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Report to Congressional Requesters

August 1995

PEACEKEEPING

Assessment of U.S. Participation in the Multinational Force and Observers

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GAO

United States
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National Security and
International Affairs Division

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August 15, 1995

The Honorable Benjamin A. Gilman
Chairman
The Honorable Lee H. Hamilton
Ranking Minority Member
Committee on International Relations
House of Representatives

This report responds to the Committee's request that we review U.S. participation in the Multinational Force and Observers (MFO). It contains recommendations to the Secretary of State.

As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies to the Secretaries of State and Defense and the Director General of the MFO. Copies will also be made available to others upon request.

I can be reached at (202) 512-4128 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix VI.

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Executive Summary

Purpose

The recent signing of peace accords between Israel and the Palestinian Liberation Organization, Israel and Jordan, and the possibility of similar agreements between Israel and Syria and Lebanon have heightened interest in the Multinational Force and Observers (MFO), which has monitored the current Treaty of Peace between Egypt and Israel since 1982.

In light of these regional developments and the significant U.S. contribution to the MFO since its inception, the Chairman and Ranking Minority Member, House Committee on International Relations, asked GAO to examine a number of issues regarding the MFO operations and effectiveness. As agreed, this report provides information on (1) U.S. contributions to and the total cost of the MFO, including measures taken to reduce costs; (2) the level of U.S. participation and its operational impacts; (3) State Department oversight of U.S. participation; and (4) State Department and other relevant parties' views of MFO performance and lessons learned.

Background

On March 26, 1979, following years of violent confrontation, Israel and Egypt signed the Treaty of Peace. The Parties agreed to terminate the existing state of war, including withdrawal of all Israeli forces from the Sinai, establish normal and friendly relations, and to demarcate the Sinai into militarily limited zones. While annex I, article VI of the treaty specifically proposes that U.N. forces and observers supervise these security arrangements, the United States committed, during the Camp David Accords, to ensure the establishment of an acceptable alternative multinational force if the U.N. process failed. On May 18, 1981, the United Nations Security Council indicated that it was unable to reach the necessary agreement on the proposal to establish U.N. forces and observers. Consequently, on August 3, 1981, a protocol to the treaty was signed by the governments of Egypt and Israel establishing the MFO. The Protocol serves as the mandate and charter of the MFO.

The United States, though not a party to either the treaty or the Protocol, agreed during follow-on negotiations with Egypt and Israel to (1) provide to the MFO military forces and a group of civilian observers, (2) contribute 60 percent of the start-up costs of the MFO in 1981 through 1982, and (3) pay one-third of the annual operating costs thereafter. This participation agreement is viewed by the U.S. State Department as a major instrument of U.S. foreign policy. State oversees U.S. interests in MFO operations, with responsibility for policy, budget, and reporting annually to Congress on the cost of U.S. participation.

The MFO operational responsibilities include manning observation posts in the Sinai, conducting both ground and air surveillance, and conducting naval patrols in the Strait of Tiran to monitor implementation of the security arrangements established in the treaty. Currently, 11 countries deploy troops to the MFO, each with its own participation agreement. As of November 1994, the MFO military force consisted of 1,987 multinational troops, of which 985 were U.S. Army soldiers.

Results in Brief

The United States provides a significant portion of the MFO resources, including one-third of its operating expenses, and the largest military contingent. While annual U.S. assessments for MFO operating costs have steadily declined since 1989, the cost to the Department of Defense (DOD) to provide troops and specialized training has increased primarily due to U.S. military salary increases. According to DOD officials, the continuous deployment of a regular Army contingent to the MFO alone is not significant but, when combined with contingencies such as the recent one in Somalia, impacts Army operations. Army and MFO officials told GAO that opportunities may exist to reduce the impact of the MFO on the U.S. Army by reducing the number of logistical troops and using reserve forces.

U.S. and international officials view MFO as an operationally effective peacekeeping organization. According to State, DOD, MFO, Egyptian, and Israeli officials, the MFO has helped sustain peace between Egypt and Israel since 1982. Factors cited as contributing to the MFO operational success include (1) the presence of a definitive peace agreement between former warring parties, (2) significant U.S. support, (3) a clear and realistic mandate, (4) a benign operating environment, (5) an active liaison system between parties, and (6) MFO management decisions that have improved operational efficiency and reduced cost. DOD officials view the MFO as a limited operation that is not applicable to more hostile peacekeeping environments.

Despite the MFO operational success and its ability to reduce certain costs, greater State oversight over U.S. participation may be needed because of the MFO operating environment and the absence of assurance regarding the adequacy of internal controls. Unlike other international organizations, the MFO does not have a formal board of directors or an independent audit committee to oversee its operations. Moreover, we observed that some

MFO policies have been changed to accommodate the personal needs of MFO officials and that financial transactions involving the MFO and an MFO retail store it established may not have received the necessary review. State was not aware of the specifics surrounding these matters, both of which had an impact on the cost of MFO operations and amount of the U.S. contribution.

State can also improve the quality of its reporting to Congress. Some annual reports to Congress have not contained full or accurate information on the cost of U.S. participation.

Principal Findings

Total Cost of MFO and the U.S. Contribution

The operating budget of the MFO for fiscal year 1993 totaled $56.1 million. This does not include in-kind contributions and nonreimbursable costs borne by participating and donor nations, which are difficult to quantify. The total cost of U.S. participation in the MFO for fiscal year 1993 was $64.4 million, which included (1) the annual assessment of $17.8 million (one-third of MFO operating costs), (2) $45.8 million for U.S. troops provided to the MFO, and (3) other DOD costs of $0.8 million.

The United States provides about 50 percent of the MFO military contingent, including a logistics support battalion composed of logistics, medical, and aviation support, and an infantry battalion. The MFO also has access to the U.S. Army supply system and excess defense articles such as medical equipment and has made some limited use of these resources.

Impact of MFO Commitment on Other Army Operations

While one U.S. infantry battalion is on duty with the MFO, another infantry battalion is removed from routine training and readiness status in order to train for, process, and deploy to the Sinai. According to DOD, this commitment of two battalions, when combined with other Army global commitments and recent Army downsizing, contributes to a cumulative negative impact on Army operations. To help alleviate this impact, the Army deployed a mixed active-duty, National Guard, and Reserve infantry battalion to the Sinai in January 1995 to replace the regular Army rotation. This deployment will be used as a test case to determine the feasibility of using National Guard and Reserve soldiers in future MFO rotations. In addition, MFO recent transfer of U.S. logistical functions to a private contractor may provide additional opportunities to reduce the number of U.S. Army troops.

The MFO Is Viewed as Effective

The MFO is widely viewed as an effective organization in helping to maintain peace between Egypt and Israel. Since 1982, not a single shot has been fired in hostility in the Sinai. While not a deterrent force, Egyptian and Israeli officials view the presence of the international organization as a confidence builder. The MFO has helped improve communication between the nations and monitors compliance with treaty provisions. State officials view the MFO as an effective instrument of U.S. foreign policy.

The MFO Model May Not Apply to Other Peacekeeping Scenarios

While considered operationally effective, the MFO model may not apply to more hostile environments. Since inception, the MFO has operated in a peaceful environment free from military hostility or challenge. Both Egypt and Israel are committed to peace, and the land area in which MFO operates is large and sparsely populated. According to DOD officials, military or terrorist threats to MFO ground forces in the Sinai are minimal. These officials believe that the MFO model may not be applicable to an environment that is urban or densely populated with potentially hostile parties or terrorism.

Lessons Learned From MFO Operations

There are several lessons that can be learned from the MFO structure and operation. In terms of commitment and oversight, U.S. participation in the MFO is open-ended, without a formal requirement for periodic reassessments, and there is no formal executive board to oversee its operations. Positive lessons learned from the MFO are that it: (1) began with a detailed Protocol that was supported by both parties, (2) makes the Parties to the peace treaty contribute to the operation, (3) incorporated standardized and interoperable field equipment, and (4) has an active liaison system with the Parties.

State Oversight and Reporting Should Be Improved

The MFO operates in a unique environment. Once the budget is endorsed by the signatories, the Director General of the MFO has great latitude over the expenditure of funds as well as the processes used to account for them. He also has broad discretion in selecting the external financial auditor and designating the scope of activity to be examined. Further, he can change MFO operating policies and procedures without review, consent, or approval from other parties. This level of authority is unique among international organizations. Other international organizations GAO examined have an independent governing body above the chief executive to oversee and approve operations and finances and responsibility for the annual financial audit is typically vested with an independent entity.

State has taken a hands-off approach to overseeing U.S. participation in the MFO, with reliance on informal discussions with MFO management, the financial report of MFO external auditor, and annual trilateral meeting. State officials were not knowledgeable of some important changes to MFO policies and procedures that affected the cost of operations, including some related to executive pay and benefits.

For example, GAO noted that MFO policies and procedures for designating dependents of MFO officials were changed in 1992 and 1994 to broaden the MFOs definition of a dependent to include persons other than spouses, unmarried children, or dependent parents. While other members of the MFO may benefit from these changes, the MFO General Counsel told GAO and congressional staff in February 1995 that the changes were made to reflect the personal circumstances of the Director General, who was already receiving MFO-provided dependent benefits (housing, education assistance, health care, etc.) for individuals who were not his spouse or unmarried dependent child. State Department officials said that they were aware that of the Director General's personal circumstances and that some accommodation would be necessary in order for him to accept the initial appointment in 1988; however, they were not aware of the specific changes made to MFO policies to satisfy this accommodation or the associated costs.

In addition, State was not aware of certain transactions between the MFO and the Force Exchange (FX),[1] which was established with a loan from the MFO operating fund, one-third of which is derived from U.S. contributions. The FX had sales of $5 million and a profit of about $553,000 in 1993. GAO noted that in 1985 the MFO had written off $530,000 of the loan to the FX while the exchange did not write down the value of its obligation to the MFO. While this does not violate generally acceptable accounting principles, GAO's inquiry prompted a change in MFO financial statements and a reduction of $177,000 in the U.S. assessment for fiscal year 1994. If State had been receiving and examining the audited financial statement of both the FX and the MFO, they could have noted the improved financial condition of the FX account and could have taken appropriate action so

[1]The FX is a revenue generating retail store.

that the United States could have realized the reduction earlier. State officials said that they did not believe it was necessary to request the audit report of the FX because it is a separate, self-sustaining entity, funded from sales to MFO soldiers.

Additionally, State does not know if the MFO has adequate internal controls to deter the misuse of U.S. contributions. State officials told GAO that management of the U.S. contribution is based on a relationship of mutual trust with MFO management and the reports of MFO external auditor. However, generally accepted auditing standards for financial statement audits do not require an opinion on MFO internal controls and the external auditor's report has not included one. Consequently, GAO believes that State should request that the MFO have its external auditor conduct an evaluation of the MFO management and internal accounting controls beyond what is generally required to complete the annual financial statement audit, and provide a copy of the resulting report to State.

Finally, State's annual report to Congress has been incomplete or inaccurate on several occasions. For example, the fiscal year 1992 report excluded about $12 million in DOD expenses and to date has not included the cost of the U.S. annual assessment. This is due in part to inaccurate data submitted to State by DOD on troop costs.

Recommendations

GAO recommends that the Secretary of State ensure adequate oversight of the MFO by (1) examining the annual MFO-published financial statements for items that may impact U.S. contributions, (2) requesting and reviewing all reports issued by MFO external auditors, and (3) requesting the MFO have its external auditor include an evaluation of the MFO management and internal accounting controls beyond what is required to complete the annual financial statement audit and provide a copy of the resulting report to State. GAO also recommends that the Secretary of State include the U.S. annual assessment cost contribution of one-third of the MFO operating costs in its annual report to Congress on MFO.

Agency Comments

In commenting on a draft of this report, State disagreed with GAO's conclusion that greater State oversight of U.S. contributions to the MFO is needed. State asserts that it has been U.S. policy to grant the MFO considerable latitude in the way it manages its operations. Consequently, State's oversight of U.S. contributions is accomplished by frequent informal discussions and infrequent formal meetings, such as the annual

Trilateral meeting. In addition, State asserts its review of the MFO external audit, published financial report, and annual budget submission provides an adequate oversight and reassessment mechanism. Nonetheless, State agreed to implement most of GAO's recommendations to improve oversight.

GAO continues to believe that the review of the external auditor's report, published financial reports, and annual budget submissions does not provide adequate oversight of U.S. contributions to the MFO. Under the MFO management and operating structure, once the budget is endorsed by the signatories, the Director General has substantial latitude over the expenditure of funds as well as the processes used to account for them. As pointed out in this report, this arrangement is unique to the MFO. In all other international organizations GAO observed, there is an executive oversight board that is independent of those charged with day-to-day operations. The actions that State has already taken in response to GAO's review should improve its oversight capability; however, additional steps need to be taken. State objected to an annual audit of MFO internal controls, and GAO changed the report to clarify the recommendation for periodic audits.

The MFO provided general comments, citing its operational and financial successes since inception and its continued efforts to reduce costs. The MFO also noted that some incorrect material is included in the report, but did not provide any details. GAO previously met with MFO officials on a draft of this report's contents and made changes to the draft where appropriate.

DOD agreed with all of the report findings relevant to DOD and has taken actions that should satisfy the recommendation GAO made to them in a draft of this report.

Contents

Abbreviations

DOD	Department of Defense
FX	force exchange
GAO	U.S. General Accounting Office
MFO	Multinational Force and Observers

Introduction

In September 1978, the governments of Egypt and Israel signed the Camp David Accords, which, on March 26, 1979, culminated in the Treaty of Peace, signed by the leaders of Egypt and Israel and witnessed by the President of the United States. While annex I, article VI of the treaty specifically proposes that U.N. forces and observers supervise these security arrangements, the United States committed in a formal exchange of letters with the presidents of Egypt and Israel to ensure the establishment of an acceptable alternative multinational force if the U.N. process failed. Efforts were made during the following 2 years to secure a U.N. force and observers as contemplated by the Treaty of Peace. However, on May 18, 1981, the President of the United Nations Security Council announced the proposal to establish U.N. forces and observers in the Sinai had been rejected. Consequently, on August 3, 1981, a Protocol to the treaty was signed by the governments of Egypt and Israel and witnessed by the United States, establishing the Multinational Force and Observers (MFO).

