



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/BURMA'S SHAE THOT (THE WAY FORWARD) PROGRAM

AUDIT REPORT NO. 5-482-15-007-P
SEPTEMBER 3, 2015

MANILA, PHILIPPINES



Office of Inspector General

September 3, 2015

MEMORANDUM

TO: USAID/Burma Mission Director, Chris Milligan

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

SUBJECT: Audit of USAID/Burma's Shae Thot (The Way Forward) Program
(Report No. 5-482-15-007-P)

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

The report includes three recommendations to help the mission address the issues identified in our audit. After reviewing information provided in response to the draft report, we determined that the mission made management decisions on all three recommendations and took final action on Recommendation 2. Please provide the necessary documentation to obtain final action on Recommendations 1 and 3 to the Audit Performance and Compliance Division in the Office of the Chief Financial Officer.

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
- AOR agreement officer’s representative
- MCH maternal and child health
- MSI Marie Stopes International
- RIG Regional Inspector General
- VDC village development committee
- WASH water, sanitation, and hygiene

SUMMARY OF RESULTS

When Cyclone Nargis struck Burma in 2008, the U.S. Government provided relief. The disaster led Congress to provide additional humanitarian assistance countrywide, not only in Nargis-affected areas. With the country's transition to a civilian government in 2011 and greater openness to the outside world, immediate relief and rehabilitation have given way to help with problems brought about by decades of underinvestment in essential services, harsh environmental conditions, and limited access to resources. To provide this help, in 2012 USAID reopened its Burma mission, which had been closed since 1989.

In September 2011, USAID/Regional Development Mission Asia awarded a 5-year, \$55 million cooperative agreement to Pact, a U.S. nongovernmental organization, to implement the Shae Thot (Way Forward) Program. As of February 23, 2015, the program had obligations and expenditures of \$43.4 million and \$37.3 million, respectively.¹

The program sought to:

1. Decrease maternal, newborn, and child mortality (improve maternal and child health, or MCH)
2. Improve household food security (improve livelihoods and raise household income)
3. Increase access to (safe) water, sanitation, and hygiene (WASH)
4. Strengthen community institutions

