OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/VIETNAM'S SUPPORT FOR TRADE ACCELERATION PLUS PROJECT

AUDIT REPORT NO. 5-440-13-004-P
JANUARY 22, 2013

MANILA, PHILIPPINES

Office of Inspector General

January 22, 2013

MEMORANDUM

TO: USAID/Vietnam Mission Director, Joakim Parker

FROM: Regional Inspector General/Manila, William S. Murphy /s/

SUBJECT: Audit of USAID/Vietnam's Support for Trade Acceleration Plus Project (Report No. 5-440-13-004-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on the draft version and have included them in their entirety in Appendix II of this report.

This report contains five recommendations to assist the mission in improving the efficiency and effectiveness of its project. On the basis of information provided by the mission in response to the draft report, we determined that final action has been taken on Recommendations 2 and 4. We acknowledge that management decisions were reached on Recommendations 1, 3, and 5. Please provide the Audit Performance and Compliance Division of USAID's Office of the Chief Financial Officer with evidence of final action to close the open recommendations.

I want to thank you and your staff for the cooperation and courtesies extended to us during this audit.

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Abbreviations

The following abbreviations appear in this report:

BTA	Bilateral Trade Agreement
FAR	Federal Acquisition Regulation
USG	United States Government
IQC	indefinite quantity contract
SEGIR	Support for Economic Growth and Institutional Reform
STAR	Support for Trade Acceleration
WTO	World Trade Organization

SUMMARY OF RESULTS

For the past decade, Vietnam has instituted a large number of economic, legal, and trade reforms. In 2001 the government signed the U.S.–Vietnam Bilateral Trade Agreement (BTA), and in 2007 Vietnam became a member of the World Trade Organization (WTO). Vietnam is currently in the negotiation process of signing the Trans-Pacific Partnership, a regional trade agreement between the United States, Vietnam, and nine other countries promoting economic growth.

To help the Vietnamese Government institute the changes necessary to comply with the trade agreements, USAID began the Support for Trade Acceleration (STAR) Project in 2001 and then continued in 2006 with STAR II, which ended in 2010. Continuing the work performed under these projects, USAID/Vietnam awarded an $11.7 million time-and-material task order contract to DAI/Nathan Group to implement STAR Plus from October 1, 2010, through September 30, 2013. As of May 31, 2012, the mission had obligated $8.2 million and disbursed $6.4 million under the project.

The goal of STAR Plus is to support the Vietnamese Government's efforts to implement trade and investment reforms, including changes in economic governance and macroeconomic areas, to ensure an environment attractive for investment, trade, and private sector growth. To achieve this goal, the project has seven major objectives.

1. Identify and select initiatives that support the Vietnamese Government's efforts to comply with trade and investment agreements as they relate to the United States, particularly the BTA and the WTO agreement.

2. Support the government's efforts to develop Vietnam's private sector and continue its implementation of global trade rules to facilitate integration into the global economy.

3. Undertake specific capacity-building or technical assistance work to support legal and regulatory change.

4. Help the government develop new laws, regulations, and procedures pertaining to trade and the development of a market-oriented economy and a legal structure that encourages and supports private sector growth.

5. Train and build capacity among Vietnamese ministry staff, judiciary, and regulatory agencies to improve implementation of existing laws and strengthen the legal framework.

6. Provide technical assistance to support the establishment and operation of trade-related obligations consistent with international standards of economic governance (intellectual property rights, transparency, accountability, fairness, etc.)

7. Train employees in Vietnamese ministries and agencies to understand and implement international trade and investment obligations through the use and enforcement of existing laws.

STAR Plus works with 24 different Vietnamese government and institutional counterparts on various activities to achieve these objectives. Counterparts include the Ministry of Justice's

Department of International Law, the State Bank of Vietnam (the country's central bank), the Ministry of Industry's Department of Multilateral Trade, and the Ministry of Finance's Customs Department. STAR Plus also works closely with relevant U.S. Government offices responsible for international trade, such as the Department of Agriculture and the embassy in Hanoi.