The MFO is an independent, international peacekeeping organization, established outside the U.N. framework, to monitor Israeli and Egyptian compliance with Treaty of Peace provisions. Since 1982, the MFO has acted as an observer, reporter, and monitor of security provisions, as well as an active liaison between Israel and Egypt. The MFO was jointly conceived by Israel and Egypt, with a firm U.S. diplomatic, military, and financial commitment.

The MFO Organization and Mandate

The Protocol, when combined with annex I of the Treaty of Peace, serves as the mandate and charter of the MFO. It sets forth the organization, functions, privileges, and immunities of the MFO and its members. The Protocol specifically substituted the MFO for the U.N. force and observers stipulated in the treaty, making the MFO responsible for monitoring compliance with, and reporting of any violations of, the military limitations specified in the treaty. Annex I to the Treaty of Peace establishes three security zones (A, B, and C) within the Sinai and one in Israel (zone D) along the international border and specifies military personnel and equipment limitations of each. Figure 1.1 illustrates the zones.

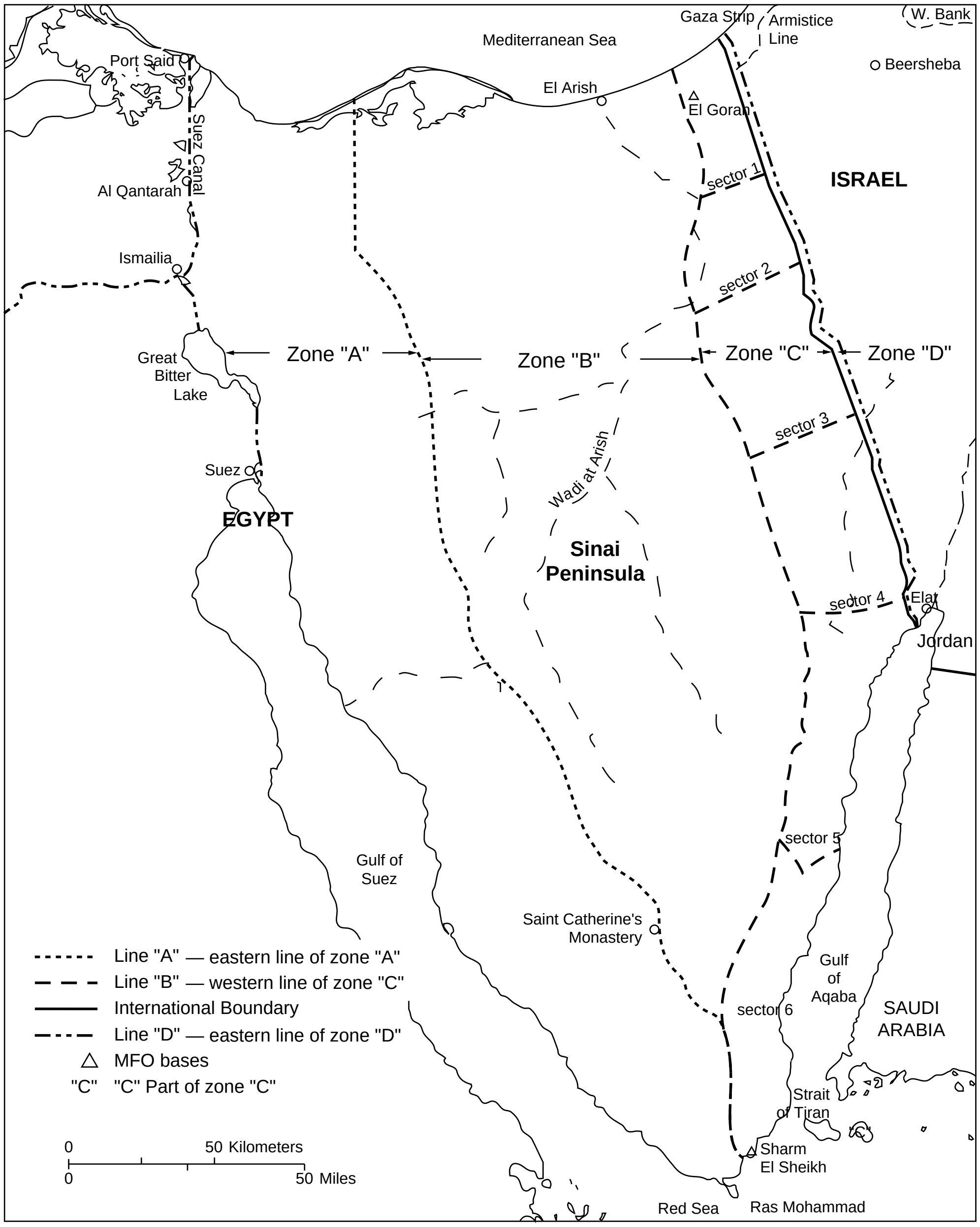
Planning and preparation for MFO deployment occurred from August 1981 until its deployment in March 1982 with significant U.S. involvement. During this period, (1) the MFO was headquartered in Northern Virginia, (2) the U.S. Army Corps of Engineers accomplished all new construction in the Sinai at the site of a vacated Israeli air base in the Northern Sinai and at a totally undeveloped area in the Southern Sinai, and (3) the United States assisted in obtaining MFO participants from other governments. Although deployed in March 1982, the MFO formally assumed its functions on April 25, 1982, in conjunction with the day of final Israeli withdrawal from the Sinai. Since inception of the MFO, the U.S. government has provided diplomatic, military and financial support. The scope of these contributions are discussed in chapters 2 and 3.

Operational Mission of the MFO

Under the Protocol, the mission of the MFO is to undertake the functions and responsibilities stipulated in the treaty for the U.N. forces and observers. Specifically, these functions are:

- Operation of checkpoints, reconnaissance patrols, and observation posts along the international boundary and line B, and within zone C.
- Periodic verification of the implementation of the provisions of the Treaty of Peace, to be carried out not less than twice a month unless otherwise agreed by the Parties.
- Additional verification within 48 hours after receipt of a request from either party.
- Ensuring the freedom of navigation through the Strait of Tiran.

Figure 1.1: Map of the Sinai



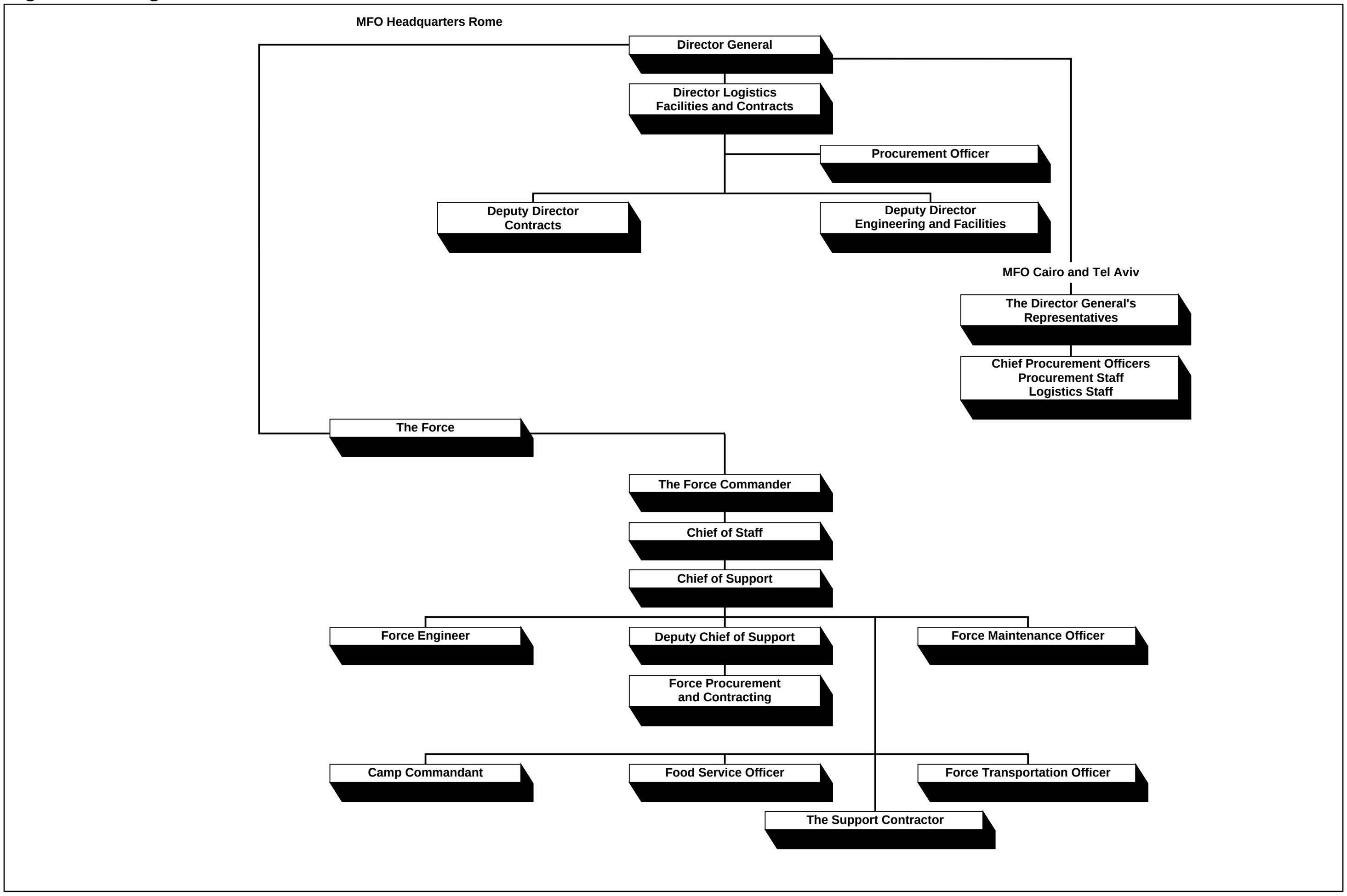
Source: The MFO Headquarters, Rome.

In addition to military forces at checkpoints in the Sinai, the MFO has a Coastal Patrol Unit and civilian observers who conduct both ground and air surveillance.

Management and Composition of the MFO

The annex to the Treaty's Protocol prescribes specific guidelines and responsibilities for the MFO organization, management, and operation. The Director General of the MFO is responsible for overall management and control and has staff at four locations: (1) MFO Headquarters in Rome, Italy; (2) Force Headquarters and operations in the Sinai; (3) offices representing the Director General in Cairo; and (4) Tel Aviv. Figure 1.2 shows the organizational structure of the MFO.

Figure 1.2: Organizational Structure of the MFO



Source: The MFO Headquarters, Rome.

The MFO headquarters staff in Rome, at the time of our review, was composed of 15 international personnel, the majority being from the United States, and 16 Italian nationals. The Director General, always a U.S. national, serves a 4-year term, which may be renewed or terminated by the Parties to the treaty. The Director General and his staff oversee all MFO operations, including legal and financial matters, contracts, procurement, facilities management, personnel and recruitment, morale and welfare programs, troop rotation arrangements, and program evaluation.

Additionally, they handle all diplomatic matters between the MFO, Egypt, and Israel, as well as the governments of the countries that provide troops and financial contributions to the MFO. The Protocol also gives the Director General, his deputy, the force commander, and their spouses and minor children the privileges and immunities accorded to diplomatic convoys in accordance with international law.

The functions of the force in the Sinai are controlled from the Force Commander's Headquarters at the northern base at el Gorah by the force commander, appointed by the Director General with the approval of the Parties. The force commander is of general officer rank, serves a 3-year term, and cannot be from the United States.

Sinai activities fall into four main operational areas:

- the operation of troops in the field and ships at sea to provide a constant presence;
- reconnaissance and verification of zones A, B, C, and D by the Civilian Observer Unit;
- liaison between the MFO and the two host nations; and
- logistical support required to sustain the force.

The MFO in the Sinai is composed of military and civilian contingents, each performing specific operational functions. The United States, Colombia, and Fiji provide infantry battalions that perform observation missions in zone C from 31 remote observations posts and checkpoints. In addition, the United States, Canada, France, the Netherlands, New Zealand, Uruguay, Italy, Norway, and Australia provide support units such as engineers and headquarters staff personnel to the MFO. The size of the military force at the time of our review was about 1,987. The United States provides the largest contingent to the MFO, about 985 troops (50 percent of the force), including a logistics support battalion that shares logistical support tasks with MFO support contractor in the Sinai, with other contingents, and with the MFO offices in Cairo and Tel Aviv. The MFO offices in Cairo and Tel Aviv serve as the MFO diplomatic representative to the receiving state and manage procurement and financial functions.

A civilian observer unit of 15 U.S. nationals performs observation and verification missions in zones A, B, C, and D. The MFO also includes 30 other civilians, and approximately 127 international hire civilian contractor personnel stationed in the Sinai performing a variety of support functions, including laundry and food preparation. The MFO support contractor also utilizes approximately 520 Egyptian nationals.

Table 1.1 shows the role and responsibilities of each participating nation as well as the number of personnel allotted.