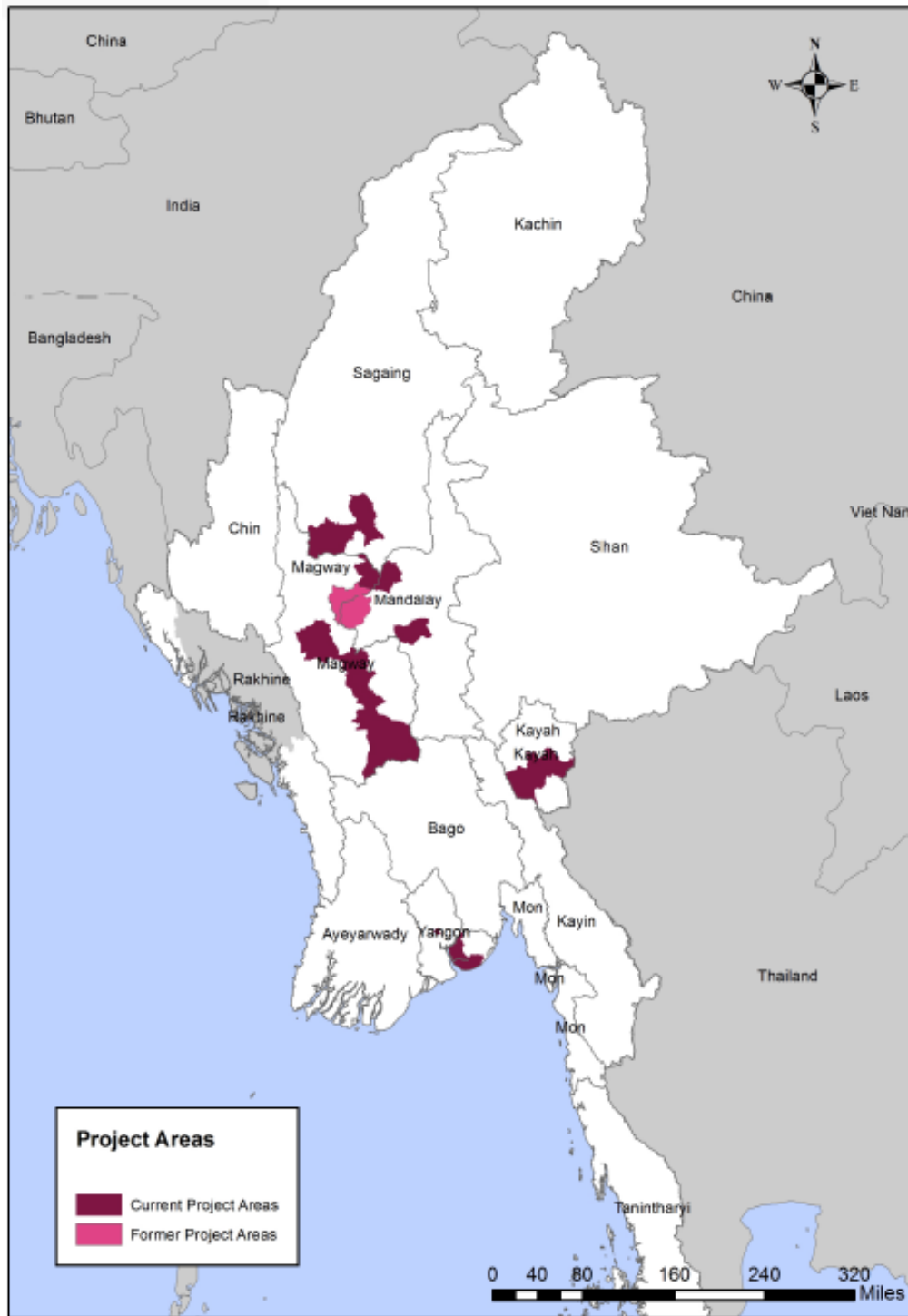
Pact leads a consortium of partners with extensive experience in Burma and expertise in the above areas. The consortium partners are Cesvi Fondazione Onlus (Cesvi), an Italian organization that specializes in agricultural extension for food security; Marie Stopes International (MSI), based in London, which offers clinical outreach and maternal health services; Pact Global Microfinance Fund, a U.S.-based organization that has been implementing financial services in Burma since 1997; and UN-Habitat, known for its work in WASH.

The Regional Inspector General (RIG)/Manila conducted this audit to determine if USAID/Burma's Shae Thot Program was achieving its planned results and whether they were sustainable.

Overall, the program was achieving its objectives. As of September 2014, Shae Thot had assisted 2,177 villages in 19 townships in the center of country, Kayah State, and areas around Yangon City (as shown in the map on the next page).² At that point, only 1,868 villages had ongoing activities since the program had phased out livelihood activities in Magway Township and MCH activities in four other townships.

¹ These amounts come from the Agency's financial systems. On November 17, 2014, OIG issued *Audit of USAID's Financial Statements for Fiscal Years 2014 and 2013*, Report Number 0-000-15-001-C, disclaiming an opinion because of material unsupported adjustments USAID made to reconcile its general and subsidiary ledgers. We did not perform any additional tests during this audit to verify the accuracy of the reported amounts. In FY 2015, OIG anticipates testing USAID's adjustments to determine if they were accurate and appropriate. USAID intends to provide explanations and other support to demonstrate the adjustments' validity.

² Shae Thot implements activities in approximately 19 percent of villages in the center of the country and Kayah State (more than 11,500 villages). For ease of understanding the administrative divisions mentioned in this report, a township includes urban wards, towns, and villages; the level above it is the district; above that is the state.



Source: Pact.

Moreover, the program's achievement rates on 23 of 25 performance indicators were 95 percent or higher, as shown in the following table.

Achievements as of September 30, 2014 (Audited)

Achievement Rates	Number of Indicators
80-84 percent	2
95-98 percent	5
Greater than 100 percent	16
Greater than 150 percent	2
Total	25

The two indicators with the lowest achievement rates pertained to (1) *Number of family planning and MCH cases treated by mobile clinics* and (2) *Number of babies attending village baby-weighing days*. The mobile clinics indicator did not achieve planned results for two reasons—demand decreased for tetanus toxoid injections to pregnant mothers, and more volunteers were treating diarrhea cases. The indicator on weigh-ins did not achieve planned results because there were fewer babies in the targeted villages than was anticipated.