Because demand for assistance from Vietnamese agencies far exceeds the project's financial resources, the government established a steering committee chaired by the Ministry of Justice to review, approve, and prioritize the requests. Specific activities the project has conducted include capacity-building workshops, research reports, and study tours.

The objective of this audit was to determine whether the project was achieving its main goal of supporting the Government of Vietnam's efforts to implement trade and investment reforms, including changes in economic governance and macroeconomic areas, to ensure an environment attractive for investment, trade, and private sector growth. The audit determined that while the project has made some progress, it was difficult to determine the extent of any progress because of performance monitoring problems.

- Performance monitoring was deficient (page 3). The mission did not customize enough indicators to track results, targets were set too low, and the reported results from DAI/Nathan Associates were not reliable. At least one invoice appeared to be paid for unsupported costs.

- Neither the mission nor DAI/Nathan Associates tracked contributions from the Vietnamese Government or other organizations (page 6). The contractor did not attempt to determine the value of the contributions or understand what activities they funded.

Auditors also commented upon the use of a time-and-material contract, which is considered the least desirable contract type (page 8).

The report recommends that USAID/Vietnam:

1. Establish custom indicators that would capture critical activities adequately and allow the mission to track the project's progress (page 4).

2. Work with the contractor to review and revise its performance targets (page 5).

3. Perform a data quality assessment identifying the contractor's source of reported results, analysis of calculations, and completeness of data (page 5).

4. Through the contracting officer, determine the allowability and recover, as appropriate, $58,524 in unsupported costs pertaining to the total approved days that a short-term technical adviser worked (page 6).

5. Require the contractor to quantify, track, and report on all forms of cash and in-kind contributions contributed by counterparts and other organizations toward STAR Plus activities (page 7).

Detailed findings follow. The audit scope and methodology are described in Appendix I. Our evaluation of management comments is included on page 9, and the full text of management comments appears in Appendix II.

AUDIT FINDINGS

Mission Did Not Monitor Performance Adequately

To be certain that a project meets its overall objectives and delivers planned outputs, mission officials must use performance indicators to observe progress and compare actual results with expected results. Selecting appropriate, useful indicators, establishing ambitious targets, and ensuring reliable indicator data are crucial steps in assessing whether a project is making progress toward its goal.[1]

The audit found that mission's monitoring of the project through performance indicators was weak. As described separately below, most of the indicators mission officials used were inadequate, targets were set too low, reported results were not reliable, and one invoice appeared to be paid for unsupported costs.

Indicators Were Not Adequate. Setting appropriate, useful indicators is one of the crucial steps in assessing project progress. To achieve its overall goal, STAR Plus categorized results within five main activity areas: rule of law, good governance, trade and investment, the financial sector, and macroeconomic foundation. Mission officials established six indicators to monitor progress in these areas (Appendix III). However, only one indicator, *Number of initiatives that enhance good governance*, was tailored specifically for STAR Plus. The remaining five were standard global indicators that missions report to USAID/Washington annually to track progress in development worldwide.

The lack of custom indicators covering significant project activity makes it difficult for mission officials to track specific STAR Plus progress. For example, the most significant activity conducted in each of the five areas was organizing and funding capacity-building workshops for Vietnamese officials and other counterparts. Since the project's inception through July 2012, it supported 147 workshops on issues covering intellectual property rights, trade commitment, macroeconomic management, investment disputes, and government procurement. However, only one indicator, *Number of judges or judicial personnel trained*, actually tracked data about the people who participated in the workshops, and most of them were not judges or judicial personnel.

Other prominent project activities include (1) an analysis comparing government legislation with that required under different trade agreements, (2) work with the State Bank of Vietnam on organizing and simplifying its existing regulations, and (3) two study tours to the United States for high-ranking Vietnamese officials. The current set of standard indicators under STAR Plus does not capture or measure these important activities, nor do they lend themselves to any kind of evaluation.

