

State Comptroller Report

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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 (1–6). 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 2018–2020 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.



Foreword

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.

Matanyahu Englman
State Comptroller and
Ombudsman of Israel

Jerusalem, May 2022



Report of the State Comptroller of Israel | May 2022

Chapter One

Systemic Topics



Report of the State Comptroller of Israel | May 2022

Systemic Topics

Anti-Money Laundering Regime in Israel



Anti-Money Laundering Regime in Israel

Background

The anti-money laundering regime (the Regime or the Regulation) is a general term for a set of legislation and administrative guidelines created in Israel due to Israel's commitment to the international efforts to combat undeclared capital (also known as Black Economy), organized crime, and corruption. The Regime is implemented by the financial institutions and Designated non-financial Businesses and Professions (DNFBPs)¹, which regulators supervise (the Supervisor of Banks, the Securities Authority, the Capital Market, Insurance and Savings Authority (the Capital Market Authority), the Ministry of Communications, the Diamond Supervisor, the Commissioner for Business Service Providers (all the Regulators)) and the Israel Money Laundering and Terror Financing Prohibition Authority (IMPA), which is responsible for managing the database of the reports received from the financial entities². This report presents the audit of the activities of the Regulators and other government ministries regarding anti-money laundering and their regulation effect on clients. As part of the audit, the State Comptroller's Office carried out a public participation procedure with key bodies in the economy.

- 1 Lawyers, accountants and dealers in precious stones. FATF definition of DNFBPs also included dealers in precious metals, casinos, real estate brokers and service providers for companies and trusts.
- 2 The supervised entities submit to IMPA, in accordance with the order applicable to them – CTRs on regular operations, in accordance with the criteria defined in these orders, and UARs on irregular activities, for activity that, according to the information held by the supervised body, raised within it concern of it being related to the prohibited activity pursuant to the Prohibition on Money Laundering Law.



Key figures

20 years	2018	NIS 230 billion	about 12,000
Israel has an anti-money laundering regime, but the Regulators have not yet examined its effect on the public	Israel successfully passed the FATF ³ audit, which led to its acceptance as a member of the organization	the volume of the economic activity of financial service providers (FSPs) (including money services businesses (MSBs)) as of 2021	Insurance agents and agencies not supervised by the Capital Market Authority in money laundering aspect
USD 2.5 to 3 trillion	hundreds of billions of NIS	21%	17%
the global volume of the digital or virtual currencies (cryptocurrency) activity as estimated in July 2021	of payments not regulated by the Anti-Money Laundering Regime, paid annually to the government sector	rate estimate of the black economy from the GDP in Israel in the years 2004–2015	rate estimate of the black economy from the GDP in the OECD member states in the years 2004–2015

Audit actions

From December 2020 to September 2021, the State Comptroller Office alternately examined all-embracing aspects concerning the Anti-Money Laundering Regime in Israel, and in particular the civil aspect of the Regime – the regulation exercised by the various Regulators and the manner of implementation of the Anti-Money Laundering Regime in government bodies. The audit was carried out at IMPA; The Police; The Tax Authority; The Diamonds, Gemstones and Jewelry Administration at the Ministry of Economy and Industry; The Postal Bank – a subsidiary of the Israel Post Company Ltd.; The Postal Administration at the Ministry of Communications; The Banking Supervision Division at the Bank of Israel (the Supervisor of Banks); The Commissioner of Business Service Providers Bureau at the Ministry of Justice; The Securities Authority; And the Capital Market Authority. Supplementary examinations were conducted at the headquarters of

³ In 1989, the seven industrialized countries (G7) established an intergovernmental organization called the International Task Force for Combating Money Laundering and Terror Financing (the organization is also called: The Financial Action Task Force or FATF).

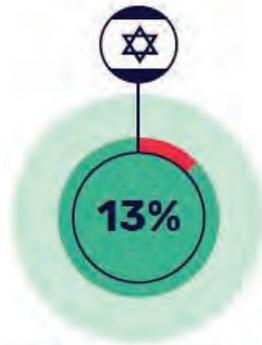


the Ministry of Justice, the State Attorney's Office, the Legal Counseling and Legislation (Criminal) Department at the Ministry of Justice (Legal Counseling and Legislation Department at the Ministry of Justice), the Prime Minister's Office, the Ministry of Finance, the Execution Office and Fines Collection Center at the Enforcement and Collection Authority, the Civil Service Commission, the E-government Unit at the Government ICT Authority in the National Digital Affairs Directorate, the Treasury Staff Officer Unit in the Civil Administration, the National Bureau for Counter Terror Financing (NBCTF) in the Ministry of Defense, the National Cyber Directorate, the General Security Service, and at the National Insurance Institute.

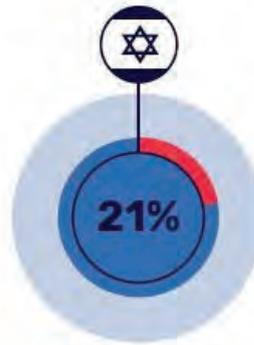
As part of the audit, the State Comptroller's Office carried out a public participation procedure with key bodies in the economy, to hear their position on the issues examined in this report: the Bar Association, the Banks Association, as well as Bank Leumi Le'Israel, the Israel Insurance Companies, the Israel Chamber of Insurance Agents, the Credit Card Companies Forum, the Institute of Certified Public Accountants in Israel, the Israeli Diamond Exchange, the Israeli Bitcoin Association, the Association of Financial Services Providers and the Israeli Blockchain Forum.



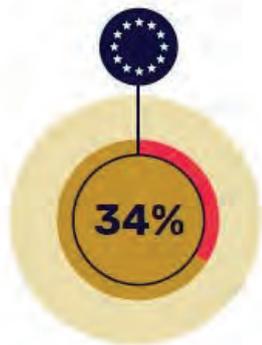
Data on rate estimates of cash use in the black economy in general and in money laundering in particular in Israel and around the world



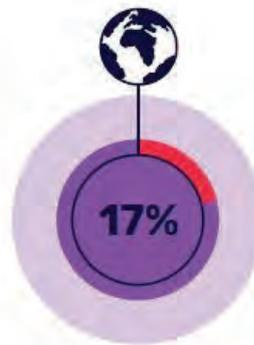
Of the money laundering cases in Israel were conducted in cash



The rate of black economy from the GDP in Israel



Of the Unusual activity reports (UARs) in the European Union pertain to cash



The rate of black economy from the GDP of the OECD member states

Source: Data from various sources processed by the State Comptroller's Office.

The rates of the black economy from the GDP of the OECD member states and Israel are based on data from the years 2004–2015 published in the International Monetary Fund Report in 2018.



Key findings



Anti-Money Laundering Regime – regulatory aspects

-  **The regulatory structure** – at the end of the audit, the regulation and the application of the Regime to various sectors such as religious charities (free lone society), real estate brokers, service providers in the field of companies and trusts if they are not lawyers or accountants and dealers in precious metals had not yet been completed. It should be noted that the FATF also commented in 2018 on this matter. As a result, the database at IMPA does not include reports from these entities, and they will not be forwarded to the enforcement authorities for investigation and intelligence purposes. Not applying the Regime on the sectors mentioned above also raises concerns of money laundering through these sectors.
-  **The contents of money laundering orders** – the multitude of orders that came into force gradually over approximately 20 years, the differences between them and the differences in the interpretation given to them by the Regulators, have the potential to damage the uniformity of the Regime's regulation and may form differences between different sectors with no justification, if the differences are not based on a systematic risk assessment. In addition, these differences may create weak spots exploited for money laundering. Thus, for example, the order that applies to business service providers (such as lawyers and accountants – DNFBPs), does not obligate to report unusual activity to IMPA, while the other orders obligate it. In addition, according to the rules of professional ethics that apply to lawyers and accountants (DNFBPs), respectively, they must refrain from executing a transaction if in their opinion the level of risk for money laundering and terror financing is high, when this provision does not exist in other sectors.
-  **Transfer of specific information from IMPA to all the Regulators** – in the years 2018–2020, IMPA initiated only four times transfers of information to the police and recommended the police to transfer it to certain Regulators in accordance with its authority. Furthermore, two-thirds of the Regulators did not receive any information from IMPA via the police, in the manner mentioned above. The promulgation of regulations for transferring information from the IMPA database to all the Regulators has not yet been completed. As a result, at the time of the audit, no Regulators are authorized to request from IMPA comprehensive or specific information from its database reports about the bodies they supervise, or request analyzes of such information. It should be noted that IMPA is also not exposed to the entire relevant information collected by all the Regulators as part of their duties. This information may contribute to the fulfillment of IMPA's role to enrich the database and analyze it.



- Transfer of statistical information from IMPA to all Regulators** – although the comprehensive statistical information is the only information that IMPA transfers directly to the Regulators for audit purposes, in recent years it has been forwarded to 50% of the Regulators, and not every year. IMPA has reports from reporting entities belonging to different sectors on the activities carried out therein, and sometimes they include information on sectors in which there is a small rate of reports (such as dealers in precious stones) or in which there is no reporting obligation (such as business service providers). This information may allow IMPA to extract information on sectors from which no or only few reports are received, and to perform analyzes of that information for transferring a statistical report that will enrich the Regulator's knowledge of the sector he supervises.

Regulator audits on the reports of the reporting entities

- The Supervisor of Banks and the Ministry of Communications from January 2016 to October 2021 did not examine transversely the integrity of the information systems of the supervised entities, to ensure that the analysis and identification of regular financial activities (that must be reported) systems (cash transaction), detect the operations as required, in a proper manner (the report is Cash Transaction Report (CTRs)). The Supervisor of Banks and the Ministry of Communications – did not check, as part of the audits of the information systems of the entities subject to their supervision, whether all the regular financial activities (cash transaction) detected by the computer systems were indeed transferred to IMPA. The Supervisor of Banks, the Ministry of Communications and the Capital Market Authority, with respect to the institutional entities – did not check, as part of the audits of the information systems of the entities subject to their supervision, whether the length of time that passed between the date of the action requiring to transfer CTRs and the date required for its reporting to IMPA, was in accordance with the legal obligation. The Ministry of Communications, the Securities Authority, the Capital Market Authority and the Diamond Supervisor – did not check, as part of the audits of the information systems of the entities subject to their supervision, that all of the Unusual Activity Reports (UARs) (300,000) they submitted to IMPA in 2016–2020 were forwarded at the times required, pursuant to the sectoral order and the regulations concerning reporting to IMPA.
- The dual regulation burden – the need for direct access to a clearing system** – it was found that the clearing mechanism, which according to the provisions of the law is carried out exclusively through the banking system, creates a burden due to the dual money laundering regulation on sectors such as credit service providers, who are forced to use the banking system for clearing purposes. For example, a credit service provider is required to act according to its sectoral order, and the banking corporations order when seeking, as a customer, to clear its own customer transaction through its business bank account.



The regulation effect on the supervised entities

-  **The Money Laundering Regime cost for the supervised entities** – all the Regulators have not examined the costs of the Regime on the sector they supervise, since the entry into force of the sectoral order, nor have they carried out a 'Regulatory Impact Assessment' procedure (RIA⁴) to examine the costs arising from the Regime imposed on the supervised entities, and their effect on the cost charged from the customer. It should be noted that checking the costs of the Regime and identifying duplication or inefficiency in the regulation do not necessarily contradict achieving the goals of the regulation.
-  **Preliminary decisions (pre-ruling)** – the Supervisor of Banks, the Ministry of Communications, the Capital Market Authority, as well as the Commissioner for Business Service Providers in the Ministry of Justice do not provide a response to inquiries from supervised entities on concrete matters for the purpose of making preliminary decisions (pre-ruling), but at most respond to fundamental or cross-organizational questions in the framework of the publications to all the supervised entities. In view of this, the supervised entities face the risk of having the Regulator impose financial sanctions on them.
-  **The regulation impact on the citizen** – examining the quality of transverse service to the client – none of the Regulators, with the exception of the Capital Market Authority, examined the quality of the transverse service provided to the clients of the supervised entities in the context of the implementation of the provisions on prohibition of money laundering and terror financing.

The sectoral Regulators activity

Prevention of money laundering – aspects of the Supervisor of Banks' actions

-  **Exercise of the Supervisor's authority to order the convening of a Financial Sanctions Committee to examine the imposition of sanctions for violations in the field of money laundering** – even though deficiencies were found in four audits conducted by the Supervisor of Banks in the supervised entities in 2017–2020, for six years he has not exercised his authority to convene the committee operating under the Prohibition on Money Laundering Law, which is a committee with independent discretion also attended by a representative of the Minister of Justice, and has not exercised his authority since 2010 to convene the committee operating under the Banking Ordinance and the provisions of the Proper Conduct of Banking Business Directives on the subject of prohibition of money laundering⁵. Therefore, the Financial Sanctions Committees did

4 A procedure for the assessment of the regulation's impact known as Regulatory Impact Assessment.

5 In this procedure, the Supervisor of Banks imposes on the banking corporations anti-money laundering obligations, which can be enforced by virtue of the Banking Ordinance.



not exercise their authority to impose financial sanctions, or other powers under the Prohibition on Money Laundering Law or the Banking Ordinance during the aforementioned periods, respectively.

-  **The Supervisor of Banks' audit of foreign bank license holders** – despite the small number of reports from foreign bank license holders active in Israel (in 2016–2017, up to five UARs were received from some of these banks per year, and from some of them no reports were received at all), the Supervisor did not conduct audits in these banks from 2013, their matter was not brought up for discussion by the Financial Sanctions Committee, and it did not exercise its authority to impose financial sanctions or other powers on them.
-  **Conducting inspections by the Supervisor of Banks in the area of money laundering through the internal audit units of the supervised entities** – in the years 2017–2020, the Supervisor of Banks based about half of the total planned audit and inspection operations (34), on the internal audit units of the supervised entities, to check the adequacy of the activity of the supervised entity and the extent of their compliance in the field of money laundering. This is also in cases where the enforcement authorities raised three concrete suspicions and requested that the Supervisor examine them, by virtue of his authority under law.
-  **Activity of financial service providers (FSPs) and fintech companies and operations in digital-cryptocurrency in the banking system** – there are claims that there is financial exclusion in the banking system, even if only partial, of the activities of FSPs, of fintech companies and of companies that trade in cryptocurrency. This exclusion, if it indeed occurs, could result in sectors carrying out financial activity in cryptocurrency or fintech companies transferring activities outside of Israel, with all that this implies, in addition it could result in unreported activity of these sectors in a way that will increase the volume of money laundering and black capital in Israel.

Prevention of money laundering – aspects of the activities of the Capital Market Authority – supervision of FSPs

-  The economic activity volume of FSPs as of 2015 was estimated at approximately NIS 150 billion per year, which was over 10% of the financial activity of all banks in Israel that year. As of 2021, the volume of the activities of the FSPs is estimated at NIS 230 billion per year. According to the findings of the national risk survey published in November 2021, this sector is particularly vulnerable to criminal activity and money laundering, and activity related to the provision of financial services is involved in a large number of cases that also have criminal aspects. As of August 2021, 39% of the applications for a FSP license were refused or in the stages of denial, and therefore their continued activity – if they do continue to operate – will be without a license and without supervision by virtue of the sectoral money laundering prohibition order. Between January 2018 and August 2021, the Capital Market Authority carried out about 27 audits



per year on average in the field of money laundering, in all supervised entities, and the aforementioned average rate of audits is about 1% of the rate of applications submitted for receipt of a license. In the absence of an effective audit, it can be estimated that there is an increased risk from the activities of the FSPs.

- From October 2018 to November 2021, the Capital Markets Authority was not authorized to supervise the activities of the MSBs sector (which is a sub-sector of the FSPs sector) in terms of money laundering⁶, because in the absence of a money laundering prohibition order in force, they were not subject to money laundering prohibition obligations, and these were applied only from November 2021. At the time of the audit (September 2021), the Anti-Money Laundering Regime does not have the required effectiveness in the FSPs sector as a whole because the decision-making regarding licenses has not yet been completed in relation to 22% of FSP licensing applications.

Anti-Money Laundering Regime in the government sector

- Despite the annual volume of payments to the government sector amounting to hundreds of billions of NIS (in 2020), this sector was excluded from the national Anti-Money Laundering Regime, and it was not subject to the obligations stipulated to be applied to all the supervised sectors, or at the very least, to part of these obligations. In the absence of reporting obligation to IMPA, the integrity of IMPA's database is compromised, and as a result, the volume of information transferred from IMPA to the information clients – the enforcement authorities, decreases.
- Annual financial activity of tens of millions of payments with a financial volume of hundreds of billions of NIS, which was not examined as part of the national risk survey and to which an effective Anti-Money Laundering Regime was not applied as is customary in all other sectors, may be considered a "weak link" in the Anti-Money Laundering Regime in Israel. A loophole could be created that would allow criminal elements to use the mechanism of payments to government bodies as a means of hiding the source of the funds, their layering (performing actions to obscure the source of the money) and their laundering.
- The payments made to the government bodies in 2019 and 2020 without the identification of the payer and the keeping of their details amount to more than NIS 550 billion. That is, transversely, the majority of the said bodies do not have information on the identity of the payer, for the purpose of examining patterns and identifying actions that raise concerns of money laundering. This situation constitute a possible loophole that allows a possible anonymous payment channel for money launderers, which is a vulnerability in Israel's Anti-Money Laundering Regime.

6 Except with respect to check clearance.



The State Comptroller's Office commends the government bodies, and Regulators activities to improve Israel's status in anti-money laundering, including undergoing an international audit and the rectifying of deficiencies raised therein, and membership in international organizations in anti-money laundering, including Israel's accession as a member of the FATF organization in 2018, and IMPA's in concentrating government activity vis-a-vis the FATF organization.

The State Comptroller's Office commends the entities that were involved in the concentration and leading of the national risk survey in 2017 and 2021.

Key recommendations

Anti-Money Laundering Regime – regulatory aspects

 **The regulatory structure** – it is appropriate that the Ministry of Justice, in cooperation with the relevant Regulators, each in their authority, complete the application of the Anti-Money Laundering Regime to the sectors to which the Anti-Money Laundering Regime has not yet been applied, in accordance with the recommendations of the FATF audit, while involving the public and the bodies in the affected sectors. It is appropriate to applicate the Regime after a risk-based approach examination, among other things, according to the grading of amounts and volume of activity, while considering the possible results in view of the proposed regulation.

 **The content of money laundering orders** – it is appropriate that the Ministry of Justice, in cooperation with all the Regulators, and IMPA, promote regulation based on principles of equality, which on the one hand will express the uniqueness of each sector in a risk-based approach and with the participation of the supervised bodies, and on the other hand will avoid unnecessary regulatory differences (Regulatory arbitrage) between alternative services and similar sectors. Equitable regulation, which is also sensitive to the additional roles of each Regulator and its subjection to international standards in other areas – may contribute to encouraging competition.

 **Transfer of statistical information and intelligence from IMPA to all Regulators** – it is appropriate that the Ministry of Justice, in cooperation with IMPA and all the Regulators, examine ways of sharing information between IMPA and the Regulators and of having effective feedback on the information it sends, to improve the effectiveness of the exercise of their powers and the fight against money laundering, while also considering aspects of privacy protection and the duty of confidentiality in supervisor-supervised relationships. It is also appropriate that the Ministry of Justice regulate the transfer of information from IMPA to the Regulators according to the provisions of the



law. It is further suggested that a joint, periodical, risk-based plan for mutual sharing of information be formulated. It is recommended that the Ministry of Justice ensure that the supervision, control and audit of the supervised entities are based on the relevant information available to the state authorities.



Regulator audits on the reports of the reporting entities – it is appropriate that all the Regulators consider the formulation of a risk-based audit plan carried out, among other things, by the supervised entities information systems that generate or transfer CTRs and UARs. Moreover, it will examine the functioning of these systems, including the reports quality to IMPA and their transfer dates. It is also appropriate that IMPA, in coordination with the Regulators, each in their authority, consider improving the feedback it gives to the reporting entities to ensure the quality of their UARs.



The dual regulation burden – the need for direct access to a clearing system – in view of the burden resulting from the dual regulation on the various sectors and the general public bearing the consequences such as the costs involved, it is appropriate that the Supervisor of Banks and all the rest of the Regulators, in coordination with the Ministry of Justice, each in their authority, examine ways for regulatory relief, for example through the regulatory arrangement of interfaces between the various sectors, while involving the public and especially the entities belonging to the sectors that will be affected by this issue.

The regulation effect on the supervised entities



The cost of the Money Laundering Regime for the supervised entities – keeping the money laundering regulation that has been in place for about two decades without re-examination, is not recommended given the significant impact of the regulation on financial institutions' and DNFBPs' activity. Such an examination can be done while operating according to the FATF's recommendations based upon a risk-approach for financial inclusion, to prevent financial exclusion and to reduce risk avoidance (de-risking). Therefore, it is appropriate that all Regulators apply a 'Regulatory Impact Assessment' procedure (RIA) to the Money Laundering Regime to improve the existing Regulation, each Regulator in the sector he is entrusted with the unique duties imposed on him, and in the relevant cases publish the main findings to the public. Furthermore, to improve the regulation in the prohibition on money laundering (which is not under the responsibility of public corporations⁷), it is recommended that the regulatory authority established by virtue of the Foundations of Regulation Law, consider the need for its improvement, and for motivating the action of the relevant Regulators operating in this field. It is recommended that budgetary or legal issues that, in the opinion of the Regulators, hinder the implementation of regulatory assessment procedures be examined jointly by all the Regulators, the Ministry of Finance and the regulatory authority that will be established.

⁷ For example, the Bank of Israel is a public corporation.



 **Preliminary decisions (pre-ruling)** – developing a mechanism that will provide supervised entities a response to certain preliminary inquiries will reduce the negative effects of the regulation on citizens, such as risk avoidance. For example, such response will allow the execution of transactions while providing certainty to the supervised entity that contacted the Regulator after a risk assessment procedure, and will prevent a situation of transaction avoidance (de-risking) due to the regulatory uncertainty. Therefore, it is appropriate that the Regulators examine, each within their authority, and in coordination between them and the Ministry of Justice, what is the appropriate response that a Regulator should give to its supervised entities, including regarding pre-ruling inquiries and the publication of positions on fundamental issues to the public on the Regulators' websites so as to increase the supervised entities' certainty that they are acting lawfully.

 **The effect of the regulation on the citizen – examining the transverse service quality to the client** – it is recommended that all Regulators, in cooperation with the Ministry of Justice, examine the effect of the Money Laundering Regime on the citizen, including, the extent of the hindrance of operations according to the type of activity in the supervised body and the delays in carrying out operations, and if the said hindrances or delays are indeed justified.

The activity of the sectoral Regulators

The Supervisor of Banks

 **Exercise of the Supervisor's authority to order the convening of a Financial Sanctions Committee to examine the imposition of sanctions for violations in the money laundering as well as the Supervisor of Banks' audit of holders of a foreign bank license** – it is recommended that the Supervisor conduct audits with a risk-based approach, examine the instances of violations that are discovered and exercise the ranking of sanctions available to him, proportionately, by his powers in the appropriate cases. It is also recommended that the annual audit plan also include foreign bank license holders and that he act, in proper cases, for the convening of financial sanctions committees, which have the authority to impose financial sanctions.

 **Supervisor of Banks audits in money laundering through the internal audit units of the supervised entities** – the internal audit units in banking corporations and other supervised entities play an important role, as part of corporate governance, in maintaining the compliance of the supervised entity in money laundering, and in transferring information to the Regulators by their authority to receive information, among other things, on money laundering risks as assessed by the internal audit unit. The Supervisor of Banks may be assisted by the internal audit units in the banking institutions and the other institutions under his supervision in fulfilling the supervisory duties. It is recommended that the Supervisor examine the scope of the assistance he receives and the areas in which he receives such assistance in carrying out inspections that he is responsible for carrying out by his regulatory role and which serve as a basis



for imposing sanctions in the appropriate cases. All this in a way that does not affect his independence from the internal audit units and, in particular, in matters for which sanctions may be imposed, such as when carrying out specific inspections following requests from enforcement authorities to exercise his power.

 **Activity of financial service providers (FSPs) and fintech companies and operations in digital-cryptocurrency in the banking system** – given the global volume of activity in the digital cryptocurrency, estimated in July 2021 at approximately USD 2.5 to 3 trillion, the difficulties raised in the report of the Competition Authority⁸, and once the anti-money laundering order was implemented in November 2021 on service providers in a financial asset (which includes service providers in digital cryptocurrency), it is appropriate that the Supervisor of Banks examine the performance of a specific audit on the subject and verify that the banking system implements a policy of financial inclusion and takes a risk-based approach towards the sectors above as well. It is further appropriate that the Supervisor of Banks and the Capital Market Authority, each in their authority, examine the risk foci in this activity and will formulate an overall policy that will allow the transfer of funds originating in transactions in financial assets such as digital cryptocurrency to the banking system, among other things based on accompanying research and a public participation procedure, in which they will allow both the public and the entities subject to their supervision to voice their claims.

Prevention of money laundering – aspects of the actions of the Capital Market Authority – supervision of FSPs

 The Capital Market Authority must fulfill its role in applying an effective Anti-Money Laundering Regime to the financial services provider sector. This is required by its obligation according to law. It may remove from the FSP sector criminal entities whose loan services to citizens also involve violence, in the general sector at large and the Arab society in particular, and weaken the ability of criminal organizations to launder capital to finance their activities. Given the importance of the matter, and the extensive activity of the FSP sector, including in digital cryptocurrency, the Capital Market Authority, by its power today, and the future IMPA as well, to the extent that change in the legislation occurs, each according to their authority, must fulfill their role effectively in the supervision of FSPs.

Anti-Money Laundering Regime in the government sector

 It is appropriate that the Ministry of Justice examine in depth the financial activity of all government sector entities, identify the possible risk points, collect information about them and assess the risk involved, and accordingly consider applying the Anti-Money

⁸ The report described claims concerning difficulties arising from the formulation of strict policies and procedures; Conducting inspections by the banks regarding fintech companies as a kind of regulator for fintech companies and sometimes even beyond the fintech companies' obligations by virtue of the sectoral order; As well as claims according to which some of the banks' requirements involve the banks' involvement in the day-to-day activities of fintech companies, which compete with them, and the demand for sensitive "competitive information" from them.



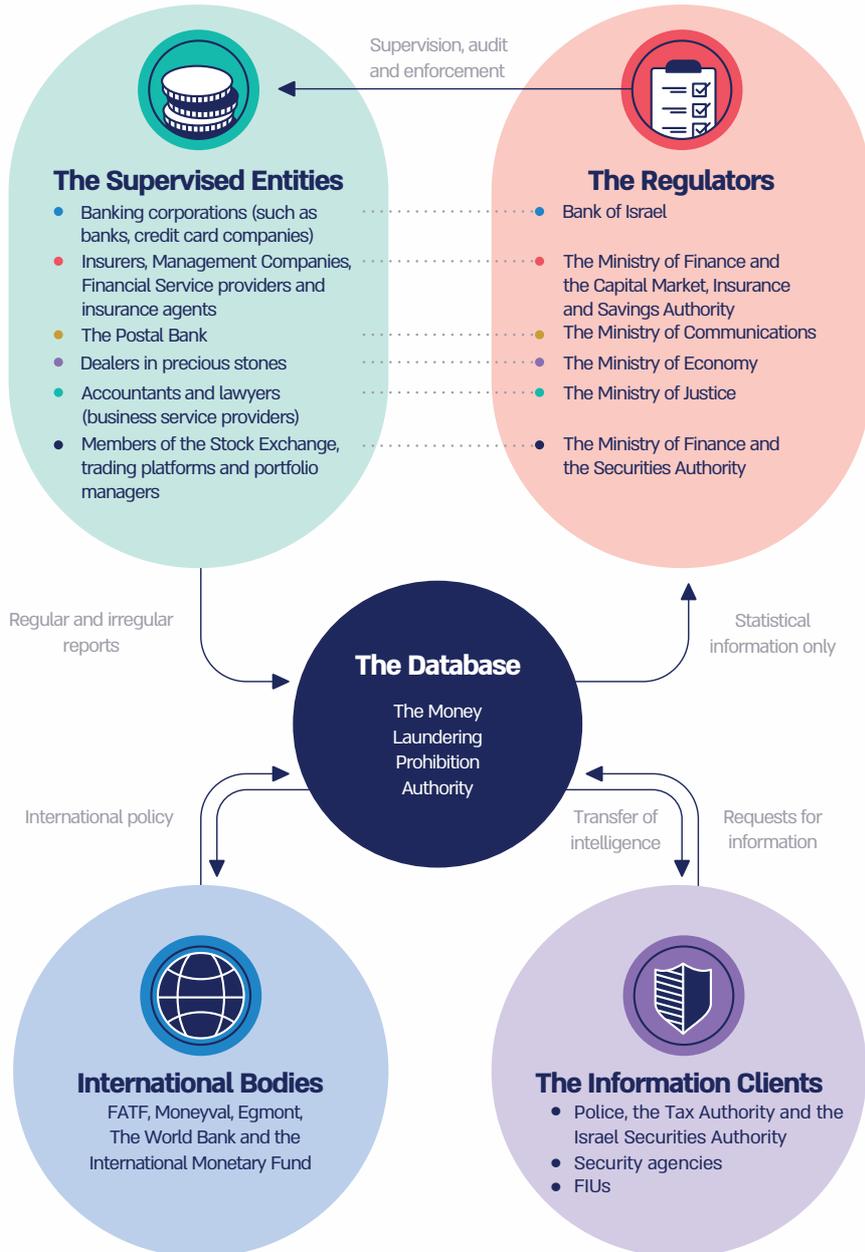
Laundering Regime in the government sector as well. It is appropriate that this Regime will include, among other things, the application of a risk-based approach by FATF standards.



It is appropriate that the Ministry of Justice, the Ministry of Finance, and all the relevant regulatory bodies continue to examine the risk involved in cash payments transferred to government bodies, led by the Execution System, the Fines Collection Center, the Tax Authority, and the National Insurance Institute. It is appropriate that as part of the examination, additional relevant considerations will be taken into account, such as confidentiality and professional independence of the various bodies. It is appropriate that, by the examination findings, the bodies above will consider the necessity to formulate rules and obligations in this area so that, among other things, reports that will be transferred will be included in the IMPA database. It is further appropriate that the Ministry of Justice examine, using a risk-based approach, the issue of receiving information about the payer's identity, saving the information, and transferring it to the entity receiving the payment, even about payments to government bodies. It is also appropriate to determine under what circumstances the government body will be required to transfer CTRs and UARs to IMPA on regular and irregular actions carried out by a payer who is not the debtor so that the source of the funds and their legality can be examined, and the concern of money laundering can be mitigated. Relying on a voluntary reporting mechanism without establishing a mandatory regime that includes customer identification, monitoring of irregular activity, automatic reporting mechanisms, and regular and mandatory reporting deadlines – may harm the information quality that will be transferred to the database and thus also the ability to extract intelligence therefrom to enforce the money laundering regime.



Breakdown of the entities active in the Anti-Money Laundering Regime in Israel and around the world and the reciprocal relations between them



* Each sector is by its reporting obligations defined in the sectoral order.



Summary

Israel developed an Anti-Money Laundering Regime that successfully passed the FATF audit. The Regime's strength depends on the "weak link" and weak links were found within this report. In addition to the required action on the part of the state and the supervised entities to maintain the strength of the Anti-Money Laundering Regime and its effectiveness in complying with international standards, it is also recommended that they frequently examine the Regime from the clients on all their types point of view, improve the Regime and optimize it by the spirit of the government's past decisions regarding "Smart Regulation," the government's actions since 2021 to ease the regulation and the Foundations of Regulation Law. It is recommended that all the relevant entities – each in their authority and in coordination between them – particularly create appropriate conditions for the development of the digital-cryptocurrency and other innovative financial fields and effective supervision of the financial service providers in relatively high-risk areas. It is also appropriate that regulation of duties, rules, and supervision mechanisms be promoted, with a risk-based approach, so that payments to the public sector do not serve as a channel for money laundering.



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Systemic Topics

Supervision over Purity of Elections in the 24th Knesset Elections



Supervision over Purity of Elections in the 24th Knesset Elections

Background

Section 4 of the Knesset Basic Law prescribes that the Knesset shall be elected by general, nationwide, direct, equal, secret, and proportional elections. One of the purposes underlying the provisions of the Knesset Elections Law and the authority of the Central Elections Committee is to preserve the elections purity, namely a proper and fair election proceeding, preventing, as much as possible, manipulations and changes that are liable to adversely affect the basic right of an individual to elect and be elected in a democratic proceeding. The elections for the Knesset form the basis of the democratic nature of Israel's regime, and the Central Elections Committee is entrusted with its implementation. The Committee's role is to preserve proper and effective elections management to ensure the voter's wish is realized.



Key figures

**4
fold**

the increase of the elections purity inspectors number within one and a half years (between the 22nd Knesset and the 24th Knesset elections)

**NIS 51
million**

the cost of supervision array operating of purity of 24th Knesset elections

114%

the rate of expenses increase of inspectors' employment and the supervision array operation within one and a half years (between the 22nd Knesset and the 24th Knesset elections)

18%

of all the polling station committees, defined as "sensitive polling stations", operated without an inspector on the 24th Knesset Election Day

**NIS 19.3
million**

the total cost of body cameras for elections purity supervision during three election campaigns

0.08%

the rate of polling stations in the 24th Knesset elections where videos were used in police investigations

34%

of the inspectors in the 24th Knesset elections that failed to use the app intended for reporting alleged violations of the elections purity

only 7%

of the polling stations required an in-depth examination due to concern of elections purity violation were inspected following the supervision array report

Audit actions

From June to October 2021, the Office of the State Comptroller examined the supervision over the purity of the 24th Knesset elections. The examination included the decision-making proceeding of establishing a supervision array for elections purity; protection of the voters' privacy and security of the video products; the supervision array operation in three Knesset election campaigns; the information integrity of violation suspicions of the elections purity; and the supervision array effectiveness. The audit was conducted at the Central Elections Committee. Supplementary examinations were conducted at the Israel Police, the Ministry of Justice, and Magen David Adom.



Key findings

-  **The decision-making proceeding for establishing a supervision array for elections purity** – between the 22nd and the 24th Knesset elections, the total cost of the supervision array operation for elections purity Committee tripled (from NIS 17 million to NIS 51 million). In the 22nd Knesset elections – the Committee's administrative headquarters did not present to the Committee's presidency data on which the number of polling stations inspectors was based, such as the mapping of the polling stations where the elections purity is liable to be adversely affected and the number of polling stations where the administrative headquarters decided to place inspectors. Moreover, it did not present the total cost – NIS 17 million – of the supervision array, including the cost of inspectors' training, before the Committee's presidency resolved to place 1,500 inspectors during the polling and 3,000 inspectors during the counting. In the 23rd Knesset elections – the administrative headquarters' documents for determining the inspector's number at the polling stations did not include the complete relevant information. In the elections for the 24th Knesset – no total costs regarding two of the five alternatives for the supervision array operation formulated by the Election Committee's administrative headquarters were presented. Likewise, the headquarters did not present to the presidency all the information and conclusions in its possession relevant to the supervision array operation: including the costs of four out of the five alternatives formulated by the administrative headquarters, alternative A which responded to the need raised by the presidency – using a video camera at all the polling stations. The Committee's "lessons learned" team presented no conclusions on whether the supervision model used in the 23rd Knesset elections had achieved its main objectives – ensuring public trust in the elections proceeding and preserving the election's purity. Moreover, the presidency was not presented with the Committee's administrative headquarters' data about the decrease of elections purity events between the 22nd Knesset and the 23rd Knesset elections.
-  **The legal regulation of using a video camera in the polling rooms** – after the 24th Knesset elections (March 2021), the Central Election Committee's administrative headquarters had not begun the legislative regulation of the array of elections purity supervision and the placing of video cameras in the polling station committees. Thus, by the audit completion date, the permit to use video cameras in the polling station committees' rooms has still not been regulated by primary or secondary legislation by a precise regulation in primary legislation.
-  **Officials authorized to use a video camera in the polling station rooms** – in a sample conducted by the Office of the State Comptroller, it was found that in 50 out of 283 sensitive polling stations (18%), there was no inspector during the 24th Knesset elections; out of these, in 13 polling stations (26%) the votes counting was videoed; in



16 polling stations (32%) it is doubtful whether the votes counting was videoed, and in 21 polling stations (42%) the votes counting was not videoed at all. This is despite the Chairman of the Elections Committee's decision that only an inspector who has undergone special training may use a video camera in the polling station room. Thus, in the 24th Knesset elections, other parties (amongst the secretaries – according to the Committee) who had not been authorized before Election Day used the video cameras at the sensitive polling stations.

-  **Security of the video products** – during the 22nd, 23rd, and 24th Knesset elections, the Committee did not document the transfer of the video footage to the police, as required by its procedures. The absence of systematic documentation raises concern that the Committee is not tracking the preservation and destruction of all video footage as required by law.
-  **The recruitment and employment of inspectors** – notwithstanding the considerable increase in the number of inspectors between the 22nd Knesset and the 24th Knesset elections (four-fold) and the subsequent significant increase in the supervision array costs (three-fold) – in the 24th Knesset elections, no purity inspector was present in 18% of the polling stations which the Committee itself had defined as sensitive polling stations from the aspect of purity of elections. Alongside the extensive placing of inspectors in most of the polling stations, specifically in the polling stations requiring intensive supervision, the rate of polling stations where an inspector was absent was higher than average (18% and 12%, respectively).
-  **The procurement of services and products for the supervision array operating during the 24th Knesset elections** – the Central Elections Committee purchased for the 22nd, 23rd, and 24th Knesset elections, 15,500 video cameras (including 12,350 video cameras which were purchased for the 24th Knesset elections) for the elections purity supervision array at the cost of NIS 19.3 million. In practice, approximately 13,240 video cameras were required for the regular polling stations operating on Election Day, about 2,200 less than the number purchased. The Committee purchased a computerized system for managing reports by elections purity inspectors on Election Day (the Eyal system) one month before 24th Knesset Election Day; in practice, 34% of the inspectors failed to connect to the system using a designated app. The Committee did not publish the decisions of its Tenders and the Ministerial Exemption Committee regarding the body cameras and the Eyal system purchase without a tender, as required by the Mandatory Tenders Regulations, and the graded control created by the legislator for approving engagements without a tender was not followed.
-  **The integrity of the suspicions of a violation of elections purity information** – there was no information in the Committee's computerized systems about handling suspicions of a violation of the elections purity. No information was found in about one-quarter of the concluded reports in the 22nd Knesset elections, about one-third of the



closed reports in the 23rd Knesset elections, and in almost 40% of the closed reports in the 24th Knesset elections.

 **The supervision array effectiveness** – data raised in the audit indicate the necessity to examine the supervision array effectiveness for election purity. For example, only 7% of the polling stations (56 out of 799 polling stations) required an in-depth examination following a supervision array report; the Committee transferred to the police videos for investigating suspicions of the 24th Knesset elections purity violation in 10 polling stations (0.08% out of approximately 13,240 polling stations). For about one year between the 23rd Knesset and the 24th Knesset elections, the Committee did not examine the supervision array effectiveness in the two previous election campaigns, nor did it commence any such examination. The decision to increase the number of inspectors by 2.6 fold between the two election campaigns was therefore not based on an effectiveness examination.



Four election campaigns were conducted in Israel from 2019 to 2021. The 24th Knesset elections were held at the height of the covid-19 pandemic and entailed appropriate preparations, including the addition of polling stations and a reduction in the maximum number of voters in each polling station. The Office of the State Comptroller commends the success of the Central Elections Committee in conducting the 24th Knesset elections at the height of the covid-19 pandemic.

Key recommendations

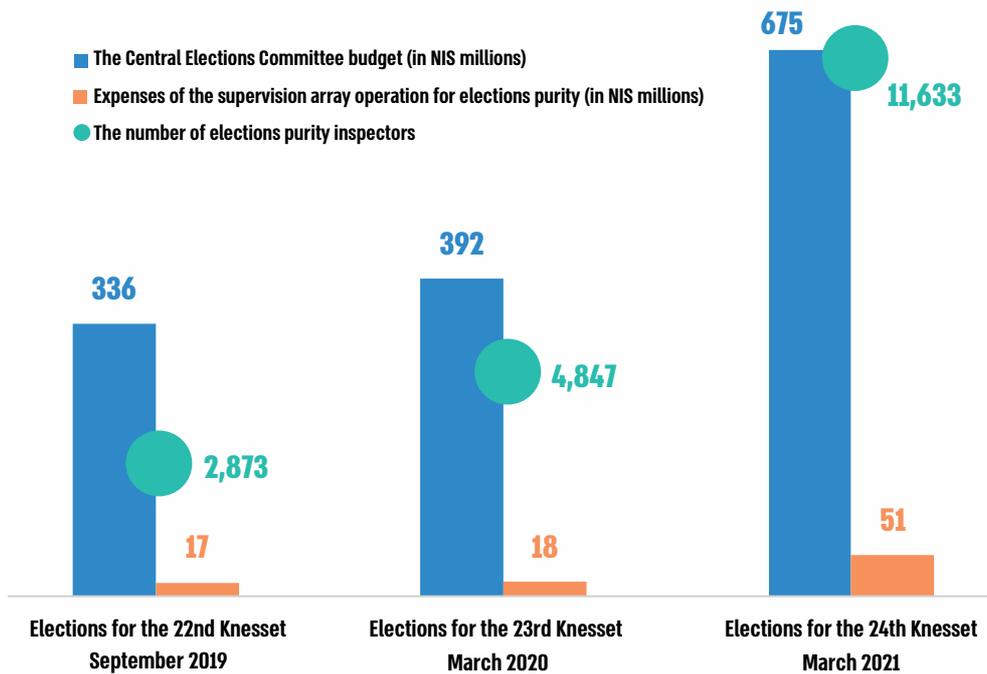
-  It is recommended that the Central Elections Committee's administrative headquarters present its relevant data before the Chairman of the Committee, and if necessary, also before the Committee's presidency, including data regarding the cost of the proposal brought before them, before discussing the additional manpower, and if so – to what extent.
-  The Central Elections Committee's administrative headquarters should implement the Chairman of the Elections Committee decision as a binding infrastructure for a permit to use video cameras at the polling stations committees. Moreover, it should conduct strategic work based on comprehensive information and expertise in a variety of fields, in consultation with all the relevant parties, to determine all the arrangements required for the precise legal regulation of supervision and recording of videos at the polling stations committees, whether by primary or secondary legislation.



-  It is recommended that the Central Elections Committee document systematically and track the video footage which was transferred to the police by the polling station committees, including preserving and destroying the footage, as required by law.
-  It is recommended that the Central Elections Committee examine the necessity of placing two secretaries and an inspector at every polling station, considering their cost and the number of suspected violations of elections purity events in previous election campaigns. Likewise, it is recommended that the Committee examine placing two secretaries and an inspector at sensitive polling stations, where there are more needed, and fully staff these positions at the sensitive polling stations before staffing the other polling stations.
-  The Central Elections Committee should prioritize engagement under a tender as much as possible, even when the Regulations grant a tender exemption. Likewise, the Central Elections Committee should publish decisions regarding engagements without a tender under the Mandatory Tenders Regulations. It is further recommended that the Chairman of the Central Elections Committee determine the hierarchy of powers between the various procurement committees and an operation method, ensuring control over the proceedings and thus compensating procurement without a tender.
-  It is recommended that the Committee will be prepared ahead of time to manage supervision array in future elections campaigns to ensure the complete and systematic collection of supervision array reports if it is indeed decided to operate it. It is further recommended that the Committee examine the supervision array's effectiveness for elections purity before deciding to use a similar array in the next elections and to what extent.



The number of elections purity inspectors, the Central Elections Committee budget (with changes), and the total cost for the supervision array operation for elections purity – from the 22nd Knesset elections in 2019 until the 24th Knesset elections in 2021



According to data from the Central Elections Committee, processed by the Office of the State Comptroller.



Summary

The audit raised deficiencies in the work of the Central Elections Committee's administrative headquarters in various aspects of the supervision array operation for elections purity, including the following: the administrative headquarters had not begun to regulate the legislation of the supervision array and the placing of video cameras in the polling station committees; and in the 24th Knesset elections, unauthorized parties used video cameras in the polling station rooms. Deficiencies were also raised in the supervision array operation: alongside the extensive placing of inspectors in most of the polling stations, it was actually in the polling stations where more intensive supervision was necessary where the rate of placement was lower than average; 34% of the inspectors did not succeed in using a designated app to transfer reports of elections purity violations suspicions; due to the Central Elections Committee's lack of information in their computerized systems (approximately 40% of the reports) it was not possible to assess whether the Committee's handling of violation suspicions of the purity of the elections had been exhaustive and whether all the cases requiring in-depth examinations had been examined as needed. For future decisions about the necessity of setting up a supervision array for elections purity, and if so, to what extent – a comprehensive examination should be made of the effectiveness of the arrays which operated during the 22nd, 23rd, and 24th Knesset elections, considering their costs. It is appropriate that the Elections Committee use the information and conclusions in the future when deciding about a supervision array in the field of election purity.



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Systemic Topics

Care and Education of Toddlers in Daycare Centers and Nurseries



Care and Education of Toddlers in Daycare Centers and Nurseries

Background

Infants and toddlers aged three months to three years in Israel are for the most part cared for by nurseries (frameworks for a small number of toddlers) or by daycare centers (frameworks for a significant number of toddlers), unless they stay at home or with the family. There are "Semel frameworks" (subsidized frameworks), where the price is controlled, the parents can receive State subsidies for the tuition fees, and the organizations operating them are bound by the operation conditions stipulated by the Daycare Centers and Nurseries Department at the Labor Branch (the Department); and there are privately-owned and independently-run frameworks (non-subsidized frameworks – private frameworks).

Under the Toddler Daycare Supervision Law, 2018 (the New Supervision Law), and its Regulations from 2021, all frameworks attended by seven or more toddlers – both Semel and private frameworks – must obtain a license from the Department and comply with minimal threshold conditions concerning safety, the ratio between the number of staff members and the number of toddlers, staff training, lack of a criminal record for whoever comes into contact with the toddlers, minimum space per toddler and more. The law and the regulations also regulate the Department's supervision methods and enforcement measures.

By the audit end date, the Department is responsible both for the Semel frameworks (about 2,030 daycare centers and about 3,600 nurseries) determining their operation criteria and standards, supervision, enrolment, and acceptance and the determination of tuition fees subsidy eligibility. It is also responsible for the implementation of the New Supervision Law and its regulations regarding all the frameworks attended by seven or more toddlers. The approved budget for the Daycare Centers Department for 2020 was NIS 1.68 billion. According to Government Decision 133 from July 2021 and Government Decision 951 from January 2022 (passed after the end of the audit period) the responsibility over the daycare centers will be transferred to the Ministry of Education (subject to Knesset approval), excluding the tuition fees subsidy and the supervision over Semel nurseries mechanisms, which will remain the responsibility of the Labor Branch. Knesset's approval for the procedure has not yet been granted as of the audit completion date.



