State Comptroller Report

May 2022

Abstracts

תמונה שמכילה טקסט

התיאור נוצר באופן אוטומטי

State of Israel

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Foreword

The State Comptroller's Annual Audit Report for 2022 has been submitted to the Knesset, and it is published to the public under the State Comptroller's Law, 1958 [Consolidated Version]. The report contains 26 chapters dealing with audit in government ministries, State institutions, the Defense System, and government companies and corporations. The chapters in the report raise to the public agenda significant audit findings concerning all areas of life, including the welfare of the individual, sustainability, information systems and cyber protection, national defense, children and youth, administration, organization, supervision, and enforcement.

By the State Comptroller and Ombudsman's vision, we are acting to characterize the State audit as motivative, innovative, relevant, and effective. The audit deals with the core areas of the audited bodies and focuses both on matters of a social nature and service to the citizen and the substantive risks influencing their activity. This, alongside issues concerning good governance and incorruptibility.

Following are some of the chapters contained in this report:

The audit regarding **The State of Israel's Financial Statements as of 31.12.2020 – Accounts Receivable** indicates that the Debtors and Debt Balances section has been on an upward trend during recent years from approx. NIS 49 billion in 2015 to approx. NIS 69 billion in 2020 (less the provision for doubtful debts). The audit raised that a large part of the work of the government ministries in the matter is carried out manually, not by automated processes. This makes it challenging to control debt management and prevent arrears and leads to obsolete debts; the covid-19 pandemic had an extensive impact on the Financial Reports for 2020: the State revenue in 2020 decreased by approx. NIS 17 billion compared to 2019, and the annual accounting deficit increased to approx. NIS 236 billion; there is no uniformity in the accounting records of debts which the government ministries transfer to the handling of the Centre for the collection of Fines, Fees, and Expenses (the Fines Collection Centre). Some ministries leave the debt record in their books even after being transferred for handling to the Fines Collection Center. This can create duplicity of the debt balances in the State's Consolidated Financial Reports. The Accountant General's Department must complete the implementation of the transverse collection system to achieve a reliable and available situation report concerning the debtors and collection figures’ status. Furthermore, it should improve the collection process of the ministries’ debts by using the Enforcement and Collection Agency and collect all the debts. Managing the balance of debts and collecting them is important for preserving the State's assets and exercising its full rights.

The audit on **Supervision over Purity of Elections in the 24th Knesset Elections** raised that the cost of operating a supervisory system was NIS 51 million, and the number of election purity inspectors has increased fourfold between the 22nd and the 24th Knesset election campaign; the administrative headquarters did not promote regulation in legislation regarding the supervisory system and cameras placing at the ballot committees; in the 24th Knesset elections, unauthorized parties used the cameras in the voting station rooms. Deficiencies were also raised in the operation of the supervisory system: 18% of all the ballot committees, which were defined as "sensitive voting stations," operated without an inspector on Election Day for the 24th Knesset; 34% of the inspectors were unable to use the particular application for reporting suspicions of a violation of the purity of elections; due to missing information in the computerized systems of the Central Elections Committee (in approx. 40% of the reports), it is impossible to determine to what extent the Committee's treatment of the suspicions of a violation of the purity of elections was exhaustive, and if all the cases requiring in-depth examinations were indeed examined. For future decisions making concerning the necessity to set up a supervisory system for purity of elections, and if so, what is its appropriate scale the Elections Committee should conduct a comprehensive examination regarding the effectiveness of the systems that operated in the 22nd, 23rd, and 24th Knesset elections, and examine their benefit versus their costs.

The audit on **Anti-Money Laundering Regime in Israel** indicated that the payment of hundreds of billions of NIS every year to the government sector is not regulated in the money laundering prohibition regime. It was further raised that the transverse statistical information is the only information that the Israel Money Laundering and Terror Financing Prohibition Authority presently sends to the regulators for audit; in recent years, it was sent to 50% of the regulators and not every year. Arguments were raised that there is a financial exclusion in the banking system, not just partial, of the activity of financial service providers, Fintech companies, and companies trading in cryptocurrency. This exclusion, if it is applied, is liable to cause sectors performing the financial activity in cryptocurrency and Fintech companies to transfer their activity outside Israel's borders, with everything this implies, or to perform unreported action which will increase the scales of money laundering and the black market in Israel. It was further raised that alongside the activity which the State and the financial bodies must adopt to preserve the strength and efficiency of the prohibition on money laundering regime, for compliance with international standards, it is also recommended that the regime be examined frequently from the viewpoint of the various types of clients and optimize and streamline the regime in the spirit of past Government decisions about smart regulation, Government actions from 2021 to Facilitate the Regulation and the Principles of Regulation Law. It is recommended that all the relevant bodies – each one in its jurisdiction and conjunction between them establish adequate conditions for the development of the digital (cryptographic) currency, whose global scale of activity has been estimated at USD 2.5 to 3 trillion and other innovative financial fields, and active supervision over the financial service providers in relatively high-risk areas. It is also recommended to promote the regulation of obligations, rules, and supervisory mechanisms, by a risk-based approach so that payments to the public sector will not serve as a channel for money laundering.

