United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General

Office of Audits

Analytical Review of the Multinational Force and Observers FY 2008 Financial Statements and FY 2008 Budget

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United States Department of State
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PREFACE

This report was prepared by the Office of Inspector General (OIG) pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared by OIG periodically as part of its responsibility to promote effective management, accountability and positive change in the Department of State and the Broadcasting Board of Governors.

This report is the result of an assessment of the strengths and weaknesses of the office, post, or function under review. It is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

The recommendations therein have been developed on the basis of the best knowledge available to the OIG and, as appropriate, have been discussed in draft with those responsible for implementation. It is my hope that these recommendations will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of those who contributed to the preparation of this report.

Harold W. Geisel
Deputy Inspector General

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Executive Summary

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, 2008. The purpose of the review was to determine any trends or significant changes in expenditures that had occurred between FYs 2007 and 2008. OIG also reviewed the external auditor's report for the FY 2008 and FY 2007 audit of financial statements to determine whether it contained any areas of concern. In addition, OIG reviewed the MFO budget for FY 2008 to determine its reasonableness when compared with FY 2007 actual expenses. Highlights of the review are as follows:

- Expenses for FY 2008 totaled $66.2 million, a decrease of $.8 million (1.3 percent) from FY 2007 expenses of $67 million.

- The most significant changes were that Supplies expenses increased by $2.8 million (25 percent), Equipment and Furnishings expenses decreased by $1.3 million (27 percent), communications expenses decreased by $.4 million (38 percent), and Buildings and Facilities expenses decreased by $3.4 million (49 percent).

- In the opinion of the external auditors, the financial statements for FY 2008 presented fairly, in all material respects, the financial position of the organization as of September 30, 2008 and 2007.

On October 2, 2009, OIG conducted an exit conference with officials from the Bureau of Near Eastern Affairs (NEA), who generally agreed with the results of the review.

Background

The Multinational Force and Observers (MFO) was organized after the signing, on August 3, 1981, of a protocol to the treaty of peace between the Arab Republic of Egypt and the State of Israel. The mission of the MFO is to operate checkpoints, conduct reconnaissance patrols, and maintain observation posts in the Sinai region in both Egypt and Israel. It has the additional duty of monitoring the deployment of border guards along the Egyptian side of the border between Egypt and Gaza. The MFO comprises military contingents from 11 participating countries (Australia, Canada, Colombia, Fiji, France, Hungary, Italy, New Zealand, Norway, Uruguay, and the United States). As of December 1, 2008, these contingents totaled 1,673 personnel, with the United States providing 687 personnel.

Three countries, Egypt, Israel, and the United States, each contributed one-third of the MFO's annual budgets less any donations and external contributions that were received. Six other donor countries (Germany, Japan, the Netherlands, Norway, Spain, and Switzerland) did provide such donations and contributions, which constituted almost 5 percent of the MFO's then-current revenue.

The MFO, which is governed by a Director General, has its headquarters in Rome, with representatives in Cairo and Israel. Many programs are centrally managed in Rome, such as financial and accounting; policy, program, and budget direction; and accounting and external audits.

Objective, Scope, and Methodology

The primary purpose of the analytical review was to review the MFO FY 2008 external auditor's report to determine whether

- FY 2008 financial statements indicated any significant changes in expenses from the previous year,

- FY 2008 financial statements indicated any areas of concern by the external auditor, and

- FY 2008 expenses significantly exceeded the budgeted expenses.

To achieve this objective, OIG reviewed the MFO financial statements for FY 2008 and the auditor's report for the same year. Comparisons were made between expenses for FYs 2008 and 2007, and when the differences exceeded 20 percent, further research was conducted to determine the causes. In addition, OIG examined the auditor's notes to the financial statements to ascertain if there were any areas of particular concern. The budget plans for FYs 2008 and 2007 were also examined to determine whether there were any significant increases or decreases between the 2 years. The MFO Director General's Report to the 2008 Trilateral Meeting was also reviewed to obtain any details that may have been applicable to OIG's review.