Key figures

**548,200
toddlers**

in Israel aged zero to three years in 2020; about 52% of them live in communities in socio-economic clusters 1–4

27%

of the toddlers in Israel attended Semel frameworks in 2020 (about 147,400) – about 78% of them were entitled to some subsidy; 35% attended private frameworks (about 190,800); 38% stayed at home (about 210,000)

8%

of the subsidy budget for toddlers in Semel frameworks were allocated in 2020 to Arab toddlers, constituting 24% of the toddlers in Israel, and about one-half of them live in poverty; in 2019, the rate of employment of Arab women of working age was about 37%

**at least
1,000**

private daycare centers have not yet submitted a request for preliminary approval under the New Supervision Law, so the Department has no information about them; only 6% and 1% of the requests from the private daycare centers were submitted by daycare centers in the Arab and ultra-Orthodox communities (respectively)

**at least
20 years**

will be required at the present rate of training to diminish the gap between the professional training required under the New Supervision Law from the teachers-carers and the current situation

over 50%

of the Semel, daycare centers employees leave during their first year of work, according to the eight largest operating organizations' document from 2019, causing a significant staff turnover

20%

of the Semel daycare centers in Israel do not serve a population that receives a subsidy, and likely serve a population of a high socio-economic status, not eligible for a subsidy but enjoys a controlled price, which for the most part is lower than the market price in its residential area

in 80%

of the parents requests for a tuition fees subsidy in the Semel frameworks, required to submit five or more documents; for about 3,600 toddlers, the parents were required to submit 25 or more documents



Audit actions

 From January to November 2021, the Office of the State Comptroller examined the care of toddlers aged zero to three years in the various frameworks, the supervision and subsidy arrangement, and the regulation implementation over the private and Semel frameworks. The audit was conducted at the Daycare Center and Nurseries Department at the Labor Branch and the Early Childhood Council. Supplementary examinations and data collection were conducted at the Professional Training and Manpower Department at the Labor Branch, at the National Insurance Institute (NII), at the Ministry of Welfare and Social Affairs, at the Ministry of Education, in several local authorities (Tel Aviv-Yafo, Jerusalem, Sakhnin and Petah Tikva), in an external company operating the hotline determining the subsidy eligibility for the Department and in several organizations operating Semel daycare centers.

By the audit end date (November 2021), the Department is the responsible body. Following the Government decisions transferring the jurisdiction and responsibility in most of the fields of daycare centers to the Ministry of Education, the recommendations in the report are addressed to the Ministry of Education (apart from the recommendations in the fields of subsidy and nurseries, which were not transferred). However, it should be noted that some of the sections of the Government decision from January 2022 are subject to Knesset approval, and by the audit completion date, this had not yet been granted

Key findings

 **The care of toddlers and the financial significance for families – an international comparison** – an international comparison reflects a unique situation in Israel – a high reproductive rate (3 children per woman as opposed to an average of 1.6 in the OECD countries), a high rate of toddlers attending daycare frameworks (58% of the toddlers as opposed to an average of 36% in the OECD), 15 weeks of paid maternity leave (as opposed to an average of 18–54 weeks in the OECD), a high rate of employment of mothers of toddlers (76% as opposed to an average of 58% in the OECD), low public expenditure on frameworks for toddlers (about 18% out of all the expenses for these frameworks as opposed to about 71% in the OECD), and low-quality frameworks standards. Likewise, the economic burden imposed upon parents of toddlers



in Israel is relatively heavy. The Semel frameworks accommodate about 30% of the toddlers in Israel. Parents whose children are not in a Semel framework are required to bear a cost that is a considerable portion of their disposable family income.

Layout of Semel frameworks for toddlers in communities in the low socio-economic clusters – studies show that investment in early childhood potentially saves the investment of public funds in the long term and leads to a relatively high yield, especially for toddlers from families of low socio-economic status. In 2021 there were about 286,700 toddlers aged zero to three years, about 52% of the toddlers in Israel, in communities affiliated with low socio-economic clusters (1–4). 14% and 8% (respectively) of the toddlers in Israel lived in Arab and ultra-Orthodox communities¹, and these are the two population groups suffering from exceptionally high poverty rates. In 2019, 48% of the Arab children and 60% of the ultra-Orthodox children lived in poverty. Currently, the national layout of the Semel frameworks does not provide an appropriate solution: for example, in the Jerusalem district, there is 2.3 times more population in the communities in clusters 1–4 than in the center, but the number of daycare centers in the Jerusalem district is lower by about a quarter; there are places in the Semel frameworks for 13% of the toddlers living in the Arab communities, and on the other hand, there are many Semel frameworks in the communities and neighborhoods in the high socio-economic clusters (for example, there are about 10,000 places in Semel daycare centers located in communities in clusters 9 and 10). The establishment of 350 Semel daycare centers in 2015–2020 is an insufficient solution for the gaps since more than one-half (53%) were established in communities in clusters 5–10.

Eligibility for a subsidy for tuition fees – Arab toddlers constitute about 24% of all the toddlers in Israel, and they suffer from high rates of poverty; only about 8% of the subsidy budget in 2020 was allocated for them, an increase of about 13% compared with 2013; the rate of Arab women employment of working age was about 37% in 2019. The subsidy for toddlers living in the low clusters (1–4) slightly exceeded their part of the population and was about 64% of the entire budget in 2020. About one-fifth of the subsidy budget is addressed to families in the relatively resilient communities, in clusters 7 and above. It was raised that the Government decision from 2007 regarding the provisions of vouchers for funding frameworks for toddlers of working mothers, as long as the framework is licensed and the mother passes the income tests, was not implemented, among other reasons due to the lack of a licensing system. Consequently, the distribution of the subsidy allocation alongside the dispersal of the Semel frameworks creates a reality where many families of low socio-economic status cannot send their toddlers to a daycare center or a nursery. This is likely to have implications both on encouraging parents to go out to work and on the quality of care received by such

1 There are other people belonging to the Arab and ultra-Orthodox populations who live in mixed cities. Likewise, in cities in higher clusters, there are neighborhoods belonging to the low clusters, but due to the limitations of the data it was not possible to analyze the Department's data at the neighborhoods level.



toddlers who will benefit the most from high-quality care. This is at a time when budgets are earmarked for subsidies, or the provision of a financial benefit in the form of a controlled price, for families of high socio-economic status.

-  **Information on private daycare centers to which the New Supervision Law applies** – there are private daycare centers – in particular, in the communities and neighborhoods in the low socio-economic clusters and of the Arab and ultra-Orthodox society – about which the Department has no information, and therefore as of the audit completion date the New Supervision Law is not implemented in them. For example, only 19% of the requests for initial approval (the preliminary stage required by the Law on the route to licensing and supervision) were submitted by private daycare centers in clusters 1–4. Likewise, at least about 1,000 private daycare centers have not submitted requests for initial approval. Therefore, the Department has no information on them, even though their particulars appear in the NII systems. Among other things, these gaps may be identified among the ultra-Orthodox society, in communities in clusters 1–2, and the city of Jerusalem. An additional analysis concerning the staff in the private daycare centers showed that among approximately 32,800 salaried workers reported to the NII in January 2020 by private daycare centers employers, about 29% were reported to the Daycare Center Department within the initial approval proceeding, thus, among other things, there is no complete overlap between the frameworks that submitted a request for initial approval and the frameworks reported to the NII.
-  **Effective supervision** – as of the audit completion date, the supervision frequency over the Semel daycare centers was inconsistent with the Department's guidelines. The supervision resources of the Department – 25 inspector positions are too scant to properly handle all the 2,030 Semel daycare centers as required. Hence, it cannot conduct effective supervision with the increased number of daycare centers subject to control under the New Supervision Law. Even though the daycare centers for toddlers require at the very least the same level of supervision, training, and accompaniment as the Ministry of Education kindergartens, and possibly even more due to the starting point of most of them (untrained staff, for example), as of the audit completion date, the supervision resources over them were about one-half of the supervision resources of the Ministry of Education, and the threshold requirements from their inspectors are inconsistent with the threshold requirements from the Ministry of Education inspectors.
-  **Professional training for nursery teachers-carers in daycare centers** – over one-half of the nursery teachers-carers in the organizations whose data was examined have no formal training. Few of the new workers recruited in recent years had been trained. Only 5% of the nursery teachers-carers who require training every year in Israel – in Semel and private daycare centers – receive it. This rate is inconsistent with the actual needs and does not comply with the obligations imposed by the New Supervision Law. However, apart from developing an online course and incentivizing the organizations operating the Semel daycare centers, as of the audit completion date, the Daycare Centre and Professional Training Departments have not changed their professional training courses opening method. Given the blocks of accessibility to the courses,



difficulty in participating in online courses, and the difficulty of the carers to dedicate time to unpaid study, there is concern that the online course – even if it is implemented promptly and optimally – will not be sufficient for the required increase in the number of carers who have received professional training.

Staff turnover in the Semel daycare centers – there is a rising trend of rapid staff turnover – according to data from the organizations operating Semel daycare centers – during the school years 2018–2019, 2019–2020, and 2020–2021, between 35% and 48% of all the workers were replaced every year, and more than 50% of the workers left during the first year of their work. The organizations operating Semel daycare centers reported to the Office of the State Comptroller that they are identifying inferior quality care of the toddlers; the toddlers are likely to experience difficulties due to the lack of stability in the staff caring for them, and damage is also caused to the parents and the frameworks following the increased staff turnover; part of the reason for the turnover is the nursery teachers-carers' salary, which according to them was equivalent to the minimum wage with an increment of NIS 400 a month for trained staff.

Incentivizing private nurseries to maintain basic safety conditions – the New Supervision Law concerns daycare centers attended by seven or more toddlers, and the Department also supervises approximately 3,600 Semel nurseries. However, there are also private nurseries in Israel attended by six or fewer toddlers, which no Government body has information about the number of children they care for, and neither about the identity of their carers, their training, their criminal record and their safety conditions. Despite the importance of the toddlers welfare, the Department has not developed nor advanced any incentives nor considered a specific supervision model ensuring basic physical safety in the private nursery businesses, employing carers with no criminal records who passed a basic course in first aid.

The bureaucratic burden and the complex proceeding to obtain the subsidy grade in the Semel daycare centers – it was found that the process the parents of toddlers are required to undergo to obtain an eligibility grade for a tuition fees subsidy in the Semel daycare centers is ineffectively and imposes a bureaucratic burden on the parents. The proceeding includes many actions (five and more actions in 11% of the cases) and several documents submission (five and more documents in 80% of the cases) and involves the parents' difficulty in understanding the proceeding and the documents they are required to attach. Parents are also required to complete an application for a subsidy every year for every toddler separately, also when the parents know they will not be eligible for any subsidy whatsoever. Furthermore, it was found that the Department does not know the period from the submission time to obtain an eligibility grade for a subsidy to the time the grade is approved since it does not collect relevant data, and therefore the period noted by the Department for handling the applications for a subsidy – about four and a half months – is mere conjecture, and maybe even longer. To ease the burden, the Department has established an ASK ONCE system, which will input most of the data required for examining the subsidy application



without the parent being required to provide this data. Yet, by the audit completion date, all the relevant bodies have not approved transferring the information to operate the system, and the technological infrastructure has not yet been set up vis-à-vis most of the bodies.

 **The Department's supervision over eligibility for subsidy determinations by the external company** – the telephone hotline and the subsidy eligibility decision-making array is operated by an external company on behalf of the Department. It was found that the Department does not have any work procedure specifying the directives and actions required from the external company for determining the subsidy eligibility and that the Department had not conducted any supervision and control over the activity of the external company and the service provided to the parents, nor is it able to determine quality indices, draw conclusions and improve the service. Neither did the Department demand the external company to collect data and information about its activity or the service it provides. Furthermore, the primary sources of information about the management of the applications for a subsidy are found at the external company and not at the Department, which is authorized to provide the subsidy and the daycare centers' services and supervision over them.



The Department implementation advancement of the New Supervision Law – to incentivize the daycare centers to fulfill their obligations to obtain initial approval under the New Supervision Law; the Department proposed a training day for first aid and safe conduct to all their staff, free of charge. Furthermore, at the beginning of the 2021–2022 school year, the Department adapted its website to the new statutory requirements, held round tables with the heads of the organizations operating Semel daycare centers and organizations representing private daycare centers, and created a campaign with external bodies to raise public awareness.

The Department's activity to ease the bureaucratic burden on parents of toddlers in the Semel daycare centers – there is a decrease in the number of actions parents were required to perform upon enrolment: the rate of the parents needed to perform five and more actions after submitting the initial application for a subsidy has dropped from 26% when enrolling for the 2018–2019 school year to 11% when enrolling for the 2020–2021 school year. The Daycare Centers Department has begun to establish a computerized system to collect most of the relevant data required for the subsidy application examination submitted by the relevant public bodies, without the parent's involvement (the ASK ONCE system). Once it has been completed, this system substantially reduces the number of details and information the parent is obliged to provide and the number of documents he is obliged to submit.



Key recommendations

-  **The implications of the New Supervision Law on the subsidy model and the layout of the Semel frameworks** – it is recommended that the Department and the Ministry of Education, in conjunction with the local authorities, improve the layout of frameworks to allow the unique advantage high-quality frameworks for toddlers in a low socio-economic status to be utilized, particularly in the Arab society. In consultation with the NII, it is also recommended that the Labor Branch and the Ministry of Finance consider the subsidy model to remove its distortions and improve its effectiveness, giving preference to families in a low socio-economic status. Following the New Supervision Law, private frameworks will also be supervised by the State and be obliged to comply with the basic conditions, but the as subsidized frameworks (Semel frameworks) serve about 27% of the toddlers in Israel, it is recommended that the Labor Branch consider, together with the Ministry of Finance, vouchers or another subsidy program, for eligible families – from the income and employment aspect – regardless of the framework they attend (as long as it is a supervised framework – Semel or private), including determining appropriate subsidy grades.
-  **Private daycare centers information regulated under the New Supervision Law** – it is recommended that the Ministry of Education locate the daycare centers not yet registered and include them under the New Supervision Law while contending with the barriers and difficulties of the daycare centers serving populations in a low socio-economic status and assisting them to submit the statutory applications. Furthermore, it is recommended to consider publicizing the process and making it accessible, including contending with linguistic and digital illiteracy accessibility barriers to the Internet and data analysis to improve the effectiveness of the implementation of the Law and to incentivize daycare centers to comply with the requirements.
-  **Incentivizing private nurseries to maintain basic safety conditions** – it is recommended that the Department, in consultation with the Ministry of Finance and the Centre for Local Government, periodically examine ways of incentivizing private frameworks owners with less than seven toddlers to comply with the basic requirements for preventing injuries and providing first aid and consider conducting training sessions for their carers similarly to the training sessions which the Department offers and funds for nursery teachers-carers in the daycare centers, for ensuring the welfare and proper development of the toddlers attending these frameworks.
-  **Effective supervision** – given the existing supervision resources – 25 inspectors from the Department for about 5,000 daycare centers – it is recommended that the Ministry of Education, as soon as possible, utilize its available tools to increase the number of inspectors and examiners for effective and permanent supervision under the New Supervision Law, and thus ensure the required quality level and safe in the daycare centers. It is also recommended that the Ministry of Education examine the issue of



supervision and its scope and adapt it to the Ministry's acceptable standards for early childhood supervision.



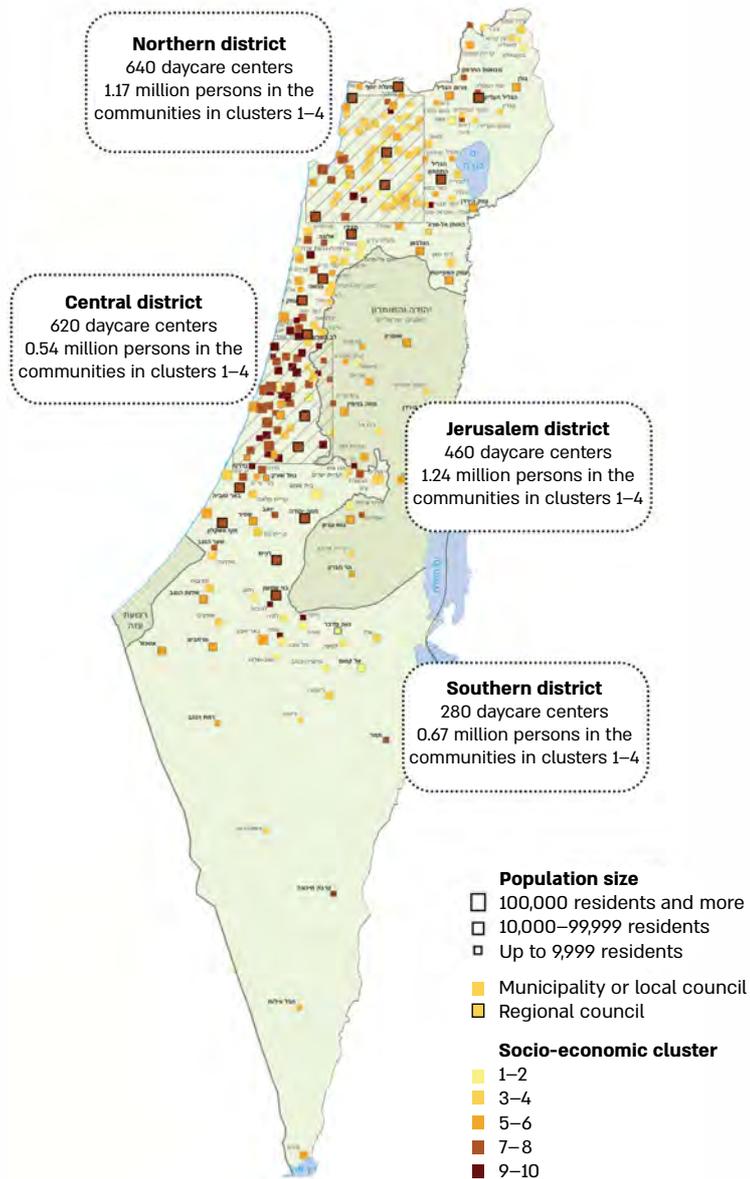
Professional training for nursery teachers-carers in the daycare centers and staff turnover – it is recommended that the Ministry of Education, in conjunction with the Professional Training Department and together with the Ministry of Finance, formulate additional models for increasing the extent of the professional training for nursery teachers-carers in the daycare centers, including financial incentives for the carers who have undergone training. Among other things, the assistance of the prominent organizations operating Semel daycare centers, significantly experienced, should be considered. This is necessary to significantly increase the number of trained carers and facilitate the daycare centers' compliance with the requirements of the new supervision regulations, thereby improving the quality of the care of the toddlers. It is further recommended that the Ministry of Education, in conjunction with the Ministry of Finance, consider improving the situation of the nursery teachers-carers to reduce their turnover and enhance the stability of the frameworks staff.



The bureaucratic burden and the complex proceeding for obtaining the subsidy grade in the Semel daycare centers – it is recommended that the Department comprehensively examine the process of submitting applications for a subsidy and find ways of streamlining it. Among other things, this may be done within the framework of the Department's new engagement with an external company for determining the subsidy grades. It is recommended that the Department formulate a comprehensive model for supervision and control to ensure proper management, improvement of the service to the public and preservation of the knowledge, and the transfer of all the relevant information and knowledge in an orderly fashion to the relevant company. It is also recommended that the Department determine an operation method and clear uniform standards in the new engagement and demand ongoing data collection. The burden may also be eased by completing the computerized system for obtaining information from public bodies and examining the need for a demand to submit applications and attach documents in cases where there is no subsidy entitlement and when enrolling toddlers continuing for an additional school year.



National layout of Semel daycare centers, according to the Labor Branch districts



According to data from the Labor Branch and the Central Bureau of Statistics, the Office of the State Comptroller processes them. Map source: The Central Bureau of Statistics, "Characterization of Geographical Units and their Classification according to the Socio-economic Level of the Population in 2017".



Summary

The audit raised that even though toddlers' education is a decisive stage in the creation of equality of opportunities, the layout and subsidy mechanism of the Semel frameworks prevent many families in a low socio-economic status to benefit from Semel frameworks where the price is controlled, and there is the possibility of a tuition fees subsidy; on the other hand, many Semel daycare centers serve the resilient socio-economic population, receiving a bonus in the form of a controlled price, which as a rule is lower than the market price of the daycare centers in their residential area.

It is recommended that the Department, in conjunction with the Ministry of Finance, examine the subsidy model under the effect of the New Supervision Law over the daycare centers market to allow more families in a low socio-economic status to provide their children with high-quality education-care from zero to three years. It is further recommended that the Ministry of Education, under which responsibility the daycare centers are due to be transferred after the completion of the audit (under a Government decision from January 2022), incentivize daycare centers in communities and neighborhoods in low socio-economic clusters to comply with the regulations and conditions of the New Supervision Law and provide higher quality education-care for the toddlers requiring it.

Finally, it is incumbent upon the Ministry of Education – under which responsibility this field is being transferred by the audit completion date – and also upon all the different bodies involved – the Labor Branch, the Early Childhood Council, and the Ministry of Finance – to realize the strategic change upon the implementation of the New Supervision Law and its regulations, and transfer most of the Department's activities to the Ministry of Education, while paying attention to the recommendations in this report, to elevate the quality of the education-care provided for toddlers from zero to three years, particularly toddlers in a low socio-economic status.



Report of the State Comptroller of Israel | May 2022

Systemic Topics

Implementation of Reforms and Reduction of Gaps in Early Childhood Education – Follow-Up Audit



Implementation of Reforms and Reduction of Gaps in Early Childhood Education – Follow-Up Audit

Background

Early childhood care applies in the first years of the child's life, from birth until he enters the structured framework of school at age 6, and it is of crucial importance in shaping the child's future as an adult. By 2021, the Labor Branch will be responsible for and will supervise educational frameworks for children from birth to the age of 3 (nurseries, mishpachtonim, peutonim, and daycare centers). According to Government Decision 133 from July 2021 and Government Decision 951 from January 2022, daycare centers will be transferred to the Ministry of Education (subject to Knesset approval that by the audit completion had not yet been granted). Educational frameworks for children aged 3–6 (kindergartens) are under the responsibility and supervision of the Ministry of Education. A kindergarten is a multi-disciplinary space for children, expressing the cognitive and personal, social, and emotional aspects and cultivating them. The kindergarten climate, at its best, establishes a safe, educational environment cultivating every child's sense of belonging.

In 2015, the Office of the State Comptroller published a report about the reform's implementation and reducing the gaps in early childhood education (the Previous Audit). The Previous Audit examined the implementation of "New Horizon" (Ofek Chadash) reform in the kindergartens – including the meetings in the kindergarten, the evaluation of the kindergarten teachers and tracking of the children's development; regulating the kindergarten educational staff and the assisting staff – the ratio between the number of children and the staff members, the staff members definition and their training; and early childhood education gaps, and among other topics the number of children attending kindergartens, the kindergarten's infrastructures gaps and pedagogic gaps. This report is a follow-up report to the Previous Audit.



Key figures

17,531
kindergartens

operated in Israel in the 2020–2021 school year (from September 2020 to July 2021), where approximately 506,400 children aged 3–6 years attended

338,659
children

aged 3–4 were educated in kindergartens in the 2020–2021 school year; 91% of all the children aged 3–4 in Israel in that year

less than 1%

the maximum rate of kindergartens' children for whom the teachers completed developmental reports after observation and track from February to June 2021

14%

the rate of kindergarten teachers in formal education (out of 17,187 in this education) who were not evaluated from 2019 to 2021

134,348
(40%)

children aged 3–4 did not benefit from a second assistant's services after the second assistant reform application. 7,437 children (2%) were eligible for a second assistant according to the above reform but did not receive this entitlement

85%

of the assistants did not undergo the training formulated by the Ministry and the Center for Local Government in 2016–2021

127

the average number of kindergartens under the responsibility of each supervisor. A supervisor in the ultra-Orthodox district is responsible for an average of 239 kindergartens

2,063

the shortage in kindergartens: the number of kindergartens that were not built – although the Ministry of Education acknowledged their need – until 2020 (79% of the kindergartens acknowledged as needed to be built)

Audit actions

- From February to October 2021, the Office of the State Comptroller examined the extent the Ministry of Education (and mainly the Early Childhood Education Department) rectified the primary deficiencies noted in the Previous Audit. Supplementary examinations were conducted at the Center for Local Government in Israel.



Key findings



👇 The Ministry's preparedness for the Compulsory Education Law implementation – in the Previous Audit, the Office of the State Comptroller noted that the Ministry of Education was not adequately prepared for the complex implementation of the Law for 3–4-year-olds and that the rate of children aged 3–5 attending official kindergartens in the Arab society was considerably lower than the rate of children in Jewish society in the same age group. The follow-up audit found that notwithstanding the increase in the rate of children aged 3–4 attending kindergartens, approximately 8% of the children out of all of the children aged 3–5 do not attend kindergartens (the rate among the non-Jewish society is more significant than in the Jewish society – between 19% and 10%). It was also found that the Ministry of Education had not determined accompaniment and control proceedings for integrating the children into the kindergartens, and it had not gathered current data about the implementation proceedings of the Compulsory Education Law.

👇 Implementation of the New Horizon reform components – the Previous Audit found that although every year the Ministry of Education invests nearly one billion NIS in the New Horizon reform, the implementation of its components in the kindergartens was partial, regarding, among other things, the meetings (individual and group) with the children; strengthening relationships with the children's parents; documentation and mapping by the kindergarten teachers for a developmental examination of the children and their needs; and evaluation of the kindergarten teachers – which was not implementable due to its nature and the load imposed upon the supervisors. The follow-up audit found as follows:

- **Meetings with the children and tightening the relationship with the parents** – the Ministry does not gather information about the individual or group meetings the kindergarten teachers hold with the children and their parents. The Ministry cannot analyze the data due to lack of information, examine the kindergarten teachers' compliance with the determined procedures, and assess the challenges and obstructions facing the kindergarten teachers when holding these meetings.
- **Instituting follow-up and feedback formative processes** – the Ministry does not compel kindergarten teachers to use the tool it built for tracking children's development. The use of this tool is rare, and in the 2020–2021 school year, it was used for less than 1%. The professional educational staff – supervisors, instructors, counselors, psychologists and the Ministry's headquarters – are not exposed to information about the kindergartens and about the children attending them, and thus, do not have the complete status of the children's development and their



unique needs (according to kindergartens, communities, districts, sectors, ages or different populations) to decide based on complete data about every single child in the kindergarten and about the kindergarten in general.

- **Evaluation of the kindergarten teachers** – 14% of the kindergarten teachers in formal education (14,828) were not evaluated from 2019 to 2021. Moreover, only 4.3% of the kindergartens' teachers in state ultra-Orthodox education were evaluated.

The educational staff in the kindergarten

- **The ratio between the number of children and the staff members** – the Previous Audit found that the determining standard for the ratio between the number of children in a kindergarten and the staff members was high in other countries. The follow-up audit found that in the 2020–2021 school year (after the implementation of the second assistant reform), in most of kindergartens (93%), the ratio between the number of children in the kindergarten and the staff members was better than the ratio required according to the standard – which is 2:35, even though the staff members in kindergartens standard had not changed since the Previous Audit.
- **The second assistant reform** – in the 2020–2021 school year (after the implementation of the second assistant reform), in 66% of kindergartens (11,756 kindergartens), the number of staff members was only 2 – a kindergarten teacher and an assistant. Likewise, 60% of the children aged 3–4 attended kindergartens where the Ministry of Education allocated two assistants. The rest (134,348 children) attended kindergartens with only one assistant – 2% of them (7,437 children) were eligible for a second assistant according to the reform's rules but did not receive this entitlement. 32% of children in that age group, who have no second assistant in their kindergartens allocated by the Ministry of Education, attended kindergartens that operate in local authorities belonging to the low socio-economic clusters 1–3.
- **Information on the manpower employed in kindergartens and staff absences** – the Previous Audit found that the Ministry does not gather data about the kindergartens educational staff composition; thus, it does not have information about the resources available to the kindergartens and can not reduce gaps. The follow-up audit found that the local authorities and the private owners are not reporting regularly and thoroughly about the kindergartens manpower, or the staff's absences from work. Thus, the Ministry's information infrastructure is incomplete and does not allow a reliable analysis of the staff members' characteristics, including the ratio between the number of staff members and the number of children in the kindergarten. Likewise, the Ministry does not have any information regarding the staff's absences, so it can not estimate the scope of the phenomenon of understaffed kindergartens (due to the absence of a kindergarten teacher or



assistant), which makes it difficult for the kindergarten to operate at a high quality standard.

- **Assistants' training** – the Previous Audit noted a disagreement in the assistants' training conditions regulations and the nature of the courses provided for them and that the Ministry of Education and the Center for Local Government in Israel do not obligate new assistants to undergo training. The follow-up audit found that the Ministry of Education had formulated a 270-hour training course for assistants in 2016. New assistants must attend the course, and veteran assistants may also attend. However, from 2016 to 2021, 3,860 assistants out of the 26,454 assistants whose salary was subsidized by the Ministry (15%) attended the course. The Ministry and the Center for Local Government do not have any data about the inclusive number of the new assistants who started work during these years, so the rate of new assistants who have not undergone the training (if there are any) is unknown. Likewise, most of the veteran assistants have not undergone the training. This is likely to affect their ability to act as a professional, pedagogic and caring force alongside the kindergarten teacher.

The assisting array in the kindergarten

- **Supervision over the kindergartens** – the Previous Audit found that the Ministry had not examined the supervisors' position, availability to the kindergartens, kindergarten teachers, and tasks and had not made any formal change in the supervisors' position definitions. It was also found that there was almost no supervision over the Jewish non-ultra-Orthodox recognized informal education kindergartens and in the minorities sector kindergartens; and that a considerable number of supervisors were responsible for more than 100 kindergartens. The follow-up audit found that the Ministry had not formulated an official binding updated profile definition for the supervisor position, including the definition of the position components. It was also found that 6% of the kindergartens operating in the 2020–2021 school year were unsupervised (1,077 out of the 17,531 kindergartens) – among the recognized informal education kindergartens, 14% are operating without the Ministry's supervision. Likewise, since the Previous Audit, the ratio between the number of supervisors and the number of kindergartens they supervise decreased – thus, for example, in the 2013–2014 school year, most of the supervisors (56%) were responsible for up to 100 kindergartens, and in 2020–2021 school year 67% were responsible for more than 100 kindergartens; 40% of the supervisors are responsible for more than 120 kindergartens (in 2013–2014 school year the rate was only 20%). A heavy load is imposed on the supervisors in ultra-Orthodox education supervision (an average of 239 kindergartens per supervisor). This, therefore, gives rise to concern about inadequate supervision.
- **The instructors' array** – the Previous Audit found that the Ministry had not determined a standard for the number of kindergartens for which each instructor would be responsible and that there is a difference between the districts from the



aspect of the kindergartens for which each instructor is responsible. The follow-up audit found that the standard had still not been determined. In practice, an instructor is responsible for an average of 29 kindergartens, but some (4%) were responsible for more than 81. There is an even greater load on instructors working in recognized informal education kindergartens, those working in the Jewish sector, and, in particular, in the ultra-Orthodox district.

- **Educational guidance for kindergartens** – the Previous Audit found that the Ministry of Education's outline, by which an educational counselor is responsible for 30 kindergartens, enabled her to guide only one-fifth of all the kindergartens under her responsibility. The follow-up audit found that the average number of kindergartens for which a counselor was responsible was 88 – considerably higher than the average of 30 kindergartens as determined by the outline (some counselors are responsible for 117 kindergartens). The gap between the Central District and the ultra-Orthodox District is more significant, where the counselor can respond to less than 30% of the kindergartens under her responsibility. There is concern that the counselors will not be able to handle all the kindergartens under their responsibility, or their handling of the kindergartens will be lacking.
- **Educational psychologists** – the Previous Audit indicated a general lack of filling positions of educational psychologists, and in the 2013–2014 school year, 53% of the positions had been filled (1,280 out of 2,471). The follow-up audit found that there is still a shortage of educational psychologists in the schools and kindergartens, ranging from 14% in the Northern District to 45% in the Jerusalem District. The average national rate of the standards covered in the 2020–2021 school year was 71%. Likewise, the Ministry of Education does not have any data concerning the allocation of psychologists to kindergartens and the shortage of psychologists in them. Still, it is aware that there is a particular shortage in kindergartens for the 3–4-year-olds since there is a preference to provide the service to older children aged 5.

Gaps in early childhood education

- **Kindergarten structures** – the Office of the State Comptroller noted in the Previous Audit that there is a kindergartens shortage in the Arab society, and the Bedouin society in particular, and that there are gaps in kindergarten infrastructures between Jewish society and this society. The follow-up audit found that in 2017 – two years after the Previous Audit – the Ministry had allocated a budget for 651 kindergartens and that the shortage in kindergarten classrooms was 1,899 (approximately 74% of the kindergarten classrooms whose needs had been acknowledged), while in 2020 it had allocated a budget for 529 kindergartens and the shortage was 2,063 kindergartens (approximately 79% of the kindergarten classrooms whose need had been acknowledged). This shortage is more significant among the non-Jewish society (94% in the Arab society, 98% in the Druze society,



and 86% in the Bedouin society), and among the Jewish society, the shortage is high mainly in state religious education (a shortage of 82%) and the ultra-Orthodox education (80%). It was also found that 12% of the kindergartens whose construction had been budgeted for 2015–2020 were built in portable structures whose quality was inferior to that of permanent ones; more than 75% were built in the ultra-Orthodox society and the Bedouin society (183 facilities in the ultra-Orthodox society and 167 in the Bedouin society).

- **The kindergarten curriculum** – the Previous Audit found that there were deficiencies in the kindergartens' curriculum in the Arab society due to a shortage of linguistically and culturally accessible curriculums for the Arab society. The follow-up audit found that these deficiencies continued extensively during the 2020–2021 school year.



The number of children attending kindergartens – the ratio of 3–5-year-olds attending kindergartens has increased since the Previous Audit from 91% in the 2013–2014 school year to 92% in the 2020–2021 school year. The increase is mainly among children aged 3 – a rise of 6% – and it reflects the implementation of the Amendment to the Compulsory Education Law, 1949, in 2015 and its enforcement in 2016.

Kindergarten teachers' evaluation – the model for the kindergarten teachers' evaluation in its current format has been improved and re-defined since the Previous Audit, the majority of the supervisors (90%) followed it, and the majority of the kindergarten teachers (87%) were evaluated by it in 2019–2021.

The assistants' role – the Previous Audit found that the Ministry of Education, the Ministry of Interior, and the Center for Local Government did not regulate the assistant's roles, and their status was not regulated regarding teaching staff. The follow-up audit found that the role of the assistants had been defined, but their status had not yet been regulated.

Increasing the assisting manpower in the kindergarten – the assisting manpower in the kindergarten has increased since the Previous Audit – the number of supervisors increased from approximately 105 supervisors as of the Previous Audit date to about 130 supervisors at the time of the follow-up audit (an increase of roughly 23%); from 2018 to 2021 there was an increase of 36% in the number of educational counselors employed in kindergartens (from 147 counselors during the 2017–2018 school year to 200 counselors during the 2020–2021 school year); also the number of counseling hours increased considerably at the rate of 198% since the 2013–2014 school year and until the 2020–2021 school year.



Key recommendations

-  It is recommended that the Ministry examine the reasons to the failure to integrate children aged 3–5 in kindergartens, and in particular concerning the younger children aged 3 among the non-Jewish population, and find a solution for them. It is further recommended that the Ministry appoint a body to track the integration implementation of all age children, and in particular, children aged 3–4, coordinate between the various parties, gather ongoing data and propose solutions for the difficulties in implementation.
-  It is recommended that the Ministry remove the obstacles preventing the use of its tool for developmental tracking, strive for its broad assimilation and determine the frequency of the required observations and the proceeding for granting authorizations to the professional bodies and the Ministry's headquarters (each on its required level of authorization), so that they may examine the use made by the kindergarten teachers of the developmental tracking tool and expand its use. It is also recommended that it gather relevant information or conduct another feedback proceeding for the individual and group meetings with the kindergarten children and the meetings with the children's parents held by the kindergarten teachers. It is further recommended that the Ministry adapt the kindergartens' curriculums to the Arab society, and translate into Arabic of the curriculums and the study, teaching and evaluation materials accompanying these curriculums.
-  It is recommended that the Ministry consider updating the kindergarten teachers evaluating mechanism according to the teaching personnel evaluation Director General's circular (and kindergarten teachers), and evaluate components designed not only for awarding tenure or promotion in rank, but also for ongoing evaluation, to improve the kindergarten teachers work, the conduct in the kindergartens and the nature of the early childhood education system. Within this context, it is also recommended that the Ministry ascertain that all kindergarten teachers (particularly kindergarten teachers belonging to the ultra-Orthodox society) undergo evaluation according to the procedures.
-  It is recommended that the Ministry improve the ratio between the number of children attending kindergartens and the number of staff members, given the ratio determined in developed countries, either by reducing the number of children in the classes and changing their operating structure or by reinforcing the number of staff members. Likewise, the Ministry should ascertain that all the kindergartens eligible for a second assistant from its budget would receive this entitlement. It is further recommended to identify the kindergartens in the low socio-economic clusters that are not eligible for a second assistant. Still, from the aspect of their characteristics, the additional assistant can have a substantial contribution to the children's progress, and accordingly consider a solution, as it is difficult for these local authorities to budget the addition of a second assistant by themselves.



-  The Ministry of Education and the local authorities should apply the government decision from 2013 and provide an orderly database about all the budgets transferred to the kindergartens and the manpower employed. It is also recommended that the Ministry collect information from the owners about absences and replacements for the kindergarten staff they employ data that will be added to what it already has about the absences of the kindergarten teachers it employs. This will allow it to obtain a complete picture and conduct an audit about using the budget earmarked for their employment. It is further recommended that the Ministry regulate an effective mechanism for locating and placing replacements in the kindergartens.
-  It is recommended that the Ministry map out the shortage in the kindergartens according to their characteristics – sectorial and socio-economic cluster affinity – and reduce the shortage, as much as possible, by permanent structures (and at the very least improve the state of temporary portable facilities and upgrade them), to ensure optimum physical, educational conditions for all kindergartens children. Within this framework, it is recommended to re-examine the mechanism for granting priority to the construction of kindergartens in the low socio-economic clusters local authorities, where the gaps are especially large.



Extent of rectification of the main deficiencies raised in the previous audit

Audit chapter	Previous Audit deficiency	The extent of the deficiencies rectification in the follow-up audit			
		Not rectified	Rectified to a small extent	Rectified to a large extent	Fully rectified
The Ministry's preparedness for the Compulsory Education Law for 3–4-year-olds implementation	Lack of accompaniment and control in the 3–4-year-old children's integration into the educational system, solving difficulties to implement the integration, and gathering ongoing data concerning the application of the Compulsory Education Law.				
	Gaps between the Jewish society and the non-Jewish society in the number of kindergartens children aged 3–5.				
Implementation of the "New Horizon" reform components concerning the organization of the teaching-learning structure in the kindergarten	Holding individual personal meetings with children and working in small groups.				
	Reinforcing the relationship with the parents.				
	Instituting formative processes of tracking and feedback.				
Kindergarten teachers' evaluation	Evaluating kindergarten teaches by the new evaluation model.				
The educational staff – standards, employment, and attendance	Improvement of the ratio between the number of adults in the kindergarten (kindergarten teachers and assistants) and the number of children in it.				



Audit chapter	Previous Audit deficiency	The extent of the deficiencies rectification in the follow-up audit			
		Not rectified	Rectified to a small extent	Rectified to a large extent	Fully rectified
	Information about the manpower employed in kindergartens.				
Regulating the requirements of the assistants' position and their training	Defining the assistants' role.				
	Regulation of the assistants' training.				
	Scope of the assistants' participation in the training.				
Kindergartens' supervision	Redefining the role of the supervisors.				
	Increasing the number of supervisors.				
	Supervision in recognized informal education.				
	Number of kindergartens under the supervisor's responsibility.				
The instructors' array	Standard determining the number of kindergartens for which the instructor will be responsible.				
	The number of kindergartens under the responsibility of each instructor (according to district).				
	Increasing the allocation of training days for the kindergarten.				
	The addition of training days following the application of the Compulsory Education Law to 3–4 year olds.				
	Instructors in supervisory positions.				



Audit chapter	Previous Audit deficiency	The extent of the deficiencies rectification in the follow-up audit			
		Not rectified	Rectified to a small extent	Rectified to a large extent	Fully rectified
Educational counseling for kindergartens	Operation of educational counseling in kindergartens.				
	The counseling hours of the educational counselor.				
Educational psychologists	Filling the educational psychologists' positions.				
Gaps in early childhood education	A shortage of kindergartens.				
	Physical infrastructures in the kindergartens.				
	Customizing curriculums for kindergartens for the Arab society.				
	Allocating hours for initiatives and projects for reducing social and pedagogic gaps.				



Summary

It is recommended that the Ministry of Education conclude from the integration of 3–4-year-old children in the education system and the New Horizon reform implementation in kindergartens. Within this framework, it should consider the obstacles and remove them. It is further recommended that the Ministry consider the manpower employed in kindergartens, and among other things, the ratio (about the number of kindergartens, the number of children attending them, and the number of staff members employed by them), their job definition, their training and the load imposed on them. It is also recommended that the Ministry consider different societies' gaps – the socio-economic, sectorial, and district – and reduce them.

As the education system is contending with the integration of children aged from birth to three years, it is recommended that the Ministry conclude from the findings in this audit report, improve, advance early childhood education to enable effective integration of children aged from birth to three years.



Report of the State Comptroller of Israel | May 2022

Systemic Topics

The Law Enforcement System's Treatment of Cybercrime



The Law Enforcement System's Treatment of Cybercrime

Background

Over the last decade, the use of the Internet has increased: computers, smartphones, and other technological tools based on the use of the Internet have become, both in Israel and around the world, the main tools for work and communication and the primary means of entertainment during leisure time. They store a great deal of information including, personal details and memories, economic, industrial, public and governmental information. The accessibility of cyberspace and its unique characteristics, including anonymity, the volatility of evidence, the decentralization of information, supra-territorial encryption capabilities, automation, and low usage costs and accessibility to an unlimited number of victims in a short time, have increased the scope of crime and terrorism in this space and have become fertile and accessible grounds for criminal offenses. Numerous crime areas have moved to this space, and new threats have even emerged therein, challenging the law enforcement systems. All of these expose the technological tools and the Internet users to a variety of possible vulnerabilities and dangers, including among other things, crimes against minors, crimes of fraud and theft of information and money, illicit trade in weapons and drugs, attacks on computers and communication networks and preventing access to it, and inciting violence and hate crimes (crime in the cyberspace or cybercrime). In recent years, the Israel Police has declared dealing with cybercrime as an organizational goal of the utmost importance, given the emerging changes in the world of crime and the apparent trend of crime transitioning to cyberspace.

This audit mainly deals with the Police's preparedness to cope with cybercrime and with criminals exploiting cyberspace to harm organizations and individuals; however this report does not deal with the Police's use of technological tools as part of its overall intelligence and investigative activities in respect of all the areas of enforcement it carries out¹.

It should be noted that the principle underlying this audit is the duty of the Police to use the tools, means, and equipment at its disposal only according to the provisions of the authorizing legislation, orders, and procedures and to act by the specific instructions it receives from the legal counsel in the various cases. In this context, the Police must take care that the fight against cyber criminals and the exercise of its powers in the areas of intelligence and investigation will be conducted in ways that may not harm the fundamental rights of the individual and his privacy, unlawfully.

¹ An audit on this subject is planned for the next working year.



Key figures

**about USD
6 trillion**

the estimated amount of cumulative damage caused by cybercrime worldwide in 2020, and it is expected to increase every year, up to USD 10.5 trillion in 2025

**about
87%**

victims of crimes in cyberspace in Israel in 2019 (about 200,000 people) did not report the crimes committed against them to the Police, according to the survey of the Central Bureau of Statistics (CBS)

**about
250%**

the increased rate of investigation cases in the Police regarding cybercrime in the years 2016–2020 (from 2,506 to 8,821 cases)

**about
75%**

of the cases investigated by the Police concerning cybercrime in 2018–2020 were closed (19,253 out of 25,707 cases), and in about 63% of them, the reason for the closing was "Unknown Perpetrator"

**in about
90%**

of the investigation cases opened in 2018–2020 on cybercrime, no indictments have been filed

53%

the rate of cases opened at the State Attorney's Office that dealt with economic crime (money laundering, fraud, and selling stolen credit card details)

**304
million**

the number of ransomware events around the world in 2020

**about NIS
350
million**

the Israel Police assesses the total budget required for establishing an information fusion system in the Police, for comprehensive technological equipping, and for employing professional cyber consultants. This budget has not yet been allocated

Audit actions



From March to August 2021, the State Comptroller's Office examined the law enforcement system's handling of cybercrime, including the normative regulation of the fight in this crime arena and the professional training of the designated officials. The



examination was conducted at the Police headquarters, the National Cyber Unit in Lahav 433, and at the cyber divisions in the Police districts. Completion examinations were conducted in the National Cyber Unit at the State Attorney's Office and the Legal Counsel and Legislative Affairs Department at the Ministry of Justice, the Ministry of Public Security, and the National Cyber Directorate. As part of the examination, the State Comptroller's Office monitored the previous audit recommendations implementation – "The Israel Police's Treatment of Sophisticated Cybercrime"² published in 2017.

This report was presented to the Prime Minister and the State Audit Committee of the Knesset on February 15, 2022, and was classified as confidential until the State Audit Committee's subcommittee hearing.

By the authority under Section 17(c) of the State Comptroller Law, 1958 [Consolidated Version], and after considering the government's arguments, consulting with the bodies responsible for the protection of national security information and in coordination with the Chairman of the Knesset, since the subcommittee above did not convene, it was decided to publish this report while imposing confidentiality on sections of it. These sections shall not be submitted to the Knesset, nor shall they be published.

The findings of the audit report and its recommendations are valid as of the date of its presentation.

Key findings

-  **Coping with ransomware crimes** – despite the 150% increase in the scope of ransomware crimes around the world, which was estimated in 2020 at approximately USD 20 billion, and the heavy economic damage caused to the Israeli economy, estimated as mentioned in the hundreds of millions of NIS, it was found that the Police has not formulated a plan to deal with this unique crime phenomenon.
-  **Citizens' satisfaction with the Police's handling of cybercrime** – about half of the victims of crimes in the cyberspace who reported it to the Police, claimed in the 2019 CBS survey that they were not satisfied with the Police's handling, and 84% of them expressed their dissatisfaction with its approach. In the 2020 CBS survey, 51% of the participants responded that should they be affected by cybercrime, they would report it to bodies outside the Police or not report it at all.

2 The State Comptroller, **Annual Report 67B** (2017), p. 1851.



-  **The activities of the National Cyber Center** – the National Cyber Center (NCC) in Lahav 433 operates without a detailed methodology and appropriate technological equipment. The staffing at the NCC is mainly based on high turnover personnel: two police officers, two students, and five volunteers in national service.
-  **The Internet as a space without control and protection** – the Police intelligence situation report for 2020 raised that the Internet is a space over which the state has no control, and thus it fails to protect its security and economic interests and those of its residents, including in the aspect of personal safety and privacy.
-  **Gaps in cooperation with security agencies and the National Cyber Directorate** – although there is an intelligence and operational need to institutionalize cooperation between the Police and defense system bodies, with an emphasis on the intelligence community, there are no fixed working mutual mechanisms between them.
-  **Closing investigation cases involving cybercrimes** – more than 25% of the 36,009 cases opened by the police in the years 2018–2020 and classified as "internet-related" were closed outright; 75% of the remaining investigation cases were closed, most of them (about 63%) on the grounds of "Unknown Perpetrator" (when the person who committed the crime was not found or when there is no suspicion as to their identity); The handling of these investigation cases was brief, up to ten days, and most of the cases were closed in less than a month.
-  **Coping with complex digital attacks** – the professional knowledge currently available in the Police is mainly used to investigate simple criminal cases, particularly phishing attacks, and sexual blackmail online. Still, insufficiencies have arisen regarding the ability of investigators to cope with specific digital attacks.
-  **Lack of means of attack and thwarting cybercrime** – there is a significant lack of basic and advanced equipment in the cyber and technological units, which does not comply with the Police procurement plans for 2019–2020. The lack of said means impairs the ability to gather intelligence and the means of attack for thwarting cybercrime, making it difficult for investigators to locate criminal activity in cyberspace and track it down. Hence, the cyber and technological units find it difficult to exhaust digital evidence in all incidents in the absence of technological means.
-  **The activity of the Cyber Unit in the State Attorney's Office on the voluntary enforcement level** – the action of the State Attorney's Office on the voluntary enforcement level (according to which it turns to the operators of websites containing illegal content to remove it) is done without explicit authorization by law, but by the government's residual authority and the auxiliary powers of the Attorney General. The State Attorney's Office acts at the request of an injured public servant or an authorized party with the employee's consent but does not act in favour of the general public victims. In a High Court of Justice ruling published in April 2021, it was recommended



that the State Attorney's Office consider a regulating and detailed legislative initiative regarding the entirety of voluntary enforcement, as is done in some Western countries.

