

	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

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20 December 2017

**DOCUMENT**  
C-M(2017)0067-AS1

## **IBAN PERFORMANCE AUDIT INTO NATO MORALE AND WELFARE ACTIVITIES**

### **ACTION SHEET**

On 19 December 2017, under the silence procedure, the Council noted the IBAN report, endorsed the RPPB's conclusions on the way ahead and agreed to the public disclosure of this report and the associated IBAN report attached to C-M(2017)0067.

(Signed) Jens Stoltenberg  
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2017)0067.

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13 December 2017

**DOCUMENT**  
C-M(2017)0067  
**Silence Procedure ends:**  
**19 Dec 2017 17:30**

**IBAN PERFORMANCE AUDIT INTO NATO MORALE AND WELFARE ACTIVITIES**

**Note by the Secretary General**

1. I attach a report by the Resource Policy and Planning Board (RPPB) addressing the performance audit conducted by the International Board of Auditors for NATO (IBAN) into NATO Morale and Welfare Activities.
2. I do not believe that this matter requires discussion in the Council. **Unless I hear comments to the contrary by 17:30 hrs on Tuesday 19 December 2017**, I will take it that the Council has noted the IBAN report, endorsed the RPPB's conclusions on the way ahead and agreed to the public disclosure of this report and the associated IBAN report.

(Signed) Jens Stoltenberg

Annex 1: RPPB report  
Enclosure 1: IBAN report

1 Annex  
1 Enclosure

Original: English

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## **IBAN PERFORMANCE AUDIT INTO NATO MORALE AND WELFARE ACTIVITIES**

### **Report by the Resource Policy and Planning Board (RPPB)**

#### References:

- A. IBA-A(2017)31
- B. PO(97)98
- C. PO(2011)0020
- D. CM(2013)0054
- E. CM(2016)0023

#### **Introduction**

1. At reference A, the IBAN submitted a performance audit report on the need to revise NATO-wide framework on Morale and Welfare Activities (MWA). This report provides the RPPB's position on the observations and recommendations made by the IBAN.

#### **Background**

2. MWA encompass a wide range of commercial and recreational activities to support the well-being of NATO personnel and their families<sup>1</sup>. The objective of the IBAN performance audit was to "assess whether relevant MWA policies, procedures and governance arrangements are in place, contributing to a reduction of financial and reputational risks". The scope of the audit took in MWA in a variety of NATO bodies including ACO, ACT, IMS, IS, NSPA and NCIA; multinational NATO agencies such as NAPMA and NETMA were not included in the scope of the audit.

3. The extant regulations on MWA in the NATO Command Structure (NCS) and Agencies were approved by Council in 1997 (reference B) and obliges MWA to:

- a) be self-financed from the generation of non-appropriated funds;
- b) insure themselves against third party claims or to self-ensure;
- c) save sufficient reserves of non-appropriated funds to mitigate unforeseen losses or liabilities;
- d) formalise the responsibilities of Heads of NATO bodies and military commanders to authorise and control the activities and audit their accounts.

It also allows for the specific application of international military budget funds, on request and justification, for the provision of selected MWA programmes. MWA in the NCS was also addressed in the revised policy and standards for Host Nation Support approved by Council in 2011 (reference C).

4. The mandate and governance structure of the NATO Staff Centre was revised in 2013 (reference D) to reflect the evolution of Staff Centre activities - particularly the growth

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<sup>1</sup> ACO has by far the largest MWA programme (turnover of around €40m) followed by the NATO Staff Centre (turnover of €4.3m), NSPO (circa €2m), NCIO (circa €1m).

of its commercial operations - and the need to plan for the continuation of MWA activities by the Staff Centre on the new NATO HQ site.

### **IBAN observations**

5. Due to changes to NATO's organisational structure and the adoption of new accounting policies and directives, the IBAN conclude that there is a need to revise the current MWA regulations established in 1997. The audit shows that there are inconsistencies in the funding of MWA programmes as criteria for the use of common funds and non-appropriated funds are unclear. When examined collectively, the IBAN noted that these practices are diverse and create inequitable situations.

6. As a whole, the IBAN noted the lack of common accounting principles, common reporting structure and format that could inform NATO committees and nations on how MWA funds are managed. The lack of clear and common requirements result in the lack of comparability and consistent information on activities, sources of funding and staff resources required to support MWA operations.

7. The IBAN recognised the work already done by NATO bodies to develop and implement internal directives to ensure good stewardship of MWA and to strengthen internal controls and internal audit function. However, the respective NATO bodies do not consistently audit their MWA. Reductions in key internal review posts as well as the lack of personnel in performing crucial duties increase the risk of reduced oversight and control.

8. To address the weaknesses identified by the audit, the IBAN made the following recommendations:

- a) The Council approved MWA guidance need to be revised to reflect the current challenges facing MWA operations at NATO bodies;
- b) All NATO bodies with MWA should submit an annual MWA report to Council;
- c) NATO bodies with MWA operations should update their directives to ensure internal controls are in place, and that internal audit is performing annual reviews of MWA; and,
- d) Heads of NATO bodies should provide training and facilitate sharing of best practices based on updated directives and internal guidance to reflect proper accountability, planning, internal controls, oversight and monitoring.

### **Conclusions**

9. The RPPB welcomes the IBAN performance audit into MWA which highlights the need to consider a number of improvements into the use and management of common funding and non-appropriated funds. As for the specific recommendations made by the IBAN the Board believes that, while the essential principles laid down in the 1997 regulations remain extant, there is a need to bring the regulations up to date and in accordance with new financial regulations, policies and procedures. The Board believes that the Head of Financial Reporting Policy (HFRP) should, if possible by the end of 2018, revise the MWA regulations approved by Council in 1997, taking into account the weaknesses identified by the IBAN, for review by the Budget Committee (BC) and approval by Council if required.

10. While acknowledging the IBAN recommendation, the Board believes that all NATO entities should not have to submit an annual MWA report to Council. Instead the Board

believes that the reporting modalities for MWA should be addressed in the revised regulations taking into account the existing reporting requirements set out in the NATO Accounting Framework (reference E).

11. The Board notes the IBAN conclusion that most NATO bodies have developed and aligned their internal directives to ensure good stewardship of MWA and in order to comply with the existing regulations. The Board recognises, as the IBAN does, that directives adopted by NATO bodies have significantly different levels of detail reflecting the respective size and scale of MWA programmes. Nevertheless the Board agrees that training and exchanging best practice on MWA policies and practices among NATO entities should be encouraged and that all NATO bodies should ensure that their internal directives are up to date and in accordance with the NFRs and any proposed changes to the MWA regulations approved by Council.

### **Recommendations**

12. The RPPB recommends that Council:

- a) note the present report along with IBA-A(2017)31;
- b) endorse the conclusions outlined in paragraphs 9-11;
- c) notes that the HFRP should, if possible by the end of 2018, revise the 1997 MWA regulations for BC review and approval by Council if required, which will address reporting modalities and the need to ensure that internal directives are up to date and consistent; and,
- d) agree to the public disclosure of IBA-A(2017)31 and this report.

## **Summary note to Council on the need to revise NATO-wide framework on Morale and Welfare Activities**

### **Background and context**

Morale and Welfare Activities (MWA) encompass a wide range of commercial and recreational activities, approved by NATO bodies to support mental and physical well-being of NATO personnel and their families. The basis for MWA at NATO lies in the NATO Status Forces Agreement of 1951, the Paris Protocol of 1952, the “Non-Appropriated Funds and Morale and Welfare Activities in International Military Headquarters”, 1982, and the “Regulation on MWA in the International Military Headquarters and Agencies”, 1997.

MWA regulations include a set of principles intended to minimise the risk of financial liabilities to NATO including unforeseen additional use of common funds. The 1997 policy allows for the specific application of internal military budget funds, on request and justification, for the provision of selected and recreational activities. According to the policy, activities not covered by common funds, are in principle to be self-sustainable and financed from the generation of non-appropriated funds.

### **Audit Objective**

This audit topic was selected as a result of IBAN’s annual planning process which included an interest expressed on the part of our stakeholders to address the risk of perceived weaknesses in MWA. We conducted the audit in accordance with Article 14 of our charter. Our specific objective is as follows:

- To assess whether relevant MWA policies, procedures and governance arrangements are in place, contributing to a reduction of financial and reputational risks.

### **Audit Findings**

Due to changes to NATO’s organisational structure and the adoption of new accounting policies and directives, there is a need to revise the current MWA framework established in 1997.

The audit shows that there are inconsistencies in the funding of MWA programmes as criteria on the use of common funds and non-appropriated funds are unclear. When examined collectively, these practices are diverse and create inequitable situations.

NATO MWA face various kinds of financial and reputational risks in providing commercial services, as it is not traditionally involved in running commercial enterprise. Once a MWA is authorised, it can use NATO’s legal personality. Incidents of fraud, bankruptcy and legal liability issues occurred in the past without proper management and/or governance.

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As a whole, NATO does not have common accounting principles, common reporting structure and format that could inform NATO committees and nations on how MWA are managed. The lack of clear and common requirements result in the lack of comparability and consistent information on activities, sources of funding and staff resources required to support MWA operations.

IBAN recognises the work already done by NATO bodies to develop and implement internal directives to ensure good stewardship of MWA and to strengthen internal controls and internal audit function. However, the respective NATO bodies do not consistently audit their MWA. Reductions in key internal review posts as well as the lack of personnel in performing crucial duties increase the risk of reduced oversight and control.

The IBAN does not audit MWA financial statements, as these are not consolidated into the NATO bodies' Financial Statements. By exception, the IBAN audits the NATO HQ Staff Centre.

### **Audit Recommendations**

To address the weaknesses identified by our audit, we make the following recommendations:

1. The Council approved MWA guidance need to be revised to reflect the current challenges facing MWA operations at NATO bodies. The revised guidance should include the following elements:
  - a. A clear definition of what MWA comprises, including objectives and the expected level of ambition for the provision of MWA at NATO bodies.
  - b. Clear criteria for the use of common funds in support of MWA.
  - c. A strategy to assure the implementation of the principle of self-sustainability of MWA operations.
  - d. Standardised accounting principles and financial statements format for MWA across NATO.
  - e. A uniform annual reporting format of MWA operations for Council.
2. With reference to recommendation 1e, all NATO bodies with MWA should submit an annual MWA report to Council that, at a minimum, includes the following information:
  - a. The financial level of MWA activity and a description and performance of services provided including a distinction between fund generating and subsidised activities.
  - b. Sources of funding used.
  - c. Level and categories of staff working in support of the MWA.
  - d. The identification and assessment of any risks to the financial viability of the MWA operations and a plan to mitigate them.