Table 1.1: Military and Civilian Composition of MFO Units, November 1994

Nation	MFO unit	Number
Australia	Force commander's staff	26
Canada	Headquarters company staff	28
Colombia	Infantry battalion	358
Fiji	Infantry battalion	339
France	Fixed-wing aviation unit	17
Italy	Coastal patrol unit	83
Netherlands	Military signal unit Military police unit	59
New Zealand	Training and support unit	24
Norway	Force commander's staff	4
United States	Infantry battalion Logistics support unit including medical unit Helicopter support Unit	985
Uruguay	Transport unit Engineer unit	64
Total military		**1,987**
United States	Civilian observers	15

MFO Logistics Operations

The MFO logistics operations are directed by the Director General through the director of logistics, facilities, and contracts, and are carried out in the field by the force in the Sinai and the offices in Cairo and Tel Aviv. Headquarters logistics responsibilities involve implementing the Director General's logistics policies regarding procurement, maintenance, engineering and facilities, transportation, contracting, stock control, and property accountability and disposal. At the force level, the chief of support, a U.S. Army colonel, is responsible for all support activities, including supply, transportation, food services, contracting, maintenance, and engineering. Field offices in Cairo and Tel Aviv procure supplies from commercial vendors primarily located in these countries.

Logistical functions within the force as of November 1994 are predominantly performed by the 428 troops of the U.S. 1st Support Battalion. These operations are discussed in chapter 2 of this report. In addition to the United States, France, Uruguay, New Zealand, Canada, and the Netherlands also provide MFO with logistics support. Specifically, France provides MFO with a fixed-wing aviation unit consisting of 1 DHC-6 Twin Otter and 17 aircrew, support, and maintenance personnel. The Uruguayan and New Zealand contingents provide MFO with drivers and engineers. Canada provides air traffic control support, and the Netherlands provides signal communications specialists.

The MFO also uses support contractors to perform many logistics functions, including administrative and clerical support; maintenance of facilities; vehicles, grounds, and electronic equipment; fire prevention; food services; personal services (barber and tailor/laundry); and receipt, distribution, and storage of certain classes of supplies.

Management of U.S. Participation in the MFO

U.S. military and financial participation in the MFO is managed by the State Department's Bureau of Near Eastern Affairs, with the Department of Defense (DOD) input regarding military matters. The Bureau, established by a State Department notice dated March 5, 1982, serves as the single focal point for the U.S. government regarding liaison and coordination of all aspects of U.S. participation in the MFO. This includes the responsibility for overseeing U.S. interests in MFO operations such as the budgeting of U.S. funding to the MFO, assessing whether the U.S. contributions and other resources provided to the MFO are being properly used, and annually reporting U.S. costs incurred and military participation to Congress.

The Army serves as the DOD's executive agent for matters pertaining to U.S. military participation in and support of the MFO. The MFO mission is assigned to the Commander, XVIIIth Airborne Corps, U.S. Forces Command.

Objectives, Scope, and Methodology

We initiated this study in response to a request from the Chairman and Ranking Member of the House Committee on International Relations to examine U.S. participation in the MFO. Our specific objectives were to describe and assess (1) the level of U.S. participation, training, and operational impacts; (2) the actual cost of MFO operations, the U.S. contribution, and any cost-saving opportunities; (3) State oversight of the U.S. contribution; and (4) views of the State Department and other relevant parties on the MFO performance and lessons learned.

For objectives 1, 2, and 4, we performed our work at the MFO Headquarters in Rome, Force Headquarters in the northern and southern Sinai, remote observation posts throughout the Sinai, and MFO offices in Cairo and Tel

Aviv. At the MFO Headquarters, we met with the Director General and officials from the following offices: (a) comptroller; (b) policy, planning, and operations; (c) logistic, facilities, and contracts; and (d) political affairs and general counsel.

In the Sinai, we visited the MFO North Camp, where we interviewed the force commander, senior U.S. military officials at the Force Headquarters, civilian observers, U.S. infantry battalion and 1st Support Battalion personnel, and support contractors performing logistical functions. The Director General directed that all documents we reviewed and/or requested be individually reviewed and cleared by the general counsel prior to release. Aside from this administrative formality, the MFO assisted us with accommodations in the field and generally cooperated with this review.

To gain Israeli and Egyptian government perspectives on MFO effectiveness as a peacekeeping operation, we met with Egyptian and Israeli officials from the Headquarters of the Egyptian Liaison Agency With International Organizations and the Israeli Defense Force Liaison Unit.

For objectives 2, 3, and 4, we interviewed officials and reviewed documents from the DOD and Department of State. We performed our work at the State Department Bureau of Near East and South Asian Affairs; the Office of the Under Secretary of Defense (Policy); the Army Operations, Readiness and Mobilization Directorate Operations and Contingency Plans Division; Politico-Military Affairs Division; DOD Joint Chiefs of Staff Strategic Planning Directorate (J5); Department of the Army Budget; Headquarters, XVIIIth Airborne Corps, Fort Bragg; and the Headquarters Forces Command Operations and Budget office, Fort McPherson, Georgia.

We performed our review from February 1994 to February 1995 in accordance with generally accepted government auditing standards. We obtained agency comments from State, DOD, and the MFO.

U.S. Military and Civilian Participation in the MFO

Since inception of the MFO, the United States has always provided significant military and civilian support. The United States provides the largest military contingent, constituting 49.6 percent of the total force at the time of our review. U.S. forces perform infantry battalion functions, provide a large proportion of MFO logistical and medical support, and serve on the headquarters staff in the Sinai. In addition, the United States gives the MFO direct use of the U.S. Army's logistics system, including access to excess defense articles. According to MFO and U.S. Army officials, opportunities may exist to reduce the number of U.S. Army logistical personnel.

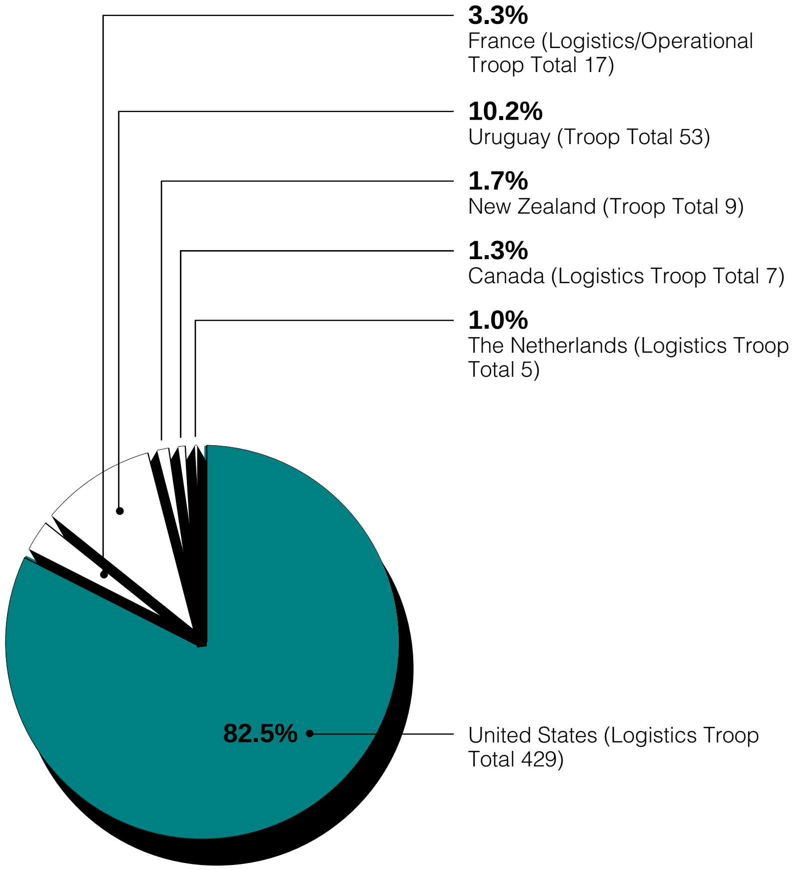
U.S. troops assigned to the MFO must receive predeployment training, training while deployed, and training upon completion of their MFO tour. According to Army officials, the MFO commitment contributes to the strain on Army resources. To help alleviate the strain, starting in January 1995, the Army pilot tested a mixed infantry battalion comprising active duty, National Guard, and Reserve forces.

U.S. Military Participation

U.S. military forces deployed to the MFO include an infantry battalion, a logistics support battalion, and Force Headquarters staff personnel. An infantry battalion tailored to the MFO mission is drawn from active units of the XVIIIth Airborne Corps every 6 months. The overall strength of U.S. armed forces participating in the MFO as of November 1994 was 985, which is below the 1,200 member maximum limit authorized by Congress. Appendix IV shows U.S. and other participant force strength in the MFO since inception.

The infantry battalion deployed to the MFO totals approximately 529 persons and is stationed at South Camp at Sharm el-Sheikh. This battalion operates observation posts and checkpoints and conducts patrols in the southern sector of the Sinai, which runs along the Gulf of Aqaba, from Sharm el-Sheikh to Taba. In addition, a logistics support battalion of 428 people based at both North and South Camps provides staff for (1) two dispensaries; (2) an explosive ordnance disposal detachment; (3) a transportation element that handles long-distance ground transportation; (4) a small maintenance detachment for U.S.-made radios and weapons; (5) a supply and service unit that deals with the requisition, receipt, storage, and distribution of all classes of supply; (6) an aviation unit, including 10 helicopters, crews, and maintenance personnel; and (7) an Army post office detachment. Figure 2.1 shows the percentage of logistical troops by MFO participating nation. Additionally, 28 officers and enlisted men are assigned to various positions on the force commander's staff at el-Gorah.

Figure 2.1: Percentage of Logistical Troops by Country



MFO Has Direct Access to the U.S. Military Supply System

In 1982, at MFO request, the Army authorized the MFO to purchase supplies and equipment from DOD's supply system.[1] The MFO has used this authorization since 1982 to procure significant portions of its supplies, ranging from 80 percent of its supplies in 1982 to 20 percent in 1993.

[1]In addition to the MFO, the United Nations was granted access to the DOD supply system for its peacekeeping operations in Somalia and Cambodia.

The MFO also has access to excess defense articles, defined as property items no longer needed by the particular service and not originally procured in anticipation of military assistance or sales. The MFO authorization is identical to that of any U.S. Army unit, and as with other Army units, receives a higher priority than other U.S. services requesting excess Army articles.

In fiscal years 1993 and 1994, the MFO acquired excess articles that became available during the closing of U.S. Army installations in Europe. The MFO paid the shipping costs and received such items as generators, binoculars, tables, refrigerators, and medical equipment ranging from heart monitors, centrifuges, and ultrasonic cleaners to treadmills. The transfer of this equipment benefited the MFO in a number of ways. For example, according to MFO and Army officials, the MFO medical facility was substantially upgraded as a result of excess Army articles, and some medical problems that once required emergency medical evacuation to Israel can now be performed in-house.

When Combined With Other Demands, the MFO Commitment Contributes to a Strain on Army Resources

According to DOD officials, the continuous subtraction of the equivalent of two light infantry battalions, and associated administrative headquarters support to the MFO, when combined with other global commitments, contributes to straining Army infantry and support resources—particularly as the Army downsizes. However, they did not provide specific details on the operational impact.

In January 1995, the Joint Chiefs of Staff conducted a study to assess options and strategies regarding U.S. military participation in the MFO. The study concluded, among other things, that there is no military requirement for the deployment of elite or even active U.S. forces to the MFO. The study further concluded that the costs to the Army of participating in the MFO are:

- a reduction of one infantry brigade equivalent from the combat-ready force structure caused by the continuous commitment of three active/reserve infantry battalions for MFO unique training, deployment, and post-MFO requalification;
- a loss of support personnel in specific skill fields deployed for 1 year to the 1st Support Battalion; and
- a negative impact on personnel readiness of other units caused by the ripple effect of the special personnel requirements of the MFO.

Predeployment and In-Sinai Training

Predeployment training focuses on the MFO mission and is provided in the United States. It includes individual, collective, and specialized tasks tailored to support the mission. Individual training tasks include peacekeeping skills and procedures; MFO rules of engagement, observation and reporting procedures; desert operations and survival, aircraft, vehicle, and uniform recognition; and Arabic customs and language. Collective training includes vehicle patrolling, outpost operations, and squad-level operations. Specialty training includes food handling and cooking, generator operation, and remote field sanitation operations. Light infantry units assigned to the MFO receive a minimum of 3 months of predeployment training. Support troops receive a 1-week predeployment orientation at Fort Bragg.

Shortly after arriving in the Sinai, all troops receive orientation training to complement predeployment training and to ensure units are prepared to undertake their missions. It includes follow-on training to previous instruction that can be conducted under actual environmental conditions as well as new subjects that were not suitable for inclusion in predeployment training. Troops assigned to infantry or logistics support battalions receive orientation training that includes standards of conduct, minefield procedures, and preventive medicine. Specialized training in communications, desert driving, and special equipment usage is also provided where applicable. According to MFO officials, orientation training lasts about 1 week.

Each contingent also conducts continuation or in-Sinai training in appropriate mission related subjects, such as peacekeeping skills and procedures, weapons qualification, and night vision techniques. According to MFO officials, the frequency and type of in-Sinai training is based on the respective unit commander's assessment of need or as directed by the force commander.

Post-Deployment Training and U.S. Army Impacts

According to DOD officials, the MFO commitment necessitates post-deployment training for Army units deployed. U.S. forces returning from MFO duty must receive post-deployment training in required individual and collective skills before returning to their normal military functions. According to Army officials, required skills of many returning units are degraded during their MFO experience.

According to DOD officials, peace operations require a significant change in orientation for military personnel. While most facets of normal military operations apply to peace operations, peace operations require an adjustment of attitude and approach. According to DOD officials, commanders at the home station must allocate sufficient resources and time for training in order to regain collective and individual standards required for the unit's primary war fighting mission. This post-deployment training, redevelops skills and abilities that may have been affected by the nature of MFO peace operations. For example, while performing the MFO mission, U.S. units are prohibited from (1) all parachute jumping and training involving parachute drops of equipment; (2) detonating explosives, mines, and grenades for training; and (3) conducting live firing by elements larger than a platoon size.

The extent of post-deployment training required is determined by the U.S. home station commander. According to DOD officials, individual post-deployment training generally takes about a month and collective training about 3 months.