Most results likely will be sustainable because village development committees (VDCs) took charge of the activities. VDCs, started by the program, serves as the primary unit for building community institutions, leading villagers in realizing, maintaining, and sustaining meaningful improvements to their health and development.

The report discusses strengths in program implementation, as well as three areas in which accomplishments have been delayed and improvements can be made:

- Integrated components had substantial impact (page 5). Thirteen of the 18 villages that the audit team visited (the remaining 5 had only one implementing partner) had improved their primary health care, applied agricultural technology, and gained better access to safe water, leading to increased household incomes.
- The program did not increase access to sufficient quantities of safe water in some villages (page 8). UN-Habitat, the implementing partner working on WASH, started late and rushed work and training.
- The mission's approval of medical supply requests was not efficient (page 10). During the third and fourth years, the mission took 6 months or more to grant requests. The delay stemmed from an e-mail glitch.
- The mission did not conduct enough site visits (page 10). After 3.5 years of implementation, mission officials had made only about two site visits a year. They attributed the insufficient number to staffing shortages.

To address the issues above, we recommend that USAID/Burma:

1. Prepare a written assessment of the sustainability and sufficiency of WASH activities in the first 2 years, and take corrective actions as necessary to increase access to safe water (page 9).

2. Issue written work-around procedures to mitigate risks from state.gov e-mail rejections (page 10).
3. Implement a plan to increase the number of sites visited and the frequency of site visits for the Shae Thot Program (page 11).

Detailed findings appear in the following section. Appendix I contains information on the scope and methodology. OIG's evaluation of management comments is on page 12, and the full text of them is in Appendix II.

AUDIT FINDINGS

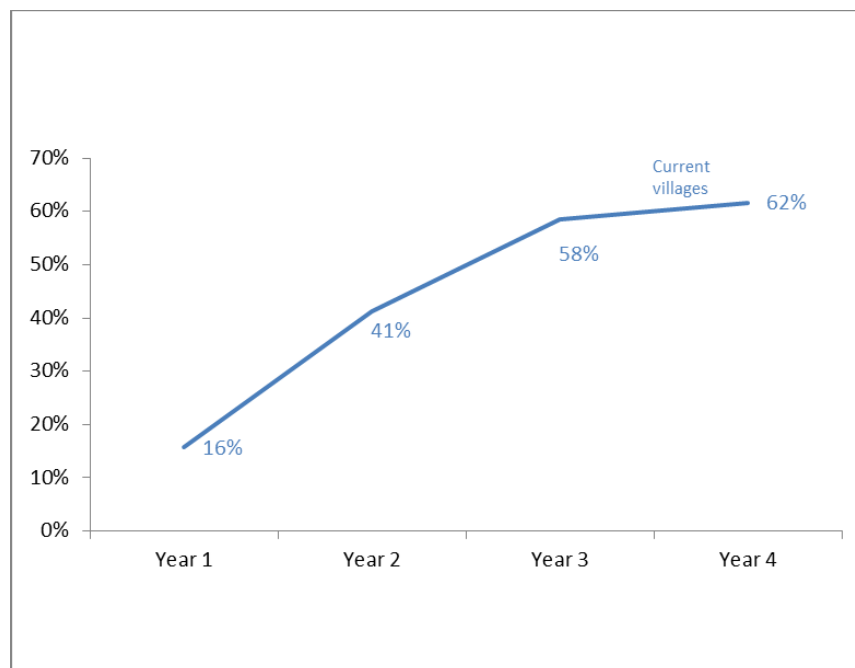
Integrated Components Had Substantial Impact

The cooperative agreement stated that “health, livelihoods, food security, and water are inextricably linked” and are the things poorest households need most. Accordingly, program components were integrated—i.e., each of the program’s components featured activities that overlapped with and advanced the others. Where multiple implementing partners worked together, villages benefited from synergies.