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3. NATO bodies with MWA operations should update their directives to ensure internal controls are in place, and that internal audit is performing annual reviews of MWA. This would better support increased risk awareness of MWA in accordance with the NFRs.
4. Heads of NATO bodies should provide training and facilitate sharing of best practices based on updated directives and internal guidance to reflect proper accountability, planning, internal controls, oversight and monitoring.

In their formal comments, ACO, ACT, NCI Agency, NSPA, NDC, IMS, IS and STO/CSO agree overall with our recommendations and recognise our findings and conclusions. They also provided factual comments which have been taken into account in the final report.



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28 March 2017

## **International Board of Auditors for NATO**

**Performance audit report to Council on the need to revise NATO-wide  
framework on Morale and Welfare Activities**

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## **1. Background**

### **1.1 Overview**

1.1.1 Morale and Welfare Activities (MWA) enhance the quality of life, promote unit integrity and contribute to the well-being of eligible individuals. The MWA mission is to support the physical and mental well-being of the workforce by providing the critical programmes of food services, fitness activities and recreational activities that enhance the morale and welfare of the personnel and families. In the past, it was recognised that a MWA programme has an important impact on the effectiveness of a NATO headquarters.

1.1.2 MWA programmes promote group cohesion through team sports and social events. They facilitate interaction between staff through recreational events, clubs, associations, specialty interest activities as well as services and entertainment for staff and their families. Historically, many military facilities were located outside urban areas with staff and their families living close to the base, which received support for their everyday life. The range of commercial and recreational activities that define MWA vary between Host Nations, and depends on elements such as the degree to which tax advantages may be exercised, Host Nation support arrangements, the population size, and the NATO body's operational purpose.

1.1.3 The basis for MWA at NATO lies in the NATO Status of Forces Agreement of 1951, the Paris Protocol of 1952, the "Non-Appropriated Funds and Morale and Welfare Activities in International Military Headquarters", 1982, and the "Regulation on MWA activities in the International Military Headquarters and Agencies", 1997.

1.1.4 MWA is generally funded by non-appropriated funds which are subject to the NATO Accounting Framework (NAF) and the NATO Financial Regulations (NFRs). Non-appropriated funds are administered outside the framework of international funds. The MWA financial statements as prescribed by the NAF, are currently not consolidated into the NATO bodies' Financial Statements, and therefore the funds are not audited by the International Board of Auditors for NATO (IBAN). By exception, the NATO Staff Centre is the only MWA audited by the IBAN due to specific requirements in the Staff Centre's mandate.

1.1.5 NATO bodies have different levels of fund-generating and subsidised MWA. Appendix 4 offers an overview of activities provided by the different NATO bodies. Fund-generating activities provide supplies and/or services and return net profits to the MWA. These include the following:

- Sale of rationed items (tobacco, alcohol, fuel).
- Rent paid by concessionaires.
- Membership fees from joining activities.
- Accommodations, etc.

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1.1.6 Additionally, there are activities provided by concessionaires (as the headquarters or agencies have neither the facilities nor the expertise to provide and manage them) such as:

- Banks.
- Retail shops.
- Travel and insurance services.

1.1.7 Funds generated from these sales and services are subsidising activities such as sports, clubs, yearly events, libraries, etc. In the case of customer funded agencies, MWA are managed by a staff association and, in general, funds are generated through membership fees.

1.1.8 When necessary, national funds may provide additional support (e.g. facilities, personnel and maintenance), and common funds (e.g. facilities, personnel, maintenance, and the NATO Security and Investment Programme (NSIP)) may also be requested on an exceptional basis with adequate justification to the Budget Committee (BC).

1.1.9 The significance of MWA in terms of annual turnover varies among the different NATO bodies. Allied Command Operations (ACO) has the largest, most material MWA programme. In its 2015 MWA annual report to the BC, ACO's annual MWA turnover totalled EUR 40.3 million.

## **1.2 Audit objectives, scope and methodology**

1.2.1 The IBAN conducted this audit in accordance with Article 14 of our charter. The purpose of this performance audit was to assess if NATO MWA are based on relevant policies and procedures, with an adequate level of governance, and to determine if NATO MWA governance structures and financial rules and regulations are clear and well-defined. Our specific audit objective was to assess whether relevant MWA policies, procedures and governance arrangements are in place, contributing to a reduction of financial and reputational risks. This audit topic was included in IBAN's annual planning process as a result of an interest expressed on the part of our stakeholders to address the risk of perceived weaknesses in MWA.

1.2.2 There are different types of NATO bodies within the Alliance. For the purpose of this audit, we observed MWA programmes within:

- The military structure: the International Military Staff (IMS), ACO and Allied Command Transformation (ACT).
- The civilian structure: The International Staff.
- Organisations and Agencies: NATO Standardisation Office and the Centre for Maritime Research and Experimentation (CMRE), NATO Support and

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Procurement Agency (NSPA), NATO Communications and Information Agency (NCI Agency), NATO Defense College (NDC).

1.2.3 To support our preliminary work, each of these NATO bodies received a questionnaire which they filled out and returned to IBAN. Upon request, NATO bodies received follow-up questions to provide additional clarifications on their responses.

1.2.4 We assessed the responses to the questionnaires, analysed NATO documents, and conducted interviews with senior officials and staff responsible for managing the MWA in the concerned NATO bodies, as well as the NATO Office of Resources and the BC. As a result, the governance arrangements, business models, business volume and number of staff employed were defined.

1.2.5 The selection of our on-site visits was conducted through: (1) our own MWA fieldwork; (2) NATO bodies' financial statements audits and (3) Internal Audit or review functions at NATO bodies. These examples were used to conduct detailed walk-throughs with relevant staff to understand issues related to governance and management including planning, risk and internal controls.

1.2.6 In all instances, the Board used information provided by the NATO bodies' documents, databases, and staff. Validity or reliability of the information and data provided was not assessed as this was not in scope of the audit.

1.2.7 This audit was conducted from May 2016 until December 2016 in accordance with the International Organisation of Supreme Audit Institutions international auditing standards. Our scope did not include MWA provided during missions such as Kosovo Force and/or Resolute Support.

1.2.8 We sent a draft copy of this report for comments to Chiefs of Staffs at ACO and ACT, the Director General of the IMS, the General Managers of the NCI Agency and NSPA, Executive Management at NATO Headquarters for the NATO Staff Centre, the NATO Chief Scientist for STO and the Director of Management for NDC. The comments received were incorporated into this report (see Section 5 to this report).

## **2. NATO's overall framework on MWA needs to be revised**

### **2.1 Current framework was last revised in 1997**

2.1.1 Our audit assessed the current MWA governing framework, Council's role in providing overall direction in controlling and monitoring risks, the nature and extent of the guidance provided, and how MWA management is monitored. In particular, we assessed the governing framework to ensure proper management and stewardship of MWA. The NFRs state that the financial administration of NATO bodies must ensure the most cost

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efficient, cost effective and economic use of resources incorporating such principles as sound governance, accountability, transparency, risk management and internal controls.

2.1.2 The MWA framework was established in 1982 and reinforced by Council in 1997 to include different privileges established in the Ottawa Agreement (civilian status) and the Paris Protocol (allied and military Headquarters status). The MWA framework applied to all International military headquarters and agencies.

2.1.3 The existing MWA regulation is based on a set of principles intended to minimise the risk of financial liabilities to NATO including an unforeseen additional use of international funds. It obliges MWA:

- To insure themselves against third party claims or to self-insure.
- To save sufficient reserves of non-appropriated funds to mitigate unforeseen losses or liabilities.
- To formalise the responsibility of Commanders and Heads of NATO bodies to authorise and control the activities and audit their accounts.

2.1.4 The 1997 policy allows for the specific application of international military budget funds, on request and justification, for the provision of selected social and recreational activities. Activities not covered are in principle to be self-financed from the generation of non-appropriated funds.

2.1.5 In terms of responsibility, NATO assumes the role of a 'Host Nation' in terms of providing MWA. The Head of NATO body is ultimately responsible for the proper management of MWA within their organisation, and must ensure that the scope and expense of MWA are commensurate with the possibilities of generating non-appropriated funds. The Head of NATO body is expected to apply non-appropriated funds revenue on a priority basis with the priority being to essential activities, and ensure that MWA and non-appropriated funds are operated and managed in such a way as to minimise the possibility of fraud, financial liabilities and their consequences.

*NATO assumes the responsibilities of a nation and needs to provide the necessary assistance in accordance with its own standards. To the extent possible, the international standards should leave national members at least as well off as when assigned to a national unit. The most common type of support provided at national expense is free use of available or specially justified facilities, their maintenance and the cost of related utilities.*

*Source: MBC-M(78)344*

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2.1.6 According to the NFRs, each NATO body shall have a financial controller to be the principal responsible for the management of appropriated and non-appropriated funds, and is responsible for prescribing and requiring the implementation of budgetary and financial accounting and control procedures that are best suited to reducing financial risks and the need to use of common funds. The financial controller must also report the financial situation of the MWA programme under their oversight to the Head of the NATO body.

2.1.7 In our audit, we assessed the governance in place to guide the management of MWA. We identified NATO MWA and financial regulations, directives, guidelines, standing operating procedures for each body selected for the scope of our audit. We then assessed whether NATO had put in place policies and guidance to allow NATO bodies to manage their MWA.

2.1.8 At the Command and Sub-Command levels, directives are developed and in place. ACO, ACT and the IMS have developed an overarching directive for all their organisations. ACO developed an overarching directive for all its Sub-Commands (ACO 005-001). ACO Commanders are authorised to establish MWA within the limits of this directive. Each Sub-Command also established its own procedures in compliance with the ACO Directive. While this is not a Bi-Strategic Command document, ACT has based its own directive on the ACO policy (ACT 60-1, Chapter 7).

2.1.9 For civilian headquarters and non-military NATO organisations and agencies, our audit found the following:

- The IS established its new governance and mandate policy as a means to address management and financial risks related to the Staff Centre. The new mandate's objective was to make MWA self-funded, but this has not yet been achieved.
- As a result of an internal audit report, NCI Agency recently drafted its first MWA policy to establish agency-wide MWA governance with an adequate regulatory framework to drive all activities throughout the organisation. This policy was approved by its Agency Supervisory Board in December 2016.
- NSPA reviewed and updated its policy on the use of facilities for social and recreational purposes in February 2016. No specific guiding principles to govern MWA could be identified. The Staff Association does have general rules which are approved by the General Assembly.
- STO/CMRE has standing operating procedures to state policies, responsibilities and procedures for the management and control of MWA and the associated non-appropriated funds.

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- NDC has regulations on non-NATO funds describing operating procedures, roles and responsibilities and guidance for its different accounts.