In addition to not capturing important project activities, indicators 3, 4, and 6 (in Appendix III)

[1] Automated Directives System (ADS) 203.3.4, "Performance Indicators for PMPs and projects," dated February 10, 2012.

only capture the output of a few people. These indicators measure the number of days that short-term technical advisers contributed technical assistance on monetary policy, fiscal policy, and financial sector-enabling environment. However, reported results came from only 4 of the 43 technical advisers. The accomplishments of the other 39 were not recognized. Furthermore, the output of just one technical adviser constituted the majority of the results reported under the three indicators. Thus, the current set of indicators are not capturing the activities of the majority of technical advisors working and contributing toward STAR Plus objectives.

A mission official said because STAR Plus activities are demand-driven, it would be difficult to monitor and evaluate progress from year to year due to the changing demands of project counterparts. The official also said that capturing the results of standard global indicators for USAID/Washington was a more important priority than custom indicator results.

Categorizing all STAR Plus activities as demand-driven by Vietnamese counterparts is not entirely accurate because DAI/Nathan Group and USAID also have considerable influence in the activities that the project undertakes. Moreover, the claim that the project is demand-driven does not preclude the use of custom indicators for tracking selected activities, like workshops, which may focus on different topic areas from year to year, but are still expected to be carried out throughout the project's performance period.

While standard indicators give USAID/Washington officials information on general development trends, they are not necessarily useful as an effective tool for monitoring specific project activities. By not developing and utilizing custom indicators, mission officials will have trouble tracking progress toward planned results, making project decisions, and verifying that overall project objectives are being met. In addition, as discussed in "Other Matters," due to the type of task order issued for this project, it is even more critical that mission officials monitor and evaluate contractor performance. We therefore make the following recommendation.

> ***Recommendation 1.*** *We recommend that USAID/Vietnam review the project's indicators and establish appropriate custom indicators that would capture project activities adequately and allow the mission to track progress.*

Performance Targets Were Too Low. Performance targets should be ambitious yet realistically achievable within the time frame and with available resources. Targets set too low are not useful to management or for reporting purposes.

As of June 8, 2012, STAR Plus reported to have greatly exceeded its 2012 fiscal year targets for five of its six performance indicators. One indicator exceeded its target by more than 180 percent, while another three exceeded their targets by more than 130 percent. With almost 4 months (or 33 percent) left in the current reporting period, it would appear that these targets have been set too low. For fiscal year 2013, the project kept targets at the same level as fiscal year 2012.

Mission officials said it was difficult to establish effective targets because of shifting priorities; counterparts might request workshops or activities relating to the financial sector 1 year and then shift to rule of law or trade issues the next year. The officials also said they did not increase the 2013 targets because funding levels would remain the same, and therefore they expected the contractor to expend the same level of effort.

However, because targets were set too low for 2012, they are not useful to mission officials. At the very least, targets should have been increased to encourage improved results. We therefore make the following recommendation.

> ***Recommendation 2.*** *We recommend that USAID/Vietnam work with the contractor to review and revise the project's performance indicator targets for the remainder of the project.*

Reported Results Were Not Reliable. Another crucial step in assessing project progress is ensuring reliable indicator data. Three indicators tracked the number of days of technical assistance provided to counterparts in the areas of monetary and fiscal policy, and financial sector enabling environment. However, the reported results were based on the work of only 4 of the 43 approved technical advisers.

DAI/Nathan Group officials said the results came from calculating the number of days billed to USAID for each of these four advisers. However, the audit found discrepancies between billed days and days included in reported results for two advisers. In the latest results reported to the mission, for fiscal year 2012 from October 1, 2011, through May 31, 2012, one adviser had 33 billed days, yet only 16 were included in reported indicator results. Another adviser billed 141 days to USAID, but only 121 were included in the results.