In 13 of the 18 villages the audit team visited—the remaining 5 had only one implementing partner—the integrated approach had made a substantial impact. These villages had increased access to safe water, improved primary health care, and applied new agricultural technology, consequently increasing household incomes. VDCs had also built community capacity. For example, VDCs established subcommittees for WASH, agriculture, and MCH activities that encouraged participation of volunteers in developing the village.

The share of villages that had more than one partner implementing separate components increased from 16 percent in the first year to 62 percent in the fourth year, as shown in the following figure.

Share of Villages With Multiple Partners Implementing Components Simultaneously (Unaudited)



Source: Pact.

- *Decreased maternal, newborn, and child mortality.* Integrating MCH and WASH components further improved health care. An analysis performed by the program showed that in targeted townships, the likelihood of children suffering from severe malnutrition was five times less than the national average. In a village in Meiktila Township, the community prepared a map shown below illustrating 60 of 92 households (or 65 percent) directly benefiting from the program. VDC members there proudly told us that the mothers and children were healthier because of technical assistance on nutrition and access to clean water.



Villager points out households that directly benefited from partner activities. (Photo by RIG/Manila, March 2015)

- *Improved household food security and livelihoods.* Gains occurred in at least three areas.
 - With improved farming techniques, such as using better seeds and organic fertilizer and applying fertilizers at the ideal time, farmers' incomes increased. Farmers in Salin Township said their average profit on peanuts increased from \$246 to \$409 per acre in a year. Training on using program-provided home gardening kits, which contained an assortment of vegetable seeds, contributed to improving the nutritional status of children.
 - The program provided immediate savings through decreased loan rates. For example, members of a women's group (pictured on the next page) told us they had previously borrowed money from informal moneylenders that charged 10 percent per month. The program's formal credit interventions had reduced the credit rates to 3 percent per month. With immediate savings and increased income, women expanded their businesses and further increased income.



Entrepreneurs show garments made since they expanded their business from one sewing machine to three. (Photo by RIG/Manila, March 2015)

- The program established revolving livestock funds, through which landless villagers and single parents received start-up stocks of goats and pigs (like the one pictured below). According to Pact, 264 animal banks were established during the first 3 years, supporting 1,219 beneficiaries. Beneficiaries made an average profit of \$200-\$250 per pig, which covered up to 5 months of household food expenditures.



This pig is on loan from a village animal bank. The single parent borrowing it will sell some piglets and breed others to boost household income and food security. (Photo by RIG/Manila, March 2015)

- *Increased access to safe water, sanitation, and hygiene.* Under the WASH component, the program installed tube wells close to some villages, providing access to clean water. Women and children who previously walked long distances to fetch water saved 2 to 4 hours per day using water pumps close to their villages. Women had more time to work, and children more time to study, and school attendance improved with a decrease in water-related health problems. With access to water, one woman said that she used leftover water from cleaning dishes to irrigate her banana trees, boosting the number of bananas she could sell at the local market.
- *Strengthened community institutions.* In villages where consortium partners' activities overlapped, the VDCs formed subcommittees to manage WASH, MCH, and livelihoods activities. These villages demonstrated high community participation and a commitment to develop their villages. For example, at a village in Seikphyu Township, the program installed a tube well with a generator to pump clean water to 79 households. The VDC subcommittee required each household to pay \$0.50 a month for water and \$2 for electricity to sustain the pump and electricity. These user fees enabled communities to put aside funds to manage their development needs beyond the life of the program.

As a result of the program's interventions in the villages visited, the economic status of the poorest households improved.

Program Did Not Increase Access to Sufficient Quantities of Safe Water in Some Villages

The cooperative agreement emphasized access to sustainable sources of safe water for each component of the program. Under the WASH component, the program was to implement activities to increase access to sufficient quantities of safe water by installing tube wells, rainwater collection tanks, distribution lines, and biosand filters.³ Shae Thot's partner, UN-Habitat, was responsible for implementing these activities.