**Conclusion**

2.1.10 Most NATO bodies developed and aligned their internal directives to ensure good stewardship of MWA and in order to comply with the set of principles prescribed by the 1982 and 1997 regulations. Directives adopted by the NATO bodies have significantly different levels of details defining the structure and operating mechanisms of their MWA. This can be justified by the different size of the respective MWA programmes.

**2.2 MWA framework does not reflect the current situation at NATO**

2.2.1 The existing guidance governing MWA stems from the 1982 and 1997 regulations. These regulations are linked to situations that occurred in specific NATO bodies in the past. The 1997 Regulation of Morale and Welfare Activities in International Military Headquarters and Agencies intended to reinforce the regulation of MWA throughout all international military headquarters and agencies. The regulation was a response to the degree of common funding required to restructure MWA at the Headquarters Allied Forces Southern Europe (now HQ Joint Force Command Naples).

2.2.2 At that time, MWA programmes were not regarded as constituting any significant risk for the Organisation's ultimate financial liability. The vast majority of international military HQs and agencies either had no or minor MWA programmes.

2.2.3 However, over the last 20 years, NATO has significantly changed (e.g., the NATO Command Structure was reformed) and MWA came under the new customer funded agencies (i.e. NCI Agency, NSPA and CMRE). The general financial responsibilities and practice that NATO has undertaken for MWA extend outside military headquarters as the inclusion of the NATO Civil Budget of the continuation of MWA by the NATO Staff Centre in the New NATO Headquarters site indicates.

2.2.4 Several NATO policies that influence the governance of MWA have also been established or significantly reviewed. In 2005, the Senior Resource Board, now the Resource Policy and Planning Board (RPPB) established a policy on the NSIP and Military Budget Eligibility of Morale and Welfare-related Support Infrastructure for Command facilities in the NATO Command Structure. In 2011, the RPPB developed the NATO Command Structure (NCS) – Host Nation Support Policy and Standards, which directly impacted MWA operations.

2.2.5 Furthermore, the NAF and NFRs were updated to include that NATO reporting entities were not required to consolidate the MWA and/or Staff Association activities into their financial statements.



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### **Conclusion**

2.2.6 MWA is an expected function of NATO bodies. However, Council has not revisited its roles and commitment since 1997. With changes in the Organisation's structure, the adoption of new accounting policies and directives, a concurrent review of the MWA framework has not occurred. As circumstances change over time, updated guidance should be issued and the development of MWA programmes, policies and directives are to be based on the guidance provided by the Council.

### **2.3 External factors impact sustainability of MWA**

2.3.1 External factors beyond the control of NATO bodies can have a significant impact on MWA operations. The reform of the NCS involved a significant reduction in personnel as well as a change in the geographic footprint by moving, closing or even eliminating some Commands.

2.3.2 Business volume can be severely affected by cuts to, or relocation of, NATO bodies, changes in Host nation support arrangements, and security conditions which adversely affect access to the facilities by customers. These decisions impact the available customer base of eligible personnel and their dependents on base. Consequently, the future revenues and profits may also reduce or increase since the overall volume of business is inevitably linked to the number of potential customers. Examples include the following:

- JFCNP built a new Community Centre based on the original requirement of about 2,500 personnel. In the meantime, the JFCNP MWA programme suffered from the loss of a significant portion of its former patronage caused by reductions in the JFCNP HQ personnel as well as the relocation of the Maritime Command to Northwood and the Naval Striking and Support Forces NATO to Lisbon. In the meantime, the patron base of 2,500 staff has been reduced to about 1,000.
- Some Host Nations removed eligibility of their nationals' staff to rationed items. This means that access to tax-free benefits of National Staff Elements (NSE) has been suspended or cancelled. This forced certain NATO bodies to exclude members from the MWA programme, which reduced the potential customer base, and negatively affected the potential revenues generated from tax-free sales in the international store.
- Important security concerns restricted external guests' access to the NATO Staff Centre in Brussels, negatively impacting the revenue.
- In some locations, the local economy and fiscal policies such as prices, exchange rates and increasing minimum wages, also affect MWA.

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2.3.3 In those instances where external factors impact MWA operations, effective management for the proper downsizing of activities is required. Some facilities, such as a gymnasium, have minimum fixed costs and cannot be adjusted, while other activities must be adapted and reorganised in accordance with the number of potential customers.

2.3.4 Rising costs (i.e. personnel, utilities) increase the difficulty to keep MWA self-sustaining, causing the sustainability of MWA programmes and the number and level of services to be at risk. The suppression of NATO and national support would have a significant impact on MWA and the ability of the non-appropriated funds of each NATO body to cover any cost increases.

**Conclusion**

2.3.5 External events affecting the business operations as well as the exposure of activities adversely affects availability of resources. As a result, the principle of self-sustainment for MWA to run according to NATO regulations is not always possible, generating financial risk.

**2.4 Lack of clear guidance on the use of common funds for MWA leads to inconsistencies**

2.4.1 During our audit, we assessed documents pertaining to the governance of MWA. We did not find a MWA general policy and the MWA regulatory framework does not allow for transparent MWA management. For instance, we did not find a proper definition of MWA at the NATO level describing the roles and responsibilities of Council with respect to governance and the objectives of MWA programmes. The definition given by the NAF only describes categories of activities. No directive describes what a MWA programme should deliver or should not.

2.4.2 The 1982 and 1997 regulations do not clearly state NATO's level of ambition for the provision of MWA. The 1997 regulation was issued to reinforce the previous regulation to prevent the recurrence of using common funds to restructure/refinance a MWA programme. In general, the directives are more financially restrictive rather than descriptive of what is considered essential in a MWA programme.

2.4.3 According to an earlier study, military members, civilians and their dependents should have access to a level of goods, services, facilities and programmes as if they were assigned to a national unit. What this means varies by the culture and different expectations among the NATO member countries. However, there is no proper definition of MWA at the NATO level. As such, there is no NATO-wide agreed definition and understanding of what MWA is or should be, or should not be.

2.4.4 Commanders and Heads of NATO bodies are responsible for establishing what is considered the minimum essential MWA programme and the set of activities which make up that programme in accordance with the assessment of the needs of the

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community concerned. Because NATO has not defined its requirement for the provision of MWA, there are no basic criteria to guide the development of the MWA programmes. Only one location we examined had defined its MWA essentials to ensure that available revenue was sufficient to support its activities.

2.4.5 Within the current framework, MWA must be able to generate sufficient funds so that MWA needs are fulfilled with a good standard of service appropriate to the need of the personnel and their family dependents. Lack of NATO commitment and level of ambition make it difficult to assess performance, ensure accountability, transparency, and analyse and mitigate risks. For example, there is no general guidance on the type of activities essential to meet the organisation's mission.

- Direct Mission Support of NATO organisation: These activities are considered most essential in meeting the organisational objectives of NATO by promoting the physical and mental well-being of the military member, staff members and facilities. For example, fitness, sports, or a gymnasium.
- Indirect to Mission: Community Support Programmes such as recreational clubs, ticket, tours services, family and child care.

2.4.6 The new governance and mandate of the NATO Staff Centre in HQ Brussels has developed funding guidelines based on the organisation's objectives (figure 1 below). The NATO Staff Centre MWA in Category A are eligible for NATO common funding. Staff Centre services provided by commercial entities in Category B are funded by the commercial entities.

**Figure 1 – The New NATO Staff Centre Funding Guideline**

<b>MWA*</b>	Category A	Category B
	<b>Supports Mission of the Organisation, Staff Members and Families and Fosters Community Environment</b>	<b>Indirect Support to Mission of the Organisation, Provides Convenience to Staff Members and Families and Generates Revenue</b>
Facilities, Activities & Services	<ul style="list-style-type: none"> <li>• Indoor and Outdoor physical fitness and training</li> <li>• Recreational facilities and services</li> <li>• Family recreational activities</li> <li>• Childcare and family support</li> <li>• Restaurant and bar</li> <li>• Personal development activities</li> <li>• Social and cultural activities</li> <li>• Physical well-being services</li> <li>• Staff Support Services (Vehicle)</li> </ul>	<ul style="list-style-type: none"> <li>• Medical facilities and services</li> <li>• Sports &amp; Recreational Clubs</li> <li>• Commercial retail sales</li> <li>• Outsourced Food &amp; Beverage services</li> <li>• Entertainment activities</li> <li>• Recreational activities</li> <li>• Commercial facilities</li> </ul>

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Funding & Revenue	<ul style="list-style-type: none"> <li>• Civil Budget funding, Infrastructure/O&amp;M</li> <li>• Membership Fees</li> <li>• Subscription/User Fees</li> <li>• Trading revenues</li> <li>• Income Food &amp; Beverages</li> <li>• Income SC operated shops</li> <li>• Income from Staff Support Services (Vehicle)</li> </ul>	<ul style="list-style-type: none"> <li>• No Civil Budget funding</li> <li>• Membership Fees</li> <li>• Subscription/User Fees</li> <li>• Income from Commercial Concessions</li> </ul>
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\*The new Staff Centre mandate refers to Morale, Welfare and Recreation. For the purpose of this report, we changed it to MWA.

### Levels of support

2.4.7 The absence of objectives and role for Council/NATO also results in a lack of clarity on the level of financial involvement and support to MWA programmes. Although MWA operations are supposed to be self-sustaining, we found that all require direct or indirect financial assistance like buildings, utilities, food services to realise the benefits of the welfare programme. Common funding support for MWA was identified in the provision of facilities, manpower and direct expenditure. Our audit found no clearly defined limit of direct or indirect financial support from common funds which should be available to support MWA or when common funds may be released.

2.4.8 The 1982 regulation states that common funds may be used to support MWA in precisely defined situations, under the overall control of the Military Budget Committee. The 1997 regulation reiterated this concept stating that the policy allows for specific application of military budget funds on request and justification to the provision of selected social and recreational activities. It is expected to minimise the use of common funds but there is little guidance in terms of concrete direction to the Head of NATO bodies.

2.4.9 We found that there is no clear funding structure for MWA and current policies are vague and lead to inconsistencies. Numerous decision documents exist which authorise or prohibit the use of common funds for MWA including infrastructure, facilities, investment and direct subsidies. These decisions have been influenced by local factors rather than NATO-wide standards of provision. This approach encourages unique funding opportunities and does not make links and trade-offs across NATO bodies. This may create uneven situations when the funding structure provides advantages for some entities and produces disadvantages for others.