The U.S. Army Has Deployed National Guard and Reserve Volunteers to Alleviate Impacts

In October 1993, the Army Chief of Staff approved a pilot program to organize, train, and deploy a composite light infantry battalion of Army National Guard and Reserve volunteer soldiers and regular Army soldiers to the MFO. The program, officially designated "MFO Sinai Initiative," was designed to determine the extent to which reservists can be used to enhance the Army's ability to perform peacekeeping missions as a way to relieve the strain on active forces. The composite force deployed to the MFO in January 1995 following individual and collective training at Fort Bragg, North Carolina, in November 1994. The U.S. Army plans to rotate composite battalions in the future depending on the success of the pilot initiative, the availability of volunteers, and other factors. According to DOD, the cost of implementing the pilot initiative is about $15 million. This amount is in addition to other DOD costs to support the MFO.

While the Sinai initiative marks the first time reservists will be used to support active troops in the MFO operation, it does not mark the first time they have been used for peacetime operations. For example, reservists have supported active forces in operations involving disaster relief and humanitarian assistance. In the Sinai initiative, the National Guard and Reserve, whose participation is strictly voluntary, will constitute 80 percent of the force; active service soldiers, in positions of leadership, will constitute the remaining 20 percent.

Potential Opportunities to Lessen Impact on U.S. Army

Despite the recent transfer by MFO of some U.S. logistical functions to its existing support contractor, U.S. logistical troop levels have not been correspondingly reduced. In August 1994, MFO began transferring some U.S. logistical supply functions, such as the storing of commercial vehicle parts and construction materials, to a contractor. According to MFO management, the U.S. soldiers responsible for this function will be replaced by contractor employees who are more experienced in managing an inventory system of commercial items. These same MFO officials indicated that these U.S. logistical troops continue to be needed for emergencies, contingency operations, and other logistics support functions such as moving materials, closing warehouses, and counting stocks. In addition, according to U.S. Army documentation, since transportation support is conducted with commercial vehicles and augmented by drivers from New Zealand and Uruguay, an opportunity exists to transfer responsibility for transportation support to the contractor and/or other participating states.

In June 1995, after the completion of our fieldwork, State officials told us that MFO had eliminated six 1st Support Battalion positions and was considering replacing U.S. truck drivers with Egyptian contractors. However, they agreed with DOD officials that changes in U.S. force levels were subject to political constraints.

U.S. Civilian Participation in the MFO Civilian Observer Unit

U.S. participation in the Civilian Observer Unit was established by a letter from the Secretary of State to the Foreign Ministers of Egypt and Israel that accompanied the signing of the Protocol to the treaty on August 3, 1981. The letter offered an observer unit composed of American citizens to verify party compliance with Treaty of Peace provisions. Presently, the unit contains 15 U.S. nationals, approximately half being on transfer from the U.S. government and under contract to the MFO, the other contracted directly by the MFO. Quite separate from the observation carried out in zone C by the three infantry battalions of the force, only the Civilian Observer Unit performs regular observation and verification missions throughout all four zones of the treaty area in Egypt and Israel.

Verification missions last from 2 to 4 days and employ MFO helicopters and vehicles to move the teams of observers throughout the four zones. During these missions, observers are accompanied by Israeli or Egyptian liaison officers, depending on which country the zone resides. During the course of a complete cycle of missions, the observers cover all the Egyptian and Israeli installations within the four zones to verify treaty limitations on personnel, armaments, and military infrastructure. Verification missions occur at least twice a month. Observers must also be prepared to undertake additional verifications within 48 hours of a request from either the Israeli or Egyptian government.

According to MFO officials, violations of the provisions of the treaty are rare. They are typically the result of technical errors by individuals regarding military restrictions and have been easily rectified by the Parties. According to the Director General's 1994 Trilateral Report, in fiscal year 1993, there were three deviations from the terms of the treaty. The details of violations are reported only to the Parties. Thus, we could not verify the violations or their rectification.

Cost of the MFO and the U.S. Contribution

In fiscal year 1993, the operating budget of the MFO totaled $56.1 million, excluding in-kind contributions and nonreimbursable costs borne by participating and donor nations. The operating budget is funded primarily by assessed contributions from the United States, Egypt, and Israel, with each country being assessed one-third of the cost, after small contributions from Germany and Japan. The 11 participating nations provide the military personnel and equipment and supplies. Since MFO inception in 1982, the United States has provided the largest percentage of MFO funding and resources. In fiscal year 1993, the incremental cost of U.S. participation was $18.6 millon, while the total cost was $64.4 million. This includes the annual assessment cost of $17.8 million and DOD costs of $46.6 million for troops.

As a result of troop, personnel, and other cost reductions, the operating costs of the MFO have steadily declined since 1989, which has decreased the U.S. assessment cost accordingly. However, the total cost of the U.S. participation in the MFO has increased during recent years due to the higher military salaries paid to U.S. soldiers and reimbursement costs for food and base support.

Cost of the MFO

The total cost of the MFO consists of its annual budgeted operating costs, in-kind contributions, and nonreimbursable costs borne by the participating and donor nations. The operating costs include expenses such as personnel, supplies and materials, contractual services, troop rotations, and equipment acquisition. In addition, there are in-kind contributions and nonreimbursable costs borne by the developed participating nations, particularly the United States, France, and Italy. These include capital equipment and excess property donations, and the salaries of the troops provided by these countries. Also, the MFO is reimbursed by participating developed nations for providing food, lodging, and base support to the troops of these nations while they are on duty at the MFO. For the United States, this is done through a credit to the account of the MFO for the amount of expense (offset cost) that the United States would have incurred for lodging and base support had its troops remained at home. According to MFO officials, the MFO does not have sufficient information to determine the total amount of unbudgeted contributions provided by the participating nations. The MFO provides transportation, food, lodging, base support, and a modified U.N. rate for troops of developing countries participating in the MFO.

The operating budgets of the MFO for fiscal years 1989 through 1993 and their funding sources are shown in table 3.1.

Table 3.1: Operating Expense Budget of the MFO by Funding Source (Fiscal Years 1989-93)

Dollars in millions

Funding source	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993
United States	$24.4	$24.4	$19.5	$18.2	$17.8
Egypt	24.4	24.4	19.5	18.2	17.8
Israel	24.4	24.4	19.5	18.2	17.8
Japan[a]	1.0	1.5	1.5	1.4	1.0
Germany	0	0	0	0.6	0.6
Interest income	0.3	0.6	0.7	1.1	1.1
Total	**$74.2**	**$75.3**	**$60.7**	**$57.7**	**$56.1**

[a]The contributions from Japan are applied exclusively to pay for the cost of food and personnel salaries.

The total annual operating expense of the MFO since its inception in fiscal year 1982 is shown in figure 3.1. A detailed discussion on the contribution of troops, equipment and logistical support provided by the participating nations is discussed in chapter 2.

Cost of MFO to the United States

The funding and resources the United States provides to the MFO includes (1) the annual assessment contribution of one-third of the MFO operation costs and (2) about 50 percent of the MFO military contingent. The MFO also receives U.S. Army excess defense articles as discussed in chapter 2.

The cost of providing U.S. troops to the MFO is paid out of the DOD regular operating budget. In contrast, the one-third U.S. assessment is paid directly from appropriated funds to the State Department for peacekeeping operations.

Table 3.2 shows the costs of the U.S. participation in the MFO by category for fiscal years 1989 through 1993.

Table 3.2: Costs of U.S Participation in the MFO

Dollars in millions

Description	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993
DOD costs:					
Salary cost of troops	$31.0	$31.0	$32.1	$34.6	$36.1
Predeployment training	0.6	1.0	0.7	0.8	0.5
Unreimbursed travel	0.2	0.2	0.1	0.2	0.3
MFO food, lodging, and base support	3.5	3.6	4.0	6.0	6.9
Troop transportation and allowances, per diem, etc.	3.0	3.6	4.0	3.7	2.8
Total DOD costs	**$38.3**	**$39.4**	**$40.9**	**$45.3**	**$46.6**
Plus:					
U.S. assessment	24.4	24.4	19.5	18.2	17.8
Total costs of U.S. participation	**$62.7**	**$63.8**	**$60.4**	**$63.5**	**$64.4**
Deduct:					
DOD costs reimbursed by the MFO:					
Troop transportation and allowances, per diem, etc.	3.0	3.6	4.0	3.7	2.8
Costs DOD would have incurred had troops remained in the United States:					
Salary cost of troops	31.0	31.0	32.1	34.6	36.1
MFO food, lodging and base support	3.5	3.6	4.0	6.0	6.9
Total deductions	37.5	38.2	40.1	44.3	45.8
Total U.S. incremental costs	**$25.2**	**$25.6**	**$20.3**	**$19.2**	**$18.6**

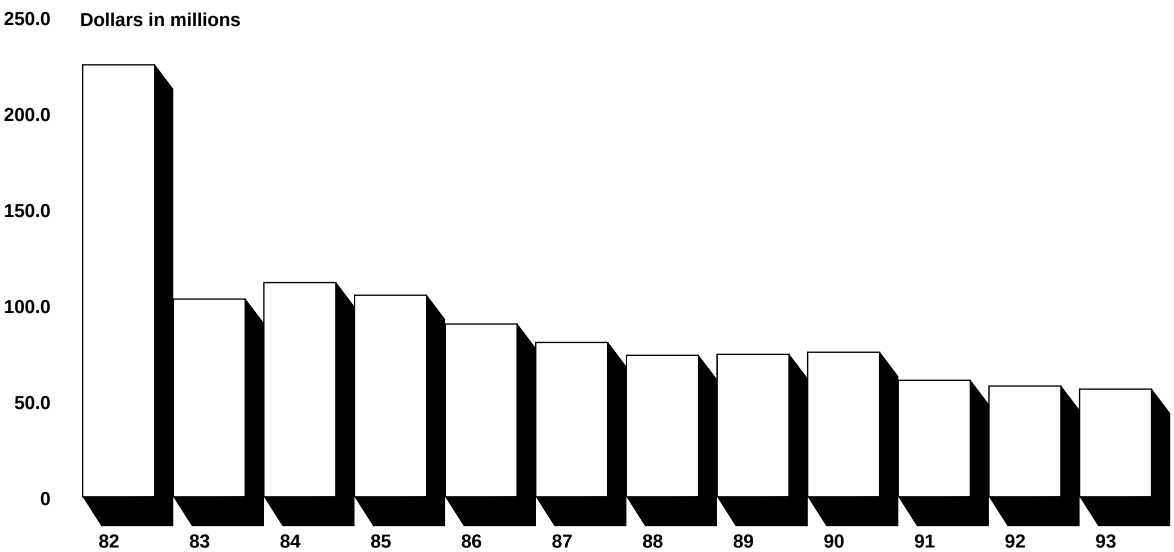
Table 3.2 illustrates that while the actual cost of the U.S. participation in the MFO for fiscal year 1993 was $64.4 million, the incremental or additional cost to the United States for its participation was $18.6 million. The $45.8 million difference represents DOD costs that were either reimbursed by the MFO ($2.8 million) or costs that DOD would have incurred had its troops remained in the United States ($36.1 million salary costs and $6.9 million offset costs for MFO food and base support provided to U.S. troops). Of the $18.6 million incremental costs, $17.8 million is for the U.S. annual assessment and the remaining $0.8 million is the DOD incremental cost for predeployment training and unreimbursed travel. Table 3.2 does not include the costs of excess defense articles and capital equipment donated by the United States to the MFO. The cost of these activities is not tracked by DOD.

MFO Operating Costs Decrease but Actual Cost of U.S. Participation Increases

The MFO has progressively reduced its operating cost since fiscal year 1982. Figure 3.1 illustrates the decreases in the operating budget. MFO stated that it is implementing measures to further reduce these costs, to maintain current budgetary levels despite inflation costing about $1 million per year. While the decrease in MFO operating costs has resulted in corresponding reductions in the U.S. incremental costs, the total cost of the U.S. participation has gradually increased since 1989. This is because although U.S. troop levels have decreased, their salaries and the offset costs have increased.

Also shown in figure 3.1, the operating budget of the MFO has progressively decreased from $103 million in fiscal year 1983, the year after its inception, to $56.1 million in fiscal year 1993.

Figure 3.1: MFO Budget, Fiscal Years 1982-1993



MFO fiscal year 1982 budget was about $225 million, primarily for start-up costs that included construction of bases and facilities. Cost reductions of $28.8 million between fiscal years 1983 and 1989 were primarily due to the completion of start-up activities and the stabilization of operations. Since fiscal year 1989, cost reductions of $18.1 million have primarily resulted from significant reductions in military and civilian personnel strength and through a host of cost-reduction initiatives by MFO management including reductions in force vehicles, resale of used vehicles, and tighter inventory controls.

The MFO total military strength was substantially reduced by 586 troops between 1988 and 1993 to 2,063 troops. However, many of these reductions came from contingents of developing nations, such as Fiji and Colombia, which maximized MFO cost reductions because the MFO pays transportation, maintenance costs, and a modified U.N. rate for these troops. In addition, MFO civilian personnel, excluding support contractor personnel, were reduced from 63 in fiscal year 1987 to 49 in fiscal 1993, which resulted in further cost reductions.

The primary reasons for the increased actual cost of U.S. participation in the MFO are increases in both military pay and the offset costs credited by DOD to the MFO for providing food, lodging, and base support to U.S. troops. While the U.S. authorized troop strength at the MFO decreased from 1,045 in fiscal year 1990 to 984 in fiscal year 1993, military pay raises increased the salary cost of these troops from about $31 million in fiscal year 1990 to $36.1 million for fiscal year 1993, and U.S. offset costs almost doubled from $3.6 million to $6.9 million, primarily because of changes in the Army's procedure for calculating these costs. According to Army officials, this procedure incorrectly included in the offset the costs of certain services not provided to U.S. troops by the MFO. Prompted, in part, by our review of the offset issue, DOD and MFO were able to agree on a methodology to compute offset costs for fiscal year 1994 and future years.