-  **The activity of the Courts Administration to remove publications against judges** – commencing in 2015, the Courts Administration initiated an independent voluntary enforcement to remove publications against judges. In 2016, the Courts Administration made 97 requests to website operators, which gradually decreased until in 2019, 3 requests were made, and in 2020 no requests were made. This activity, which was not explicitly included in the framework of the administrative authority granted by the Courts Law to the Director of the Courts, was anchored in an internal procedure that was updated in December 2019 with the approval of the Attorney General.
-  **The legal regulation of the fight against cybercrime** – there are accumulated gaps over the years due to the need for regulation and legislative amendments in the enforcement field against cybercrime, which has not yet been updated. The existing legislation does not provide a complete and practical response to cyber threats and is not adapted to rapid technological development. These findings illustrate the need to provide effective tools to law enforcement bodies in their activity against crime and an up-to-date legal regulation of its powers.



NCC operates all year round, 24 hours daily; it functions as a national body and serves all enforcement and security systems. The State Comptroller's Office commends NCC's activities, despite the lack of skilled personnel and appropriate technological means.

Key recommendations

-  It is recommended that the Sigint-Cyber Division in the Investigations and Intelligence Division, which is in charge of building the force and its operational concept, promote an outline for the positioning of the NCC in the police cyber system, which will include a detailed regulation of its roles, its work methodology, and of the human and material resources, it requires. This is within the framework of the provisions of its authorizing legislation, orders, and procedures.
-  It is recommended that the Police formulate an up-to-date operating concept, including: updating the existing organizational structure; regulating the infrastructure for the activity of all the intelligence, investigations, and operations bodies in the police cyber system, with an emphasis on the technological aspect; characterizing the work mutual mechanisms between the police bodies and establishing the required collaborations



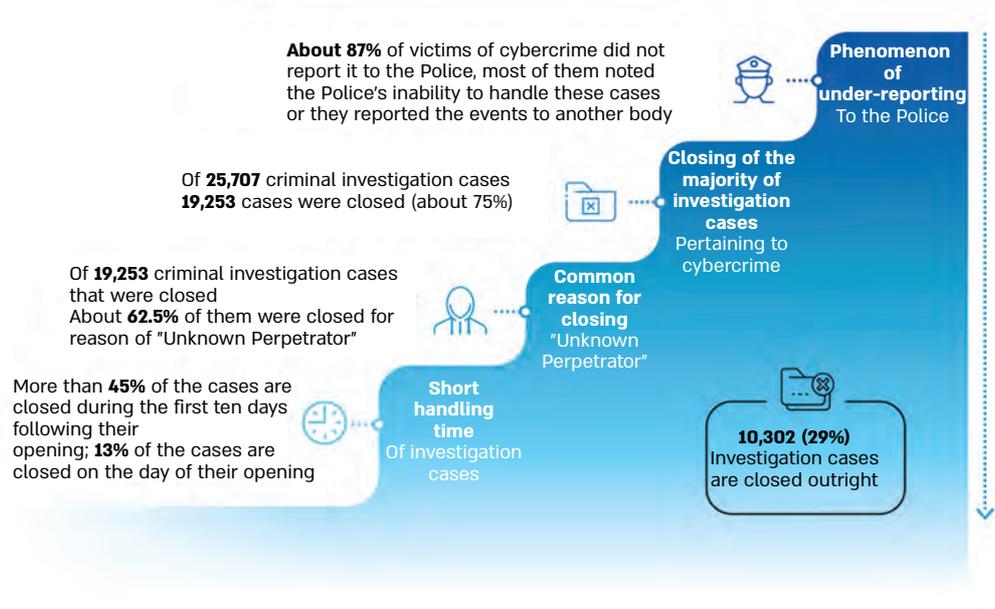
between them and the relevant bodies in the governmental space and the international arena.

-  The Police should incorporate the lessons emerging from the intelligence situation report into its work plans, to reduce the substantial intelligence information gathering gaps regarding crimes in cyberspace.
-  It is recommended that the Standing Committee³ implement its joint team's recommendations regarding strengthening inter-organizational cooperation, including enforcement and security bodies. These will help the Police to improve their abilities in gathering intelligence information, acquiring professional knowledge and technological skills, to improve the investigation means of solving crimes and locating suspects in criminal incidents in cyberspace.
-  It is recommended that the Ministry of Justice promote the regulation of the voluntary activity of the Cyber Unit in the State Attorney's Office, examine ways to provide equal protection from cybercrime to all public employees, and consider responding to victims from the general public vis-à-vis the capabilities and resources required. It is also recommended that the State Attorney's Office consider making voluntary enforcement services available to the general public, noting that the documentation of the proceedings will be transparent to the public and that the necessary prioritization will be done according to the tools and resources at its disposal.
-  It is recommended that the Ministry of Justice, in cooperation with all the relevant bodies, promote the necessary amendments to the existing legislation on investigating crimes and gathering evidence in the technological arena and cyberspace; while examining their impact on the entirety of the public's rights, through a balance between the needs of the law enforcement system and the rights granted to the individual by law.
-  It is recommended that the Police examine how to close the gaps regarding the expertise required in the cyber fields for carrying out intelligence missions, investigations, and operations within the treatment of cybercrime.

3 A permanent inter-organizational committee for the direction and coordination of the activity in the fight against serious and organized crime and their products.



Summary of Findings Regarding the Police Handling of Cybercrime Cases





Summary

In recent years, there has been a steep increase of hundreds of percent in the scope of crimes in cyberspace in Israel and in the world, including crimes using computer programs that use advanced technology to commit crimes in physical space. Cybercrime endangers the individual, the general public, the state, global commerce, and even state security; It may threaten human life and the safety of women, men, and children, harming their property and privacy. In 2020, the total damage of cybercrime worldwide was estimated at about USD 6 trillion, which is expected to increase yearly. The challenges are complex and require, among other things, continuous cooperation between countries and between international organizations operating in this field.

In Israel, the Police is the primary body responsible to treat cybercrime. The findings in this report demonstrate that an up-to-date operating concept does not support the existing setup in the Police; does not include skilled personnel in the cyber professions to the extent required for the needs; and is not equipped with the technological means necessary to carry out its work in its entirety. According to data from 2019, there is a phenomenon of under-reporting to the Police of victims of cybercrime.

The estimates regarding a significant increase in cybercrime in the coming years require the enforcement bodies to increase their preparedness to guarantee the necessary enforcement response. It is appropriate that the Police concentrate effort both on building the force and on using it to combat cybercrime, with the support of the Ministry of Public Security and by the recommendations detailed in this report. Furthermore, the Police should ensure that any action taken with the technological means at its disposal, including hacking into private computer systems and cellular devices, will be done while protecting individual rights and by the necessary legal approvals.

The Attorney General's Office and the Courts Administration should regulate and authorize some of the enforcement actions they take. This regulation is required both due to balance the needs of the law enforcement system with the rights granted to the individual by law, and since the future foretells an increase in the incidents of cybercrime will require coordinated and planned action.



Report of the State Comptroller of Israel | May 2022

Systemic Topics

Embezzlement Prevention in Government Ministries and Government Companies



Embezzlement Prevention in Government Ministries and Government Companies

Background

When embezzlement occurs in an organization, it may cause severe damages, even endangering its continued existence. When it occurs in the government sector, it generates even more damage, such as affecting public trust in the government, perceiving the government system as corrupt also in international eyes, and adversely affecting the financial plans that are supposed to serve the public. Government organizations are exposed to embezzlement, but it is possible to reduce this risk by a variety of actions. Every government organization is responsible for performing these actions, which must be performed according to the regulatory parties' appropriate directives.

Key figures

NIS 6-9 billion

the estimated annual damage in Israel due to embezzlement¹

USD 4.5 trillion

the global annual income loss estimation due to embezzlement and financial irregularities²

80%

of the embezzlements discovered in Israel during the past two years were carried out by senior parties in the organizations³

74

government bodies replied to a detailed survey by the Office of the State Comptroller concerning the prevention of embezzlement in six main risk areas

0

government ministries have a policy for ministry-wide risk management or a ministry-wide risk management steering committee (according to their replies to the survey)

82%

of the government ministries and government companies (on average) do not use innovative technologies to detect and prevent embezzlement

1 For further details see: <https://www.haifachamber.org.il/fraud>.

2 For further details see: <https://www.acfe.com/report-to-the-nations/2020/>.

3 For further details see: <https://www.grantthornton.co.il/insights1/BRS/dedicated-and-focused-testing-set2/>.



Audit actions

 From December 2020 to July 2021, the Office of the State Comptroller examined the actions performed to prevent embezzlement in government ministries and government companies.

This audit is based on a comprehensive survey conducted in December 2020 by the Office of the State Comptroller among 74 government organizations – 23 government ministries and 51 government companies (the Examined Entities). The survey included six questionnaires in the main risk areas for government ministries and government companies: (a) risk management; (b) information systems; (c) human resources and salary; (d) procurement and inventory; (e) money collection; (f) payment methods. The response to the survey was almost complete – 99% of the entities responded to the questionnaires⁴. The Office of the State Comptroller conducted supplementary examinations in some government ministries and companies, the Accountant-General Department at the Ministry of Finance (the AG Department), and the Finance and Control Unit at the Government Companies Authority.

Key findings



The audit findings arising from the analysis of the government and public entities' response to the Office of the State Comptroller's survey:

Risk management

- All of the examined government ministries and 12 (24%) of the examined government companies did not formulate a risk management policy. 12 (24%) of the companies that had formulated a policy did not update it since its approval more than two years ago. Likewise, there was no organization-wide risks manager in any of the examined government ministries and in 6 (12%) of the examined government companies, and there was no risk management steering committee in all the examined government ministries and in 21 (41%) of the examined government companies.

4 Five questionnaires were not completed in the survey: The Ministry of Communications – questionnaire on risk management; the Ministry of Transport – questionnaire on human resources and salary; Meir Shreya – three questionnaires on money collection, payment methods and procurement and inventory.



- None of the government ministries had conducted an organization-wide risk assessment survey; one government company had not conducted an organization-wide risk assessment survey, and 5 (10%) of the government companies had completed the last survey more than four years ago, and it has not been updated since then.
- 36 (71%) of the examined government companies and one government ministry do not use an information system supporting the risk management array.
- No internal risk management audit had been conducted in any of the examined government ministries and 13 (25%) of the examined government companies. The AG Department's audit unit had not conducted any risk management audit in the government ministries. There are no follow-up, reporting, and audit procedures in organization-wide risk management in any of the examined government ministries and in 12 (24%) of the examined government companies. None of the examined government ministries and in 20 (39%) of the examined government companies have a mechanism for reporting failure and almost failure events.
- 32 (63%) of the government companies replied that they have a hotline for submitting complaints and reports, but only 4 (18%) of the government ministries reported having such a hotline.
- The government companies' risks assessment surveys are not received in the Government Companies Authority's "ANAFA" (data collection and supervision over companies) system or are not fully inputted there. Likewise, the system does not have an analyzing tool for the obtained information, which could indicate, among other things, gaps and irregularities.

 **Information systems** – no computerized controls for detecting irregularities and trends likely to indicate improper conduct in 7 (32%) of the examined government ministries and in 12 (25%) of the examined government companies. Most of the examined government ministries and companies (91% of the government ministries and 78% of the government companies) do not use innovative technologies to detect and prevent embezzlement. It was also found that two (9%) of the examined government ministries and 18 (35%) of the examined government companies do not restrict the connection of a mobile device to the computerized environment and that 10 (43%) of the examined government ministries and in 32 (63%) of the examined government companies there are no alerts of such attempted connections.

 **Human resources and payroll** – 8 (16%) of the examined government companies have no controls for detecting irregularities in the human resources, attendance, and salary systems. In 11 (22%) of the government companies, no interfaces are maintained between the attendance and payroll systems. Likewise, it was found that in 6 (12%) of the examined government companies, only one official signs the employment agreement of a new employee in the organization. It was also found that 19 (37%) of the



government companies have an official authorized to perform the activities of a full employment cycle.

 **Procurement and inventory** – 16 (70%) of the examined government ministries and 17 (34%) of the examined government companies do not conduct an inspection of the suppliers' master file change log, and in 5 (10%) of the examined government companies there is one official who has authorizations to perform the activities of a full procurement cycle.

 **Money collection** – 4 (21%) of the examined government ministries and 5 (12%) of the examined government companies do not check the balances in their clients' bookkeeping ledgers, and 14 (34%) of the examined government companies do not check that the recipient of a receivable is restricted from making journal entries in the system. Likewise, 6 (32%) of the examined government ministries and 18 (44%) of the examined government companies accept non-"payee only" cheques, and 4 (10%) of the government companies accept cheques without the payee's name.

 **Payment methods** – in 21 (42%) of the examined government companies, the official making the bank reconciliations also has access to the organization's payment methods or money collection system. Likewise, 12 (30%) of the 40 government companies making bank transfers do not have a restricted list of the suppliers' bank accounts only to which funds may be transferred.



The Office of the State Comptroller commends the observance of the separating the computerized environments principle when developing information systems, both in the government ministries and in government companies.

The Office of the State Comptroller commends the Government Companies Authority's publication of the updated and detailed risk management directive in 2020.



Mapping the status of the leading controls in government ministries and government companies (an evaluation based on the audited bodies' replies to the Office of the State Comptroller's survey)



Government Ministries	Government companies Classified 9 and above	Government companies classified 1-8	
			Risk management
Low-level control	High-level control	Partial control	Risk management policy
Reasonable control	High-level control	Reasonable control	Organization-wide risk manager
Low-level control	High-level control	Partial control	Risk management steering committee
Low-level control	High-level control	High-level control	Conducting a risk assessment survey
High-level control	Reasonable control	Low-level control	Information systems supporting risk management
Low-level control	Reasonable control	Reasonable control	Internal audit on risk management
Partial control	High-level control	Reasonable control	Follow-up, reporting and control procedures in the field of risk management
Low-level control	High-level control	Partial control	Independent reporting mechanism
Low-level control	High-level control	Partial control	Hotline
			Information systems
Partial control	Reasonable control	Partial control	Computerized controls for locating irregularities
Low-level control	Partial control	Low-level control	The use of advanced technologies
Reasonable control	High-level control	Partial control	Restriction on the connection of a mobile device
			Human resources and payroll
High-level control	High-level control	Reasonable control	Controls on irregular data
High-level control	High-level control	Reasonable control	An interface between the attendance system and the salary system
High-level control	High-level control	Reasonable control	One signature on an employment agreement
High-level control	High-level control	Partial control	One official with authorizations to perform a full employment cycle
			Procurement and inventory
Low-level control	High-level control	Reasonable control	Controls on the suppliers' master file changes log
High-level control	High-level control	Reasonable control	One official with authorizations to perform a full procurement cycle procurement circle
			Money collection
Reasonable control	High-level control	Reasonable control	Continuous reconciliation of bookkeeping ledgers
High-level control	Reasonable control	Reasonable control	Recipient of receivable who can make journal entries in the system
Reasonable control	Reasonable control	Reasonable control	Receipt of cheques, which are not "payee only"
High-level control	Reasonable control	High-level control	Receipt of cheques without payee's name
			Payment methods
High-level control	Reasonable control	Partial control	Official making bank reconciliations with access also to payment methods
High-level control	Reasonable control	Reasonable control	Restricted list of suppliers' bank accounts



Key recommendations

-  It is recommended that the AG Department and the Government Companies Authority examine the need to update their directives in various fields to the government ministries and government companies, respectively.
-  The government ministries and companies should formulate a risk management policy, update it every year and have it approved by the relevant parties in the organization. It is recommended that the government ministries set up a comprehensive array of risk management in conjunction with the AG Department, which will include a chief risk manager and a risk management committee to examine the risk management policy, make decisions regarding risk reduction and track and supervise their implementation. It is recommended that the government companies that have not yet appointed a chief risk manager complete the appointment. Likewise, the government companies where no risk management committee has been formed should form such a committee, the government ministries and companies must conduct a risks assessment survey of all the risks to which the organization is exposed at least every four years and update it regularly.
-  It is recommended that the internal auditors in government companies consider the importance of risk management in the company and consider integrating it into their audits. It is recommended that the internal auditors in the government ministries and the audit unit at the AG Department incorporate a risk management audit, by the apportionment of responsibility between them. Likewise, it is recommended the Ministry of Foreign Affairs and government companies assimilate an information system supporting risk management. Furthermore, it is recommended that all the government ministries and government companies anchor in their procedures the method of tracking, reporting, and control over all risk management matters and determine procedures and a reporting mechanism for the organization's risk manager of failure or near-failure events, for treating them and preventing their reoccurrence.
-  It is recommended that government companies and ministries that have not yet set up a designated mechanism for submitting complaints and reports (hotline) consider establishing such a mechanism to transfer information about suspected embezzlement.
-  It is recommended that government ministries and companies implement computerized controls to help detect and prevent embezzlement and consider the necessity to implement advanced technologies likely to serve this purpose. Where government ministries and government companies do not restrict the connection of mobile devices to workstations, it is recommended that they do so.



-  Given the deficiencies in the implementation of operational processes controls, it is recommended that government ministries and companies consider the necessity to implement and assimilate appropriate controls into the human resources and salary, procurement and inventory, money collection, and payment methods processes. It is essential to implement and incorporate efficient and effective controls to reduce the risk of embezzlement.
-  It is recommended that the Government Companies Authority examine the upgrading or replacement of the ANAFA system, so that it will be possible to promptly receive all the reports government companies are required to deliver to the Authority, including risk assessment surveys, as well as analyze the gaps and irregularities arising from these reports.



Fields where deficiencies were demonstrated in the embezzlement preventing controls in government ministries and government companies Report



Human resources and payroll

- General
 - Controls for detecting irregularities
 - Maintaining interfaces between systems
 - Approval of attendance reports
 - Handling irregularities
- Payroll
 - Controls over employment agreements and salary conditions
 - Controls over salary calculation
 - Control of the method of salary payment
 - Analytical controls
- Human resources
 - Maintaining procedure of continuous vacation



Procurement and inventory

- Management of suppliers' system
 - Approvals required for setting up a supplier in the system
 - Controls for setting up a supplier in the system or when changing supplier's details
 - Control over changes log in the suppliers' master file
- Procurement order
 - Controls when making procurement orders
 - Segregation of Duties
 - Controls over invoice and payment reception
- Inventory
 - Controls over management of inventory and warehouses



Money collection

- Regular and annual reconciliation of the clients' bookkeeping ledger
- Restricting authorization for registering journal commands of an employee who receives receivables in an organization
- Controls over collection by cheques
- Control over receipt of receivables in the organization's coffers via a mystery consumer



Payment methods

- Use of cheques
 - Recording cheques manually
 - Tracking and control over cheques transferred for signature
- Banks reconciliation proceedings
 - Frequency of making bank reconciliations
 - Segregation of Duties
- Bank transfers
 - A restricted list of bank accounts for bank transfers
- Masav (bank clearing center) transfers
 - Implementation of the requirement for two signatures for Masav transfers
 - Control after Masav transmission
- Control over credit card expenses
- Surprise count of petty cash



Summary

The scope of the financial activity of government ministries and companies, the nature of these entities, their complexity, and their large number of employees – expose them to embezzlement, which should be prevented. This audit's findings indicate deficiencies in preventing embezzlement in the risk management array and in the information systems. Likewise, the findings indicate deficiencies in the examination of the implementation of the operational controls in human resources and payroll, procurement and inventory, money collection, and payment methods. These operational controls are based on work methods and best practices recognized as effective and efficient in preventing embezzlement.

A comprehensive and complex proceeding is required to prevent embezzlement, including establishing an ethical organizational culture, reinforcing awareness among the organization's employees, early identification of the risks and weak points in the organization's systems, establishing an orderly plan for the prevention of embezzlement and assimilating designated risk reduction controls and systems. This proceeding is part of standard norms in organization-wide risk management, including embezzlement risks, developed over recent decades. The government ministries and the government companies, as well as the AG Department and the Government Companies Authority, should consider the conclusions and recommendations raised in this report, draw conclusions from the deficiencies noted in the report and rectify them.



Report of the State Comptroller of Israel | May 2022

Systemic Topics

Preventing Embezzlements and Frauds at the Israel Land Authority



Preventing Embezzlements and Frauds at the Israel Land Authority

Background

Embezzlement and fraud are illegal actions for gaining a personal benefit by the deliberate improper use of an organization's resources and assets. In Israel, a distinction is made between embezzlement – an action performed by an internal party, and fraud – an action performed by an external party. According to a model published by the COSO organization¹ and adopted by many organizations worldwide, organizations must systematically prevent embezzlements and frauds, among other things, by risk assessment and internal audits. Accordingly, the provisions of the State of Israel's Finance and Economy Regulations (the Takam provisions) in operational risks, which are based on the COSO model, and bind the government ministries and their auxiliary units, also included the embezzlements and frauds risks as part of the operational risks which should be minimized.

The Israel Land Authority (ILA) manages one of the State's most significant assets – about 90% of Israel's lands. Any activity in an asset, including in land, creates a risk. A risk is a possibility that an event, activity, or action, internal or external, will cause damage, including financial losses, and adversely affect the organization's ability to meet its targets and objectives. The more substantial the organization's assets, such as in the ILA case, the more critical it is to establish and operate risk management mechanisms. Risks in the ILA's actions, as specified in this report, include, among other things, risks of malicious acts or errors in granting ownership proceedings, transfer of rights and land appraisal, awarding surplus compensation for land restitution, under-reporting in land supervision and invasion prevention, and the use of information systems by an unauthorized party and more.

1 COSO – the Committee of Sponsoring Organizations – an American organization which is deemed a leading organization in the field of methodologies for risk management.



Key figures

**about NIS
23 and 18
billion**

the total receivables received and payments paid by the ILA, respectively, from 2019 to 2020

**about NIS
644
million**

the sum the ILA received from 2018 to 2020 for granting ownership of about 4,000 assets, constituting about 3.6% of the assets granted during these years

**about
3% only**

of the ILA employees underwent training in ethics in the public sector and professional ethics for a civil servant (30 employees out of approximately 900)

**about NIS
15 million**

were paid as a "rotation addition" from 2013 to 2020 (an average of about NIS 1.9 million per annum) to the ILA employees' even though the rotation² procedure has not yet been implemented

about 150

of the ILA employees received authorizations for the information system (SAP) without a systematic examination of their needs under the job definition

**about
26%**

of the ILA inspectors supervise the region under their responsibility continuously for five years and more (13 out of 51)

**about
35%**

of the valuations under the control of the Real Estate Valuation Division at the ILA required amendment

**about
16%**

the rate of control over the transfer of rights in fast-track service points in 2020, compared with 25% – the rate proposed in the control specification

² Rotation in the filling of positions can also serve as a mechanism for preventing embezzlements and frauds.



Audit actions

-  From February to September 2021, the Office of the State Comptroller examined the prevention mechanisms of embezzlements and fraud risks at the ILA, including an organizational proceeding of management and survey risks, determining mechanisms for reducing the risks of embezzlements and frauds and implementing them. A supplementary examination was conducted at the Land Appraisal Department at the Ministry of Justice.

Key findings

-  **Risk management policy** – the ILA did not complete an orderly proceeding of an overall organizational operational risk management policy. Even though the ILA did start to formulate a risk management policy and conducted a risks survey and 14 control specifications focusing on the substantive work procedures – the proceeding was not completed. The ILA did not approve the risks survey and did not update it regularly; it did not formulate a risk reduction plan; it did not conduct the multi-year control program it had prepared, and it did not establish the control unit which it had intended to establish. Likewise, the ILA had not appointed an operational risks manager as of the audit completion date. It was further raised that in the past six years (2016–2021), the Israel Land Council (the Council) had not discussed risk management at the ILA.
-  **Monitoring process and automation mechanisms** – despite the information systems allowing systematic examination and control of the actions performed in the districts, the district directors do not initiate controls based on intelligent reports, nor use the system alerts. In practice, the district directors' control over transactions was performed "ad hoc", only over certain transactions discussed or brought to their attention. Likewise, the ILA did not transfer manual to automatic proceedings during the redemption of agricultural land proceedings (from the beginning of 2019 until the audit completion date the ILA agreed to pay, under the restitution agreements, the sum of approximately NIS 370 million for the redemption of agricultural land as it obligated to compensate).
-  **Preventing conflict of interest** – out of 122 employees on which the ILA considered applying the conflict of interest arrangement, 102 employees had signed a conflict of interest agreement (or after examining the matter, the ILA had decided that this was not necessary) and 19 employees had completed the questionnaire. Yet, as of the audit completion date, no conflict of interest agreement had been made with them, even



though the ILA had not determined that there was no need for it. Likewise, despite what is stipulated in the Takam provisions, the members of the ILA Tenders Committee are not required to sign a refresher of the declaration of the absence of conflict of interest once a year and neither are they required to sign a statement of the lack of conflict of interest when they are appointed to the committee.

 **Overall organizational mechanisms for preventing embezzlements and frauds**

– it was found that the ILA lack a series of preventing embezzlements and frauds mechanisms: the ILA has still not implemented the jobs rotation procedure, thus the employees subject to the jobs rotation procedure have not yet been transferred to other positions; no procedure has been determined for handling receivables; no positions have been defined to undergo integrity and trustworthiness tests; an entire organization ethical code has yet to be formulated; the ILA does not operate a mechanism for receiving anonymous reports inside or outside the organization about irregularities within the organization (hotline); the ILA has not set up a mechanism for concluding cases of embezzlements and frauds, including due to the controls' failures.

 **Rotation in the Security Division**

– the role of the inspector in the Security Division at the ILA is a susceptible enforcement position and serves as "the eyes" of the ILA in the field. It was raised that as of the audit date, out of the 51 inspectors in all the security districts, 13 (approximately 26%) had inspected the region for which they were responsible over five years and six of them (12%) had inspected their region over seven years. It should be noted that according to the rotation procedure, the term of office in such position is five years and that approximately NIS 15 million was paid as a "rotation addition" (an average of approximately NIS 1.9 million per annum) from 2013 to 2020 notwithstanding that the rotation procedure had not yet actually been implemented.

 **Mechanisms for preventing embezzlements and frauds in the information systems – management of authorizations**

– the ILA has formulated an "authorizations according to position matrix" so that the system will issue authorizations systematically and inherently according to the organizational structure and the employee's position; however, it was found that authorizations for the information system (SAP) had been issued to about 150 employees without any systemic examination of their job definition and requirements. It was also found that out of roughly 350 employees whose employment at the ILA had terminated between January 2018 and June 2021, nine employees still had authorizations for access to the ILA information systems by the audit end.

 **Control mechanisms over land valuations**

– the ILA Real Estate Valuation Division did not determine a control procedure over the valuations in the districts. It was also found that during the Real Estate Valuation Division's control, the rate of valuations found requiring amendment was about 35%.



Data security controls – the ILA conducted controls for most of its employees to ascertain that its data security training sessions had been assimilated and implemented.

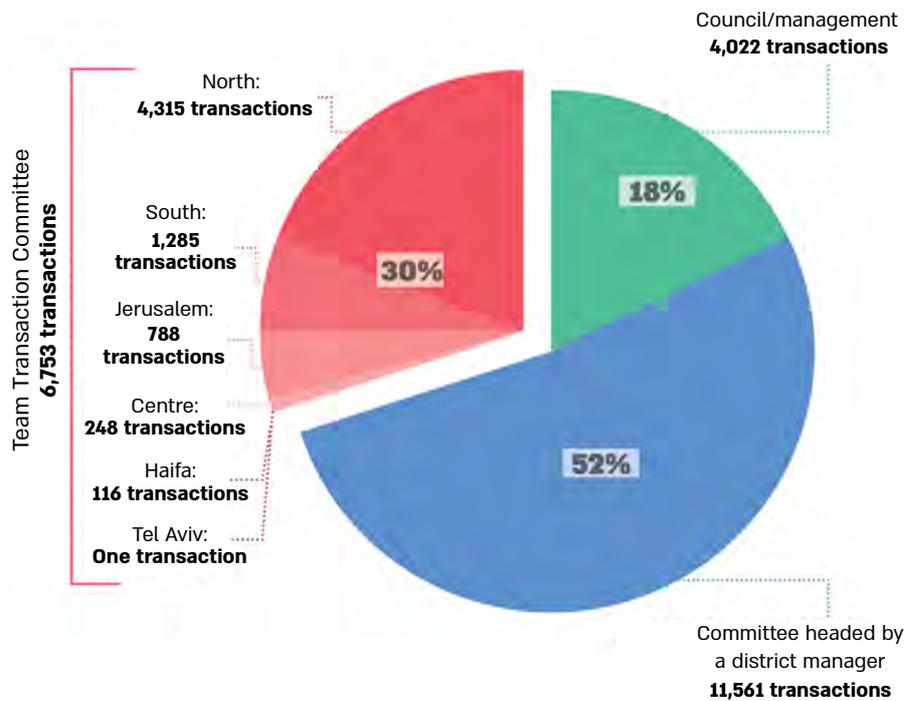
Key recommendations

-  The ILA should complete the formulation of the overall organizational policy for risk management, including updating and approving the risks surveys, formulating and implementing a program for risk reduction, and establishing a control mechanism; develop the concept of inclusive control, including the activities or processes subject to the control, the type and scope of the control; complete handling the conflict of interest arrangements and implement the rotation procedure. Likewise, it is recommended that the ILA appoint an operational risks manager and regularly convene the risk management and control team, examine the automated control regulation; and consider a separation of positions in processes where there is none. It is also recommended that the Council consider the ILA's risk management, including the need to outline an ongoing strategy or inclusive policy and ascertain that the ILA management acts accordingly.
-  In assimilating overall organizational mechanisms for preventing embezzlements and frauds, it is recommended that the ILA examine all its existing positions and consider which positions should be defined as required to undergo integrity and trustworthiness tests; it should advance the creation of an ethical code for the entire organization and publish it to the public, complete the training sessions for employees in ethics and include in its training programs, the risks of embezzlements and frauds. Likewise, it is recommended that the ILA examine a mechanism for receiving reports (including anonymous reports) – a "hotline" inside or outside the organization. It is also recommended that the ILA conclude in cases a concern arises regarding embezzlement, fraud, etc., performed by an employee, without derogating from any law.
-  It is recommended that the ILA strictly observe the allocation of the maximum period for an inspector's responsibility for an inspection region and implement job rotation among the inspectors accordingly.
-  The ILA must ensure that the authorizations for employees who have terminated their employment, including outsourced employees, are canceled on the same day they leave the ILA. Likewise, it is recommended that the ILA prevent access by employees who live in agricultural localities to files concerning their places of residence using the authorizations system. Until preventative control is regulated, it is recommended that the ILA consider determining locating or compensatory controls to deal with this risk.



💡 It is recommended that the ILA integrate a computerized control mechanism into the transfer of rights files at the fast-track service point while paying attention to the appropriate measure and balance of the mechanism vis-à-vis the need to avoid surplus bureaucracy and preserve the quality of the service to the public.

The rate and number of transactions performed at the ILA by authorizing party, 2017–2019



According to data from the ILA, it is processed by the State Comptroller's Office.



Summary

The ILA manages one of the State's most significant assets – Israel's lands. Managing this resource involves many risks, including fraud and embezzlement. To reduce these risks, the ILA should reduce the probability of them occurring and the severity of their effect, among other things, by improving the work processes and establishing supervisory and control mechanisms.

The ILA should complete the formulation of the overall organizational risk management policy, including updating and approving the risks surveys, formulating and implementing a risk reduction program, establishing a control mechanism over its activity, and appointing an operation risks manager. It is recommended that the ILA reinforce and improve its mechanisms to prevent risks of embezzlement frauds and irregularities and consider adding such mechanisms based on the determined policy. It is further recommended that the ILA formulate inclusive control, defining, among other things, all the positions responsible for conducting controls, activities or processes over which the control will be exerted, the type and scope of the control and the reporting and follow-up arrangements, while paying attention to the appropriate measure and balance of the control mechanisms vis-à-vis the need to avoid surplus bureaucracy and preserve the quality of the service to the public. It is recommended that the Israel Land Council consider ILA's risk management, including outlining an ongoing strategy or inclusive policy and ascertaining that the ILA acts accordingly.



Report of the State Comptroller of Israel | May 2022

Systemic Topics

Closing Criminal Files by the Israel Police and the Office of the State Attorney



Closing Criminal Files by the Israel Police and the Office of the State Attorney

Background

The Israel Police is the main branch of the criminal investigation system and will open an investigation once an offense is committed. The provisions of the Criminal Procedure Law regulate the closing of criminal files as the investigative bodies or the prosecution conclude that there is no room to charge the suspects. The prosecution bodies determine the investigation file closing grounds according to the State Attorney's directives and the Police Ordinance in the matter. The main closing grounds are: "the case circumstances are unsuitable for the continuation of the investigation or prosecution," "lack of evidence," and "lack of guilt." The closing ground has implications for a person's good name and livelihood.



Key figures

**approx.
830,000**

the number of adults in Israel who have a record in the Police Registry – one out of every 7.5 adults

**approx.
55,000**

the number of suspects' files, the Police and the State Attorney's Office closed in 2020 on the ground of "lack of evidence" – about 60% of the files closed in that year (approximately 90,000 files)

**approx.
6,000**

the number of suspects' files the State Attorney's Office closed on the ground of "lack of guilt" in 2020, as opposed to about 3,500 in 2015

**approx.
4,500**

the number of suspects' files the State Attorney's Office closed in 2020 on the ground of "the case circumstances are unsuitable for the continuation of the investigation or prosecution (circumstances)," as opposed to about 6,200 in 2015

**approx.
130,000**

the number of complainees for whom investigation files were opened without being questioned under caution in 2015–2020. About 126,000 of them were closed on the circumstances ground, and about 675 of them on the ground of "lack of evidence," without the Police updating them on this

7

the number of complainants' appeal files where the Appeals Unit at the State Attorney Office instructed to indict, out of about 1,500 appeal files in 2020 (approximately 0.5%)

**approx.
3,800**

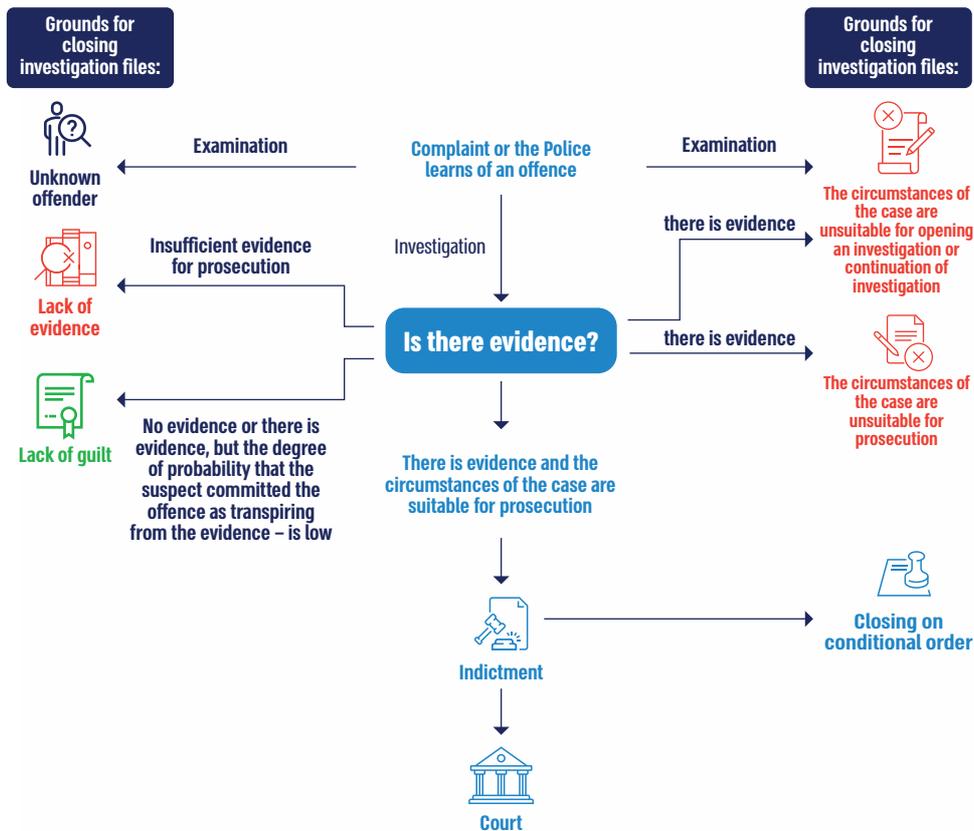
the number of files which concluded in conditional orders at the Police in 2020, as opposed to about 6,300 files in 2018, and about 5,700 files in 2019



Audit actions

From February to July 2021, the Office of the State Comptroller examined the proceedings for closing suspects' files and the appeals thereof. The examination focused on the closing grounds of criminal files and the deficiencies and barriers to appeal against the closing of the file by complainants and suspects. The audit was conducted at the State Attorney's Office and the Israel Police. Supplementary examinations were made at the Ministry of Public Security, the Ministry of Finance, and the Attorney General's Office.

Police investigation process until an indictment is filed or file is closed





Key findings

-  **Police Registry record and its implications** – the Police Registry records investigation of suspects files closed without an indictment being filed. In June 2021, about 830,000 people – about 13% of the adult population in Israel, had a record in the Police Registry (one in every 7.5 adults). About 450,000 (54%) had a record of 1 file and about 166,000 had a record more than 11 years old. Given the number of bodies and officials entitled to receive information on closed files from the Police Registry, thereby affecting various crossroads in a person's life whose investigation file has been closed, it is supreme essential that a criminal file is closed based on the correct ground.
-  **Closing of files on the ground of "lack of evidence" and "lack of guilt" by the State Attorney's Office** – the amendment to the State Attorney's Directive in January 2018 was designed so more files would be closed on the ground of "lack of guilt" and less on the ground of "lack of evidence". It was found that the number of files closed by the State Attorney's Office on the ground of lack of evidence (approximately 59%) had not decreased. Following the amendment, the number of files closed on the ground of "lack of guilt" increased from about 3,500 in 2015 to approximately 6,000 in 2020. Yet the number of files closed on the ground that "the case circumstances are unsuitable for the continuation of the investigation or prosecution" dropped from approximately 6,200 in 2015 to about 4,500 in 2020 (a decrease of 27%).
-  **Closing files by the (Criminal) Districts' Attorneys** – differences of about 20% were found in the number of files closed on the various grounds between the Districts' Attorneys. These differences raise concern that the possibility that a suspect's file is closed on the ground of "lack of guilt" is different in each one of the districts. In 2020, the possibility that the file would be closed on this ground at the Northern District Attorney's Office was approximately 33% and in the Haifa District Attorney's Office, the chance dropped to one-half of that, to approximately 15%.
-  **Lack of data about the closing of files by the Police on the ground of "lack of guilt"** – it was found that there is no data on closing of suspects' files on the ground of "lack of guilt" in the computerized systems of the Police's Research and Statistics Department. Consequently, it is impossible to examine the implementation of the State Attorney's Directive 1.3 by the Police and the assimilation of its principles concerning the use of the ground of "lack of guilt" since the Police do not collect this data for supervision and control, study and organizational statistics.
-  **Closing suspects' files by the Police on the ground of "lack of evidence"** – it was found that there had been a considerable increase in the number of files closed by the Investigations Department for "lack of evidence": from 41% in 2015 to 58% in



2020. It was further found that from 2015 to 2020, there had been a moderate decrease in the number of files closed by the Prosecution Department of the Police on the ground of "lack of evidence," and "The amended directive did not lead to a considerable change in the number of files closed on this ground. A presumption of innocence applies to every person as long as his guilt has not been proven beyond any reasonable doubt in a court of law. Supposedly, closing an investigation file instead of prosecuting means ratifying the presumption of innocence. However, closing files on the ground of "lack of evidence" is sufficient to erode this basic principle, particularly when it occurs in a considerable number of the files – an average of approximately 40,000 files in 2019–2020.

-  **Closing a Police file of a complainees who has not been questioned** – it was found that every year an average of approximately 21,000 criminal files are closed on the ground of "circumstances" without questioning under caution the complainees and without the Police updating them. From 2015 to 2020, the files of 675 complainees who were not questioned were closed on the ground of "lack of evidence". A person classified as a complainees who has not been questioned under caution is not at all aware that a file has been opened against him, and subsequently closed, and he is denied the right to apply to change the ground for closing.
-  **Complainant's appeal against the decision not to investigate or prosecute the suspect** – there is a lack of clarity amongst complainants, attorneys, and Police bodies concerning the party to whom a complainant should appeal against the closing of an investigation file. From 2018 to 2020, the Appeals Unit at the Office of the State Attorney decided to close approximately 2,000 files annually following appeals by complainants. In about 0.5% of the appeals, indictments were filed and in approximately 3% to 5% of the appeals, a decision was made to complete the investigation. Approximately 94% of the appeals were dismissed.
-  **A suspect's request to change the ground for closing by the Police** – the Police do not gather data regarding applications to change the closing grounds.
-  **Barriers in the exercise of a complainant's right to appeal against the closing of a file and of a suspect to request a change in the closing ground** – it was found that in 30% to 40% of the closed files no notice of closing had been sent to the complainant or to the suspect. The Police sent the notices by regular post, and there is no way of knowing whether they were duly delivered and the date on which they were received. Since the notice to the complainant about the closing of the suspect's file is sent by regular post, the determining date for the commencement of the period of 60 days for filing an appeal by the complainant is unclear. An examination of 34 decisions in requests by suspects for changing the ground for closing or in complainants' appeals, found that 13 of them lacked reasoning. Discrepancies also arose concerning the transfer of the photocopies of the investigation materials to the suspects and the complainants wishing to appeal, and this is liable to adversely affect the citizen's statutory right to appeal or to request to change the ground for closing.



Conditional orders at the Police – in 2018, the Conditional Order Unit signed approximately 6,300 conditional orders with suspects and thus met the Police target. However, since then and until 2020, the number of orders has decreased by approximately 40%, and the sum of the fines imposed upon the suspects and the compensation they were obliged to pay to the complainants decreased respectively by approximately 17% from about NIS 6.4 million in 2018 to about NIS 6 million in 2019 and about NIS 5.3 million in 2020. From 2018 to 2020, the average sum paid by every suspect within the framework of the order made for him was only approximately NIS 1,000. The decrease in the number of orders from 2019 to 2020 is not as expected, since, after 2019, the conditional order was imposed on all misdemeanor within the Police's jurisdiction, and in those years, the Investigations Department transferred a more significant number of files to the Conditional Order Unit. The number of files referred to the Unit increased by approximately 24%, from 11,595 in 2018 to 14,364 in 2019.



The Office of the State Comptroller commends the use of alternative criminal proceedings, where appropriate, including the Conditional Order proceeding. So that, in certain circumstances, the social response is consistent with the severity of the offense, leading both to a reduction in the number of indictments and preventing an unnecessary criminal stain and a decrease in the number of investigation files closed without indictments.

Key recommendations



It is recommended that the State Attorney's Office examine whether the Districts' Attorneys are implementing State Attorney's Directive 1.3 to reduce the use of "lack of evidence" ground and highlight the differences between the grounds for closing. It is further recommended to ascertain that all the District Attorney's offices also act by the rationales underlying the directive to achieve a uniform file closing policy in all the districts, by the State Attorney's directives, which are designed, among other things, to ensure that jurisdiction is exercised according to equal principles.



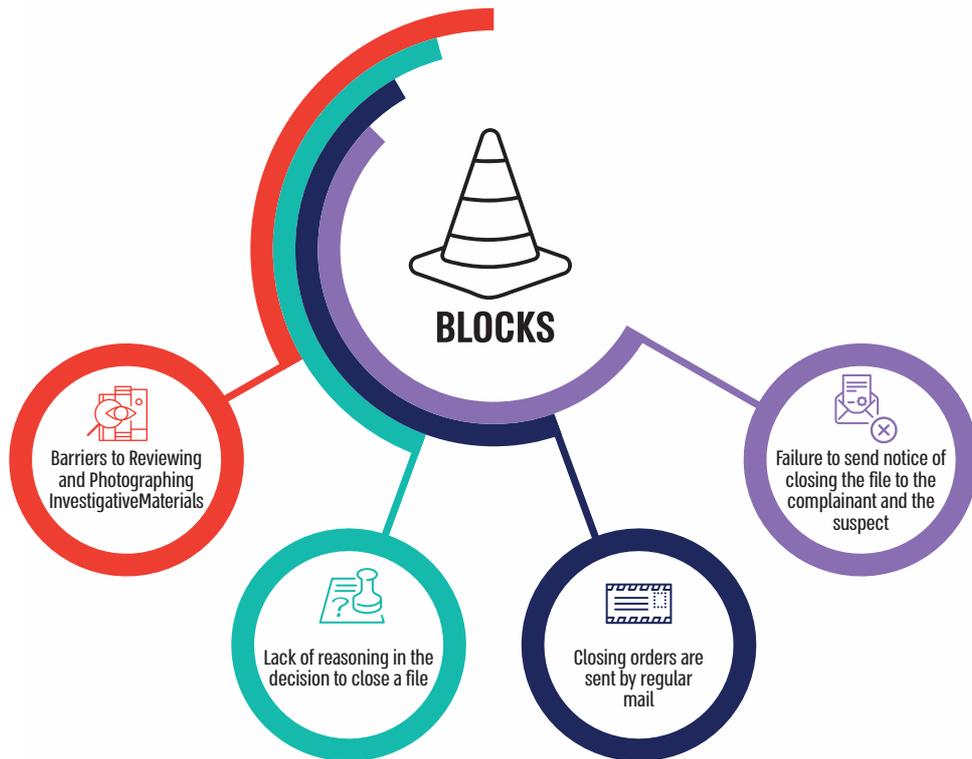
It is recommended that the Police periodically examine the extent the various grounds for closing are used by collecting all the data, including files that were closed on the ground of "lack of guilt," and analyze all the data in the Police's Research and Statistics Department. Collecting and analyze the data will form the basis for outlining the enforcement policy. Furthermore, the Investigations Department must direct and guide the investigations officers and the investigators authorized to close files at all the stations and districts, to realize the purpose of State Attorney's Directive 1.3.



