

July 2004

PEACEKEEPING

Multinational Force and Observers Maintaining Accountability, but State Department Oversight Could Be Improved



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Highlights

Highlights of [GAO-04-883](#), a report to congressional requesters

Why GAO Did This Study

Since 1982, the Multinational Force and Observers (MFO) has monitored compliance with the security provisions of the Egyptian-Israeli Treaty of Peace. The United States, while not a party to the treaty, contributes 40 percent of the troops and a third of MFO's annual budget. All personnel in the MFO civilian observer unit (COU) are Americans.

GAO (1) assessed State's oversight of the MFO, (2) reviewed MFO's personnel and financial management practices, and (3) reviewed MFO's emerging budget challenges and U.S. MFO cost sharing arrangements.

What GAO Recommends

GAO recommends that the Secretary of State (1) resolve the concern of recruiting for the chief COU post; (2) ensure that staff with accounting expertise carry out State's MFO financial oversight responsibilities; (3) direct State's MFO advisory board to monitor State's compliance with its oversight guidelines; and (4) work to reconcile Army and State views on the MFO cost-sharing arrangement.

We received comments from DOD, State, and MFO. DOD and MFO generally agreed with our conclusions. State agreed with three of our recommendations and was nonresponsive to the recommendation that the oversight board monitor State's compliance with MFO oversight guidelines.

www.gao.gov/cgi-bin/getrpt?GAO-04-883.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Joseph Christoff at (202) 512-8979 or christoffj@gao.gov.

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What GAO Found

The State Department has fulfilled some but not all of its operational and financial oversight responsibilities for MFO, but lack of documentation prevented us from determining the quality and extent of its efforts. State has not consistently recruited candidates suited for the leadership position of the MFO's civilian observer unit, which monitors and verifies the parties' compliance with the treaty. State also has not evaluated MFO's financial practices as required by State's guidelines because they lacked staff with expertise in this area. However, State recently formed an MFO management advisory board to improve its oversight of MFO operations.

MFO has taken actions in recent years to improve its personnel system, financial accountability, and internal controls. For example, it has provided incentives to retain experienced staff and taken steps to standardize its performance appraisal system. It has received clean opinions on its annual financial statements and on special reviews of its internal controls. MFO has also controlled costs, reduced its military and civilian personnel levels, and kept its budget at \$51 million since 1995, while meeting mission objectives and Treaty party expectations.

U.S. Infantry Battalion Deployed as MFO Peacekeepers



Source: GAO.

MFO faces a number of personnel, management, and budgetary challenges. For example, leading practices suggest its employees' access to alternative dispute resolution mechanisms for discrimination complaints, and the gender imbalance in its workforce, could be issues of concern. Moreover, MFO lacks oversight from an audit committee or senior management review committee to ensure the independence of its external auditors. Finally, MFO's budget is likely to increase because of costs associated with replacing its antiquated helicopter fleet. U.S. and MFO efforts to obtain support from other contributors generally have not succeeded. Army, State, and MFO officials have yet to agree who should pay the increased costs associated with changes in the composition and pay scales of U.S. troops deployed at MFO.

Contents

Letter		1
	Results in Brief	2
	Background	4
	State Has Met Some of Its Oversight Responsibilities but Has Limited Evidence Documenting These Efforts	10
	MFO Has Taken Some Actions to Improve Personnel Management but has not Systematically Reformed Its Personnel System	15
	MFO Has Improved Financial Accountability, but Additional Oversight May Be Needed	19
	After 9 Years of Flat Budgets, MFO Faces Financial and Other Challenges	24
	Conclusion	31
	Recommendations for Executive Action	32
	Agency Comments and Our Evaluation	32
Appendix I	Scope and Methodology	36
Appendix II	MFO’s Small but Challenging Workforce	39
Appendix III	GAO’s Model for Strategic Human Capital Management Planning	41
Appendix IV	Calculating MFO Budget in Terms of International Dollars	44
Appendix V	Cost of U.S. Participation in MFO	48
Appendix VI	Comments from the Department of State	51

Appendix VII	Comments from the Multinational Force and Observers	56
	GAO Comments	61

Tables

Table 1: MFO Civilian Staff by Location and Type, 2003	39
Table 2: MFO Expenditures in Nominal and International Dollars	45
Table 3: Cost of U.S. Participation in MFO, Fiscal Years 1995 through 2003	48
Table 4: U.S. Troop Contributions to the MFO as a Percentage of the Total, Fiscal Years 1995 through 2003	49

Figures

Figure 1: Sinai Peninsula and MFO Area of Operations	6
Figure 2: U.S. Soldiers on Duty at an MFO Outpost Near South Camp	7
Figure 3: MFO Organizational Chart (as of December 2003)	9
Figure 4: MFO Budget in Nominal and Constant Purchasing Power Dollars	25
Figure 5: U.S. Army Helicopter Options for MFO Service	27
Figure 6: Total Number of MFO Troops (including U.S. troops) and Number of U.S. Troops for Fiscal Years 1995 through 2003	29
Figure 7: Cost of U.S. Participation in MFO	30
Figure 8: Excerpts from GAO's Strategic Human Capital Management Model	43
Figure 9: Percentage of MFO Dollar Budget Spent in Israel and Egypt	44
Figure 10: Percentage of MFO International Dollar Budget Spent in Israel and Egypt	46

Abbreviation

COU	Civilian Observer Unit
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DOD	Department of Defense
HNSI	Holmes and Narver Services, Incorporated
MFO	Multinational Force and Observers
NEA	Bureau of Near Eastern Affairs, U.S. Department of State
NEA/EX	Office of the Executive Director, Bureau of Near Eastern Affairs
NEA/RA	Office of Regional Affairs, Bureau of Near Eastern Affairs
OIG	Office of Inspector General, U.S. Department of State
PPP	Purchasing Power Parity
U.N.	United Nations

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United States Government Accountability Office
Washington, DC 20548

July 23, 2004

Congressional Requesters

Following years of violent confrontation, Egypt and Israel signed a treaty on March 26, 1979, that ended the existing state of war and agreed to the withdrawal of all Israeli forces from the Sinai. Although the treaty proposed that U.N. forces and observers supervise these security arrangements, the United States committed to providing a multinational force if the U.N. process failed. When the U.N. Security Council failed to reach an agreement, the governments of Egypt and Israel signed a protocol to the treaty in 1981 that established the Multinational Force and Observers (MFO). The treaty can be terminated by the consent of the parties; it does not contain a specific end date or establish specific conditions that, if met, would allow MFO to withdraw troops. MFO currently has 1,685 troops and a civilian workforce of about 108 international and local national staff who manage the organization and its annual budget of \$51 million. To manage its operations, the MFO has developed personnel, financial management, budget, and internal control systems. This review examines these systems including MFO's personnel practices as they pertain primarily to its international civilian workforce.

The United States, although not a party to either the treaty or the protocol, agreed to provide military forces and a group of civilian observers to the MFO to monitor compliance with military limitations. The United States now contributes the largest share of military troops and about one third of the organization's financial resources. In addition, the Department of State conducts oversight of U.S. participation in the MFO. In 2001, the United States reviewed its commitments worldwide to security and peacekeeping operations, and in 2003 reduced the number of troops serving in the MFO.

Given your interest in MFO's management practices and State's oversight responsibilities, we (1) assessed the Department of State's oversight of the MFO, (2) reviewed MFO's personnel policies and practices, (3) examined MFO's financial management practices, and (4) reviewed MFO's emerging budgetary challenges and cost-sharing arrangements.

To achieve our objectives, we interviewed officials at the Departments of State and Defense (DOD), and the MFO and collected key documents from those officials. We reviewed State's guidelines for overseeing MFO's activities and finances. We met with MFO officials in Rome, Cairo, and Tel

Aviv; with Egyptian military and foreign affairs officials in Cairo; and with Israeli military and foreign affairs officials in Jerusalem. We also visited MFO force installations in the Sinai Peninsula. We reviewed MFO budget and related documents and the external audit reports of finances and internal controls. Finally, we met with MFO, State, and DOD officials to discuss the MFO budget and U.S. contribution to the MFO. We determined that the data they provided were sufficiently reliable for purposes of reviewing trends in the MFO budget and U.S. contributions between fiscal years 1995 and 2003. A detailed description of our scope and methodology is included in appendix 1. We conducted our review from September 2003 to May 2004 in accordance with generally accepted government auditing standards.

Results in Brief

State has fulfilled some but not all of its operational and financial oversight responsibilities described in its guidelines for overseeing the MFO. Overall, we could not determine the full extent of the department's efforts because it did not document the nature, quality, and range of its oversight activities. For example, a State official visited MFO locations twice a year to observe MFO operations and compare these observations to MFO regulations. However, because he did not document the results of his visits, we could not determine the range and quality of his oversight activities. In addition, the guidelines called for State officials within the Bureau of Near Eastern Affairs (NEA) to review the external auditors' reports and evaluate MFO financial practices. While staff reviewed the auditors' reports, they did not evaluate MFO financial practices because they lacked the accounting expertise to do so. State is exploring options for obtaining the necessary financial expertise; however, it has not yet determined how it will address this issue. The guidelines also direct State oversight through the transfer of U.S. government personnel to key MFO positions. While State has successfully recruited staff for the civilian observers unit, a number of chiefs of the unit exhibited poor leadership capabilities. Recruiting for the chief observer post remains a concern for State because many candidates at State seek higher priority posts, such as the U.S. Embassy in Cairo, to enhance their careers rather than seek an MFO position. In response to recommendations made by the State's Office of the Inspector General in February 2004, NEA agreed to form a board to improve its oversight of MFO operations and to address civilian observer unit personnel issues. In June 2004, the board held its initial meeting and discussed, among other topics, various approaches for recruiting for the chief observer post. However, the board has not yet developed the range of issues that it will address or established timelines for resolving these issues.

MFO has made changes to improve its personnel system and respond to some employee concerns. To improve its ability to retain experienced staff, MFO provided recontracting bonuses and incentive awards to staff. In addition, MFO standardized its employee performance reviews to improve the transparency of its appraisal system and upgraded the chief of personnel services position to a longer-term civilian position for greater expertise and continuity. MFO has also taken steps to improve workforce planning but has not undertaken a systematic review of its personnel system since 1985. Moreover, leading personnel practices suggest that other aspects of MFO's personnel system could be reviewed and subsequently modified. For example, MFO regulations and procedures do not clearly provide for outside mediation or external avenues of appeal for MFO employee complaints involving discrimination or sexual harassment. In addition, the MFO has neither addressed disparities in the representation of women in its workforce, especially in management positions, nor identified where barriers may operate to exclude certain groups and address these barriers.

The MFO has taken steps to improve its financial management and internal controls over the past 9 years. MFO installed a new financial management system and hired a management review officer to improve the efficiency and effectiveness of its operations. In addition, MFO changed its external auditor since the prior auditor had audited MFO's records for several years. Both auditors issued unqualified or "clean" opinions on MFO's annual financial statements. In addition, the current auditor audited the organization's internal controls and provided a clean opinion as well. Internal controls are audited every 3 years at MFO. However, unlike other international organizations, the MFO does not have an audit committee to independently oversee the external audits. According to leading internal control practices, an effective audit committee can provide an important oversight function. It can also play an important role in ensuring effective internal controls because of management's ability to override system controls. Establishing an additional oversight body or having the newly established State MFO management advisory board review and evaluate MFO financial practices could provide further assurance to MFO contributors on the state of MFO finances since the Director General has broad management authority not found in other international organizations.

For the past 9 years, MFO's budget has averaged about \$51 million annually. However, the organization faces a number of challenges that will make it difficult to continue operating within its current budget. Most important, the MFO must address the cost of replacing its antiquated fleet

of helicopters by fiscal year 2006, which preliminary estimates provided by DOD could total about \$18 million. As a result of this and other pressures on the budget, the major contributors' cost of supporting the MFO are likely to increase if the MFO maintains its current level of operations. Israeli and Egyptian officials stated that their governments do not support increases in their contributions. U.S. and MFO efforts to obtain support from other contributors generally have not succeeded. In addition, U.S. officials have yet to make a decision about increasing U.S. support to the MFO or adjusting its current cost-sharing arrangements with the MFO. Army, State, and MFO officials have yet to agree who should pay the increased costs associated with changes in the composition and pay scales of U.S. troops under current cost-sharing arrangements.

In this report, we recommend that the Secretary of State take steps to resolve the recurring concern of finding qualified candidates for the chief of the civilian observer unit, ensure that staff with accounting expertise are available to carry out State's financial oversight responsibilities for MFO and review the terms of the external audits, direct the MFO management advisory board to monitor and document the bureau's compliance with its guidelines for overseeing MFO, and work with Army officials to reconcile differences between Army and State views about the current MFO cost-sharing arrangement.

We have received oral comments from DOD and written comments from the Department of State and MFO, which we have reprinted in appendixes VI and VII. DOD generally agreed with our findings and conclusions. The Army also provided technical comments. State agreed with three of our recommendations but was not responsive to our recommendation to direct the advisory board to monitor and document NEA's compliance with its guidelines for overseeing MFO. The MFO generally agreed with our comments.

