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and the Broadcasting Board of Governors
Office of Inspector General

Report of Audit

Analytical Review of the Multinational Force and Observers' FY 2004 Financial Statements and FY 2006 Budget

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SUMMARY

As requested by the Bureau of Near Eastern Affairs (NEA), the Office of Inspector General (OIG) conducted an analytical review of the audited financial statements of the Multinational Force and Observers (MFO) for the fiscal year ended September 30, 2004. The purpose of the review was to determine any trends or significant changes that occurred between actual expenditures from FY 2003 to FY 2004. OIG also reviewed the external auditor's report on the audit of the FY 2004 financial statements to determine if it indicated any areas of concern. In addition, OIG reviewed MFO's budget plan for FY 2006 to determine whether it was reasonable when compared with FY 2004 actual expenses. OIG found that:

- The MFO's FY 2004 expenses totaled $52.3 million, an increase of $3.8 million (7.8 percent) from its FY 2003 expenses of $48.5 million. The most significant change was that the MFO's expenses for buildings increased by $980,000 because of the North Camp commercial power project. Funds from the Capital Asset Replacement Fund were used to pay for this project.
- The external auditor opined that the FY 2004 financial statements presented fairly, in all material respects, the financial position of the MFO.
- The FY 2004 and FY 2005 budgeted expenses for each year were $51 million, which was unchanged since 1995. The FY 2006 request for funding was for $59 million, the first increase in the budget in 11 years. The increase is mainly due to increasing oil prices and the U.S. dollar's weakening against most other currencies the MFO uses, such as the euro and the British and Egyptian pounds.

OIG conducted an exit conference with NEA on October 20, 2005. NEA agreed with the results of the review but did not provide any formal comments for incorporation into the report.

BACKGROUND

On March 26, 1979, the governments of Egypt and Israel signed the Treaty of Peace, ending the state of war that had existed between the parties since 1948. The treaty also formalized a new relationship between the parties and set out the terms of Israel's phased withdrawal from the Sinai. Annex I to the treaty stated that the parties would ask the United Nations to provide a force and observers to supervise the implementation of the treaty's security provisions. On May 18, 1981, the president of the U.N. Security Council announced that the United Nations would not provide a peacekeeping force. As a result, on August 3, 1981, the parties signed a protocol to the treaty, establishing the MFO.

The MFO is an independent, international peacekeeping organization. Egypt, Israel, and the United States equally fund the MFO's operating expenses, less financial contributions provided by the governments of Germany, Japan, and Switzerland and any other external contributions that may be received. Eleven nations currently provide the MFO with contingents that make up the force and perform the peacekeeping tasks in the Sinai: Australia, Canada, Colombia, Fiji, France, Hungary, Italy, New Zealand, Norway, Uruguay, and the United States. The United States provides the single largest contingent to the MFO. NEA's Office of Regional Affairs provides U.S. government oversight of the MFO.

PURPOSE, SCOPE, AND METHODOLOGY

The primary purpose of the analytical review was to evaluate whether:

- FY 2004 financial statements indicate any significant changes from prior years;
- FY 2004 financial statements indicate any areas of concern by the external auditor; and
- FY 2006 budget is in line with previous years' actual expenditures.

To accomplish these objectives, OIG conducted an analytical review of MFO's audited financial statements for FY 2004. OIG compared the FY 2004 expenses to FY 2003 expenses. OIG determined the reasons for any significant increase or decrease to an expense account, at least 20 percent of the total expenses. OIG also reviewed the external auditor's notes to the FY 2004 financial statements to determine whether there were any areas of concern. In addition, OIG reviewed the MFO's budget plan for FY 2006 and determined whether there were any significant increases or decreases from FY 2004 expenses.

OIG conducted these limited procedures in accordance with government auditing standards; however, such procedures did not constitute an audit under those standards. Had OIG performed an audit, other matters might have come to its attention. The Office of Audits, Contracts and Grants Division, conducted this review from August 3 to September 14, 2005.

REVIEW RESULTS

From its review, nothing came to OIG's attention that would require further examination. However, several accounts increased by a significant amount, more than 20 percent, from 2003 to 2004. MFO explained the variances in an e-mail dated September 8, 2005.

- Building expenses increased by 61 percent because of the North Camp commercial power project, and MFO used funds from the Capital Asset Replacement Fund to pay for this project.
- Transportation increased by 42 percent because of freight costs for a high number of vehicle purchases. Also, MFO added a new bus contract.
- Utilities increased by 22 percent because of an increase in North Camp electricity costs and water purchases being made from Egypt instead of Israel.
- Petroleum increased by 20 percent because of an increase in aviation fuel and diesel prices.
- Travel increased by 20 percent because of an increased emphasis on professional development, which resulted in an increase in external training courses and headquarters staff visits to participating nations.

The overall increase in expenses was eight percent, or $3.8 million. Without an audit, OIG was unable to verify the MFO's explanation for the significant increases.

An external auditor audited the financial statements for FYs 2003 and 2004. The firm audited, in accordance with generally accepted auditing standards, MFO's statement of financial position as of September 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. The external auditor opined that the financial statements presented fairly, in all material respects, the financial position of the MFO as of September 30, 2004 and 2003, in conformity with generally accepted accounting principles and noted no areas of concern.

The MFO's proposed operating budget for FY 2004 was $51 million, which is unchanged since FY 1995. As shown in the table, MFO's expenses for FYs 2000-04 were generally in line with the budget.

Table 1: MFO Functional Expenses for FYs 2000-04 (in thousands)

Line Item	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Personnel	$15,715	$16,522	$17,287	$18,033	$18,848
Supplies	12,118	10,195	12,953	9,324	10,148
Contractual Services	6,812	6,224	5,781	5,267	5,166
Troop Rotation	4,718	5,385	4,821	4,844	4,447
Equipment & Furnishings	2,985	4,233	3,834	3,279	3,715
Petroleum	2,898	2,762	2,299	2,467	2,972
Transportation	479	506	1,491	1,037	1,475
Communications	384	326	577	622	619
Rents	688	682	743	794	839
Buildings	3,061	2,604	1,366	1,597	2,577
Travel	602	612	656	596	713
Utilities	460	961	466	602	732
Total Expenses	**$50,920**	**$51,012**	**$52,274**	**$48,462**	**$52,251**
Budget	**$51,000**	**$51,000**	**$51,000**	**$51,000**	**$51,000**

Source: MFO Financial Statements.

The FY 2006 request for funding was for $59 million, the first increase in the budget in 11 years. The increase is mainly due to increasing oil prices and the U.S. dollar's weakening against most other currencies the MFO uses, such as the euro and the British and Egyptian pounds. Without doing an audit, OIG was unable to determine whether the MFO's FY 2006 budget increase is reasonable. However, nothing came to OIG's attention that would require further examination as it relates to the FY 2006 budget.