-  It is appropriate that the Minister of Public Security add a criterion for expunging a police record, which will allow the automatic erasure from the Police Registry of years-old records of citizens who in the distant past had one file opened against them at the Police, and since then, they have been in the Police Registry.
-  The Police, in coordination with the Ministry of Justice, should complete the regulation of closing the complainee file, whether the complainee is questioned under caution or not questioned at all. Until the regulation, it is recommended that the Police inform complainants and complainees who have not been questioned under caution, it has been decided to close their file so they can obtain the ground for closing, and the complainant can appeal the conclusion.
-  The Police should accurately indicate on the notification form to the complainant the name of the party to whom it can submit an appeal against the closing of the investigation file and the contact details.
-  It is appropriate that the Police and the State Attorney's Office appoint one routing party, via whom complainants or suspects can submit appeals and reservations to the party closing the file online.
-  Given the downward trend in conditional orders, the Prosecution Department and the Police Investigations Department should cooperate to increase the number of relevant files closed in order while determining clear rules for transferring the files between them. Likewise, it is appropriate to set a target for the Investigations Department of a number of files that will conclude an order out of the files it transfers to the Conditional Order Unit.
-  It is recommended that the Ministry of Justice examine whether the conditional order proceeding is suitable for the purpose it was enacted – to reduce the load on the prosecution authorities and the legal system – and also consider directing the Prosecution Department and the State Attorney Office to set targets for expanding the use of conditional orders while reducing the use of the criminal tools in the appropriate files.



Barriers in the exercise of the right to appeal against the closing of a file





Summary

The decision by the enforcement and prosecution authorities to close a criminal file might reduce a person's possibilities of making a living and besmirch his reputation. This report includes findings necessitating an examination by the enforcement and prosecution authorities regarding the extent of use of the various grounds for closing. This examination should also be made in light of the update to the State Attorney's directive from 2018, which was designed, among other things, to reduce the number of files closed on the ground of "lack of evidence". While paying attention to the presumption of innocence granted to suspects whose files were closed, and sealing of the possibility of prosecuting who the complainants claim has harmed them, it is recommended that the enforcement and prosecution authorities rectify deficiencies indicating barriers in exercising the suspects' and complainants' rights to appeal against the decision. Likewise, it is appropriate to appoint one routing party to whom the complainants or suspects can file appeals and reservations online.



Report of the State Comptroller of Israel | May 2022

Chapter Two

Government Ministries



Report of the State Comptroller of Israel | May 2022

Prime Minister's Office - Civil Service
Commission

Handling Disciplinary Offences In The Civil Service – Extended Follow-Up



Handling Disciplinary Offences In The Civil Service – Extended Follow-Up

Background

The Civil Service bodies in Israel are the Government ministries, their auxiliary units, and hundreds of other bodies, including Government companies, religious councils, and corporations formed according to the law. The Civil Service provides services to Israeli residents in various fields. Its quality depends significantly upon the professional-functional level of the public servants and their moral level. To ensure proper activity, the organization should ascertain that a system of obligations is adequately set up. Damage to the organization on the part of an employee entails a response on the employer's part in the imposition of disciplinary measures on an employee who has violated the obligations. The primary purpose of the disciplinary measures, from a warning or rebuke to the expulsion of an employee who is not fit for service, is defensive and of a preventative nature, and is designed to ensure discipline, order, and the public administration's proper activity. The Civil Service Commission (CSC), together with the Government ministries, the auxiliary units, and the public bodies to which the Civil Service (Discipline) Law, 1963 (the Discipline Law or the Law), and the Regulations enacted by virtue thereof apply as aforesaid, are entrusted with the handling of discipline in the Civil Service.



Key figures

approx. 253,000	828	18%	76%
employees to whom the Discipline Law applied in 2021 (an increase of 13% relative to 2015)	disciplinary files were opened in 2020	the reduction in the number of disciplinary investigations in the years 2015–2020, as opposed to an increase in the number of disciplinary files in those years	the rate of disciplinary complaints closed by reason of "no room for disciplinary measures" against the employee
20	1	74%	NIS 87.9 million
total disciplinary prosecutors and investigators in the CSC in 2021 (12 prosecutors and eight investigators)	active disciplinary investigator in the educational system, as opposed to the need for 17 investigators, according to the CSC	of the items of information ("cells") in the Investigations Department database were empty, as were 65% of the cells in the Disciplinary Department's database	an estimate of the inclusive salary cost to the employer (the State) for a suspension period of 114 employees. 38% of the employees were suspended for three years or more

Audit actions

 From January to June 2016, the State Comptroller's Office conducted an audit on "Handling Disciplinary Offences in the Civil Service", and its findings were published in April 2017¹ (the Previous Audit). From April to August 2021, the State Comptroller's Office examined the extent the deficiencies raised in the Previous audit had been rectified including: the duration of the disciplinary proceeding, the promotion of an amendment to the Discipline Law, the ongoing handling of disciplinary offenses, the disciplinary investigators in the ministries, administrative difficulties of proceedings in the disciplinary tribunal, employee suspension due to a criminal or disciplinary proceeding and the application of the Discipline Law to public corporations (the Follow-Up Audit). In some

¹ The State Comptroller, **Special Audit Review**, April 2017, "Handling Disciplinary Offences in the Civil Service".



of the subjects, new issues which had not been examined in the Previous Audit were also examined. Likewise, some additional subjects were examined: the CSC database as a professional management tool and the organizational and proper structure of the disciplinary system. The audit was conducted in the CSC. Supplementary examinations were conducted at the Ministry of Justice, the Ministry of Education, the Bank of Israel, the Israel Broadcasting Corporation, and several other public corporations.

Key findings



The scale of the discipline activity – the number of disciplinary files opened in the years 2015–2020 increased by 126%; however, the rate of cases where the Disciplinary Department or the ministries found that the suspicion raised was substantiated, and so disciplinary measures were taken, or claims were filed in the disciplinary tribunal, out of all the complaints received, decreased in the years 2015–2020 from 31% to 20%. The decline in these cases should be examined against the background of the decrease in the number of disciplinary investigations (18%) and the limited increase in the scale of claims filed by the Disciplinary Department (approx. 15%). Ever-increasing use was made of the lenient measures and less, relatively, of the disciplinary measures requiring proceedings in the disciplinary tribunal.



The handling duration of disciplinary offenses – the CSC has not formed a standard regarding the time and the stages of handling the disciplinary proceeding. The average period of handling a disciplinary complaint extended from 18.5 months in the Previous Audit to 20.6 months in the Follow-Up Audit: the average time of handling by the Investigations Department extended by one and a half months and by the Disciplinary Department – by one month. Most of the disciplinary complaints (76%) ended without taking any ministerial disciplinary measures or filing a claim, including complaints whose handling took more than one year and up to several years. The prolonging of the disciplinary proceeding in the investigations and discipline departments, over three years since the suspicion of a disciplinary offense reported to the Commission, was a significant consideration in reducing the punishment.



Promotion of the amendment to the Discipline Law – the CSC did not complete the promotion of the amendment to the Discipline Law, which began in 2005. The Ministry of Justice, for its part, did not facilitate the legislative process but awaited the CSC to handle the Ministry's comments on the draft Law. Since the Previous Audit, the CSC and the Ministry of Justice have not examined the required regulation regarding the ministries and the disciplinary committees' powers. Thus, there is still a concern about poor and lenient handling in cases where it would have been appropriate to



implement more stringent disciplinary proceedings or file claims in cases where more lenient disciplinary proceedings would have been sufficient.

-  **Ministerial disciplinary measures** – since the publication of the Previous Audit, no appropriate arrangement has been formulated addressing the weakness of the treatment of disciplinary offenses by the ministries, particularly offenses of medium severity. Such an arrangement was not implemented in the draft amendment to the Discipline Law.
-  **Appeal against the decision of the Disciplinary Department** – it is impossible to file an appeal against discipline decisions (which are not within the field of sexual harassment). Since June 2017, the Economics Department at the State Attorney's Office has been the body handling appeals by the offense victims against the Disciplinary Department decision in sexual harassment offenses. Still, a permanent procedure has not yet been approved regulating the party that will handle the appeal.
-  **Disciplinary investigators** – according to an analysis made, disciplinary investigators should be appointed in 49 ministries; and in 6 other ministries, there is no need to appoint disciplinary investigators; it has not been determined whether investigators should be appointed in 8 ministries, and if so – how many investigators, and in total, according to the analysis, 120 investigators should be appointed. In 2021, there were 112 disciplinary investigators in the ministries. The distribution of the investigators among the ministries was not according to need: 94 investigators were appointed there (78% of what was required); in 14 of the 49 ministries above (29%) where it was necessary to appoint disciplinary investigators according to the need, no investigators were appointed. In 12 other ministries (22%), the number of disciplinary investigators was less than required; investigators were in the eight ministries above.
-  **Employees suspension due to a criminal or disciplinary proceeding** – the number of employees suspended for three years or more and the rate of them out of all the suspended employees rose from 28 (24%) as of the Previous Audit to 43 (38%). The CSC did not examine the financial aspect of salary paid during the suspension period and did not calculate the annual cost of the salary payments to suspended employees. According to a calculation by the State Comptroller's Office, an estimate of the inclusive salary cost for the entire period of the suspension of the 114 employees who were suspended in August 2021 totaled NIS 67.6 million, and the salary cost to the employer calculated according to a 30% addition to the gross salary was NIS 87.9 million.
-  **The CSC information system as a professional management tool** – the CSC does not have any reliable and consistent data or suitable tools to control over and track the handling stages of disciplinary offenses. Gaps arose in the information systems – 65% of the information cells of the handling stages in the Disciplinary Department's database were empty. For example, in 69% of the complaints, the database did not note the handling stage of the complaint, and in 69% of the complaints, the identity of the body handling it was not pointed out. 74% of the cells in the Investigations Department



database were empty. For example, in 88% of the investigations, the complaint receiving date was not noted in the database. In 74% of the investigations, the investigation serial number was not stressed. 69% of the cells in the Disciplinary Tribunal's database were empty. For example, in 30% of the files, the cells in which the tribunal district is concerned had been left blank, and in 93% of the files, the claim filing date was not noted. As of November 2021, the complaint or the investigation file is a physical file. Some of the information is inputted manually into the discipline module, and the CSC has not promoted the automation of the files. The CSC has not established an electronic database of all the disciplinary proceedings opened, which would enable, among other things, the tracking of the recommendations implementation, and it does not have statistical data regarding the extent and time the ministries had adopted the Discipline Department recommendations.

-  **Organizational and proper structure of the disciplinary system** – in the years 2015–2020, the number of complaints to the CSC by ministries almost doubled and reached 2,460; the number of disciplinary files opened during these years following the complaints increased by 126%, and simultaneously the number of prosecutors and disciplinary investigators in the CSC was reduced by 13% (from 23 during 2015 to 20 during 2021). Due to the human resources reduction in the disciplinary departments core areas (investigators and prosecutors) and the increase in the number of disciplinary complaints, the number of complaints to the prosecutor and the investigator grew over five years to 2.5 times and 2.8 times, respectively (from approx. 28 complaints to the prosecutor during 2015 to 69 complaints to the prosecutor during 2020, and from approx. 37 complaints to the investigator during 2015 to approx. 104 complaints to the prosecutor during 2020). The director of the Discipline Department presented this to the Civil Service Commissioner as the inability to address the requirements of the ministries and of the victims of an offense in the disciplinary files.
-  **The application of the Discipline Law to public corporations** – the Ministry of Justice did not map the public corporations for locating those with inadequate provisions regulating disciplinary law regulation applicable to employees, and it did not examine their ongoing handling in a binding normative disciplinary system. Moreover, no regulatory solution was promoted, and some corporations lack rules and procedures regulating the clarification and investigation of the suspicion of a disciplinary offense.
 - **The Bank of Israel** – although about 15 years have passed since the Government decided to apply the Discipline Law to the employees of the Bank of Israel and five years since the Previous Audit, the management of the Bank of Israel has not yet regulated a complete normative framework of handling disciplinary offenses.
 - **Yad Vashem** – the World Holocaust Remembrance Centre - Yad Vashem – (an organization that employs more than 800 employees) handled one suspicion of a disciplinary offense for over five years and used the General Disciplinary Regulations, which are not appropriate for the organization's fields of activity.



- **The Israel Standards Institute** – the management of the Standards Institute believes that the existing normative regulation does not provide it with the tools required to handle suspicious disciplinary offenses by its employees.
- **Magen David Adom** – the organization's management does not have a complete picture of all the suspicions of disciplinary offenses in the organization, the proceedings for handling them, and the results thereof. For example, the organization's management does not have statistical data about the number of disciplinary complaints, cases where disciplinary measures were taken, and the number of suspended employees.
- **The Israeli Broadcasting Corporation** – the corporation conducted internal disciplinary investigations (without referring them to the CSC) of 11 employees. However, regarding six of them, the corporation was required to report to the CSC.



The cooperation between the Investigations Department and the Disciplinary Department has improved.

The State Comptroller's Office commends the Tax Authority to publish the disciplinary measures taken toward employees.

Key recommendations



It is recommended that the CSC determine a standard for the continuation of the disciplinary proceeding and all stages thereof to realize the purposes of the disciplinary laws and fulfill the provisions of the Discipline Law while safeguarding the employees' rights.



It is recommended that the CSC promote the amendment to the Discipline Law, and complete the draft Law so the Ministry of Justice can promote the legislative process. It is recommended that within the formulation of an updated version of the amendment to the legislation between CSC and the Ministry of Justice, the interim stratum handling of the disciplinary offenses be regulated, and the renewal of the Disciplinary Committees' activity be considered. Likewise, it is recommended that the CSC analyze and formulate an arrangement serving as the basis for an amendment to the Discipline Law, such as the arrangement proposed by the Kremnitzer Committee – to endow the



management with additional administrative support measures in the handling of disciplinary violations.

-  It is recommended that the CSC validate the number of investigators required in all the ministries and appoint them according to the need of the bodies to which the Discipline Law applies. It is further recommended that the Investigations Department ascertain that the disciplinary investigators in the ministries comply with the threshold conditions it has determined and that they undergo training and are authorized on the dates they decided, and also ascertain with the ministries that it is possible to extend the validity of the investigator's authorization before extending it.
 -  The CSC should reduce the long periods of suspension involving the payment of salary, either by speeding up the disciplinary process within the responsibility of the Commission stands as aforesaid or by considering a salary reduction in the appropriate cases, or by increasing the supervision over the ministries on setting off his income from additional employment from the salary paid to the suspended employee, to prevent the unlawful payment of salary during the period of suspension. It is further recommended that the CSC examine additional ways of dealing with extended period suspensions, either from the aspect of filling the position of the suspended employee or by an alternative model periodically surveying the suspension continuation and its application and would encourage long period suspended employees to find private employment with approval, in return for a partial reduction in their salary. In addition to the Ministry of Justice actions, it should reduce the handling time of suspended employees cases.
 -  It is recommended that the CSC examine the resources of the Disciplinary and Investigations Departments and their working processes, given the missions imposed upon them. The examination findings shall determine the necessity to add positions and, if so – it shall achieve them. It is further recommended that the CSC fill all the positions in the Investigations Department. Furthermore, it is recommended that the CSC consider performing the tasks of the disciplinary investigators and the prosecutors by outsourcing in appropriate cases.
 -  In consultation with the Ministry of Justice, it is recommended that the Civil Service Commission formulate a normative system for regulating the disciplinary laws in the public corporations to which the Discipline Law applies, with the ministries responsible for the corporations.
- It is recommended that the management of the Bank of Israel apply the Discipline Law to the Bank. Alternatively, it should apply disciplinary rules, similar to those applied in the Civil Service.
 - It is recommended that the management of the Israel Standards Institute complete the negotiations with the employees and regulate good working rules to handle suspicions of disciplinary offenses.



- It is recommended that the Yad Vashem Corporation formulate updated rules for handling disciplinary offenses suspicions, including sexual harassment, and realize exhaustive handling of the disciplinary aspects in the organization.
- MDA should gather complete information about all the disciplinary offenses suspicions in the organization, the proceedings for handling them, and the results thereof, control the discipline handling in all parts of the organization, and ascertain that it is being duly implemented.
- It is recommended that the Attorney General examine whether the Commission's policy concerning the clarification of complaints about sexual harassment in the Israel Broadcasting Corporation is legally valid and send the examination findings to the Commission and the Corporation.
- It is recommended that the CSC formulate rules of action for handling disciplinary offenses suspicions and sexual harassment complaints in the Israel Broadcasting Corporation, also based on the examination findings above. The Israel Broadcasting Corporation should act by the rules formulated by the Commission to ascertain that its employees are treated respectfully by the other employees and managers in the Corporation and confirm that the employees' and managers' complaints are properly handled.



The Extent of the Rectification of The Main Deficiencies in The Previous Audit

Audit Chapter	Previous Audit deficiency	The extent of the deficiencies rectifications in the follow-up audit				
		Not Rectified	Rectified to a Small Extent	Rectified to a Partial Extent	Rectified to a Large Extent	Fully Rectified
The standard for the disciplinary proceeding's duration	The CSC has not formed a binding timetable for the disciplinary proceeding stages.					
Promotion of amendment to the Discipline Law	At the completion date of the Previous Audit, the handling of the draft law of 2014 has not yet finished.					
Opening of the disciplinary proceeding	There were disagreements in the CSC regarding handling a Ministry's application to the CSC due to disciplinary offense suspicion; considerable parts of the disciplinary proceedings were not opened according to the provisions of the Takshir.					
Cancellation of the Disciplinary Committee	A concern was raised that the cancellation of the Disciplinary Committee, along with additional deficiencies due to failure to amend the legislation, led to inappropriate and lenient handling in cases where it would have been appropriate to apply more stringent disciplinary proceedings or to file complaints in cases where more lenient disciplinary proceedings would have been sufficient.					



Audit Chapter	Previous Audit deficiency	The extent of the deficiencies rectifications in the follow-up audit				
		Not Rectified	Rectified to a Small Extent	Rectified to a Partial Extent	Rectified to a Large Extent	Fully Rectified
Ministerial disciplinary measures	About one-half (48%) of the Government ministries believed they did not have sufficient disciplinary measures to deal with disciplinary offenses. It was recommended to the CSC to examine with the Ministry of Justice and other parties the possibility of formulating a desirable policy addressing offenses of medium severity within the draft Discipline Law.					
Appeal against the Disciplinary Department Decision	It is impossible to appeal against the discipline decisions (which are not within the field of sexual harassment).					
	It was not determined which party would deal with the appeal against the sexual harassment decisions of the CSC.					
Retirement in place of continuation of the disciplinary proceedings	The CSC has not decided regarding the cessation of the disciplinary proceeding against an employee following his retirement would be made after considering the chances he would return to the Civil Service in the future.					
Authorization of disciplinary investigators in the ministries	The CSC has not determined the threshold conditions required from a disciplinary investigator in the Government ministries.					



Audit Chapter	Previous Audit deficiency	The extent of the deficiencies rectifications in the follow-up audit				
		Not Rectified	Rectified to a Small Extent	Rectified to a Partial Extent	Rectified to a Large Extent	Fully Rectified
Number of authorized disciplinary investigators in the ministries	The CSC has not determined any criteria concerning the required investigators number in every ministry and auxiliary unit; the Investigations Department did not analyze the existing risks in every department to decide how many investigators are required.					
Administrative difficulties in the Disciplinary Tribunal	The President of the Disciplinary Tribunal noted administrative difficulties that have not yet been resolved.					
Publication of the judgments of the Disciplinary Tribunal	The decisions of the Disciplinary Tribunal were published in scanned files, and it was not possible to search for them using keywords.					
The data in the computerized system	The CSC did not have access to reliable and consistent data about the disciplinary offenses handling stages.					
Tracking the implementation of the CSC's recommendations	No inclusive statistical data was gathered to assess the extent the Government ministries adopted the disciplinary measures recommendations of the Disciplinary Department regarding taking disciplinary measures and within what time from the date of the recommendation did the ministries take the disciplinary measures.					



Audit Chapter	Previous Audit deficiency	The extent of the deficiencies rectifications in the follow-up audit				
		Not Rectified	Rectified to a Small Extent	Rectified to a Partial Extent	Rectified to a Large Extent	Fully Rectified
Striking out disciplinary records in the Merkava system	If no suspicion against an employee was found after closing a disciplinary file, the record in the Merkava system is not struck out. It accompanies the employee throughout his service in the Civil Service.					
Application of the Discipline Law to public corporations	The system of norms in some corporations lacks rules and procedures regulating the clarification and investigation of the disciplinary offense, its report to the corporation executive and its information documentation.					
The Bank of Israel	In 1994, the Israel Bank's management decided to apply the Discipline Law to the Bank's employees, but eventually did not do so. Its normative dealing with disciplinary events is inadequate. It did not allow it to thoroughly and adequately deal with disciplinary offenses.					



Summary

The Discipline Law applied over about 253,000 employees during 2021, and the discipline handling is mainly the responsibility of 33 employees in the Discipline and Investigations Departments at the CSC and 112 disciplinary investigators in the ministries. From 2015 to 2020, the number of disciplinary files grew by 126%. The follow-up audit raised that the CSC had not rectified a considerable part of the deficiencies in the Previous Audit. The State Comptroller's Office recommends that the CSC rectify the deficiencies, as set out in detail above, to ensure the regular operation of the public administration and its employees.



Report of the State Comptroller of Israel | May 2022

Ministry of Finance

**The State of Israel's
Financial Statements
as of 31.12.2020 –
Accounts Receivable**



The State of Israel's Financial Statements as of 31.12.2020 – Accounts Receivable

Background

The State's financial statements present, among other things, the scope of debts to the State. The debts can arise from the supply of services on behalf of the State and from the imposition of charges, such as fees, fines or financial sanctions under various laws. Furthermore, sometimes the State is entitled to compensation or to reimbursement of expenses under judgments, agreements or for other reasons.

According to Section 12 of the State Comptroller Law, 1958 [Consolidated Version], every year, the State Comptroller may determine the time, but no later than six months after the expiration of the State's fiscal year, in which the Minister of Finance will submit to the State Comptroller of Israel "a comprehensive report on the State's income and expenditure during that year". Furthermore, the State Comptroller may determine the time, but no later than nine months after the expiration of the State's fiscal year, in which the Minister of Finance will submit to the State Comptroller of Israel the "balance sheet showing the assets and liabilities of the State as of the expiration of that fiscal year". The State's consolidated financial statements as of 31.12.2020 were submitted to the State Comptroller of Israel and published in July 2021.



Key figures

NIS 732 billion

the total State assets according to the financial statements, by 31.12.2020 – an increase of about 5.3% compared to 2019

NIS 69.2 billion

the total net debts to the State according to the financial statements, by 31.12.2020 – an increase of about 3.9% compared to 2019

NIS 14.1 billion

the total provision for doubtful debts according to the financial statements, by 31.12.2020 – an increase of about 4.5% compared to 2019

5%

the accounts receivable rate from the GDP for 2020, compared to the rate in the United States, Canada, Australia and New Zealand (1.5%–7.5%)

NIS 164 billion

the increase in domestic and foreign loans in 2020, among other reasons, due to the Covid-19 pandemic

NIS 170 billion

the consolidated accounting deficit in 2020, among other reasons, due to the Covid-19 pandemic

64%

of all the government ministries' debts are not managed by the MERKAVA portal (government ministries' transverse computing system)

NIS 921 million

the sum of the debts collected in 2020 by the Centre for Fine Collection – an increase of about 17% compared to 2019

Audit actions

From July to November 2021, the Office of the State Comptroller examined the various trends arising from the financial statements and the Government's methods in documenting the debts in the "Accounts Receivable" section, in the State's consolidated financial statements, and the government ministries' financial statements¹. The examination was performed at the Accountant-General Department in the Ministry of Finance (the Accountant-General Department) and at the Law Enforcement and Collection System Authority (the Authority), as well as in several government ministries, auxiliary units, and other government entities, including the Ministry of Justice, the Ministry of Economy and

1 It should be noted that the matter was also examined in the 2017 audit on "The State Balance as of 31.12.16 – Accounts Receivable ". See the State Comptroller's **Annual Report 68C** (2018), "The State Balance as of 31.12.16 – Accounts Receivable ", pp. 191–256.



Industry, the Ministry of Public Security, the Courts Administration, the Ministry of Construction and Housing, the Israel Land Authority (ILA), the Ministry of Transport and Road Safety (the Ministry of Transport), the Ministry of Health, the Ministry of Energy, the Governmental Authority for Water and Sewage, the Israel Tax Authority (the Tax Authority), the Ministry of Education, the Ministry of Interior, the Ministry of Communications and the Ministry of Tourism. Supplementary examinations were conducted in the Israel Postal Company.

Key findings



The Covid-19 pandemic's effect on the State's financial statements for 2020

– from the financial statements data in 2020, the expenditures were reduced by about NIS 31 billion compared to 2019 (among other reasons, due to a public expenditure increase and a reduction of about NIS 105 billion, the actuarial commitment of the National Insurance Institute expenditure to entitled persons). Furthermore, according to the financial statements in 2020, the State revenue decreased by about NIS 17 billion compared to 2019, and changes in the sum of NIS 66 billion in the net assets were added to the annual accounting deficit, which was about NIS 170 billion (an increase in the deficit). This led to an increase in the accumulative accounting deficit to about NIS 236 billion, financed mainly by a Government debt increase (domestic and foreign loans, including current maturities) of about NIS 164 billion.



Accounts Receivable and provision for doubtful debts – an international comparison

– it was found that the scope of accounts receivable by 31.12.2020 is about NIS 69.2 billion out of the total scope of assets totaling about NIS 732 billion (about 9.5%). This figure is high in comparison to most selected countries. This gap can indicate that the collection potential of the debts is higher than the actual execution compared to most selected countries. It should be noted that the gap could also arise because extensive financial assets scales are not included in the State of Israel's financial statements. Furthermore, it was found that selected countries calculate the provision for doubtful debts in their financial statements differently.



Substantive auditor's reservations concerning the data of the "accounts receivable" section, under the Tax Authority's responsibility

– since 2009, substantive auditor's reservations concerning the data of the "accounts receivable" section, under Tax Authority responsibility, have been included in the State's financial statements. This section is presented in the financial statements in about NIS 15 billion by 31.12.2020. It was further found that although the Tax Authority claimed it had begun to improve the financial statements' data several years ago, as of the audit completion date, it had not completed this action.



- 📌 The computerized systems used for the debts management** – according to data from the Accountant-General Department, 64% of all government ministries' debts are not managed by the MERKAVA system, and 44% are included manually. This situation hinders a complete knowledge of the list of debts at the ministry and the Government level, and an absence of comprehensive data on the debts to the government ministries and the auxiliary units as well as the actual collection data. Consequently, there is no adequate accounting control regarding the possibility of government ministries fully realizing their rights.
- 📌 Incentives for improving the collection proceedings** – it was found that the Accountant-General Department and the Budgets Department at the Ministry of Finance held several discussions concerning the incentives model. The incentives model aims to encourage government ministries to improve the collection and enforcement proceedings and increase the State revenue by providing positive and negative incentives to the ministries for increasing revenue or achieving significant milestones in improving the collection and enforcement proceedings. During the audit, no incentives model for debt collection was determined for the government ministries, contrary to the 2013 Government Decision regarding "Deepening the Government Debt Collection Activity".
- 📌 Collection of professional fees in government ministries** – Government Decision 4813 dated 12.1.2020 stated that a committee should be established to examine the collection improvement of Government fees, including transferring them for collection by the Centre for Fine Collection (the Centre for Fine Collection). By the Committee for Government Fees draft report, there is no orderly methodology for handling all 723 ministries' professional fees. This leads to a lack of coordination and uniformity in the ministries' activity. The professional fees, which should be collected once a year, are collected in various ways and sometimes are not.
- 📌 Accounts receivable aging report** – the Accountant-General Department does not have a complete aging report of the debt balances noted in the State's financial statements.
- 📌 Provision for doubtful debts in government ministries** – 14 out of the 15 government ministries and auxiliary units examined do not comply with the disclosure requirements of the mutations in the provision for doubtful debts account, as required by the relevant TAKAM directive (Financial and Economy Regulations), and in particular they do not present the amounts of the debts which were written-off and the amounts of the doubtful or lost debts collected if any. Likewise, the Law Enforcement and Collection System Authority performs a general provision only at the fixed rate of 57% (in a sum of about NIS 2.4 billion as of 31.12.2020 out of the gross debts in the sum of about NIS 4.3 billion), which is based on a calculation made by an external accounting firm in 2017.



 **The method of presenting and publishing the separate financial statements of government ministries (solo statements)** – it was found that the way of presenting the various sections of the financial statements varied from ministry to ministry. For example, some ministries include the "advance expenses" or the "income receivable" in the accounts receivable section. In contrast, other ministries present these sections separately or include them under different sections. Likewise, some ministries split in the financial state report the "accounts receivable" section into "debtors from non-exchange transactions," "debtors from exchange transactions," and "other debtors." In contrast, other ministries present this separation only in the financial statements' notes. Furthermore, it was found that the government ministries' separate financial statements are not published to the public.



Publication of the TAKAM directive – in November 2018, the then Accountant-General published a TAKAM directive² on the "Collection and Enforcement in Government Ministries." This was to uniformly guide the government ministries in formulating work procedures and work processes to support the management and collection activity of the debts, including supervision and control over their collection.

Mapping all the types of charges in government ministries – the Accountant-General Department, together with the government ministries, has mapped out all the types of charges in government ministries.

Key recommendations

-  It is recommended that the Ministry of Finance formulate a multi-year plan to reduce the deficit to the levels planned before the Covid-19 pandemic.
-  It is recommended that following the Government decision, the Minister of Finance, in conjunction with the Accountant-General Department, determine a model of positive and negative incentives for government ministries for debt collection.
-  Due to the importance of the information included in the separate statements of government ministries (the solo statement), it is recommended that the Accountant-General Department publish these statements on its website.
-  It is recommended that the Accountant-General Department act to complete the solution of a transverse collection system, which will reflect a reliable status of the debtors in the government ministries and maximize the Government's collection potential. It is further

² No. 3.3.1.



recommended that the Accountant-General Department complete, in conjunction with the Centre for Fine Collection, the regulation of optimizing the Government collection of professional fees.



It is recommended that the Law Enforcement and Collection System Authority, the Application Administration, and the Accountant-General Department consider the establishment of a computerized system for transferring the debts to the Government Collection Administration. This method would prevent possible errors and save time and resources when transferring debts.



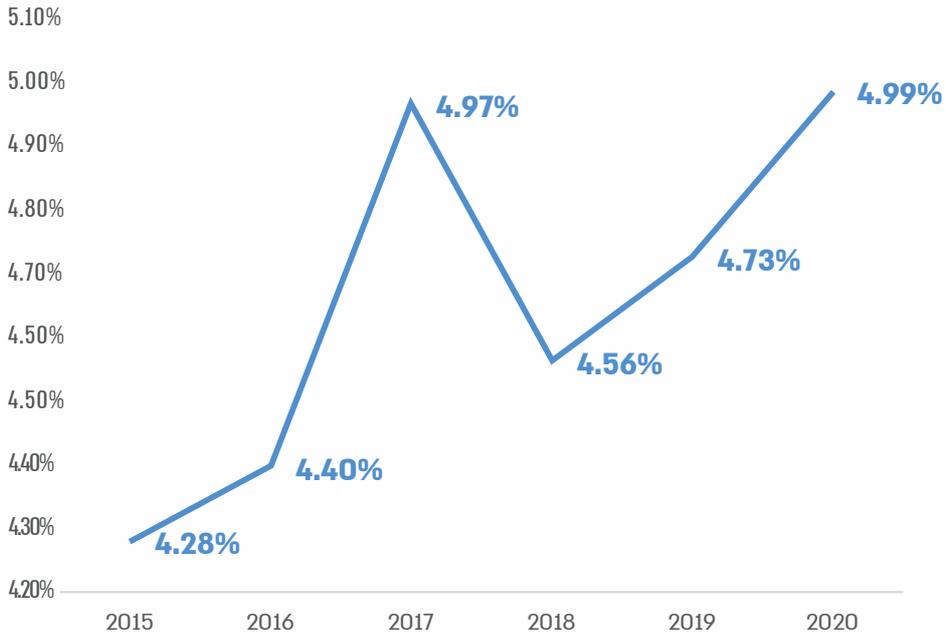
It is recommended that the Accountant-General Department and the Law Enforcement and Collection System Authority continue to improve the cooperation between government ministries and the enforcement bodies, among other things, by signing a service treaty document and advancing the establishment of a board of directors to encompass the entire government collection activity, so that the collection of the debts for the State will be performed most effectively.



It is recommended that the Accountant-General Department track the amount of the provision for doubtful debts and the rate of this sum in the accounts receivable section, and examine the significances of these figures and strive to reduce them as much as possible.



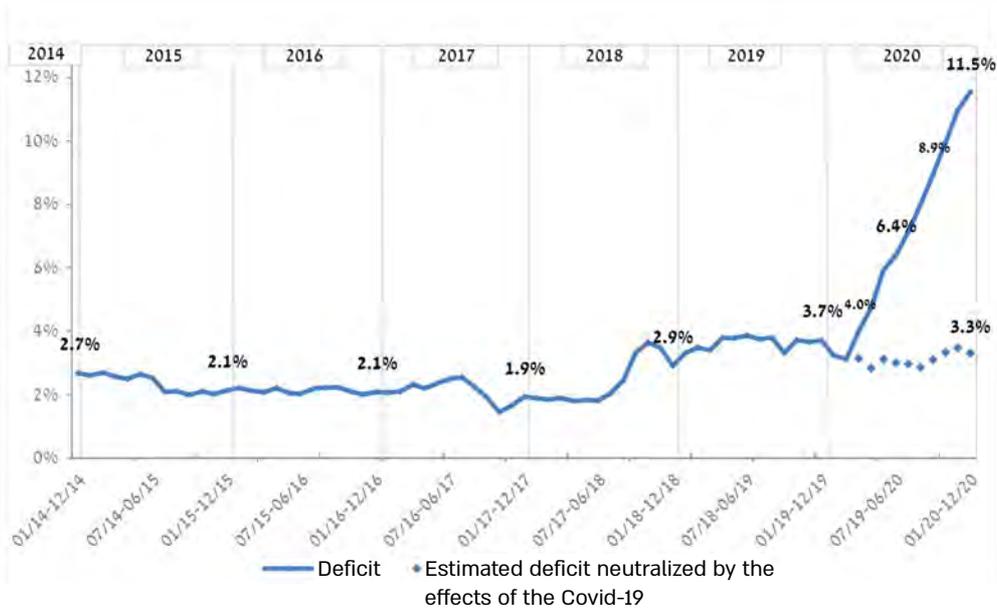
Accounts receivable rate out of the entire GDP



Financial statements for 2015–2020, processed by the Office of the State Comptroller.



The actual deficit, including the effects of the Covid-19 pandemic, compared to the Accountant-General Department forecast before the pandemic



Source: the Ministry of Finance, Introduction to the State of Israel's Financial Statements for 2020.



Summary

As part of the ongoing activities of government ministries, occasionally a ministry has a right to receive funds, which may mature into a debt. According to the State's financial statements by 31.12.2020, in recent years the Accounts Receivable section is on an upward trend – from about NIS 49 billion in 2015 to about NIS 69 billion in 2020 (minus the provision for doubtful debts). Management and collection of the debt balance are essential for preserving State assets and realizing all its rights. The audit found that government ministries use a great deal of manual work rather than automated processes, thus making it challenging to control debt management and avoid arrears and obsolescence of debts. This is expressed in the lack of transparency and knowledge regarding an orderly list of debts at the ministry and the Government level and the absence of complete data regarding the status of the debts to the government ministries and the auxiliary units.

Further, there is no uniformity in the method of managing the accounting record when transferring the debts from the government ministries to the Centre for Fine Collection for handling. Some ministries leave the debt in their books even after transferring it to the Centre for Fine Collection, which can create duplicity of the debt balances in the State's consolidated financial statements. The Accountant-General Department should rectify the deficiencies noted in the report, including completing the implementation of the transverse collection system to obtain a reliable and available status of the debtors and the collection data. Likewise, it must act to improve the ministries' collection process by the Law Enforcement and Collection System Authority to collect all debts. These actions will ensure that the Government collection potential is fully realized. The audit further found that the covid-19 pandemic had an extensive effect on the financial statements for 2020, and the State must prepare itself for closing the gaps in the future from the multi-year aspect.



Report of the State Comptroller of Israel | May 2022

Ministry of Health

Expansion of the Health Services Basket – The Addition of Medications and Technologies



Expansion of the Health Services Basket – The Addition of Medications and Technologies

Background

The National Health Insurance Law, 1994, determines, among other things, the medical services the members of the Health Maintenance Organizations (HMO) in Israel are entitled to that are included in the Health Services Basket (the Basket). The expansion of the Basket allows for the addition of new technologies – medications, medical devices, medical equipment, and medical, diagnostic, and therapeutic procedures (Medications and Technologies). It is also designed to enable the continued fulfillment of the objectives underlying the Law, to realize the latent possibilities in these Medications and Technologies and the scientific developments, and to provide patients with a service corresponding to these developments.

The Basket Committee examines new Medications and Technologies and recommends to the Minister of Health, which should be added to the Basket within the given budget. The budget is determined every year in the ongoing discussions between the Ministry of Finance and the Ministry of Health, according to the Government's State Budget priorities. From 1998 to 2021, a sum of about NIS 8 billion was allocated for expanding the Basket. The Ministers of Health and Finance appoint the Basket Committee's members, including representatives from the medicine, ethics, and social fields. Members of the Committee include representatives from the Ministry of Health, the Ministry of Finance, the HMOs, and the public.

The Basket updating process is anchored in a designated procedure from 2010 – "Procedure for Updating the Health Services Basket – February 2010", that determines the work procedures, the composition of the Basket Committee, and the operation criteria. The process for expanding the Basket lasts about one year and is divided into several stages: publication of a Request for Proposals; submitting requests; professional processing of the proposals and holding Technologies Forum discussions at the Ministry of Health; discussions of the Basket Committee and the sub-committee; and Government approval for the expansion of the Health Services Basket.



Key figures

**NIS 58
billion**

the Health Services Basket budget for 2021

**NIS 500
million**

the annual addition to the Health Services Basket in each one of the years 2017–2021

15%

the average rate of requests rejected by the Technologies Forum¹ from 2018 to 2021 and did not reach the Basket Committee for discussion

**109–160
Days**

the delay in business days until the protocols publication from 2018 to 2020

62%

the financial part of the ten most expensive Medications and Technologies added to the Basket from 2016 to 2021

31%

the quantitative part of the free-of-charge Medications and Technologies included in the Basket from 2016 to 2021

**NIS 506
million**

of the addition to the Basket were accumulatively allocated from 2015 to 2021 for medications for "orphan diseases"²

71

the number of risk allocation agreements and unilateral undertakings from 2016 to 2021

Audit actions

 From November 2020 to October 2021, the State Comptroller of Israel conducted an audit on the Health Services Basket expansion by adding Medications including: adding procedure of new Medications and Technologies to the Basket; transparency of the activity of the Basket Committee and its associated bodies; pricing of the Medications and Technologies and the risk allocation agreements; drawing conclusions from the decisions implementing method of the Basket Committee and control over the matter. The examinations were conducted at the Ministry of Health in the Medical Technologies, Information and Research Unit, the Supervision of Health Maintenance Organizations,

- 1 The Technologies Forum at the Ministry of Health examines all the requests submitted for expansion of the Basket and determines whether they comply with the conditions required for transferring them for continuation of discussion.
- 2 "Orphan diseases" are rare diseases. This is a group of severe, progressive, degenerative, life threatening, chronic and low frequency diseases. There is no worldwide uniform definition for these diseases.



and Complementary Health Services Division; in four HMOs: Clalit Healthcare Services, Maccabi Healthcare Services, Meuhedet Health Fund, and Leumit Health Services, and at the Ministry of Finance. Supplementary examinations were conducted in the medical professional unions at the Israeli Medical Association and the Public Complaints Commission at the Ministry of Health.

Key findings

- 
Determination of the technological component budget addition in the Basket – several attempts have been made over the years to anchor in law³ the mechanism for updating the technological coefficient. It was raised that in most years, the annual technical update addition rate to the Health Services Basket, out of the entire cost of the Basket, was smaller than recommended by the committees: in 21 (about 90%) out of the 24 years from 1998 to 2021, the addition rate was less than 1.5%, the lowest threshold recommended by the committees; in four (about 15%) out of these 24 years it was even smaller than 0.8%, the rate defined by the German Committee as necessary for preserving the quality of the medical services provided by the Basket.
- 
Combining the services included in the Third Schedule to the Law in the Health Services Basket update – since 2015 and until the completion of the audit in October 2021, there were no Government decisions concerning the update of the Services Basket regarding the Third Schedule to the Law, services provided by the Ministry of Health⁴. The approval that the sum allocated for the expansion of the Basket should also be used for funding this addition is retroactively granted every year when the Government approves the Basket Committee's recommendations. In each of the years from 2015 to 2021, an average of about 2.5% of the annual budget – about NIS 74 million – were added to the Health Services Basket and were designated for funding the services included in the Third Schedule.
- 
Transparency in the approval process of the Health Services Basket expansion – it was found that the transparency model in the expansion of the Health Services Basket is deficient:
 - 
Technologies Forum – from 2018 to 2021, the Technologies Forum rejected 46% of the requests for the inclusion of technologies that are not medications and 9%

3 This coefficient is designed to keep the Basket updated with novelty Medications and Technologies which enable a considerable improvement in the quality of life of many patients and may even save their lives, and whose effectiveness has already been proven in clinical trials.

4 For example: personal preventive medicine; devices for rehabilitation, walking and mobility.



of the requests for the inclusion of medications, yet the rejection details are not presented to the Basket Committee. Thus it does not have a complete situation report concerning the submitted requests, and bodies related to the expansion of the Basket process cannot conclude about the characteristics of the rejected requests.

- **The sub-committee**⁵ – all its members are Government and HMOs' representatives, and there is no representative from the public; even journalists are not allowed at its discussions, although they are allowed to attend the discussions of the Basket Committee. In addition, the sub-committee's protocols are not published to the public.
- **The Basket Committee** – in 2018–2020, the protocols of its discussions are published after delays of 109 to 160 business days, adversely affecting transparency and may hinder submitters of rejected proposals from submitting updated requests as soon and as relevantly possible.

 **Financial evaluation as a decision-supporting tool in updating the Health Services Basket** – the "Procedure for Updating the Health Services Basket – February 2010", determines that a financial evaluation should be submitted when requesting the addition of Medications and Technologies to the Basket, and the "Procedure for Submitting a Request to Include a Preparation ('Medication') in the Health Services Basket," requires to be followed as much as possible. Yet the Basket Committee decides based on a professional evaluation, with no financial evaluation, as opposed to standard practice in advanced countries worldwide. Only one financial evaluation was submitted to the Basket Committee in 2018–2020.

 **Evaluating the anticipated number of patients according to the diseases records** – although the diseases records⁶ (to which information about the number of patients is added and monitored) may serve as an essential database for a well-founded evaluation of the patients' number of recorded diseases and their development stages, it was found that according to the existing regulation, even in mandatory cases to provide information, the registrars cannot enforce or impose any sanctions on bodies which do not fulfill their reporting duty. Thus, the national databases for recording diseases information, are not necessarily updated, and cannot serve as a reliable source for morbidity evaluation rate and a reliable allocation of the specific addition.

5 The sub-committee collects data according to which it prices the budgetary addition required for the Medications and Technologies submitted and presents the pricing to the Basket Committee.

6 Diseases records – are kept, among other places, at the Gertner Institute for Epidemiology and Health Policy Research Ltd., at the Israel Center for Disease Control, and at the Information Division at the Ministry of Health. Likewise, unofficial records are kept on behalf of professional associations at the Israeli Medical Association and at the HMOs, which keep designated records.



- Use of therapeutic alternatives – "class effect"⁷** – despite the ongoing principle argument regarding the definition of medications as a class, the Ministry of Health has not determined guidelines for the definition of medications as a class effect.
- Addition of medications to the Services Basket without any extra cost** – from 2016 to 2021, the rate of free medications included in the Basket was about one-third of the annual technological update. It was found that the adding process for these medications is similar to the adding process of any medication or other technology to the Basket; even though no extra cost is involved, the process is carried out once a year and only then is it possible to approve their addition to the Basket.
- Risk allocation agreements** – notwithstanding the complexity of the process of formulating risk allocation agreements, the Ministry of Health has no procedure or guidelines to regulate it, including the need to identify cases requiring signing risk allocation agreements; the need for advisory bodies; determining who is the responsible party; the method of including the HMOs in deciding the terms of the agreements; the necessary control processes when performing the process and after that, and determining the schedules. It was found that the sub-committee's work procedure draft, circulated for the HMOs remarks in August 2021, partially deals with the subject and, as of the date of the audit's completion, had not been approved; the Ministry of Health does not analyze the risks to which the HMOs will be exposed when the agreement expires when the discounts the HMOs received under the agreement will end, and it does not examine expired agreements to learn about the prices after the agreement has expired. Neither does the Ministry examine the extent the agreements are exhausted – some were used to a greater extent than the determined forecast, and some to a lesser extent, to draw conclusions that can be applied in future agreements.
- Ministry of Health monitoring the HMOs' use of the Basket additional budget and concluding** – the Ministry of Health relies upon data delivered by the HMOs when pricing the Medications and Technologies in the sub-committee, but it does not examine the extent to which they are used after their addition to the Basket. This may overprice a medication or technology at the expense of other Medications and Technologies that consequently were not added to the Basket. This may under-budget a medication or a technology. A draft report on allocation compared to use was submitted to the then (2018) Director-General of the Ministry of Health about 10 years after the examination period (2007–2009), and the Ministry published the final report three years later, in January 2022. Only in 2021 did the Ministry begin to examine the years 2010 and later.
- Oncological medications and expensive Medications and Technologies** – it was found that the additional cost of the 10 Medications and Technologies was the highest cost from 2016 to 2021 relative to the total addition cost (they constitute 62% of the cost of the entire addition, about NIS 1.7 billion out of approximately NIS 2.7 billion).

7 Medications defined as class effect are medications belonging to the same therapeutic group, even if they do not contain the same active ingredient.



Though the addition for the oncological medications was 37% of the total addition for these years, the Ministry of Health did not control their use and efficiency, to conclude for future addition decisions of costly Medications and Technologies.



Public participation – the Ministry of Health's inclusion of the public in the Health Services Basket expansion process should be commended.

Transparency in the media and the Ministry of Health website – journalists, who can report to the public about the discussions at the end of the process, are allowed to be present at the discussions of the Basket Committee. The Basket Committee also publishes its critical decisions on the Ministry of Health website shortly after the discussions.