830,000 adults in Israel have a record in the Criminal Register on account of a criminal file opened against them. The decision by the enforcement and prosecution authorities on the ground for closing a criminal file is liable to reduce the possibilities of making a living and besmirch a person's reputation. Our office has examined **Closing Criminal Files by the Israel Police and the Office of the State Attorney** and raised findings necessitating an examination by the enforcement and prosecution authorities regarding the extent use of the various grounds for closing. Thus, for example, some 55,000 files of suspects were closed by the Police and the State Attorney's Office in 2020 on the ground of "lack of evidence". The examination above should also be performed given the update to the State Attorney's 2018 Directive, which was designed, among other things, to reduce the number of files closed on the ground of "lack of evidence.” Paying attention to the presumption of innocence granted to suspects whose files were closed and sealing off the possibility of prosecuting those who the complainants claim to have harmed them, it is recommended that the enforcement and prosecution authorities address barriers in the realization of the suspects and complainants rights to appeal the decision. Moreover, it is recommended to appoint one redirector factor to whom the complainants or suspects can submit appeals and reservations online.

Our office examined the **Embezzlement Prevention in Government Ministries and Government Companies** for the first time. The scale of the financial activity of government ministries and government companies, the nature of these bodies, their complexity, and their large number of employees – all expose them to the danger of embezzlement. The estimated annual damage in Israel due to embezzlement totals NIS 6–9 billion. The findings of this audit indicate deficiencies in the risks management system for preventing embezzlement and in the information systems. Likewise, deficiencies were raised regarding examining the implementation of operational controls in the following fields: human resources and salary, procurement and inventory, debt collection, and payment methods. It was also raised that 82% of the government ministries and companies (on average) do not use innovative technologies to cope with embezzlement. To prevent embezzlement, a comprehensive and complex proceeding is required containing the establishment of proper organizational culture, raising awareness of the subject among the organization's employees, early identification of the risks and weak points in the organization's systems, formulating an orderly program for the prevention of embezzlement and the assimilation of unique controls and systems to reduce the risks. This procedure is part of the acceptable norms for organization-wide risks management developed during recent decades. The government ministries and government companies, the Accountant General's Department, and the Government Companies Authority must consider the conclusions and recommendations raised in this report, learn lessons from the deficiencies noted in the report, and rectify them. **It should be noted that the Report also contains focused audit on Preventing Embezzlements and Frauds at the Israel Land Authority.**

In 2021 there were approx. 286,700 toddlers aged from birth to three years in Israel. Studies show that investing in the care and education of toddlers saves investing public funds in the long term. It leads to a relatively greater yield, particularly for toddlers from families in a low socio-economic situation. The audit on **Care and Education of Toddlers in Daycare Centers and Nurseries** showed that even though the education of toddlers is a decisive stage in the creation of equality of opportunities, in practice, the dispersion and subsidy mechanism of the frameworks, where the price is controlled, and there is the possibility of subsidizing the fees (Semel), results in many families in a low socio-economic situation without the chance of benefitting from such a framework; on the other hand, many Semel daycare centers serve population with high socio-economic situation, which receives a bonus in the form of a controlled price, which is lower than the market price for daycare centers in its place of residence. It was also found that in Semel frameworks, where approx. 150,000 toddlers attend, there is a frequent change of staff, the starting salary of the teachers-assistants during 2019 was the minimum wage NIS 5,300 a month, they were inadequately trained, and the established committee to improve the quality of these frameworks did not complete its work. It was further found that a heavy bureaucratic load was imposed upon the parents of toddlers in all the proceedings for applications for a fees subsidy in these frameworks. Thus, for approx. 80% of the applications for fees subsidy in the Semel frameworks, the parents were required to provide five or more documents, and for approx. 3,600 toddlers, the parents were required to submit 25 documents and more. It is recommended that the Day Care Center Department, in conjunction with the Ministry of Finance, examine the subsidy model against the background of the impact of the new Supervision Law on the daycare center market to allow more families in a low socio-economic situation to provide for their children with high-quality education-care from birth to three years. It is further recommended that the Ministry of Education, whose under its supervision, the daycare centers are due to move (under a Government Decision from January 2022), examine methods of incentivizing daycare centers in towns and neighborhoods in the low socio-economic clusters, and support them so that they can comply with the conditions of the new Supervision Law which will apply to them the supervision and enforcement arising from it and provide higher quality education-care for the toddlers requiring it. Finally, the Ministry of Education, as well as all the other bodies involved the Labor Branch, the Early Childhood Council, and the Ministry of Finance should implement the strategic change due to the implementation of the new Supervision Law and its Regulations and the transfer of the main activity of the Day Care Centers Department to the Ministry of Education; a change designed to allow the required leap in the quality of education-care provided for toddlers, and in particular for those in a low socio-economic situation.