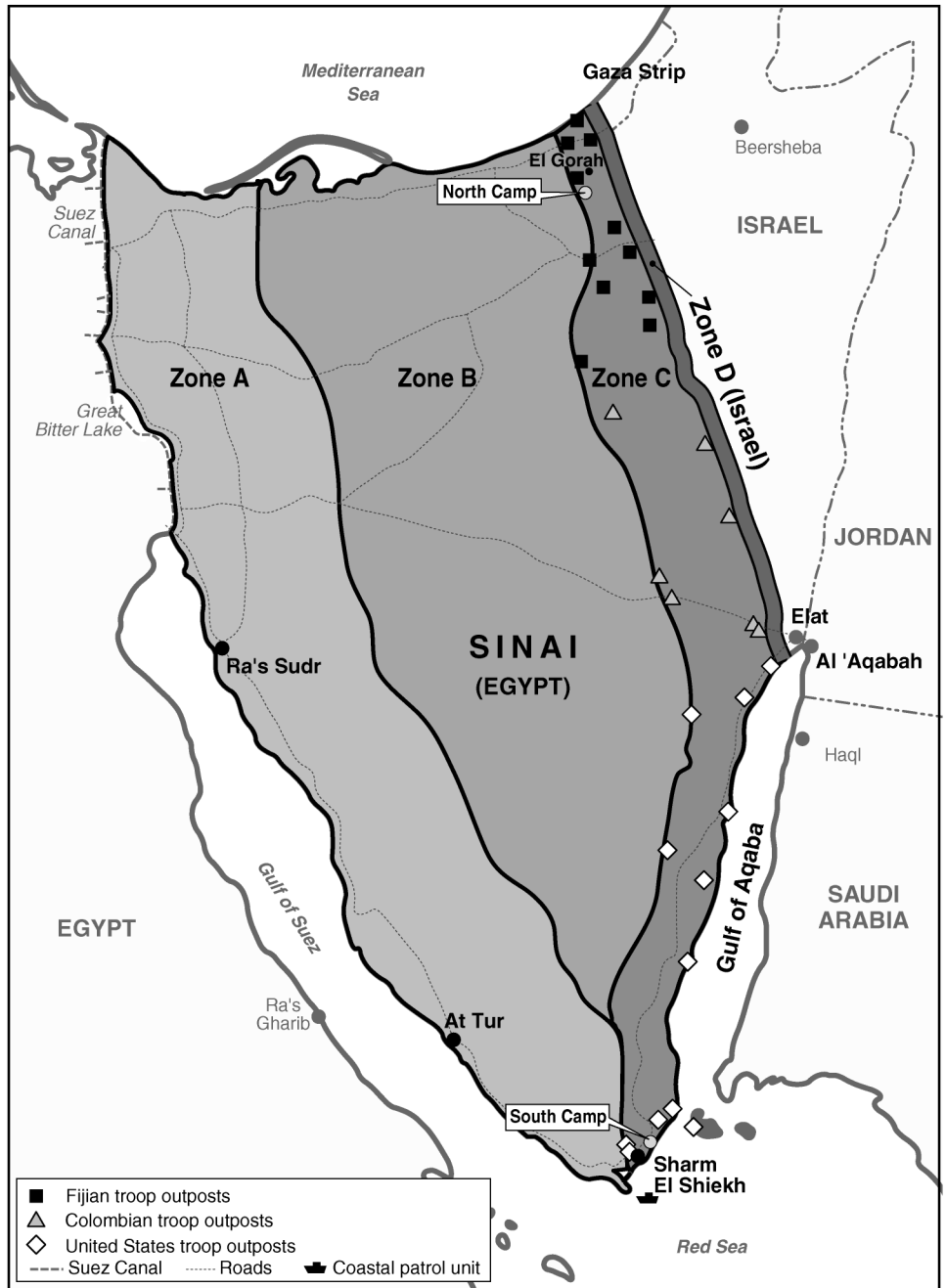
Background

The mission of the MFO is to observe and report on Israeli and Egyptian compliance with the security aspects of the 1979 treaty of peace. The agreement established four security zones—three are in the Sinai in Egypt, and one is in Israel along the international border. The multinational force occupies checkpoints and conducts periodic patrols to observe adherence of the treaty parties to agreed force limitations and patrols the Strait of Tiran between the Gulf of Aqaba and the Red Sea to ensure the freedom of navigation. The agreed force limitations for the four zones (see fig. 1) are:

- Zone A: One Egyptian mechanized division containing up to 22,000 troops;

-
- Zone B: Four Egyptian border battalions manned by up to 4,000 personnel;
 - Zone C: MFO-patrolled areas within Egypt, although civil police units with light weapons are also allowed; and
 - Zone D: Up to four Israeli infantry battalions totaling up to 4,000 troops.

Figure 1: Sinai Peninsula and MFO Area of Operations



Source: MFO (data); Map Resources (map).

The Department of State oversees U.S. participation in the MFO, nominates a U.S. citizen as the Director General, and helps recruit Americans to serve in the MFO civilian observer unit. MFO headquarters are located in Rome and the organization also maintains offices in Cairo and Tel Aviv to address policy and administration issues. The Force Commander—who is responsible for command and control of the force—and his multinational staff are located in the North Camp at El Gorah in the Sinai Peninsula. The U.S. infantry battalion and the coastal patrol unit are based in the South Camp near Sharm el Sheikh on the Red Sea (see fig. 2). The MFO’s annual operating budget of about \$51 million is funded in equal parts by Egypt, Israel, and the United States.¹ All parties pay their contributions in U.S. dollars.

Figure 2: U.S. Soldiers on Duty at an MFO Outpost Near South Camp

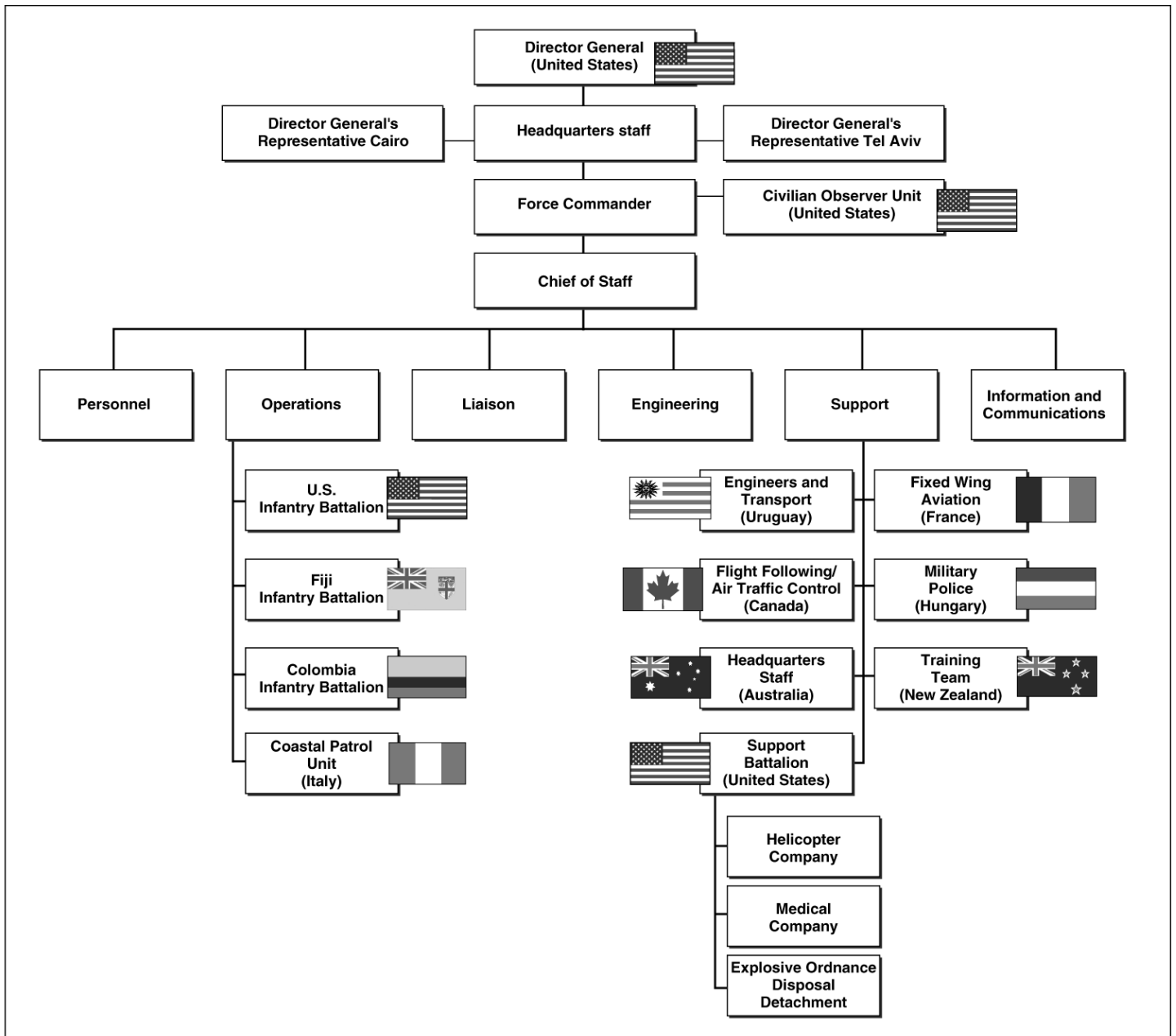


Source: GAO.

¹The governments of Germany, Japan, and Switzerland provided a combined financial contribution that averaged about \$1.4 million annually between fiscal years 1995 and 2003.

Currently, 11 countries deploy troops to the MFO. As of December 2003, the MFO military force consisted of 1,685 multinational troops, of which 687 were from the United States (see fig. 3). Colombia and Fiji also provide infantry battalions and Italy provides the coastal patrol unit. In addition, there is a civilian observer unit of 15 U.S. citizens that performs reconnaissance and verification missions. The chief observer and about half of the other observers temporarily resign from the State Department to fulfill 1- or 2-year MFO contract commitments; the other civilian observers are usually retired U.S. military personnel with renewable 2-year MFO contracts. (See app. II for details on the MFO work force.) Retired military personnel are often hired for their familiarity with military weapons and organizations, while State personnel are often hired for their diplomatic skills and experience in the region. All members need to become proficient in navigation, map reading, and driving in the Sinai, according to an MFO official.

Figure 3: MFO Organizational Chart (as of December 2003)



Source: GAO (data); Nova Development (flags).

Note: The Operations function is currently headed by a Norwegian officer.

The MFO Director General must be a U.S. citizen that is nominated by the State Department and appointed by the parties for a 4-year renewable term. The Director General appoints the Force Commander for a 3-year term that can also be renewed. The Force Commander cannot be of the same nationality as the Director General. MFO's other civilian employees are generally hired on 2-year contracts that can be renewed at the Director General's discretion.

In a 1995 report, we reported that the parties to the treaty and the U.S. government viewed the MFO as effective in helping maintain peace and in reducing certain costs. However, we found that State needed to provide greater oversight due to a lack of assurance regarding the adequacy of internal controls.² The report noted that, unlike other international organizations, the MFO does not have a formal board of directors or independent audit committee to oversee audits. Our recommendations in 1995 included that State take steps to improve its oversight by examining MFO annual financial statements for discrepancies and having MFO's external auditor periodically perform a separate audit of MFO internal controls that State was to review. State has implemented our recommendations except for examining MFO's financial statements for discrepancies.³

State Has Met Some of Its Oversight Responsibilities but Has Limited Evidence Documenting These Efforts

State has developed but not completely fulfilled its operational and financial oversight responsibilities described in its guidelines for overseeing the MFO. These oversight responsibilities included evaluating MFO financial practices, conducting oversight visits of MFO operations, and recruiting staff for the civilian observers' unit. We could not determine the full extent of the department's compliance with its guidelines because it does not have sufficient documentation to describe the quality and range of its efforts. The Office of Regional Affairs within State's Bureau of Near Eastern Affairs (NEA) is the single U.S. focal point for all MFO-United States government interaction and oversight. NEA's guidelines called for State officials to review the external auditors' reports and evaluate MFO

²U.S. General Accounting Office *Peacekeeping: Assessment of U.S. Participation in the Multinational Force and Observers*. [GAO/NSIAD-95-113](#) (Washington, D.C.: Aug. 15, 1995).

³In our 1995 review, State officials said that management of the U.S. contribution was based on a relationship of mutual trust with MFO management coupled with the reports of MFO's external auditor. We noted, however, that the generally accepted auditing standards for financial statement audits do not require an opinion on MFO internal controls and that MFO's external auditor reports had not included one.

financial practices. While reviews of the auditors' reports were performed, the staff did not possess the accounting expertise to evaluate MFO financial practices and did not do so. NEA is exploring options for obtaining the necessary expertise; however, it has not finalized its approach for redressing this issue. According to the guidelines, oversight is also informally conducted through the transfer of U.S. government personnel to key MFO positions, including a U.S. civilian observer unit. While State has successfully recruited many civilian observers, it has had difficulty in consistently recruiting candidates with strong leadership capabilities for the chief position. Recruiting for the chief observer post remains a concern because many candidates at State seek higher priority posts, such as the U.S. Embassy in Cairo, to enhance their careers rather than seek an MFO position. In response to a February 2004 recommendation made by the State Office of the Inspector General (OIG), NEA agreed to form an advisory board to oversee MFO operations. In June 2004, the advisory board had its initial meeting and discussed options for making the chief observer position more attractive. The board has not fully developed the range of issues that it will address or established timelines for resolving these issues.

Guidelines Did Not Require Documentation of Oversight Efforts

NEA developed guidelines for conducting MFO oversight in 1995 and updated the guidelines in 2002; however, the guidelines did not require that NEA document its oversight efforts. The guidelines sought to ensure that (1) U.S. government agreements and foreign policy objectives were being met; (2) MFO personnel practices were appropriate and in accordance with MFO regulations; (3) MFO operations were in compliance with its regulations; and (4) MFO resources were spent appropriately, financial transactions were recorded accurately, and internal controls were adequate. We could not determine whether State fully complied with its oversight responsibilities because it did not have sufficient documentation to support the extent and quality of its oversight efforts.

We reviewed documentation to support State's efforts to provide oversight of MFO from 1996 to 2004. These documents recorded communication between MFO and State officials about daily activities and operations of the MFO. However, we found that this documentation did not fully describe State's oversight efforts, the condition of MFO operations, State's views on MFO policies/practices, or recommendations for improving MFO operations. As a result, we could not determine the extent and quality of NEA oversight activities. The maintenance of accurate and timely records document efforts undertaken, and reviews by management help ensure

that management directives are carried out. Records are an integral part of an entity's stewardship of government resources. In addition, documentation provides information so that oversight activities can be assessed over time.

State Has Fulfilled Some but Not All of Its Oversight Responsibilities

While State has met some aspects of the guidelines for overseeing MFO, it has not fully complied with its guidelines in other areas such as evaluating MFO's financial practices. As discussed below, we reviewed the operational and financial oversight guidelines and State's efforts for complying with them.

State Officials Regularly Communicated with MFO Officials and Participated in Annual Trilateral Meeting

NEA guidelines called for its officials to maintain regular communications with key MFO officials, discuss U.S. foreign policy issues with MFO, and participate in the annual MFO Trilateral Meeting between Egyptian, Israeli, and U.S. officials. We reviewed letters of correspondence, reports, cables, and e-mails documenting regular communications with MFO officials and State's participation in the MFO Annual Trilateral Conferences of Major Fund Contributors. At the Trilateral, senior MFO officials discussed with delegates from Egypt and Israel information of interest to the United States. The U.S. delegate conveyed the U.S. position to the treaty parties and the MFO and discussed issues that ranged from routine matters relating to management and other administrative issues to major issues concerning MFO finances.

Recruiting Candidates Suited for Chief Observer Position Remains a Concern

NEA guidelines note that the transfer of U.S. government personnel to key MFO positions—including the U.S. civilian observer unit (COU)—is an informal mechanism of U.S. oversight. While NEA has successfully recruited many candidates for the civilian observer positions, it has not consistently recruited candidates with the qualities that senior State officials regard as important for the chief civilian observer post. These qualities include having the capacity to exercise strong leadership and management skills in a predominantly male military culture in an isolated environment. Annually, NEA recruits U.S. government employees for about six 1-year observer positions and a chief observer who serves 2 years in the MFO. State reviews the applications for these posts, develops a "short list" from which the MFO Director General selects a candidate, provides input into the final selection, and recommends the candidate for the chief observer position. In recent years, according to the MFO and State officials, ineffective leadership in the chief observer position contributed to considerable turnover in the unit. A number of chiefs or interim chiefs were dismissed or transferred due to poor leadership

capabilities. These problems resulted in low morale in the unit and to the early resignation of several observers.