Key recommendations

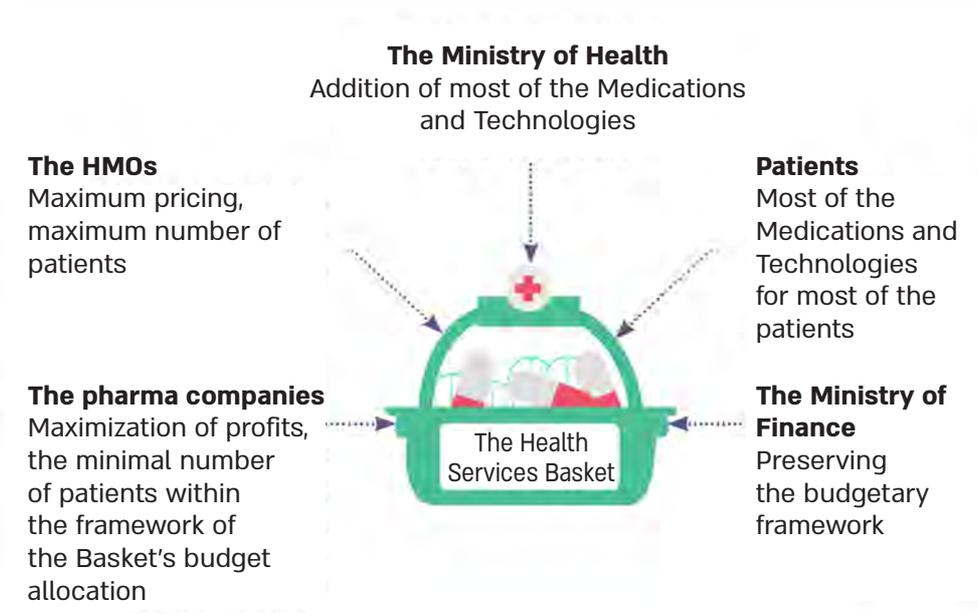
-  It is recommended that the Ministries of Health and Finance, in conjunction with the HMOs, examine the impact of the determining method of the technological coefficient amount relative to the methods used in developed countries worldwide and whether it should be regulated. Likewise, it is recommended to consider determining a minimal annual update rate of the coefficient, to reduce the planning uncertainty level, enable long-term planning and optimally meet the requirements of technological advancement.
-  It is recommended that the Ministry of Health examine the appropriate reporting mechanism of the Technologies Forum's decisions, and determine this as part of the Health Services Basket Updating Procedure – who should be given notice of the decisions and how these notices will be drafted. This will enable to study of the considerations underlying the Forum's decisions on whether a suggested medication or technology is appropriate or inappropriate for discussion by the Basket Committee. Increasing the transparency of the process will optimize the work of all the bodies involved and the public's trust in the process.
-  It is recommended that the Ministry of Health determine criteria and the appropriate ways for the financial evaluation of Medications and Technologies. It is recommended that this be carried out in consultation with the relevant bodies. It is further recommended that the Ministry consider expanding the manpower, providing financial evaluations, and updating its procedures accordingly.
-  It is appropriate that the Ministry of Health, in conjunction with the HMOs, systematically examine the financial effects of adding medications without any cost to the Health Services Basket, including considering learning from other countries. Following the



examination findings, they should consider discussing their addition on a separate fast track without having to convene the Basket Committee. It is further appropriate that the Ministry, in conjunction with the HMOs, periodically control the financial implications of adding medications without any cost to the Health Services Basket.

- 💡 The risk allocation agreements are complex, and professional knowledge and expertise are required in drafting them; therefore, it is recommended that the Ministry of Health finish formulating the relevant procedure, considering all the stages of the process, including the monitoring and tracking process of the agreements implementation, and concluding from their implementation.
- 💡 It is recommended that the Ministry of Health draw conclusions and formulate recommendations for improving the work processes of the Basket Committee and the sub-committee. Likewise, it is recommended that the Ministry determine the minimum frequency for control over allocation compared to uses and implement the previous control recommendations. Regarding the supplementary control by the Ministry on the budget allocation from 2010 to 2020, it is recommended that it relate to the HMOs' remarks in the previous controls, draw conclusions from the arising findings, and examine them within this framework.

Factors influencing the addition to the Health Services Basket





Summary

The expansion of the Health Services Basket allows the addition of advanced Medications and Technologies to the Basket out of public funds. The decision to prioritize the requests is ethical, accompanied by deliberations, as each request is essential. Still, due to budgetary constraints, it is impossible to include all the requested Medications and Technologies in the Health Services Basket. It is recommended that amendments and improvements are made in the Basket's expansion process to better exhaustion of the Health Services Basket budget to the entitled public. In light of this report's findings, given the Basket Committee has been acting for over twenty years with no complete control reports, it is of great importance that the Health Council and the Ministries of Health and Finance examine all the Committee's activities to improve its functioning. Thus, the patients can get the most out of the health services included in the Basket.



Report of the State Comptroller of Israel | May 2022

The Ministry of Health

Cyber Protection of Medical Devices and the Security of the Information Stored Therein



Cyber Protection of Medical Devices and the Security of the Information Stored Therein

Background

Over the last decade, cyber-attacks on organizations and individuals worldwide have increased; in recent years, cyber threats to medical institutions have also increased. Medical centers have systems whose shutdown could affect the activity of the medical center and even risk patients' lives. Cyber-attacks on the health system may cause extensive damage, including damage to the provision of essential medical services in routine and emergency times; theft of personal medical information and its abuse, which has severe personal and trust effects on the country's medical institutions; intentional disruption of information following a change of personal clinical files information which may lead to making incorrect medical decisions; damage and destruction of expensive medical equipment.

Medical institutions use tens of thousands of medical devices for various medical procedures; among these are MRI¹ (Magnetic Resonance Imaging), CT (Computed Tomography), X-rays, and women's ultrasounds. Medical devices must be thoroughly and regularly available in light of the various procedures that must be performed, especially considering their necessity for life-saving procedures.

Cyber protection (information security) in medical devices, including imaging devices, is to prevent an unauthorized party from making changes to the information stored in them; unauthorized use or misuse of the medical information stored in them, which is processed in it or transferred from them to an external destination; and damage to their operation.

This report is based on the responses of the 25 medical institutions to a questionnaire on "Protection and security of information in medical devices" given by the State Comptroller's Office: the 11 general-government medical centers, the two public medical centers, the eight general medical centers of the Clalit HMO (Health Maintenance Organization) and the four HMOs. The Clalit HMO gave its response in some of the chapters in the questionnaire on behalf of all eight of its general medical centers and community clinics, therefore the number of institutions covered by these chapters is 17.

In mid-October 2021, during the audit period, hackers broke into the computers and servers at the Hillel Yaffe Medical Center in Hadera. The attack disrupted the medical center's activities. It caused patients to be diverted from the medical center to other centers, and a

1 Medical imaging is an advanced technology in which internal parts of a subject's body are demonstrated through photographs. This is a general name for a variety of basic tests carried out prior to a significant part of diagnoses and medical procedures, for the purpose of clinical diagnosis, treatment planning, patient follow-up and assistance in performing invasive procedures (surgeries).



switch to manual rather than computerized work to prevent access to the patient's medical information, and more. This attack highlights the importance of optimal preparation for cyber threats and information security.

Key figures

about 9.5 million

Cyber-attacks attempts around the world in 2020 aimed to disrupt computer systems²

about 2,700

the estimated number of MRI, CT, X-ray, and ultrasound imaging devices in the medical institutions that were examined

8%

the minimum budget rate that should be allocated, according to the government's resolution, to cyber protection, out of the information systems budget of the government medical centers

13 out of 17

medical institutions³ did not carry out a risk survey⁴ regarding medical devices

13 out of 17

medical institutions did not include in their plans the manner of handling and recovery of the medical devices in a disaster event

5 out of 17

medical institutions did not stipulate the purchase of medical devices on the information security officer examining their information security aspects

13 out of 17

medical institutions do not have logical privileges control (username and password) for access to a women's ultrasound machine

14 out of 17

medical institutions did not perform penetration tests⁵ for medical devices in 2018–2021

2 DDOS type attacks – Denial of Service Attack Distributed, denial of service attack.

3 The Clalit HMO was counted as one medical institution but the reference in this definition is to all eight of its general medical centers and clinics in the community.

4 A risk survey examines and locates threats and exposures of information security in the systems of the medical institutions and assesses the level of risk their activities face with respect to these threats.

5 A penetration test is a procedure during which a controlled and planned attack is carried out on the organization's computerized system in order to locate weaknesses therein.



Audit actions

 From January to November 2021, the State Comptroller's Office examined the cyber protection of medical devices and the security of the information stored therein, focusing on imaging devices (CT, MRI, X-ray, and women's ultrasound). The audit included the examination of the administrative activity of information security in the medical institutions; the protection of the devices throughout their life cycle: their purchase, their use, and the end of their use; an examination of the devices protection on the network of the medical institution, the devices access privileges, the users management, the information security when deciphering the findings of the scans, the protection of the medical information stored on the devices and their maintenance methods. The audit was conducted in the Ministry of Health, in 25 medical institutions: in the HMOs, in all the general-government and municipal-government medical centers, in the general medical centers of the Clalit HMO, and two public medical centers⁶. Completion examinations were done at the National Cyber Directorate, the Privacy Protection Authority at the Ministry of Justice, and "Inbal Insurance Company Ltd.", a government insurance company.

This report was presented to the Prime Minister and the Knesset State Audit Committee on February 15, 2022, and was classified as confidential until the State Audit Committee's subcommittee hearing.

By the authority under Section 17(c) of the State Comptroller Law, 1958 [Consolidated Version], and after considering the government's arguments, consulting with the bodies responsible for the protection of national security information and in coordination with the Chairman of the Knesset, since the subcommittee above did not convene, it was decided to publish this report while imposing confidentiality on sections of it.

These sections shall not be submitted to the Knesset, nor shall they be published. The findings of the audit report and its recommendations are valid as of the date of its presentation.

⁶ In most chapters of the report, the Clalit HMO was counted as one entity, including both community clinics as well as its hospitals, and therefore the number of institutions covered by these chapters is 17.



Key findings

-  **The responsibility for cyber security** – about six years after the adoption of Government Resolutions 2443 and 2444 on national preparedness and the advancing of national regulation for cyber security (in 2015)⁷, and despite the national importance of regulating cyber defense, the powers of the National Cyber Directorate regarding the units for professional guidance in the government ministries (sectorial units) were not regulated, including in the health sector.

-  **The Ministry of Health activity in the cyber security** – the Ministry of Health has not completed the formulation of cyber security guidelines, including basic principles for managing cyber security and tools to cope with a cyber-event, and these have not been published. As part of the licensing inspections that the Ministry conducted in the medical centers in 2019 and 2020, it did not examine the medical devices protection; and does not regularly follow-up on the rectifying of deficiencies that arose in the inspection reports it carried out on information security, and thus does not verify their non-recurrence. The Ministry of Health's SOC (Center for Monitoring, Command and Control of Cyber Events) is partially staffed – during certain hours on weekdays, and certain deficiencies have arisen in its operation. The guidelines of the Medical Devices Department in the Ministry of Health, which handles the registration of medical devices and the granting of import and marketing permits for them to Israel, do not pertain to the need for their compliance with information security standards.

-  **The Government Medical Centers Division's responsibility for information and cyber security** – the Medical Centers Division at the Ministry of Health does not have an optimal situation report of the information security quality in each of the medical centers under its responsibility. Although the government's resolution states that the Division will serve as a head office regarding information systems, and even though the Ministry of Health Director General circular states that the Division's responsibility of operation the medical centers includes information systems aspects, in practice – the Division operates an information systems division, but the sectorial cyber unit in the Ministry of Health deals with information security without the Division's involvement.

-  **Information security policy in the medical institutions – steering committee and officials** – in 19 out of the 25 medical institutions that answered the information security questionnaire, the institution's CEO did not head the steering committee on

7 Government Resolution 2444, "Advancing the National Preparedness for Cyber Security" (February 15th, 2015); and Government Resolution 2443, "Advancing National Regulation and Government Leadership in Cyber Defense" (February 15th, 2015). Resolution update date – July 28th, 2015.



information protection; eight of the 25 medical institutions did not appoint a privacy protection officer.

The following findings were raised from the above mentioned information security questionnaire where the Clalit HMO answered on behalf of all eight of its medical centers and community clinics and was therefore counted as one medical institution. The findings, therefore, concern 17 medical institutions:

Information security policy in the medical institutions and their compliance with the information security procedures – the medical institutions significantly differ in the ratio between their number of employees in the information security or cyber protection and the number of their total employees: Five institutions have an information security staff member for every 1,000 employees or less and three have one staff member for every 3,000 employees; six out of 11 general-government medical centers allocated to cyber protection, on average, in the years 2015–2020 a rate lower than the one set in the government resolution – 8% of the budgetary allocation for information security⁸; at the time of the audit, all government medical centers did not have cyber insurance. Regarding the other medical institutions, some had cyber insurance, and others did not. Five medical institutions did not address in their work plan for the years 2020 and 2021 the improvement of the medical devices protection and the security of the information stored therein; Eight out of 17 of the medical institutions did not carry out an internal audit in the field of information security; 13 out of 17 medical institutions did not conduct a risk survey regarding medical devices; 11 of the 17 medical institutions did not define risk groups for the medical device according to risk classifications.

Disaster recovery and business continuity of medical devices – out of the 17 institutions, two do not have a disaster recovery plan (for example, a cyber attack on the medical institution's information systems infrastructure) or business continuity plan (an organization's ability to continue its normal operations); six do not have an alternative site (DR) available to continue the information systems operation in the event of a disaster; 13 did not include in their disaster recovery or business continuity plans, the handling manner and recovery of the medical devices.

8 The government resolution on the subject did not pertain to public medical centers or the HMOs, therefore the medical institutions examined in this chapter were 11 general-government medical centers.



Information security policy																	
Inst. B	Inst. O	Inst. E	Inst. H	Inst. M	Inst. L	Inst. K	Inst. J	Inst. I	Inst. Q	Inst. G	Inst. F	Inst. N	Inst. D	Inst. C	Inst. P	Inst. A	
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	The institution's CEO heads the steering committee
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Appointment of an Information Security Officer
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Appointment of a Privacy Protection Officer
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Work plan concerning information security
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Work plan addressing the protection of medical devices
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Risk survey concerning information security
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Updating of the risk survey
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Risk survey concerning medical devices
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Defining risk group classifications for medical devices
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Business continuity or disaster recovery plan
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Available alternative site (DR)
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	The disaster recovery plan addresses medical devices
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Procedure for coping with an information security event
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Internal audit concerning information security

● Yes ● No ● Partial ● In process/ Being written

Information security when purchasing a new medical device – out of the 17 institutions examined, five did not refer in their procurement procedures to medical devices information security, and one had no procurement procedure; five did not stipulate the medical devices purchase on the information security officer approval, and sometimes medical institutions that required in their procedures the approval of the information security officer for the purchase purchased the devices without receiving approval; there are also discrepancies between the types of information security tests performed by the medical institutions when purchasing medical devices and before starting to use it and their number, including removing from the device applications that are not required and scanning the device using a tool for identifying malware, malicious software, and unusual activities.



Information security when purchasing a new medical device																	
Inst. B	Inst. O	Inst. E	Inst. H	Inst. M	Inst. L	Inst. K	Inst. J	Inst. I	Inst. Q	Inst. G	Inst. F	Inst. N	Inst. D	Inst. C	Inst. P	Inst. A	
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Addressing information security of medical devices in the procurement procedures
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Stipulating the purchase of medical devices on the approval of the Information Security Officer
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Submitting a form with technical indices to the Information Security Officer

● Yes ● No



Protection of the medical devices while they are being used in the medical institution – of the 17 medical institutions examined, six did not map all their medical devices; not all institutions included in their mappings the devices critical information security characteristics; there are substantial deficiencies in the protection system that the medical institutions implemented in the network for protecting medical devices, including MRI and CT imaging devices, and in some institutions there is a combination of deficiencies that increase the devices' exposure to information security risks; 11 of the 17 institutions did not regulate software procedure updates, which is required to ensure continuous and safe operation of the medical devices, and ten institutions did not document the software version updates they performed on medical devices; 14 institutions did not perform penetration tests including an attack on medical equipment in the years 2018–2021, as stipulated by the procedure of the Ministry of Health.

Protection of the medical devices during use thereof in the medical institution																	
Inst. B	Inst. O	Inst. E	Inst. H	Inst. M	Inst. L	Inst. K	Inst. J	Inst. I	Inst. Q	Inst. G	Inst. F	Inst. N	Inst. D	Inst. C	Inst. P	Inst. A	
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Mapping of the medical devices' array
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Mapping was updated
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Privileges were updated in 2019 and 2020
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Pilot stage/ Process of being executed/ Not relevant
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Procedure for regulating software updates
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Documentation of the software updates
●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Performance of penetration tests to the medical device

● Yes ● No ● Pilot stage/ Process of being executed/ Not relevant



Physical and logical privilege controls for imaging devices – access privileges, user list management, and password policies – are central tools in implementing information security policies in any organization. Seven institutions did not update at least once the list of users with logical privileges (username and password) for the medical equipment system in 2019–2020; two institutions have x-ray devices without physical privileges control (locked room) and logical privileges control. There are no physical and logical privileges controls in two medical institutions on some of the women's ultrasound devices. There is no logical privilege control for any imaging devices examined in four medical institutions.

Protection of the devices and the information therein during their maintenance and when deciphering results – in one institution, external technicians perform maintenance activities without the medical institution's accompaniment, and two medical institutions did not sign a confidentiality agreement with companies that provide maintenance services for the medical devices, or with their technicians; Out of 14 institutions that allow the manufacturers of the devices to connect to the MRI and CT devices remotely, one institution did not regulate the method of remote connection through a procedure, and two did not monitor the remote connection, for example by recording the actions or the connection; Seven out of 12 of the institutions that took medical devices for maintenance outside the medical institution did not have accurate information regarding the number of devices taken out for maintenance in 2020 and their identification.



Establishment of a monitoring, command, and control center (SOC - Security Operating Center) of the health sector – in 2016, even before the issue of the National Cyber Directorate directive, the Ministry of Health decided to establish a sectorial SOC that will provide service to medical institutions – act as a center serving to monitor cyber incidents as well as for the command and control thereof. The SOC began operating at the end of that year.

Compliance with the ISO standard and the existence of a work plan – at the end of the audit (November 2021), all the medical institutions included in this report complied with the international standard ISO 27799 for the information systems security in the health sector. In addition, all 17 medical institutions that answered the information security questionnaire had an annual or multi-year work plan in information security.



Key recommendations

 The State Comptroller reiterates his recommendation from a previous report to advance the powers regulations of the National Cyber Directorate concerning the sectorial units in the government ministries, including the health sector and the disparities between the powers of the regulators.

 It is recommended that the Ministry of Health:

- Complete the formulation of cyber security guidelines and their publication, so it will regularly integrate into the control it conducts in the medical centers and HMOs an examination of both information security matters and medical devices, and follow the rectifying of the deficiencies that arose in them. It is also recommended that the Ministry formulate a multi-year plan for cyber security in medical institutions that include a definition of goals, priorities, indicators, and an assessment of the required budget and the possible funding sources. It is also recommended that the Ministry consider obligation to appoint a privacy protection officer similar to the requirement in many Western countries.
- Examine the interfaces between the Government Medical Centers Division and the sectorial cyber unit and consider which to entrust the responsibility for handling the information security in all government medical centers (general, geriatric, and mental health), also in light of the government's resolution on the matter.
- Take steps so that the SOC of the sectorial unit will operate regularly, respond to the inadequacies that have arisen, and complete the connection of all medical institutions to the SOC. It is further recommended that the Ministry consider incorporating information security standards into the approval process of the Medical Devices Department for the import and marketing of medical devices to Israel. This step will allow for a centralized inspection of the information security measures required for new medical devices. It will improve the security of medical devices used by hospitals, HMOs, and other medical institutions. It is also recommended that the Ministry examine the necessity to define at the national level, which medical devices should be included in the highest risk group and should be given the maximum protective response.

 It is recommended that the medical institutions:

- Ensure that the CEO heads the data protection steering committee as required in the 2015 circular of the Ministry of Health's Director General; follow the government resolution instructions and allocate a dedicated budget for cyber security at the rate determined by it; survey the risks posed to the medical devices they use and define risk groups for them. The internal auditors of medical institutions should prepare an internal audit plan to examine information security issues.



- To ensure the ability of the medical institutions to return, as soon as possible, to regular and reasonable operation in the event of a disaster, it is required that they establish an alternative site (DR)⁹. It is further recommended that they refer in their plans for business continuity and disaster recovery to the handling manner and recovery of the medical devices under the prioritization of the devices according to their degree of importance within the medical institution's activity.
- It is recommended that they ensure the procurement procedure of medical devices information security aspects, including the involvement of officers in the information security, compliance of the medical devices with the threshold conditions established by the medical institution, and the checks that must be carried out with the supplier. The medical institutions that have not yet done so should integrate the information security officer into the chain of approvals for new medical devices, and incorporate this procedure into their current procurement activities; it is also recommended that they integrate comprehensive tests of the medical devices they purchase prior to using them and that they designate a person within the institution to be in charge of performing the tests and documenting their performance.
- It is recommended that they reconcile the deficiencies found therein in the components of the protection of medical devices; complete regulations of the software updates process in the medical institution, which will document the software version updates they have done in the computer systems, including in the medical equipment system. The medical institutions should incorporate in their work plans periodic penetration tests for medical devices both at the infrastructure and at the application level; It is recommended that the tests be performed on the basis of a risk survey allowing to identify the medical devices exposed to the highest security risk; It is further recommended that all medical institutions improve the logical control system in their imaging devices, and if there is a limit to the definition of such control, it is recommended that they implement compensatory controls in this work environment, to minimize the risks associated with the use of these devices.
- It is recommended that they Ensure that external technicians performing maintenance work at the medical institution will arrive only after coordination with the relevant authorities and will be accompanied at all times by an employee of the institution; that they regulate in the procedure the remote connection method of the suppliers and implement control processes for the remote maintenance activity. They should also keep a complete record of all the information necessary before taking the medical devices for maintenance outside the institution, including indicating in

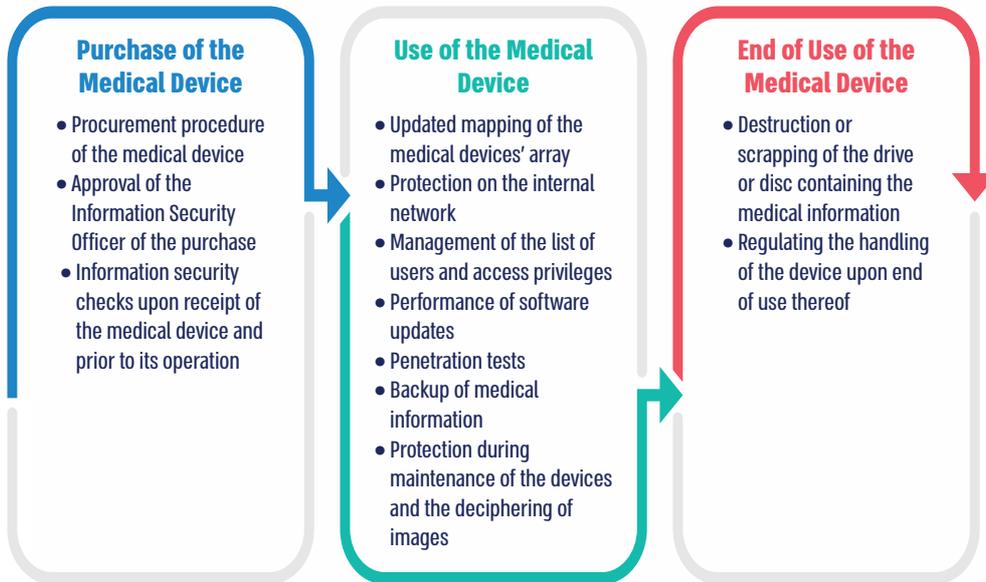
9 DR – Disaster Recovery – an alternative site available for the continued operation of the information systems in the event of a disaster – damage or shutdown of the main site. Such a site will allow, in the event of a disaster, the medical institution's information systems to be put to use quickly, to recover patient information and to continue providing medical services.



the records if the medical information stored in the devices is deleted before they are taken out for maintenance and upon the end of their use.

💡 It is recommended that the Ministry of Health and the National Cyber Directorate consider establishing a minimum standard and requirements regarding the size of the desired information security team in a medical institution according to its characteristics.

The Medical Devices' Process of Protection During Their "Life Cycle"





Summary

The cyber threats to the health system are increasing. They are real and not just a threat; attack attempts by hackers are carried out all the time. Such attacks may disrupt the medical institutions' regular operations, leak patients' medical information, and damage essential medical devices. However, this does not merely pertain to attack attempts by hackers but also to attempts by interested parties who have access to systems and equipment and wish to damage or disrupt their activities. Moreover, even routine and innocuous activity may damage information systems, databases, and medical devices. These threats oblige the Ministry of Health and the management of medical institutions to emphasize the information security risks involved in using medical devices and the proper way to cope with them.



Report of the State Comptroller of Israel | May 2022

Ministry of Foreign Affairs

**Planning and
Management of Human
Resources at the
Ministry of Foreign
Affairs –
Follow-Up Audit**



Planning and Management of Human Resources at the Ministry of Foreign Affairs – Follow-Up Audit

Background

The Ministry of Foreign Affairs (the Ministry) manpower standard was determined in a special collective agreement signed in 1993 between the Israeli Government, the Ministry's management, and Israel's General Federation of Labor¹. The provisions of the agreement were anchored in the Foreign Service Regulations² (the Regulations), whereby the standard for permanent employees at the Ministry is divided according to the positions' rank and the employees' functions and expertise: (a) employees in the foreign political service; (b) employees in the foreign administrative service; (c) employees in the administrative service. The Human Resources and Training Department at the Ministry of Foreign Affairs (the HR Department) manages the permanent employees at the head office and the missions abroad (the Missions) and plans the Ministry's human resources. In January 2022, the number of permanent employees at the Ministry (including cadets and excluding security staff) included 628 head office employees and 335 emissaries in the Missions³. This follow-up Audit examined the rectification of the deficiencies found in the audit of the Office of the State Comptroller in 2015 concerning the "Planning and Management of Human Resources at the Ministry of Foreign Affairs" and the implementation of the recommendations noted in it (the Previous Audit)⁴. In the Previous Audit, the Office of the State Comptroller examined the management of the standard and the number of employees at the Ministry of Foreign Affairs, the multi-year human capital and the ongoing handling of employment. Implementing some recommendations published in the State Comptroller's Audits from previous years was also examined.

- 1 In March 2008, June 2011 and November 2014 additional collective agreements were signed between the Government and Israel's General Federation of Labor and the Ministry's employees, following work disputes, which broke out at the Ministry of Foreign Affairs during the past two decades.
- 2 Internal regulations incorporating the Ministry of Foreign Affairs procedures.
- 3 The standard for 2022 was 1,037 positions, not including security emissaries, local employees, fiduciary employees, interns, National Service (Sherut Leumi) volunteers and students.
- 4 The State Comptroller of Israel, **Annual Report 65C** (2015), "Planning and Management of Human Resources at the Ministry of Foreign Affairs", pp. 767–803.



Key figures

1,037

the number of standard positions in the Ministry of Foreign Affairs employees in 2022 (including cadets and excluding security staff)

963

the number of employees at the Ministry by January 2022 (including cadets and excluding security staff)

335

the number of emissaries in the Missions by January 2022. Their annual salary budget for 2021 was NIS 247 million

1,600

the number of emissaries, "Eitan" (Israeli citizens working in a mission abroad), employees and other civil servants and their families whom the Ministry vaccinated with two vaccinations against covid-19 from March to May 2021

**approx.
12%**

the reduction in the number of standard positions in the Ministry's staff from 2012 to January 2022

7%

the rate of unfilled positions in the Missions

6%

the rate of unfilled positions in the civil service at the head office

23%

of the 287 cadets accepted into the Ministry from 1997 to 2017 left it during this period

Audit actions

- From February to November 2021, the Office of the State Comptroller conducted a follow-up audit examining the implementation of the recommendations noted in the Previous Audit. The audit was conducted at the Ministry of Foreign Affairs head office. Supplementary examinations were conducted at the Department of Salary and Employment Agreements at the Ministry of Finance and the Civil Service Commission (the CSC). The extent the main deficiencies noted in the Previous Audit had been rectified is presented in the follow-up audit.



Key findings



- Mapping out the standardization needs of the Ministry's units at the head office and the Missions** – the Previous Audit noted that 127 emissary positions should be added to the Missions standard to realize the Ministry's political targets. Moreover, the Ministry has no plans to adapt its activity to its reduced manpower, given the considerable shortage of positions in the foreign service standard. The follow-up audit found that the deficiency had been rectified to a small extent. Yet, the number of Missions standard positions had dropped from 424 in 2012 to 366 in January 2022, even though seven Missions had been added during these years, from 101 to 108.
- The Ministry's standard and reregistration** – the Previous Audit noted that the registration of the positions in the Ministry of Foreign Affairs internal system does not fully conform to the one in the Merkava system. Thus, the Civil Service Commission (the CSC) does not have complete and updated data about the management of the standard and the number of employees in the Ministry of Foreign Affairs, consequently adversely affecting its control over the HR Department's activity. The follow-up audit found that the deficiency had been rectified to a small extent – regarding the Ministry of Foreign Affairs head office employees, the data from the internal system generally conforms to the Merkava system so that the CSC is fully exposed to all the employees' data. Nevertheless, during the summer, when there is a turnover of employees between the head office and the Missions involving approximately 25%–30% of the employees, gaps are created, and there is no complete overlap between the Merkava data and the internal system data. There is no conformity mechanism between the internal system and Merkava regarding the Ministry's employees in the Missions. Therefore, the CSC cannot conduct independent examinations and maintain control over the management of the manpower in the Missions, and it must periodically apply to the Ministry of Foreign Affairs to obtain up-to-date information. This makes it difficult for it to fulfill its function independently.
- The number of employees in the foreign Missions** – the Previous Audit noted that the Missions were understaffed by 32 positions, which are more than 8% of those intended for the foreign service abroad (382 positions). The follow-up audit found that the deficiency had not been rectified, notwithstanding the tenders published by the Ministry. In January 2022, 335 compared to a standard of 366 positions were filled in the Missions – 31 positions had not been filled. I.e., the rate of unfilled positions in the Missions remains at 8%, as noted in the Previous Audit. From the Ministry of Foreign Affairs data by November 2021, it was raised that approximately 50% of the Missions were staffed by two emissaries or less.



- Employees' appointment to combined positions in the Missions** – the Previous Audit noted that about one-half of the combined positions (political positions, administrative officer, and consular consul) are filled by employees of the foreign administrative service, even though they have not been trained to fill political positions. The follow-up audit found that the deficiency had been rectified to a small extent. The Ministry of Foreign Affairs standard defined seven positions in the Missions as combined positions, but by November 2021, they have not been filled. It was also found that in 2021, 29 emissaries, constituting 8% of the standard emissaries in the Missions, performed combined positions in 2021 – 23 emissaries on the political ranking also filled an administrative position, and six emissaries on the foreign administrative ranking also filled a political position, even though their positions were not defined in the standard as "combined posts." It was further noted that the combined positions are defined in a generic-general manner and that no threshold conditions appropriate for them had been defined, including the employee's qualifications for simultaneously filling both a political post and an administrative post.
- Recruitment and training of foreign service employees** – the Previous Audit found a shortage of cadets due to the gaps in the scope of the recruitment of cadets, which began in 2000 following the implementation of the government decisions to cut the civil service manpower. From 2010 to 2014, the gap was approximately 90 employees on a multi-year average between the standard and the number of employees in the foreign political service in Israel and abroad. It was further raised that 80 employees retired from the foreign service during these years, and 60 new employees were accepted through the cadets' courses. The follow-up audit found that the deficiency had been rectified to a small extent. The Ministry has no manpower forecast and a detailed multi-year plan regarding the number of cadets required every year in the Missions, the retirement forecast, and the gaps between the number of employees and the standard. Consequently, notwithstanding that certification courses and cadets courses are being held, the Ministry is under-staffed at total rate of 7% of the approved standard in the Missions and the head office.
- Retention of new employees (cadets)** – the Previous Audit noted that graduates of the cadet's course leave the Ministry after five to ten years from the date they started working there at a higher rate than in the past. The follow-up audit found that the deficiency had been rectified to a small extent, almost one-quarter (23%) of the 287 cadets who started working at the Ministry during 1997–2017 had left it during this period, and 60% of cadets left within less than five years during the period above. Moreover, 18% of them had completed ten years of service and more.
- The transfer of employees from the administrative service to the Foreign Service** – the Previous Audit noted that: (a) in 2008–2011, a maximum quota was determined for the transition of only 210 employees from the administrative to the foreign service. However, during these years, the Ministry exceeded this quota by approximately 24% and transferred 261 employees. The CSC did not control the transfer



of employees' scope and did not prevent the quota exceedance. (b) 109 out of the 261 employees, transferred to the foreign service during 2008–2011 (approximately 42% of the employees, transferred to the foreign service), had not undergone a designated certification course, nor had they served in the foreign service in the Missions abroad before starting work, and so they had not complied with the qualification conditions for being appointed to political, consuls and administration officers positions abroad. The follow-up audit found that the deficiency had been rectified to a small extent; by 2021, approximately 100 out of roughly 400 employees, transferred from the administrative to the foreign administrative service from 2008 to 2019 under the transition agreement, had completed a certification course. It was further found that by 2021, approximately 128 employees, transferred from the administrative service to the foreign administrative service, do not comply with the threshold conditions for serving in the Missions or do not wish to leave for service in the Missions.

 **Term limitation in senior positions at the head office** – the Previous Audit noted that the Ministry had not limited the maximum term of employees positions in the head office in Israel: 68 foreign service employees continue to fill the same positions at the head office for seven years and more, 23 employees – for six years, and 27 employees – for more than five years. The follow-up audit found that the deficiency had been rectified to a small extent. It was raised the Ministry had applied the government decision of "Completion of the Rotation Arrangements and Terms of Office in the Senior Staff of the Civil Service"⁵ to seven out of 22 senior posts (31%). Likewise, the provisions of the collective agreement from 2014 stipulating, as a rule, that the period of demurral in the head office between the emissary terms shall not be longer than four years are sometimes not implemented.

 **Filling positions in the foreign service head office units** – the Previous Audit noted that in November 2014, the political service in the Ministry's head office in Israel was under-staffed by 41 positions, and on the other hand, 21 employees filled positions at the head office beyond the standard. The follow-up audit found that the deficiency had not been rectified. In January 2022, the manpower standard positions in the head office political service were 251, while the number of employees in the political service was 237, i.e., there is an under-staffing of 14 positions. It was further raised that in 2020, the Ministry placed 15 employees in transitional positions at the head office, and in 2021, it placed 30 employees in such positions. The placement period ranges from a few weeks to about two years continuously. Likewise, it was found that during these years, the Ministry placed 69 more employees at the head office by "characterization as a personal position." The placement period ranges from a few months to six years, and on average, about a year and a half.

 **The ministerial reform (2008–2012)** – the Previous Audit noted that during 2008–2010 the Ministry of Foreign Affairs formulated an inclusive organizational reform, adapting its structure to the changes occurring in the international arena and its tasks. In 2011, the

5 Decision No. 2464 dated 8.3.15.



Ministry's management adopted the reform outline and, in December 2012, presented the CSC with the main changes it wished to apply. The follow-up audit found that the deficiency had been rectified to a small extent. The Ministry had formulated threshold conditions for promoting employees and for transition between management positions. Still, it had not launched a transverse process for changing the management method of the Ministry's human capital. It had not implemented the rest of the recommendations – neither of the reform nor of the Committee for Adapting the Ministry to the Future Challenges (the 2025 Project) submitted in 2018, nor of the 2021 think tank.



The Foreign Service employees' qualifications to serve in the Missions – the Previous Audit noted that several employees in the Foreign Service had not complied with even one of the qualification conditions for service in the Missions. The follow-up audit found that the deficiency had been fully rectified.

Regulation of the foreign Missions' term of service – the Previous Audit noted that the Ministry allows emissaries to return to Israel before the expiration of the minimum time of their service in the foreign Missions as stipulated in the appointment, even though this hinders the Ministry to plan and manage its human resources. It was further found that from 2008 to 2014, 53 emissaries who had served two years or less in their position had returned to Israel. The follow-up audit found that the deficiency had been fully rectified. It was found that from 2018 to 2021, 13 out of the 490 emissaries who had been placed in the Missions had returned to Israel before the expiration of their mission term after the Ministry of Foreign Affairs management had individually examined every request to bring forward their return to Israel.

Vaccination of the emissaries and their families abroad during the covid-19 period – the Office of the State Comptroller commends the complex activity led by the HR Department at the Ministry of Foreign Affairs to vaccinate the emissaries, the Eitan employees, and their families.

Key recommendations



Mapping out the standardization needs of the Ministry's head office units and at the Missions – it is appropriate that the Ministry of Foreign Affairs examine, in conjunction with the Ministry of Finance and the CSC, the manpower standard required to realize the Ministry's designation and functions. This examination should include the deployment of the Missions and the attendance necessity of all the emissaries in them; the global changes in the diplomatic arena, the political arena, the media arena and the public arena; and the covid-19 period conclusions, including the possibility of remote



work. The manpower standard in the head office and the Missions should be determined according to the results of the examination.



Retention of new employees (cadets) – it is appropriate that the Ministry of Foreign Affairs consider, in conjunction with the Ministry of Finance, further action, alongside improving salary and service conditions, which will lessen the phenomenon of voluntary retirement by cadets, mainly when they are just starting out, while adapting to the fluctuating labor market. The relevant action may include building a service channel allowing promotion and occupational and personal development; the employees training in shorter cycles throughout their term of service and reinforcing their feeling of belonging; structuring the management and specialization tracks; and reducing the impact on the emissaries' partners.



Limitation on the office term of head office senior positions – the CSC, in conjunction with the Ministry of Foreign Affairs, must examine alternatives to implementing the government decision regarding budgeting the 22 senior positions in the Ministry's head office. Likewise, the Ministry of Foreign Affairs must strictly observe the implementation of the 2014 Collective Agreement regarding all the Foreign Service administrative and political employees. Furthermore, given the structural problem in placing senior staff returning from the Missions service in suitable positions at the head office, it is appropriate that the Ministry consider, according to the inclusive policy determined by the CSC, to define a term limitation mechanism for the intermediate staff, i.e., also regarding positions which are not part of the 22 senior management positions. This is to implement the turnover principle by which the Ministry operates appropriately. It is further appropriate that the Ministry considers suitable instances for implementation of the 2014 Collective Agreement, allowing an immediate transition to service in another Mission, without serving in the head office in-between the two missions, to reduce the number of employees returning every year to serve in the head office without a suitable position for them.



The ministerial reform (2008–2012) – it is appropriate that the Ministry of Foreign Affairs re-examine the recommendations of the Committee for Adapting the Ministry of Foreign Affairs to the Future Challenges (the 2025 Project) and the January 2021 think tank's conclusions and implement the appropriate recommendations and conclusions, while discussing with all the relevant parties – the CSC, the Ministry of Finance and the workers' representatives – and participate them in the process.



Vaccination of the emissaries and their families – given the extensive vaccination of the population against the covid-19 pandemic in many countries worldwide, and the possibility that additional vaccinations may be required shortly, it is appropriate that the Ministry of Foreign Affairs consider, in conjunction with the relevant government parties, to reach an agreement with the suitable countries or with the suppliers of the vaccinations with whom the State of Israel has an agreement, whereby in the future the employees and their families will be given additional vaccinations in their place of service, and for the representatives of such countries – in Israel. This is subject to compliance with the requisite standards determined by the Ministry of Health.



Extent of rectification of the main deficiencies found in the Previous Audit

Audit chapter	Previous audit deficiency	The extent of the deficiencies rectification in the follow-up audit			
		Not rectified	Rectified to a small extent	Rectified to a large extent	Fully rectified
The foreign service employees qualifications to serve in the Missions	96 employees in the administrative foreign service, constituting approximately 26% of the employees in this service, and 13 employees in the political foreign service do not comply with even one of the conditions to serve in the Missions.				
Regulation of the term of service in the Missions abroad	The Ministry allows emissaries to return to Israel before the expiration of the minimum time of their service in the Missions abroad as determined in the appointment, even though this hinders the Ministry to plan and manage its human resources.				
Mapping out the standardization needs of the Ministry's head office units and at the Missions	Notwithstanding the need to add 127 standard positions of emissaries to the Missions, this is not expressed in the standardization of the emissaries' positions. Likewise, the Ministry did not plan to adapt its activity to the reduced manpower.				
The Ministry's standard and is registration	The position registration in the internal system does not fully conform to the registration in the Merkava system. It was also found that sometimes the ranking in the standard did not conform to the ranking of appointment given to the employee.				
Appointment of employees to combined positions in the Missions	Administrative foreign service employees fill about one-half of the combined positions, even though they have not been trained to fill political positions.				

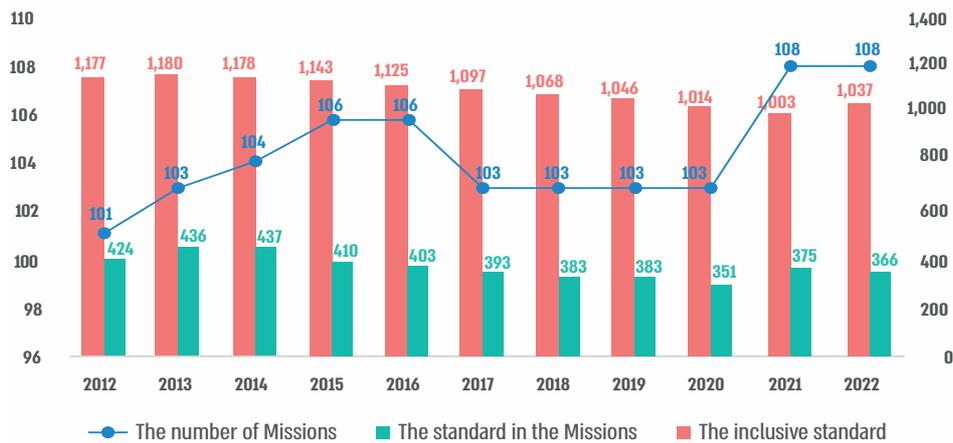


Audit chapter	Previous audit deficiency	The extent of the deficiencies rectification in the follow-up audit			
		Not rectified	Rectified to a small extent	Rectified to a large extent	Fully rectified
Recruitment and training of employees in the foreign service	From 2010 to 2014, the gap between the standard and the number of employees in the foreign political service in Israel and abroad was approximately 90 employees on a multi-year average. It was raised that from 2010 to 2014, the Ministry did not accept new cadets according to the number of retired employees.				
Retention of new employees (cadets)	Graduates of the cadets' course leave the Ministry five to ten years from the date they entered it at a higher rate than in the past, which causes a shortage in the number of employees in the foreign political service.				
The transition of employees from the administrative to the foreign service	<ol style="list-style-type: none"> The transition procedure prescribed a maximum transition quota of only 210 employees from 2008 to 2011 from the administrative to the foreign service. However, during these years, the Ministry exceeded this quota by approximately 24% and transferred 261 employees. The CSC did not oversee the scope of the employees' transfer as aforesaid and did not prevent the quota exceedance. 109 out of the 261 employees (approximately 42%) transferred to the foreign service from 2008 to 2011 do not comply with the qualifying conditions for appointment to political, consular, and administrative officers positions abroad. 				
Term limitation in senior positions at the head office	The Ministry did not determine a maximum term for head office positions in Israel. 118 employees have filled such positions in the head office over five years.				



Audit chapter	Previous audit deficiency	The extent of the deficiencies rectification in the follow-up audit			
		Not rectified	Rectified to a small extent	Rectified to a large extent	Fully rectified
The ministerial reform (2008–2012)	The Ministry formulated an inclusive organizational reform adapted to the changes in the international arena and its tasks, but most of the recommendations were not implemented.	→			
The number of employees in the Missions abroad	The Missions were understaffed by 32 out of the 382 positions designed for foreign service employees, constituting more than 8% of these positions.	→			
Filling positions in the foreign service head office units	The number of employees in the political service in the Ministry's head office in Israel is understaffed by 41 positions, and there are over 21 employees outside the standard in the head office.	→			

Manpower standard in the Ministry of Foreign Affairs*, the standard in the Missions and their number, 2012–2022



According to data from the Ministry of Foreign Affairs processed by the Office of the State Comptroller.

* Not including local employees, fiduciary employees, interns, National Service (Sherut Leumi) volunteers, and students.



Summary

The Ministry of Foreign Affairs has discussed for over a decade Human capital fundamental issues in central forums, including determining manpower standards adapted to the challenges of the hour, recruiting and retaining high-quality human capital, and regulating the principle of turnover (the replacing of human capital between emissaries in the Missions and employees in the Ministry's head office in Israel). Nevertheless, the discussions above did not lead to substantive change in human resources management. The follow-up audit found two deficiencies that have been fully rectified – strict observance of the qualifications of the foreign service employees in the Missions and the regulation of the service terms in the Missions abroad. Some deficiencies that have been rectified to a small extent – the lack of manpower standard updated to the positions cuts compared to the increase in the number of the Missions; mapping out the ministerial standard and its registration; recruitment and training of employees to the foreign service; appointing employees in combined positions (political and administrative) in the Missions with no proper training; the lack of a multi-year plan for the recruitment of employees based, among other things, on the retirement forecast; cadets leaving during the first five years of their service; and the term limitation of senior positions at the head office. Likewise, the follow-up audit found that two deficiencies had not yet been rectified – under-staffing in the Missions due to staffing difficulties, causing senior positions to be filled with young and inexperienced employees, and the small number of vacant senior positions at the head office, compared with the number of employees returning to Israel from their mission.



Report of the State Comptroller of Israel | May 2022

Ministry of Foreign Affairs

Employment of Local Workers in Israeli Diplomatic Missions Abroad – Follow-Up Audit



Employment of Local Workers in Israeli Diplomatic Missions Abroad – Follow-Up Audit

Background

The Ministry of Foreign Affairs (MFA) employs workers at the head office and diplomatic missions through a variety forms of employment: various ranks of permanent and temporary workers at the head office, permanent Israeli workers who are sent to the missions to fill core positions and senior administrative positions (Emissaries), as well as Israeli citizens who are employed in the missions as support staff. These support staff, who work as instructed by the Emissary in charge of them, are Israeli citizens living in the country of service with the status of temporary residents, the spouses of the Emissaries, or Israeli citizens living in Israel who are sent to fill posts in the missions and employed for a fixed period under a collective agreement to which Israeli law applies (Eitan – Israeli citizen working in a mission abroad), or local foreign citizens workers who are employed in the missions under a contract of employment to which local law applies (FLW – local foreign worker). In this report, Eitan and FLW workers, as distinguished from the Emissaries, shall be defined as local workers (Local Workers).

Key figures

108

the number of Israeli missions worldwide in 2021

86%

the rate of Local Workers from the total of MFA employees in the missions in 2021

2,181

local Workers in the missions in January 2022

NIS 242 million

the Local Workers salary budget in 2021 – 49% of the MFA's employees' salary budget in the missions

48%

the rate of Eitan workers who have not undergone appropriate training for their positions from 2018 to March 2021

44%

the rate of missions not approved requests to update the FLW salary since 2020

2/3

the rate of missions where the FLW salary committee did not examine their salary from 2019 to 2020

NIS 11 million

the Human Resources and Training Department operational budget in 2020



Audit actions

-  From February to October 2021, the Office of the State Comptroller conducted a follow-up audit to its Report from 2017 concerning the employment of local workers in Israeli diplomatic missions abroad¹ (the previous audit). The follow-up audit examined the implementation of the recommendations noted in the previous audit. The audit was conducted at the head office of the Ministry of Foreign Affairs (the Ministry), and supplementary examinations were conducted at the Commissioner of Salary and Employment Agreements Department at the Ministry of Finance and the Civil Service Commission (the CSC).

Key findings



-  **Local Workers manpower standard in the missions** – the previous audit found that the Human Capital and Training Department (the HR Department) had not examined the relevance of the manpower standard, and it had not formulated clear criteria for the distribution of the local positions among the missions. The follow-up audit found that the deficiency had not been rectified, and the Ministry of Foreign Affairs had not performed an individual analysis of the Local Workers manpower standard according to each mission's needs. It was also found that the Ministry does not have a standard according to the number of local positions, the distribution among the Local Workers and the Emissaries in each mission, based on the mission size, its activity scope, and its unique characteristics. Furthermore, no periodic examination is being conducted regarding the number of workers following changes in the destination countries and the Foreign Service characteristics.

-  **Evaluation of Local Workers** – the previous audit found that the Local Workers' evaluation in the missions is not regulated. The follow-up audit found that the deficiency had been rectified to a small extent; in 2021, the Ministry began a pilot (trial) program to evaluate Eitan workers in 32 missions; but it does not conduct evaluation proceedings for FLW.