However, the program did not increase access to sufficient quantities of safe water in some villages. For example:

- At a village in Meikhtila Township, a Pact partner doing monitoring visits found various problems, including a hand-dug well that was not deep enough to draw water. Furthermore, the village's river water supply system did not contain an adequate water level to provide a source of water.
- Elsewhere in Meikhtila Township, the program installed a rainwater-harvesting tank on the grounds of a monastery. The monastery was the only structure in the township that had a big enough roof (shown on the next page). Villagers said that after installation the VDC prohibited households from collecting water from this tank, restricting its use for monastery activities. The water tank was full several months into the dry season but did not benefit the villagers.

³ These amount to pots filled with sand. Users pour water in the top, let it pass through the sand, and collect it at the bottom, where it comes out clean.



At this village in Meikhtila Township, rainwater collects in the roof, passes through the pipe extending from the front, and collects in the rectangular tank. (Photo by RIG/Manila, March 2015)

- At a village in Pakokku Township, UN-Habitat oversaw the start of construction of a deep tube well in 2013; however, in August 2014, a Pact partner doing monitoring visits reported that the well remained unfinished. Pact reported that UN-Habitat was not aware of the unfinished work. A UN-Habitat official said the organization planned to assess the sustainability of activities implemented in the first 2 years.
- At 478 villages that implemented WASH activities in the first 2 years, Pact found that many households were not using biosand filters to improve the quality of drinking water.

These setbacks occurred because UN-Habitat signed its agreement late, significantly shortening the timeline to complete 2 years' worth of WASH activities. The 9-month delay in signing resulted from protracted negotiations of terms. With a shortened timeline, UN-Habitat rushed work including training and did not provide adequate oversight to plan and monitor WASH activities. Consequently, some communities did not receive sufficient training on the benefits of using filters. Pact officials noted that after the second year, UN-Habitat got back on track by increasing staff for training community members and monitoring the construction of water systems.

By not providing timely, ready access to sufficient quantities of safe water, UN-Habitat missed opportunities to improve the lives of women and children who often walk long distances to collect it from alternative sources. In addition, its rushed training may mean water systems are not sustainable in some villages. Although the project has already made some improvements, to achieve sustainable water sources in the affected communities, we make the following recommendation.

Recommendation 1. We recommend that USAID/Burma prepare a written assessment of the sustainability and sufficiency of water, sanitation, and hygiene activities

implemented in the first 2 years, and take corrective actions as necessary to increase access to safe water.

Mission's Approval of Medical Supply Requests Was Not Efficient

The cooperative agreement prohibited Pact and its partners from procuring medical supplies using USAID funds without the approval of the agreement officer. According to Automated Directives System (ADS) 202.3.5.2, that approval is a service USAID should perform efficiently and effectively.

Contrary to the guidance, the mission's approval of medical supply requests was not efficient. During the third and fourth years, the mission took more than 6 months to approve procurements.

The delays occurred because e-mail problems prevented the agreement officer's representative (AOR) from receiving the requests. The mission operates under the state.gov e-mail system, which rejected the e-mails because of potential cybersecurity threats. Although the mission had USAID e-mail accounts, Pact had e-mailed the procurement requests only to the state.gov e-mail account because the AOR had not advised sending to both accounts. During the audit, OIG told the AOR about the rejected e-mails, and in March 2015, the AOR promptly processed the request.

Without sufficient medical supplies, Pact and MSI faced implementation constraints. According to MSI staff, they had to borrow supplies from other programs. Although no outages occurred, future delays may slow the delivery of needed medical supplies to mobile clinic patients. The AOR told Pact to e-mail requests to both State.gov and USAID e-mail accounts; however, the mission needs to take corrective action so that the same problem doesn't affect other projects. Therefore, we make the following recommendation.

Recommendation 2. *We recommend that USAID/Burma issue written work-around procedures to mitigate risks from state.gov e-mail rejections.*

Mission Did Not Conduct Enough Site Visits

According to ADS 303.3.18, "Award Administration," "site visits are an important part of effective award administration because they usually allow a more effective review" of a program. Shae That planning documents further stipulated that USAID should conduct regular monitoring of assistance through frequent field visits because of the geographical scope and nature of activities.

Yet the mission did not conduct enough site visits. After 3.5 years of implementation, mission officials had made eight site visits to only 22 of 2,177 villages (1 percent)—about two site visits a year.