Views on MFO Operational Performance and Lessons Learned

The MFO is widely viewed by United States and international officials as effectively performing its duties in a cost-efficient manner. This view is primarily held because of the sustained peace between Egypt and Israel, which has provided a supportive environment for the mission's success and for active cost containment measures. According to State, MFO, Egyptian, and Israeli officials, the MFO has helped sustain peace between Egypt and Israel by serving as liaison and monitor of the treaty provisions. According to many officials interviewed, the MFO operational success can be attributed to several factors, including inherited advantageous conditions resulting from the way the MFO was established, the Israeli/Egyptian commitment to peace, significant U.S. military and financial support, and financial co-responsibility placed on the Parties. As a result of the favorable circumstances surrounding the establishment of the MFO, particularly when compared to other peacekeeping operations, some officials believed that the MFO model may not be readily applicable to more challenging peacekeeping scenarios. However, the factors contributing to the MFO operational success may serve as lessons learned for future peacekeeping operations.

The MFO Is Viewed as Effectively Performing Its Mission

State, DOD, Israeli, and Egyptian officials all view the MFO as effectively performing its mission of monitoring, liaison, and reporting treaty provisions and violations. State Department officials view the MFO as an instrument of U.S. foreign policy in the Middle East that should remain until sustained regional peace is achieved. According to State officials, the MFO is an operationally and cost-effective peacekeeping operation that has helped bridge confidence and communication between Egypt and Israel. U.S. Army officials, while viewing the MFO as operationally effective, have concerns about the level of U.S. participation, the operational impacts to the Army, and the lack of an end date. These officials view the MFO as an indefinite Army commitment.

According to Egyptian liaison officials, the MFO has helped build confidence between the Israelis and Egyptians by supervising adherence to the treaty. The liaison system promotes mutual dialogue and has assisted in solving some challenges of both parties. These Egyptian officials, although agreeing with their governments support of the MFO, expressed concerns about the open ended term of the MFO and questioned whether the MFO could be reduced to an observer only force. Egyptian officials were pleased with the reductions in costs but would like to see additional cuts.

According to Israeli officials, the MFO has been successful in supervising the conditions of the treaty and in building the confidence of the Parties. It is their view that the MFO works because it has effectively supplemented Israel's and Egypt's strategic interests by securing the provisions of the treaty and providing a large U.S. military role. Officials viewed the United States as essential to the MFO success and emphasized that any significant reductions in U.S. forces could send a signal of lessened U.S. commitment during current and future regional peace initiatives.

While Effective, the MFO Model May Not Apply to More Challenging Peacekeeping Scenarios

According to DOD officials, the MFO began under almost optimum conditions and was provided opportunities for success that are not typical of most peacekeeping operations. Consequently, these officials believe that the MFO model would not apply to more challenging and hostile peacekeeping scenarios.

The MFO was preceded by a panoply of cease fire and withdrawal agreements, negotiations, and U.N. peacekeeping forces between October 1973 and March 1979. These activities effectively transformed the Sinai Peninsula from a violent battlefield to a tranquil state prior to the deployment of the MFO. Thus, the MFO inherited a peaceful operating environment. In addition, the MFO began with (1) a firm commitment to peace between the Parties, as indicated by a formal treaty of peace and a thorough Protocol; (2) an established geographic buffer zone in which to operate; (3) substantial U.S. government military and financial commitments; (4) a barren, scarcely populated operating environment; and (5) a largely U.S. Army managed logistics system.

According to DOD officials, these conditions created an almost clinical environment for MFO operations. For example, the MFO buffer zone, zone C, is free from the hostilities of many peacekeeping operations. The operating area is large, stretching over 10,000 square miles, but is largely unpopulated. Consequently, according to DOD, any military or terrorist threat to MFO ground forces in the Sinai is minimal. These officials believe that this MFO model may not directly apply to an environment that is urban or densely populated with potentially hostile parties over which a central government would have little control and where urban guerilla warfare is a possibility. In addition, officials emphasized that the MFO always had a U.S. managed and designed logistics system with a direct link to the U.S. Army.

The MFO compares best with a traditional U.N. Chapter VI peacekeeping operation responsible for observing and reporting as opposed to a peace enforcement Chapter VII operation. This is primarily because the MFO mandate is to supervise the security arrangements of the Treaty of Peace by observing and reporting violations and demanding rectification. The MFO was not intended to serve as a fighting force or to repel national or factional armies. According to DOD officials, the MFO strength lies not in its military capability, but in the commitment of Israel and Egypt to peace, and the political support of the participating states.

Lessons Learned From MFO Operations

According to U.S. and international officials, while the MFO has been successful, there are several lessons that can be learned from its structure and operation. In terms of U.S. commitment and oversight, the MFO arrangement has an open-ended U.S. participation agreement, without a formal requirement for periodic U.S. reassessments, and has no formal executive board to oversee its operations.

The positive lessons from the MFO are that it: (1) began with a detailed charter or mandate fully supported by all parties, (2) makes parties of the peace treaty financially accountable, (3) incorporated standardized and interoperable field equipment, and (4) has an active liaison system with the Parties.

U.S. participation in the MFO does not have an end date or incremental drawdown provision. According to DOD and Army officials, U.S. arrangements in any similar future peacekeeping operation should include provisions for drawdown and eventual termination. Other participating developed nations have periodic renewal provisions in their participation agreements. Consequently, these nations formally renegotiate their participation with the MFO at specified intervals. In contrast, the United States does not have any renewal provision in its participation agreement, thus periodic reassessment is not formally accomplished. According to U.S. Army officials, there should be formal periodic reassessments of the level of U.S. military participation in the MFO, particularly in light of other global demands. According to these officials, over a decade of Israeli-Egyptian peace warrants such reassessment, particularly in light of growing military requirements elsewhere, and reduced budgets and resources.

In addition, the MFO does not have any formal executive oversight such as a board of directors or an independent audit entity as discussed in chapter 5 of this report. While the broad management discretion granted to the Director General by the Protocol has benefits such as cost cutting flexibility, a more formal oversight mechanism could strengthen financial accountability and deter misuse of expenditures. Thus, we believe that any future operation should include a formal mechanism for adequate oversight of the U.S. contribution.

On the other hand, a positive lesson can be learned from the way the MFO charter is constructed. The MFO charter, unlike many peacekeeping operations, provides details regarding the responsibilities, organization, operations, military command structure, financing, and administration of the MFO. According to MFO officials, there are few aspects of the MFO peacekeeping tasks that require further expansion or interpretation by the military staff of the MFO. According to DOD and State officials, few peacekeeping missions have ever deployed with such a complete working document as the MFO charter. In contrast, DOD officials note U.N. mandates are often ambiguous and ill-defined, thereby complicating peacekeeping operations. These officials cite favorable political circumstances and the existence of an agreement between the Parties as largely determining the specificity and realism of the mandate and ultimately the success or failure of the operation. These officials also stated that where the United Nations has been given similar favorable circumstances for mandates and terms of reference deriving from a disengagement agreement between motivated adversaries, results have been favorable.

Another potential lesson learned is MFO financing method. According to MFO officials, unlike other peacekeeping operations, the Parties to the MFO share in direct funding, thus each has a vested interest in cost containment. The financial arrangements also make the MFO directly accountable to the fund's contributors, resulting in a contractor-client relationship. According to MFO, State, and DOD officials, this arrangement is advantageous because it actively engages former adversaries in the financial planning of the peacekeeping operation.

As for the contributions of the participating states, arrangements for external funding sources should be maximized while international interest is high. This could work to reduce the financial burden of the one-third assessment on the United States. According to MFO officials, the MFO waited several years before trying to recruit external donors, with only modest results.

In addition, since its inception, the MFO has used a system of commercial procurement, contracting, and equipment standardization. MFO procurement emphasizes the use of local markets to increase competition and reduce costs. The MFO derives additional revenue from sales of used vehicle and excess scrap.

Equipment standardization is also emphasized. According to MFO officials, the principle underlying MFO logistics was that to promote fairness and efficiency, each military unit, regardless of its resources, would receive the same type of equipment. In contrast, many U.N. peacekeeping operations maintain a variety of equipment and maintenance standards in different contingents. The sophisticated equipment in the observation posts, the vehicles, and the communications and mission-related equipment are all standardized and are the property of the MFO. According to MFO, this has been accomplished by procuring certain models of equipment from specific manufacturers, such as General Motors for commercial vehicles and Motorola for radio communication equipment. Standardization presents several logistical advantages: (1) maintenance is easier, (2) incoming battalions do not have to bring their own sophisticated equipment and vehicles with them and all their diverse maintenance problems, and (3) it reinforces the integrated appearance of the force. In addition, interoperability of communication and electronics systems is achieved.

The MFO liaison system also serves as a model for developing peaceful relations and cooperation. According to MFO officials, the liaison system fosters contact and permits parties to address and resolve issues at graduated levels, serving as an instrument to adapt treaty conditions to changing realities on the ground.

State Oversight and Reporting Could Be Improved

The State Department has responsibility for overseeing U.S. participation in the MFO and is required to annually report to Congress on MFO activities, including the cost to the United States. DOD provides State data on the total cost of deploying and maintaining U.S. troops at the MFO. We believe that State could improve its oversight as well as the quality of the annual reports it sends to Congress. These reports have contained inaccuracies and did not show the total U.S. cost of participation in the MFO, due in part to inaccurate data submitted by DOD on troop costs.

Inadequate State Oversight of U.S. Contributions

State has taken a hands-off approach to MFO and does not adequately assess whether U.S. contributions to the MFO are spent efficiently and properly. For example, State was not knowledgeable of important changes in MFO policies and procedures that had an impact on U.S. costs. In addition, State does not (1) know if the MFO has adequate internal management and accounting controls in place to deter the misuse of U.S. contributions, (2) obtain and review all audit reports issued by the MFO external auditor, or (3) analyze MFO financial statements to detect items that may impact the U.S. contribution.

Effective State oversight is needed because (1) MFO Director General has broad management authority, (2) MFO does not have a formal board of directors or governing body that provides executive oversight for the accountability of the expenditure of funds, and (3) MFO does not have an independent audit committee to oversee external audits.

State Unaware of MFO Policies and Procedures That Impact U.S. Costs

During our review, we observed that State officials were not knowledgeable of details related to salary, benefits, and other matters involving the MFO, which have had an effect on the cost of operation. For example, until we began our inquiry, State was unaware of many details relating to the Director General's salary and benefits or other MFO expenditures made on his behalf. We also noted that MFO policies and procedures for designating dependents of MFO officials were changed by the MFO two times in 1992 and 1994. They were changed in 1992 to broaden the definition of dependent to include persons other than spouses, unmarried children, or dependent parents as dependents. In 1994, following the conclusion of our fieldwork, the policies and procedures were revised by the MFO to expand the definition of an authorized dependent. Specifically, the new regulation states that a person is an authorized dependent if he/she has been so designated by the MFO staff member and so approved by the Director General. While other members of the MFO may benefit from these changes, the MFO general counsel told us and congressional staff in February 1995 that the changes were made to accommodate the personal circumstances of the Director General, who was already receiving dependent benefits for individuals who were not his spouse or unmarried dependent children. In an August 10, 1994, letter to State, the Director General explained that housing used by the former Director General, who was a bachelor, was not suitable for his household and went on to explain the security and furnishing upgrades and improvements to his MFO-provided residence that were necessary to accommodate his household. He also stated that the MFO pays his dependents' elementary and high school fees and annual dependent education travel, a benefit that is available to all members of the MFO international staff.

In response to our inquiry, State Department officials said that they were aware that the Director General had a nontraditional family and that some accommodation would be necessary in order for him to accept the initial appointment in 1988. However, they stated that they were not aware of the specific changes made to MFO policies to satisfy this accommodation, which had an affect on benefits and privileges. In view of the fact that the Director General has such broad latitude to modify regulations and procedures without external approval, we believe it is important for State to be aware of all policy changes that may affect costs.

The Protocol to the treaty establishing the MFO does not provide for a governing body for executive oversight of the MFO, or an independent audit entity. It gives the MFO Director General broad management authority, with a requirement to report developments relating to the functioning of the MFO to the Parties. According to MFO officials, the annual Trilateral meeting fulfills the purpose of a "board of directors" because the Director General makes a detailed statement covering MFO operations, administration for the prior fiscal year, and issues and funding requirements for the new fiscal year, and invites practical suggestions from representatives from the funds contributing countries participating in the meeting. In addition, annual budgets are submitted to financial contributors for approval. According to MFO officials, the U.S. government, as a participant, is on the "board of directors" of the MFO. State officials agree that the statements at the Trilateral meeting, informal discussions, and site visits throughout the year constitute adequate oversight.

However, we believe that the Director General's statements at the Trilateral meeting and informal discussions throughout the year do not constitute a sufficient oversight mechanism to prevent the potential misuse of U.S. contributions. In contrast, other international organizations have an independent governing body above the chief executive to oversee and approve operations and finances. For example, both the North Atlantic Treaty Organization (NATO) and the Organization for Economic Co-Operation and Development have councils to perform oversight of their operations and serve as the highest decision-making bodies.

The MFO also does not have an independent audit entity between the Director General and the external auditor to oversee the audit and report to management on its performance and results and the disposition of any recommendations resulting from the audit. The MFO Director General selects, directs, and receives the report of the external auditor, Price Waterhouse. In contrast, other international organizations we examined such as NATO, the Organization of American States, and the European Union, all have independent external audit committees that perform or oversee external audits and are independent of the governing body or chief executive.

The lack of a fully engaged "board of directors" or audit committee results in the Director General essentially having carte blanche authority to run the organization. We believe that in the absence of a formal executive governing body, improved State oversight of U.S. contributions is essential.