2.4.10 The ACO Directive provides a table for the source of funding for repair of existing facilities only (see appendix 3). Our audit found no equivalent table in the directives of other NATO bodies. However, the total cost of operating MWA is not limited to these types of expense and equipment, supplies and personnel must be accounted for in order to provide a complete financial picture of MWA. Each NATO body relies on outside

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sources of income (non-appropriated funds or subsidy from a nation) to support their activities. However, these are not always sufficient to cover all MWA operating costs.

2.4.11 Our audit also found that there is no general provision in current MWA guidance for the use of non-appropriated funds. The NAF states that NATO bodies shall not consolidate MWA into their financial statement, but it is not clear on what accounting basis the MWA should be presented, except for the NATO Staff Centre which is subject to the NAF. Nevertheless, there is no basic criteria for the use of non-appropriated funds (goods, services, facilities, equipment or manpower). In addition, guidance is lacking on what non-appropriated funds should not cover for MWA (such as items already covered by appropriated funds like cafeterias, trophies, awards, or third party financed events).

2.4.12 MWA programmes are intended to be self-sustaining through non-appropriated funds raised in the MWA programme. Common funds may be used for MWA purpose if approved by the Budget committee. However, there appears to be no clear indication as to when operational, maintenance, refurbishment or replacement of equipment facility (space) and manpower expenditures are provided by non-appropriated funds or common funds. Appendix 1 shows examples of the different application for the use of common funds and non-appropriated funds in financing MWA.

### **Use of common funded personnel in support of MWA**

2.4.13 Guidance and directives are not clear on the minimum number of staff, including common funded staff that should be assigned to MWA in headquarters or agencies. All NATO bodies have a mixture of different categories of staff: NATO International Civilians (paid from organisational budgets and whose posts appear on the approved establishment of the NATO body), Local Wage Rate (LWR) employees paid by common funding, Local Wage Staff (LWS) paid by non-appropriated funds, and military personnel (whose costs are paid for by their respective nation). Appendix 2 provides details on the different composition of MWA staff across the NATO bodies.

2.4.14 Personnel costs are usually the largest single cost factor in MWA budgets. Some NATO bodies are struggling to afford MWA full-time staff to support athletic programmes, such as gyms for staff. As a result, some organisations have reduced the gymnasium opening hours and/or have removed the support personnel.

2.4.15 The Host Nation Support Policy and Standards attempt to apply comparable standards across the NATO Command Structure and to reduce the burden on NATO common funding and Peacetime Establishment (PE) through increased Host Nation support by, for instance, providing resources and services for certain base support functional areas. This policy does not affect civilian NATO bodies.

2.4.16 These provisions are specific to military headquarters and each Host Nation. As such, agreements are made on an individual basis. The Host Nation Support Policy and Standards states that PE positions will be limited to those directly needed for the overall

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coordination of morale and welfare provision. In certain cases, the implementation of this new policy led to the loss of military PE for MWA operations.

2.4.17 In other cases, the Host Nation allows NATO personnel to have access to their facility. For instance, Allied Maritime Command (HQ MARCOM) MWA is mostly conducted in conjunction with HQ Northwood MWA. The Host Nation support to HQ MARCOM was captured in the Garrison Support Agreement. HQ Northwood has a strong MWA organisation (manpower and facilities) and HQ MARCOM staff has the advantage of having access as a result of the agreement.

2.4.18 The Host Nation Support and the Base Support Concept have not been approved by Nations for Headquarters outside the NATO Command Force Structure. For instance, Host Nation support for NATO Airborne Early Warning & Control is regulated in a Memorandum of Understanding and the split of responsibilities differs from the Host Nation Support policy used in the NCS. This leads to a higher number of Host Nation support posts counted against the PE ceiling of posts than for comparable headquarters in the NATO Command structure. There is no Host Nation Agreement with the civilian HQ in Brussels. Instead several letters of understanding exist between the IS and the Host Nation.

2.4.19 Finally, in most locations, we found that purchasing, contracting and accounting NATO international civilians and/or military staff supports the MWA operations by providing legal, contracting and accounting review. In general, the services these staff provide in support to MWA operations are not accounted for in terms of personnel or additional costs, nor are they reimbursed by non-appropriated funds. Only the NATO Staff Centre reports an estimate of the administrative support costs provided by the NATO IS annually in its Financial Statements.

**Conclusion**

2.4.20 The audit shows that there are inconsistencies in the way MWA programmes are funded due to unclear criteria on the use of common funds and non-appropriated funds. When examined collectively, these practices are diverse and create inequitable situations. Vague policies pose a risk that individual decisions are inconsistent across NATO bodies. As a result, we conclude that there is a lack of clear guidance on the use of common funds, including personnel, for MWA. A need exists for clearer guidance which covers all aspect of MWA funds (common funds vs non-appropriated funds) while remaining general in nature to allow for Head of NATO bodies to manage their own MWA program with flexibility and in accordance with their needs.

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## **2.5 Lack of transparency and standardisation of reporting for MWA**

2.5.1 To ensure transparency, NATO bodies need a framework for reporting, monitoring and controlling progress as well as a sound basis for decision making. Because the organisation must often make decisions that involve trade-offs due to limited resources, the governing body, management and staff must have a solid and up-to-date understanding of the internal and external factors that may expose their operational objectives to risk. We reviewed the available reporting on MWA operations, including financial statements, activities etc. to assess the extent and quality of information on MWA. The audit identified the extent to which it was possible to gain insight and to follow the results produced by the various responsible stakeholders.

2.5.2 In the NCS, each Commander must establish a Morale and Welfare Activities Council (MWAC). The role of the MWAC is to advise the Commander on all aspects of non-appropriated funds and MWA policies. It is responsible for recommending approval, disapproval or dissolution of MWA or individual activities. The MWAC has an obligation to advise the Commander against any decision with a resource or legal impact which may adversely affect the solvency and operation of the non-appropriated funds.

2.5.3 The MWAC composition is to include representatives of nations, the financial controller, legal advisor and personnel divisions. In general, the Commander or Chief of Staff reviews and approves the minutes of the MWAC. Most NATO bodies have established a MWAC. ACT has only recently reactivated its MWAC.

2.5.4 Non-military organisations and agencies are governed by their supervisory bodies. Major decisions are normally discussed and adopted either within existing Boards or, if needed, at Head of NATO body level. Across NATO bodies, the supervisory board and MWAC should ensure that their roles and responsibilities are to safeguard that the community's needs are met and ensure proper oversight over activities.

### **Information reported**

2.5.5 As mentioned in section 1.1.5, the NAF does not require NATO bodies to consolidate their MWA and/or Staff Association activities into their respective financial statements. However, it prescribes that NATO entities should continue to submit an annual report on the financial viability of their MWA and/or Staff Association activities in line with requirements of the BC or relevant finance committee with the exception of the NATO Staff Centre for which special financial statements are issued. The BC makes recommendations to Council concerning the Military and Civil Budgets, and monitors the use of common funds, including MWA resources.

2.5.6 As part of the audit, we assessed the various reporting structures of each NATO body and their relevant documents. In addition, we reviewed and compared the common funded NATO bodies' annual report on MWA to the BC from 2013 to 2015. We then compiled the financial data provided for each NATO body.

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2.5.7 Reporting requirements are routed through the chain of command and/or managerial hierarchy. The financial controller has overall responsibility for the MWA budget and the proper control and handling procedures of the non-appropriated funds. The role of the Commander or manager is to ensure the management of MWA operations and administration.

2.5.8 As a whole, NATO does not have a common approach, reporting structure and format that could inform NATO committees and nations on how MWA are managed. The CMRE report its MWA Financial Statements to its governing board. The governing body of NDC is the NATO Military Committee. However, reporting of its MWA is to the BC through the IMS. NSPA reports annually to the Chief of Staff through the Internal Audit function. The accounts of the Staff Association are audited by two staff members designated by the Staff Association General Assembly. NCI Agency has yet to produce its first MWA Financial Statement, which will be presented to its Agency Supervisory Board.

2.5.9 The IS Financial Controller prepares an annual Financial Statement for the NATO Staff Centre which is audited by the IBAN, which in turn issues an external audit report to Council. This practice is required by the Staff Centre's mandate. The NATO bodies in the NCS (IMS, ACO and ACT) aggregate each of their own MWA Financial Statements into an individual report to provide to the BC on the status of the financial viability of their MWA.

2.5.10 Within the NCS, it was found that the reporting standards for the ACT, ACO and IMS annual reports do not allow sufficient or useful information for the BC to gain adequate understanding of MWA operations. Reporting standards include assets, liabilities and equities, the revenue and expenses, the number of (but not the type of) employees, and profits and loss.

2.5.11 There is no clear requirement to provide background information and analysis on the viability of MWA. There is no indication of the use of non-appropriated funds, common funds or the extent of national funds for those activities. The 2015 ACO report contains ten pages of analysis of the financial data on each entity while the ACT report only includes the required information and no detail about the activities.

2.5.12 There is no description of activities nor is there any distinction between the fund-generating activities and the subsidised ones. As such, the BC does not know what type of activities is provided at ACO and ACT. The IMS annual report is the only report which provides specific information on the fund generating activities.

2.5.13 Reporting standards require the number of employees, both full-time and part time. However, it does not provide a clear picture of the actual categorisation of employees and their funding structure. The 2015 ACO report indicates that Supreme HQ Allied Powers Europe (SHAPE) MWA has 88 employees. However, these employees come from different categories of staff with different funding sources. Internally, SHAPE

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reports different categories (LWR, PE, Voluntary national contribution, LWS, etc.) for different types of employment. This practice allows for more transparent reporting and monitoring against actual budget.

2.5.14 Our audit found that all ACO Sub-Commands report their Financial Statements according to the ACO standard template. Most NATO bodies present financial reports but the format and accounting principles differ. For instance, ACT financial reports are neither collated nor reconciled into a single report. Each ACT entity reports its own results and are compiled into one table which is submitted into the ACT annual report.

2.5.15 In addition, some entities in ACT and the IMS are using cash-based accounting systems rather than the accrual system used by most NATO bodies. This lack of standardisation limits the opportunity for comparison. Furthermore, NATO bodies use different financial accounting systems from core operations to report on MWA. Without a commonly accepted set of reporting standards, each NATO body can use methods that might not provide sufficient information to allow transparency of the activities.

## **Conclusion**

2.5.16 We found that the MWA regulatory framework does not allow for transparent MWA management. Lack of clear reporting requirements and common accounting standards results in lack of comparability and consistent information of the different activities, different sources of funding, and level of staff resources required to support MWA operations NATO-wide. Given the differences in reporting structure and standards, it is not possible to compare and benchmark MWA across NATO.