The audit team could not verify reported results under the indicator tracking *Number of training days provided to executive branch personnel*. The contractor supported them by providing a spreadsheet that subjectively included some workshops and excluded others to arrive at the reported figure of 43 days. DAI/Nathan Group officials could not explain why some workshops were included and others were excluded. So the team could not verify the numbers objectively.

Finally, for the indicator tracking the number of judges or judicial personnel trained, the audit found support for 118 participants, not the 86 reported by the contractor. The contractor stated a different time frame was used to calculate the reported results.

The mission was unable to detect these reporting discrepancies because of inadequate monitoring procedures. Officials asked for indicator results only for the mission's annual performance plan report and the Office of Economic Growth's portfolio review. In addition, mission officials said they relied on the contractor to complete the data quality assessment analysis of its own database, which proved inadequate in discovering discrepancies.

Without accurate data, mission officials cannot monitor and evaluate a project's progress adequately or make informed programming decisions. We therefore make the following recommendation.

> ***Recommendation 3.*** *We recommend that USAID/Vietnam perform a data quality assessment identifying the contractor's source of reported results, analysis of calculations, and completeness of data, and document the results.*

Project Paid Unsupported Costs. As noted in the task order for the project, the mission must approve all short-term technical advisers STAR Plus uses, along with the maximum number of days they will work.

One technical adviser who was approved to work up to 180 days actually worked for 214 days

(cumulative through June 2012). At a billing rate of $1,721.28 per day, this amounts to $58,524 that the Agency paid that appeared not to be an approved cost. We believe the cause to be weak mission monitoring, as the mission was unaware of this issue. We therefore make the following recommendation.

> ***Recommendation 4.*** *We recommend USAID/Vietnam determine the allowability of $58,524 in unsupported questioned costs pertaining to the total approved days of the short-term technical adviser and recover from DAI/Nathan Group any amounts determined to be unallowable.*

Mission and Contractor Did Not Track Cash and In-kind Contributions

To maximize assistance impact, USAID strives to use the resources of other organizations, including the host-country government, private sector, and other U.S. Government agencies.[2] The STAR Plus contract reiterated this requirement, stating that DAI/Nathan Group must seek to leverage contract resources to further the project's goal and objectives. Furthermore, the approved 2012 project work plan states that counterparts would be asked to contribute to activity costs, and the Vietnamese Government pledged to contribute $883,000 through cash or in-kind support.

While the audit found the project demonstrated the ability to use such resources, neither DAI/Nathan Group nor the mission made any effort to quantify or record contributions. For example, the Vietnamese Government provided cash and in-kind contributions for capacity-building workshops. Yet the contractor did not attempt to quantify the monetary value of contributions or understand what specific activity areas they funded.

In two other examples, the program was able to obtain free or discounted legal assistance. The law firm of Baker & McKenzie provided legal services to project counterparts and to Vietnamese Government officials. The firm is subcontracted under STAR Plus for a fixed fee not to exceed $11,000 per month. To date, Baker & McKenzie has billed the project slightly less than $180,000, but it estimated that the additional staff hours contributed, when calculated at market rates, could have been $372,000. STAR Plus was also able to engage local legal interns to work on various project activity objectives, at no cost.

STAR Plus also utilized government experts. An attorney for the U.S. Department of Commerce who was in Ho Chi Minh City for trade meetings was asked to extend her time in Vietnam and lead a workshop on government procurement for officials in Hanoi. Therefore, the project saved the cost of hiring an expert, which DAI/Nathan estimated was worth $1,200 per day,[3] and travel expenses.

Mission officials said they never thought of asking the contractor to quantify and track contributions. DAI/Nathan Group officials said quantifying such resources is difficult, and it did not want to be held accountable by mission officials or others for accuracy.

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[2] ADS 201.3.3.3(b)(4), "Results Framework: Focus and Selectivity – Division of Labor."

[3] DAI/Nathan Group based this figure on the rate authorized for an adviser under its time-and-material task order.

However, as part of the audit, we were able to quantify certain contributions, such as those described above, and we believe the project could perform a similar exercise.