State Lacks Assurance That MFO Has Adequate Internal Controls

State relies on the audit report of the MFO external auditor, Price Waterhouse, for assurance that the MFO has adequate internal controls. This report, along with a separate management letter, is prepared in accordance with generally accepted auditing standards and expresses the auditor's opinion on whether the financial statements are free of material misstatement. However, generally accepted auditing standards do not require the report to include an opinion on the adequacy of the MFO internal controls. Accordingly, while the audit report provides assurance that the data in the MFO financial statements are free of material misstatement, it does not provide State assurance that the MFO has adequate internal accounting controls in place to deter the improper use of U.S. contributions.

We found that State did not request, obtain, or review the annual management letter provided by the external auditor to the MFO management. We obtained copies of the management letter for fiscal years

1990, 1991, and 1993[2] and noted that although they do not express an opinion on the MFO internal controls, they do discuss internal control matters and problems noted during the audit, recommendations for corrective action, and responses by the MFO management. Although this letter would not provide State with a basis for determining whether the MFO internal controls were adequate, it does provide information on internal control problems found during the external audit and corrective actions taken by the MFO management.

In order to determine whether the MFO internal controls are adequate, State could ask the MFO to engage its external auditor to perform a separate audit and issue an opinion on its internal controls. Since the United States is a primary contributor, State should then request that the MFO provide State with a copy of this report as the representative of the U.S. government.

State Department officials believe they are fulfilling their oversight responsibilities by relying on the audit report, the MFO published financial statements, and the integrity of the MFO management, which is heavily staffed by former State Department employees. They did not want to micromanage the MFO. However, they agreed that periodic separate reviews of the MFO internal controls by the external auditor and reviews of the external auditor's management letters to the MFO would provide further assurance that the MFO had adequate internal controls in place and would strengthen State's oversight over U.S. contributions.

Need for State to Evaluate MFO Published Financial Statements and FX Account Audit Report

During our review, we noted two items relating to U.S. contributions that prompted changes to the MFO financial statements and a reduction in the U.S. assessment for fiscal year 1994. These items could have been detected several years ago by State if it had regularly reviewed the MFO published financial statements and the FX account audit reports.

In one instance, we noted that for fiscal year 1993 and prior years, the MFO financial statements did not disclose the amounts of DOD reimbursement to the MFO for providing food, lodging, and base support to U.S. troops on duty at the MFO ($6.9 million for fiscal year 1993). This reimbursement amount is not shown as revenue in the income statement, but is applied as a net against the expense of personnel in the MFO income statement with no explanatory footnote. After we informed MFO officials that this did not

[2]A management letter was not prepared by the external auditor for fiscal year 1992.

provide full disclosure of the U.S. contribution, they included an explanation in the MFO financial statements for fiscal year 1994.

We also found that State was unaware of the total amount of loans made by the MFO from its operating budget to its FX account and how much of these loans remained outstanding. The FX is a self-sustaining consumer goods store that serves the MFO military and civilian personnel stationed in the Sinai. The MFO external auditor performs a separate audit on the FX account annually; however, State had not requested, obtained, or reviewed the reports resulting from these audits.

Several weeks after our inquiry, an MFO official told us that the outstanding loan amount shown on the MFO financial statements did not agree with the outstanding amount shown on the FX financial statements. He stated that the FX financial statements showed that the FX owes a loan balance of $1.53 million to the MFO, while the MFO financial statements showed the loan owed to them was $1 million—or $530,000 less. The official noted that the reason for the differences was that the MFO had written off $530,000 of the FX loan on the books several years ago because they had determined this amount to be uncollectible, which is in accord with generally accepted accounting principles. State was unaware of this transaction, although the MFO had reported the loan write-off in its financial statements for fiscal year 1985, the year that it occurred. Prompted by our inquiry and the improved financial condition of the FX since the loan write-offs, the MFO reinstated the loan write-off on its fiscal year 1994 financial statements, and the resulting $530,000 of income will be credited to the three contributing countries, reducing the U.S. assessment for fiscal year 1995 by $177,000.

State officials noted that in the past they did not believe it was necessary to request the audit reports of the FX account because it is a separate, self-sustaining account, funded from sales to the MFO soldiers. However, we believe that the United States has an interest in this account because the FX was established through loans from the MFO operating funds, one-third of which is paid by the United States. Also, U.S. military personnel make up about half of the soldiers who use the FX, which has total annual sales of about $5 million and annual income of about $553,000. MFO officials stated that the FX profits are used to fund morale support activities for the MFO military personnel. If State had been receiving and examining the audited financial statement of both the FX and the MFO, it could have noted the improved financial condition of the FX account and could have taken appropriate action so that the United States could have realized the reduction earlier. State officials stated that in the future they would request and review the external auditors report of the FX account in order to strengthen the performance of their oversight responsibilities.

State and DOD Reporting of the Cost of the MFO to Congress Can Be Improved

The legislation authorizing U.S. participation in the MFO requires that the President submit an annual report to Congress on the activities of the MFO that describes all costs borne by the U.S. government in its relationship with the MFO whether the United States was reimbursed for these costs or not. This report is prepared by the State Department with input from the Department of the Army, which is the DOD executive agent for matters pertaining to the MFO.

We found that none of the previous reports included the annual assessment paid from the State's budget to the MFO ($18.3 million for fiscal year 1993) as its share of the total operating costs of the MFO. This is covered separately in State's congressional presentation and other budget presentations to Congress. State maintained that it does not include the annual assessment in the annual report because it would make the report too lengthy. However, State could include the amount of the assessment in the report and refer the reader to the congressional presentation for details on how this amount was computed. This would enable Congress to have access to the full cost of the MFO to the United States in one document. Subsequent to the completion of our fieldwork, State officials agreed that the annual assessment amount should be included in the MFO report to Congress and included it in the 1994 report.

Also, we found that the annual report contained an inaccuracy in the amounts shown for the salary costs of military personnel for 1 year. For fiscal year 1992, military salary costs reported were only $12.1 million, which was less than half of what was reported for fiscal years 1991 and 1993. Army officials have recomputed the salary costs to correct the discrepancy.

Recommendations

We recommend that the Secretary of State improve the oversight of the MFO by (1) examining the MFO annual published financial statements for discrepancies, (2) requesting and reviewing all reports issued by the MFO external auditors, (3) request the MFO to have its external auditor periodically perform a separate audit of the MFO management and internal accounting controls and provide a copy of the resulting report to State, and (4) include the U.S. annual assessment cost contribution of one-third of the MFO operating costs in its annual report to Congress on the MFO.

Agency Comments

In commenting on a draft of this report State disagreed with our conclusion that greater State oversight of U.S. contributions to the MFO is needed. State asserts that it has been U.S. policy to grant the MFO considerable latitude in the way it manages its operations and that this policy creates a limited framework for oversight. Consequently, State's oversight of U.S. contributions is accomplished by frequent informal discussions and infrequent formal meetings, such as the annual Trilateral meeting. In addition, State asserts its review of the MFO external audit, published financial report, and annual budget submission provides an adequate oversight and reassessment mechanism. Nonetheless, State agreed to implement all but one of our recommendations to improve oversight. State's comments on the report and our response are in appendix V of this report.

We continue to believe that the reviews of the external auditor's report, published financial reports, and annual budget submissions do not provide adequate oversight of U.S. contributions to the MFO. Under the MFO management and operating structure, once the budget is endorsed by the signatories, the Director General has great latitude over the expenditure of funds as well as the processes used to account for them. As pointed out in this report, this arrangement is unique to the MFO. In all other international organizations we observed, there is an executive oversight board that is independent of those charged with day-to-day operations. The actions that State has already taken in response to our review should improve its oversight capability; however, additional steps need to be taken. State objected to an annual audit of the MFO internal controls, and we changed the report to clarify the recommendation for periodic audits.

The MFO provided general comments, citing its operational and financial successes since inception, and its continued efforts to reduce costs. We previously met with MFO officials on a draft of this report contents and made changes to the draft where appropriate.

DOD agreed with all of the report findings relevant to DOD and reported that it has taken actions that address concerns we raised in a draft of this report about the accuracy on cost data it was providing to State regarding its participation in the MFO. If fully implemented, these actions should satisfy the intent of our recommendation. Therefore, we are no longer making a recommendation to DOD.

The Exchange of Letters Between the United States, Israel, and Egypt

LETTERS FROM PRESIDENT CARTER TO PRESIDENT SADAT AND PRIME MINISTER BEGIN

March 26, 1979

Dear Mr. President:

I wish to confirm to you that subject to United States Constitutional processes:

In the event of an actual or threatened violation of the Treaty of Peace between Egypt and Israel, the United States will, on request of one or both of the Parties, consult with the Parties with respect thereto and will take such other action as it may deem appropriate and helpful to achieve compliance with the Treaty.

The United States will conduct aerial monitoring as requested by the Parties pursuant to Annex I of the Treaty.

The United States believes the Treaty provision for permanent stationing of United Nations personnel in the designated limited force zone can and should be implemented by the United Nations Security Council. The United States will exert its utmost efforts to obtain the requisite action by the Security Council. If the Security Council fails to establish and maintain the arrangements called for in the Treaty, the President will be prepared to take those steps necessary to ensure the establishment and maintenance of an acceptable alternative multinational force.

Sincerely,

JIMMY CARTER

His Excellency
Mohamed Anwar El-Sadat,
President of the Arab Republic of Egypt.

March 26, 1979

Dear Mr. Prime Minister:

I wish to confirm to you that subject to United States Constitutional processes:

In the event of an actual or threatened violation of the Treaty of Peace between Israel and Egypt, the United States will, on request of one or both of the Parties, consult with the Parties with respect thereto and will take such other action as it may deem appropriate and helpful to achieve compliance with the Treaty.

The United States will conduct aerial monitoring as requested by the Parties pursuant to Annex I of the Treaty.

The United States believes the Treaty provision for permanent stationing of United Nations personnel in the designated limited force zone can and should be implemented by the United Nations Security Council. The United States will exert its utmost efforts to obtain the requisite action by the Security Council. If the Security Council fails to establish and maintain the arrangements called for in the Treaty, the President will be prepared to take those steps necessary to ensure the establishment and maintenance of an acceptable alternative multinational force.

Sincerely,

JIMMY CARTER

His Excellency
Menachem Begin,
Prime Minister of the State of Israel.

EXCHANGE OF LETTERS BETWEEN SECRETARY OF STATE HAIG AND FOREIGN MINISTERS ALI AND SHAMIR

August 3, 1981

Dear Mr. Minister:

I wish to confirm the understandings concerning the United States' role reached in your negotiations on the establishment and maintenance of the Multinational Force and Observers:

1. The post of the Director-General will be held by U.S. nationals suggested by the United States.

2. Egypt and Israel accept proposals made by the United States concerning the appointment of the Director-General, the appointment of the Commander, and the financial issues related to paragraphs 24-26 of the Annex to the Protocol, if no agreement is reached on any of these issues between the Parties. The United States will participate in deliberations concerning financial matters. In the event of differences of view between the Parties over the composition of the MFO, the two sides will invite the United States to join them in resolving any issues.

3. Subject to Congressional authorization and appropriations:

A. The United States will contribute an infantry battalion and a logistics support unit from its armed forces and will provide a group of civilian observers to the MFO.

B. The United States will contribute one-third of the annual operating expenses of the MFO. The United States will be reimbursed by the MFO for the costs incurred in the change of station of U.S. Armed Forces provided to the MFO and for the costs incurred in providing civilian observers to the MFO. For the initial period (July 1, 1981 September 30, 1982) during which there will be exceptional costs connected with the establishment of the MFO, the United States agrees to provide three-fifths of the cost, subject to the same understanding concerning reimbursement.

C. The United States will use its best efforts to find acceptable replacements for contingents that withdraw from the MFO.

D. The United States remains prepared to take those steps necessary to ensure the maintenance of an acceptable MFO.

I wish to inform you that I sent today to the Minister of Foreign Affairs of Israel an identical letter, and I propose that my letters and the replies thereto constitute an agreement among the three States.

Sincerely,

ALEXANDER M. HAIG, JR.

The Honorable
Kamal Hassan Ali,
Deputy Prime Minister
and Minister of Foreign Affairs,
Egypt.

August 3, 1981

Dear Mr. Minister:

I wish to confirm the understandings concerning the United States' role reached in your negotiations on the establishment and maintenance of the Multinational Force and Observers:

1. The post of the Director-General will be held by U.S. nationals suggested by the United States.

2. Egypt and Israel will accept proposals made by the United States concerning the appointment of the Director-General, the appointment of the Commander, and the financial issues related to paragraphs 24-26 of the Annex to the Protocol, if no agreement is reached on any of these issues between the Parties. The United States will participate in deliberations concerning financial matters. In the event of differences of view between the Parties over the composition of the MFO, the two sides will invite the U. S. to join them in resolving any issues.

3. Subject to Congressional authorization and appropriations:

A. The United States will contribute an infantry battalion and a logistics support unit from its armed forces and will provide a group of civilian observers to the MFO.

B. The United States will contribute one-third of the annual operating expenses of the MFO. The United States will be reimbursed by the MFO for the costs incurred in the change of station of U.S. Armed Forces provided to the MFO and for the costs incurred in providing civilian observers to the MFO. For the initial period (July 1, 1981 September 30, 1982) during which there will be exceptional costs connected with the establishment of the MFO, the United States agrees to provide three-fifths of the cost, subject to the same understanding concerning reimbursement.

C. The United States will use its best efforts to find acceptable replacements for contingents that withdraw from the MFO.

D. The United States remains prepared to take those steps necessary to ensure the maintenance of an acceptable MFO.

I wish to inform you that I sent today to the Minister of Foreign Affairs of Egypt an identical letter, and I propose that my letters and the replies thereto constitute an agreement among the three States.

Sincerely,
ALEXANDER M. HAIG, JR.