-  **The employment of Local Workers in representative core positions** – the previous audit found that the missions had employed Eitan workers in representative

1 The State Comptroller of Israel, **Annual Report 67B** (2017), "Employment of Local Workers in Israeli Diplomatic Missions Abroad", pp. 953–1056.



core positions in political consultation, public diplomacy, and financial diplomacy, even though they had not been appropriately trained. The follow-up audit found that the deficiency had not been rectified, and the Ministry continues to place hundreds of Local Workers in core positions destined for Emissaries.

-  **Information regarding the training of Eitan workers and the entity incorporating the training** – the previous audit found that the HR Department and the missions abroad do not update the Training Department regarding Eitan workers recruited to the missions abroad and the positions they fulfill. The follow-up audit found that the deficiency had not been rectified.
-  **The training scope of Eitan workers** – the previous audit found that a professional training array had been established for Eitan workers different from that of the Emissaries, adapted to their work at the missions. Apart from the consular field, the Ministry has not prepared any guidance and training array using educational software or other means. The follow-up audit found that the deficiency had been rectified to a small extent. From 2018 to March 2021, 605 Eitan workers were recruited and participated in training courses in various fields at the head office. However, nearly one-half of them had not undergone training at the head office before being employed at the missions.
-  **The length of service of Eitan workers** – the previous audit noted that missions find it challenging to recruit long-term Eitan workers, adversely affecting the Israeli mission's foreign activity. The follow-up audit found that the deficiency had not been rectified and that from 2018 to September 2021, about one-fifth of Eitan workers had served for over three years, and over one-half of them had left in less than two years from the date they started their employment.
-  **Different groups of ranks for FLW** – the previous audit found that the missions are interested in recruiting professional and experienced FLW and extend the employment of those who excel in their professional functioning. Still, there is no rank structure providing a solution for their needs. The follow-up audit found that the deficiency had been rectified to a small extent. Furthermore, the 2017 examination team recommended adopting a new salary scale, and in August 2021, the Ministry of Foreign Affairs decided to launch a recruitment process for 15 positions according to the conditions of this scale; as of the audit completion date, eight out of the 15 allocated positions had been filled.
-  **Supervision and control over FLW salary** – the previous audit found that the foreign committee responsible for the regulation of FLW employment had not tracked their employment nor supervised and controlled over their salary and employment conditions at the missions. The follow-up audit found that the deficiency had not been rectified.



The computerized system for information management regarding the Local Workers – the previous audit found that it was impossible to produce segmented and precise reports about the standard and scope of the Local Workers in all the missions from the HR Department's computerized system. The follow-up audit found that the deficiency had been rectified to a large extent and that the Ministry's HR Department and ICT Department had developed a new computerized system adapted to the Ministry's unique personnel management needs, which allows the employment array to be managed. However, Merkava (an ERP system), also used by Government ministries for personnel management, had been installed in eight out of the 108 missions (7.4%), and these missions only used the system for financial management, not personnel management, since no sub-system (the module) had been installed in them.

Employment agreement for Eitan workers – the previous audit noted several deficiencies concerning Eitan workers' salary; the main ones are: A. The "Instructions regarding salary and service conditions abroad" had not been updated since May 2009 and did not include all the decisions of the foreign committee. B. The foreign increment is a central element in their salary. Yet, it has not been determined how it should be calculated and how it is affected by local or global economic phenomena. C. The salary conditions had not been adapted to the changes in the cost of living in the service countries, and this frequently led to discriminatory employment. D. The contracts did not include the changes and the updates in the conditions of their employment as approved by the foreign committee. E. There is no reference to education in the existing salary mechanism. The follow-up audit found that the deficiency had been rectified to a large extent. Eitan workers' conditions of employment were regulated under the CSC's guidance and in the employment agreement, including regarding the method of employment, rank determination and promotion in rank, service conditions (such as service difficulty increment and unique service difficulty), cost of living adjustment, contribution to accommodation and education expenses. Nevertheless, these conditions were not integrated into the Ministry's statute, and consequently, the Ministry of Foreign Affairs founding document does not thoroughly reflect the actual state of affairs.

Recruitment and selection processes for Eitan workers – the previous audit found that locating potential candidates for filling Eitan workers' positions in the missions – other than security positions – was carried out by random and discriminatory methods, including word of mouth publication among the Ministry of Foreign Affairs' employees and their circle of friends, or based on prior personal acquaintance. The follow-up audit found that the deficiency had been rectified to a large extent. The Ministry has formulated an inbuilt process for recruiting Eitan workers, including: publication of a public tender, preliminary filtering of the resumes, convening an acceptance committee at the missions or the head office, and selecting one preferred candidate and selection tests. Nevertheless, it was found that the selection tests held for recruiting Eitan workers held by an external company were performed after the



acceptance committee had selected the preferred candidate and that the external company approved 100% of the candidates who were selected for the position.

Locating and recruiting FLW – the previous audit found that the Ministry of Foreign Affairs does not have any procedure for FLW recruitment, nor have any special instructions been prescribed in this matter in the foreign service regulations. Every mission recruits FLW by its considerations, which is liable to adversely affect the selection of the most suitable candidates for the position. The follow-up audit found that the deficiency had been rectified to a large extent. The regulations were updated, and rules concerning the acceptance of FLW were anchored in them. Nevertheless, the regulations do not prescribe rules regarding the method of advertising the vacant positions, including publication of the threshold conditions and the dates for submitting candidacy.

Definition of the FLW positions in the employment contract – the previous audit noted that there is no job description in the employment contracts, even though there is a definition of the position for FLW in the regulations, the contracts do not refer to it, and the worker is not given clear written information concerning the mission's expectations from him. The follow-up audit found that the deficiency had been fully rectified. The Ministry circulated to the missions principles for the FLW employment contract. Accordingly, sections regulating the position that the FLW would perform in the mission, the conditions of employment, and social security rights by the local law were added to the new agreements.

Ongoing updating of the FLW salary – the previous audit found that the FLW salary committee does not update the conditions of the FLW salary at the frequency required by the salary fluctuations in the local labor market and the increase in the cost of living in the service countries. The follow-up audit found that the deficiency had been rectified to a large extent, in 2018 approximately 21% of the requests for a salary update were not approved, in 2019 about 45% requests as aforesaid were not approved, and in 2020 44% of the requests were not approved. It should be noted that a partial update was approved regarding some of the approved requests. Nevertheless, all the requests were approved in 2021.

Key recommendations

 **Standardization of the Local Workers' posts in the missions** – the management of thousands of employees dispersed in 108 missions all over the world entails the establishment of local and regional manpower Standardization considering the location of each mission and its characteristics, as well as the global changes influencing the Foreign Service. It is appropriate that the Ministry carry out strategic work for an analysis of the missions' characteristics and needs to determine the necessary ratio between the positions designed for Emissaries and the positions designed for the Local Workers. Accordingly, it should determine criteria and standard, and implement them in the Israeli



missions around the world. It is recommended that the strategic work be updated from time to time to ensure that the standard allocated to the various missions provides a suitable solution for their needs and tasks. It is appropriate that the Ministry include in the strategic work the experience accumulated in the government sector during the covid-19 period, when a remote working pattern had also been adopted by several ministries, and the effect of this pattern on the determination of the ministerial standard in the head office and the missions.



Computerized system for managing the Local Workers' information – it is recommended that the Ministry of Foreign Affairs complete, in conjunction with the CSC, the adjustment of the Merkava system to the personnel management in all the missions, in consultation with the relevant bodies, including security bodies and the CSC, and establish a computerized personal management system for all the missions, also connected to the CSC.



Evaluation of Local Workers – it is recommended that the Ministry complete the evaluation of all Eitan workers; likewise, that it consider expanding the trial, with the necessary changes, to FLW as well, and supervise and control the progress of the proceeding.



Employment agreement for Eitan workers – it is appropriate that the Ministry of Foreign Affairs update the employment conditions regulations of Eitan workers by the signed agreements and under the guidance of the CSC. It is further appropriate to regulate the placement of Eitan workers in core positions as part of the examination of the standard in the missions, train them according to the requirements of every single position, and anchor this in the regulations.



Information regarding the training of Eitan workers and the body incorporating the training – it is appropriate that the Ministry of Foreign Affairs appoint a party inclusively responsible over the proper training of all Eitan workers including the date and the content required, and that it pool all the relevant information and map out the gaps. It is further appropriate to manage the training array for Eitan workers by a designated computerized system, allowing the aforesaid party to track and control the training and the dates thereof.



Training Scope for Eitan workers – it is recommended to continue to develop the online educational software array in additional relevant subjects necessary for the training of Eitan workers and provide a proper training solution during the covid-19 period.



Eitan workers' term of service – it is appropriate that the Ministry of Foreign Affairs examine alternatives pertaining to the brief periods of employment of Eitan workers in the foreign missions.



- 💡 **Recruitment and selection processes for Eitan workers** – it is appropriate that the Ministry of Foreign Affairs adapt the acceptance process for Eitan workers to the provisions of the CSC directives folder, and conduct the selection tests at the candidates filtering stage, before selecting the preferred candidate.
- 💡 **Ongoing updating of the FLW salary** – it is appropriate that the Ministry, in conjunction with the Budgets Department at the Ministry of Finance and the foreign committee, complete an examination of the FLW salary in all the missions, and the effects the present salary has on the FLW positions fillings worldwide and the ability of the missions to fulfill their function optimally. It is recommended that such an examination be a part of an examination of the standard of all the personnel in the missions. Until the completion of the inclusive examination, the FLW salary committee should conduct an ongoing examination of the FLW salary every year in all the missions, as entailed by the regulations.

The Extent the main Deficiencies in the Previous audit were Rectified

Audit chapter	Previous Audit deficiency	The extent of deficiencies rectification in the follow-up audit			
		Not rectified	Rectified to a small extent	Rectified to a large extent	Fully rectified
The definition of the FLW positions in the employment contract	There is no job description in the FLW employment contracts. Even though there is a definition of the position for FLW in the regulations, the contracts do not refer to it, and the worker is not given clear written information concerning the mission's expectations from him.				
Ongoing updating of the FLW salary	The FLW salary committee does not update the conditions of the FLW salary at the frequency required according to the salary fluctuations in the local labor market and the increase in the cost of living in the service countries.				
The computerized system for managing information about the Local Workers	It was impossible to produce reports about workers' standards and scope from the HR Department's computerized system.				



Audit chapter	Previous Audit deficiency	The extent of deficiencies rectification in the follow-up audit			
		Not rectified	Rectified to a small extent	Rectified to a large extent	Fully rectified
The employment agreement for Eitan workers	Several deficiencies were noted in the previous Audit, the main ones are: (A) Instructions regarding "salary and service conditions abroad" had not been updated since May 2009. (B) The foreign increment is a central element in the Israeli (Eitan) workers' salary, yet it had not been determined how it should be calculated. (C) The salary conditions had not been adapted to the changes in the cost of living in the service countries and did not conform to the financial changes worldwide. (D) The contracts did not include the changes and the updates in the conditions of their employment as approved by the foreign committee and there is no reference to education in the salary mechanism.				
Locating and recruiting FLW	The Ministry of Foreign Affairs does not have a procedure for FLW recruitment nor special instructions in the regulations, and each mission recruits FLW according to its considerations.				
Recruitment and selection processes for Eitan workers	Locating potential candidates for filling Eitan workers' positions in the missions – other than security positions – was carried out by random and discriminatory methods.				
Evaluation of Eitan workers	The evaluation of Eitan workers is not regulated. The directors of the missions do not hold an initiated process of annual evaluations.				
Scope of training for Eitan workers	A professional training array has been established for Eitan workers which is different from that of the Emissaries and which has been adapted to their employment in the missions, including training before and after departure abroad. The Ministry has not prepared a guidance and training array				



Audit chapter	Previous Audit deficiency	The extent of deficiencies rectification in the follow-up audit			
		Not rectified	Rectified to a small extent	Rectified to a large extent	Fully rectified
	using educational software or other resources.				
Different groups of ranks for FLW	The missions are interested in recruiting professional and experienced FLW and extend the term of employment of excellent efficient FLW workers, but they do not have the tools to do this.				
Standardization for Local Workers' positions in the missions	The HR Department did not examine the relevance of the HR standardization, did not formulate clear criteria for the distribution of the Local Workers' positions among the missions and did not perform an individual analysis of the Local Workers standard according to the needs in each mission.				
Employment of Eitan workers in representative core positions	Missions employed Local Workers in representative core positions in political consultation, public diplomacy and financial diplomacy even though they had not been appropriately trained.				
Information regarding the training of Eitan workers and the body incorporating the training	The HR Department and the missions abroad do not update the Training Department regarding Eitan workers recruited to the missions abroad, including the positions they fulfill there, and the Training Department only has information regarding Eitan workers recruited in Israel.				
Eitan workers' term of service	Some missions find it challenging to recruit long-term Eitan workers, and this adversely affects their activity.				
Supervision and control over FLW salary	The foreign committee did not track the method of employing the FLW, had not supervised, and controlled their salary and employment conditions at the missions.				



Summary

The follow-up audit findings indicate that several deficiencies have been rectified since the previous audit, including the development of a new computerized system, adapted to the Ministry's unique personnel management needs. Concerning Eitan workers – implementation of comprehensive reform in the method of their employment, and awarding them the status of civil servants, and launching a trial (pilot) for the establishment of a proceeding for selecting, recruiting and evaluating them. Concerning the FLW – regulation of the position acceptance method, contractual anchoring the position that each FLW will perform in the mission, conditions of employment, and rights.

Nevertheless, the follow-up audit findings indicate that some deficiencies have not yet been rectified: comprehensive strategic work to map out the workers' required scope in the missions, while distinguishing between the different missions and their unique characteristics, their location and the necessary ratio between the different types of workers in them; and examining all the personnel needs in the missions and the appropriate salary for the various positions. Following the strategic work, criteria, standards and salaries should be determined and implemented in the missions. Likewise, it is recommended to promote the rectification of other deficiencies in the previous audit that have not been rectified, including appointing an incorporating body for the training management and the annual evaluation for all Eitan workers. Concerning the FLW – it is recommended to maintain full regulation of their selection processes, involve the foreign committee in determining their employment conditions and control over them, adopt updated salary scales for them and update their salary as required to maintain a high-quality staff and prevent them leaving prematurely.



Report of the State Comptroller of Israel | May 2022

Ministry of Agriculture and Rural
Development

Egg Production in Israel – Implementation of the Laying Hen Coops Reform



Egg Production in Israel – Implementation of the Laying Hen Coops Reform

Background

Eggs for consumption are a source of animal protein in the human diet. The egg-laying industry in Israel is planned, and it is only possible to produce and market eggs according to the quota allotted to the poultry farmer. The laying hens are raised in various systems of coops: old battery cages, larger battery cages that can be equipped or have already been equipped (enriched), and cage-free (new laying hen coops). The majority of laying hen coops in Israel are old; they were built in the 1950s and 1960s, where the space for egg laying hens is approximately 400 square centimeters. In 2007 and 2010, the Government decided to assist poultry farmers by giving grants to invest in the consumption eggs industry, to remove the laying hen coops from the communities' centers. In August 2021, the Government decided to cancel the quotas regime in the egg-laying industry, but this decision has not yet been implemented. Towards the end of 2021, there was an outbreak of avian influenza in Israel, which is also dangerous for humans. Following this, the Ministry of Agriculture exterminated more than one million laying hen in all types of coops and even treated hundreds of people to prevent an outbreak of the disease in humans.

Key figures



2.2 billion eggs

the average number of eggs produced in Israel every year



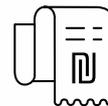
100 million eggs

the average number of eggs imported to Israel every year



9 million

the number of laying hens in Israel



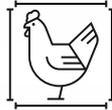
41%

the discrepancy between the egg price to the consumer (high) in Israel and the average price in the OECD countries



92%

of the laying hen coops in Israel do not have a business license



400 square centimeters

the commonest living space for a laying hen in Israel compared with the European Standard, which requires 750 square centimeters per laying hen



1,653 laying hen coops

the number of laying hen coops in Israel



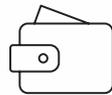
7%

of the laying hen coops in Israel are aviaries, organic or free, compared to 52% in the European Union countries. 93% of the coops in Israel are battery cages



71%

of the laying hen coops are in the north of the country



NIS 250-500 million

the surplus cost is borne by the Israeli egg consumer every year due to their high price in Israel



150,000 tons of garbage

of the laying hen coops in the north (83%) are not properly disposed of in the authorized treatment facilities every year



approx. 36%

of the laying hens in Israel were infected with salmonella in 2020



77 areas for laying hen coops

are required in the north of the country to relieve the existing density in the coops, and so far, 24 of them have been budgeted



200-250 eggs

annual average per laying hen



250 eggs

the annual average consumption per person



89% of the subsidies for farmers in Israel

are indirect subsidies compared to the 35% thereof in the OECD countries

Audit actions

From May to October 2021, the Office of the State Comptroller examined the implementation of the Government decisions to advance reform in the egg-laying industry and the removal of laying hen coops from the communities' centers. The audit was conducted in the Ministry of Agriculture and Rural Development (the Ministry of Agriculture) and at the Egg and Poultry Board. Supplementary examinations were conducted at the Ministry of Finance, the Kanat Company, and the Ministry of Environmental Protection.

Key findings

Conditions for the laying hens rearing – 94% of the laying hens in Israel are reared in battery cages. This rate is considerably higher than the rate of laying hens reared in battery cages in European Union countries (48%, all in enriched battery cages) and the United States (70%). 76% of all the laying hens are reared in old laying hen coops, where the space for one hen is only approximately 400 square centimeters, and 18% in new battery cages, compared to enriched battery cages in Europe, where the standard is 750 square centimeters per hen. This is inconsistent with the need to safeguard public



health and prevent hazards, improve financial efficiency and laying hen welfare, and develop northern communities.

-  **Egg prices** – even though eggs are a staple and price-controlled product in Israel, mainly to protect the consumer from unreasonable price increases. The price of eggs in Israel for the consumer is considerably higher – 41%, than their average price in the OECD countries and 72% higher than their price in the United States.
-  **The types of subsidies for farmers in Israel** – despite OECD recommendations, agreements between the Ministries of Agriculture and Finance from 2016, and the 2021 Government decision – the rate of indirect subsidies in agriculture, has remained at 89% of all the subsidies for farmers, as it was over the years, compared to the one in the OECD countries which is 35%.
-  **Business license for laying hen coops** – in August 2021, approximately 91% of the laying hen coops in Israel did not have a business license. This raises concern that most of the consumption eggs are produced in laying hen coops that do not comply with the basic sanitary and biological safety requirements that may adversely affect the prevention of poultry diseases. Thus safeguarding public health and laying hens' welfare, and preventing hazards. Likewise, the relevant statutory provisions have not yet been updated about seven years after the steering committee recommendations to match business-licensing regulations to the updated veterinary requirements.
-  **The Government decisions for implementing the egg-laying industry reform** – due to disagreements with the poultry farmers' organizations, the Government decisions from 2007, 2010, and 2021 to upgrade the laying hen coops have not been implemented. It was raised that this reform in the northern communities will be completed during 2027 at the earliest.
-  **Advancement of the reform in laying hen coops other than in the north** – apart from the plan advanced by the Mate Yehuda Regional Council, neither the Ministry of Agriculture nor any other party has advanced a plan for building laying hen coop compounds in communities other than in the north, to which the old laying hen coops may be moved. Most of these communities are in the center of the country, and the shortage of suitable spaces in the center to move the laying hen coops is even more prominent there. Consequently, in the next few years, about one-third of the laying hen coops in Israel will remain without a solution and an implementable outline. Accordingly, they cannot obtain permits to house and rear laying hens.
-  **Disposal and treatment of laying hen coop waste in the north** – every year, 30,000 tons of garbage (17%) are treated in the Merom HaGalil area from approximately 180,000 tons produced in laying hen coops. The remainder of the garbage (about 150,000 tons) is not properly disposed of in the authorized treatment facilities but dispersed in the open spaces of the northern district without coordination with the authorized parties. The planned solution to implement shortly pertains only to one-half



of the quantity. The implementation of the entire reform is in danger due to frustrating schedules and progress delays.

-  **Enacting regulations for laying hen welfare** – the proceeding for enacting minimal living conditions regulations for the laying hens lasted for about a decade and has not been completed. Today, the majority of the laying hens (76%) are still held in conditions that do not comply with the basic international standards for proper living space, which all Government ministries agree are no longer acceptable in Israel. Likewise, the failure to enact regulations leads to perennial uncertainty in the egg-laying industry, making it difficult for poultry farmers to plan appropriately, mainly their investments in upgrading the laying hen coops.
-  **Diseases in the laying hen coops** – the common bird diseases morbidity rate in Israel, excluding salmonella, in the northern laying hen coops is higher than those in other parts of the country – 90% of the laying hens' flocks which were infected with Newcastle disease, 78% of the flocks which were infected with mycoplasma, 88% of the flocks who were infected with contagious bronchitis, and 100% of the flocks who were infected with H9 avian influenza were raised in the northern laying hen coops. This imposes upon the egg-laying industry and the public (which bears the high egg prices, as aforesaid) additional financial costs due to the need to exterminate laying hens flocks and to shut down laying hen coops. Zoonotic diseases (which are liable to be transmitted to humans), such as avian influenza and salmonella, may also harm public health.
-  **The avian influenza outbreak at the end of 2021** – an avian influenza pandemic, also dangerous to humans, broke out in Israel in December 2021. Migratory birds were the source of the flu. Consequently, the Ministry of Agriculture exterminated about one million hens in all types of laying hen coops, and hundreds of people were treated to prevent the disease outbreak in humans. The inability to prevent the spread of the avian influenza among the existing densely built laying hen coops hindered the isolation of the outbreak epicenter and the concern for public health.
-  **The "One Age" directive – the insurance aspect** – the Ministry of Agriculture and the Ministry of Finance have not formulated an insurance arrangement suitable for poultry farmers to implement the One Age Directive¹ in adjacent laying hen coops. This raises concern that poultry farmers required to exterminate flocks or leave laying hen coops empty to achieve one intake date for laying hens in adjacent laying hen coops cannot comply with the directive and accordingly will violate it, retire from the industry or even collapse financially.

1 A directive whereby every laying hen coop will be inhabited by laying hens that hatched no more than ten days apart. The requirement of one age comes against a veterinary background, for preventing outbreaks and spreads of disease factors.



Advancement of the plan to build spaces for laying hen coops – the Office of the State Comptroller commends the Ministry of Agriculture initiative to advance outline plans for compounds for building future laying hen coops in the northern communities.

Advancement of the reform through the Veterinary Services (VS) directives – the Office of the State Comptroller commends the VS's decision to stipulate the population permits for laying hen coops upon the poultry farmers' progress in the planning and building of New laying hen Coops complying with the business licensing regulations. This decision directly affects the egg-laying industry reform advancement.

Key recommendations

-  Given the European Union's decade-old prohibition on rearing laying hens in old laying hen coops where the space per laying hen is less than 750 square centimeters and the decision of the Ministry of Agriculture to adopt this trend – it is recommended that it formulate a multi-year plan for transition to new laying hen coops that do not contain old battery cages. The Ministry of Agriculture, in conjunction with the Ministry of Environmental Protection and the Ministry of Finance, should enact regulations concerning the laying hens' welfare, alongside advancing the reform – upgrading rearing methods in new laying hen coops, which will enable to implement the regulations, regarding among other things, the minimal living space for the laying hens.
-  It is recommended that the Ministry of Agriculture and the Ministry of Finance advance the implementation of the OECD recommendations, the ministries' agreements, and the Government's decision to lower the eggs price in Israel and reduce the discrepancy between their price in Israel and in the United States and Europe.
-  Implementation of the egg-laying industry reform, from 2007, is designed to move all poultry farmers with statutory business licenses to New laying hen Coops, and therefore the Egg and Poultry Board and the Ministry of Agriculture should continue to implement it. Likewise, it is appropriate for the Ministry of Agriculture to update the statutory provisions to conform to the updated veterinary requirements.
-  It is recommended that the Ministry of Agriculture, which has invested approximately NIS 50 million in the construction of spaces according to the 2019 procedure, and which is due to invest a similar sum according to the 2021 procedure, ascertain that the spaces do not remain unused. For this purpose, it should formulate possible solutions, so that the necessary laying hen coops are built. Likewise, since the 2021 call for submitting subsidies requests has already been published and the communities have submitted the requests, and given the importance of continuing the reform – it is appropriate that the



Ministries of Agriculture and Finance budget the implementation of the 2021 procedure or, alternatively, provide a comprehensive reform solution in the egg-laying industry.

-  The Ministry of Agriculture should ensure that the laying hen coops in Israel comply with the statutory provisions. Simultaneously, the Ministry of Agriculture should consider the employment and planning aspects in the northern region following the reform implementation, and work diligently with all relevant parties, including the Ministry of Finance, to find a suitable solution for this issue, including the budget aspect.
-  It is recommended that the Ministry of Agriculture consider the limitations of the communities other than in the north, to implement the reform, and consider whether to continue their existence or their closer, and examine the closer effect on the poultry farmers. Regarding the communities where it is possible to construct laying hen coops according to the requisite conditions, it is appropriate that the Ministry of Agriculture and the Ministry of Finance, in conjunction with the relevant local authorities, prepare a suitable plan to upgrade the laying hen coops, ensuring that public health is safeguarded, preventing nuisances and optimize egg production.
-  The relevant parties, headed by the Ministry of Agriculture and the Ministry of Environmental Protection, should formulate an appropriate solution to treat all the waste produced in the existing and planned laying hen coops.
-  It is recommended that the Ministry of Agriculture consider the reasons for the high contagion bird disease rates of the laying hens coops in the north, its lack of biological safety, and the measures required to reduce the contagion rates. The Ministry of Agriculture should continue the egg-laying industry reform to improve public health and the laying hens' welfare. Still, simultaneously it should take the necessary measures to maintain biological safety in the large compounds of laying hen coops.
-  The widespread breakout of avian influenza at the end of 2021 highlights the need to advance the reform, regulate New laying hen Coops and adopt control and monitoring measures to prevent such a severe spread also dangerous to human health.
-  It is recommended that the Ministry of Agriculture examine the financial and health damages expected from the failure to implement the one age directive and compare them to the cost of implementing it – for the poultry farmers and the State. If the examination raises a more significant benefit in implementing the directive, the implementing method should be examined and solutions found for the poultry farmers, in conjunction with the Ministry of Finance. If the examination indicates that the benefit does not justify the implementation of the directive, it is appropriate that the Ministry re-examine it.



Old battery laying hen coop



Photographed by the audit team in April 2021.



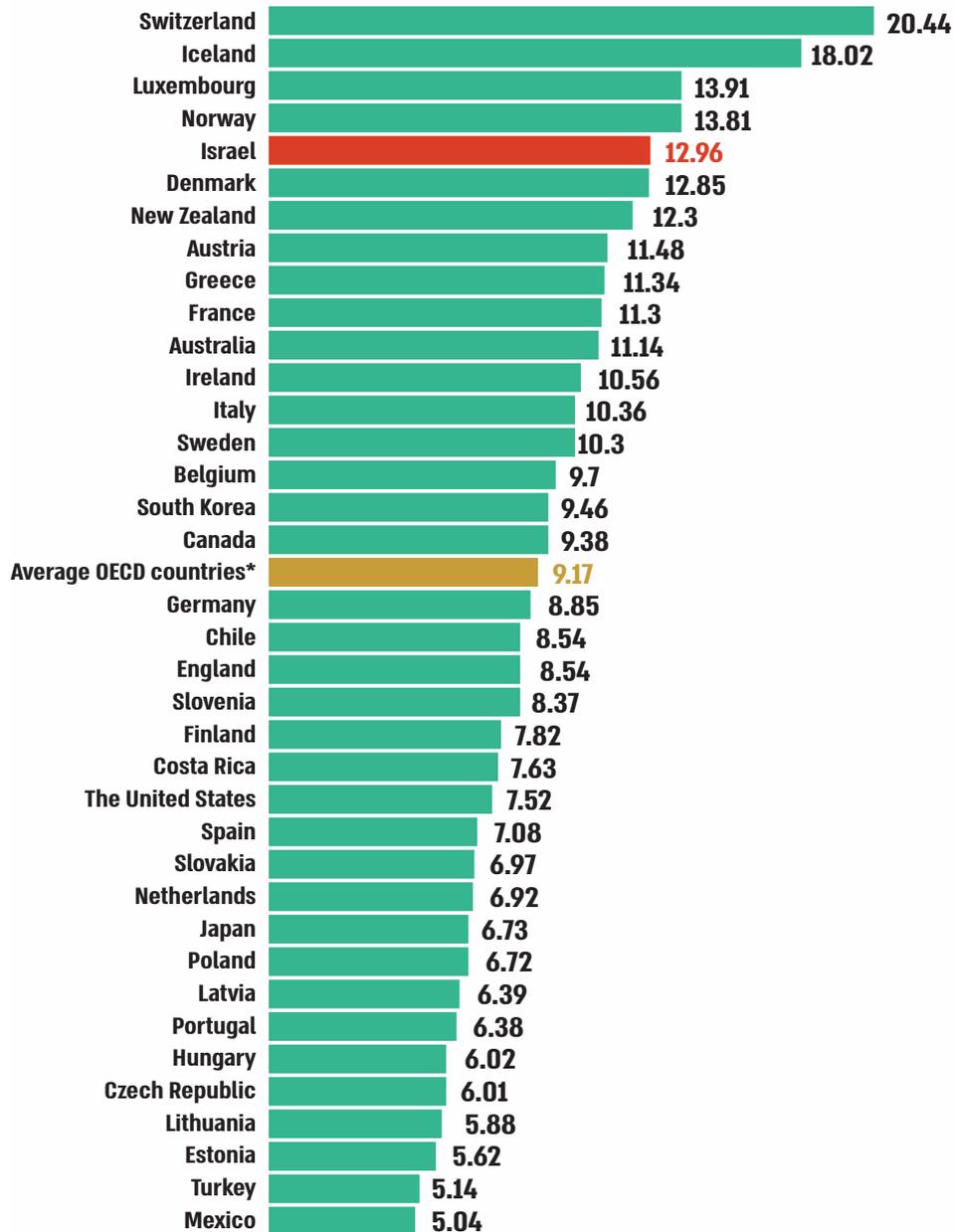
New battery laying hen coop which can be equipped



Photographed by the audit team in April 2021.



The average price of a 12 eggs carton size M in large supermarkets in the OECD countries, February 2022 (in NIS)*



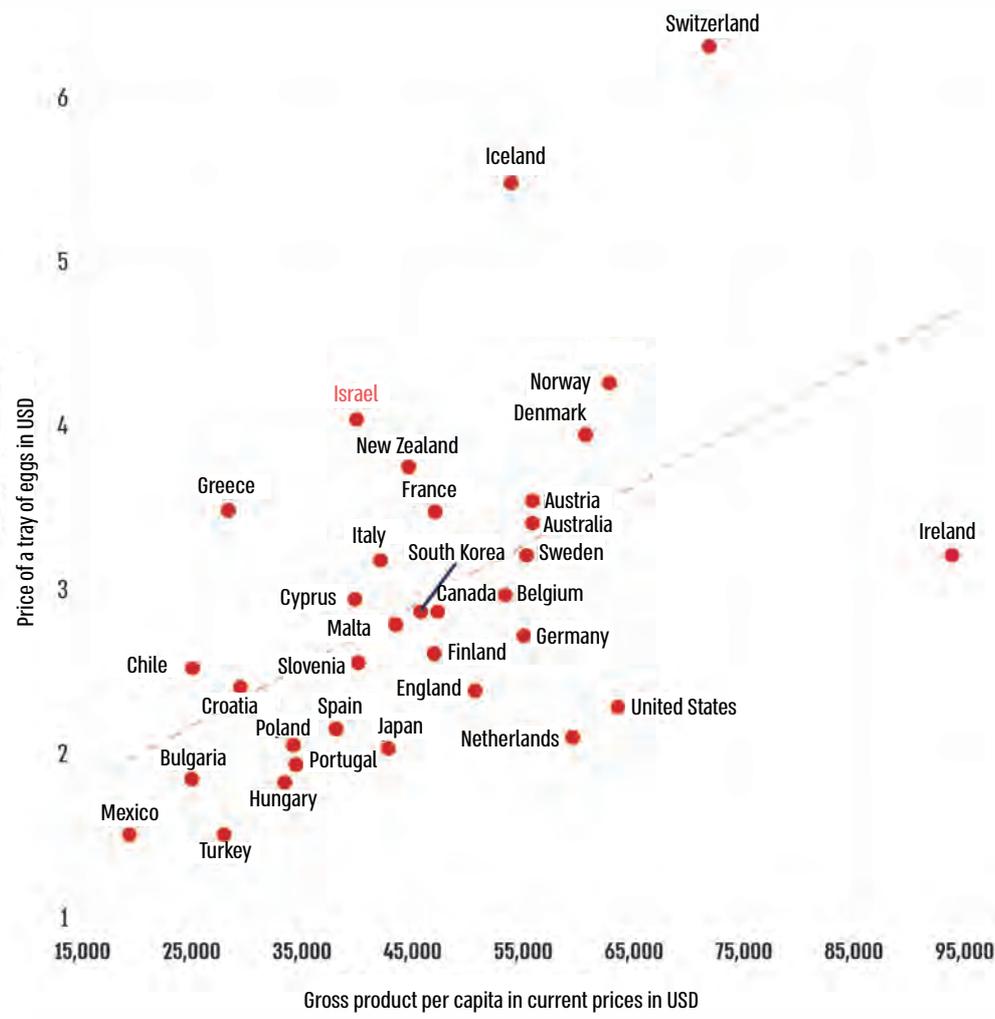
According to the NUMBER website, as of 14.2.22.

* The average in the OECD countries, not including Israel.

https://www.numbeo.com/cost-of-living/country_price_rankings?itemId=11.



Comparison of the gross product per capita in current prices in the OECD countries in 2020 in relation to the average price for a carton of eggs in these countries in February 2022 (in USD)



By the OECD data² and data from the NUMBEO website for egg prices as of 8.2.22.

² <https://stats.oecd.org/>



Summary

The majority of laying hen coops in Israel were built in the 1950s and 1960s, mainly in the northern district. For several decades, the laying hen coops in Israel have not complied with the statutory provisions, where binding standards were prescribed from the licensing, planning and construction, and public health aspects, and they do not meet the acceptable requirements in the developed countries concerning the welfare of the laying hens. 76% of all laying hens are reared in battery cages where the space per laying hen is only approximately 400 square centimeters. Many of the laying hen coops are located in communities' centers and create an environmental hazard there, and also affect their development possibilities and the quality of life of their residents.

In the northern laying hen coops, which are more crowded than those in other parts of the country are, the morbidity rate in most of the common bird diseases in Israel is considerably more significant compared with the morbidity rate in the laying hen coops in the other parts of the country. The avian influenza outbreak at the end of 2021 indicates the ineffective isolation of the outbreak's epicenter and prevention of the avian influenza spread among the laying hen coops.

Furthermore, due to the quotas policy prevalent in the industry, the egg price in Israel is one of the highest in the world, even though the Government controls the prices. Thus, for example, the average price for a carton of 12 medium eggs in Israel is NIS 12.96, while the average price for a similar carton in the OECD countries (not including Israel) is NIS 9.17, and in the United States, NIS 7.52. The Israeli consumer bears the burden of the high price.

Since 2007, the Government has made various decisions concerning the reform implementing in the egg-laying industry, mainly concerning the removal of old laying hen coops from the communities' centers and building instead new and modern laying hen coops outside them. Even though all those concerned agree that the current situation is dangerous to public health, harms the appearance of the northern communities and their development possibilities, laying hen welfare, and the financial efficiency of the egg-laying industry, by the date of the audit completion, the removal of the laying hen coops from the communities' centers have not yet been implemented.

The Ministry of Agriculture's advancement in upgrading laying hen coops in recent years should be commended. This is both by the VS, motivating the poultry farmers to gradually comply with the binding conditions for rearing laying hens in Israel, and by the Planning Authority, which funds and builds areas on the outskirts of the northern communities designed to be used as a basis for building laying hen coops in the future. Nevertheless, in current state, the reform will be completed in 2027 at the earliest, 20 years after the Government decision in 2007. Furthermore, the absence of a binding norm concerning the method of rearing the laying hens, while considering their welfare, creates uncertainty in the industry



and makes it difficult for poultry farmers to plan their steps and mainly to invest the necessary funds to upgrade the laying hen coops.

In the light of the aforesaid, the Ministry of Agriculture, in conjunction with the Ministry of Finance, should continue to remove the obstacles to advancing the reform, including the budgetary, planning, and normative aspects. Since a significant part of the old laying hen coops are located in the north of the country, (71% of the laying hen coops in Israel and 65% of all the poultry farmers are located in the northern communities), the employment aspects of the reform adoption should also be considered, and the provision of relevant solutions should be worked on diligently.



Report of the State Comptroller of Israel | May 2022

Ministry of Education

Development of Educational Institutions – New Construction and Expansion of Existing Structures



Development of Educational Institutions – New Construction and Expansion of Existing Structures

Background

According to the Compulsory Education Law 1949, every child and adolescent must study in an educational framework (kindergarten or school). The Law prescribes the right to free education at an official educational institution from age three until the end of 12th grade. The establishment of official educational institutions for free compulsory education for those entitled within the jurisdiction of the local education authority is imposed jointly upon the State and the local educational authority.

The Ministry of Education is responsible, among other things, for the development budget of the educational institutions, including their construction out of the State budget: the construction of new educational institutions, renovation of existing structures, and contribution to the financing of portable structures and the rental of structures for educational institutions in the local authorities as necessary.

For many years a shortage of proper classrooms, complying with physical and pedagogic standards allowing appropriate conditions for learning had prevailed in the education system in Israel. In 2020, the shortage was 10,219 classrooms in schools and kindergartens, an increase compared to 2017, when there was a shortage of 7,487 classrooms.



Key figures

10,219	38,770	NIS 29.2 billion	28.1 compared to 23.3
the number of kindergartens and school classrooms shortage at the end of 2020	the number of kindergartens and school classrooms budgeted by the Ministry of Education in 2007–2021	the budget allocated by the Ministry of Education in 2007–2021 for the construction of kindergarten and school classrooms	the average number of students in a middle school classroom in Israel compared with the OECD average
NIS 700 million	4%	79%	50%
the budget allocated by the Ministry of Education and the local authorities for the construction of 5,000 classrooms in portable structures in 2007–2021	the rate of innovative schools built by the Ministry of Education since 2017 (19) among the total new schools budgeted (429)	the rate of kindergarten classrooms not budgeted (2,063) out of kindergarten classrooms whose need was acknowledged in 2020 (2,602)	the rate of the five-year 2017–2021 plan budget implementation until August 2021

Audit actions

 From February to August 2021, the Office of the State Comptroller examined the construction of classrooms. Including the ongoing shortage of classrooms in the education system, the multi-year plan for the construction of the classrooms within the five-year plans framework, the approval and budget of the local authorities' applications for classrooms construction, execution of the approved budgets, supervision, and control over the execution of the budgets according to the classrooms construction progress, portable structures use, innovative classrooms construction and vacating educational structures. The audit was conducted at the Education System's Development Administration (Development Administration) at the Ministry of Education. Supplementary examinations were conducted at the Economics and Budgeting Administration at the Ministry of Education and the Budgets Department at the Ministry of Finance. An examination was



also conducted in four local authorities – Herzliya, Daliat el-Carmel, Elad, and Ofakim – and data was gathered from 12 additional local authorities: Laqye, Umm al-Fahm, Nazareth, Modi'in Illit, Beit Shemesh, Zefat, Dimona, Tiberias, Kiryat Yam, Kiryat Motzkin, Petah Tikva and Ness Ziona.

Key findings



Formulating five-year plans – the final product of the five-year plan is the number of budgeted classrooms each year as part of the overall quota of the classrooms determined in the plan, but this does not illustrate the overall shortage of classrooms and the entire range of aspects concerning it. Likewise, in all three of the Ministry's five-year plans since 2007, no tracking mechanism over the plan's implementation had been determined, and the Ministry did not assess (assessing the multi-year plan to improve its implementation) any of them.



Classroom shortage – the five-year plans did not solve the classroom shortage. Even though the number of classrooms allocated in the five-year plans increased, there is still a shortage, and it has even considerably worsened according to the end of 2020 data. Thus, even though in the third five-year plan, the number of budgeted classrooms had doubled compared with the second five-year plan, 2020 ended with a gap of 10,219 classrooms (an increase of 56% compared with the gap at the end of the second five-year plan). At the end of 2020, the classrooms shortage in the non-Jewish sector, both in kindergarten (93% of the kindergarten classrooms whose need was acknowledged were not budgeted) and in school classrooms (75% of the school classrooms whose need was acknowledged were not budgeted), was higher compared to the Jewish sector (75% and 62%, respectively). In all the sectors, the rate of kindergarten classrooms shortage is higher than the rate of school classrooms shortage, and it is exceptionally high in the non-Jewish sector: less than 10% of kindergarten classrooms acknowledged as needed were budgeted. These figures are also consistent with the gaps between the number of classrooms acknowledged as needed and the number of classrooms budgeted according to the socio-economic cluster: the gap is higher in the lower clusters – 74% – while in the medium clusters, it is 66% and in the high clusters – 56%.



Over-crowded classrooms – the classrooms in a large part of the education system are considerably over-crowded, both in an international comparison and in a nationwide inter-sectoral comparison: in about one quarter of the elementary education and high schools' classrooms and about one-half of the middle school classrooms, the number of students in the classroom exceeded 30. The average number of students in the OECD countries in middle school classrooms was 23.3; in Israel, it is 28.1, approximately 21% higher, by 2019. In elementary education, nearly 4% of the classrooms are overcrowded



with more than 34 students, the upper limit that must be reached by the 2020–2021 school year, as stipulated in a Government decision from 2015. The highest average number of students in the Jewish sector classroom is in state education, while the lowest is in the ultra-Orthodox education – an average gap of approximately 3.5 students per classroom. In the non-Jewish sector, the highest average number of classroom students is in the Arab education system, and the lowest in the Circassian education system – an average gap of 6 students per classroom.

 **Classrooms in portable structures** – since the required scope of building new classrooms in permanent structures was not achieved, in 2007–2021, the State and the local authorities were required, as a temporary solution, to allocate a budget of NIS 700 million to the establishment of approximately 5,000 classrooms in portable structures. The number of mobile structure classrooms the Ministry budgeted increased throughout the entire period by 65%, constituting about 13% of all the classrooms built during this period. Nine out of ten local authorities where more than 100 portable structures for school and kindergarten classrooms were budgeted belong to clusters 1–6, and only one local authority belongs to clusters 7–10 (to cluster 7). It was raised that a student residing in a local authority in the lower clusters 1–6 is more likely to study in a portable structure compared to a student living in a local authority in clusters 7–10. It was further raised that the Development Administration does not have any updated data about the portable structures it budgeted, which were built, their use made over the years, their quality, and their actual location.

 **Classrooms construction applications** – during the last five-year plan, classrooms construction applications increased consistently, twice and more. Moreover, there was a constant decrease in the acknowledged classrooms as needed – from 71% in 2017 to 49% in August 2021. Likewise, the higher the socio-economic clusters, the more common is the reason "residential construction" in the applications for the construction of acknowledged classrooms as needed, and the lower the socio-economic clusters, the more common is the reason "the unsuitability of existing classrooms for the needs of the students." This raises considerable concern that unsuitable classrooms for the needs of the students are higher the lower the socio-economic background.

 **The construction budget executions by the local authorities** – it is more difficult for the local authorities in the low socio-economic clusters to execute the classrooms construction budgets than those in the high socio-economic clusters. The gap between the low and high clusters is exceptionally high in the current (the third) five-year plan and was nearly 20%. Likewise, the lower the socio-economic cluster of the local authorities – the higher the number of authorizations not executed at all (zero performance); and even though the present five-year period is about to expire, most of the authorizations – nearly one-half in the low clusters – have still not been executed. This is also manifested by the high rate of kindergarten (58% – 588 out of 1,015 classrooms) and school classrooms (49% – 2,615 out of 5,344 classrooms) where construction has not commenced.



-  **Additional funding by the local authorities** – the Ministry of Education does not systematically gather data on local authorities' self-funding of the educational institutions' establishment. Accordingly, it does not have an overall status to deduce the funding gaps by the local authorities, affecting the difference in the construction quality of the educational institutions.

-  **Ministry of Education programs** – in a comparison of the programs (educational institution program – a document defining the principles of the physical planning of the educational institution) of a state elementary school and a Talmud Torah (religious school), and in an additional comparison between the programs of high school, a comprehensive high school, and girls high school, substantive differences arose in the programs which were sampled in the structure, size and number of rooms, according to their educational stream classification (state, religious-state, ultra-Orthodox). Thus, for example, the final gross area for 18 state elementary classrooms was 2,902 square meters, compared to 1,757 square meters for Talmud Torah. Likewise, the gross area of a high school, a girl's high school, and a comprehensive high school for 24 classrooms were 4,069 square meters, 4,610 square meters, and 5,493 square meters, respectively. Likewise, it was raised that the Talmud Torah program for 18 classrooms did not include special education classrooms, a library/study room, a multi-purpose hall, a room for individual study, etc. In addition, the Ministry of Education's standard construction programs for educational institutions does not include accessibility for students and school staff with disabilities.

-  **Innovative learning infrastructures** – the Ministry of Education has budgeted the construction of 19 innovative schools (which enjoy budgetary additions at the rate of 20%–30% and 7% for green building). The overall cost of their construction was nearly NIS 700 million, the Ministry part was about NIS half a billion, and the local authorities added nearly NIS 200 million from their budget. Nevertheless, only two innovative schools were constructed in the low clusters 1–3, even though these clusters have the most significant number of students – a rate of approximately 38%. In the high clusters 7–10, there is about the same number of students – about 36% – but seven innovative schools have been constructed. Likewise, in 2017–2019 the Ministry of Education budgeted approximately NIS 122 million for 1,526 learning spaces, but less than half of the budgeted spaces – 712 were constructed (about 47%). In addition, there is a considerable gap in the authorizations execution rate among the authorities in the Jewish-state sector and the Druze sector – approximately 41% – and the local authorities in the Jewish-ultra-Orthodox sector and the Bedouin sector, where the rates of execution are the lowest – about 28% and about 31%, respectively.

-  **Construction of work and rest areas for teachers** – from 2008 to 2020, the Ministry budgeted approximately NIS 418 million for 4,377 work and resting areas for teachers, but only 77% were constructed. The ultra-Orthodox sector has the lowest budget execution rate for work areas (63%).



 **Educational structures which are not used for their purpose** – the Ministry of Education does not have a map of all the educational structures it funded, including their current purpose, particularly structures that are not used for their original purpose. Likewise, throughout a decade, 26 educational institutions were vacated (by the vacated buildings procedure) in the whole of Israel. In addition, five out of the 16 examined local authorities made a change in the use of the educational institutions without approval from the Ministry of Education as required.



Over-crowded classrooms in the Druze and Bedouin sectors – the Druze and the Bedouin sectors were budgeted in the third five-year plan for the years 2017–2021, according to the Government's decisions to develop these sectors. 118 classrooms were budgeted in the Druze sector and 1,066 classrooms in the Bedouin sector. From 2016 to 2020, there was a considerable decrease in the Druze sector from an average of 26.5 to 25.8 students per classroom, and in the Bedouin sector, there was a decrease from 26.9 to 26.2 in the average number of students per classroom.