Recruiting for the leadership post remains a concern because many qualified candidates at State desire and accept higher priority posts to enhance their careers rather than seek MFO positions. According to a senior State official, the qualities that make a good chief observer—regional experience, including Arabic language skills, and managerial experience—are in demand at regional posts with higher priority staffing demands. The MFO Director General stated that he would like to broaden the pool of candidates and recruit from other sources for the leadership position if State could not provide a candidate with appropriate credentials. State officials oppose this approach, stating that the position was an important symbol of U.S. commitment and required an experienced Foreign Service Officer. According to senior State officials, the department is reviewing options, such as elevating the position to a more senior Foreign Service level, to make the position more attractive to Foreign Service Officers. However, a timeline for addressing this issue has not yet been established.

Some Financial Oversight Responsibilities Were Met, but Staff Lacked Financial Expertise to Meet All Responsibilities

NEA has fulfilled some of its financial oversight responsibilities; however, its staff lacked the expertise to perform many required tasks. The guidelines called for NEA to review MFO budgets and financial plans; analyze income, expenditures, and inflation rates; review and analyze annual audit and internal controls reports issued by the external auditor; and evaluate MFO financial and auditing regulations. NEA guidelines stated that the OIG would provide assistance in evaluating MFO financial and auditing regulations. While NEA officials reviewed budgets and financial plans, audits, and internal control reports, they did not evaluate the financial and auditing regulations of the MFO, review its accounting notes, or assess the potential financial impact that inflation rates had on the MFO budget request. NEA officials stated that its staff did not possess the needed accounting and auditing expertise to fulfill all of the financial oversight responsibilities and that the OIG has not provided accounting and auditing assistance to NEA since 1998. In June 2004, NEA officials stated that they were exploring options for obtaining the necessary accounting expertise to review MFO financial practices; however, they have not yet determined how they will redress this issue or establish a timeframe for doing so. Leading practices indicate that personnel need to

State Annually Reported to Congress and Inspected MFO Locations

possess and maintain the skills to accomplish their assigned duties.⁴ Staff with the required skill could provide reasonable assurance that U.S. contributions are being used as intended and that financial reporting is reliable—including reports on budget execution, and financial statements.

Public Law 97-132 authorized U.S. participation in the MFO and established a requirement that the President submit annual reports to Congress every January 15. The report is to describe, among other things, the activities performed by MFO during the preceding year, the composition of observers, the costs incurred by the U.S. government associated with U.S. troops participating in the MFO, and the results of discussions with Egypt and Israel regarding the future of MFO and its possible reduction or elimination. State has met the annual reporting requirement.

NEA officials conducted biannual oversight visits to MFO headquarters and field locations as called for in the guidelines but did not document the results of those visits. In addition, the OIG reported that it found no trip reports that were prepared by NEA during that office's 20 years of MFO oversight. The guidelines stated that the purpose of the visits is to observe MFO operations and conditions in the field and compare observed practices with published MFO regulations. Among other things, oversight visits were to include tours of MFO facilities, including offices, warehouses, check points, and facilities for U.S. soldiers; meetings with all key MFO and U.S. military officials; and meetings with members of the U.S. civilian observer unit. According to State officials, briefings were held afterwards to describe the visits but written reports of these visits were not completed. However, without the maintenance of accurate and timely records, it is difficult to determine whether management directives were appropriately carried out.

NEA Is Considering Improvements for Conducting MFO Oversight

In November 2003, State's Inspector General conducted an internal review of NEA and made recommendations in February 2004 to improve NEA oversight. The OIG recommended that NEA transfer some of its oversight responsibilities from its Office of Regional Affairs to the Office of the Executive Director of NEA (NEA/EX). The OIG also recommended that NEA establish an advisory board to review MFO management practices and internal controls, including internal audits, and ensure the

⁴See U.S. General Accounting Office: *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington D.C.: Nov. 1999).

independence of these audits. NEA plans to give responsibility for the oversight of management/personnel issues to NEA/EX while the Office of Regional Affairs retains responsibility for the oversight of policy issues. NEA also agreed to form an oversight board to oversee MFO operations that is to be chaired by NEA/EX and include representatives from the OIG and the bureaus of Human Resources, International Operations, and Political-Military Affairs. The board, which met for the first time in mid-June 2004, discussed approaches to attracting candidates for the position of chief observer and other COU recruiting issues. The board has yet to determine its full range of responsibilities or scope of work. In addition, it has not yet established timelines for addressing these areas.

MFO Has Taken Some Actions to Improve Personnel Management but has not Systematically Reformed Its Personnel System

MFO managers have made improvements to MFO's personnel system but have not systematically updated the personnel system since 1985. For example, the Director General recently appointed a longer-serving civilian with personnel management expertise to replace the short-term military personnel officers serving short rotations on the MFO command staff. Moreover, leading personnel practices suggest that other aspects of the MFO personnel system could be reviewed and subsequently modified. For example, MFO regulations and procedures do not clearly provide for outside mediation or external avenues of appeal for MFO employee complaints involving discrimination or sexual harassment. In addition, the MFO has not addressed disparities in the representation of women in its workforce, especially in management positions, nor identified where barriers may operate to exclude certain groups and address these barriers.

MFO Has Made Some Improvements to Its Personnel System

MFO's current Director General has taken steps to update personnel policies to retain staff. In 2003, the Director General appointed a longer-serving civilian with personnel management expertise to replace the short-term military personnel officers serving short rotations on the MFO command staff. According to MFO documents and officials, this new manager for personnel in the Sinai provides continuity over personnel issues, takes a more active role in recruitment, has surveyed employees and acted on their concerns about safety and other quality of life issues, and is responsible for the equitable allocation of housing. Moreover, he has sought additional training to improve his effectiveness in this new role. Finally, MFO leadership has updated grievance procedures pertaining to sexual harassment complaints to boost employee confidence in the system and reemphasized to employees that they have zero tolerance for infractions of this policy. As the current Director General left in June 2004,

his successor will have to demonstrate a similar commitment to these changes in personnel policy to ensure that they succeed.

MFO management is taking steps to improve workforce planning. MFO managers stated that the personnel system was originally modeled in 1982 on State Department and U.N. systems. In addition, the MFO personnel manager stated that MFO managers have not undertaken a review of the personnel management rules since an outside consultant examined MFO personnel policies in 1985. However, MFO reviewed and updated some sections of its personnel manual in January 2004. MFO has also begun to make increased use of information technology to compare its future work requirements with its current human resources, and is using existing U.S. Army efficiency reviews of the U.S. contingent's operations to suggest ways to restructure its own military staff (see app. III for excerpts from our model for strategic human capital management planning).

To acquire, develop, and retain talent, MFO management has updated its recruitment practices to ensure that its new hires are both qualified and a good "fit" for the demanding work conditions in the Sinai. MFO uses professional recruiters to obtain civilians better suited to the MFO environment. MFO management has also updated its introductory materials, handbooks, and Web site to give prospective recruits a more comprehensive view of work requirements, benefits, and living conditions. MFO managers stated, however, that the "temporary" nature of the MFO mission precluded it from developing a career track for international staff. It does not, for example, provide the benefits that a career service track would offer, such as routine opportunities for promotion and pensions for long-serving employees.⁵ Nevertheless, the MFO has introduced incentives to retain long-serving staff, including pay increases normally worth 2 percent of salary for every employee who signs a contract extension and special nonmonetary service awards for 10-year and 20-year employees.

The MFO has also introduced improved performance appraisals for new staff on their probationary period and at the end of their contract period. These appraisals include basic assessments of job skills, performance, leadership, communications, cost management, initiative, and adjustment to the work environment and document performance feedback sessions. Staff are allowed to read and comment on their appraisals. MFO, however,

⁵MFO employees are eligible to receive a monthly premium worth 7 percent of employees' base salaries for use in retirement plan investments.

does not require its managers or staff to use a detailed formal appraisal to document annual performance reviews and feedback sessions. Instead, managers have the option of declaring that a staff member has performed satisfactorily. The new chief of personnel services stated that it was his intention to systematically collect employee feedback to help adjust MFO's human capital approaches and workforce planning, but he had not yet developed any data collection instruments as of December 2003.

MFO Has Not Addressed Other Important Personnel Management Practices

Despite its efforts to improve its personnel management practices, the MFO has not addressed two challenges that leading practices indicate could adversely affect its ability to strategically manage its human capital resources more effectively. These challenges are (1) the degree to which its grievance procedures are subject to outside and neutral arbitration or other alternative dispute resolution mechanisms and (2) the gender imbalance in the international civilian workforce.

Although the MFO employee grievance policy encourages early reporting and resolution at the lowest level practicable, it does not clearly provide for an independent avenue of appeal in cases of discrimination or sexual harassment. MFO's policies against discrimination and harassment allow for the possibility of employees using outside mediators to resolve complaints when an internal inquiry or investigation determines that sexual harassment or discrimination has occurred. However, the decision to use mediation rests with the Force Commander or Contingent Commander, not the complainant.⁶ Furthermore, MFO procedures do not allow complainants to seek mediation or pursue appeal outside the MFO when an investigation results in a finding that harassment or discrimination has not occurred.⁷ In contrast, the Equal Employment Opportunity Commission calls for U.S. agencies to make alternative

⁶Multinational Force Standing Orders, Policy Against Discrimination and Harassment, Ch. 38, § 38.14 (a-b) and 38.15(j) (Vol. 2). These procedures pertain to civilian employees of the MFO or to MFO soldiers when the complainant and the accused are soldiers from different national contingents. MFO's policy notes that when the complainant and accused are soldiers from the same national contingent, the contingent commander will handle the complaint.

⁷Broader MFO regulations allow for international arbitration of disputes or controversies involving employment contracts or the regulations, which, the MFO General Counsel states, could be invoked by employees who allege harassment or discrimination. Nevertheless, these regulations do not specifically cover sexual harassment or discrimination, and, according to the General Counsel, in the 22-year history of the MFO have never been used by MFO employees to take the organization to outside arbitration.

dispute mechanisms, such as mediators, available to complainants and U.S. antidiscrimination laws allow complainants to appeal their cases in court if necessary.⁸

We noted in past work that a one single model for international organizations' grievance procedures does not exist because criteria such as the degree of independence of a grievance board or committee depend on the legal environments in which these organizations operate.⁹ Nevertheless, our analysis of leading practices in the World Bank and other organizations indicates that a lack of clear means for resolving such grievances could be a concern for an organization's management because it could undermine employee confidence in the fairness of the personnel management system. For example, the U.S. government and the private sector employ alternative dispute resolution mechanisms such as arbitration, mediation, or management review boards to resolve discrimination complaints and other grievances in a cost-effective manner.¹⁰ Moreover, we noted that U.S. government agencies and international organizations have determined that access to alternative dispute mechanisms and providing an avenue for an independent appeal can enhance employee confidence in the entire human capital system.¹¹

MFO's current gender imbalance in management may also merit attention. The imbalance may indicate that there are obstacles to women attaining management positions that may need to be addressed. The United Nations, for example, determined that the gender balance of its professional

⁸State Department and MFO officials stated that members of the COU from the State Department can informally appeal to State in such cases, but State's OIG has concluded that the department has no jurisdiction because COU members are not State employees.

⁹The World Bank, for example, found that no one single model could be easily adapted to restructure its grievance procedures to meet its needs, because of the diverse approaches to workplace dispute resolution and differing legal structures found among Bank members. We noted that the World Bank did not follow through on our recommendation to collect meaningful data on employees' perspective on the fairness and credibility of its proposed reforms. See U.S. General Accounting Office, *World Bank: Status of Grievance Procedure Reforms*, [GAO/NSIAD-99-96](#) (Washington, D.C.: May 13, 1999).

¹⁰See *Alternative Dispute Resolution: Employers' Experiences with ADR in the Workplace*, [GAO/GGD-97-157](#) (Washington, D.C.: Aug. 12, 1997); and *Human Capital: The Role of the Ombudsmen in Dispute Resolution*, [GAO-01-466](#) (Washington, D.C.: Apr. 13, 2001).

¹¹See U.S. General Accounting Office, *Human Capital: Preliminary Observations on Proposed DHS Human Capital Regulations*, [GAO-04-479T](#) (Washington, D.C.: Feb. 25, 2004), and [GAO/NSIAD-99-96](#).

workforce was problematic, particularly in the management of peace operations. To address this imbalance, the United Nations is trying to achieve a professional work force with a 50 percent gender balance. We examined MFO prepared documents that showed that women represented 29 percent of the workforce (31 out of 108 international and national civilian positions)¹² and women filled only 8 percent of management positions (1 of 13 as of June 2004).¹³ In the United States, the Equal Employment Opportunity Commission would consider that such a gender disparity could be evidence of a differential rate for selection for women that warrants management attention.

State and MFO managers have noted that there are mitigating circumstances that may explain the lower representation of women in MFO's workforce. They stated a number of factors that might make the MFO posts in the Sinai an unattractive workplace for women: It is a predominantly male and military culture, there are few posts that allow for accompaniment by spouses, and it has no facilities for children. Nevertheless, these gender differences also exist at MFO locations in Rome, Tel Aviv, and Cairo, where these factors are not necessarily a concern. Leading practices among public organizations include evaluating the composition of their workforce, identifying differences in representation among groups, identifying where barriers may operate to exclude certain groups, and addressing these barriers.

MFO Has Improved Financial Accountability, but Additional Oversight May Be Needed

The MFO has taken steps to improve its financial accountability and its related financial internal controls over the past 9 years. It has also taken additional steps to improve its financial reporting to the State Department and to strengthen internal controls in response to recommendations we made to the MFO through the Department of State in 1995. Since then, the external auditors of its financial statements found no material weaknesses. The external auditors who reviewed MFO internal controls determined that the internal controls they tested were effective. However, internal control standards adopted by the MFO suggest that the MFO could do more to enhance the external audit function, particularly through the use of an independent audit committee to review the scope of activities of the

¹²The total includes four vacancies as of early 2004.

¹³MFO officials stated that they have selected a female manager as the next chief observer of the COU. In addition, MFO officials commented that local support staff hired by its labor contractor in Egypt employee some women in professional positions.

internal and external auditors annually.¹⁴ MFO and some State officials stated that this concern has been addressed by the new audit and review mechanisms adopted by the MFO since our last report. Israeli and Egyptian officials stated that their governments are satisfied with the degree of financial oversight and control they exercise over the MFO. Nevertheless, officials from State's OIG and senior managers within State's NEA Bureau acknowledged that the bureau's new MFO management advisory board needs to examine the issue of creating an external oversight board.