## **3. MWA pose potential risks to NATO**

### **3.1 Potential financial and reputational risks can be identified**

3.1.1 One purpose of our audit was to assess the adequacy of NATO policies and procedures as well as actions taken by NATO bodies to reduce the risks that can occur in connection with MWA. We also reviewed the role of internal audit in helping NATO bodies to monitor those risks. Finally, we aimed at identifying areas for improvement.

3.1.2 According to the NFRs, NATO bodies must manage risks by:

- Ensuring effective, efficient and economical risk management procedures are in place to support the achievement of objectives; and
- Identifying, assessing and mitigating the risks to the achievement of these objectives.

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3.1.3 Financial liabilities are a risk for MWA across NATO since Heads of NATO bodies have authority over MWA and, once an activity is authorised, it can use NATO's (HQ, Command or Sub-Command) legal personality. For example, the ACO directive (005-001) authorises all Commanders to sanction MWA. Once an activity is recognised as a MWA, it is authorised to use the Sub-Command and Command's legal personality, therefore NATO.

*There is no means of divorcing the activities from the legal personality of NATO or of permitting such separation without endangering, through loss of fiscal privileges, the solvency of the activities and depriving Commanders of control over the activities. It implies in practice that the international military budget bears the ultimate financial responsibility for Morale and Welfare Activities in the event of their insolvency.*

*Source: Regulation of Morale and Welfare Activities in International Military Headquarters and Agencies – 1997)*

3.1.4 MWA operating under the authority of the NATO body will assign legal liability to the body in question and ultimately financial responsibilities to NATO to the extent that the NATO bodies in question are unable to settle such obligations.

### Financial Risks

3.1.5 Fund generating activities such as concessionaires (operating under their own management) and direct sales outlets (using the Command's legal personality while engaging in the resale of goods or provision of services e.g., audio, sports, camera, liquor, petrol sales, etc.) return net profits to the non-appropriated funds. Some NATO locations directly manage their sales outlets in which all excess income over expenditure is returned to the community.

3.1.6 The 1997 regulations firmly discourage MWA from directly managing commercial activities for fund-generating purposes, but favoured levies or rental charging activities. Concessionaires usually offer a specific service and are located in a NATO body. The income generated by the concessionaire is retained by them, but they are charged a fee by the NATO body to operate the concession. As a result, the NATO body fully hands over the provision of a service to the concessionaire and transfers the risks of financial losses onto the service provider.

3.1.7 While this practice allows the NATO body to reduce the possible financial damages for itself, there are still risks associated with the outsourcing practices. The concessionaires may choose to increase prices, cease the provision of a service (due to low profits) and leave the NATO body thus eliminating the provision of certain services. Additionally, issuing immunities and privileges associated with MWA can increase the risks of outsourced activities. This implies the responsibility of a NATO body to monitor that only entitled people have access to the use of the services.

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3.1.8 The scale and nature of some MWA programmes do not make them sufficiently attractive for possible outsourcing so they must be managed internally. Flexibility in providing MWA is essential to accommodate local requirements. As a result of differing attitudes toward risks and management, different NATO bodies opted for managing commercial activities via insourcing, outsourcing or a mix of both.

**Figure 2 – Some example of different business models for the resale of tax and duty free goods**

Direct Sales Outlets	Concessionaires	Provided by 3 <sup>rd</sup> party*
SHAPE	JFCBS	NSPA
JFCNP	NATO Airborne Early Warning and Control Force (NAEW&CF)	AIRCOM
LANDCOM	ACT (Norfolk)	MARCOM
Joint Analysis and Lessons Learned Centre (JALLC)	Joint Force Training Centre	IMS
CMRE		NDC
Joint Warfare Centre		NCI Agency (The Hague)
NATO Staff Centre & NCI Agency Brussels**		

\* NSPA has a shop ran by its Staff Association. AIRCOM is located on a large US base, thus providing duty-free sale. At the time of the audit, DACCC was covered by JFCNP and CAOCT was provided through Host Nations. Now both we will have directly managed sales outlets. NDC is supported by JFCNP. And IMS via SHAPE. For NCI Agency in The Hague, the Host Nation provides this service.

\*\* Fuel is a provided through a contractor, alcohol is sold by EM once year.

3.1.9 These commercial activities are not part of the Alliance's core business and it is difficult to reconcile the morale aspect of attractive prices and the needs of the MWA programme. Pricing policies must take into account commercial aspects requiring a business oriented expertise on the part of the staff, such as:

- Development of a business model and plans.
- Market knowledge.
- Pricing policies.
- Customer service orientation:
  - business alignment with customer' needs;
  - monitoring of staff appreciation, definable success metrics.
- Employment contracts, loss of job indemnity (fund reserves).
- Training that is more business and customer service oriented, industry best practices.
- Retail and inventory management.
- Management of concession contract.

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3.1.10 During our audit, we noted that there is no consensus among the different NATO bodies on whether MWA non-appropriated funds are property of NATO or private funds. This element was not part of the audit scope. However, we found examples of private ownership that is not addressed by current MWA policies.

### **Reputational Risks**

3.1.11 Despite the relatively low financial amounts involved in comparison to budgeted activities, MWA programmes could also pose significant reputational risks to NATO. The risk of abuse of privileges, fraud, bankruptcy, and legal liabilities without adequate management and/or governance could undermine NATO's public reputation and relations with Host Nations. For those reasons, we also looked at previous incidents and measures to reduce risks to NATO bodies.

3.1.12 At several locations, we found previous examples of reputational risks that materialised over time were:

- Inappropriate use of fuel coupons.
- Lack of insurance to cover activities bearing NATO's name.
- Use of personal accounts to manage clubs.
- Inventory discrepancies.
- Fiscal issues related to entitlement to certain immunities and privileges (Value Added Tax and other tax exemptions).

3.1.13 The potential for reputational and financial risks with the Host Nations increases if unauthorised personnel receive benefits they are not entitled to. We noted that in some locations, the Paris Protocol was not fully respected. For example, some staff exceeded their entitlements and some were kept active in the customer database after separation from the organisation. As a result, some non-authorised personnel had access to the duty-free shops using the Command's name and tax number to procure goods or services causing legal liability to the Command. In one Headquarters, the staff were buying duty free items which were then taken outside the Host Nation territory. As a result, the Headquarters had to reimburse over EUR 4 million to the Host Nation customs authority. Employment and labour law obligations, especially concerning income taxes and pensions, were also infringed obliging some NATO bodies to regularise employment contracts.

### **Conclusion**

3.1.14 To support MWA, the Heads of NATO bodies are expected to use opportunities to generate non-appropriated funding through MWA revenue. In the process of providing commercial services, NATO assumes various kinds of financial and reputational risks. NATO is not traditionally involved in commercial enterprises and is therefore not used to dealing with the risks associated with them. Since there is no means of divorcing the activities from the legal personality of NATO, there is still an important monitoring role to

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play over those non-core business activities. Staff managing MWA should be given the required training to reflect business practices relevant to contract management, tax and privileges knowledge, user/customer satisfaction surveys, and the ability to identify and minimise risks.

### **3.2 Weaknesses in internal controls and internal audit increase MWA risks**

3.2.1 NATO regulations require NATO bodies to establish a system of internal controls, including rules and procedures. It also requires the internal audit function to provide assurance that local procedures have worked effectively. As part of our audit, we assessed the role of internal audit and review functions in selected NATO bodies. We also surveyed the internal controls in place over Morale and Welfare Activities.

3.2.2 Following the financial trouble for AFSOUTH MWA (now JCF Naples), the Military Budget Committee concluded that MWA needed more regular scrutiny. As a result, the 1997 regulations prescribed and required implementation of MWA budgetary and financial accounting and control procedures to eliminate the risk of engaging liability of common funding sources. It also formalised the responsibility of Commanders to authorise and control the activities and audit their accounts.

3.2.3 The NFRs require NATO bodies to establish systems of internal control, including rules and procedures. We found that NATO bodies addressed prior financial and reputational risks by improving internal controls. For example, for the last few years, JALLC has embarked on a programme of reforms over MWA control structures. A financial system has been extended to all MWA and a cashless payment system has been successfully implemented. This cashless payment system allows control of the eligibility and privileges of entitled personnel, thus reducing the risk of fraud.

3.2.4 However, during our audit, we were informed that the internal control of MWA is weakened at some locations due to the lack of personnel and staff with the required skillset to perform crucial duties. Such responsibilities are related to key controls such as procurement and contracting, accounting, customs, etc. Lack of personnel to conduct strong internal controls affect the oversight and review process to support the MWA management and performing internal audits.

3.2.5 The NFRs define the role of internal audit as to evaluate risk exposures and the effectiveness of internal controls in managing risks within an organisation's governance, operations and information systems regarding:

- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and internal controls.
- Safeguarding of assets.
- Compliance with rules and regulations.

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3.2.6 Our audit found that MWA programmes have not been consistently audited by their respective NATO bodies. Reductions in internal review posts as well as the lack of personnel in performing internal control-related duties have decreased the capacity to safeguard against potential risks associated with MWA. A consequence of not performing internal audit is that it increases risks of losing oversight and control over the management of these activities.

3.2.7 For example, the ACO directive on MWA states the MWA programme should be reviewed on a continuing basis with written yearly reports submitted to the Base Commander providing copies to the financial controller and keeping the MWAC informed of the general results of the internal review. In 2015, ACO conducted MWA audits to cover all ACO Sub-Commands programme. However, the ACO internal audit function doesn't have the capacity to audit MWA as a yearly exercise. In addition, our audit found that within ACO, only SHAPE and NAEW & CF have internal review officer positions available to perform reviews of MWA.

3.2.8 In general, we found that internal audit reports provide recommendations for improvement. Each NATO body has the right to provide an explanation to those recommendations. However, there is no requirement to draft an action plan. Meanwhile, it is up to the individual NATO body to draft an action plan and/or implement the recommendations and report to the financial controller and Head of NATO body. SHAPE and NCIA have each taken the initiative to compile their own internal audit reports and findings into a single database to provide updates on the follow-up of the recommendations.

3.2.9 As previously stated in section 1, the NAF does not require MWA financial statements to be consolidated into the financial statements of NATO bodies. Therefore, they are not audited by the IBAN. Due to its mandate, the NATO Staff Centre in NATO HQ in Brussels is the only MWA entity in NATO that is audited by IBAN.

**NATO Reporting Entities**

- Shall not consolidate Morale and Welfare Activities and/or Staff Association activities into their respective financial statements even when they are considered to be under the control, from a financial reporting perspective, of the NATO Reporting Entity preparing and issuing the financial statements.