Budgeting innovative learning spaces – the Ministry of Education budgeted 1,526 innovative learning spaces ("M-21 spaces") in the five-year plan for the years 2017–2021.

Key recommendations

 **Mapping out and reducing the shortage** – it is recommended that the Ministry of Education map out the existing shortage in classrooms according to their characteristics – school and kindergarten classrooms, sectorial socio-economic cluster affiliation – and the ongoing gap in the number of classrooms should be defined, apart from the new annual needs. Based on this mapping, it is recommended that the Ministry formulate a policy to diminish this gap alongside the new needs, where the budgetary need is also determined. It is recommended that this strategic work be performed in conjunction with the Budgets Department at the Ministry of Finance to reach agreements on the plan. It is further recommended that the Ministry of Education examine the reasons for the higher rates of classroom shortage in the local authorities from the low socio-economic clusters, compared to the local authorities from the high socio-economic clusters, in the non-Jewish sector vis-à-vis the Jewish sector and within the sectors themselves, and take specific actions to reduce these gaps.

 **Over-crowded classrooms** – it is recommended that the Ministry of Education examine the implementation of the Government decisions from 2008 and 2015 to reduce the number of classroom students and publish this to the public. Including: analyzing



the reduction needs according to the educational stages, the local authority's socio-economic level, and the school's sector; formulating a multi-year action plan for the implementation of the Government decisions by the determined targets; determining standards adapted to the socio-economic clusters entitled to be advanced, and in particular in the non-Jewish and ultra-Orthodox sectors, by the policy to reduce the classroom shortage, and consider this when prioritizing the allocation of the budgets for the construction of the new classrooms in the local authorities.



Realization of the authorizations for budget allocation – it is recommended that when formulating its five-year plan, the Ministry of Education consider the difficulties and the ways to help the local authorities in low socio-economic cluster to realize the construction of classrooms budgets, including reducing the launching delays of the approved projects.



Construction of portable structures – it is recommended that the Ministry of Education gather data from the local authorities regarding the educational institutions in whose areas there are mobile structures, including their physical condition, to formulate the classroom shortage status.



Additional funding by the local authorities – it is recommended that the Ministry of Education gather local authorities' additional funding data and determine the criteria and the format for the awarding points method to the projects submitted by the local authorities to bridge the gaps in the local authorities' ability to support the development of the educational institutions in their area.



Educational institutions programs – it is recommended that the Ministry of Education concentrate the data and examine the gaps in the programs between the various educational streams, in consultation with the local authorities and the various educational authorities, to provide an appropriate and equal solution, considering the multiple needs of each sector and the needs of persons with disabilities.



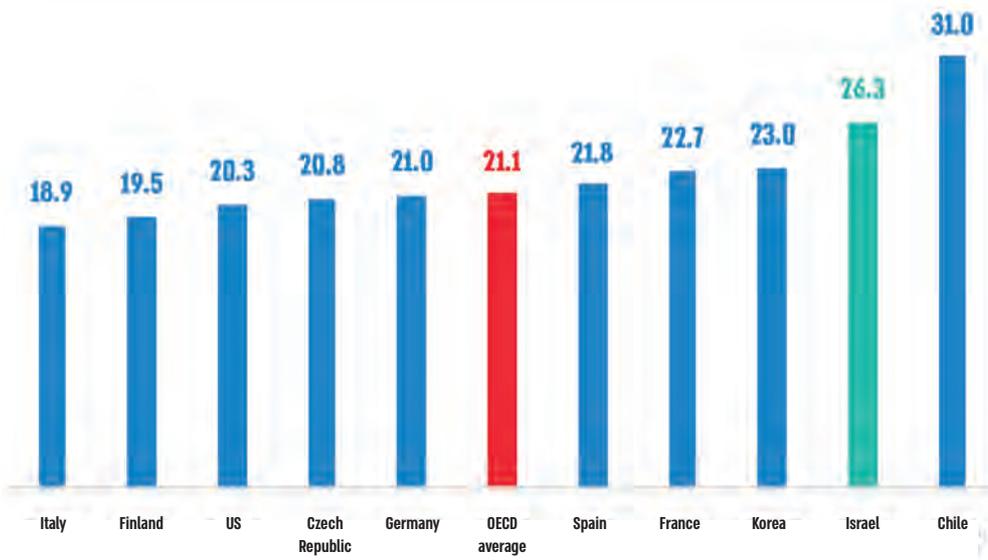
Innovative learning infrastructures – it is recommended that the Ministry of Education examine whether the priority it gave to local authorities in low socio-economic cluster to bridge the gap of the difficulty they encounter, and insofar as this is insufficient, it is recommended that it consider additional tools that will provide a highly feasible solution for implementation.



Educational structures which are not used for their purpose – it is recommended that the Ministry of Education, in conjunction with the local authorities, online map (GIS) all the educational structures funded by it and their present use. Thus, track and control structures that are no longer used for their original purpose to reallocate them or to vacate them and finance the construction of alternative structures.



The average number of students per classroom in elementary Education in selected OECD countries compared to Israel, 2019



According to Ministry of Education data, the Office of the State Comptroller processes it.

Sample school structures

**Zofit school –
Drom HaSharon Regional Council**



**Classrooms in portable
structures – Elad**





Summary

One of the main tasks the Ministry of Education faces is the allocation of budgets for the development and construction of schools from the State Budget via the local authorities – the building of new educational institutions, the renovation of existing structures, and contribution to the financing of portable structures and the rental of structures for educational institutions in the local authorities according to the need. At the end of 2020, there was a shortage of over 10,200 classrooms in the schools and kindergartens – an increase compared to 2017 when the shortage was nearly 7,500.

This report exposes a unique aspect of the social gaps in Israel: the gaps 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 construction of classrooms – in the scope of the existing classroom shortage, in the average number of students per classroom, in the rate of execution of the budget allocated for the construction of the classrooms and in the construction of innovative learning spaces. On the other hand, most of the funding for constructing classrooms in portable structures (85%) is designated for local authorities in relatively low clusters (1–6). The main reason for the gaps is that the low clusters local authorities find it challenging to realize the budgetary authorizations they have received from the Ministry of Education for the classroom construction. The result is that a high socio-economic local authority can offer the student, beyond the uniform and binding specification, better quality physical infrastructures and learning environment: an institution constructed to a higher standard, more spacious and well-equipped, and a more cultivated environment – resources which a low socio-economic local authority is unable to offer its students.

The Office of the State Comptroller recommends that the Ministry of Education formulate a policy for reducing classroom shortage over several years until it has closed, including providing permanent solutions in place of the portable classrooms. It is further recommended that the Ministry consider the inability of the low socio-economic local authorities to realize the budgetary authorizations for the construction of the classrooms. Thus, the Ministry will increase the chances of the students in the schools in these local authorities to start at the same starting point as the students in the schools in other local authorities and ensure that they have an equal opportunity. The Office of the State Comptroller further recommends that the Ministry of Education examine the implementation of the Government decisions concerning the reduction of the over-crowded classrooms during the past 13 years: analyze the reduction of the classroom students number according to the educational stages, the socio-economic affiliation of the local authority and the sector to which the school belongs; formulate a multi-year action plan for the implementation of the Government decisions, and prioritize the budgets of new classrooms construction in the local authorities where there is a higher average over-crowded classrooms in the schools under their jurisdiction.



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Ministry of Economy and Industry –
Labor Branch

Employee Safety in the Construction Industry



Employee Safety in the Construction Industry

Background

Employees may be exposed to various safety and health risks in workplaces in general and in the construction industry in particular. The workplace occupier (the employer) is responsible for ensuring the safety and health of the employees. The International Labor Organization identifies the construction industry as one of the most dangerous industries for its employees. In Israel, in the years 2020 and 2021, 32 employees were killed in workplace accidents in the construction industry, and from 2017 to 2020, the rate of employees who died in workplace accidents in the construction industry was more significant than the rate in the manufacturing, services, commerce and agriculture industries. Likewise, in an international comparison, the rate of fatalities in workplace accidents in the construction industry from 2011 to 2018 was higher in Israel – in some years, more than twice as much – than the average in the 28 European Union countries.

The main regulatory body in the field of workplace safety is the Safety and Occupational Health Administration in the Labor Branch at the Ministry of Economy and Industry (the Safety Administration). The Safety Administration's activities are intended to ensure that the employer provides maximum protection to the employee's safety and health, among other things, by initiating legislation and regulations, supervision and enforcement of the provisions of the various laws and regulations in these fields, and investigating workplace accidents and occupational diseases. The Safety Administration has work interfaces with other bodies for enforcement and punishment: it provides professional assistance to the Israel Police in investigating and clarifying the circumstances leading to workplace accidents; it delivers information to the Contractors Registrar at the Ministry of Construction and Housing (the Contractors Registrar) regarding contractors where systematic violations of the safety laws and the safety at work regulations occur on their sites, to take disciplinary measures against them on behalf of the Registrar; and since July 2020 it delivers information to the Accountant-General at the Ministry of Finance (the Accountant-General) to determine which contractors are eligible to be included in the list of recognized contractors.



Key figures

32	11 as opposed to 5	12,300	0.82
the number of employees killed in workplace accidents in the construction industry in Israel in each one of the years 2020 and 2021	the number of fatalities in workplace accidents in the construction industry per 100,000 employees in Israel, as opposed to the average in European Union countries (according to data from 2018)	the number of inspections conducted by the Safety Administration inspectors at construction sites in 2021	the ratio between the number of inspections in the construction industry and the number of recognized construction sites in 2020
NIS 42.7 million	only 5%	only 13	41
The sanctions sum imposed on employers by the Safety Administration for construction safety violations from 2018 to 2020	the sanctions rate paid of the total imposed by the Safety Administration on the construction industry employers from 2018 to 2020 (as of the end of 2020)	the number of safety cases in the construction industry that the Safety Administration delivered to the Prosecutions Unit for filing indictments from 2019 to 2021	the number of cases delivered by the Safety Administration to the Contractors Registrar to consider disciplinary measures against contractors for safety violations in the construction industry from September 2018 to June 2021

Audit actions

 From March to December 2021, the Office of the State Comptroller examined aspects of the State's actions on employee safety in the construction industry. Among other things, it examined enforcement of the safety provisions over employers by the Safety Administration; the Contractors Registrar handling of contractors who committed safety offenses; the establishment of a particular Police Investigations Unit for investigating the



safety offenses in the construction industry; and the Accountant-General handling contractors who violated the safety provisions. Likewise, the audit included a follow-up on rectifying some of the deficiencies noted in the report published by the Office of the State Comptroller in 2018 on "Registration of Contractors and Aspects in Ensuring Quality and Safety in the Construction industry". The audit was conducted in the Labor Branch and the Safety Administration, at the Contractors Registrar and in the Accountant-General Department. Supplementary examinations were conducted at the Israel Police.

Key findings

-  **Workforce scope in the Safety Administration** – the number of staffed positions in the Safety Administration increased from 95 in January 2019 to 148 in January 2021. Nevertheless, 28 of the 176 positions determined in the standard have not been filled, nor have seven of the 60 positions agreed upon with the Ministry of Finance in 2018 been added.
-  **Tracking over the employers' notices regarding the safety deficiencies rectification in construction sites, in cases where no orders were issued** – the Safety Administration tracks the employers' notices regarding the safety deficiencies rectification, in cases classified by the inspector as not severe to justify the issuance of an order, is non-systematic – it did not establish a tracking mechanism over the notices, and its computerized system has no characterization for displaying a warning or reminder when a notice has not yet been received as required. In 2020, the number of safety orders issued was over six times higher than those issued in 2017 (approximately 5,800 orders in 2020, as opposed to about 900 in 2017), and the number of Stop Work Orders increased by about 43% during such period (from 65 to 93 orders). The increase in the number of safety orders and stop work orders from 2017 to 2020 requires the Safety Administration to track the execution of the orders and the receipt of the notices concerning rectifying the safety deficiencies.
-  **Contractors financial sanctions scope** – the number of sanctions imposed by the Safety Administration in 2019 (approximately 150) was about one-quarter of the number of sanctions imposed in 2018 (about 600). In 2020 the number of imposed sanctions was similar to the number of sanctions imposed in 2018. Moreover, the number of safety orders issued in 2020 was five times higher than those issued in 2018 (approximately 5,800 as opposed to about 1,100). It was also found that upon 424 out of the 735 contractors (58%) who were sanctioned from 2018 to 2020 one sanction was imposed, and between three to ten sanctions were imposed upon 145 contractors (20%) during these years.



- Collecting the financial sanctions** – in 2018–2020, the Safety Administration imposed about 1,350 safety offenses sanctions in the construction industry – about NIS 42.7 million. By the end of 2020, about NIS 2.1 million sanctions were paid – about 5% of the total sanctions imposed. In October 2020, the Labor Branch began to transfer sanctions to the Centre for Fine Collection for its collection. By July 2021, about NIS 10.7 million were transferred for collection; however, most of the sanctions which were not paid by the end of 2020 and were not in appeal proceedings, about NIS 26.5 million (71% of the sanctions imposed), were still being handled by the Safety Administration. The Safety Administration manages the sanctions system, among other things, based on an Excel file whose data are manually entered into the collection system. It does not have a computerized system for managing the entire process of handling the sanctions, including sending and transferring them for collection.
- Criminal investigation by the Safety Administration in suspicion of safety offenses cases** – by October 2021, no dedicated unit for criminal investigations operated at the Safety Administration, despite the need for its operation raised by professional bodies, and criminal investigations were performed by the inspectors, in addition to their supervisory role. From 2018 to 2021, 26 investigations conducted by the Safety Administration were delivered to the Prosecutions Unit for filing indictments – 13 investigations in 2018, one in 2019, two in 2020, and ten in 2021. As aforesaid, the enforcement against the safety offenders was adversely affected due to the failure to operate a dedicated unit for criminal investigations.
- Enforcement of a new standard for scaffolds** – given the scaffolds complying with the new Israeli standard were approved only in February 2021, and their supply, by the date of the audit completion (December 2021), the conditions necessary for the commencement of enforcement by the Safety Administration of the obligation to install such scaffolds were not yet in existence, even though over two years had passed since the date this obligation entered into force. It was also found that in December 2021, seven scaffolds' models marketed by four different companies had been approved.
- The Safety Administration conclusions from workplace accidents** – the Safety Administration gathers fatal accidents data and their reasons and publishes the data in its annual report. Regarding other accidents and cases of "near misses", the Safety Administration does not gather data and does not analyze it for concluding. It was also found that investigations by the Police Unit for Investigating Offenses in the Field of Construction Industry Safety (the "Working without Risk" Division (PELES)) are not transferred to the Administration for study and assimilation.
- Suspending contractors procedure from engaging with government ministries following safety violations** – by the audit date (July 2021), out of the 20 cases delivered to the Accountant-General, four contractors were suspended under the suspension procedure; about three of them, the suspension was subsequently suspended due to a re-examination of the process. It should be noted that in August



2021, the number of recognized contractors for engagement with government ministries was about 770.



The Safety Administration's activity scope in the construction sites – from 2017 to 2020, the number of inspections in the construction industry increased by about 74%, from about 7,000 per year to about 12,250 per year. Likewise, the number of safety orders issued during these years increased – from about 900 in 2017 to about 5,800 in 2020 (over six times as many).

The activity of the PELES Division – the cooperation between the Police, the Safety Administration, and the Office of the State Attorney in establishing the PELES Division is commended. Likewise, in addition to the criminal investigation of workplace accidents, PELES formulates insights and reports from the cases it dealt with to reduce the number of accidents.

Taking disciplinary measures against contractors by the Contractors Registrar for work safety offenses – the activity of the Contractors Registrar and the Safety Administration's work safety advancement is commended.

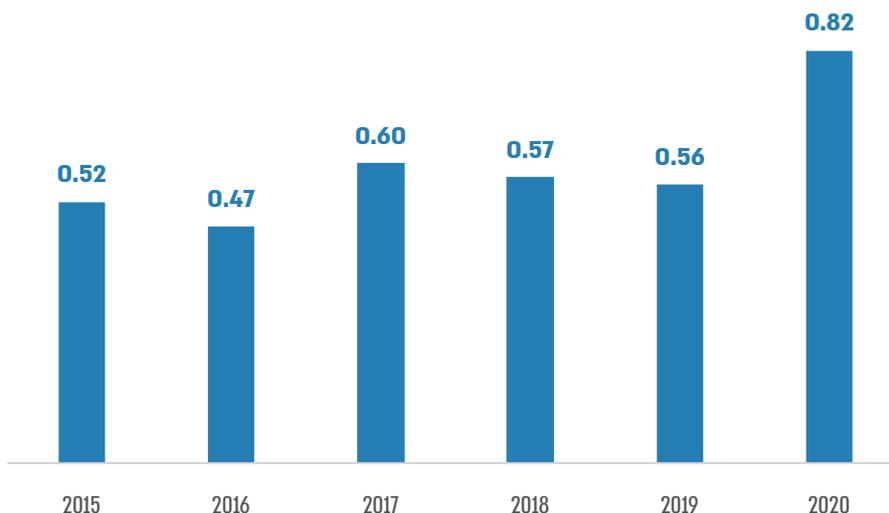
Key recommendations

-  It is recommended that the Labor Branch and the Ministry of Finance fill the gap in the workforce standards in the Safety Administration according to the 2018 budgetary agreement between them; in addition, they should consider allocating 17 additional positions for the Safety Administration, and staffing the allocated positions.
-  It is recommended that the Safety Administration systematically track, by means of characterization in the computerized system, the receipt of rectification of safety deficiencies notices it requested of employers, and ensure it receives the notices as required.
-  It is recommended that the Labor Branch, in conjunction with the Centre for Fine Collection, improve the transferring of sanction funds whose final payment date has passed for collection via the Centre for Fine Collection, including automation of the entire process, to fully optimize the sanctions.
-  It is recommended that the Safety Administration complete what is necessary to operate the investigations unit, which will handle on an ongoing basis criminal enforcement and conduct criminal investigations on the required standard, for filing indictments against offenders in appropriate cases.



- It is recommended that the Safety Administration enforce installing scaffolds adjusted to the standard no later than the date it fixed – 28.2.22. It is further recommended that the Safety Administration and the Standards Institution of Israel advance an examination of additional models of scaffolds, to increase the supply of the approved models.
- It is recommended that the Safety Administration concentrate the insights from the PELES reports after the reports have been delivered and formulate recommendations based on these insights, in conjunction with PELES, to assimilate them. Likewise, it is recommended that the Safety Administration expand the processes of concluding the non-fatal accidents and the accidents defined as "near misses".
- It is recommended that the Accountant-General complete the examination of the procedure for suspending contractors from engagements with government ministries following safety violations to implement it regarding recognized contractors engaged by the State. It is further recommended that the Ministries of Finance, Construction and Housing and Interior, the Labor Branch, the Government Companies Authority, and local government representatives consider formulating an arrangement similar to the suspension procedure, subject to any law, relevant to all government companies, local authorities and their corporations, as the case may be, which engage with contractors, to increase safety in the work environment at sites where works are performed for public bodies.

The ratio between the number of inspections to the number of recognized construction sites (the visits ratio), 2015–2020



According to Safety Administration data, they are processed by the Office of the State Comptroller.



Summary

Given the number of injured in the construction industry since 2018, the State has taken some measures to increase safety in the construction industry and reduce the number of accidents, including expanding the scope of the Safety Administration's inspectors' activity in the construction industry; imposition of financial sanctions on employers in the construction industry who committed safety violations; establishment of a dedicated investigations unit at the Israel Police in the construction industry work safety; and taking disciplinary measures by the Contractors Registrar against safety offenses. The audit raised that despite the steps above, there are gaps in the supervision and enforcement system: the enforcement against criminal safety violations in the construction industry is not effective, and the activity of the Safety Administration concerning an analysis of the data and concluding workplace accidents requires improvement and expansion. The Safety Administration has not been allotted all the positions in the supervision over construction industry safety under the aforesaid budgetary agreement, and not all the positions allotted to it by the standard have been filled.

The Labor Branch and the Safety Administration, the Israel Police, the Contractors Registrar and the Ministry of Finance should rectify the deficiencies and examine the recommendations noted in this report to increase workplace safety in the construction industry in Israel.



Report of the State Comptroller of Israel | May 2022

Ministry of Public Security – Israel
Prison Service

The Medical Array for Treating Prisoners in Israel Prison Service – Follow-Up Audit



The Medical Array for Treating Prisoners in Israel Prison Service – Follow-Up Audit

Background

The Israel Prison Service (IPS) medical array provides, among other things, comprehensive medical services to prisoners through clinics in 32 IPS prison facilities¹ and five medical centers, including specialist medical services. The IPS medical center is a prison facility serving as a medical inpatient framework for prisoners, and the mental health center (Maban), managed by the Ministry of Health is a psychiatric hospitalization framework for prisoners. The two facilities are located at the Ramla prisons compound. In 2020, the IPS prison facilities contained approximately 14,000 prisoners. In 2015, the Office of the State Comptroller published an audit report about "The Medical Array for Treating Israel Prison Service Prisoners" (the previous audit)². The present report is a follow-up audit presenting the extent the deficiencies noted in the previous audit were rectified.

1 The report deals with 30 clinics, not including the branches in Petah Tikva and Acre.

2 The State Comptroller of Israel, **Annual Report 65C** (2015), "The Medical Array for Treating Israel Prison Service Prisoners", pp. 385–430.



Key figures

NIS 57 million

IPS's medical array budget in 2021

38%

of the prisoners in 2020 (5,369 prisoners) were defined as chronically ill

274,600

the number of prisoner medical examinations in 2020. Approximately 15,480 (5.6%) of them were performed by psychiatric physicians. On average, a prisoner visited a general practitioner 19 times during 2020

16%

of the prisoners' complaints reaching the IPS public inquiries and complaints team deal with medical matters

16

the number of clinics in need of renovation or adjustment works to make them accessible to disabled persons

43

the number of doctors who were employed in the IPS prison clinics in 2020, among them only three specialists

50%

of the doctors in the IPS are over 57 years old, which is the customary retirement age in the IPS, thus a shortage of doctors during the coming years is anticipated

71

the number of doctors' positions in the IPS which were not filled in August 2021 (approximately 23% of the positions)

Audit actions



From March to June 2021, the Office of the State Comptroller examined the IPS' activities to rectify the deficiencies noted in the Previous Audit. Supplementary examinations were conducted at the Ministry of Public Security (MPS), the Ministry of Health, the Salary Supervisor at the Ministry of Finance (the Salary Supervisor), and in the districts – the Beer Yaakov/Ness Ziona Mental Health Centre.



Key findings

-  **Elderly prisoners** – in 2020, there were approximately 300 elderly prisoners over 65 years old in the IPS prisons. The Previous Audit found that IPS had not established a systematic program adapted to the composition change of the prisoner population: their age and medical condition. The follow-up audit found that a team who examined a response for the elderly prisoners in 2020 had not completed its work: it had not prepared a cost calculation of keeping an elderly prisoner compared to a regular prisoner, had not circulated a procedure for the elderly handling, had not designed a unique rehabilitation program customized for them, and the strategic work in this matter had been stopped without selecting a preferable option. This deficiency had been rectified to a small extent.
-  **The medics' array** – the Previous Audit found that the reserve medics' forces³ were not routinely placed in shifts at the clinics every month to maintain their professional skills as required by the IPS procedure. The follow-up audit found that from 2018 to 2020, the IPS did not place 62 reserve medics (from an average of 111) in shifts in the prison facilities' clinics to maintain their professional skills. Furthermore, the prison facilities, excluding one prison facility, did not have nine reserve medics, as required by the IPS procedure. This deficiency had been rectified to a small extent.
-  **The physicians' array** – the Previous Audit found that seven positions for doctors in the IPS had not been filled. The follow-up audit found that 17.25 doctors' positions (approximately 23% of the number of positions required) had not been filled and that the discrepancy between the standard and the actual situation had worsened compared to the discrepancy found during the Previous Audit. This deficiency had not been rectified.
-  **Psychiatric hospitalization in an IPS framework** – it was found that the Mental Health Center the had no designated departments for women and adolescents requiring psychiatric hospitalization.
-  **Observation of detainees with a psychiatric background** – in 2018, an inter-ministerial team decided to advance a pilot of establishing a separate and secure department in a psychiatric center in Beer Sheba to allow psychiatric detainees to be professionally observed and diagnosed. As of the audit completion date, the pilot had not yet commenced. Likewise, no option had been selected for detainees' observation by a psychiatrist out of the options examined for optimizing the process.

3 The reserve medic forces' medical are prison wardens who have completed a designated medical orderlies course and they also act as medical orderlies when necessary.



Medical treatment for prisoners for up to one year – the Previous Audit found that IPS had paid for treatments for detainees in prison for a period of up to one-year payments, for which the HMOs (Health Maintenance Organizations) should have paid⁴. The follow-up audit found that the IPS does not have any information about all its payments for prisoners' medical treatments who are in prison for up to one year. From 2014 to 2020, IPS received approximately NIS 6.5 million in repayment for medical treatments provided by medical institutions that were supposed to be paid by the HMOs. It was further found that the accounting interfaces and the information transfer between IPS, the National Insurance, and the medical institutions were inadequate. This deficiency had been rectified to a small extent.

Clinic structures – the Previous Audit found deficiencies in the clinic structures in the three examined detention centers. The follow-up audit found that according to the IPS, 16 of the 30 clinics needed renovations or adjustments to make them accessible to disabled persons. One of the non-accessible clinics is the Kishon Detention Facility clinic, noted in the Previous Audit. It was found that the clinic has still not been renovated and has not been made accessible. It should be emphasized that failure to make clinics accessible is inconsistent with the requirement of the Equal Rights for Persons with Disabilities Law, 1998 (the Accessibility Law). This deficiency had not been rectified.



Reorganization of the medical array – the Previous Audit found that from 2002 to 2012, several committees had been formed to examine the IPS medical array, and comprehensive reports were presented in this field. However, the recommendations mentioned in these reports did not mature into formulating and implementing comprehensive reform in the medical array. The follow-up audit found that in January 2015, "The Committee for Examining the Response and Medical Service for Prisoners in the Israel Prison Service"⁵ (the Berlovitz Committee) had submitted its recommendations. Consequently, the IPS formulated a plan to re-organize the medical array. The majority of the Committee's recommendations (six out of eight) and the majority of the elements in the reorganization plan (13 out of 18) were implemented. The Office of the State Comptroller commends the IPS medical array's activity in formulating and implementing a program that solves the discrepancies in the previous audit and the Berlovitz Committee report.

Remote medicine (telemedicine) – extensive use was made of telemedicine during the covid-19 period. As of the audit date, the IPS was in the middle of formulating a pilot for

4 In accordance with the National Health Insurance Regulations (Allocations to the HMOs), 1995, Israeli residents who were in detention or in prison for more than one year would not be included in the insurances at the HMOs.

5 The Joint Inter-Ministerial Committee between the Ministries of Health and Public Security headed by Dr. Yitzhak Berlovitz, who directed the Edith Wolfson Medical Centre in Holon.



upgrading the telemedicine array, in conjunction with the Ministry of Health, which would allow communication with a specialist at the hospital.

Training the person in charge of the clinic – the Previous Report noted that the persons in charge of the clinics were not required to undergo, and in any event did not undergo, training sessions or advanced study courses on general management, and clinics management in particular. The follow-up audit found that the deficiency had been rectified and that the directors of the clinics were required to undergo a clinic director's course and participate in advanced study courses every year.

Advisory medicine – the Previous audit noted that one of the specialist clinics was operated by a health corporation via an engagement agreement that had not been preceded by any public competitive proceeding and without any extension. The follow-up Audit found that the IPS had engaged in a long-term engagement with four hospitals to provide specialist medical services after a tender process.

Key recommendations

-  In 2019, the IPS transferred to the Salary Supervisor at the Ministry of Finance, a program for the training and encouragement of recruitment to the IPS of specialists in family medicine. As 40 out of the 43 doctors in the prison clinics are non-specialist doctors, and half of the IPS, doctors have passed the customary retirement age at the IPS (57) – it is appropriate that the Salary Supervisor complete the examination of the previously mentioned program to assist the IPS in recruiting specialist doctors to its ranks.
-  It is recommended that the IPS complete the strategic work about the elderly prisoners, which started in 2020, and formulate a plan adapted to the composition change of the prisoner population: in their age and their medical condition. It is also recommended to examine the adaptation of the prison facilities and medical facilities to this population and determine the imprisonment conditions of this population and the appropriate treatment methods.
-  The IPS should train additional prison wardens to serve as reserve medics' forces following the prevailing procedures and place them in a clinic shift at least once a month. Likewise, it is appropriate that the IPS validate the procedure, including the standardization of the reserve medics' forces.
-  It is recommended that the Ministry of Health, in conjunction with the IPS, act to map the number of imprisoned women and adolescents who have required psychiatric hospitalization during recent years and, in light of this information, examine what is the optimum hospitalization solution for the unique requirements of these populations.



- 💡 It is recommended that the Ministry of Health and the Ministry of Public Security, in conjunction with the IPS, complete the examination of the alternatives to the observation of detainees by a psychiatrist while maintaining a balance between the medical needs and the necessary security requirements, and act to implement the selected option.
- 💡 It is appropriate that the IPS examine computerized development to allow an automatic computerized examination of a prisoner's status concerning the financing of the medical expenses of the detainees and prisoners who are held in the IPS prisons for a period shorter than one year and give an indication of this after the invoice obtained from the medical institution was fed into the system. It is further appropriate that the IPS and the National Insurance Institute complete the creation of the upgraded computerized interface for transferring data about the prisoners held by the IPS, following the agreement signed between the parties in May 2021. This will make the information transmitted between the bodies more precise and prevent erroneous records.
- 💡 The IPS should prepare an orderly plan to renovate the clinic structures, provide medical treatment in them in appropriate physical and sanitary conditions, and make them accessible for persons with disabilities, pursuant to the Accessibility Law.

The extent of rectification of the primary deficiencies noted in the previous Audit

The Medical Array for Treating Israel Prison Service Prisoners-Key Findings					
Audit chapter	Previous Audit deficiency	The extent of the deficiencies rectification in the follow-up audit			
		Not rectified	Rectified to a small extent	Rectified to a large extent	Fully rectified
Committees to examine the medical array	Failure to implement the conclusions of previous committees dealing with the medical array and failure to implement a reform.				
Elderly and chronically ill prisoners	The unsuitability of the geriatric department and the Ma'asiyahu Prison Clinic for accommodating the elderly and chronically ill prisoners.				
	No program had been established for treating elderly or chronically ill prisoners.				



The Medical Array for Treating Israel Prison Service Prisoners-Key Findings					
Audit chapter	Previous Audit deficiency	The extent of the deficiencies rectification in the follow-up audit			
		Not rectified	Rectified to a small extent	Rectified to a large extent	Fully rectified
The medical staff	The medics' array – the standard number of medics was not examined given the increase in the number of prisoners and their medical condition.				
	Failure to train the person in charge of the clinic.				
	Failure to maintain the professional skills of the reserve medics' forces.				
The physicians' array	Failure to fill doctors' positions.				
	Inadequate professional advanced studies courses for doctors.				
	Lack of ongoing accessibility to updated professional information.				
	Advisory medicine – engagement with institutions to provide specialists.				
Psychiatry in the IPS	Lack of data in the IPS about the ambulatory psychiatric service for prisoners.				
Medical treatment of detainees and prisoners in prison for up to one year	Financing the medical treatment by the IPS for prisoners for a period shorter than one year.				
Clinic structures	Deficiencies in the structures and the clinics' accessibility.				



Summary

The right to health derives from the value of human dignity and the Basic Law: Human Dignity and Liberty. The Israel Prison Service holds prisoners in its facilities, so it is obliged to provide them with the medical treatment they require, following the usual standard of medicine in the community. The Previous Audit noted deficiencies in the Israel Prison Service's recruiting and absorbing the medical personnel, maintaining the clinics' physical infrastructure, and the psychiatric array functioning. Furthermore, the Previous Audit surveyed the recommendations of committees and various bodies following the examination of the medical array in the Israel Prison Service. It was noted that these recommendations had not matured into the formulation of comprehensive reform for improving this array.

The follow-up audit found that some of the deficiencies had not yet been rectified: there are clinics that have not been renovated or are not accessible to prisoners with disabilities. The discrepancy between the standard number for doctors and the positions in practice was not reduced and became even more significant compared with the previous audit. This discrepancy is likely to worsen since about one-half of the doctors in the Israel Prison Service have reached retirement age and since the Israel Prison Service has considerable difficulty recruiting doctors to the medical array. Nevertheless, the Israel Prison Service has also performed various actions to rectify the deficiencies noted in the Previous Report. For example, most of the conclusions of the Inter-Ministerial Committee from 2015 and most of the aspects in the plan for re-organization of the medical array have been implemented

The Israel Prison Service should continue to reinforce and optimize the medical service provided to the prisoners, maintain the skills of the medical staff, customize the medical services to the needs of the elderly and chronically ill prisoners and renovate all the clinics and make them accessible. The Salary Supervisor at the Ministry of Finance should work with the Ministry of Public Security and the Israel Prison Service to complete the program examination encouraging the recruitment of specialists to the Israel Prison Service.



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Ministry of Environmental Protection

Prevention of Damage from Invasive Species and Preserving Biodiversity



Prevention of Damage from Invasive Species and Preserving Biodiversity

Background

There is a wide range and variability among living organisms as well as microorganisms in nature¹, constituting the biodiversity. The interactions between biodiversity and its environment create ecosystems that provide products, services, and benefits to human existence and welfare in terms of health, society, and economics. Along with population growth and the intensification of trade and development trends, the loss of biodiversity is accelerated, affecting ecosystems structure, services and contribution to mankind. Human activity reinforces the erosion generators of biodiversity, including both invasive and disruptive species, which harm the life fabric and areas essential for human existence, and cause financial damages. Prevention of risks and mitigation of the damages arising from the spread and establishment of invasive species, require prevention activities, extermination, control, and maintenance, which are very expensive. As of August 2021, in Israel there are between tens to hundreds invasive species, including the Fire ant and the Formosan subterranean termite; according to studies, the cost of the damage caused by invasive species ranges from NIS 473 million to about NIS 1.5 billion per annum. Examples of disruptive species include wild boars, whose entry into the urban space in the city of Haifa has increased in recent years; these boars cause significant damage and harm the residents and their welfare. From June 2021 to January 2022, the Haifa Municipality hotline received 3,586 reports of wild boars roaming about the city's streets.

1 Organisms are living creatures composed of one cell or more, having the ability to reproduce and maintain regulation of their internal environment. The organisms can originate from a plant or an animal; microorganisms are small creatures, invisible to the naked eye (the size of microns).



Key figures

about 452

marine invasive species were located in 2018 close to Israel's shores

114

plant nurseries are contaminated with Fire ant (as of August 2021)

in 10 foci

the Formosan subterranean termite – the most dangerous invasive species in the world and the most harmful among the termites – was established (as of August 2021)

in 89%

of the ecosystems in Israel, there was a deterioration in the biodiversity state

74%

of the national targets which Israel committed itself to in the CBD (Convention on Biological Diversity) had the status "insufficient progress"

USD 6.35 billion

the average annual cost of invasive species damage in Europe from 2010 to 2020

30

of the 105 Government companies have filed corporate sustainability reports

NIS 122 billion

the annual value of the ecosystem's benefits to human existence and welfare in Israel

NIS 0.5–1.5 billion

the estimate of the annual cost of the damage caused by invasive species according to the Ministry of Environmental Protection and the Society for the Protection of Nature in Israel

Audit actions



From April to August 2021, the Office of the State Comptroller examined the methods of preserving biodiversity and handling the damage caused by invasive species. The examination was conducted at the Ministry of Environmental Protection (the MEP), the Israel Nature and Parks Authority (INPA), and the Ministry of Agriculture and Rural Development. Supplementary examinations and clarifications were conducted at the Society for the Protection of Nature in Israel, at the Steinhardt Museum of Natural



History, which operates within the framework of the Tel Aviv University, at "HaMaarag," at the Israel Centre for Aquatic Ecology, at the Israel Oceanographic and Limnological Research, at the Mekorot company, at Netivei Israel, at the Israel Electric Corporation Ltd., at the Jewish National Fund, at the Israel Tax Authority, at the Government Companies Authority, at the Capital Market, Insurance and Savings Authority, at the Supervisor of Banks at the Bank of Israel, at the Israel Securities Authority, at the Ministry of Foreign Affairs, at the Ministry of Transport and Road Safety (the Ministry of Transport), at the Agricultural Research Organization, at the Ministry of Health, at the Israel Land Authority, at the Jezreel Valley Regional Council, and the IDF. The examination of the handling of invasive species dealt with the State's commitment to international conventions and norms and compliance with them; a national strategic action plan; normative regulation of the matter; handling the invasive species; monitoring biodiversity, including invasive species; citizen science and public involvement; corporate governance; and risk assessment, risk management and feasibility about the damage caused by invasive species. Some of the findings in this report have been updated as of February 2022.

Key findings

- 
International conventions on preserving biodiversity – Israel does not meet 14 of the 19 national targets (about 74%) it has set itself for preserving biological diversity and the schedules it committed itself as part of the reporting to the Convention on Biological Diversity (CBD). Likewise, Israel has not ratified several conventions and protocols regarding the preservation of the marine environment and the Mediterranean shores, including the Ballast Water Management Convention and several protocols in the Barcelona Convention.
- 
Strategic action plan – Israel does not have a strategic action plan for preserving biodiversity.
- 
Normative regulation – Israel has no designated binding normative regulation for the mitigation and prevention of damages arising from the establishment of invasive species which are not harmful to vegetation. This is contrary to the primary and acceptable approach worldwide regarding biological safety management, for example, the New Species Law in New Zealand, the national legislation for emergency extermination of invasive species in Australia, and the provisions of the European Sustainability Reporting Directive.
- 
Institutional framework – in the absence of an incorporating body for invasive species in a non-vegetative field and the absence of a coordinating body between all



those dealing with the prevention of invasive species and their handling (such as the Ministry of Environmental Protection, the Ministry of Agriculture, the Ministry of Health and the Israel Nature and Parks Authority), it is difficult to pool all the existing knowledge on the subject, supervise the implementation of the current regulations or conduct a risk assessment and implement the action courses. This is expressed mainly when a quick response or inter-ministerial action interfaces are required.

-  **Releasing into the wild and the dispersal of invasive species** – there is no binding prohibition in Israel concerning the release into the wild of organisms that are invasive species, that have been imported for landscape and leisure purposes; notwithstanding the prohibition on the import of water plants which are invasive species for landscape purposes, they are dispersed without hindrance by plant nurseries, for example, water hyacinth and water lettuce; there is no legal regulation of a mechanism for removing and dumping equipment contaminated with invasive species, such as furniture contaminated with termites.
-  **Controls at border crossings** – the current solutions for the prevention of the penetration of non-vegetative invasive species at the border crossings and ports at the entrances to Israel are partial, as they do not provide a response to all the possible methods of penetration and they do not include the required inspections for the prevention of the entry of invasive species. In Israel, there are no officials whose role is to inspect harmful non-vegetative invasive species, compared to the United States where 61,500 employees are permanently stationed at the crossings: officers and designated agents for inspecting merchandise at the sea and land border crossings, agricultural experts, and enforcement agents.
-  **Invasion, spread, and establishment** – the MEP has not conducted a risk assessment process for the invasion of dangerous species which cause damage, has not created a plan for early preparedness for their arrival, and has not determined an emergency series of actions that could prevent their establishment and rapid spread. There is concern that even the actions taken might not succeed in eliminating them and preventing the considerable damage they cause:
 - **The Formosan subterranean termite** – was first discovered in Israel by a termites expert, and the MEP was informed of this in May 2019. The MEP only began to handle the termites at the end of September 2020. The MEP's actions in this matter, if they had been performed shortly after receiving the information from the expert, could have prevented the spread of the termite. The termite is known worldwide for causing considerable damage and is included in the 100 most dangerous species list. For example, in Louisiana, the annual damage from the Formosan subterranean termite has been estimated at about USD 500 million, and in New Orleans at around USD 300 million.



- **The Fire ant** – was first discovered in Israel in 2005 and since then has spread all over the country. In 2013 the MEP estimated its damage at approximately NIS 1.22 billion per annum, on the assumption of full spread.

 **Interfaces between monitoring bodies** – a large number of bodies deal with monitoring biodiversity actions, and for the most part, there is no full coordination between them (such as the Israel Oceanographic and Limnological Research, the Ministry of Agriculture – the Department of Fisheries, and the Israel Nature and Parks Authority). Although there is a great deal of information on biodiversity and invasive species, it is dispersed among several monitoring bodies; it is not pooled and not used when making decisions.

 **Corporate governance** – the existing directives concerning sustainable reporting (ESG), both binding and voluntary, only provide a reporting framework. The directives do not regulate binding standards for financial risk management arising from environmental risks. Moreover, environmental protection and biodiversity is a low priority among corporations. For example, about 30 companies out of 105 sent sustainability reports to the Government Companies Authority; most of the banks' reports about ESG matters are not necessarily on environmental matters, and even those concerning environmental matters are highly generalized.

 **Risk assessment** – the MEP does not conduct an inherent risk assessment, risk management, and financial assessments regarding invasive species that are not harmful to vegetation, implement them in procedures, and consider all the courses of action.

 **Financial assessment** – in 2013, the MEP assessed the cost of the damages caused as a result of the introduction, establishment, and full spread of five invasive species, which were estimated at about NIS 1,306 million per annum; in 2020, the MEP, in conjunction with the Ministry of Agriculture and the Israel Nature and Parks Authority, assessed the cost of the spread of approximately 70 invasive species at about NIS 473 million per annum; in 2021 the Office of the State Comptroller examined the cost of handling five species which had already invaded Israel, and found that the cost of the damage was higher by hundreds of percent compared with the previous assessments. These discrepancies raise doubts about whether an estimate of the damage obtained from the MEP's is consistent with the severity of the potential damage and the financial implications derived from the introduction of invasive species into Israel and their spread.



Since the beginning of 2020, the MEP has been making efforts to raise public awareness regarding invasive species, particularly insects. The call to the public to participate in the monitoring of his residence indicates that the Ministry acknowledges the importance of "citizen science" in collecting observations and the importance of sharing information with the public.



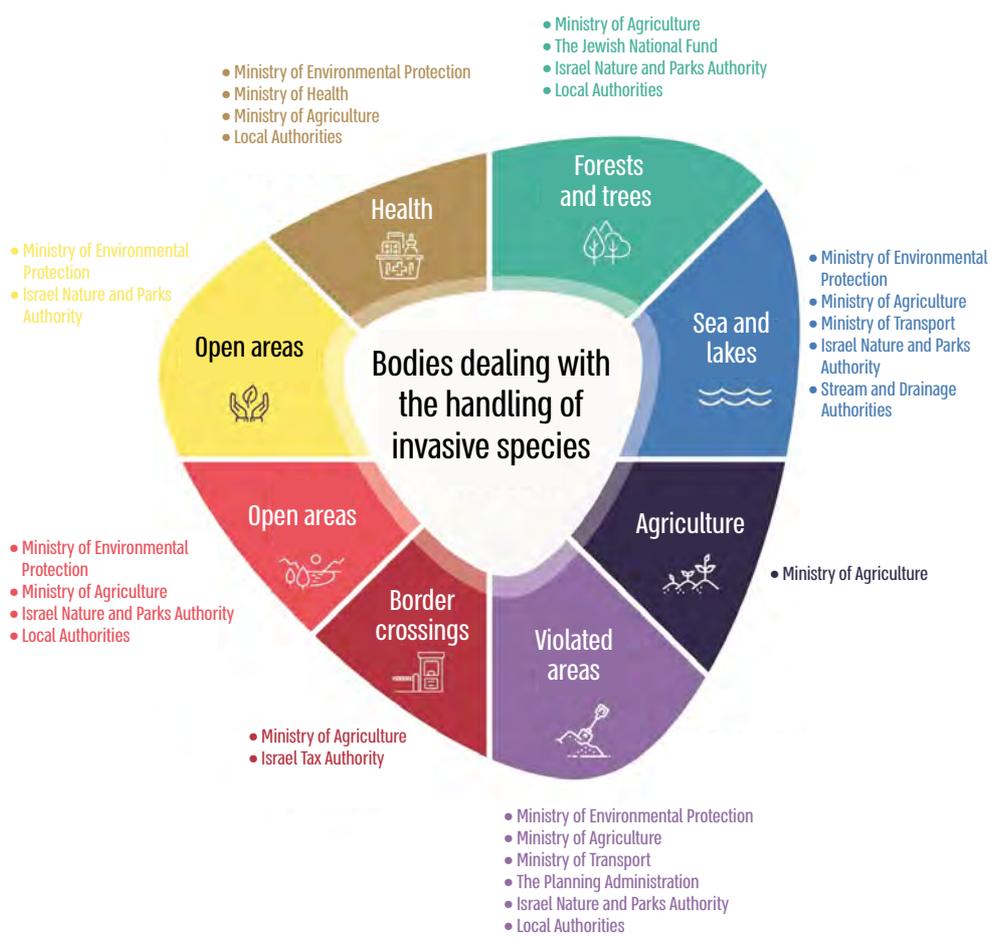
The regulators responsible for the financial-business network demonstrate an increasing understanding of responsible investments as a risk-reducing factor, and the TEVA-BIZ business venture, launched by the Society for the Protection of Nature in Israel and operated in conjunction with the MEP, advances organizational processes for the implementation of the preservation of the biodiversity as part of the companies' organizational culture. It is noticeable that the companies participating in this venture attach high importance to considerations of biodiversity, including in the matter of invasive species.

Key recommendations

-  It is recommended that the relevant Government ministries, including the MEP and the Ministry of Transport, advance ratification of the conventions and protocols relating to biological diversity and invasive species.
-  Given the international commitments and Government decisions, it is recommended that the MEP, complete the practical strategic plan for preserving biological diversity and preventing invasive species establishment, setting out targets and indices for success.
-  It is recommended that the MEP regulate binding norms for preventing the entry of invasive species that are not agricultural pests and regulate binding norms for handling and exterminating harmful invasive species.
-  It is recommended that the MEP and the Israel Nature and Parks Authority, which serve as the national center for the realization of Israel's international targets of biodiversity preservation and invasive species damage reduction, will lead to the determination of a cooperation mechanism between all ministries and relevant bodies involved, and create a binding framework for cooperation for all the potentially adversely affected fields.
-  It is recommended that the MEP coordinate and manage the existing knowledge about biodiversity in Israel and make adjustments according to the current global knowledge as a basis for decision making. Likewise, it is recommended that the MEP determine priorities in handling invasive species based on monitoring, financial assessments, and risk assessments.
-  It is recommended that the MEP act in conjunction with the Supervisor of Banks, the Capital Market, Insurance and Savings Authority, the Government Companies Authority, the Israel Securities Authority, and the Government to create binding regulatory tools for reporting to and sharing public, government or private corporations in all matters of biodiversity preservation.



The multiplicity of bodies dealing with the various aspects of invasive species



According to Amidar's data, they are processed by the Office of the State Comptroller.



Formosan subterranean termite nest and the damage these termites caused to a doorpost



Photographed by Tomer Lu, Termites Expert, 2020.



Summary

Based on biodiversity elements, ecological systems provide products, services, and benefits to human existence and welfare, summarized in the Quality of Life Index and the National Resilience Index. They have been estimated at about NIS 122 billion per annum in Israel. Due to the centrality and importance of eco systems and biodiversity in the fields of health, environment, infrastructures, agriculture, society, and the economy, they should be protected, and the substantive adverse effects of all the harmful generators, including invasive species, should be reduced.