The Honorable
Yitzhak Shamir
Foreign Minister
Israel

August 3, 1981

The Honorable
Alexander M. Haig, Jr.
Secretary of State
Washington D.C. 20520

Dear Mr. Secretary:

I am instructed on behalf of Foreign Minister Ali to transmit the following letter:

Sincerely,

ASHRAF A. GHORBAL
Ambassador

Dear Mr. Secretary:

Egypt agrees to the contents of your letter dated August 3, 1981, and wishes to express its appreciation to the United States for having helped the two countries to reach this agreement.

Sincerely,

KAMAL HASSAN ALI
Deputy Prime Minister
Minister of Foreign Affairs

August 3, 1981

Dear Mr. Secretary,

I have been asked by Foreign Minister Shamir to transmit to you the following message:

"Dear Mr. Secretary:

Israel agrees to the contents of your letter dated August 3, 1981, and wishes to express its appreciation to the United States for having helped the two countries to reach this agreement.

Sincerely,

(sgd)
YITZHAK SHAMIR
Foreign Minister"

Sincerely,

EPHRAIM EVRON
Ambassador

The Honorable
Alexander M. Haig, Jr
Secretary of State
Washington D.C.

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Multinational Force and Observers Contingent Strength

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
AUSTRALIA	102	102	102								25	26
CANADA				100	134	135	133	130	25	25	28	28
COLOMBIA	502	502	502	500	498	499	402	401	379	379	379	358
FIJI	500	500	500	498	498	499	394	400	378	378	378	339
FRANCE	38	38	42	38	39	37	44	40	21	18	17	17
GREAT BRITAIN	37	37	37	38	38	38	37	36	35	34		
ITALY	90	90	90	94	102	90	89	91	82	82	83	83
NETHERLANDS	107	107	107	107	111	116	117	117	85	84	84	59
NORWAY	4	4	4	4	4	5	4	3	3	3	4	4
NEW ZEALAND	36	36	36	36	14	14	25	26	26	26	24	24
URUGUAY	76	76	76	75	75	76	76	76	64	64	62	64
UNITED STATES	1,200	1,200	1,200	1,161	1,192	1,145	1,053	1,045	998	998	984	985
TOTAL	**2,692**	**2,692**	**2,696**	**2,651**	**2,705**	**2,654**	**2,374**	**2,365**	**2,096**	**2,091**	**2,068**	**1,987**

Comments From the Department of State

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

United States Department of State

Chief Financial Officer

Washington, D.C. 20520-7427

JUN 5 [illegible]

Dear Mr. Hinton:

We appreciate the opportunity to provide Department of State comments on your draft report, "PEACEKEEPING: Assessment of U.S. Participation in the MFO," GAO Job Code 711067.

If you have any questions concerning this response, please call Mr. Richard LeBaron, NEA/RA, at (202) 647-4589.

Sincerely,

Richard L. Greene

Enclosure:
As stated.

cc:
GAO/NSIAD - Mr. Richardson
State/NEA/RA - Mr. LeBaron

Mr. Henry L. Hinton, Jr,
Assistant Comptroller General,
National Security and International Affairs,
U.S. General Accounting Office.

GAO Draft Report: "PEACEKEEPING: Assessment of U.S. Participation in the MFO," GAO Job Code 711067

The Department of State appreciates the opportunity to comment on the General Accounting Office's (GAO) Draft Report, Assessment of U.S. Participation in the Multinational Force and Observers (MFO).

This Administration, like all others since the creation of the MFO, strongly supports the work of the MFO and believes it has made and continues to make a largely unheralded but nonetheless essential contribution to peace between Israel and Egypt. The Egyptian-Israeli Peace Treaty and its security arrangements monitored by the MFO are the cornerstone of the Middle East peace process. The MFO's successful presence in the Sinai is an ongoing reminder that a third party monitoring body can play an invaluable role in mutually acceptable security arrangements. The GAO report acknowledges the effectiveness of the MFO and the Department concurs fully. It should be noted as well that the Governments of Israel and Egypt have expressed to us their full confidence in the work of the MFO.

See comment 1.

Not only does the MFO carry out its functions in an effective manner, it also has a strong track record of efficient management, which has achieved very substantial cost savings. Since the MFO assumed its mission in the Sinai in 1982, it has implemented programs that have reduced its annual operating budget by 54% ($111.6 million to $51 million), the Rome headquarters budget by 41% ($6.45 million to $3.826 million), the military force by 27% (2,705 to 1,987), and the headquarters staff by over 58% (60 to 25). That the MFO has been able to maintain a satisfactory level of operations, while reducing its costs in the face of inflation, is a testament to the MFO 's managers and to the oversight exercised by the contributing states.

See comment 2.

The GAO report states that "the MFO model may not apply to a more hostile environment." The MFO is designed to apply to the specific situation in which it operates. Neither we nor the MFO make claims for the universal application of the MFO "model" to other situations. Clearly, however, the MFO has attributes which have helped make it a success and which merit attention for the design of any organization devoted to peacekeeping.

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Just a few of the factors which have contributed to the MFO's success are:

-- A definitive peace treaty is in place;
-- The Treaty Parties have a strong interest in continued peace;
-- The organization reports to the Treaty Parties, not an outside body;
-- There is an active and effective liaison system between the Treaty Parties (and the Parties and MFO) which encourages communication and direct bilateral resolution of issues;
-- The MFO receives the majority of its financing from the Treaty Parties themselves;
-- Under the overall supervision of the Treaty Parties and the major contributors, the MFO possesses management flexibility and independence;
-- The United States has provided sustained diplomatic and material support to the MFO.

State Department Oversight of the MFO

See comment 3.

We do not accept the GAO contention that oversight of the MFO by the State Department has been inadequate. As noted by the GAO, the MFO is widely viewed as an organization that effectively performs its duties in a cost efficient manner. Since its inception, it has been U.S. policy (and that of Israel and Egypt) to grant the MFO considerable latitude in the way it manages its operations. It is partially due to this flexibility that the MFO has maintained its credibility as an impartial peacekeeping instrument and adapted its management policies and practices to accommodate changing situations.

See comment 4.

Within the framework of the management flexibility granted to the MFO, the Department works closely with the MFO in making sure its mission is consistently achieved at the appropriate cost. We recently reviewed and delineated terms of reference for our oversight practices, revealing a comprehensive and multifaceted approach to carrying out our oversight responsibilities. (A copy of this document was supplied to the GAO on April 5, 1995.)

See comment 5.

State Department personnel are in almost daily contact with senior MFO managers in Rome and the Sinai via telephone and facsimile. Department employees visit MFO headquarters and field operations at least twice per year and maintain close contact with U.S. military officials responsible for MFO participation. During semi-annual visits we consult with The Director General and his staff in Rome, MFO representatives in Egypt and Israel, civilian and military officials in Egypt and Israel, the Force Commander and his staff, and other members of the MFO at all levels. The Department of State also sends a delegation to the MFO's annual Trilateral Conference held at its headquarters in Rome, Italy. At these annual meetings

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delegates from the three major funds-contributing states are briefed by the MFO Director-General and his senior staff on significant activities of the MFO in the preceding year, and discuss (with the MFO and each other) policy and plans for future MFO activities.

See comment 6.

In addition to reviewing continually U.S. contributions of personnel, the Department formally reassesses the level of financial support to the MFO annually, in preparing the budget request to Congress for Promoting Peace. This Congressional Presentation Document is also employed by the Congress as part of the appropriations process.

See comment 7.

Specific GAO Recommendations

GAO recommends the Department of State improve its oversight of the MFO in four minor areas. The notion that these recommendations could be linked to an overall conclusion of lack of adequate oversight is unwarranted. Nonetheless, we have reviewed carefully the GAO recommendations and taken appropriate actions. Below we state each GAO recommendation, followed by the Department's response.

(1) Improve oversight by "examining the annual MFO published financial statements for discrepancies."

The Department currently carries out such examinations. The "Administrative and Financial Regulations for the Multinational Force and Observers" specify that the "Contributing States" (the Parties and the United States) receive and approve the MFO budget, and that "the Director General shall appoint an international public auditing firm of known repute to conduct audits of the MFO accounts and prepare reports for the Director General to present to the Contributing States."

The MFO has always provided State with copies of its proposed annual budget and report on the external audit of its financial statements. These items consistently have been reviewed and approved by the State Bureau of Near Eastern Affairs Office of Regional Affairs, Multinational Force and Observers Division. Henceforth, these documents also will be reviewed by the Budget Office in the Bureau of Near Eastern Affairs.

(2) Improve oversight by "requesting and reviewing all reports issued by the MFO's external auditors."

Most financial reports by the MFO and its external auditors have been consistently reviewed. Following consultations with the GAO, we have asked the MFO to provide copies of external audits of its force exchange, and copies of all management letters prepared by the external auditor. These documents, as well as any other audits or management letters we receive, also will be reviewed by the NEA Budget Office in the Bureau of Near Eastern Affairs.

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(3) The Department should "request the MFO to have its external auditor include an evaluation of the MFO's management and internal accounting controls beyond what is required to complete the annual financial statement audit, and provide a copy of the resulting report to State."

Under Auditing Standards employed by the MFO's external auditor, Price Waterhouse, an internal controls failure that would lead to the statements not fairly representing the MFO's financial position would require a qualification of the audit opinion and a notation of the reason for the qualification in the published account. The MFO has never received an opinion that was qualified due to a perceived failure of internal controls.

See comment 8.

Given the MFO's record, the Department is not convinced that the MFO should expand its annual external audit to include a thorough evaluation of its internal controls. We have seen no evidence that the increased cost of such an annual exercise would produce substantial benefits. In the event there are indications that specific internal controls are inadequate, the Department can and will request management reviews of particular areas of MFO operations.

(4) The Department should "include the U.S. annual assessment cost contribution of one-third of the MFO's operating costs in its annual report to Congress on MFO."

The U.S. contribution to the MFO has been published in State's Congressional Presentation Document for Promoting Peace, the Annual Report on United States Contributions to International Organisations, and the Presidents Annual Report to Congress on Peacekeeping Activities. Our 1994-1995 report to Congress includes the U.S. share of MFO operating costs for fiscal year 1994. Future reports will include this figure for the relevant year.

We defer to the Department of Defense to make formal remarks on the GAO's conclusions regarding the impact on overall readiness of participation in the MFO by U.S. military personnel. However, we believe it is important to note in this regard that supporting the MFO serves U.S. strategic interests. This was recognized explicitly by the Defense Department in its recently published report, "United States Security Strategy for the Middle East." That report notes:

> The Department of Defense's principal role in the Middle East is to help create an environment that will facilitate the peace process by working with U.S. security partners and other regional countries. A prime example is our contribution to the work of the Multinational Force and Observers (MFO) established by a protocol to the 1979 Israeli-Egyptian peace treaty with the mission of observing and reporting on security arrangements established by the treaty.

The following are GAO's comments on the State Department's letter dated June 5, 1995.

GAO Comments

1. Our report clearly recognized the Multinational Force and Observers' (MFO) accomplishments. Our concerns related to State's oversight of the expenditure of U.S. contributions. Moreover, State's comments are somewhat misleading and inconsistent with our observations during this review. The cost reduction and savings figures are misleading because they start with a high base year that includes all of the initial start-up costs and occurred over a 13-year period. While the MFO has achieved annual cost savings, they are not of the magnitude suggested in State's comments. Additionally, State did not explain its role in reducing the MFO operating costs. In fact, in other sections of its comments, State attributes the MFO cost savings to the considerable latitude granted to the MFO to manage its operations. During the course of this review, neither State nor MFO officials could provide us with documentation evidencing any State inquiries or scrutiny regarding the MFO financial operations.

2. Our request from the House Foreign Affairs Committee specifically asked us to report on MFO lessons learned that could be applied to future Middle East peacekeeping operations. The factors cited in State Department's comments, and others, were discussed in the report.

3. See comments 1 and 5.

4. The "terms of reference" provided to us on April 5, 1995, was an internal working paper that included tasks and responsibilities to be accomplished by various staff in the Near East Affairs Bureau. Some of these tasks had been ongoing practices, while others were to be implemented as a result of ourreview. To date, these terms of reference for State's oversight responsibilities have not been codified into an operations or procedures manual.

5. While State asserts that it maintains frequent informal and formal contact with the MFO, this contact has not resulted in close scrutiny of the MFO's use of U.S. contributions. For example, as we pointed out in our report, State was unaware of several the MFO practices and revisions to regulations that had the effect of increasing U.S. costs. These practices or revisions were not discussed in any of the Trilateral meeting minutes, external audit reports, or other forums relied upon by the State Department for oversight such as informal discussions, and occasional

visits to Rome and the Sinai. While State disagreed with our conclusion on the need for oversight, they accepted our recommendations.

6. State asserts that it formally reassesses the level of financial support to the MFO annually in preparing the budget request to Congress for Promoting Peace. However, in our view, this process does not constitute a reassessment of U.S. contributions to the MFO. First, the budget request cited only represents the U.S. one-third assessment and does not include U.S. offset costs, excess defense items, and other DOD costs. Thus, State does not assess the complete U.S. financial support package to the MFO as State's comment suggests. Second, the MFO budget submission has broad categories of expenditures and lacks sufficient detail for a formal assessment.

7. We disagree with State's characterization of the oversight issues as minor. Collectively, the four areas represent a significant management weakness. While State may examine the MFO's published financial statements, the examination lacks the level of scrutiny required for adequate oversight. As cited in the report, during our review, we found several items in the MFO's financial statements that went undetected by the Near East Affairs Bureau for several years. In addition, State was unaware of the total amount of outstanding MFO loans due to the United States which in addition to being outstanding, were later written-off the MFO's financial records by the MFO. Only following our review and inquiry did MFO reinstate these loans resulting in a $177,000 reduction in the U.S. assessment. State was unaware that the Director General's contract is approved and signed by his subordinate, and has resulted in unique arrangements for the designation of dependents and extension of benefits. These unique arrangements all had the effect of increasing U.S. costs. In addition, State oversight relies on the report of the MFO external auditor, who is hired and directed by the Director General and has not been asked to certify the MFO's internal controls. A periodic internal control review and careful State evaluation of the MFO's financial reports would have revealed these issues long before our review. Our recommendations would improve States' ability to ensure proper accountability of U.S. resources.