Information about contributions gives mission officials an important tool in determining how to focus limited USAID resources to achieve the greatest impact. This is particularly important because the mission recently decided to decrease STAR Plus funding by $1.4 million due to budget cuts. Contributions also demonstrate that participants approve of the project and ultimately will contribute toward making it sustainable. We therefore make the following recommendation.

> **Recommendation 5.** *We recommend that USAID/Vietnam require the contractor to quantify, track, and report in writing on all forms of cash and in-kind contributions made by counterparts and other organizations toward STAR Plus project activities.*

OTHER MATTERS

USAID funds projects through various mechanisms, including contracts. Contract types include firm fixed-price, cost reimbursement, or time-and-material. A time-and-material contract is described as a hybrid between firm fixed-price and cost reimbursement contracts, allowing the contractor to charge direct labor hours at a specified fixed hourly rate, which includes wages, overhead, general and administrative expenses, and profit. The contractor bills materials for their actual costs.

Time-and-material contacts are considered the least desirable because they do not give the contractor any incentive to control costs through labor efficiency.[4] They therefore present the highest risk to the government and lowest risk to the contractor. Because of this risk, the Federal Acquisition Regulation (FAR)[5] requires government agencies to perform a determination and findings assessment whenever time-and-material contracts are used, supporting the basis that no other type is suitable.

Despite this risk, USAID/Washington issued a $3 billion indefinite quantity contract (IQC) called Support for Economic Growth and Institutional Reform (SEGIR) II in March 2007. Pursuant to the IQC terms, all task orders awarded must be time-and-material contracts, and six large, for-profit firms and three small firms are authorized to bid on them. (STAR Plus is an example of a time-and-material task order issued under the SEGIR II IQC.) As of September 1, 2012, approximately $1.027 billion in task orders were issued out of the $3 billion IQC.

The audit requested a copy of the determination and findings assessment justifying SEGIR's use of time-and-material contracts, but the Agency could not locate the document.

While every type of contract mechanism has pros and cons to, when SEGIR was issued in 2007 the U.S. Government's fiscal situation and the nation's economic climate were much different than today. Furthermore, budget cuts have had a direct impact on USAID/Vietnam over the past several years. Since 2009, the mission's Federal Managers' Financial Integrity Act certification has cited the "delay and unpredictability in the arrival . . . of funds" as a significant deficiency affecting activities. This year the Economic Growth Office cut $5.4 million in portfolio activities, which included $1.4 million from STAR Plus. Because of the change in the U.S. Government's fiscal situation and the disadvantages of time-and-material contracts, we suggest that USAID/Washington and other concerned parties consider reviewing SEGIR II.

[4] FAR 16.601(c)(1).
[5] FAR 12.207(b)(ii)(A) and 12.207(b)(2).

EVALUATION OF MANAGEMENT COMMENTS

The Office of Inspector General has reviewed the mission's response to the draft report. Based on information provided in that response, we determined that final action has been taken on Recommendations 2 and 4. We acknowledge that management decisions were reached on recommendations 1, 3, and 5. Our evaluation of comments is below.

In response to the mission's general comment, we note that we reviewed the performance evaluation of the STAR I and II projects. The evaluation was submitted to USAID's Economic Growth and Trade office by a consultant, but lists four Agency employees as authors—two of whom work for that office. Therefore, while the evaluation provided us background information and historical context about the previous STAR projects, we did not view it as being impartial. In addition, we note that all Vietnamese Government officials we met with said they greatly appreciated STAR Plus workshops and other assistance provided by USAID.

In response to Recommendation 1, the mission will work with the STAR Plus contractor to document the main intended outcomes of the project when it ends and identify the most meaningful measures of those outcomes that are feasible and available to use to assess the project's overall performance. If possible, these measures will be expressed as custom indicators in the FY13 reporting for the project. We acknowledge a management decision has been reached and final action will be taken when the aforementioned actions are completed by December 31, 2013.