*NATO Accounting Framework*

**Conclusion**

3.2.10 Effective controls are a means to reduce the risk of financial loss and help ensure that the information is complete and accurate, that financial statements are reliable and that MWA comply with NATO regulations. Weakened internal controls of MWA at some

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locations also weaken the foundation for good management of MWA. The lack of internal audits of MWA poses a risk to NATO. MWA is separated from the core budgeted operations and is administered outside the common funds framework. The internal audit function is therefore critical to ensure that controls are in place, and that risks associated with MWA are identified and mitigated. While the presence of the internal audit function does not guarantee any degree of solvency for MWA, it can inform Heads of NATO bodies of potential risks before they are realised.

### **3.3 MWA best practice experiences are not shared across NATO**

3.3.1 One of the means to apply good management principles and to mitigate risks is to share experiences between NATO bodies and to arrange training of staff. We aimed at identifying any such activities during the audit.

3.3.2 There are no specific courses or training activities available for the staff directly involved in MWA management. MWA programmes vary across NATO, and we found no evidence of best practices being shared among NATO bodies to allow better understanding and coordination of the relevant policies, procedures and associated business practices.

3.3.3 Best practices worth sharing could be annual business plans or customers and market surveys. The absence of common knowledge caused misaligned efforts, inconsistent managerial and commercial principles and good practices. Furthermore, military personnel on rotational assignments contribute to a discontinuity of management and staff.

### **Conclusion**

3.3.4 Sharing procedures, standards and best practices will contribute to improving performance by replicating successes throughout an organisation such as NATO. The benefits of sharing knowledge can raise the overall quality of services and potentially generate cost savings through increased productivity and efficiency. Most importantly, it could reduce the risks of liability to NATO by ensuring that proper management methods are in place NATO-wide to mitigate the risks.

## **4. Conclusion and Recommendation**

4.1 NATO bodies have established MWA programmes with the overall purpose of creating attractive working conditions and enhancing the quality of life for NATO staff and their families. To run MWA effectively, NATO bodies need guidance and support such as personnel, facilities and local Host Nation contribution where applicable.

4.2 To address the weaknesses identified by our audit, we make the following recommendations:

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1. The Council approved MWA guidance need to be revised to reflect the current challenges facing MWA operations at NATO bodies. The revised guidance should include the following elements:
  - a. A clear definition of what MWA comprises, including objectives and the expected level of ambition for the provision of MWA at NATO bodies.
  - b. Clear criteria for the use of common funds in support of MWA.
  - c. A strategy to assure the implementation of the principle of self-sustainability of MWA operations.
  - d. Standardised accounting principles and financial statements format for MWA across NATO.
  - e. A uniform annual reporting format of MWA operations for Council.
2. With reference to recommendation 1e, all NATO bodies with MWA should submit an annual MWA report to Council that, at a minimum, includes the following information:
  - a. The financial level of MWA activity and a description and performance of services provided including a distinction between fund generating and subsidised activities.
  - b. Sources of funding used.
  - c. Levels and categories of staff working in support of the MWA.
  - d. The identification and assessment of any risks to the financial viability of the MWA operations and a plan to mitigate them.
3. NATO bodies with MWA operations should update their directives to ensure internal controls are in place, and that internal audit is performing annual reviews of MWA. This would better support increased risk awareness of MWA in accordance with the NFRs.
4. Heads of NATO bodies should provide training and facilitate sharing of best practices based on updated directives and internal guidance to reflect proper accountability, planning, internal controls, oversight and monitoring.

## **5. Formal comments received from NATO bodies**

The IBAN requested formal and factual comments from ACO, ACT, NCI Agency, NSPA, STO, NDC, IS and IMS. Where appropriate, the IBAN amended the report based on the factual comments received. The IBAN reproduced the full text of the formal comments below. These are the NATO bodies' unedited comments.



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## **5.1 Formal comments of the Allied Command Operations**

5.1.1 *The premise for ACO's MWA programmes, as regularised in C-M(82)92 is that these activities are formally recognised as a proper function of the military HQs. The commanders are in consequence thereof in a position to legitimately offer such services to the respective staffs service at the HQs. MWA is considered an important element in maintaining the HQs, operational performance, as well as critical in assuring the well-being of the staff and dependants. This status of the MWA provides justification for the limited use of Peacetime Establishment (PE) personnel and common funding resources for such purpose. Without such support, the commanders could not exercise their oversight of MWA and the programmes would be rendered non-viable.*

5.1.2 *SHAPE understands and supports the idea that MWA within the military commands should be standardized in order to establish a coherent governance framework that is applicable to all entities. Such governance should however still be sufficiently open-ended and flexible to allow commanders to define their own MWA requirements and the corresponding services in order to meet the needs of their patronage. The nature of military HQs and the situation of the individual HQs should be taken into account, as well. Some HQs are deployable, some are not. Some HQs are located in relatively isolated areas, some are not. Some HQs are collocated with Host Nation or User Nations HQs, some are not. Some HQs are relatively large, some are small. These variations translate to varying needs for MWA. In order to attract staff who typically come from afar, and to create an acceptable quality of life for their families, a suitable mix of MWA services is considered imperative. SHAPE proposes that the IBAN incorporate these concerns in their report.*

5.1.3 *Another concern expressed by several HQs and shared by SHAPE is that the HQs no longer have an Internal Review capability on their PE. The implication of this is that the Financial Controllers (FCs) no longer have the organisational capacity to police themselves at their disposal. In an environment where there is a growing focus on the responsibilities of the FCs and the commanders in terms of financial management and internal control, the situation is considered problematic. It would enable closer local control if the FCs had their own organize Internal Review function available to assist them including the ability to address MWA related issues. Hence, SHAPE suggests that the IBAN consider proposing re-instating the Internal Review function in the context of the next NATO Command Structure (NCS) re-organisation, whenever that may happen.*

## **5.2 Formal comments of the Allied Command Transformation**

5.2.1 *ACT appreciates the opportunity to provide comments to the draft performance audit on Morale and Welfare Activities (MWA). These comments are provided below for your consideration prior to finalization of the report.*

5.2.2 *Page 2-23 paragraph 4.2d: ACT understands the rationale to recommend a standardized accounting principle for MWA activities (accruals versus cash, as an*

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*example). However, based on the level of activity and complexity of the business in ACT MWA activities, it is ACT's view that "one size may not fit all" and that the costs and complexity of adopting accruals accounting for an activity such as the SOPC at HQ SACT would be overwhelming. Where appropriate in order to provide better control and transparency, ACT has adopted accruals accounting.*

**5.3 Formal comments of the NATO Communications and Information Agency**

*5.3.1 The NCI Agency welcomes the opportunity to provide comments regarding the validity and completeness of facts as well as identify any fact pertinent to an observation that should be highlighted.*

*5.3.2 Overall, the NCI Agency believes that the audit provides an accurate and balanced assessment of the current MWA Framework within NCI Agency. The Agency acknowledges the IBAN observations and it has undertaken efforts to resolve this identified issues.*

*5.3.3 Regarding the IBAN recommendation 4.2-1e, the NCI Agency believes that the annual MWA report should be submitted to the BC or the ASB Finance Committee as appropriate. If required, the report would be submitted through the RPPB to the Council.*

*5.3.4 Regarding the IBAN observation 3.2, notwithstanding the very limited capacity of the NCI Agency internal audit function, IA audits MWA as a yearly exercise. Two audit missions were performed in 2014 and 2015 and management action plans were developed by management and approved by the GM in response to the audit findings. IA followed up on the implementation of the management actions to mitigate identified risks in 2016.*

*5.3.5 Regarding the level of NATO financial support for MWA indicated on the report: page 2-25, it must be amended to reflect the condition that GS is subsidizing the cafeteria in The Hague. The relevant budget line is also used to fund GS business. In addition, the HR budget line approved for 2015 is not limited to the requirement of NCI Agency - TH; it is used to fund requirements of all locations of the Agency.*

**5.4 Formal comments of the NATO Support and Procurement Agency**

*5.4.1 In response to the comments in para. 2.1.9 and the conclusion in 2.1.10, NSPA will develop specific guiding principles to govern MWA.*

*5.4.2 In response to the comments in para. 3.2.5 and the conclusion in 3.2.9, NSPA will request the Staff Association to amend their rules to include a provision to audit the accounts of the clubs in which staff members pay for membership and/or for the activities*

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*of the club to decrease risks of losing oversight and control over the management of these activities.*

**5.5 Formal comments of the NATO Science and Technology Organisation**

*5.5.1 The STO have no formal nor factual comments on the reference IBAN draft report on the need to revise NATO-wide framework on Morale and Welfare activities.*

**5.6 Formal comments of the NATO Defense College**

*5.6.1 The NATO Defense College has no formal comments regarding the comprehensive Draft report.*

**5.7 Formal comments of the International Staff**

*5.7.1 The paragraph 2.5.16 should reflect that this situation is not the result of management decisions. It is the result of Nations' decisions, when approving the NATO Accounting Framework, that MWA, with the exception of the IS Staff Centre, should not issue financial statements but only an annual report {see 2.5.5.}.*

**5.8 Formal comments of the International Military Staff**

*5.8.1 The IMS has no further comments, and would like to thank the IBAN for the opportunity to offer comment on the draft Audit Report.*

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## **Different levels of NATO financial support for MWA**

### **NATO STAFF CENTRE (HQ BRUSSELS)**

- The NATO Staff Centre benefits from the fact that the Civil Budget pays for a proportion of its operations and maintenance costs, recruiting services, payroll services, printing.
- Over the past two years, the IS civil budget paid for more than EUR 4 million in operations and maintenance, loss of job indemnities and litigation at the Staff Centre. In the future, it is unlikely that the civil budget subsidy to commercial operations can be eliminated in the short term but it is expected to be reduced. This is mainly due to four factors:
  - The high costs of operating and maintaining the HQ (current and new) infrastructure;
  - The limited size of the customer base for commercial operations;
  - Pension arrears for the current NATO Staff Centre; and
  - The legitimate costs for sustaining MWA.

### **SHAPE**

- MWA are situated in a number of buildings throughout SHAPE. Buildings are assessed as Internationally Funded (common funds) or Reimbursable depending on the activity provided, so is their refurbishment. Concessionaires don't pay rent. SHAPE uses a cost-sharing formula for utilities.
- The current cafeteria has been refurbished half with common funds and half of non-appropriated funds though it is an operational headquarters and it is the employer's obligation to provide food facility. SHAPE is currently refurbishing the gym showers to maintain their functionality. The building belongs to SHAPE, not the MWA, and do not generate any revenue there. With the new SHAPE HQ, only the cafeteria will be paid by common funds. The new SHAPE HQ will not have new MWA facilities as MWA non-appropriated funds will not pay for any new installation.
- SHAPE has experienced erosion of its MWA customer base. One of the reasons is that the Host Nation has removed privileges for national military staff to use the Rationed Item Store which has resulted in loss of revenues.
- Upon dissolution of MWA as the result the deactivation or abandonment of a headquarters, the matter is to be referred to the Budget and Finance Division at SHAPE for guidance. Following the termination of MWA at both SDNEI Verona, SDG Larissa and ISAF in Kandahar, the closed headquarters transferred any MWA funds left to a separate SHAPE account to be managed by ACO. As of December 2015, the account was just above 1 MEUR.