One of the primary missions of the Ministry of Education is budgeting the development and building of schools using the local authorities. The Ministry budgets the construction of new educational institutions, renews existing ones, and participates in financing portable structures and rented buildings for educational institutions when necessary. The audit on **Development of Educational Institutions – New Construction and Expansion of Existing Structures** raised that at the end of 2020, there was a shortage of more than 10,200 classrooms in schools and kindergartens an increase in comparison to 2017, when the shortage was nearly 7,500 classrooms. This audit exposes a unique aspect concerning the social discrepancies in Israel: the differences between the local authorities in the high socio-economic clusters and the local authorities in the low socio-economic clusters, to the detriment of the latter, are expressed in a variety of aspects concerning the building of classrooms in the scale of the shortage of classrooms, the average number of children in the classroom, the rate of exploitation of the budget allotted for the building of classrooms and the construction of innovative study spaces. On the other hand, the bulk of the budget for constructing classrooms in portable structures (85%) is designed for local authorities in relatively low clusters (16). The main reason for the discrepancies is that the local authorities belonging to the low clusters find it challenging to realize the budgetary authorizations from the Ministry of Education to build classrooms. The outcome is that a local authority from a high socio-economic cluster can offer the pupil, beyond the uniform and binding specification, better physical infrastructures and study environment: an institution built at a higher standard, more spacious and equipped and in a cultivated environment resources which a local authority from a low socio-economic cluster cannot offer its pupils. The State Comptroller's Office recommends that the Ministry of Education formulate a policy for reducing the shortage of classrooms over several years until its conclusion, including the provision of permanent solutions instead of portable classrooms. It is further recommended that the Ministry consider the local authorities’ difficulty in the low socio-economic clusters in realizing the budgetary authorizations for the building of classrooms. Thus the Ministry will increase the chances of the pupils in these local authorities to start at an equal point to the pupils in the other local authorities and will ensure them an equal opportunity. The State Comptroller's Office further recommends to the Ministry of Education to examine the implementation of the government decisions concerning the reduction of crowdedness in the classrooms during the past 13 years: to analyze the requirements according to the stages of education, the socio-economic affinity of the local authority and the sector to which the school belongs; to formulate a yearly plan of action for the implementation of the government Decisions, and prioritize budgeting for the building of the new classrooms in the local authorities where the average crowdedness in the classrooms under their responsibility is higher.

Eggs are a source of animal protein in the human diet, and the average annual consumption per person in Israel totals 250 eggs. The egg-laying industry in Israel is planned, and it is only possible to produce and market eggs by the quota allotted to the poultry farmer. In 2007 and 2010, the government made a decision concerning the chicken coops, whereby assistance in the form of grants would be given to poultry farmers to make capital investments in the eggs industry, to remove the chicken coops from the town centers. In August 2021, the government made another Decision, whereby the quotas regime in the egg-laying industry would be abolished, but this decision has not yet been implemented. The audit on **Egg Production in Israel – Implementation of the Laying Hen Coops Reform** raised that 71% of the chicken coops in Israel that were built during the Fifties and Sixties of the 20th century, do not comply with the binding standards prescribed in the statutory provisions from licensing, planning and construction, and public health. Moreover, they do not comply with the acceptable requirements in the developed countries concerning the welfare of laying hens. 76% of all the laying hens are housed in cages where the space per laying hen is only approx. 400 sq. cm, compared to the enriched cages in Europe, where the space is 750 sq. cm. Many chicken coops are located in town centers and create an environmental hazard affecting the possibilities of development of the towns and their residents' quality of life. In the northern chicken coops, which are more crowded than the chicken coops in the other parts of the country, the rate of morbidity in the majority of the most common bird diseases in Israel is considerably more significant than the rate of morbidity in those in other parts of the country. The outbreak of Bird Flu at the end of 2021 illustrates the inability to effectively isolate the outbreak’s focus and prevent the spread of Bird Flu among the chicken coops. This and more, due to the quotas policy prevalent in the industry, the price per egg in Israel is one of the highest in the world, even though the government controls the prices. Thus, for example, the average price of a tray of 12 medium eggs in Israel is NIS 12.96, compared to NIS 9.17 in the OECD countries (not including Israel) and NIS 7.52 in the United States. The Israeli consumer bears the high price burden. The Ministry of Agriculture, in conjunction with the Ministry of Finance, should remove the barriers to the advancement of the reform, including the budgetary, planning, and normative aspects. Since a considerable part of the old chicken coops are located in the north of the country (71% of the chicken coops in Israel and 65% of all the poultry farmers are located in the northern towns), they should also consider the employment aspects of the adoption of the reform and work diligently on the provision of suitable solutions to these issues.