In response to Recommendation 2, the mission plans to maintain the targets set in FY 2012 for FY 2013 due to a $1.5 million budget reduction and only nine months of planned implementation in FY 2013 (project activities will cease at the end of June 2013 to begin closeout). As a result of these factors, we acknowledge that a management decision has been reached and consider that final action has been taken on this recommendation.

In response to Recommendation 3, the mission will ask the contractor to implement a system that clearly links all events and short-term technical assistance to the proper indicators. We acknowledge that a management decision has been reached and final action will be taken once the mission verifies that the existing data quality assessments are updated to reflect the above actions by December 31, 2013.

In response to Recommendation 4, the mission provided us with documentation to prove that the expense was allowable. We consider that final action has been taken on this recommendation.

In response to Recommendation 5, the mission repeatedly referred to cost-sharing, which was not discussed in the finding. However, the mission is taking an appropriate action in response to the recommendation by requiring the contractor to make an assessment of counterpart contributions leveraged by the project based on the information they have gathered, and present a summary of these contributions as a section in the project's final report for purposes of strategy and future project design. Therefore, we acknowledge that a management decision has been reached and final action will be taken once the above actions are completed by December 31, 2013.

SCOPE AND METHODOLOGY

Scope

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards 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 Support for Trade Acceleration Plus project was achieving its main goal of supporting the Government of Vietnam's efforts to implement trade and investment reforms to ensure an environment attractive for investment, trade, and private sector growth.

To implement the project, USAID signed an $11.7 million, 3-year task order with DAI/Nathan Group covering the period from October 1, 2010, through September 30, 2013. As of May 31, 2012, the mission had obligated $8.2 million and disbursed $6.4 million under the project.

The audit covered project activities over roughly 18 months from October 1, 2010, through March 31, 2012 (the latest available formal reporting period). The team also covered ongoing project activities through June 2012 to the extent that data were available. Because this was a performance audit looking at project implementation rather than specific financial transactions, the audit team did not focus on auditing the $6.4 million in disbursements.

The audit team met with officials from 20 departments in 14 ministries and institutions involved in the project to confirm reported performance and successes. The audit also made an effort to validate reported results for five of the six performance indicators through analytical procedures, though this was limited in effectiveness because of the inability of the indicators to capture and represent the activities or components.

As part of the audit, we assessed the significant internal controls used by USAID/Vietnam to monitor project activities. The assessment determined whether the mission (1) had an approved monitoring and evaluation plan in place, (2) required and approved an implementation plan, and (3) conducted and documented site visits to evaluate progress and monitor quality. We also examined the mission's fiscal years 2010 and 2011 annual self-assessment of management controls, which the mission is required to perform to comply with the Federal Managers' Financial Integrity Act of 1982, to determine whether the assessment cited any relevant weaknesses.

Audit fieldwork was performed at the USAID/Vietnam mission as well as at DAI/Nathan Group's office in Hanoi from August 6 to 29, 2012. During that period, the audit team reviewed documents pertaining to project progress and related expenditures. The audit team also interviewed officials from various Vietnamese agencies, the U.S. Department of State Agricultural Affairs Section, two academic institutions in Hanoi, and employees for the contractor and two subcontractors. During these meetings, the auditors obtained inputs on project activities, successes, challenges, and the counterpart contributions of these agencies.

Methodology

To determine whether the project was achieving its goal, the audit team initially interviewed key staff in USAID/Vietnam's Economic Growth Office and at DAI/Nathan Group to gain an understanding of STAR Plus, the reporting procedures, and controls in place for monitoring progress and expenditures. Additional work to answer the audit objective focused on interviewing officials from a number of Vietnamese agencies. During the interviews, the audit team solicited feedback on the project's activities and its relevance to the agencies' work. Analytical procedures were also conducted in conjunction with a review of documents in an effort to validate data reported for five of the six active performance indicators as well as the expenditures paid for by USAID. This included reviewing documentation pertaining to a randomly selected percentage of workshops supported by the project, reviewing documentation of a judgmentally selected sample of approved short-term technical advisers, and verifying information against vouchers submitted to USAID. Because selection was based on a judgmental sample, results and overall conclusions were limited to the items tested and could not be projected to the entire audit universe.