MFO Strengthened Financial Accountability and Internal Controls in Recent Years

The MFO has taken steps to improve financial accountability and strengthen internal controls. To keep the budget under \$51 million and improve the efficiency of the organization by emulating leading commercial management practices, MFO has (1) adopted a business activity tracking software program to improve management visibility over financial activities and logistics management, and (2) hired a management review officer to identify cost savings through the reviews of management procedures and contracts.¹⁵ Although we have not performed any direct testing of the software, or assessed the role or performance of the management review officer, both initiatives appear to be positive steps for MFO.

According to MFO staff, its adoption of a commercial business activity tracking software package in 2001 led to greater management oversight over all stages of procurement and other transactions and has strengthened internal controls. MFO officials state that this new system has built-in requirements for managerial approval at each step of the procurement process. Under this system, MFO procurement officers are assigned preset spending authority. Further, all procurement over \$50,000 and any sole source contract over \$30,000 requires the approval of the Director General. According to MFO officials, the visibility and control

¹⁴In line with the best practices of major financial institutions in the United States, the World Bank, and other international organizations, the MFO assessed its financial controls using the criteria for effective internal control established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), according to internal control evaluations conducted in 1998 and 2001. This control framework, known as the "Internal Control-Integrated Framework," establishes a common definition of management controls and provides a standard by which to assess improvements in these controls.

¹⁵Since 1995, MFO's leadership has committed itself to keeping the budget under \$51 million.

provided by this system have also simplified the external auditor's task in conducting its latest review of internal controls. MFO officials and documents did not attribute any budget savings directly to the implementation of this new system. However, they stated that they were able to reduce the number of staff and centralize four procurement operations. MFO officials did not make available the results of any recent implementation testing, however, and noted that many of the key performance indicators the system will track are under development.

In 2001, MFO hired a management review officer to identify cost savings through the reviews of management procedures, logistics contracts, and compliance with MFO requirements and controls. At the request of the Director General, this official performs some inspector general functions by conducting investigations on specific operations and accountability controls, and makes recommendations to improve procedures.¹⁶ According to MFO records and estimates, the MFO has conducted 19 "most efficient organization (i.e., leading practice) reviews" through January 2004. The management review officer's recommendations contributed to more than \$1.6 million in budgetary savings.

MFO Has Received "Clean" Opinions on Annual Financial Statements and Reports on Internal Controls since 1995

All MFO special reviews and annual financial audits since 1995 have demonstrated to the satisfaction of the external auditor that MFO maintained sufficient financial accountability. First, in late 1995, its external auditor, Price Waterhouse, reviewed MFO's internal control structure and made recommendations to strengthen them, which MFO agreed to adopt.¹⁷ Second, in 1996, MFO switched to a new external auditor, Reconta Ernst & Young, to conduct its annual financial audits. It issued unqualified or clean opinions on MFO's financial statements between 1996 and 2004.¹⁸ Third, MFO commissioned the auditor to perform

¹⁶According to leading public sector internal control practices described in GAO's *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: Nov. 1999), public agencies should have mechanisms in place to monitor and review operations and programs. The mechanisms could include an Inspector General independent of management to audit and review agency activities. The MFO management review officer consults with the Director General on the logic and scope of each review in advance, however.

¹⁷Price Waterhouse is now part of PricewaterhouseCoopers.

¹⁸In the external auditor's opinion, each of the MFO's financial statements between fiscal years 1995 and 2003 was prepared in conformity with modified generally accepted accounting principles (GAAP).

management compensation and benefits reviews in 1996, 1997, and 1999, which concluded that management received compensation and benefits substantially in compliance with MFO regulations.¹⁹ In 2000, however, the Director General terminated further compensation audits on the external auditor's recommendation that concluded that these reviews duplicated the annual audit and other reviews. Fourth, MFO commissioned Reconta Ernst & Young to perform separate internal control reviews every 3 years beginning in 1998. Reports issued in 1998 and 2001 stated that its auditors assessed the MFO's use of internal controls in relation to the criteria established in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations (COSO) and found that the internal controls it tested were effective.²⁰

MFO Could Strengthen the Independence of the External Auditor

The Treaty Protocol and MFO administrative and financial regulations provide the Director General responsibility for political, operational, and financial control issues pertaining to the organization. However, leading practices suggest that the MFO could better use independent input and oversight over external audits. The Director General selects and receives the reports of the external auditor. In addition, he can change MFO operations, policies, and procedures without review, consent, or approval from an oversight or senior management board. We previously reported that this level of authority is unique among international organizations, noting that other international organizations have an independent governing body above the chief executive to oversee and approve operations and finances. COSO internal control standards note that an effective internal control environment could depend in part on the attention and direction provided by oversight groups. These groups, such as an active and effective board of directors or audit committee, could

¹⁹The external auditor reached this conclusion in each compensation and benefit report using generally accepted auditing standards set forth in Statements of Auditing Standards number 35 (SAS 35) "Special Reports – Applying Agreed Upon Procedures to Specified Elements, Accounts or Items of a Financial Statement" as stipulated by Professional Standards of The American Institute of Certified Public Accountants.

²⁰The results of the 2004 internal controls review will not be available until autumn 2004, according to State Department officials.

enhance the audit function through their various review duties.²¹ Our standards for internal controls in the federal government similarly note the importance of independent audit committees or senior management councils as part of effective monitoring and audit quality assurance.²²

MFO and some State officials stated that there is no need for an oversight board to provide this extra degree of assurance. They note that our concern about the Director General's autonomy—and the potential for abuse of authority raised in our 1995 report—has been mitigated by the external auditor's reviews of management compensation and internal controls, as well as steps the MFO has taken to improve financial accountability and strengthen internal controls. Moreover, these officials stated that the organization is too small to employ a full-time independent inspector general. Finally, Israeli and Egyptian officials said that their respective governments are satisfied with the degree of oversight that they exercise through formal annual meetings, informal daily contacts, and review of MFO financial reports. However, officials from State's OIG and NEA acknowledge that a State oversight board could help ensure that the scope of work for audits are set independently from MFO management direction. Neither State nor its OIG has reviewed the scope of these external audits. The Inspector General concluded that, while State can only advise the MFO on these matters, the board is important because U.S. confidence in the integrity of the MFO is crucial to its continued support for the force.

²¹COSO standards caution that not all such mechanisms must be present to conclude that an internal control system is effective. They also note that there are no preferred methods to conduct and document internal control evaluations because the circumstances that different entities and industries are under dictate their choice of evaluation methodologies and documentation techniques. Small entities, for example, tend to be less formal and less structured than large organizations, and rely more on direct and continuous communication between management and lower-level personnel. COSO standards note, however, that the evaluation tools described in its framework can be used by entities of any size.

²²See U.S. General Accounting Office: *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington D.C.: Nov. 1999).

After 9 Years of Flat Budgets, MFO Faces Financial and Other Challenges

The MFO has maintained a flat budget of about \$51 million for the past 9 years, but it faces a number of challenges that will make it difficult to continue operating within its current budget. In particular, the MFO must address the issue of replacing its antiquated fleet of helicopters by fiscal year 2006. DOD projects that replacing the fleet could cost about \$18 million. As a result of this and other pressures on the budget, the costs of supporting the MFO are likely to increase if the MFO maintains its current level of operations. However, Israeli and Egyptian officials stated that their governments do not support increases in their contributions, and U.S. and MFO efforts to obtain support from other contributors have not succeeded. U.S. officials have yet to make a decision about increasing U.S. support to the MFO or adjusting its current cost-sharing arrangements with the MFO. In addition, the U.S. Army, State, and MFO officials have yet to agree on who should pay the increased costs associated with changes in the composition and pay scales of U.S. troops under current arrangements.

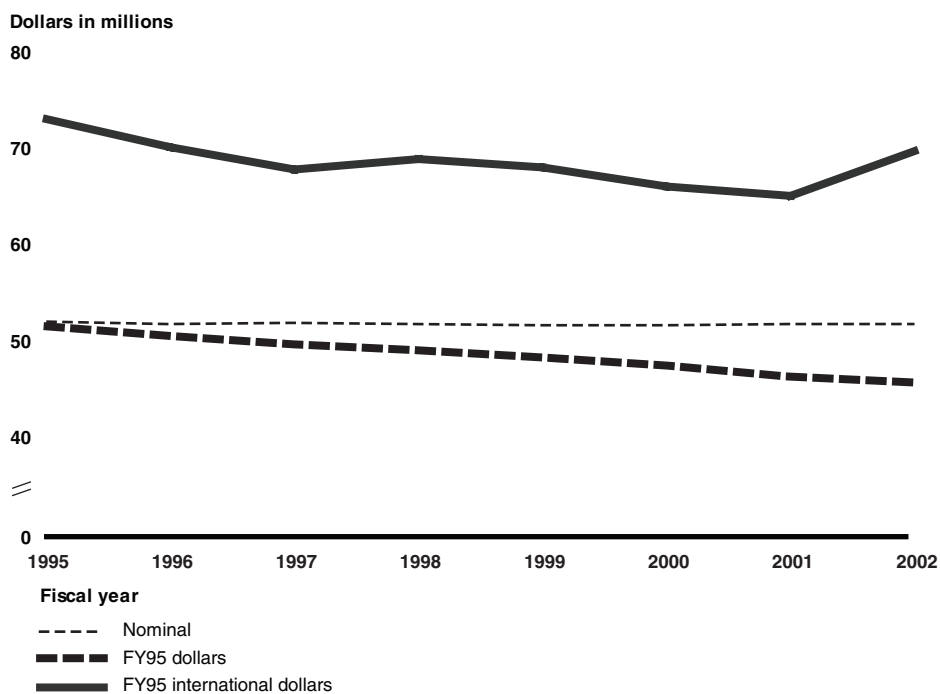
MFO Has Maintained a Level Budget of \$51 Million since 1995

MFO financial reports show that the organization has kept its budget at about \$51 million between fiscal years 1995 and 2003. Contributions to MFO's annual budget are paid by all parties in U.S. dollars. We reviewed MFO's budget from fiscal years 1995 through 2002. We found that when adjusted using a U.S. dollar inflation rate, MFO's budget has declined 12 percent between fiscal years 1995 and 2002 (see fig. 4). We also estimated the MFO's budget in constant international dollars because MFO purchases goods and services in countries such as Egypt, Israel, and the United States, where the U.S. dollar has different purchasing power.²³ Because similar goods are inexpensive in dollar terms when purchased in Israel and Egypt as compared to the United States, the purchasing power of MFO's budget was significantly greater when measured in constant 1995 international dollars. This figure was \$72 million in fiscal year 1995 and \$69 million in fiscal year 2002. However, the MFO budget was \$51 million in fiscal year 1995 and \$45 million in fiscal year 2002 when measured in fiscal year 1995 dollars. Moreover, we found that, between fiscal years 1995 and 2002, the MFO budget declined only about 5 percent using

²³Purchasing power refers to the amount of goods that one international dollar can purchase in different countries. An international dollar is equivalent to the amount of goods and services that 1 U.S. dollar can purchase in the United States. For example, in 1995, 1 U.S. dollar could purchase goods in Egypt worth \$2.69 in the United States. In 2002, 1 U.S. dollar could purchase goods in Egypt worth \$2.93 in the United States. For purposes of this analysis, we assumed all MFO purchases not made in Egypt or Israel were made in the United States because MFO could not provide data regarding purchases made in other countries.

constant 1995 international dollars as compared with the 12 percent decline in fiscal year 1995 U.S. dollars. This decline was partially offset because MFO was able to reduce the economic impact of U.S. dollar inflation by shifting more of its purchases to Egypt and Israel during this period. MFO increased its purchases in Egypt and Israel from 43 percent of its budget in 1995 to 54 percent in 2002 as measured in nominal U.S. dollars. When measured in international dollars, however, goods and services purchased from those two countries increased from an estimated 60 percent of the MFO budget in 1995 to almost 70 percent in 2002 (see app. IV for details on calculating MFO budget in international dollars).

Figure 4: MFO Budget in Nominal and Constant Purchasing Power Dollars



Source: GAO calculations using World Bank and MFO data.

MFO has attained cost savings in recent years through better management oversight and reduction of inventory costs. As mentioned previously, the adoption of a commercial business activity tracking software package and the hiring of a management review officer in 2001 led to greater efficiencies in logistics and facilities management, vehicle maintenance, personnel, finance, and contracting. As a result, according to a senior MFO official, recommendations of the management review officer contributed

to almost \$1.7 million in savings. Moreover, according to a senior MFO official, more effective management of tracking of freight costs and services has contributed to a 46 percent reduction in total storage and freight costs between fiscal years 2002 and 2003, or a savings of \$265,000. Furthermore, its projects to connect its two camps in the Sinai to the commercial Egyptian power grid is projected by MFO to save about \$825,000 a year on electricity costs, once the North Camp project is completed in 2004.

New Challenges Complicate Future Budget Outlook

One of the key cost issues for the immediate future is the replacement of aging UH-1H Huey helicopters. The U.S. Army provides an aviation company with 10 UH-1H helicopters to the MFO to perform various mission-related tasks for the MFO. As of December 2003, the unit had about 97 associated Army personnel. According to DOD officials, U.S. Army plans call for the retirement of its entire UH-1H helicopter fleet by fiscal year 2006. Furthermore, Army officials stated that DOD has considered various options as replacements for the MFO helicopter fleet and is waiting for the Secretary of Defense's decision on this matter. First, the Army is considering outsourcing its MFO aviation unit to a private contractor.²⁴ This option would reduce U.S. military personnel participation in the MFO, but preliminary DOD estimates indicate that it would cost about \$18 million in the first year and \$13 million annually thereafter.²⁵ Second, according to U.S. Army officials, Army is considering replacing the MFO Hueys with eight UH-60 Black Hawk helicopters (see fig. 5). These officials stated that MFO prefers the outsourcing option because there would be no need to upgrade hangar facilities and other infrastructure to support the Black Hawks, thereby limiting their financial obligation. Officials from Israel and Egypt stated that they would leave the decision to the United States. They do not, however, want to incur additional financial obligations.

²⁴According to Army officials, the helicopter equipment and support would be provided through the Logistics Civil Augmentation Program, a single, centrally managed worldwide planning and services contract used by the Army to (1) preplan for the use of contractor support in contingencies or crises and (2) take advantage of civilian resources in the United States and overseas to augment active and reserve forces. Halliburton's subsidiary, Kellogg Brown & Root, currently holds this contract.

²⁵According to an Army official, this figure is based on a rough order of magnitude cost estimate prepared by Kellogg, Brown & Root in 2002. The final cost is likely to be significantly higher when adjusted for inflation and a revised statement of work is prepared.

Figure 5: U.S. Army Helicopter Options for MFO Service



UH-1H Huey

UH-60 Black Hawk

Sources: GAO (left), DOD (right).