Mission officials explained that staffing shortages reduced the number of site visits. The staff on hand had to deal with other priorities, such as preparing and attending to numerous high-level

visitors from Washington. The Government of Burma requires more than a month's lead time to approve travel for Americans, and any changes to travel dates prolong the approval process.

By conducting limited, infrequent site visits, the mission may miss opportunities to observe program activities to identify successes, areas for improvement, and places where internal controls may be weak. Because the mission continues to increase programs and staffing, we make the following recommendation.

Recommendation 3. *We recommend that USAID/Burma implement a plan to increase the number of sites visited and the frequency of visits for the Shae Thot Program.*

EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, USAID/Burma agreed with and made management decisions on all three recommendations. We acknowledge final action on Recommendation 2. Our evaluation of the management comments follows.

Recommendation 1. USAID/Burma agreed and made a management decision to assess the sustainability and sufficiency of water, sanitation, and hygiene activities implemented in the first 2 years. The target date for completing the assessment is March 2016. The mission will then decide whether corrective actions are necessary. If so, it will develop a corrective action plan for the partner to implement by July 31, 2016. We acknowledge the mission's management decision.

Recommendation 2. USAID/Burma agreed and issued a mission notice of work-around procedures to mitigate risks from state.gov e-mail rejections. The mission notice was issued on July 28, 2015. We acknowledge the mission's management decision and final action.

Recommendation 3. USAID/Burma agreed and made a management decision to implement a plan for increasing the number of sites visited and frequency of visits for the program. Five site visits are scheduled to monitor the program during the remaining months. The target date for completing all visits is June 30, 2016. We acknowledge the mission's management decision.

SCOPE AND METHODOLOGY

Scope

RIG/Manila conducted this 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 the evidence obtained provides that reasonable basis.

The purpose of this audit was to determine whether USAID/Burma's Shae Thot Program was achieving its planned results and whether the results were sustainable. As of February 23, 2015, USAID/Burma had obligated and disbursed about \$43.4 million and \$37.3 million for approximately 3.5 years of implementation.

As the lead implementer, Pact was managing the program in partnership with Cesvi, MSI, Pact Global Microfinance Fund, UN-Habitat, and seven local partners in the center of Burma and Kayah State. The audit covered selected activities carried out under the four components from start-up in September 2011 through September 30, 2014. The audit team performed work in Burma and Thailand.

In planning and performing the audit, the audit team assessed significant controls that USAID/Burma used to monitor program activities and ensure that Pact was providing adequate management and oversight of them. The audit assessed the mission's policies and procedures for monitoring Pact's progress in achieving the objectives listed in the cooperative agreement and for verifying that activities funded by USAID conform to the terms and conditions of the agreement. In addition to the significant controls, the audit team reviewed Pact's quarterly and annual progress reports, as well as the annual work plans and financial data.

We conducted audit fieldwork from February 23 to March 26, 2015, at USAID/Regional Development Mission Asia in Bangkok; USAID/Burma in Yangon; and Pact and partners' offices in Yangon and seven townships. In Burma, we visited 18 villages to observe program activities. The team also met with government officials to get their perceptions of the program. Additionally, the team examined the mission's fiscal year 2014 annual self-assessment of management controls—which the mission is required to perform to comply with the Federal Managers' Financial Integrity Act—to check whether the assessment cited any relevant weaknesses.

Methodology

In assessing the progress of the activities carried out under the cooperative agreement, the audit team reviewed Pact's quarterly and annual progress reports from the start of the program through September 2014. We interviewed mission officials, Pact and partners' staff, and government officials. Finally, the audit team reviewed USAID/Burma's October 2013 data quality assessment of Pact and its consortium partners.

Through interviews, documentation reviews, and data analysis, the audit team obtained an understanding of (1) the program's main goals, (2) how the mission and Pact monitored the program, (3) how the mission checked the quality of the data reported, and (4) whether the

mission, Pact, and partners were aware of any allegations of fraud or other potential illegal acts or noncompliance with laws and regulations.

