OFFICE OF AUDITS
MEMORANDUM REPORT 98-CG-015
REVIEW OF SELECTED MANAGEMENT AND FINANCIAL PRACTICES OF THE MULTINATIONAL FORCE AND OBSERVERS
JUNE 1998

The Office of Inspector General (OIG) conducted a review of selected management and financial practices of the Multinational Force and Observers (MFO) for the fiscal year ended September 30, 1997. The objective of the review, which was requested by Senator Mitch McConnell, Chairman of the Subcommittee on Foreign Operations of the Senate Committee on Appropriations, was to assess whether the MFO complied with its administrative and financial regulations during the fiscal year, particularly those affecting salaries and benefits of the Director General and senior staff. OIG's review consisted primarily of examining the work performed by MFO's independent auditing firm and included such additional tests as OIG considered necessary. OIG also reviewed MFO's actual expenditures for the 12-month periods ended September 30, 1996, and September 30, 1997, to assess any trends or significant changes between the 2 fiscal years. Furthermore, OIG reviewed the status of FY 1998 funds as of March 31, 1998. OIG previously reported on the MFO's expenditures and status of funds for the fiscal year ended September 30, 1996.

The MFO's independent auditor had concluded that the pay and benefits of the Director General and other senior staff during FY 1997 were substantially in compliance with MFO regulations and procedures. OIG found the conclusions reached by the independent auditor to be fairly stated.

MFO's FY 1997 expenses totaled $50.7 million, an increase of $2.2 million (4.5 percent) over its FY 1996 expenses of $48.5 million. MFO's troop rotation expenses increased by $920,000 mostly on account of the additional expense of transporting U.S. troops from Hawaii compared with the lower cost of transporting troops from North Carolina. Equipment and furnishings and building costs increased a total of $1.9 million because of expenses related to force protection, repair and maintenance of water tanks at South Camp, preparation of the new headquarters building for occupancy, purchase of vehicles for the force, and refurbishment of junior staff quarters at North Camp. MFO paid about $2.3 million for its headquarters facilities, and it estimated that it would recover this amount in 7 to 8 years from savings on rental costs.

Based on a review of actual costs incurred through the first two quarters of FY 1998, MFO projected total expenses for the year to be about $50.7 million (including unliquidated obligations), or about $300,000 less than its proposed FY 1998 budget.

BACKGROUND

On March 26, 1979, the governments of Egypt and Israel (the parties) signed the Treaty of Peace (the treaty) 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 states 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 United Nations' 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 whose operating expenses are funded in equal parts by Egypt, Israel, and the United States. The governments of Germany, Japan, and Switzerland also provide annual financial contributions. Eleven nations currently provide the MFO with military 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 about one-half of the military personnel to the MFO. The MFO is also comprised of a civilian observer unit of 15 U.S. nationals that verifies compliance with the treaty throughout the treaty zones in the Sinai and Israel. Along with Israel and Egypt, the United States reviews and approves the MFO's annual budget. U.S. Government oversight of the MFO is provided by the Office of Peace Process and Regional Affairs in the Department's Bureau of Near Eastern Affairs.

OIG discussed Senator McConnell's requests with the MFO, as well as the need to test transactions related to MFO senior staff for compliance with MFO guidelines, procedures, and directives. MFO advised OIG that it had decided to contract with its outside auditing firm, Reconta Ernst and Young, to perform procedures designed to accomplish that objective. The MFO also instructed the firm to include in its working papers detailed schedules of transactions accompanied by adequate supporting documentation. OIG arranged with the MFO to review the work of Reconta Ernst and Young, reserving the right of access to interview MFO personnel and review pertinent MFO documents to support the OIG's independent conclusions.

The OIG advised Senator McConnell that it would conduct reviews of the external auditor's work and conduct a desk review of the MFO's unaudited quarterly financial statements and budget analyses for the 6-month periods following each annual review. This report covers the review of MFO's fiscal year ended September 30, 1997.

PURPOSE, SCOPE, AND METHODOLOGY

The purpose of OIG's review was to determine if the MFO complied with its administrative and financial regulations during the fiscal year ended September 30, 1997, particularly those regulations for salaries and benefits of the Director General and senior staff. OIG reviewed the work performed by Reconta Ernst and Young relative to the MFO for the fiscal year ended September 30, 1997. The firm:

- audited, in accordance with generally accepted auditing standards, MFO's statement of financial position as of September 30, 1997, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the year then ended; and

- performed certain agreed-upon procedures, in accordance with generally accepted auditing standards as set forth in AICPA Statement on Auditing Procedures No. 35, on the pay and benefits of MFO senior management for the fiscal year ended September 30, 1997.