These limited procedures were conducted in accordance with *Government Auditing Standards* but did not constitute an audit under these standards. Had OIG conducted such an audit, matters other than those reported may have come to its attention.

Results of Review

Based on its review, OIG found that nothing came to its attention that would require further examination. However, OIG determined that several accounts differed by significant amounts between FYs 2007 and 2008. These differences are explained as follows:

- Supplies expenses increased by 25 percent in FY 2008, primarily because of the difference in helicopter maintenance costs that occurred when the United States provided a significant credit to cover the rebuilding of a number of units. Other contributory causes were the spiraling increase in food prices at the start of FY 2008, as well as the change to buying in bulk from the United States instead of the previous method of making "Just in Time" regional purchases.

- Equipment and Furnishings expenses decreased by 27 percent in FY 2008, which was attributable to the purchase of replacement vehicles in FY 2007. In addition, a change in procedures was made so that radios and personal computers could be leased rather than purchased, which contributed to the decrease.

- Communications expenses decreased by 38 percent in FY 2008 because of a decrease in international calling charges and tie-line costs and the discontinuance of satellite services in favor of tie-line services.

- Buildings and Facilities expenses, which include all building projects, decreased by 49 percent in FY 2008 because of the higher number of projects carried out in FY 2007. These FY 2007 projects included replacing civilian accommodation units at the North and South camps, replacing the water main at the North camp, and installing fire alarms at both camps. However, there were no major projects that cost more than $500,000 in FY 2008.

Because it did not conduct an audit, OIG was unable to verify the MFO's explanations for the significant changes in expenses. Although the four categories of expenses described had significant increases or decreases between the 2 years reviewed, the overall decrease in expenses between FYs 2008 and 2007 was not significant—1 percent, or $849,000.

The operating budget for FY 2008 was $66.2 million, which was 2 percent higher than the FY 2007 budget of $64.6 million. Actual expenses for FY 2008 were $66.2 million, which were just slightly higher ($10,000) than what was budgeted. Actual expenses for FY 2007 were $67 million, or 4 percent over budget. The MFO's functional expenses for FYs 2008 and 2007 and comparisons of expenses and budget amounts are shown in Table 1.

Table 1. MFO Functional Expenses for FYs 2008 and 2007

Expense Item	FY 2008 (In Thousands)	FY 2007 (In Thousands)	Difference (In Thousands)	Difference
Personnel	$23,009	$23,390	-$381	-2%
Supplies	14,072	11,231	2,841	25%
Contractual Services	6,707	6,381	326	5%
Troop Rotation	5,568	4,735	833	18%
Equipment & Furnishings	3,609	4,957	-1,348	-27%
Petroleum	3,478	3,167	311	10%
Transportation	1,957	1,902	55	3%
Communications	627	1,011	-384	-38%
Rents	1,130	1,050	80	8%
Buildings & Facilities	3,531	6,919	-3,388	-49%
Travel	923	886	37	4%
Utilities	1,577	1,408	169	12%
Total Expenses	**$66,188**	**$67,037**	**-$849**	**-1%**
Budget	**$66,175**	**$64,586**	**$1,589**	**2%**

Source: MFO financial statements for FYs 2007 and 2008.

The United States provided $21 million to fund the MFO in both FYs 2008 and 2007. The other two principal fund-contributing states, Egypt and Israel, each provided $21 million for FY 2008 and FY 2007. The remainder of the funding for both years was composed of contributions received from several other countries and interest income.

An external accounting firm audited the statement of financial position of the MFO as of September 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. According to the external auditor's report, issued on November 14, 2008, the audit was conducted in accordance with generally accepted auditing standards in the United States of America. The opinion of the external auditors was that the financial statements presented fairly, in all material respects, the financial position of the MFO as of September 30, 2008 and 2007. The external auditor's report did not mention any areas of concern.