The need to replace aging infrastructure and fund new capital improvement projects will also require additional funding. According to U.S. military officers in the Sinai, the North Camp accommodations for the soldiers will need to be replaced over the next 2 to 5 years. A senior MFO official stated that the MFO has begun to consider replacing some of these accommodations and will be exploring several options in the near term. However, no plan has been finalized, and the official did not have cost estimates to provide as of March 2004.

Efforts to Increase Other Sources of Support Have Not Generally Succeeded

As part of U.S. efforts to reduce troop deployments throughout the world to better meet the demands of the war on terror—and the cost of these deployments—the United States has tried to obtain troop and financial contributions from other nations to reduce its MFO obligation, according to U.S. officials.²⁶ To date, these efforts have not been successful. In 2003, the Department of State requested military contributions from more than 20 countries that would then enable the United States to draw down its forces. Five countries responded favorably, but only an offer by Uruguay to send additional transportation personnel to replace a U.S. Army transport company was considered feasible by the MFO. The increased

²⁶In addition to the income that the MFO receives from the United States, Egypt, and Israel, it also receives some additional financial contributions from Japan, Germany, and Switzerland. In fiscal year 1995, these countries together provided an additional \$1.7 million to the MFO. However, these annual contributions have steadily declined and totaled less than \$1 million in fiscal year 2003.

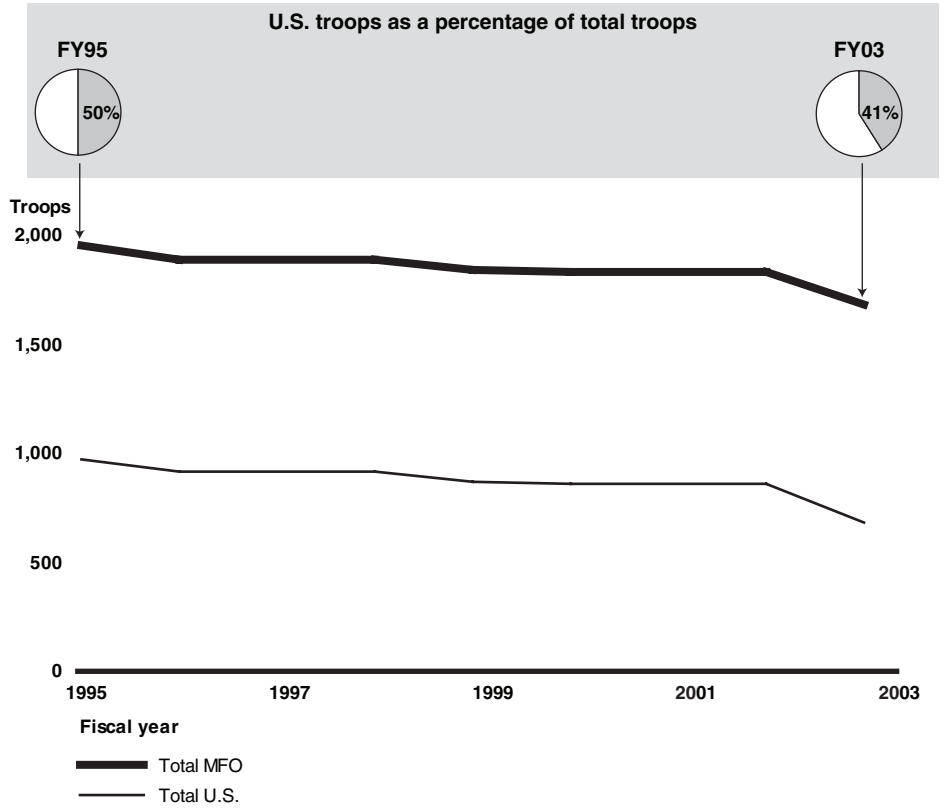
Uruguayan deployment in July 2003 allowed the Army to draw down its MFO contingent by 74 troops.²⁷ U.S. officials also requested financial contributions as part of this query, but other countries declined to provide this support. U.S. attempts to obtain increased financial contributions from Israel and Egypt have also not been successful.

**Army, State, and MFO
Have Yet to Agree as to
Who Should Pay the
Increased Expense for
Providing U.S. Troops to
the MFO**

In addition to the annual U.S. financial contribution to the MFO of about \$16 million, the United States incurs an annual expense for deploying several hundred troops to the MFO that averaged about \$45 million annually from fiscal years 1995 through 2003. The cost of supplying U.S. troops to MFO has risen since fiscal year 1999, even though the number of U.S. troops has declined (see figs. 6 and 7). The increase is due to rises in salaries and in the amount of special pay provided to U.S. troops. The MFO agreed to compensate the U.S. Army for special pay categories and other allowances incurred when U.S. troops are deployed to the Sinai. However, in recent years, the U.S. Army has raised the rates for some cost categories and has created additional costs categories that did not exist at the time of the initial or revised cost-sharing arrangement. Currently, Army disagrees with State and MFO over who should pay these additional costs.

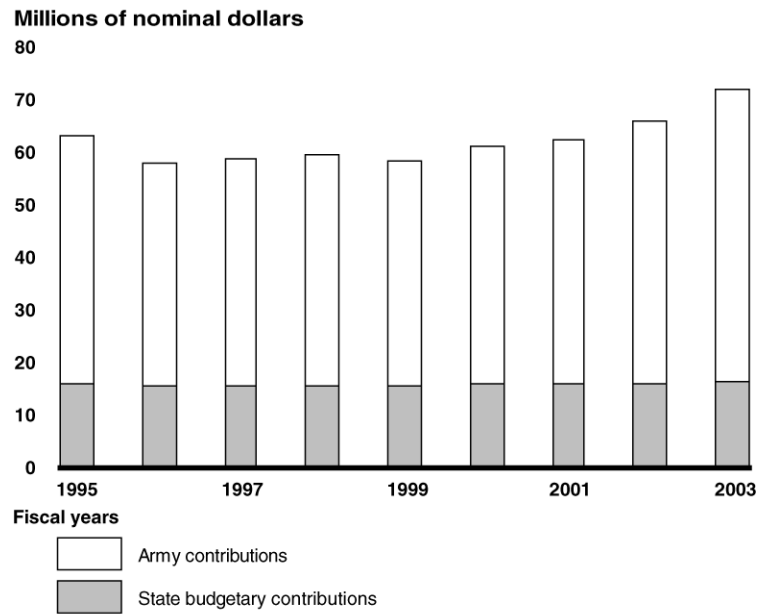
²⁷The United States also reduced its infantry battalion by 104 soldiers in 2003, for a total reduction of 178 U.S. troops.

Figure 6: Total Number of MFO Troops (including U.S. troops) and Number of U.S. Troops for Fiscal Years 1995 through 2003



Source: GAO analysis of MFO data.

Figure 7: Cost of U.S. Participation in MFO



Source: GAO analysis of MFO data.

The increased expense for supplying the MFO with U.S. troops is due primarily to a rise in troop salaries, which are paid by the Army, and changes in special pay categories such as foreign duty pay and family separation pay, which are partly paid for by the MFO. For example, salaries have increased because beginning in 2002, National Guard troops have been deployed instead of active duty soldiers. National Guard troops tend to have been in grade longer than active duty soldiers and are consequently paid more. The U.S. Army pays for the increases in troop salaries. (See app. V for details on the cost of U.S. participation in MFO between fiscal years 1995 and 2003.)

The MFO and the United States agreed to share the costs of providing U.S. troops to the MFO in 1982 and revised these arrangements in 1994 and 1998. Under these agreements, the Army agreed to credit the MFO for the costs these troops would have normally incurred had they remained in the United States, including food and lodging, base support, and operations and maintenance costs. The MFO agreed to pay some of the additional costs incurred by the deployment of U.S. troops to the Sinai, including special pay categories and other allowances.

In the revised 1998 arrangement, the U.S. Army and the MFO did not reach specific agreement on how Imminent Danger Pay would be shared. While the agreement increased rates for other special pay categories, these rates were less than those established in U.S. law. Army officials believe that MFO should pay these increased costs for supplying U.S. troops; however, MFO and State officials disagree with this position.²⁸ According to an Army official, the Army will seek MFO reimbursements for special pay categories totaling \$3.3 million for fiscal year 2004; an MFO official stated in June 2004 that the MFO protested this action to the Army and Department of State. In addition, Army officials stated that MFO should pay a greater share of the costs for sustaining National Guard troops while they are on duty at the MFO. Army officials reduced by \$1 million the credit it will provide to the MFO for sustaining the U.S. infantry battalion in fiscal year 2004 because the formula it used to calculate the credit was out-of-date since National Guard battalions have been sent to the MFO in place of active duty units in recent years.²⁹ In May 2004, U.S. Army and State officials met with MFO officials to discuss differences but did not present a unified U.S. government position on how the cost-sharing arrangement should be modified.

Conclusion

The two parties to the treaty and the United States are satisfied that the MFO is effectively fulfilling its mission of helping to maintain peace between Egypt and Israel. MFO has maintained its peacekeeping operation with a multinational force in the Middle East, a troubled and unstable part of the world. The organization has modified several of its policies and practices to make them consistent with leading practices in financial management and personnel. There are, however, opportunities for the organization to further improve in these areas. MFO has made several changes to its operations even though its budget has been flat for the past 9 years. The organization has benefited greatly because it has increased the amount of goods and services purchased in Israel and Egypt where the

²⁸According to State and MFO officials, the MFO is only required to reimburse the Army for certain special pay categories at the lower levels set in the March 1982 letter and annexes exchanged between the Secretary of State and the MFO Director General, and as increased in cost-sharing memorandums of understanding signed in 1994 and 1998. These agreed upon rates are lower than those currently provided under U.S. law.

²⁹These reimbursement costs originally were calculated based on the cost to the U.S. Army of sustaining an active duty infantry battalion in the United States. According to an Army document, the cost-sharing formula is out-of-date because the Army does not generally pay costs for National Guard troops that are deployed in the United States.

purchasing power of the U.S. dollar had increased during that period. Despite these changes, MFO contributors may face increased budgetary challenges due to the possible replacement of MFO's helicopter fleet. State is the organization charged with overseeing U.S. participation in the MFO and recruits State employees to fill key MFO positions. Nevertheless, State has not provided employees who possess the expertise to carry out many of its financial oversight responsibilities. In addition, MFO raised concerns about the leadership capabilities of some of the staff whom State recruited for the chief civilian observer post. Finally, since the MFO does not have an external oversight board, as do many international organizations, effective State oversight of MFO and agreement between the United States and the MFO on cost-sharing arrangements is essential to ensure that the cost of U.S. troop participation is equitably shared.

Recommendations for Executive Action

While NEA has begun to address some of the issues that are stated below, it has not established timelines for their resolution. To promote improved oversight of the MFO and ensure that NEA redresses these issues, we recommend that the Secretary of State take the following four actions:

- resolve the recurring concern of finding qualified candidates for the chief of the civilian observer unit;
- ensure that staff with accounting expertise are available to carry out NEA's financial oversight responsibilities for MFO and, if necessary, review the terms of MFO's external audits to ensure that they are appropriate;
- direct the MFO management advisory board to monitor and document NEA's compliance with its guidelines for overseeing the MFO; and
- work with Army officials to reconcile differences between Army and State views about the current MFO cost-sharing arrangements.

Agency Comments and Our Evaluation

The Department of State and MFO provided technical and written comments on a draft of this report (see apps. VI and VII). The Department of Defense provided oral comments and generally agreed with our findings. It also provided technical comments that we incorporated where appropriate. The Department of State agreed with three of the four recommendations and did not respond to one of the recommendations. State agreed with our conclusion that it had experienced problems in consistently recruiting chief observers with the necessary leadership skills

and stated that the new State MFO Management Advisory Board is considering measures to encourage highly qualified State employees to fill the chief observer position. State agreed with our recommendation that staff with accounting expertise carry out NEA's financial oversight responsibilities for MFO. However, State believes that the current NEA oversight regime provides the assurances necessary and its limited resources do not allow hiring additional accounting personnel to evaluate MFO's financial practices. As a result, State plans to ask the OIG to periodically evaluate MFO's accounting and financial practices. We do not agree that the current oversight regime provides the assurances necessary regarding MFO's finances. We found that NEA did not perform several aspects of MFO financial management oversight—such as evaluating MFO financial practices—because of a lack of expertise among NEA staff. We agree, however, that having the OIG periodically review MFO accounting and financial practices is sufficient. Finally, State also agreed with our recommendation to work with Army to reconcile differences about current MFO cost sharing arrangements.

State was not responsive to our recommendation to direct the MFO Management Advisory Board to monitor and document NEA's compliance with its guidelines for overseeing MFO. State responded that it plans to supplement the annual report to Congress that describes its MFO oversight activities with quarterly reports to the newly formed advisory board. The OIG recommended that NEA establish an advisory board because it found that while NEA policy oversight was strong, its management and personnel oversight were not as satisfactory. While the board works to define its authority and responsibilities, it should ensure that NEA exercise more concerted oversight of MFO activities by complying with NEA guidelines and documenting its efforts for overseeing MFO.

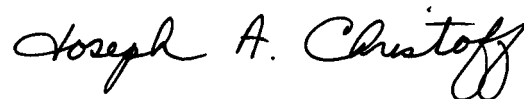
The MFO generally agreed with the report's findings. The MFO welcomed the report's recommendations for State to improve the recruiting process for the chief observer and for the U.S. government to develop a unified position regarding the Army's claims for increased payments by the MFO. MFO also stated that it would consider our report's findings regarding additional outside mediation or review mechanisms for complaints involving discrimination and sexual harassment. It also noted that it will also consider our findings of a perceived gender imbalance in the MFO workforce.

The MFO took exception to our finding that, with few exceptions, MFO employees tend to stay in the same positions for which they were

contracted. They stated that six headquarters' employees had been promoted or transferred from other positions. However, the MFO personnel manual states that there is not a career path for employees due to the temporary nature of the organization. Moreover, MFO does not have systems in place that establish standard employment grades for its positions, requirements for competitive promotion opportunities, or advertise opportunities for promotion. We interviewed several long-serving staff in the field who stated that opportunities for advancement were not available and that they have remained in the position for which they were hired. Finally, MFO accepts that there are opportunities to improve its human resource management but noted that the adoption of U.S. government or U.N. human resource practices may entail significant costs and overhead for a small organization. We agree that organizations must be careful to consider their unique characteristics and circumstances when considering the applicability of human resources practices that we have identified in appendix III. MFO also disagreed with the factual accuracy of one of the numbers in appendix II. We made changes to reflect MFO corrections.

We are sending copies of this report to other interested Members of Congress. We are also providing copies of this report to the Secretary of State, the Secretary of Defense, and the Director General of the Multinational Force and Observers. We will also make copies available to others upon request. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-8979 or christoffj@gao.gov, or Phyllis Anderson at (202) 512-7364 or andersonp@gao.gov. In addition to the persons named above, B. Patrick Hickey, Lynn Cothorn, Elizabeth Guran, and Bruce Kutnick made key contributions to this report.



