014 and October 2015. The first training was conducted September 24-26, 2014. (Agenda provided as Attachment B2)

Recommendation 3: We recommend that USAID/Vietnam implement an action plan to work with the Vietnamese Government to allow the project to have direct access to the local residents.

Actions Planned/Taken: USAID/Vietnam agrees with the recommendation. As shared with the RIG audit team, the Mission and its contractors for the project have communicated with Vietnamese government officials numerous times regarding the importance of public communications and information sharing. The Mission has had success in negotiating town hall meetings and in securing broadcast of a public service announcement. The Mission produces public monthly reports in Vietnamese on project activities that are distributed by email and also posted on the USAID/Vietnam webpage. There is also signage outside the project site that directs questions to USAID. These efforts earned an Honor Award in Environmental Communications in May 2014 from the American Academy of Environmental Engineers & Scientists.

These efforts are written into various project documents and plans. Specific to this audit recommendation, the Mission will implement a plan targeting host government agreement to open town halls and direct surveys. Attachment C reflects that plan, now in effect, which calls for periodic written communications to host government officials and points to be raised in meetings, when appropriate.

Recommendation 4: We recommend that USAID/Vietnam implement clearly defined performance indicators to measure the progress in capacity building to achieve the project's objectives.

Actions Planned/Taken: USAID/Vietnam agrees with the recommendation. The Mission has refined performance indicators to measure the progress in building the capacity of government officials. Please see page 7-1 of Attachment B1 and the revised activity M&E Plan (Attachment D).

Recommendation 5: We recommend that USAID/Vietnam implement realistic, ambitious targets for performance indicators to measure progress in capacity training for the Vietnamese Government and other stakeholders.

Actions Planned/Taken: USAID/Vietnam agrees with the recommendation. The Mission has refined the targets for the capacity building indicators. Please see the Mission's finalized PMP (Attachment E) and Attachment D for the revised targets.

Recommendation 6: We recommend that USAID/Vietnam implement the monitoring and evaluation plan for the project with the appropriate performance indicators as part of its performance management plan and country development cooperation strategy.

Actions Planned/Taken: USAID/Vietnam agrees with the recommendation. However, the Mission suggests rewording the recommendation to better align with ADS chapter 203: "We recommend that USAID/Vietnam implement the monitoring and evaluation plan for the activity with the appropriate performance indicators that align with its performance management plan and country development cooperation strategy." The Mission is actively implementing the M&E Plan for the activity. The M&E Plan is provided as Attachment D.

Recommendation 7: We recommend that USAID/Vietnam implement its performance management plan to align with the country development cooperation strategy results framework, as required by Automated Directives System 203.3.3.

Actions Planned/Taken: USAID/Vietnam agrees with the recommendation; however, the Mission would like to note for purposes of accuracy that its CDCS was not approved until November 8, 2013 (Attachment F). The Mission is actively implementing its Performance Management Plan (PMP) (Attachment E), which was officially approved on August 14, 2014 (Attachment G).

Recommendation 8: We recommend that USAID/Vietnam perform a second data quality assessment of the project that includes reviewing source documentation for the reported data, as required in Automated Directive System 203.3.11.

Actions Planned/Taken: The Mission agrees with the recommendation and plans to conduct a second data quality assessment this fiscal year. The final dates are being finalized with the Mission's new M&E contractor.

Recommendation 9: We recommend that USAID/Vietnam require CDM to implement procedures to verify reported data before submitting them to the mission.

Actions Planned/Taken: USAID/Vietnam agrees with the recommendation. The Mission acknowledges the small percentage differences between the reported number of cubic meters of excavated soil in FY 2013 and the actual number cubic meters of excavated soil. To ensure this kind of discrepancy does not occur again, a procedure has been established to verify volume data: program contractors will meet to confirm all excavated volume numbers post-survey. If the final survey data is not available at the time of reporting, the result will be identified as “estimated quantity, pending final survey results.”

The Mission has not been able to verify a discrepancy in the reported and actual number of person hours of training indicator. Its contractor CDM Smith has provided backup information to the Mission that documents how the number of person hours of training was calculated, and no error has been identified (see Attachment H). In order for the Mission to put in better controls and procedures in future reporting for the capacity building indicators, the Mission respectfully requests information from the RIG regarding their calculation method for the number of person hours of training indicator. The Mission will then be able to develop more robust indicator verification procedures with CDM Smith.

Conclusion

USAID/Vietnam appreciates the collegiality and cooperation extended by the RIG audit team, and reiterates its satisfaction with the draft report’s broader conclusions about the program being on track and with notable accomplishments. The Mission expects that its actions in response to the recommendations will improve the program’s implementation and management. Attachment I provide a small number of suggested clarifying edits for the report.

List of Attachments:

Attachment A1: Danang Project Expanded Mission Management Team Meeting notes, October 7, 2014

Attachment A2: Danang Dioxin Cleanup – Excess Volume Issues and Impact on Assistance Relationship with Vietnam, September 16, 2014

Attachment A3: Mission Danang Project Team Meeting Notes, 10-21-2014

Attachment B1: Capacity Building Plan for Environmental Assessments, September 2014

Attachment B2: September 24-26, 2014 Training Agenda

Attachment C: Mission Action Plan to Work with the Vietnamese Government to Allow the Project to Have Direct Access to the Local Residents, October 22, 2014

Attachment D: Revised Activity M&E Plan

Attachment E: Mission’s Final PMP

Attachment F: Action Memo signed by Acting Assistant Administrator, Bureau for Asia, Denise Rollins

Attachment G: Mission Director PMP approval, August 14, 2014

Attachment H: CDM Smith Backup of Number of Person Hours of Training
Attachment I: Other points of clarification

List of Contracts for USAID/Vietnam's Environmental Assessment and Remediation Project

Contractor Name	Purpose of Award	Amount of Award (\$)	Date of Award
CDM International Inc.	Assessments and engineering planning and design for dioxin containment at Da Nang Airport	4.54 million	September 29, 2009
Terra Therm Inc.	Design of IPTD approach in environmental remediation project at Da Nang Airport	1.34 million	January 20, 2012
CDM International Inc.	Construction management and oversight contract of the environmental remediation at Da Nang Airport	13.28 million	June 18, 2012
Tetra Tech Inc.	Environmental remediation at Da Nang Airport: excavation and construction	16.99 million	June 28, 2012
Terra Therm Inc.	IPTD services for environmental remediation at Da Nang Airport	36.78 million	February 7, 2013
CDM International Inc.	Environmental and gender assessments at Bien Hoa Airbase	2.1 million	September 29, 2013

Chronology of the Project's Budget Increases (Audited)

Approval Date	Purposes	Original Budget Amount (\$ million)	Approved Budget (\$ million)
May 6, 2009	Assessments, engineering, design & construction for dioxin containment at Da Nang Airport	N/A	7.35
March 14, 2011	Engineering, design, construction, and procurement for dioxin thermal treatment at Da Nang Airport	7.35	33.6
June 7, 2012	<ul style="list-style-type: none"> • Update of actual implementation and contingency cost for the project • Assessments of dioxin at Bien Hoa Airbase • Change of project to "Environmental Assessments and Remediation Project" 	33.6	66
June 26, 2014	<ul style="list-style-type: none"> • Update of actual cost of thermal treatment component of the Da Nang Airport • costs of synthetic media, granular activated carbon and utility costs for the Da Nang Airport • Support program costs for Bien Hoa Airbase Assessments 	66	88

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