In validating the results data supporting the project's performance indicators, the auditors performed testing of the reported figures for five of the six indicators as of May 31, 2012. This involved comparing a judgmental sample of the results data with records at the contractor's office to verify that the recorded results data were accurate and reliable and to determine whether the data met data quality standards. The audit team established a materiality threshold of 85 percent. For example, if at least 85 percent of tested results data reported under a specific performance indicator were found to be supported adequately, the auditors concluded that the results were reasonably accurate.

MANAGEMENT COMMENTS

December 5, 2012

MEMORANDUM

TO:	William S. Murphy, Regional Inspector General/Manila,
FROM:	Joakim Parker, Mission Director /s/
SUBJECT:	Management Comments Audit of USAID/Support for Trade Acceleration Plus (STAR Plus)
REF:	Draft report No. 5-440-13-XXX-P dated November 5, 2012

Management General Comment:

The STAR I, II and Plus programs implemented over the last 12 years are widely viewed as constituting a cornerstone of U.S.-Vietnam economic cooperation and having broad diplomatic and development impact. The performance evaluation conducted of the STAR I and II Program in 2010 strongly supported this view. The draft IG report's focus for STAR Plus on performance indicators for purposes of a performance audit is appropriate, but its omission of findings from the IG team's extensive meetings with Government of Vietnam (GVN) counterparts and U.S. Embassy is striking. We request that a summary of their views be incorporated into the final report.

The findings of this audit will be helpful in the Mission's current development of a new Country Development Cooperation Strategy (CDCS) and development of new programs.

In response to the referenced draft audit report, please find below Mission management's comments on the five recommendations included therein:

Recommendation 1: *We recommend that USAID/Vietnam review the project's indicators and establish appropriate custom indicators that would capture project activities adequately and allow the mission to track progress.*

Management Comment: Mission management **disagrees** with the recommendation. The Mission agrees with the general finding that the STAR Plus contract's reliance on six output-level indicators (including five F standard indicators and one custom indicator) for results reporting does not meet the Agency's new program cycle policies that set a new standard of outcome-level impact custom indicators as the basis for performance monitoring (ADS 200 Series). However, the STAR Plus contract was awarded on September 30, 2010, prior to any of the new performance measurement guidance being established as policy (i.e. PPL Project Design Guidance dated December 2011 and the new Evaluation Policy dated January 2011). Therefore, the Mission does not agree that it is appropriate to apply these new policies retroactively to a contract that was awarded over one year prior to the guidance being released (at which time the contract was fully compliant with the ADS policies on performance monitoring still in effect from the F process). Furthermore, given that the program will cease activity implementation in seven months, it is neither programmatically feasible nor cost-effective to renegotiate the program's performance measures for such a short period of time. Mission management fully agrees that any new programs developed under the Mission's new CDCS must be fully compliant with the new performance monitoring guidance in the ADS. The Mission will work with the STAR Plus contractor to document the main intended outcomes of the program at the time it ends and identify the most meaningful measures of those outcomes that are feasible and available to use to assesses the programs overall performance. If possible, these will be expressed as customs indicators in the FY13 PPR reporting for the program.