Joseph A. Christoff
Director, International Affairs and Trade

List of Requesters

The Honorable Joseph I. Lieberman
Ranking Minority Member
Committee on Governmental Affairs
United States Senate

The Honorable Daniel K. Akaka
Ranking Minority Member
Subcommittee on Financial Management, the Budget,
and International Security
Committee on Governmental Affairs
United States Senate

The Honorable Richard J. Durbin
Ranking Minority Member
Subcommittee on Oversight of Government Management,
the Federal Workforce, and the District of Columbia
Committee on Governmental Affairs
United States Senate

The Honorable Mark Pryor
United States Senate

Appendix I: Scope and Methodology

We (1) assessed the Department of State's oversight responsibilities for U.S. participation in the MFO, (2) reviewed MFO's personnel policies and practices, (3) examined MFO's financial management and accountability, and (4) reviewed emerging budgetary challenges.

We focused our audit work at MFO and State on activities and transactions starting in 1996 through 2004, the period subsequent to the prior GAO report. We visited MFO offices in Rome, Cairo, and Tel Aviv and force installations in the Sinai Peninsula. We also met with the Israeli and Egyptian Ministries of Foreign Affairs and Defense in Jerusalem and Cairo.

To assess the Department of State's oversight responsibilities, we reviewed the oversight guidelines developed by the Office of Regional Affairs of State's Bureau of Near Eastern Affairs (NEA/RA) and supporting documentation including State's Annual Reports to Congress, cables, MFO Director General Annual Reports for the Trilateral Conferences of Major Fund Contributors, MFO external auditors' financial statement audit and internal control reports and turnover statistics of staff working in the civilian observer unit. We could not determine the full extent of State's efforts because it did not document the nature, quality, and range of its oversight activities. We also met with State/NEA officials responsible for overseeing U.S. participation in the MFO to discuss the frequency, nature, and extent of State contact with MFO. We discussed the views of the Egyptian and Israeli governments on the MFO's performance with military and foreign affairs officials from both countries. We interviewed NEA and MFO officials and current and former members of the Civilian Observer Unit to obtain an understanding of State's recruiting efforts and interaction with the COU. We met with officials from State's Office of Inspector General (OIG) to discuss their inspection of NEA, and we also reviewed relevant OIG reports. In addition, we assessed the status of State's compliance with prior GAO recommendations.

To review MFO's personnel management system, we examined MFO personnel regulations, internal reports and briefings that described personnel policy changes, personnel statistics, performance appraisal forms, and other documentation on the organization's personnel practices. We also examined leading human capital management policies and practices of public organizations to determine if MFO personnel regulations and policies relating to employee expectation setting, performance appraisals, employee grievance processes, alternative dispute resolution mechanisms, and sexual harassment policies followed the spirit of leading practices. We interviewed MFO officials, members of the

civilian observer unit, MFO staff, and NEA officials to obtain their views on the organization's personnel system.

To examine MFO's financial management and accountability, we reviewed the external auditors' financial statement audits and internal control reports, other special reviews performed by the external auditor, and reports completed by State's OIG. We also reviewed MFO management review officer's reports, MFO financial regulations, and documentation on MFO's recently installed financial management system. We discussed the scope and nature of the management review officer's position and recent work with MFO officials. We interviewed NEA, DOD, MFO, Israeli, and Egyptian officials to determine their views on MFO's financial management and the degree of accountability of the Director General.

To report on some of the potential budgetary challenges MFO may face, we examined budget data and supporting documentation for fiscal years 1995 through 2003 provided by MFO, NEA, and the U.S. Army's Office of Assistant Secretary of the Army for Financial Management and Comptroller. We discussed with DOD, State, and MFO officials trend data on costs and estimates for substituting U.S. Army UH-60 Black Hawk helicopters or a private contractor's helicopter unit for the current MFO force of UH-1H Huey helicopters. We did not verify the accuracy or completeness of the estimates or verify the accuracy of the budgetary savings MFO officials associated with particular cost saving initiatives.

To assess the reliability of the data on the costs associated with U.S. participation in the MFO, we (1) interviewed State, Army, and MFO officials about the sources of their data and the means used to calculate costs, (2) reviewed MFO's annual financial reports and State's annual report to Congress on the MFO, (3) traced U.S. Army's reported costs for its contributions to the MFO back to the source documents, (4) traced the Army's calculation of the costs associated with providing salaries to the soldiers stationed with the MFO—these salary costs constitute over 80 percent of the total costs of the U.S. Army contribution to the MFO—back to the DOD personnel composite standard pay and reimbursement rates for fiscal years 1999 through 2003, (5) performed tests on the data provided by the U.S. Army regarding the cost of U.S. participation in the MFO between 1999 and 2003 to check for obvious errors or miscalculations, and (6) reviewed the report of the MFO's independent external auditor on State's contributions. However, we did not audit the data and are not expressing an opinion on them. We determined that the data were sufficiently reliable for the purpose of reporting the total costs of U.S. participation in the MFO.

We conducted our review from September 2003 to May 2004 in accordance with generally accepted government auditing standards.

Appendix II: MFO's Small but Challenging Workforce

MFO has a small and varied professional civilian workforce of 108 international and local national staff located in Rome, Cairo, and Tel Aviv.¹ Contractors provide an additional 59 expatriate support staff and 454 local workers. Eight of the 13 management-level employees are U.S. citizens. The international staff, including 14 U.S. citizens, support and direct the operations of 1,685 peacekeeping troops from 11 countries with unit or individual tours of duty varying between about 2 months and 1 year.² A further 15 U.S. citizens serve in the civilian observer unit (COU): about half the observers, including the chief observer, temporarily resign from the State Department to fulfill 1- to 2-year contract commitments; the other half are civilian contractors, usually recruited from retired U.S. military personnel serving under renewable 2-year contracts. Table 1 provides details on MFO personnel locations, types, and numbers.

Table 1: MFO Civilian Staff by Location and Type, 2003

Location	International— managerial and other direct hire civilians	COU staff (U.S.)	National – Administration & Support (Italian and Israeli)	Total MFO employees	Local- Professional Contract Hire Civilians (Egyptian)	Contracted Technical and Support Staff ^a (expatriates)	Sub-Contracted Local Technical and Support Personnel (Egyptian) ^b	Total staff at MFO sites
Rome	12	-	11	23	-	-	-	23
Tel Aviv	1	-	18	19	-	-	-	19
Cairo	2	-	0	2	14	-	-	16
Sinai	49	15	-	64	15	59	454	592
Total	64	15	29	108	29	59	454	650

^aU.S.-based firm Holmes and Narver Services Incorporated (HNSI) employs the expatriate technical and support staff.

^bAn HNSI subcontractor, Care Services, Incorporated, provides these employees.

MFO working conditions present challenges for management and staff. MFO workers have limited prospects for advancement or job mobility because the organization views itself as having a temporary mission. The international workforce has decreased by about 62 percent since 1982. With few exceptions, MFO employees tend to stay in the same positions

¹The total includes four vacant international positions in the Sinai.

²Other international civilian staff come from Great Britain (35), Australia (2), Canada (2), France (1), New Zealand (2), Italy (1), and Mexico (1). A staff member of unidentified nationality fills one position.

for which they were contracted and its many long-serving workers in administrative positions lack opportunities to progress to higher positions.

MFO managers stated that while MFO's pay scales and other benefits help it successfully compete for staff with oil companies and other commercial international organizations in the region, it is challenging to find civilian employees with the ability to work successfully in the austere military atmosphere and isolated living environment in the Sinai. The main camp at El Gorah in the northern part of the Sinai is in a sparsely populated area with few amenities outside the camp. Only 17 military and civilian positions in the Sinai allow for accompaniment by a spouse, and facilities for children are lacking. Visits by family members are also very limited. The force's personnel system reflects the "temporary" nature of the MFO's mission; most international contractors serve under initial 2-year contracts that can be renewed at the discretion of the Director General. According to MFO documents, employment with the MFO is not a career service and initial employment with the MFO does not carry any expectation of contract renewal or extension. Several long-term employees stated that there are limited job progression opportunities with the MFO. Heightened concerns about terrorism since September 11, 2001, and ongoing violence in areas under Israeli control has led to significantly restricted opportunities for travel off the bases.

Appendix III: GAO's Model for Strategic Human Capital Management Planning

U.S. and international public organizations have found that strategic workforce planning is essential to (1) aligning an organization's human capital program with its current and emerging mission and programmatic goals and (2) developing long-term strategies for acquiring, developing, and retaining staff to achieve programmatic goals.¹ We have developed a strategic human capital management model based on leading practices to help U.S. and international public organizations assess their efforts to address the key challenges to developing a consistent and strategic approach to human capital management. We caution that agencies applying this model must be careful to recognize the unique characteristics and circumstances that make organizations different from one another and to consider the applicability of practices that have worked elsewhere to their own management practices.²

Our work has shown that the public organizations face four key human capital challenges that undermine agency efficiency. The model consists of four cornerstones designed to help public organizations address the challenges in the four areas—leadership; strategic human capital planning; acquiring, developing, and retaining talent; and results-oriented organizational culture. Each cornerstone is associated with two critical factors that an agency's approach to strategic human capital planning must address. Moreover, for each of the eight critical success factors, the model describes three levels of progress in an agency's approach to strategic human capital planning:

- Level 1: The approach to human capital is largely compliance-based; the agency has yet to realize the value of managing human capital strategically to achieve results; existing human capital approaches have yet to be assessed in light of current and emerging agency needs.
- Level 2: The agency recognizes that people are a critical asset that must be managed strategically; new human capital policies, programs, and practices are being designed and implemented to support mission accomplishment.

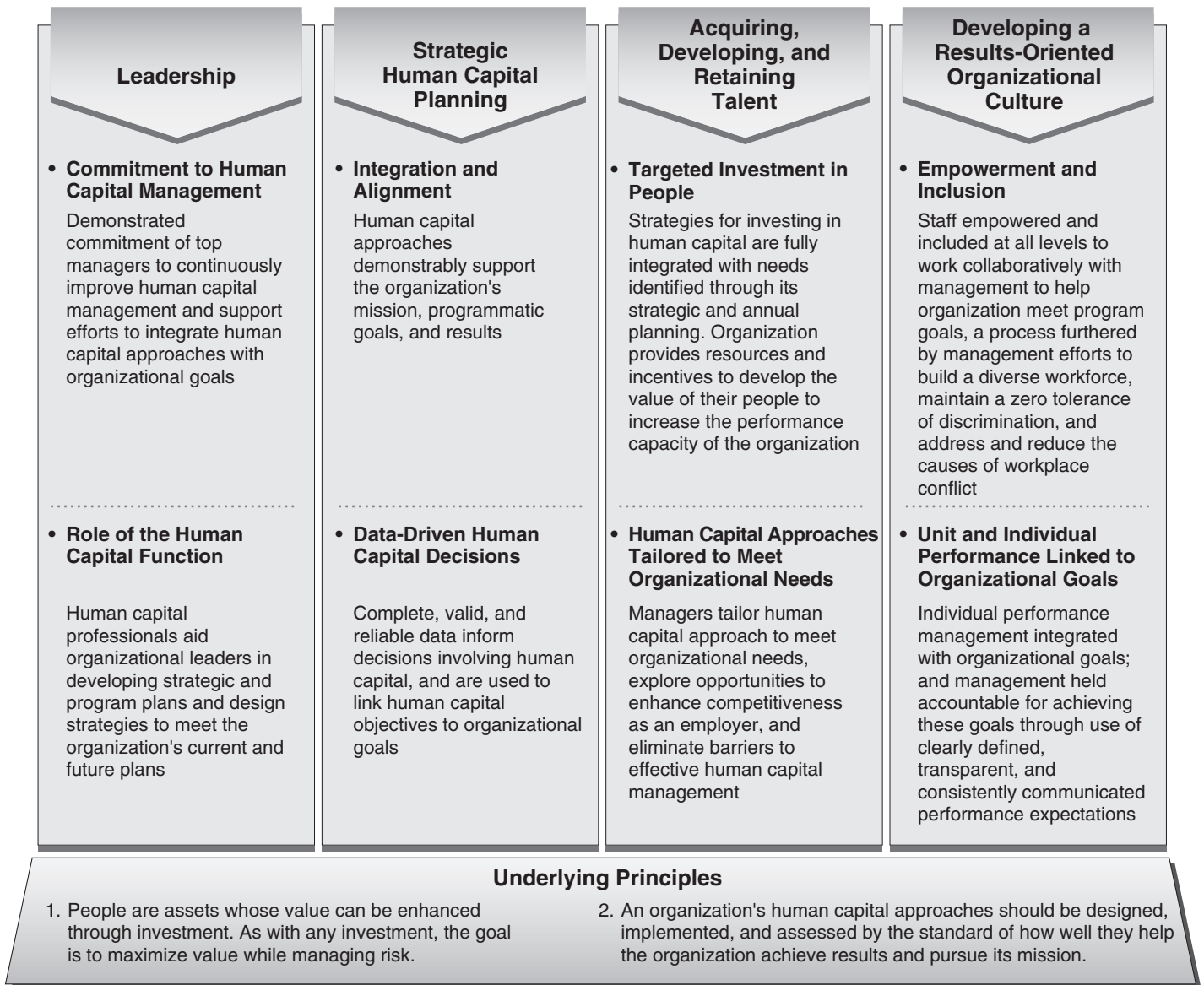
¹See U.S. General Accounting Office, *Human Capital: Key Principles for Effective Strategic Workforce Planning*, [GAO-04-39](#) (Washington, D.C.: Dec. 11, 2003).

²See U.S. General Accounting Office, *Human Capital: A Self-Assessment Checklist for Agency Leaders*, [GAO/OCG-00-14G](#) (Washington, D.C.: Sep. 1, 2000).

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- Level 3: The agency's human capital approaches contribute to improved agency performance; human capital considerations are fully integrated into strategic planning and day-to-day operations; the agency is continuously seeking ways to further improve its "people management" to achieve results.

Figure 8 illustrates the critical success factors an organization in the second level of progress must address as it develops a strategic approach to managing its human capital.