To conduct site visits, the audit team judgmentally selected 18 of 2,177 villages where activities were implemented in Burma. The sample selection was based on sites' location, the number of components implemented at each one, the mission's recommendations, and the diversity of their activities. During the site visits, the audit team interviewed program field staff to solicit feedback on the program's activities, accomplishments, and challenges and to assess the impact of the interventions on the four objectives. The team interviewed beneficiaries such as community leaders, volunteers, and mothers receiving assistance from the program to solicit feedback on activities.

We judgmentally selected 6 of 25 performance indicators for testing. The audit team selected two key indicators from each of the first three program components. We did not select indicators from the institutional strengthening component because activities in this component cut across the first three components. Lastly, we tested six indicators because of the limited amount of time for fieldwork and the volume of documentation for each indicator.

In testing the indicators, we traced reported results to supporting documentation maintained by Pact to verify the accuracy of the figures. In doing so, the audit team relied extensively on computer-processed data contained in Excel spreadsheets maintained by PACT in Yangon. Our review of system controls and the results of data tests found them adequate. We also conducted sufficient tests of the data reported by the subimplementer in the field. These tests and assessments led us to conclude that the data were sufficiently reliable to be used in answering the audit objective.

Since the testing and site selections were based on judgmental samples, the results and conclusions related to the analysis were limited to the items and areas tested and cannot be projected to the entire population. We believe our substantive testing was sufficient to support the audit's findings.

MANAGEMENT COMMENTS



August 18, 2015

MEMORANDUM

To: Regional Inspector General/Manila, Matthew Rathgeber

From: USAID/Burma Mission Director, Christopher Milligan /s/

Subject: Management Response to Recommendations in Draft Report on Audit of USAID/Burma's Shae Thot (The Way Forward) Program (Report No. 5-482-15-XXX-P), July 8, 2015

USAID/Burma welcomes the constructive audit recommendations and the report's conclusion that the program is achieving its overall objectives, and that the integrated components of the program had substantial impact in targeted communities.

This memorandum transmits USAID/Burma's response to each of the audit recommendations, plans for corrective actions, and documentation of corrective action taken thus far. Our responses are listed below.

Recommendation 1: We recommend that USAID/Burma prepare a written assessment of the sustainability and sufficiency of water, sanitation, and hygiene activities implemented in the first 2 years, and take corrective actions as necessary to increase access to safe water.

Action Planned/Taken: USAID/Burma agrees with the recommendation. To address this recommendation, USAID/Burma has notified Pact of the requirement to conduct an assessment of water, sanitation and hygiene (WASH) activities in the villages where those activities were conducted in year one and two of the Shae Thot program. The workplan for the assessment is attached (Attachment A), and the assessment will be completed by March 2016. USAID/Burma will make a determination upon receipt of the assessment whether corrective actions are required or necessary, and if so, a corrective action plan will be developed for the partner to implement by July 31, 2016.

Recommendation 2: We recommend that USAID/Burma issue written work-around procedures to mitigate risks from state.gov e-mail rejections.

Action Planned/Taken: USAID/Burma agrees with the recommendation and has issued a Mission Notice of work-around procedures to mitigate risks from state.gov e-mail rejections. The Mission Notice was issued on July 28, 2015. The Mission Notice is attached as Attachment B.

Based on the above action, USAID/Burma believes that final action has been taken and requests that this recommendation be closed upon issuance of the final report.

Recommendation 3: We recommend that USAID/Burma implement a plan to increase the number of sites visited and the frequency of visits for the Shae Thot Program.

Action Planned/Taken: USAID/Burma agrees with the recommendation. To address this recommendation, USAID/Burma has developed and is implementing a plan to increase the number of sites visited and frequency of site visits for the Shae Thot program. USAID/Burma has planned a total of five site visits to monitor the Shae Thot program for the remainder of the program. The draft workplan for site visits is attached as Attachment C. Per the plan, USAID/Burma has conducted one site visit to four villages in Magway Region in May 2015, and has planned four more site visits to various villages and townships by June 30, 2016.

List of Attachments:

Attachment A: WASH Assessment Work Plan

Attachment B: Mission Notice on Email Procedures, 07/28/2015

Attachment C: Site visit implementation plan

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