The Health care Basket expansion allows advanced medicines and technologies to be added using public funding. Prioritization of the requests is a moral decision accompanied by deliberations because every request is essential; still, it is impossible to include all the desired medicines and technologies in the Health care Basket due to budgetary constraints. Given the findings of the audit on the **Expansion of the Health Services Basket – The Addition of Medications and Technologies**, it is recommended to amend and improve the process for expansion of the Basket, which will lead to better exploitation of its budget to which the public is entitled. Given the findings of this report and because the Basket Committee has been operating for more than 20 years without the supervision reports on its activity being completed, it is essential that the Health Council and the Ministries of Health and Finance examine all the Committee's activity, to improve its functioning and to enable patients to get the most out of the health services included in the Basket.

The audit on the **Maintenance of Apartments Belonging to Amidar – the Israeli National Public Housing Company Ltd.** indicated that Amidar manages most of the public housing apartments (approx. 38,000 out of approx. 50,000). Approx. 75% of them were built more than 40 years ago, and their tenants are among Israel's low socio-economic level population. Amidar's management agreement with the Ministry of Construction and Housing regulates the management of the apartments, including the company's liability for their maintenance, to ensure the fulfillment of the eligible tenant's rights and obligations under the Tenant’s Rights in Public Housing Law, 1998, and the Regulations thereunder. Within its maintenance activities of the apartments, Amidar performs, using external contractors, ongoing maintenance works, thorough renovation, and refurbishments before occupation. The present audit in 20182020 raised that Amidar had performed several activities, including maintenance works and repairs of defects in approx. 27,600 apartments and the renovation of approx. 6,800 apartments, but its activities require improvement. The Ministry of Construction and Housing and Amidar must rectify the deficiencies to ensure a proper standard of public housing apartments.

A follow-up over the rectification of the deficiencies raised in the previous audit reports is an essential tool to ascertain that the audited bodies have rectified what is necessary. Accordingly, we have acted to expand the follow-up audits’ scale and improve their manner of performance. Findings from eight follow up audits are included in this report: **Planning and Management of Human Resources at the Ministry of Foreign Affairs; Employment of Local Workers in Israeli Diplomatic Missions Abroad; Handling Disciplinary Offences in The Civil Service; the Samaria and Judea District of the Israel Police; Implementation of Reforms and Reduction of Gaps in Early Childhood Education; The Medical Array for Treating Prisoners in Israel Prison Service; State Treatment of Elderly requiring Nursing Care while Living at Home; Security Components in Front Line Communities in the Regional Commands.**

The report is comprehensive and encompasses many varied subjects, and this introduction deals only with some of the chapters included in it. Every single one of the chapters in the report opens before the public, including decision-makers, a window into the activity of the audited bodies. Thus it assists all of us in ensuring the propriety of the public service in the State of Israel and provides a considerable contribution to increasing the efficiency, economy, and incorruptibility of the audited bodies and preserving the rules of good governance.

**The preparation of the Report necessitated great effort on the part of the employees of the State Comptroller's Office, who toiled on its preparation professionally, thoroughly, fairly and pedantic, and who carry out their public function out of a feeling of actual vocation. My thanks go out to them.**

The audited bodies should act speedily and effectively to rectify the deficiencies raised in this report to promote the public service in Israel and improve the quality of life of the residents of Israel.

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**Matanyahu Englman**

State Comptroller and  
Ombudsman of Israel

Jerusalem, May 2022