Figure 8: Excerpts from GAO's Strategic Human Capital Management Model

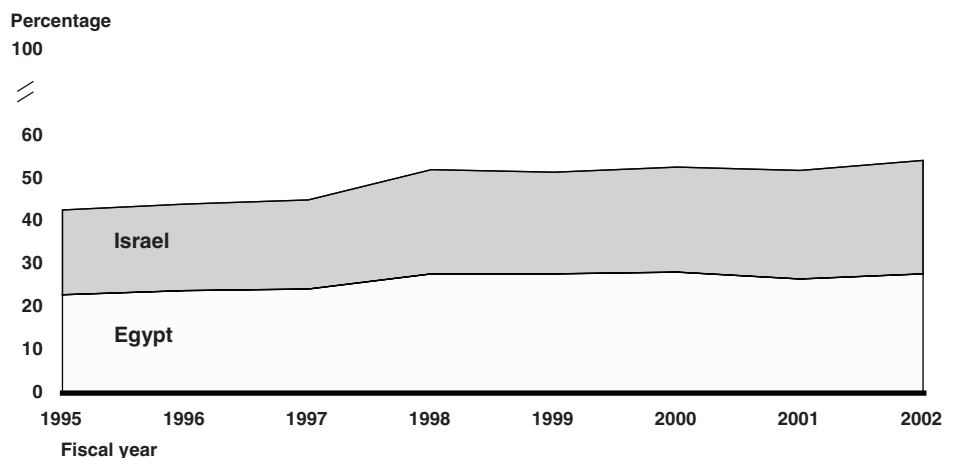


Source: U.S. General Accounting Office: *A Model of Strategic Human Capital Management*. GAO-02373SP (Washington, D.C.: Mar. 15, 2002).

Appendix IV: Calculating MFO Budget in Terms of International Dollars

The MFO receives dollar contributions from Egypt, Israel, and the United States and purchases goods and services from Egypt, Israel, the United States, and other countries. The MFO's budget has remained flat at 51 million in nominal dollars between fiscal years 1995 and 2002, although it has declined about 12 percent over the same period when adjusted for U.S. inflation. However, MFO officials stated that they increased the purchasing power of its budget by shifting its purchases of goods and services away from the United States and other countries to relatively lower cost Egyptian and Israeli markets. As figure 9 demonstrates, MFO spending in Egypt and Israel rose from 43 to 54 percent of the budget between fiscal years 1995 and 2002. On average, the MFO spent 26 percent of its budget in Egypt and 23 percent in Israel in this period. By converting the MFO's budget into international dollars, we are able to better assess the impact of these shifts to the lower cost Egyptian and Israeli markets on the overall purchasing power of the MFO budget.

Figure 9: Percentage of MFO Dollar Budget Spent in Israel and Egypt



Source: GAO.

As table 2 demonstrates, expressing the MFO budget in international dollars reveals that: (1) the purchasing power of the budget—ranging between \$72.3 million in fiscal year 1995 and \$69 million in fiscal year 2002—was significantly higher than its nominal level of \$51 million suggests; and (2) the real decline in the budget between fiscal years 1995 and 2002 was about 5 percent rather than 12 percent.

**Appendix IV: Calculating MFO Budget in
Terms of International Dollars**

Table 2: MFO Expenditures in Nominal and International Dollars

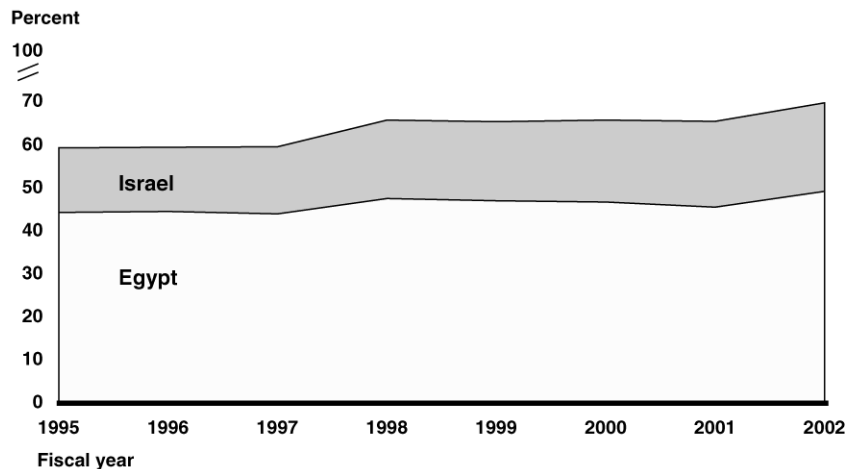
	Fiscal years							
	1995	1996	1997	1998	1999	2000	2001	2002
In 1995 international dollars, millions								
Egypt	32.1	31.0	29.6	32.6	31.8	30.6	29.4	34.0
Israel	10.9	10.4	10.5	12.5	12.4	12.5	12.9	14.3
US and other countries ^a	29.4	28.1	27.1	23.3	23.2	22.3	22.2	20.8
Total	\$72.3	\$69.5	\$67.2	\$68.3	\$67.4	\$65.4	\$64.5	\$69.0
In nominal dollars, millions								
Egypt	11.7	12.2	12.4	14.2	14.2	14.4	13.6	14.2
Israel	10.1	10.3	10.6	12.4	12.1	12.5	12.9	13.5
US and other countries ^a	29.2	28.5	28.0	24.4	24.7	24.1	24.5	23.3
Total	\$51.0	\$51.0	\$51.0	\$51.0	\$51.0	\$51.0	\$51.0	\$51.0
Budget in real fiscal year 1995 dollars, millions	\$51.0	\$50.0	\$49.2	\$48.6	\$48.0	\$47.0	\$45.9	\$45.1
Nominal dollars (percentage)								
Egypt	23	24	24	28	28	28	27	28
Israel	20	20	21	24	24	25	25	26
US and other countries ^a	57	56	55	48	48	47	48	46
1995 international dollars (percentage)								
Egypt	44	45	44	48	47	47	46	49
Israel	15	15	16	18	18	19	20	21
US and other countries ^a	41	40	40	34	34	34	34	30

Source: GAO calculations using World Bank and MFO data.

^aThe MFO reported its total expenditures in Egypt, Israel, and the United States between 1995 and 2002, but breakdowns are not available for the other countries. For computational purposes, we assumed that purchases made in the other countries are made in the United States.

Moreover, figure 10 demonstrates that MFO purchased a larger proportion of its goods and services in Egypt and Israel when calculated in international dollars than the nominal-dollar budget expenditures suggest—70 percent versus 54 percent for fiscal year 2002, for example. Also, it purchased a significantly greater percentage of its budget in Egypt than in Israel on average when calculated in international dollars during this period—46 percent versus 18 percent on average.¹

Figure 10: Percentage of MFO International Dollar Budget Spent in Israel and Egypt



Source: GAO.

An international dollar is equivalent to the amount of goods and services that 1 U.S. dollar can purchase in the United States. Two steps are required to convert an amount valued in local currency into international dollars:

- First, convert the local currency figure into U.S. dollars using the official exchange rate; and
- Second, divide this dollar amount by the country-specific purchasing power parity (PPP) conversion factor to official exchange rate ratio.

The PPP conversion factor converts into international dollars the cost of a basket of tradable and nontradable goods and services valued in local currency units (pounds in the case of Egypt and shekels in the case of

¹Data for fiscal year 2003 purchasing power parity in Egypt and Israel are not available as of June 2004.

Israel). The PPP conversion factor is the number of local currency units required to buy the same amount of goods and services in the domestic market that a U.S. dollar would buy in the United States. For example, a basket of goods that could be purchased in the United States for \$1, equal by definition to 1 international dollar, could be bought in Egypt for 1.259 Egyptian pounds in 1995. Therefore, the PPP conversion factor is 1.259 Egyptian pounds per international dollar. In calendar year 1995, the official annual average exchange rate (based on monthly averages) was 3.392 Egyptian pounds per U.S. dollar. The ratio of the PPP conversion factor to the official exchange rate is 0.371.² The nominal dollar amount the MFO spent in Egypt in fiscal year 1995 (\$11.7 million as shown in table 2) is divided by the fiscal year ratio, to compute the international dollar amount of 32.2 million.³

²A ratio of less than 1 implies that a basket of goods in the foreign country costs less in U.S. dollars than in the United States. For example, in 2002, a basket of goods that would cost \$1 in the United States would cost \$0.34 in Egypt, \$0.81 in Israel, \$0.78 in Italy, and \$1.22 in Switzerland.

³The fiscal year conversion factor ratio is calculated as a weighted average of calendar year ratios. The calendar year ratio in constant 1995 dollars is computed as the ratio of nominal gross domestic product expressed in U.S. dollars to the gross domestic product expressed in constant 1995 international dollars.

Appendix V: Cost of U.S. Participation in MFO

The United States agreed in 1981 to provide one third of the annual MFO budget and provide a military contingent in support of the force. Annex II of the 1982 Exchange of Letters between the MFO Director General and the U.S. Secretary of State set the financial arrangements for the U.S. military contribution. The Memoranda of Understandings between the MFO and the Department of the Army established in 1994 and 1998 confirm additional understandings and procedures to supplement Annex II of the 1982 Exchange of Letters.

Under the terms of these cost-sharing arrangements, U.S. costs to support the MFO has increased from a low of \$55.8 million in fiscal year 1996 to \$70.8 million in fiscal year 2003 as depicted in table 3—a 20 percent increase overall. While State Department’s contribution to the annual MFO budget has averaged about \$16 million since fiscal year 1995, the number of U.S. military personnel participating in the MFO has declined 11 percent since then, as depicted in table 4 below. However the cost of U.S. military participation has risen approximately 25 percent between fiscal year 1996 and 2003.

Table 3: Cost of U.S. Participation in MFO, Fiscal Years 1995 through 2003

Millions of dollars									
	Fiscal years								
	1995	1996	1997	1998	1999	2000	2001	2002	2003
1. Total Net Cost Of DOD Contributions (A-B)	\$45.37	\$40.34	\$41.04	\$42.95	\$42.55	\$44.64	\$45.20	\$50.82	\$54.58
A. Total Non-Reimbursable Costs for DOD Contributions	47.27	42.58	43.51	44.29	42.78	45.12	46.43	49.94	55.62
Salary Cost of Troops	40.68	35.72	36.03	35.75	34.46	36.61	37.80	39.92	45.50
Predeployment Training	1.13	1.07	0.99	1.06	0.94	1.09	1.32	2.15	1.20
Special Pays and Allowances: Family Separation / Imminent Danger/ Hardship/ Foreign Duty/ Per Diem	0.31	0.30	1.39	2.12	2.05	1.89	1.88	2.19	3.01
MFO-Related Travel	0.07	0.12	0.08	0.04	0.11	0.14	0.13	0.18	0.05
Training, Base Operations and Subsistence Costs ^a	4.47	4.81	4.57	4.82	4.74	4.75	4.63	4.60	3.51
Helicopter Operations & Maintenance ^a	0.61	0.57	0.45	0.51	0.49	0.63	0.67	0.91	1.08
B: Total Net DOD Costs Reimbursed by MFO (B1-B2)	1.90	2.24	2.47	1.34	0.24	0.48	1.23	-0.88	1.03
B1. Total Reimbursed Costs	6.98	7.62	7.49	6.66	5.47	5.86	6.53	4.63	6.90
• Special Allowances/ Foreign Duty Pay	1.68	1.74	1.88	1.92	2.09	2.09	2.14	2.18	2.24
• Transportation, Per Diem, etc.	1.04	1.55	1.30	1.61	2.40	2.01	2.24	1.04	2.80

Appendix V: Cost of U.S. Participation in MFO

Millions of dollars									
	Fiscal years								
	1995	1996	1997	1998	1999	2000	2001	2002	2003
• Sale of DOD Supplies and Equipment to MFO	4.27	4.33	4.32	3.14	0.98	1.77	2.15	1.37	1.79
B2. Less Offset Credit Provided by DOD ^b	5.08	5.38	5.02	5.32	5.23	5.39	5.30	5.51	5.87
2. Net State Contribution	\$16.09	\$15.41	\$15.43	\$15.41	\$15.60	\$15.90	\$15.95	\$16.02	\$16.21
Assessed Share of MFO Cost Paid by State	16.35	16.03	16.09	16.06	16.112	16.37	16.35	16.25	16.35
Less U.S. Share of MFO Budget Surplus ^c	0.26	0.62	0.66	0.65	0.52	0.47	0.40	0.23	0.14
Total U.S. Net Contribution (1+2)	\$61.46	\$55.75	\$56.48	\$58.36	\$58.14	\$60.54	\$61.15	\$66.87	\$70.86
Fiscal Year 2003 Deflator	1.15	1.13	1.11	1.09	1.08	1.06	1.03	1.02	1.00
Total U.S. Net Contribution In Constant Fiscal Year 2003 Dollars	\$70.55	\$62.83	\$62.52	\$63.85	\$62.80	\$64.12	\$63.22	\$67.90	\$70.80

Source: GAO analysis of U.S. Army data.

^aEstimates are based on the expense (offset cost) that the United States would have incurred for training, food and lodging, base support, and operations and maintenance for such units when stationed in the United States .

^bCredit to the account of the MFO by the U.S. Army for the amount of the offset costs.

^cMFO returns budget surplus in the form of a reduced assessment for the following fiscal year.

Table 4: U.S. Troop Contributions to the MFO as a Percentage of the Total, Fiscal Years 1995 through 2003

	Fiscal years								
	1995	1996	1997	1998	1999	2000	2001	2002	2003
U.S. Troops	970	917	917	917	871	865	865	865	687
Total MFO Force	1,954	1,896	1,896	1,896	1,844	1,838	1,835	1,835	1,685
U.S. Troops as a Percentage of all MFO Troops	50%	48%	48%	48%	47%	47%	47%	47%	41%

As depicted in table 3, a number of factors account for this increase in the total cost of U.S. commitments to the MFO over this period:

- Total troop salaries increased 27 percent, despite a decrease in the U.S. troop contingent between fiscal years 1995 and 2002.¹ These salaries constitute over 80 percent of the cost of the total Army contribution. In FY 2002, the Army substituted Army National Guard forces for the regular

¹The budgetary impact of the further reduction of U.S. troops from 865 to 687 soldiers in late 2003 did not effect DOD's cost calculations for fiscal year 2003. The impact will be measurable beginning in fiscal year 2004.

Army personnel, contributing to a salary cost increase of 12 percent between fiscal years 2002 and 2003. National Guard troops tend to be older and have been in grade longer than regular Army forces and are consequently paid more. Across-the-board salary increases for all military forces is another factor contributing to rising military costs, according to Army officials.