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AGENCY –  
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- NCI Agency funded some MWA with appropriated funds. General Services and HR each have a budget line dedicated to MWA. General services subsidised the cafeteria for 10 000 EUR/month. In 2015, the 2016 HR budget line for MWA was approved for at 50 000 EUR. The HR budget line is used to fund requirements of all locations in the Agency.
- These expenses supported sports and social events, retirement gifts and drinks, social club subsidies, etc. The construction of the new headquarters will be paid by nations. The cost of refurbishment of the current facilities is borne by the Host Nation.

**JALLC**

- The Joint Analysis and Lessons Learned Centre (JALLC, an ACT Sub-Command) uses only non-appropriated funds to cover fixed costs and legal obligations (salaries, mandatory maintenance, utilities and telephone, etc.) and to subsidise its MWA programme with the exception of the time of some civilian staff.
- Furthermore, while its own headquarters is located inside a Portuguese Airforce base and all its own MWA is provided by the Host Nation at no cost, the JALLC offers MWA to its staff members and other NATO bodies in the NATO Force Structure at the decommissioned JFC Lisbon site, most of which are not at 28 nations.

**NAEW & CF**

- In 2008, the NAEW & CF suggested that payment of utilities and routine repairs be taken over by common funds. According to the Commander at the time, none of the MWA generated a net revenue sufficient to cover those costs.
- Activities that do not generate a profit are eligible for common funding. For instance, MWA has an *equipment replacement* plan for the gym eligible for common funds.

**JFC  
NAPLES**

- JFC Naples is the only case we examined where a portion of the civil works related to MWA facilities were authorised by the NSIP on the understanding that the construction costs would be subject to cost recovery over an extended period of time and on the basis of an agreement to be developed at a later stage.
- There is no precedent case within the NATO Command Structure where non-appropriated funds would pay for the full MWA infrastructure, including gym facilities.

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**JFC  
BRUNSSUM**

- Following the new Host Nation Agreement, inconsistencies within ACO Directive 005-001 caused JFCBS FC and the Base Support Group to disagree on requirements for the reimbursement of real estate maintenance payments from MWA. While the dispute has been resolved, the lack of guidance leaves open the possibility that similar issues are not being handled consistently across NATO entities and MWA.

**NDC**

- Under the current agreement between NATO and Host Nation regulating the support to the NDC, the HN has no obligations to contribute to the utilities (electricity, gas, water) which remain a NATO responsibility.
- Given the very limited scale of NDC MWA and disproportionate administrative burden to quantify them, there is no refund for utilities by the MWA.

**USA**

- In several locations of the NATO Command Structure, the United States of America (USA) provides and/or subsidises activities such as gym and libraries. In some cases, if the USA would withdraw its support, this could severely impact the ability of MWA programme to maintain some activities. SHAPE receives support for one of its gyms from the US amounting to some EUR 2 million.
- For JWC, the local USA squadron maintains a MWA facility, recreational equipment rentals and a small outdoor recreation programme that JWC personnel and facilities can access. For JFCBS, a lack of USA funding would likely require closure of the Auto Hobby Shop and significant curtailment of the Library's operating hours and programme offerings.
- As AIRCOM is based on a large USA base, they have access to a large number of USA facilities. However, this then reduce the scope for the AIRCOM MWA programme to fund just one major event a year.
- In Naples, NATO assigned USA and Canadian personnel purchase tax-free rationed items through the US NEX which financially supports the USA MWR programme.

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## **Different levels of staff to support MWA**

<b>NATO Staff Centre</b>	<ul style="list-style-type: none"><li>• Beginning of 2016, the Staff Centre had an approved establishment of 24 posts. With the new NATO HQ Commercial Operations Business Plan 2015-2019 approved by the North Atlantic Council, the number would decrease the total establishment to 3 posts with the New NATO HQ Staff Centre as of January 2017.</li><li>• All concessions contracts are being reviewed and renewed by the IS OFC Procurement Service.</li><li>• The Office of the Financial Controller is responsible for the preparation of the Staff Centre Financial Statements.</li><li>• The IS Executive Management and the Transition office are responsible for the current relocation of MWA over to the New NATO.</li></ul>
<b>NAEW &amp; CF</b>	<ul style="list-style-type: none"><li>• The introduction of the 2010 PE decided that the Dining Facility could not be considered a Troop Feeding Facility and the funding for personnel was withdrawn. The MWA was obliged to take over the running of this operation and to staff it with LWRs paid for from MWA funds.</li><li>• The latest PE has reversed this situation. The Dining Facility is now once again a Troop Feeding facility with all costs attributable to the international budget.</li><li>• NAEW &amp; CF employs an average of 81 posts including casual employees. It is composed of 37 LWRs, 13 non-appropriated funds civilians and 31 part-time civilian posts.</li></ul>
<b>SHAPE</b>	<ul style="list-style-type: none"><li>• SHAPE employs close to 90 full time equivalent personnel. Common funds support around 10 Peace Establishment posts, 7 Local Wage Rate and one NATO International Civilian.</li><li>• The rest of the staff is paid via non-appropriated funds. The USA contributes 14 voluntary national contributions posts.</li></ul>
<b>CMRE</b>	<ul style="list-style-type: none"><li>• CMRE has 1 MWA contractor paid by non-appropriated funds.</li></ul>
<b>JFCNP</b>	<ul style="list-style-type: none"><li>• JFCNP employs 55 full time equivalent personnel. 8 PE posts are filled by military staff while 47 LWR posts are funded through non-appropriated funds. 2 MWA LWRs retired on 31 December 2016.</li></ul>

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<b>JFCBS</b>	<ul style="list-style-type: none"><li>• JFCBS employs 40 to 50 employees for its MWA. Staff is paid from different budgets including 1 common-funded LWR employee to oversee MWA accounting, 3 USA contributed positions, and 35-45 non-appropriated funds-funded LWR positions. The number of LWR is dependent on program offerings and seasonal requirements.</li></ul>
<b>JALLC</b>	<ul style="list-style-type: none"><li>• JALLC has currently 6 MWA personnel – 4 LWR paid with non-appropriated funds and 2 non-commissioned officers (Host Nations posts)</li><li>• The position of Sports Manager has been discontinued as no longer affordable</li></ul>
<b>NCI Agency</b>	<ul style="list-style-type: none"><li>• In The Hague: Most of general MWA are run through the Staff Association.</li><li>• In Brussels: A Bar Committee has been established dealing mainly with a revenue from coffee bar.</li><li>• Those functions are held by NCI Agency personnel.</li></ul>
<b>NSPA</b>	<ul style="list-style-type: none"><li>• The local staff association in Capellen consists of one Chair and one Vice-Chair and the members of association.</li></ul>
<b>LANDCOM</b>	<ul style="list-style-type: none"><li>• MWA Programme is supported by two military and one civilian PE personnel.</li></ul>



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## ACO Directive 005-001 on Morale and Welfare Programmes

ACTIVITY	PERSONNEL	RENT	UTILITIES	CONVENIENCE	ROUTINE	STRUCTURAL	CLEANING	OTHER
IF/HN FACILITY OF CLUB *	NA Funds*	WC	IF	NA Funds	IF	IF	NA Funds	NA Funds
AHTLETIC	NA Funds	WC	IF	NA Funds	IF	IF	IF	NA Funds
COMMUNITY SERVICES *	NA Funds	WC	IF	NA Funds	IF	IF	IF	NA Funds
HOBBY SHOPS	NA Funds	WC	IF	NA Funds	IF	IF	IF	NA Funds
YOUTH ACTIVITIES	NA Funds	WC	IF	NA Funds	IF	IF	IF	NA Funds
SPECIALITY ASSOCIATIONS	NA Funds	WC	NA Funds	NA Funds	IF	IF	NA Funds	NA Funds
CHILD ACTIVITIES	NA Funds	WC	NA Funds	NA Funds	NA Funds +	IF	NA Funds	NA Funds
ENTERTAINMENT	NA Funds	WC	NA Funds	NA Funds	NA Funds +	IF	NA Funds	NA Funds
CONCESSIONNAIRE		WC++	NA Funds	NA Funds	IF	IF	NA Funds	NA Funds
DIRECT SALE OUTLET	NA Funds	WC	NA Funds	NA Funds	IF	IF	NA Funds	NA Funds
NAF MANAGEMENT OFFICE	NA Funds	WC	NA Funds	NA Funds	IF	IF	NA Funds	NA Funds
NAF CONSTRUCTED/LEASED FACILITIES	NA Funds		NA Funds	NA Funds	NA Funds +	NA Funds	NA Funds	NA Funds

Note: This table makes use of the acronym NA Funds to designate non-appropriated funds.

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WC Without Cost

IF International funds

NA Funds Non-Appropriated Funds

+ To the extent of annual net revenue: balance to be met by IF

++ If facility is rented against IF, a rental charge is to be levied

\* "NA Fund" may be substituted by "IF" only on BC authority. Items shown as payable by NA Fund may be paid by the MWA to NA Fund for subsequence reimbursement to IF or paid directly by the MWA to IF

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## List of MWA per NATO body