8. The fact that the MFO has never received an audit opinion that was qualified due to a perceived failure of internal controls does not provide State assurance that the MFO's controls are adequate. As stated in our report, the purpose of the annual external audit is to determine whether the financial statements are free from material misstatement and not to issue an opinion on the adequacy of internal controls. We revised our

recommendation in the report to cite that State should request the MFO have its external auditors periodically (not annually) perform a separate audit of the MFO's management and internal accounting controls and provide a copy of the resulting report to State. These periodic audits would enhance State's assurance that the MFO has adequate internal controls in place to deter the misuse of funds.

Comments From the Multinational Force and Observers

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

Multinational Force and Observers
Rome, Italy

May 18, 1995

VIA FAX: 202/512-7686

Mr. Benjamin F. Nelson
Associate Director
International Affairs
National Security and
International Affairs Division
U.S. General Accounting Office
Room 5476
441 G St., N.W.
Washington, D.C. 20548

Dear Mr. Nelson:

The Multinational Force and Observers (MFO) appreciates the opportunity you offered to comment formally for publication on the draft GAO report entitled "Peacekeeping: Assessment of U.S. Participation in the MFO". We appreciate the positive findings, and the constructive criticisms, offered regarding the MFO. While not a U.S.G. agency, we have provided GAO access to our facilities, personnel, and records, arranged GAO meetings with Egyptian and Israeli military and diplomatic officials, and commented extensively on an earlier draft of this report. Many of these suggestions have been incorporated. Others have not, and regrettably certain factual errors and differences of interpretation persist. Since the MFO has previously provided relevant information, we do not repeat it here. New, incorrect material also has appeared in this draft, which was not checked with us for accuracy.

See comment 1.

The MFO's uniqueness lies in its role as a confidence-building measure under a definitive Treaty of Peace. Rather than an interim or transitional operation that fits under Chapter VI or Chapter VII of the U.N. Charter, the MFO is one-of-a-kind peacekeeping under a permanent structure of peace that has resolved a chronic source of conflict. The MFO was created by the Treaty, and reports to its two Parties, totally independent of the United Nations. This has profound implications for how Treaty-related confidence-building measures are structured, funded, and managed. Bilateral confidence and cooperation must be built over time, and cannot be assumed from the outset of a new relationship between formerly warring parties. The lessons learned from the MFO experience are of interest to any future architects of new peace treaties who contemplate their own, non-U.N., confidence building measures.

Funded primarily by the two Parties themselves, the MFO finances itself on an innovative letter of credit, pay-as-you go basis. The Parties have daily oversight, in the field, of what we do and how we do it. This has been a healthy, cost-conscious environment, and as the United States intended, it has helped to reduce the U.S. financial burden, and shifts the third-party role in day-to-day support of peacekeeping to MFO management. Observers of the MFO have found a private sector flavor to the MFO management style, with our annual Trilateral Meeting compared more to a corporate board of directors than a typical diplomatic conference, and in a similar vein the GAO report notes MFO direct accountability to the funds contributors.

For over 13 years, the MFO has discharged its mission as set forth in the Treaty of Peace and its Protocol. The trilateral liaison system created by the Protocol has fostered cooperation, and adjustments to the Treaty regime to take into account political, economic and other developments. The Treaty and Protocol mandate is very clear, but the drafters could not foresee all the changes and situations the MFO has faced on the ground over time. Through the liaison system, the drafters provided the mechanism of necessary adaptation.

The success of the MFO mission is founded on the underlying commitment of the Parties to the peace and to support of their own creature, the MFO, and on the stability of participation by countries that recognize the importance of continuity in supporting a confidence building measure under a permanent Treaty.

The attention of MFO management increasingly has been directed towards reducing costs. With consent of both Treaty Parties and the United States, coordinated through the annual Trilateral Meeting, the MFO has steadily cut away at its overhead, absorbing annual inflationary impacts and reducing its cost to the contributors. Several examples are cited in the GAO

See comment 2.

See comment 3.

report, however these statistics are now a year, and in some cases two years out of date. Achievements to date include declines: in the MFO budget (down 31% since FY 89); in the cost of the small Rome Headquarters (down 33% since FY 88); in the U.S. annual financial contribution (down 30% since FY 90); and in annual U.S. "incremental costs" of participation (down 26% between FY 89 and FY 93, as documented in the report). In assessing relative costs of U.S. participation, it should be noted that net MFO disbursements in the U.S. (over $21 million in FY 94) exceed current U.S. incremental costs.

Budget reductions have been based on cuts in personnel at the Rome Headquarters (down 41% since FY 89) and in the Force (down 16% since FY 89, and down 27% since its peak in FY 87). Included in this has been a reduction in U.S. military personnel of 16% since its peak in 1987. We have not adopted U.N. financial practices for peacekeeping, and have arranged troop contributions at less cost. The MFO has closed 9 of its original remote sites and reduced its aircraft fleet by 50% in FY 90. Logistical savings have been achieved by reliance on commercial, competitive procurement (inverting the 80% dependence the MFO had at its inception on the DoD supply system); by applying commercial warehouse management concepts to stocking and inventory management; and by reduction in the cost of our support services contract. We have emphasized cost-effective MFO procurement and standardization of major equipment, inter-operable by all our contingents. The quality of performance of our mission and our support for the troops has remained high. At the same time, the MFO has sought to further reduce the burden on the three funds contributors by seeking, with their diplomatic support, other financial donors, resulting in annual contributions by Germany, Japan, and last year Switzerland.

The MFO will continue to serve the two Treaty Parties for so long as we are called upon by them to do so. The Treaty and Protocol, and the unique MFO management structure they created, have served the Parties and U.S foreign policy by delivering a needed and cost-effective peacekeeping and liaison service. Its credibility as an independent agency has attracted strong, continuing support from loyal participants, and key capital equipment contributions by the U.S., France and Italy in particular. The flexibility and independence of its management structure, and its conscious political insulation, are two reasons for the successes the GAO documents. They have permitted cost-effective and innovative logistical, personnel and other practices with a minimum of intrusion by national political agendas and the bureaucracy that hampers change in other environments. Management review has proven to be a continuing feature, rather than a periodic, formal exercise, with a declining budget and personnel count as the result. A cost-conscious management must also be sensitive to, and work within, the policy and security, as well as financial, requirements of the funds contributors.

The United States plays the combined roles of troop-contributor, one of the primary funders, and a patron and formal witness of the Peace Treaty. The MFO Director-General, nominated by the State Department and appointed by the Parties, embodies, day-to-day, the third-party assistance implicit in the role of patron and witness in ensuring the success of the peacekeeping mission. We draw the observers in the MFO's all-civilian unit from the United States, as a further reflection of the U.S. role as witness to the peace. This does not in any way diminish the important role of other countries. But the MFO could not have been created from scratch and taken up its mission without the generous financial, diplomatic and military support provided by the United States, and the capital equipment (U.S. helicopters, French fixed wing and Italian patrol boats) provided since 1982. The creation of any future MFO-like entity will also entail the support of one or more key external diplomatic, financial, and military patrons to ensure requirements are met, and the use of an existing management structure like the MFO's or creation *de novo* of its analogue.

The wishes of Egypt and Israel, in light of the contours of the on-going peace process, will define the MFO's own future. Only time will tell if new peace treaties in the region will give rise to similar, MFO-like entities to serve the interested parties.

Sincerely,

Wat T. Cluverius

Wat T. Cluverius
Director General

The following are GAO's comments on the MFO's letter dated May 18, 1995.

GAO Comments

1. We gave the MFO two opportunities to comment on the report during the final stages of its drafting. As the MFO comments indicate, many of its suggestions to both iterations have been incorporated where appropriate. The MFO's comments also noted that some incorrect material is included in the report; however, the MFO chose not to provide us with specific examples of what they view as inaccurate. There remain disagreements between GAO and the MFO relating to the significance and interpretation of various aspects of our review. For example whether, as the MFO asserts, the annual Trilateral meeting, which is neither mandated in the Protocol that established the MFO nor mentioned in subsequent side agreements to which the United States is signature, constitutes formal executive oversight. We believe it does not, and note in the report the character of executive oversight in other duly constituted international organizations vital to U.S. economic and national security interests, such as the North Atlantic Council of North Atlantic Treaty Organization which is mandated in the North Atlantic Treaty.

2. This information was not available at the time of our field work and review; therefore, we could not analyze it for completeness and accuracy. However, we do not take issue with the general thrust of the MFO comments on its accomplishments.

3. We acknowledge that the MFO has implemented a number of management initiatives to reduce operating costs while effectively performing its mission.

Comments From the Department of Defense

ASSISTANT SECRETARY OF DEFENSE

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WASHINGTON, D.C. 20301-2400

INTERNATIONAL
SECURITY AFFAIRS

12 JUN 1995

I-95/39398

Mr. Henry L. Hinton, Jr.
Assistant Comptroller General
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Hinton:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "PEACEKEEPING: Assessment of U.S. Participation in the MFO," dated May 9, 1995 (GAO Code 711067), OSD Case 9926. The DoD generally concurs with the report.

The Department of Defense participated in the establishment of what was to become the Multi-national Force and Observers (MFO) from the time of the Camp David Accords in the development of peace between Israel and Egypt. The costs of the MFO to the U.S. are delineated in the draft report, and the Department of Defense recognizes that there have been inaccuracies in some past reporting. However, the MFO and U.S. participation in it have changed over the years as peace has developed and U.S. internal procedures have changed. Consequently, Army has modified accounting and reimbursement procedures in cooperation with the MFO. These modified procedures have enhanced DoD's ability to capture costs associated with supporting U.S. participation in the MFO and in reporting them accurately to the State Department.

In addition, our experience in the MFO has provided some lessons in establishing and managing a multinational peacekeeping force outside the parameters of the United Nations that should guide us in future attempts. While the MFO itself might not be suitable for other peacekeeping operations, certain of its procedures and its organization may be useful. That should be recognized.

Detailed comments on the report's findings and recommendation are provided in the enclosure.

Sincerely,

Joseph S. Nye, Jr.

Enclosure
a/s

GAO DRAFT REPORT DATED MAY 9, 1995
(GAO CODE 711067) OSD CASE 99926

"PEACEKEEPING: Assessment of U.S. Participation in the MFO"

DEPARTMENT OF DEFENSE COMMENTS

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FINDINGS

- **<u>FINDING A: Total Cost of Multinational Force and Observers and the U.S. Contribution</u>.** The GAO reported that the operating budget of the Multinational Force and Observers MFO)for FY 1993 totaled $56.1 million. The GAO noted that this does not include in-kind contributions and non-reimbursable costs borne by participating and donor nations, which are difficult to quantify. The GAO also noted that the total cost of U.S participation in FY 1993 was $64.4 million, which included (1) the annual assessment of $17.8 million (one-third of MFO operating costs) and (2) $46.6 million for U.S. troops provided to the MFO. The GAO pointed out that the incremental cost to the U.S. was $18.6 million, which included the annual assessment of $17.8 million plus DoD additional costs of $0.8 million.

  The GAO reported that the U.S. provides about 49 percent of the MFO military contingent including a logistics support battalion composed of logistics, medical, and aviation support, and an infantry battalion. The GAO noted that the MFO also has access to the U.S. Army supply system and excess defense articles such as medical equipment. The GAO indicated that according to the MFO and Army officials, the MFO medical facility was substantially upgraded as a result of excess Army articles and some medical problems that once required emergency medical evacuation to Israel can now be performed in-house. (p. 5, p. 24, pp. 33-41/GAO Draft Report)

  <u>DoD RESPONSE</u>. Concur.

- **<u>FINDING B: State and DoD Reporting of Cost to MFO to Congress Can Be Improved.</u>.** The GAO reported legislation authorizing U.S. participation in the MFO, requires the President to submit an annual report to the Congress on the activities of the MFO that describes all U.S. costs borne by the U.S. government. The GAO reported that the State Department has responsibility for overseeing U.S. participation in the MFO and is required to annually report to the Congress U.S. costs. The GAO noted that the annual report is prepared with input from the Department of Army, the DoD Executive Agent for matters pertaining to the MFO. The GAO added that the DoD provides the State Department data on the total cost of deploying and maintaining U.S. troops at the MFO.

  The GAO found that reports to the Congress have contained inaccuracies and did not show the total U.S. cost of participation in the MFO, due in part to inaccurate

Enclosure

data submitted by DoD on troop costs. The GAO noted for example, the FY 1992 report excluded about $12 million (less than half of that reported for FY 1991 and FY 1993) in DoD expenses and did not include the cost of the U.S. annual assessment. The GAO observed that Army officials have recomputed the salary costs to correct the discrepancy. (pp. 6-7, pp. 50-52/GAO Draft Report)

DoD RESPONSE. Concur.

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RECOMMENDATION

- **RECOMMENDATION.** The GAO recommended that the Secretary of Defense take the necessary action to provide State with complete and accurate costs of maintaining its troops at the MFO. (p. 9, p. 51/GAO Draft Report)

  DoD RESPONSE. Concur. The DoD agrees that complete and accurate costs of maintaining U.S. troops at the MFO must be provided to the State Department. Recognizing that practices and conditions have changed over the duration of the MFO, the Department of the Army conducted an extensive review of MFO financial policy and procedures. After eighteen months of meetings, reviews, and negotiations, the Department of Army and MFO reached understandings on accounting, reimbursement, and other administrative arrangements, as set forth in a Memorandum of Understanding, dated and signed 10 November 1994. The Army has procedures in place to accurately account for U.S. costs relating to the MFO mission and report them to the State Department. The DoD does not believe that further actions are required.

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