In addition, OIG obtained pertinent MFO documents through Reconta Ernst & Young and interviewed selected senior officials of the MFO and the Department. OIG also reviewed the MFO's budgeted and actual expenditures for the 6 months ended March 31, 1998.

The procedures followed by OIG were sufficient to support the conclusions reached in this report. Because of the limitations in scope, however, the procedures followed do not constitute an audit of the MFO under U.S. Government auditing standards.

COMPLIANCE WITH ADMINISTRATIVE REGULATIONS DURING THE YEAR ENDED SEPTEMBER 30, 1997

The MFO engaged Reconta Ernst & Young to perform certain agreed-upon procedures, in conjunction with its financial statement audit, enabling it to report on whether for the fiscal year ended September 30, 1997:

- the pay and fringe benefits of MFO officers complied with MFO's Administrative and Financial Regulations, Policy and Administrative Manual, and respective contracts of employment; and

- transactions related to the pay and fringe benefits of MFO officers were correctly processed in the MFO's financial statements.

Based on its agreed-upon procedures, Reconta Ernst & Young concluded that transactions related to the pay and benefits of MFO's officers for the fiscal year ended September 30, 1997, were substantially in compliance with the MFO's Administrative and Financial Regulations, Policy and Administrative Manual, and the respective employment contracts. Reconta Ernst & Young also concluded that the MFO had correctly recorded the transactions in its financial statements for the period. OIG--based on its review of Reconta Ernst & Young's report and the related working papers--determined that the firm fairly stated its conclusions.

DESK REVIEW OF 6-MONTH PERIOD ENDED MARCH 31, 1998

On May 11, 1998, OIG met with MFO's Deputy Director General and Comptroller in Washington, D.C. to discuss MFO's FY 1998 and FY 1999 budgets and variances in the FY 1998 budget at the end of the first 6 months of the fiscal year.

MFO's proposed operating budget for FY 1998 was $51 million, unchanged since FY 1995. Based on its performance during the first half of the fiscal year, MFO expected its total expenses for the year to be about $50.7 million. Although MFO had significant increases in security and infrastructure costs at the camps, it stayed within budget by managing resources. In addition, the dollar had been strong in relation to the Italian lira and the Israeli shekel. MFO managed resources by selling and replacing vehicles at favorable rates, using less costly methods to obtain support services, and monitoring fuel costs and purchases. MFO also purchased its headquarters building in FY 1997 instead of continuing to pay rent indefinitely.

Factors over which MFO has little or limited control, however, also affect its ability to control future operating costs. These include conditions such as increases caused by currency fluctuations and increases in the cost of fuel and other commodities. MFO officials also indicated that the U.S. military might change the type of helicopter it contributes to the MFO, which would significantly increase operating costs.

In our October 1997 report on MFO, we noted that the U.S. military had indicated that it may charge MFO for imminent danger pay for military personnel assigned to the MFO. From March through August 1997, the Department of Defense billed the MFO $963,000 for this pay. MFO declined to pay these costs, and on September 15, 1997, the Department of Defense accepted MFO's position and said that MFO's September 1997 billing would include a credit for the amount previously billed for imminent danger pay. The U.S. military, however, continues to pay imminent danger pay to soldiers stationed with the MFO. Although the Department of Defense has told MFO that the Department will not bill retroactively for this pay, imminent danger pay remains an issue that could have a significant impact on MFO's future costs.

As shown in the following table, MFO's annual operating expenses since FY 1995 continue to be stable and below budget.

MFO Operating Expenses--FYs 1993 - 1997 ($000)

Line Item	FY 1997	FY 1996	FY 1995	FY 1994	FY 1993
Personnel	15,297	14,977	14,653	16,345	15,980
Supplies	9,441	10,096	9,895	9,083	9,768
Contractual Services	7,559	7,616	8,442	9,179	8,799
Troop Rotation	4,688	3,768	4,655	5,122	4,525
Equipment & Furnishings	3,711	2,544	3,167	1,801	2,957
Petroleum	3,050	3,054	2,773	2,547	2,832
Transportation	864	833	1,411	1,165	1,870
Communications	817	810	859	969	922
Rents	940	906	885	896	968
Buildings	3,396	2,643	2,700	2,441	4,315
Travel	806	753	676	688	1,054
Utilities	134	511	541	629	485
Total Expenses *	50,703	48,511	50,657	50,865	54,475
Budget	51,000	51,000	51,000	53,000	55,000

* - Excludes unliquidated obligations