Recommendation 2: *We recommend that USAID/Vietnam work with the contractor to review and revise the project's performance indicator targets for the remainder of the project.*

Management Comment: Mission management **disagrees** with the recommendation. While the contractor exceeded all of the targets for FY 2012, in many cases substantially, this fact alone does not indicate that the targets were set too low. The program's FY 2011 results reported in both the 2011 Portfolio Review and the 2011 PPR indicated that the program failed to meet its targets for nearly half of its indictors. This was due to the fact that in FY 2011 the program implementation was delayed for eight months due to a lack of project approval from the Government. This is exactly the kind of unforeseen obstacle that we have to militate against in setting targets. The demand driven nature of the program also makes it quite difficult to anticipate the final level of result that will occur under a particular indicator, making results both above and below the set target more likely than in programs with a more fixed approach. The Mission plans to maintain the targets set in FY 2012 for FY 2013. Considering a $1.5 million budget reduction and only nine months of planned implementation in FY 2013 (program activities will cease at the end of June 2013 to begin close out), this will actually represent a significant increase in performance expectations for the program on a time and/or dollar basis.

Recommendation 3: *We recommend USAID/Vietnam perform a data quality assessment identifying the contractor's source of reported results, analysis of calculations, and completeness of data.*

Management Comment: Mission management **agrees** with the recommendation. The mission will request that the contractor implement a system of clearly coding all events and short-term technical assistance (STTA) so that the method in which they are to be attributed to the indicators is clear from the outset and well documented. The contractor's practice of attributing these activities to the respective indicators based on their direct knowledge of the events did not provide a fully auditable record, requiring a verbal explanation from the contractor. Up-to-date data quality assessments (DQA) existed for all six performance indicators, so the existing DQAs will be updated to reflect this change.

Recommendation 4: *We recommend USAID/Vietnam determine the allowability and recover, as appropriate, $58,524 in unsupported costs pertaining to the total approved days of the short-term technical adviser.*

Management Comment: The Contracting Officer has determined that the costs were **allowable.** There are three approved STTA requests for Dr. Pham Do Chi, providing more than ample authorization for the days used. The first approval was provided on March 3, 2011 for 90 days. The second approval was provided on October 24, 2011 for an additional 90 days. The third approval was provided on March 28, 2012 for an additional 90 days, bringing the total LOE to 270 days, not 180 days as mentioned by the audit report. (Approvals attached).

Recommendation 5: *We recommend that USAID/Vietnam require the contractor to quantify, track, and report on all forms of cash and in-kind contributions made by counterparts and other organizations toward STAR Plus project activities.*

Management Comment: Mission management **disagrees** with the recommendation. The STAR Plus contract has no provision requiring cost-sharing. ADS 302 (USAID Direct Contracting) makes no reference to any requirement for cost sharing under contracts. While the Mission views the fact that the STAR Plus program has consistently made efforts to leverage USG resources in a variety of ways as valuable and we actively encourage it, it is not required under the contract terms that such contributions exist or to have it documented.
However, the Mission will require that the contractor make an assessment of counterpart contributions leveraged by the program based on the information they have gathered and present of a summary of these contributions as a section in the program's final report for purposes of strategy and future project design.

Attachments:
1. R2: FY 2011/FY 2012 STAR Plus Portfolio Review/PPR indicator results
2. R4: Approved STTA levels documentation

STAR Plus Indicators

Indicator No.	Indicator Description	Activity Area	Indicator Type	FY 2012 Target	FY 2012 Reported Results*	Percentage of Target Achieved
1	*Number of Judges and Judicial Personnel Trained*	Rule of Law	Standard	270	86	32
2	*Number of initiatives that enhance good governance*	Good Governance	Custom	6	11	183
3	*Number of days of United States Government(USG) supported technical assistance in monetary policy provided to counterparts or stakeholders*	Macroeconomic Foundation	Standard	50 days	66.75	134
4	*Number of days of USG supported technical assistance in fiscal policy and fiscal administration provided to counterparts or stakeholders*	Macroeconomic Foundation	Standard	30 days	40	133
5	*Number of training days provided to executive branch personnel with USG assistance*	Trade and Investment	Standard	40 days	43	108
6	*Number of days of USG funded technical assistance in financial sector enabling environment provided to counterparts or stakeholders*	Financial Sector	Standard	50 days	66.5	133

* Represents reported results for the first 8 months of fiscal year 2012.

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