ACO/SHAPE
<p><b><i>Fund generating activities</i></b> Arts and Crafts, Alliance Auditorium, Trips and Tours, Outdoor Recreation, Concessionaires, Silver Spoon Cafeteria, Pizza Bowl (Bowling), Rendez-vous Cafeteria, Rationed Item Store, SHAPE Inn.</p> <p><b><i>MWA Subsidised activities</i></b> Sports and Fitness, Performing Arts, Language Centre, Library, SHAPE Club, Marketing and Communications, Event management, Clubs.</p> <p><b><i>Others</i></b> Business office, Personnel Office, Support Management Section, Internal review office, Purchasing and Contracting Office.</p>
ACO/JFCBS
<p><b><i>Fund generating activities</i></b> Duty Free Rationed Item store, Barbershop, Catering, Insurance Company, Bike Repair Shop, Beauty salon, Base Hotel – Billeting, Caravan parking.</p> <p><b><i>MWA Subsidised activities</i></b> Fitness Centre, Sports Fields, Swimming Pool, Entertainment/Cinema, Library, Club 13, Arts and Craft Centre, Language Programme, Family Support, Chapel, Clubs: SCUBA Club, Alliance Players Theater Club, JFC Triathlon Club, International Marching Team, Triborder Walking Club, Triborder Sailing Club, JFC Jui-Jitsu Club, Martial Arts Self-Defense Club, Schutters International Gun Club, Boy Scouts, Triborder Hispanic Club, JFC Golf Society, Girl Scouts, Youth Football Club, JFC Music Club, Triborder Brass Club, Phoenix Squash Club, JFC Volunteer Instructors Club, JFC Brunssum COM's Christmas Market.</p> <p><b><i>Others</i></b> /</p>
ACO/JFCNP
<p><b><i>Fund generating activities</i></b> Community Centre/International Store (retail/rationed item sales), Gasoline and Tobacco Store, Fitness Centre, MWA events sponsored by HQ. Concessionaires (via monthly community fees payable to MWA), Coffee Bar (Community Centre), Coffee Bar (Main complex), Cafeteria services/mess, Barbershop, Bank, Hairdresser, Florist, Laundry/Tailor, News stand, Plax Store, Frames, Hardware, Jewelry/clothes, Rental car, Gas station/snack bar, Car wash, Car repair, Shoe shop, Insurance companies (4), Gym/sports Instructors (4)</p> <p><b><i>MWA Subsidised activities</i></b> Sport Facilities and Activities, Social Events, Library, International Spouses Club, Yacht Club, Tennis Club, Field Gun Club, Sonic Lab Club, Lions Rugby Club, Shooting Club, Cycling Club, Tours and Trips, Family Centre, Summer Youth and teen recreation, Leonardo park.</p> <p><b><i>Others</i></b> /</p>

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**ACO/LANDCOM**

***Fund generating activities***

Bazaar (tax free canteen), Patisserie, Lobby Café, Swimming Pool, Concessionaires: Dry Cleaners, Travel & Tourism Agency, Carpet Shop, Car Wash, Insurance Company, Estate Agency, Massage Centre, Barber Shop, In & Out Processing Agency, Household & Furniture Shop.

***MWA Subsidised activities***

Gymnasium and Fitness Centre, Team Building Events, Sports day, International day, End of year celebration.

***Others***

Sports Tournaments, Spring Ball and Birthday Ball, social & cultural events such as music, opera events, tours etc. are mostly customer funded or may be partially funded for customers depending on the annual budget.

**ACO/AIRCOM**

***Fund generating activities***

Small kit shop – coffee cups, small tokens and patches sales.

***MWA Subsidised activities***

Annual Families day, Social event.

***Others***

No physical infrastructure.

**ACO/NAEW&CF**

***Fund generating activities***

MWR store, NATEX, Concessionaires: Newspaper/magazine sales; small gift shop with base memorabilia; dry cleaning service; German postal service. Billeting, Thrift Shop.

***MWA Subsidised activities***

Sports (mixture of funding), Two gymnasiums, an outdoor seasonal swimming pool, a wellness facility with a sauna, whirlpool, and two tanning beds; sports fields; a running track, Annual Sports Day event and International cross country race, daily group fitness lessons, Youth soccer programme, 2 different food facilities: Rotodome, E-3A Club. 3 bars: Frisbee Club, Bavarian Cellar, Red Lion. Youth programme: organized trips to different cities and tourist attractions in the tri-border area, annual special events for holidays (i.e. Easter Egg Hunt, Christmas Party for the children), Instructional Classes at the facility for languages, music lessons, dance, etc. Library.

***Others***

Central NAF: VAT free program for the different nations and companies to participate in: MWA card base members and dependents can purchase to receive discounts at the different MWA programmes and events.

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**ACT/SACT**

***Fund generating activities***

The Red Barn is a tax/duty free concessionaire which provides access to duty free spirits and tobacco for entitled personnel.

***MWA Subsidised activities***

Officers' Mess: The bulk of all MWA is provided via the Officers' Mess – reflecting the PE of the HQ, (includes off-site facilities – hotels / clubs – to deliver 3 or 4 flagship events each year, and bi-monthly FLOGs – Friday PM charity raffles, beer and pizza).

ISRM: The Senior Rates Mess holds one or two lower profile but key activities annually and have a small bar and club-room facility.

MRC: The Morale and Recreation Committee arranges a single Christmas / Holiday Party annually at a local hotel or US MWR club on behalf of the whole Headquarters. Recent changes have been greater focus on Enlisted grades activities.

SOPC: The Officers' / Spouses Club conducts small monthly luncheon club meetings at local clubs or hotels.

***Others***

/

**ACT/JWC**

***Fund generating activities***

Tax-free shop, the Central Cellar. Concessions: Hairdresser, Barber, English language teacher.

***MWA Subsidised activities***

The Jatta Community Club – The JWC Library, Sports and Recreation Clubs: 7 clubs such as Sailing and Orienteering.

***Others***

The IWF – this is the overarching JWC MWA fund. It is maintained in a separate local bank account and is the sole repository for all MWA activities, Clubs etc. Highlights of annual MWA programme include the JWC Ball, JWC International Day, Welcome BBQ and Information Day, boat sightseeing trips, and family events such as bowling, curling, and lasertag. The local USAFE Spt Sqn maintains an MWA facility, recreation equipment rentals and a small outdoor recreation programme that JWC families can access. The Host nation also funds approximately 85% of the annual costs of individual memberships to a local chain of personal fitness centers (the remaining is self-funded by individuals).

The Host Nation also contributes to JWC MWA notably with real estate facilities such as Gausel Magasin and the Military Cabins and JWC Sailing Club site. These contributions include the provision of space for MWA, shared maintenance and utilities, property lease oversight for the Cabins and Sailing Club sites and addressing of health and safety issues.

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ACT/JFTC
<b><i>Fund generating activities</i></b> The JFTC Duty Free shop, Duty free spirits and tobacco for entitled personnel.
<b><i>MWA Subsidised activities</i></b> Clubs, JFTC Sports and Clubs, NATO Bydgoszcz Spouse club, Social/team-building.
<b><i>Others</i></b> /

ACT/JALLC
<b><i>Fund generating activities</i></b> The International Store, The Barbershop.
<b><i>MWA Subsidised activities</i></b> 2 cafeterias known as 'The Club' and 'The Dive Inn', The Dining Facility, The Library. Sports and Recreational Clubs: The JALLC MWA Programme subsidise the gym (emoluments of one contractor, maintenance of equipment), the swimming pool (maintenance, lifeguard), a sailing club (boat maintenance and mooring) and other clubs including Swim Team, Diving Club, Ju-Jitsu, as well as the Spouses International Group (SIG) who organises events for spouses and children. Social Events: the JALLC MWA Programme sponsors over 10 parties to include summer parties, Christmas parties, national parties (e.g. Oktoberfest, Spanish Fiesta, Italian party etc.). Other Activities: the programme sponsors Portuguese lessons, as well as Staff Outings such as cultural visits.
<b><i>Others</i></b> /

IMS
<b><i>Fund generating activities</i></b> IMS All Ranks Fund, Duty-free petrol cards, Duty-free Alcohol and Tobacco.
<b><i>MWA Subsidised activities</i></b> Badges for new comers, Money given back to the members, Social event.
<b><i>Others</i></b> The IMS Language Training Centre, the course fees collected are used to pay for four part-time language teachers, and the financial aim is to at least break-even. Course fees are raised by a combination of self-payment by participants and subsidisation. For IMS and NSO military students, 50% of the course fees are paid by NATO. Civilians receive 100% subsidisation based on performance management recommended training.

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NDC
<p><b>Fund generating activities</b> Petrol, Bonded Store, Shop.</p> <p><b>MWA Subsidised activities</b> Art &amp; History, Spouses programme Anciens programme, Sports.</p> <p><b>Others</b> College Fund is the recipient of the profits generated by those activities.</p>
IS
<p><b>Fund generating activities</b> Concessions: Bank, jewellery, mini-market, perfume store, optician, dry cleaning, insurance, health insurance, travel agency, hairdresser, post office, press shop, gift shop. Restaurant and cafeteria.</p> <p><b>MWA Subsidised activities</b> Sport and cultural activities: aikido, arts and crafts, aqua gym, aviation, badminton, crossfit, bowling, climbing, football, genealogy, golf, gymnastics and yoga, jazz exercise, brasilian jiu-jitsu, jogging, karate, krav maga, motorcycle, music, swimming, spelling, petanque, diving, qigong, ski, squash, step aerobic, stretching, tennis, clay shooting, triathlon, zumba.</p> <p><b>Others</b> All the activities are located at the NATO HQ except for: aviation, climbing, golf, motorcycle, ski and clay shooting.</p>
NCI Agency
<p><b>Fund generating activities</b> Aramark Bar (Brussels).</p> <p><b>MWA Subsidised activities</b> Restaurant, Sports, Christmas party.</p> <p><b>Others</b> Staff Association contributions by members, Clubs, HR and General service budget.</p>
NSPA
<p><b>Fund generating activities</b> Shop.</p> <p><b>MWA Subsidised activities</b> Christmas Party, SOC Canteen.</p> <p><b>Others</b> Staff Association contributions by members, SOC canteen, Athletics/gym club, Gun club, Music club, Children's social clubs, Historical society.</p>

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CMRE
<p><b><i>Fund generating activities</i></b> Petrol Coupons, Tobacco, Alcohol.</p> <p><b><i>MWA Subsidised activities</i></b> Clubs: Athletic, tennis, languages, boats, video / games, cycling, music, Motorsports, food &amp; wine, and football. Social event/parties.</p> <p><b><i>Others</i></b> Administrative services: MWA tax-free/duty-free sales, coffee bar, gymnasium fees, and CSA.</p>

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APPENDIX 5  
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**Abbreviations**

AIRCOM	Allied Air Command
ACO	Allied Command Operations
ACT	Allied Command Transformation
BC	Budget Committee
CMRE	Centre for Maritime Research and Experimentation
IBAN	International Board of Auditors for NATO
IMS	International Military Staff
IS	International Staff
JFCBS	Joint Force Command Brunssum
JFCNP	Joint Force Command Naples
LANDCOM	Allied Land Command
LWR	Local Wage Rate
LWS	Local Wage Staff
MARCOM	Allied Maritime Command
MWA	Morale and Welfare Activities
MWAC	Morale and Welfare Activities Council
Council	North Atlantic Council
NAEW &CF	NATO Airborne Early Warning and Control Force
NAF	NATO Accounting Framework
NCI Agency	NATO Communications and Information Agency
NCS	NATO Command Structure
NFRs	NATO Financial Regulations
NSPA	NATO Support and Procurement Agency
PE	Peacetime Establishment
RPPB	Resource Policy and Planning
SHAPE	Supreme Headquarters Allied Powers Europe
STO	NATO Science and Technology Organisation