- Special pay and allowances paid to U.S. soldiers participating in the MFO mission have increased nearly ten-fold since fiscal year 1995, going from about \$300,000 to \$3 million in fiscal year 2003. Under the March 1982 Exchange of Letters between the MFO Director General and the Secretary of State, the MFO agreed to pay for certain special allowances to U.S. military personnel participating in the MFO mission, including a Family Separation Allowance for married personnel and Foreign Duty Pay for enlisted personnel. The coverage and rates of these existing allowances has been expanded since then to include both enlisted men and officers and costs about \$250 per soldier per month. Moreover, in fiscal year 1997, DOD began providing imminent danger pay to military personnel serving in Israel and Egypt. The current rate amounts to \$225 per soldier per month. In fiscal year 2003, the imminent danger pay allowance constituted 78 percent of total DOD special pays provided to military personnel participating in the MFO.
- Reimbursement payments from DOD to the MFO increased 13 percent. Currently, the U.S. Army provides the MFO a credit or “offset” for certain costs associated with the support of U.S. forces. These costs are those which would normally have been incurred by the U.S. government for food and lodging, base support, and operations and maintenance for such units when stationed in the United States.
- MFO purchases of supplies from DOD decreased by about 60 percent. In fiscal year 1995, the MFO reimbursed DOD for the purchase of supplies, equipment, and rations totaling \$4.3 million dollars. MFO has sought to replace DOD as a source of supply with lower cost local commercial vendors in recent years, limiting its purchases from DOD to medical supplies and certain helicopter parts. In fiscal year 2003, these purchases totaled about \$1.8 million.

Appendix VI: Comments from the Department of State



United States Department of State

Assistant Secretary and Chief Financial Officer

Washington, D.C. 20520

JUL 13 2004

Ms. Jacqueline Williams-Bridgers
Managing Director
International Affairs and Trade
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548-0001

Dear Ms. Williams-Bridgers:

We appreciate the opportunity to review your draft report, "PEACEKEEPING: Multinational Force And Observers Maintaining Accountability But State Department Oversight Could Be Improved," GAO Job Code 320220.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Robert Krantz, Officer in Charge, Bureau of Near Eastern Affairs, at (202) 647-1766.

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Burnham", written over a large, stylized flourish.

Christopher B. Burnham

cc: GAO – Phyllis Anderson
NEA – Paul Sutphin
State/OIG – Mark Duda

**Department of State Comments on GAO Draft Report
PEACEKEEPING: Multinational Force And Observers Maintaining
Accountability But State Department Oversight Could Be Improved,
(GAO-04-883, GAO Code 320220)**

The GAO notes that while NEA has begun to address some of the issues that cited in the report, it has not established a timeline for their resolution. To ensure that NEA redresses these issues, the GAO listed four specific recommendations that the Secretary of State should address to promote improved oversight of the MFO. We address the four GAO recommendations below.

We thank GAO for providing us with this opportunity to comment on their report. The Egyptian-Israeli Peace Treaty and the security arrangements monitored by the MFO are a cornerstone of our efforts to achieve peace in the region. Although both treaty parties are strongly committed to the Peace Treaty, they continue to believe that a credible Multinational Force and Observers (MFO) is essential; particularly as tensions along the northern border in the Sinai have ratcheted up.

The GAO report concludes that the treaty parties "are satisfied that the MFO is effectively fulfilling its mission of helping to maintain peace between Egypt and Israel." We share that satisfaction; however, we look forward to working with GAO to strengthen the MFO further, to build on its past successes and to ensure that it remains a robust peacekeeping force able to respond to current needs and new developments in the region.

GAO Recommendation: Resolve the recurring concern of finding qualified candidates for the chief of the civilian observer unit.

State Response: Although many strong officers have served as Chiefs of the Civilian Observer Unit, we recognize that there have been a few lapses in leadership in this position. Many highly qualified Chief Observers have gone on to positions of great responsibility in the Department. The incumbent Chief Observer has done a superb job over the past two years and we are confident that the individual selected as his replacement will be an equally strong performer.

As noted during the organizational meeting of the MFO Management Advisory Review Board on June 18, 2004, there are many competing demands for the pool of potential candidates. For this position to be competitive with other Department assignments, the Advisory Board agreed new incentives might be necessary to encourage highly qualified persons to fill this critical position. To that end, we are exploring the possibility filling the position with personnel from the Senior Foreign Service on detail rather than on transfer thereby allowing greater flexibility in compensation. In addition, although Civil Service personnel always have been eligible to apply for this position, we will take steps to advertise that fact. These steps should provide a larger pool of highly qualified individuals from which to select.

GAO Recommendation: Ensure that staff with accounting experience are available to carry out NEA's financial oversight responsibilities for MFO which include evaluating MFO accounting and financial practices and the reports of external auditors

State Response: We note that, as the GAO report states, the MFO has had "clean" audits since 1995. In fact, since its inception, all special reviews and annual audits, using "U.S. Generally Accepted Accounting Standards," have demonstrated to the satisfaction of the MFO's external auditors that the MFO has maintained sufficient financial accountability and internal controls. Israeli and Egyptian officials report that they are satisfied with the degree of oversight that they exercise through formal annual meetings, informal daily contacts and review of MFO financial reports.

We do not believe the MFO Director General's authorities to effect management changes to audit and other functions are as autonomous as the GAO report describes. The MFO currently provides the Department with information on compensation of senior MFO staff. The MFO also calls to the Department's attention and provides copies of changes to MFO regulations, including those relating to authorized expenditures, to ensure that we are aware of, and have the opportunity to object to, changes we might consider inappropriate. The MFO provides NEA with copies of all external financial and management audit reports, as well as the MFO's internal budget projections.

The Department believes the current oversight regime provides the necessary assurances and circumstances and limited resources do not allow hiring additional accounting personnel to evaluate the MFO's accounting and financial practices and the reports of the external auditors. These documents have been, and will continue to be, reviewed by NEA personnel who have substantial experience with budgets and internal controls. These reviews, while not performed by trained auditors or accountants provide a good cost effective picture of the MFO's management practices and financial operations. However, to further improve on our ability to carry out our financial management oversight responsibilities we will supplement the routine NEA reviews. In the past, State OIG auditors periodically evaluated the MFO's accounting and financial practices and reviewed the scope of MFO external audits with to ensure that they provide sufficient clarity, transparency and accuracy. We will ask that State OIG resume this practice.

GAO Recommendation: Direct the NEA advisory board to monitor and document NEA's compliance with its guidelines for overseeing the MFO.

State Response: NEA consistently has documented its oversight of the MFO in its Annual Report to Congress on the Activities of the MFO, submitted pursuant to Public Law 97-132. The most recent 21 page report provided an overview of MFO activities during the period January 16 2003 to January 15 2004; including: significant visitors, the Treaty environment, financial developments, information systems, personnel, morale support activities, logistics, helicopters, facilities maintenance and rehabilitation, external audits, force protection, participation and implementation of force reduction proposals. This information was obtained by NEA representatives during field visits to Egypt, Israel and Italy; in telephone conversations with MFO officials in Rome and the Sinai; and from documents obtained from the MFO. NEA will supplement this report with quarterly reports to the advisory board.

GAO Recommendation: Work with Army officials to reconcile differences between Army and State views about current MFO cost sharing arrangements.

State Response: There are differences of opinion between the Army and the MFO relating to cost sharing arrangements that we are trying to reconcile. Following a May 19-20 Army-MFO meeting, which also was attended by

an NEA representative, the Army undertook to develop a revised and more transparent cost allocation model and provide it to the MFO for review and comment in preparation for another meeting. Since legal arguments can be made in support of both parties, this issue likely will have to be resolved at a policy level between State and DOD. NEA has recommended to DOD that the Army not send any further bills to the MFO that are inconsistent with the existing Army-MFO memorandum of understanding until it has developed the new model and meets with the MFO as discussed in the May meeting. If there is no agreement following the second Army-MFO meeting, then the underlying issue may require policy level review within the Administration.

Appendix VII: 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
July 9, 2004

Mr. Joseph A. Christoff
Director, International Affairs and Trade
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Christoff:

Thank you for the opportunity to comment formally on the GAO's proposed report entitled "Peacekeeping: Multinational Force and Observers Maintaining Accountability, but State Department Oversight Could be Improved" (GAO-04-883).

We greatly appreciate the Report's conclusion that "[t]he two parties to the treaty and the United States are satisfied that the MFO is effectively fulfilling its mission of helping to maintain peace between Egypt and Israel." The men and women of the MFO work hard to carry out this mission, often in harsh and difficult conditions, and it is good to know that the significance of their work is recognized and appreciated.

We also welcome the fact that the Report draws attention to two pending U.S. Government decisions that have potentially very important financial implications for the MFO:

Helicopter Support. The MFO greatly depends upon and appreciates the outstanding helicopter support provided by the U.S. Army. We have maintained close contact with the Army regarding possible transitions to Blackhawk helicopters, to a private contractor, or to a new Army light utility helicopter. We will cooperate to carry out whatever the United States decides. However, changes, particularly to Blackhawks or to a private contractor, may have profound implications for our finances. The MFO simply does not have the resources in its current \$51 million budget to address the large additional helicopter costs cited in GAO's report. Accordingly, it is essential that future U.S. Government decision-making concerning helicopters also address how to meet the additional costs.

Army Claims for Hazardous Duty Pay and other Increased Allowances. We also welcome the Report's encouragement to relevant U.S. Government agencies to arrive at a unified Government position regarding the Army's claims for greatly increased MFO payments to cover hazardous duty pay and other increased allowances of U.S. soldiers. (As the Report notes, the Army also apparently intends to substantially cut the offset credit provided to the MFO pursuant to the U.S.-MFO Participation Agreement.) The Army is already billing the MFO for over \$3.0 million a year for hazardous duty pay and other allowances that MFO does not believe are legally due and that it does not have means to pay.

As we've noted in recent correspondence with the Army and the Department of State, it is in no one's interest to have large, disputed and un-funded charges accruing on the MFO's accounts. We hope that this matter can be resolved soon. If it is the collective judgment of the U.S. Government that the MFO should bear substantially increased costs for U.S. troops, the United States will need to work with Egypt and Israel or other donors to obtain the necessary additional funding or alternatively to discuss with Israel, Egypt and the MFO compensating cuts in the MFO mission and budget.

Financial Oversight. As the Report notes, the MFO's finances are subject to the discipline of recurring audits by an independent outside auditing firm applying U.S. generally accepted auditing standards (GAAS). This is, as it should be, a rigorous process. We are committed to full cooperation with the auditors and consistently receive unqualified opinions. We believe that the clarity, transparency and accuracy of our financial statements compare favorably with those of other international and governmental organizations.

We are also fully committed to working with the new State Department Advisory Board to address any and all issues arising in the MFO-U.S. Government relationship. We believe the new Advisory Board offers a useful mechanism to address any U.S. Government information requirements regarding MFO financial statements or the external audits of the MFC. As the Report notes, Israel and Egypt have advised us that they are satisfied with the oversight and information they have from working alongside us in the field and in their own channels to the MFO. As to the

Board's potential role in relation to the terms of the audit, we note that the scope and conduct of the annual audit is not set by the MFO, but by the external auditor according to GAAS standards. Similarly, the auditors determine the scope and conduct of the internal control review according to American Institute of Certified Public Accountants (AICPA) standards, independent of the MFO.

COU Personnel. The Report also notes the recurring past difficulties in recruiting (and retaining) suitable State Department officers to lead the Civilian Observer Unit. While the current Chief has done an outstanding job, the past record has been mixed. Accordingly, the MFO welcomes the measures being taken by the State Department to improve the recruiting process.

Personnel Matters. The GAO Report detailed a number of steps taken by the MFO as a part of what we view as an ongoing process to update and improve the MFO personnel system. However, it also encouraged MFO to consider possible additional changes in two specific areas, taking account of "leading personnel practices," including GAO's "Model for Strategic Human Capital Management Planning." The Report encouraged MFO management to consider:

- Adding additional outside mediation or review mechanisms for any complaints involving discrimination and sexual harassment. (This would be in addition to the internal mediation and outside third-party arbitration mechanisms already provided for in the MFO's regulations.)
- Assessing a perceived gender imbalance in the MFO workforce, particularly in MFO management, and in particular whether there may be barriers to women attaining management positions. (The Report does not mention the Tel Aviv Office, where female employees, including the deputy head of the office, occupy senior positions, or the senior female members of the Rome staff.) In this connection, earlier this year, Director General Hughes (whose term of office just ended) asked our principal executive recruiter to help us broaden the pool of women applicants. She undertook to do so.

We respect these suggestions, and the spirit in which they were offered by GAO. MFO management will consider both

3

See comment 1.

matters carefully, in light of the comments and analysis in the GAO report and the context in which we operate.

There is one other personnel issue we want to note. The Report suggests a lack of career mobility inside of the MFO, going so far as to say that "[w]ith few exceptions, MFO employees tend to stay in the same positions for which they were contracted." This is not entirely correct. The nine people who attended the former Director General's daily staff meeting at Headquarters illustrate a different pattern. Six of the nine were originally hired for other positions, some quite junior, and were promoted; two were promoted to their present positions from jobs in the Sinai. (The three others were hired from outside the MFO to provide specialized military, information systems and legal skills.)

It is true that many MFO employees are hired to provide specialized skills, often in areas where the MFO may only be one or two deep. However, as the above shows, even for persons in this situation, there have been and will remain opportunities for bright and able employees to advance to other fields and locations in the MFO.

We accept that there are opportunities to improve our human resources management; we have and will continue to pursue them. We believe that caution is necessary, however, to avoid uncritical adoption of human resource management concepts drawn from the U.S. Government or United Nations that may be out of scale for a small organization with 108 direct-hire employees, and that may entail significant costs and overhead.

Factual Issues. Last week, we had the opportunity to review an earlier draft solely to check factual accuracy, which we appreciated. GAO accepted many of the changes we suggested, for which we thank you. However, some suggested corrections to the text of Annex II were not incorporated, so that some of the numbers given there for certain types of employees are not accurate. The correct figures are as shown in the MFO Annual Report. Further, as we noted earlier, it is not appropriate to refer to the 464 Egyptian Care Services personnel in the Sinai as "day laborers." This group includes many highly skilled craftsmen and other experienced and specialized personnel.

4

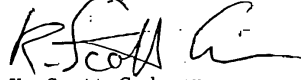
See comment 2.

**Appendix VII: Comments from the
Multinational Force and Observers**

Thank you for your consideration of these comments. The MFO has sought through out to cooperate with the GAO in all respects, and I hope that our assistance has been of value in preparing your Report. Consideration of the Report will be a matter of priority for the MFO senior staff and the new Director General, James A. Larocco, as he assumes charge of the MFO.

Our continued best wishes to your colleagues on the GAO team that prepared the Report.

Sincerely,



K. Scott Gudgeon
Deputy Director General

GAO Comments

The following are additional GAO comments on the Multinational Force and Observers letter dated July 9, 2004.

1. In its comments, MFO stated that the report does not mention a number of female employees occupying senior positions. Our analysis is based upon information obtained from an early 2004 report that lists all international and national staff by gender in management positions. There may have been some changes made to the data since that time.
2. In its comments, MFO stated that there were factual inaccuracies regarding the number and classification of civilians employees. GAO made changes based upon MFO technical comments and noted that these changes disagreed with data in the MFO 2004 Annual Report. MFO's annual report notes that there are 636 civilians, while the information provided to us from MFO totaled 650.

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