For many years hundreds and even more invasive species have been established in Israel, causing damage to humans and the environment, including financial damages. The Government ministries in charge of the problem, are not well prepared for this and do not manage the risks and the courses of action required to prevent and mitigate the damages. Likewise, many bodies deal with various aspects of biodiversity preservation and handling of invasive species, and the actual responsibility derived from the normative tools available to the bodies is disproportionate to the needs in the field. In the absence of an integrated body, responsible for managing and prioritizing biodiversity preservation and preventing and mitigating invasive species damage, it is difficult to coordinate the work interfaces between all these bodies, thus delaying handling the problem; the difficulty is noticeable mainly in cases where a quick response is required.

In light of the importance of the matter and its effects, including the economic impacts, the MEP should examine the findings and recommendations of this report and rectify the deficiencies. Likewise, it is recommended to raise the matter of biological diversity to the public agenda by regularly issuing communications publications to the public, including regarding new invasive species and the necessary rules, provisions, risks, and actions.



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Ministry of Environmental Protection

The Maintenance of Cleanliness Fund – Financial Aspects



The Maintenance of Cleanliness Fund – Financial Aspects

Background

The Maintenance of Cleanliness Fund is managed by the Ministry of Environmental Protection (MEP), and its purpose is to concentrate financial resources to protect the environment's quality, including promoting cleanliness, waste treatment, preventing illegal garbage disposal, and recycling. Since 2007, a landfill levy paid to the Fund has been levied on every operator of a waste disposal site in Israel, intended to create a negative incentive for landfilling. This waste treatment method is more harmful to the environment than the alternatives. Among the environmental effects of the landfill are air pollution, land and groundwater pollution, greenhouse gas emission¹, hazardous smells, and the occupation of land, a precious resource. The Fund's deposits are managed in the MEP's financial system in a unique and separate budgetary clause and are intended to fulfill the objectives defined by law. Generally, the Fund allocates the projects brought to it for approval after a proceeding of publishing calls for proposals and tenders and by transferring funds to other government ministries.

Key figures

NIS 3.22 billion

the Fund's accumulative surplus, by the end of 2020

91.6%

the income rate of the Fund in 2020 from the landfill levy

36.9%

the utilization rate of deposits from the landfill levy during 2007–2019

20%

the landfill target for 2030, according to the strategic plan for 2021–2030

77%

the landfilling rate of municipal waste in Israel in 2019 from the total municipal waste produced

42%

the average rate of landfilling in the OECD countries in 2019

987%

the tariff increase rate of the landfill levy in 2007–2020

approx. 3%

the decline rate in landfilling in Israel in 2007–2019

1 Regarding the effect of emission of greenhouse gas on climate change see: **the State Comptroller of Israel's Special Report** (2021), "The Government of Israel's Actions and its Preparedness for Climate Change", p. 34.



**approx.
NIS 964
million**

the potential income estimate from investing the accumulated balances of funds in 2011–2020, if they had been invested

**NIS 1.66
billion**

the total funds transferred from the Fund to the State Treasury contrary to the law

Audit actions

 From February to August 2021, the Office of the State Comptroller examined various aspects of the Fund's activity, particularly the financial aspects. The audit focused on the Management of the fund using waste landfill levy funds, the primary source of income, for the objectives defined by the Maintenance of Cleanliness Law. The audit was conducted at the Fund's management and MEP, and supplementary examinations were conducted at the Ministry of Finance and the Center for Local Government.

Key findings

-  **Budget utilization** – in 2007–2019, the landfill levy funds were partially used to realize objectives in the waste landfill (approximately 37%). Thus, at the end of 2020, it had accumulated surplus funds of about NIS 3.2 billion.
-  **Landfilling rates** – despite the gradual increase in the landfill levy (at an inclusive rate of 987% from 2007 to 2020), the decline in the rate of municipal waste landfilling in Israel was moderate, and the rates of waste landfilling in Israel (77%) are almost double the average rate in the OECD member countries (42%).
-  **The organizational structure for managing the fund** – although in 2016 and again in 2018, the MEP examined the Fund's administrative structure vis-à-vis the structural alternatives, given the non-exhaustion of the Foundation's activities – this process did not mature into a resolution of the Ministry's senior officials and the Fund's management regarding the optimum structure of the Fund to realize its targets.



-  **Effectiveness examination** – the Fund does not examine the effectiveness of its activity and does not examine whether, over the years, the allocation of its resources has advanced its objectives as prescribed by law, and if so – to what extent.
-  **Activity reports** – in 2018 and 2019, the Minister of Environmental Protection and the Fund's management did not deliver activities reports to the Knesset's Internal Affairs and Environment Committee at the frequency required by law; in November 2020, the MEP, on behalf of the Minister of Environmental Protection and behalf of the Fund's management, delivered a biennial report on the Fund's activity and the implementation of its objectives, relating to 2018 and 2019. The report presented projects payments data without specifying their performance milestones as planned when the allocation was approved. This makes it difficult for the Knesset's Internal Affairs and Environment Committee to effectively monitor the projects' progress.
-  **The Fund's budget approval procedure** – in 2019–2021, no triennial budget was approved for the Fund's activity. Likewise, the annual budget approval procedure was followed during this period only in relation to the general account (out of the Fund's four accounts).
-  **Support for local authorities** – following seven Government decisions from January 2018 to June 2021 regarding support for specific local authorities, the Fund's management approved the transfer of funds to these authorities without examining them according to the defined criteria and even in one particular case, where a call for proposals was published – the assistance was given without the authority responding to the relevant call for proposals. The total allocation of funds approved by the Fund's management in this manner is about NIS 184 million.
-  **Investment of the funds' balances** – the audit found that in 2011–2020, though the Fund's balances had accumulated in to NIS 0.5–3.9 billion, they had not been invested; thus, no return is being yielded. The Office of the State Comptroller estimates the potential Fund's income from the balances investment it had accumulated in 2011–2020, if they had been invested, at about NIS 964 million.
-  **Transfers of funds to the State Treasury** – in 2016–2020, the Fund transferred NIS 1.66 billion to the State budget in return for authorization to commit. Thus, even though the sum was converted into an authorization to commit, the Fund was used as a budgetary source for financing Government activities – contrary to its designation and in violation of the Maintenance of Cleanliness Law.



The Office of the State Comptroller commends the preparation of a multiyear strategic plan for the treatment of waste in Israel and recommends that the Ministry of Environmental Protection implement it, given the high rates of waste landfilling in Israel (77%) and given the landfilling target of 20% in 2030, which was determined in the strategic plan.

Key recommendations

-  It is recommended that the MEP and the Fund's management comprehensively examine the reasons for utilizing only 36.9% of its funds and the creation of the considerable accumulated surplus of more than NIS 3.2 billion, which prevented it from achieving its objectives. Following this examination, it is appropriate that the MEP and the Fund's management realize the Fund's balances to reduce the landfilled waste and comply with its targets. It is recommended that the outline of the action will be formulated from the perspective of the existing waste foci in Israel and the local authorities' landfilling rates.
-  It is recommended that the MEP complete examining the alternatives for managing the funds and the waste industry management in Israel and decide upon the optimum alternative providing the most appropriate solution for effectively advancing the Fund's objectives. It is recommended that the MEP also consider the management of environmental funds principles formulated by the OECD.
-  It is recommended that the Fund's management regularly examine its activity effectiveness by determining, as allocating funds to a project, the environmental outcomes according to the Fund's objectives so it can track its targets achievements. Such an examination will allow it to consider new requests for allocations of the funds, among other things, based upon experience.
-  The Minister of Environmental Protection and the Fund's management should present to the Knesset's Internal Affairs and Environment Committee the Fund's activity and objectives implementation reports at the frequency prescribed by law, thus the committee can supervise the Fund and survey its activity on a regular and up to date basis. It is appropriate that the MEP and the Fund's management examine the report format and the need to add more information to it, including presenting the planned milestones vis-à-vis the actual budgetary performance and reflecting the landfilling rates segmented by geographical districts; this will enhance the Committee's ability to effectively monitor the Fund's work and the realization of its objectives.
-  The Fund's management should systematically process annual and multiyear budget approvals regarding all the Fund's accounts. This is especially required given the budgeting, among other things, of strategic plans for waste treatment and long-term

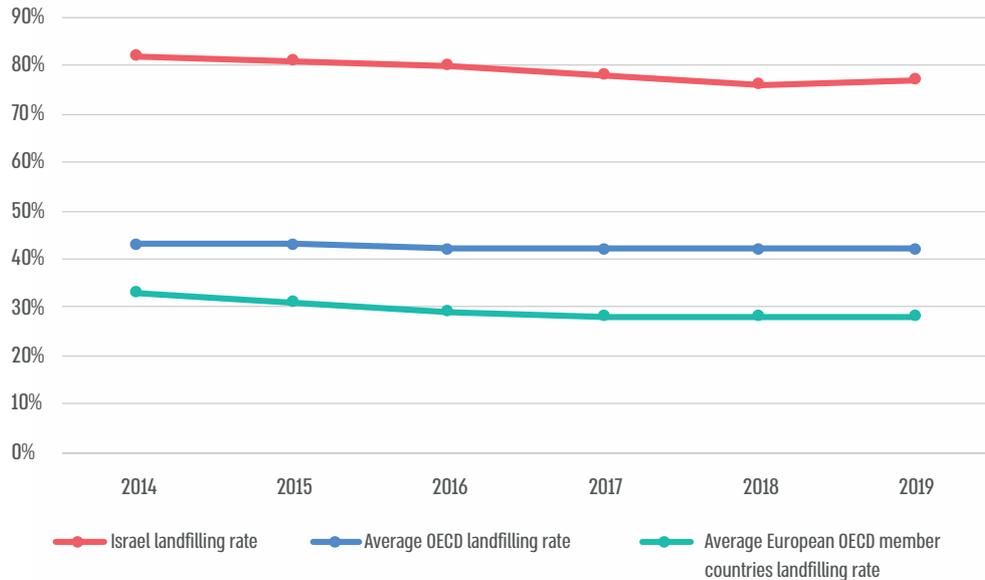


large-scale projects from the Fund's funds. The entire range of the control mechanisms outlined in the Maintenance of Cleanliness Law, in the regulations thereunder, and the Fund's procedures may be used to examine the proper operation of the Fund's conduct and its activity effectiveness and improve them as required. Careful observation of these mechanisms is particularly essential under the existing circumstances, where on the one hand, the Fund is rich in income and has an accumulative surplus of NIS 3.2 billion, while on the other hand, the rate of municipal waste landfilling in Israel is high (77%), notwithstanding the Fund's activity.

-  Where a government decision has required the Fund to consider assistance to a specific local authority, the Fund should decide according to criteria prescribed in advance by the Fund's management and from a broad viewpoint, by the Fund's rules. So that it is possible to make the most of the provision of assistance according to the authority and other relevant authorities needs, regarding region-wide or other considerations.
-  It is recommended that the Fund's management consider investing the available funds that have accumulated in the Fund while ensuring its ability to meet its commitments and plans, considering the Fund's anticipated short-term and long-term cash flow. The investment policy should also be formulated, regarding the ESG considerations.
-  The Ministry of Finance, in conjunction with the MEP and the Fund's management, should formulate an outline for the repayment of funds in the sum of NIS 1.66 billion, which were transferred in 2016–2020 to the State budget from the Fund's landfill levy account, for the Fund's compliance with the provisions of the Maintenance of Cleanliness Law. It is further recommended that the Fund should be credited for the yield on the balances withdrawn from its sources to realize the Fund's targets and make maximum use of its income while paying attention to the need to advance the objectives for which it was established.



The Rates of municipal waste landfilling in Israel compared to the OECD countries in 2014–2019



According to data from the Central Elections Committee, processed by the Office of the State Comptroller.

Summary

Despite the considerable financial resources at the Maintenance of Cleanliness Fund's disposal and the adverse environmental effects of waste landfilling, this is still the most common method of waste treatment in Israel – 77% of the total municipal waste produced is buried. It is recommended that the MEP and the Fund's management act to implement the strategic plan for waste treatment prepared in 2020; and that the Fund's management conducts an ongoing evaluation of the effectiveness of its actions by determining environmental outcomes derived from its objectives and assimilating control processes over the implementation of its decisions. It is recommended that the MEP and the Fund's management complete the examination of the entire range of actions required to improve and optimize the Fund's activity to achieve its established objectives. The results of this comprehensive examination should be used for improving the Fund's management and activity for full and optimum use of its resources to realize its objective.



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Chapter Three

State Institutions, Government Companies and Corporations



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Council for Higher Education

Financial Aspects of Higher Education Institutions' Activity



Financial Aspects of Higher Education Institutions' Activity

Background

The Council for Higher Education of Israel (CHE) is the national authority on all higher education issues in Israel. Its roles, determined by law¹, include recognition of a higher education institution, State participation proposals in the recognized institutions' budgets, recognition of academic degrees, authorizing higher education institutions to award degrees, and supervising them. The Government established the Planning and Budgeting Committee (PBC) as a sub-committee of the CHE to deal with higher education institutions ordinary and development budgets allocations, and track budget utilization to prevent deficits or deviations. According to a Government decision², the PBC also presents its professional opinion to the CHE before it approves to open a new academic institution or a new unit of considerable financial significance. The PBC's responsibility for budgetary supervision and control of the institutions entails taking measures to ensure their long-term ongoing and regular budgetary functioning.

By the 2020–2021 academic year³, there are 59 academic institutions: 10 universities, and 49 academic colleges. The PBC has allocated budgets to 32 of them (Budgeted Institutions): 9 universities and 23 colleges; 10 academic institutions are not budgeted by the State (Non-Budgeted Institutions); and 17 academic colleges of education (this report does not deal with them) are budgeted by the Ministry of Education.

1 The establishment of the CHE and its powers were entrenched in the Council for Higher Education Law, 1958.

2 Government Decision 666, "the Functions of the Planning and Budgeting Committee" (6.6.77).

3 The academic year commences on October 1st and concludes on September 30th. Hereinafter the academic years will be indicated by the year on which the academic year commences and on which it concludes.



Key figures

NIS 12.3 billion

the PBC budget allocated for the higher education for the 2020–2021 academic year

NIS 10 billion

the PBC's 2021–2020 participation in the budgets of 32 Budgeted Institutions. NIS 8 billion in universities and NIS 2 billion in colleges

53% and 59%

53% of the universities' and 59% of the colleges income in 2019–2020 from the PBC budget

8

audits of the institutions financial resilience conducted by the PBC with an external accountant aid in the years 2016–2021, out of the 15 which were due to be conducted

8

Budgeted Institutions out of 32 were in the red range in 2019–2020 according to the Altman Z-score adopted by the PBC as one of the tools for a financial audit of the institutions. The universities: Tel Aviv, Bar-Ilan, Haifa, and the Hebrew University; the colleges: Herzog, Kinneret, Shenkar, and the Academy of Music and Dance

NIS 11 billion

the universities accumulative deficit in the red range according to the Altman Z-score for 2019–2020 from Pension activities and liabilities and without net assets which were earmarked by the management and used to purchase fixed assets: Haifa: NIS 1,013 million, the Hebrew University: NIS 5,767 million, Tel Aviv: NIS 3,386 million, Bar-Ilan: NIS 873 million

NIS 29.8 billion

according to the PBC's calculation, the total actuarial liabilities for budgetary pension in the following decades of the universities: Tel Aviv, the Technion, the Hebrew University, and Haifa

8

of the 30 institutions were required by the Office of the State Comptroller to submit data did not prepare a general risk surveys



Audit actions

-  From March to August 2021, the Office of the State Comptroller examined the financial aspects of higher education institutions' activity, including their supervision by the PBC. The audit included an examination of the institutions' general, financial and databases risks. The examination relates to the 2016–2020 academic years, and it was conducted at the PBC and academic institutions, mainly at Budgeted Institutions. A detailed examination was conducted at three universities: the University of Haifa, Ariel University, and Bar-Ilan University, as well as three budgeted colleges: Kinneret College, Zefat Academic College, and the Academy of Music and Dance (the Examined Institutions).

Key findings

-  **The financial state based on the institutions' financial statements** – it was raised that at the end of 2019–2020, four universities that were included in the red range according to the Altman Z-score (as set out below): the Hebrew University, Tel Aviv, Haifa, and Bar-Ilan, had an accumulative activities deficit of approximately NIS 11 billion (including about NIS 8.9 billion for pension liabilities); about NIS 1.3 billion net assets were designated by the management and about NIS 11 billion net assets were used to purchase fixed assets; the Hebrew University, Haifa, the Open University and the Academy of Music and Dance had a deficit activity turnover (income and expenditure during the year of activity). These indices requires consistent examinations of the institutions' financial situation and observation of the development of their financial difficulties.
-  **Budgeted students' data** – from 2019–2020 to 2020–2021 the number of budgeted students increased by 2.4% in the universities and 1% in the colleges. 183,785 students were budgeted for 2020–2021. The number of students increased during these years by 5.9% at the universities and 7.3% at the colleges; 193,069 students were enrolled in 2020–2021, and the number of non-budgeted students increased from approximately 1,000 in 2019–2020 to about 9,300 in 2020–2021. It should be noted that the PBC decided to add about 2,600 quotas to increase the number of budgeted students in 2021–2020.
-  **The institutions' commitment to budgetary pension** – according to PBC data presented to the audit in August 2021, the actuarial commitments of four universities (the Hebrew University, Tel Aviv, Haifa, and the Technion) for the future decades' budgetary pension is NIS 29.8 billion, and their average annual pension payments



expenditure in the present decade is approximately NIS 1,331 million. It should be noted that the institutions do not have designated funds to cover these liabilities fully, and these expenses constitute a burden on their budgets. In recent years, the PBC's participation in their expenses ranged from 48% to 55%. Under the agreements between the PBC and the Ministry of Finance, this custom is expected to continue as part of the new multi-year plan (ending in 2021–2022) and is likely to continue in the future. The financial statements for the years 2018–2019 and 2019–2020 for the Hebrew University and the Tel Aviv, Haifa, Ben-Gurion, and Bar-Ilan universities presented their future budgetary pension liabilities deducted by the maximum rate of the PBC's participation – 55%, even though the PBC has not approved it.

-  **Management and general expenses at Kinneret College** – Kinneret College did not properly reflect required management and general expenses in its financial statements for 2017–2020, at least during the past three years.
-  **The Altman Z-score** – the PBC has adopted the Altman Z-score as one of the tools for financial supervision over the institutions. Still, it did not proactively inform the institutions of the particular use it is making of the Altman Z-score, and neither did it share with the institutions the results of the scores it calculated. The PBC believes that the Altman Z-score does not provide a sufficient solution. The OFS⁴ grades the higher education institutions in England according to levels it has determined and publishes the grading to the public. The grading relates to the quality of teaching and its environment and achieving the students' study objectives, as well as the institutions' financial situation, including accumulative data on the institutions, their income and expenditure segmentation, surpluses or losses from their activity, and their liquidity situation. On the other hand, the PBC's website includes the financial statements of higher education institutions. Still, it does not include analyses and individual and accumulative data regarding these statements and the institutions and their situation.
-  **Frequency of in-depth examinations at the institutions** – the PBC did not meet the target set in the multi-year plan for 2016–2021 to conduct a financial resilience audit at 15 institutions with an external accountant aid; during this period, it conducted eight audits, in seven institutions (three in-depth examinations and five financial surveys, on a smaller scale than that of the in-depth examination). In 2018–2021, in-depth examinations were conducted at the Zefat Academic College and Bar-Ilan University, among them one "red" institution (Bar-Ilan). Seven "red" institutions were not examined, including the Universities of Haifa and Tel Aviv, Kinneret College, and the Academy of Music and Dance. It was raised that even though the summary of the multi-year plan determined that the PBC would present the Budgets Division at the Ministry of Finance with the findings of the audit it conducted, this had not been done.

4 The Office for Students (the OFS) is the regulator of the higher education system in England, and it oversees, among other things, the budgeting of higher education institutions in England.



-  **Actions following the in-depth audit at Zefat Academic College** – after the PBC received the in-depth audit report from Zefat Academic College in June 2019, the PBC plenum did not discuss the report's findings. In June 2021, two years after this date, the PBC's management was instructed to examine the rectification of the deficiencies presented by the Zefat Academic College.
-  **The streamlining and in-depth audit plan at Bar-Ilan** – the PBC plenum decided to assist Bar-Ilan in balancing its budget on the condition that Bar-Ilan presents a recovery plan and adopt streamlining measures. Bar-Ilan submitted the plan to the PBC, but its professional team did not present it before the PBC plenum for discussion; thus, the plenum did not discuss it and did not approve it, nor the support framework that Bar-Ilan had requested. Nevertheless, Bar-Ilan received tens of million NIS, partly for establishing the Medicine Faculty in Zefat. The PBC did not require the professional team to report about Bar-Ilan's financial situation following the streamlining it adopted; as opposed to the PBC plenum's decision from June 2019 that the professional team would report the progress in Bar-Ilan's financial situation until it reached a balance in the budget's base; the team did not do so. At the beginning of 2020–2021, Bar-Ilan had not reached a budgetary balance, and a report by the professional team regarding Bar-Ilan's financial situation was submitted to the PBC plenum during the audit, in June 2021, in preparation for the 2021–2022 academic year. Furthermore, the PBC's directive that the professional team concludes the clarifying of the salary findings was not implemented, and thus neither were the salary excesses presented to the commissioner, according to its responsibility and jurisdiction.
-  **Plan for the University of Haifa's dealing with the deficit** – in 2017–2020, the Provision for workers' rights at the University of Haifa was 9% greater than its net liabilities and assets; the Provision for workers' rights increased over time by NIS 212 million (approximately 30%); in each of the years there was a net income deficit, an increase from NIS 20 million deficit to a NIS 37 million deficit (85%), and the University's accumulated activities deficit was NIS 1,013 million. It should be noted that alongside the accumulated deficit, the management designated NIS 208 million net assets, and NIS 1,176 million were used to purchase fixed assets. It was raised that until August 2021, the University of Haifa did not present the PBC with a plan dealing with the deficit above. The PBC did not demand it even though during this period, the PBC classified the University as "red". By the audit completion date, no plan had been formulated for the University of Haifa to balance its accounts.
-  **PBC providing credit permits to the Budgeted Institutions** – even though more than a decade has passed since a deed of consent was made whereby the Minister of Finance authorized the Director-General of the CHE to grant institutions permits for obtaining credit (May 2011), the procedure and the credit frameworks determined at that time for every institution were not updated.
-  **Risks surveys performed by Budgeted Institutions** – the Office of the State Comptroller requested that the Budgeted Institutions present its general, financial and



information systems risks surveys they had conducted. The data showed that 13 institutions (out of 30) had completed surveys in the three examined fields. Eight institutions had not prepared a general risks survey, and three had prepared general and partial risks surveys. One institution had not prepared any risk surveys. It was also found that the institutions carried out different risk surveys. Some institutions referred comprehensively and professionally in the surveys to possible risks, while others related to them in a more limited way. 17 of the surveys were conducted over three years ago.



Implementation of accounting standards – it is commended that during the 2017–2018 academic year, the institutions began to implement in their financial statements the provisions of Accounting Standard 39, "Employee Benefits" (Israeli standard), based on International Accounting Standard 19, "Employee Benefits" (IAS 19). This standard prescribes the accounting treatment of employee benefits. According to an opinion by the accountants who audited the institutions' financial statements, these statements include Provision for workers' rights upon retirement, based on an actuarial evaluation, as required by the accounting standards. The provisions are presented in the financial statements deducted by the designated funds⁵, and insofar as the institution lacks funds, the provision is presented as a liability.

Key recommendations



It is recommended that the PBC continue to ascertain that all institutions, budgeted or non-budgeted, reach a balance, among other things, by tracking the institutions' financial situation, as presented in their financial statements and with an emphasis on institutions with indicating risks of economic-financial difficulty. It is also recommended that it continue to ascertain the implementation of its decisions concerning the streamlining plans. It is further recommended that the PBC regulate the format for regular discussions with the institutions concerning their annual financial statements results, or at the very least with those that raise a concern of ongoing operation financial difficulties over time, expressed, for example, in the PBC index for the institutions' financial resilience examination. Likewise, it is recommended that the PBC include the higher education institutions' supervision and control arrangements in an internal procedure.

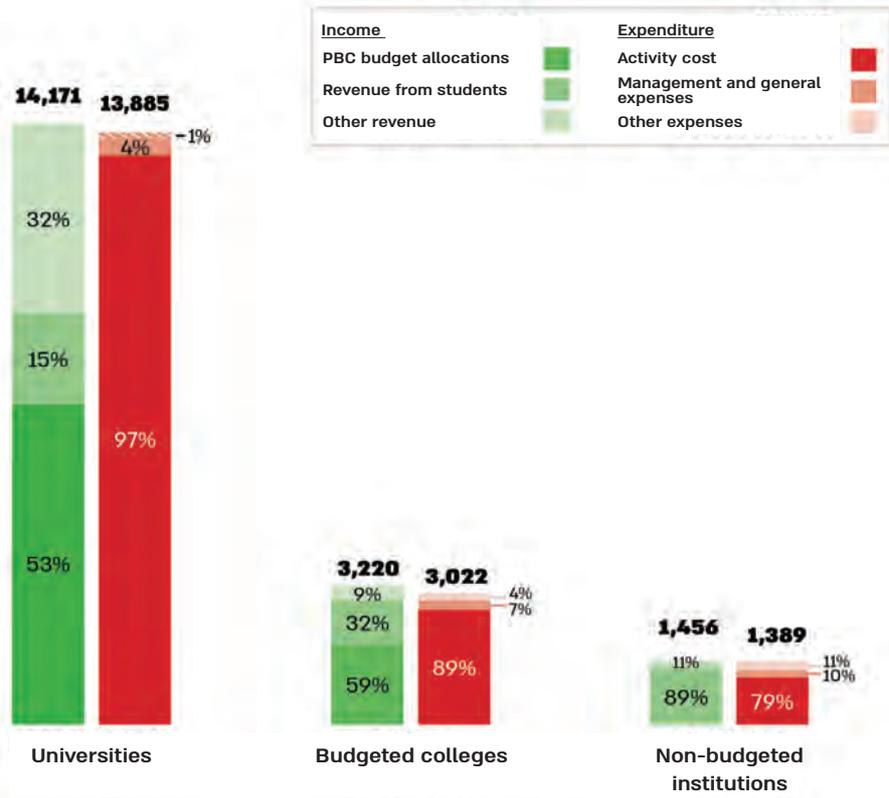
5 Designated funds – assets that have accumulated for the purpose of utilization of the liability recorded as a reserve.



-  It is recommended that the PBC consider adopting a similar publishing model to the one used in England, where the information about the grading is published to the institutions and the public. In particular, this is important regarding Non-Budgeted Institutions.
-  The PBC should implement its August 2018 decision and conduct in-depth audits with an emphasis on institutions where it has raised a concern about their financial resilience – the "red" institutions. It should also submit the findings arising from the audits to the Budgets Department at the Ministry of Finance.
-  Since the subject of long-term liabilities for the institutions' budgetary pension has financial implications on their financial statements in the scope of NIS billions, it is recommended that the PBC and the Ministry of Finance jointly examine their implications, determine the PBC's future participation in these expenses, and instruct the institutions accordingly. The PBC, the Ministry of Finance, and the institutions' management must find a solution for the required cover of the provisions for workers' rights, particularly the liabilities for budgetary pension, from the long-term aspect.
-  It is recommended that the PBC and the institutions formulate a solution for the presented difficulties and reduce the deficits of the University of Haifa, the Academy of Music and Dance, and Bar-Ilan University.
-  In consultation with the PBC, the Ministry of Finance should consider simplifying and optimizing the procedure for granting credit permits to institutions to prevent a technical delay in producing them. It is further recommended that the Ministry of Finance and the PBC complete the examination of the procedure and the credit frameworks previously determined for every institution and update them according to the requirements based on professional tests.
-  It is recommended that the PBC, as part of its budgeting student quotas discussions and according to its policy, consider the gaps between the number of budgeted students and their actual number implications. Likewise, it is recommended the PBC examine the gaps according to the increase in student number in the national priority study field such as the hi-tech fields.
-  It is recommended that the institutions' management conduct ongoing risks surveys to track the anticipated substantive risks and prepare to minimize their possible damage. It is recommended that the PBC recommend to the institutions' management that they conduct periodic risk surveys. This recommendation should become binding for "red" institutions.



Data Summary of the activities reports of all institutions, 2019–2020 (in NIS millions)





Summary

The government has entrusted the PBC to deal with higher education institutions' allocations of ordinary and development budgets and track their utilization to prevent deficits and deviations. Accordingly, it is recommended that the PBC continue to track the institutions' financial situation, as presented in the financial statements, mainly institutions with possible economic-financial difficulty. The audit found deficiencies regarding the PBC's supervision and control over these academic institutions. It is recommended that the PBC act with transparency and in cooperation with the institutions to track their financial situation, improve, and define, in an internal procedure, the supervision and control arrangements it operates over them. It is further recommended that the PBC consider using additional assisting tools to examine the institutions' resilience and financial situation, particularly the Non-Budgeted Institutions, and publish the financial resilience examination findings of all the institutions.



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National Insurance Institute

State Treatment of Elderly requiring Nursing Care while Living at Home – Follow-Up Audit



State Treatment of Elderly requiring Nursing Care while Living at Home – Follow-Up Audit

Background

The increase in life expectancy and corresponding in the elderly population is typical of all developed countries worldwide, and in Israel, they are among the highest. An actuarial forecast by the National Insurance Institute (NII) found that by 2060 there are expected to be over 780,000 recipients of a Nursing Insurance benefit, 3.7 fold their number in 2021. Nursing Insurance is designed to assist the elderly to continue living in the community as long as possible by providing personal care to those requiring assistance in day-to-day functioning or supervision, thereby helping the families caring for them. A person entitled to a Nursing Insurance benefit is a resident of Israel who has reached the entitlement age¹, and who lives in the community (in his own home, with a family member, in sheltered housing, or a department for independent or frail persons in a nursing institution), limited in his physical or cognitive functioning and passes the income test (where only the income of the elderly and his spouse is examined). The benefit is given in services or money or a combination of services and money (combined benefit). An amendment to the National Insurance Law was published in March 2018 and included in the national nursing program (the nursing reform)². Until November 2018, when the nursing reform entered into force, the NII provided Nursing Insurance benefits to the vast majority of the persons entitled to a benefit in services. Since November 2018; as part of the new reform, the possibility of converting the services into money, completely or partially, was expanded.

1 The age of entitlement to a nursing care benefit in 2022 is the retirement age: 62 for women and 67 for men.

2 Within the framework of the Economic Efficiency Law (Legislative Amendments for Attaining Budgetary Objectives for 2019), an amendment to the National Insurance Law, Chapter Ten, was published in March 2018: "Nursing Care Law". The amendment to the Law was included in the national care program decided upon by the Government to expand, improve and streamline the nursing care services for nursing care elderly – Government Decision 3397 (10.1.18).



Key figures

over 780,000

according to the NII's actuarial forecast, the anticipated number of recipients of the Nursing Insurance benefits in 2060. 3.7 fold their number in 2021

about NIS 57 billion

the anticipated future payments in 2060 in the Nursing Insurance industry according to the NII's actuarial forecast; 5.3 fold compared to 2021

16%

the increase rate in the number of elderlies entitled to Nursing Insurance benefits from October 2018 to October 2019, after the reform, compared to 3.5% – the inclusive increase rate of the population of senior citizens in such year

30 hours

the maximum entitlement to home care hours by an Israeli caregiver after the Nursing reform, compared to 22 hours before the reform

3 million home care Hours

that elderly were entitled to in 2019 and were not provided – 3.1% of the total care hours

86% of the nursing care companies

which were paid in 2018 reported that the rate of caregivers who had undergone professional training and who were employed in the company was less than 30%

Audit actions

 In 2017 the Office of the State Comptroller published a report on State Treatment of Elderly requiring Nursing Care while Living at Home (the Previous Audit). From July to September 2021, the Office of the State Comptroller conducted a follow-up audit of the extent of rectifications of deficiencies raised in the Previous Audit, including the State's treatment method for the elderly who receive a Nursing care benefit (Nursing Care for Elderly Persons or Entitled Persons), focusing on the NII's engagement agreement with the nursing care companies and examining the quality of the home care treatment and the control over it. The audit was conducted at the NII.



Key findings

- 👎 The NII's engagement with the nursing care companies** – the Previous Audit found that in August 2016, the Government decided to establish an inter-ministerial tenders committee (the Inter-Ministerial Tenders Committee), with the participation of representatives from the Accountant-General at the Ministry of Finance (the Accountant-General), the Budgets Division and the NII. Its role was to draft a new tender for the provision of nursing care services, including home care, no later than September 2017. Accordingly, it was recommended in the Previous Audit that the NII and the Accountant-General integrate into the new tender and the contract with the nursing care companies' quality indices for home care and methods to ensure that the selected companies will comply with these quality care indices. The follow-up audit found that the deficiency had not been rectified: even though over five years had passed since the Government's decision to formulate a new Nursing care tender, and even though the NII had understood the need for a new tender that would allow, among other things, to determine the quality indices and means of ensuring the compliance of the nursing care companies with these indices, as of the date of the follow-up audit's completion, no new tender for the provision of nursing care services has yet been formulated.
- 👎 Maintaining the dependency level of the Nursing Care Elderly within the contract care** – the Follow-up Audit found that 7% and 8% of all the elderly who received a Nursing care benefit at the low level in 2016 and 2017 (respectively) received within six months from their benefit receiving date, a higher benefit level, and a further 6% between seven months to one year in each of these years. After the reform, from 2019 to 2020, 18% and 19% of all the elderly who received their nursing care benefit at the low level (respectively) transferred within six months to a higher benefit level, and between seven months to one year, the rate of the change was 18% and 12%³. I.e., more than twice as much as the period preceding the reform. The changes in the dependency level of the Elderly Nursing Care who was diagnosed with a low dependency level over one year from the date the dependency level was determined may have resulted because the agreement with the nursing care companies has no financial incentive to maintain the elderly at the low dependency levels.
- 👎 Regulation of control over the caregivers' training** – the Previous Audit found that the NII had not fulfilled its responsibility for ensuring the home care, defined indices for the care quality it requires, or determined the control over the implementation

3 During the surveyed years, a change occurred in the definition of the dependency level from 3 levels before the reform to 6 levels after. Therefore, in the data analysis the change was examined from the low dependency level from level 1 to level 2 before the reform, while after the reform dependency level 1, 2 and 3 collectively and then a move to another high level.



manner of the home care quality. The Previous Audit also found that the NII did not have all the information about the control exerted by the control bodies and hence was not able to evaluate the home care quality provided to the Entitled and locate deficient care cases. The NII did not determine the areas and subjects in need of supervision by the control bodies, nor did it determine comparable indices regarding the care quality, and it did not prepare a uniform supervision form containing such indices. The follow-up audit found that in December 2018, an amendment to the National Insurance Law had been published, transferring the inclusive responsibility for the care quality to the NII. Still, the NII had not developed an alternative supervision and control mechanism over the service quality provided by the nursing care companies. The NII does not have an orderly control mechanism over the care quality of the nursing care companies; in fact, the supervisory mechanism over the care quality has even weakened, as it is based on clarification of complaints.

-  **Referral of suitably trained caregivers to Nursing Care for Elderly with high dependency levels** – the Previous Audit found that the NII had not determined priorities in referring caregivers who had undergone special professional training for the nursing care of Elderly according to their characteristics. It had not given instructions to refer them, first and foremost to elderly with high dependency levels. An examination conducted in the Previous Audit found that most nursing Care Elderly with high dependency levels had been cared for by caregivers who had not undergone professional training. The follow-up audit found that the deficiency had not been rectified: no change had occurred in the determination of priorities in referring the caregivers who had undergone professional training according to the characteristics of the elderly. An examination conducted in the follow-up audit from 2017 to 2019 found that no change had occurred in the number of care hours since the Previous Audit and that 67% to 70% of the caregivers of nursing Care for Elderly with high dependency levels had not undergone professional training.
-  **Compliance with the rate of professional training** – the Previous Audit found that the NII does not control the nursing care companies' compliance with their contractual commitment. It does not examine the training data it received from the companies – it does not verify them, nor does it analyze them to ascertain that the companies comply with the conditions prescribed in the tender: 30% of the caregivers undergone professional training. The follow-up audit found that the deficiency had not been rectified: from 2017 to 2019, there had been a 1.4-fold increase in the rate of companies who reported that they were not complying with the conditions of the nursing care contract in each of the examined years.
-  **Remote attendance reporting system** – the Previous Audit found that 12 years after the NII had begun to try out the telephone attendance system; it had not yet started to be used and was still in the pilot stages. The Previous Audit further found that the NII had not demanded the caregivers' work diaries from the nursing care companies, even though they are the basis for the computerized payment demand, which the companies



are required to send as a payment condition. The follow-up audit found that 16 years since the NII began an attempt to operate a remote attendance reporting system – the system is not used and that in a nursing care companies' petition to the High Court of Justice (Bagatz), the obligation of reporting in the system was revoked. It was also found that the NII does not demand a computerized report of the work diaries, and neither changed the computerized report structure to include the work diaries, to examine the reliability of the reports and increase the deterrence and thereby assist in reducing the phenomenon of "stealing hours." It should be noted that according to the NII report, about one-half the companies report via the system by their own free will.

 **Allocation of care hours to Entitled Persons** – it was raised in the Previous Audit that from 2011 to 2015 the rate of the missing care hours was about 16 million hours, about NIS 680 million – about 3% of the total home care hours the nursing Care Elderly were entitled during those years. I.e. many elderly unjustifiably did not receive many care hours they were entitled to. The follow-up audit found that the deficiency had not been rectified: in 2019 – before the outbreak of the covid-19 pandemic – out of about 97 million care hours, about 3 million hours – 3.1% of the home care hours – were not provided. It should be noted that in 2020, the year the pandemic broke out, the scope of the home care hours was reduced, and the scope of other services, such as benefit in money, increased. The scope of the missing care hours was about 2 million hours, about 1.8% of the home care hours.



Modifying the existing arrangement in the way the services are provided – the Previous Audit found that notwithstanding the changes in the characteristics of the recipients of the nursing care benefit, and notwithstanding the conclusions arising from the studies funded by the NII and which dealt with alternative arrangements for the provision of the services, about thirty years after the enactment of the nursing Care Insurance Law, the NII had not yet examined the possibility of modifying the arrangement determined in the Law to improve the quality of life of the elderly and his family members. The follow-up audit found that the deficiency had been rectified: in March 2018 an amendment to the NII Law regarding the reform in nursing care was published, to expand, improve and optimize the nursing care services for the Elderly, allowing receipt of the benefit in money, thus in September 2021 about 34% of the Entitled Persons received a benefit in service, 52% received a combined benefit (a benefit in service and a benefit in money), and approximately 13% received a benefit in money.

A heavier burden on the family the more restricted the elderly is in his functioning – the Previous Audit found that even though the NII had agreed that more hours should be allotted for care for elderly with high dependency levels, this had not been done, thus adversely affecting the care of these elderly, and making the burden on their family members heavier. The follow-up audit found that the deficiency had been rectified: as part of the amendment to the NII Law and as part of the nursing care reform, weekly service units (home



care hours per week) were added to the care of elderly on the high levels: up to 30 hours a week for whoever is cared for by an Israeli caregiver and 26 hours for whoever is cared for by a foreign caregiver.

Key recommendations

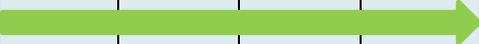
-  It is recommended that the NII, in conjunction with the other representatives of the inter-ministerial committee (the Accountant-General and the Budgets Department), determine a schedule for updating and completing the staff's work for the preparation and publication of the new nursing care tender. It is further recommended that the NII, within the new tender, change the training program and its scope and assimilate it among the nursing care companies.
-  It is recommended that the NII examine the trend of the changes in the dependency levels and consider integrating into the new tender incentives which will encourage the nursing care companies to maintain, as far as possible, low dependency levels of the elderly and simultaneously ensure that they exhaust their proper right according to their essential medical needs to prevent additional deterioration in their condition.
-  It is recommended that the NII promote the control tender and the telephone survey engagement with the care quality control companies.
-  It is appropriate that the NII direct the nursing care companies to refer the caregivers who have undergone professional training to care primarily for the elderly with high dependency levels. The NII should observe that the nursing care companies comply, at the very least, with tender conditions insofar as the caregivers' training is concerned, particularly for elderly with high dependency levels, to ensure the care quality for the nursing Care Elderly.
-  It is recommended that the NII implement the recommendations of the inter-ministerial committee formed following the Government decision in May 2020⁴ in the new agreement with the companies regarding the updated training program. It is further recommended that the NII examine ways of integrating the updated training program into the present agreement with the nursing care companies.
-  It is recommended that until the operation of the new tender, the NII request the work diaries from the nursing care companies in a computerized manner, to ensure control under the existing restrictions.

4 Government Decision 43, "Road Map for the Israeli Caregivers of the Long-Term Care Elderly Persons Industry" (31.5.20).



 It is recommended that the NII act proactively to clarify vis-à-vis the nursing Care Elderly entitled to care hours the reason they have not exhausted this right and that it would assist them in doing so.

Extent of rectification of the main deficiencies noted in the Previous Audit

Audit chapter	Previous audit deficiencies	The extent of deficiencies rectification in the follow-up audit			
		Not rectified	Rectified to a small extent	Rectified to a large extent	Fully rectified
Modifying the existing arrangement of the services provision method	The NII did not examine the possibility of modifying the arrangement prescribed in the Law to improve the quality of life of the nursing Care Elderly and their family members.				
A heavier burden on the family the more the elderly is restricted in his functioning	Even though the NII had agreed that more hours should be allotted for care for elderly with high dependency levels, this was not done, thus adversely affecting their care and making the burden on their family members heavier.				
The NII's engagement with the nursing care companies	It was recommended that the NII and the Accountant-General integrate into a new tender and the a contract with the nursing care companies quality indices for home care and determine methods for ascertaining that the companies comply with these indices to ensure the care quality.				
The NII's inclusive liability for ensuring the home care quality	The NII did not fulfill its inclusive liability for ensuring the quality of home care.				



Audit chapter	Previous audit deficiencies	The extent of deficiencies rectification in the follow-up audit			
		Not rectified	Rectified to a small extent	Rectified to a large extent	Fully rectified
Regulating control over the caregivers' training	The NII did not define care quality indices in the contract with the Ministry of Labor, Welfare, and Social Services or Clalit Health Services. Neither did it determine the methods of controlling the implementation of home care and its quality. The NII does not have full information about the findings of the control conducted by the control bodies, and therefore it is not able to evaluate the quality of the home care provided to the Entitled Persons and locate defective care cases. The NII did not determine the areas and subjects the controlling bodies are required to track and control, nor did it determine comparable care quality indices, nor did it prepare a uniform supervision form containing such indices.				
Supervision and control over the caregivers' training	The NII contented itself with a determination in the contract that the nursing care companies would provide professional training, according to the defined training program, for only 30% of the caregivers employed. Regarding the remaining caregivers (70%), it determined that the nursing care companies must train them, but it did not define the scope and content of the required training.				
	The NII did not determine priorities in referring the caregivers who had undergone professional training according to the characteristics of the nursing Care Elderly and did not directly refer them first and foremost to care for elderly with high dependency levels.				



Audit chapter	Previous audit deficiencies	The extent of deficiencies rectification in the follow-up audit			
		Not rectified	Rectified to a small extent	Rectified to a large extent	Fully rectified
	<p>The NII does not have control over the compliance of the nursing care companies with their commitments in the contract. It does not examine the training data it received from the companies – it does not verify them, nor does it analyze them to ascertain that the companies comply with the conditions prescribed in the tender: 30% of the caregivers undergone professional training.</p>				
	<p>The training program defined by the NII for training Israeli caregivers does not contain the necessary contents.</p>				
Remote attendance reporting system	<p>The NII had not developed a technological method to track the caregivers' reports "and thus for years remained exposed to over-reporting by caregivers and deviations from the care programs".</p>				
Allotting care hours to Entitled Persons	<p>From 2011 to 2015, the scope of the missing care hours was about 16 million hours – about NIS 680 million – approximately 3% of the total home care hours to which the nursing Care Elderly were entitled during those years.</p>				



Summary

By 2060 there are expected to be over 780,000 recipients of a nursing care benefit, almost fourfold the number of recipients of the benefit in 2021. The payments in the nursing care industry are due to reach about NIS 57 billion, more than fivefold the payments in 2021. These considerable State resources are designed to ensure the nursing Care Elderly right to age with dignity, including receiving appropriate quality nursing care. The follow-up audit findings raised that some of the deficiencies noted in the Previous Report have been rectified, mainly following the care reform and the legislative amendments; however, deficiencies that have not been rectified also arise, the main one being the absence of a new engagement agreement with the nursing care companies. The NII should rectify the deficiencies detailed in this report.



Report of the State Comptroller of Israel | May 2022

Amidar, The Israeli National Public
Housing Company Ltd.

**Maintenance of
Apartments
Belonging to Amidar,
the Israeli National
Public Housing
Company Ltd.**



Maintenance of Apartments Belonging to Amidar, the Israeli National Public Housing Company Ltd.

Background

Amidar, the Israeli National Public Housing Company Ltd., is a government company as defined in the Government Companies Law, 1975, and fully controlled by the State. Its main activity is managing, renting, and selling about 38,000 public housing apartments, almost completely are occupied by tenants from the low socio-economic populations in the State of Israel. Amidar acts according to management agreements signed with the Ministry of Construction and Housing, responsible for public housing and supervising its management. According to the agreement, Amidar has committed to manage the apartment array, house the tenants, and handle them under the rules and directives of the Ministry of Construction and Housing. The agreement prescribed, among other things, the services and their quality levels that Amidar must provide.

Amidar manages the public housing via 15 service centers spread over three districts (North, Central, and South). The responsibility for maintenance and repair works is divided between the Service Department, operating the national telephone service hotline receiving tenants' calls, and day-to-day repair and maintenance in the public housing apartments, and the Engineering Department at Amidar, which is professionally responsible for engineering and construction, via contractors and supervising projects which are not day-to-day maintenance and repairs.



Key figures

**about NIS
197 million**

the public housing management fee paid by the Ministry of Construction to Amidar in 2020

**about
38,000
apartments**

public housing apartments managed by Amidar (out of about 50,000 – all public housing apartments)

**about
75%**

of the public housing apartments managed by Amidar were built over 40 years ago

**NIS 22.5
million**

the annual average sum Amidar spent (not including VAT) from 2018 to 2020 on breakdown maintenance¹ in the apartments and buildings following hotline calls

54,973

hotline service calls for treating breakdown maintenance opened at the service center and handled in 2020

**1,757
apartments**

which Amidar renovated in 2020 – 640 apartments underwent a deep renovation, and 1,117 apartments were renovated before the occupancy

**about
13%**

of the apartments occupied in 2020 within a longer time than required (60 business days from the date of the previous tenants' departure until the completion of the renovation and occupancy by the new tenant)

**about NIS
177
million**

were paid to contractors for renovation and maintenance works in 2020. 56% of the payments were paid to about 20% of the contractors (21 out of 101 contractors)

¹ Day-to-day maintenance works such as repairs to exposed or concealed water pipes, sanitary plumbing (opening blockages in the sewage lines) and electrical repairs.



Audit actions

-  From March to September 2021, the Office of the State Comptroller examined the maintenance of Amidar's public housing apartments. Including the management of the public housing's maintenance process, the implementation of the management agreement, the Ministry of Construction and Housing's control over the public housing's maintenance, and the engagements with maintenance contractors. The examination was conducted at Amidar and the Ministry of Construction and Housing.

Key findings

-  **Budgeting the public housing's maintenance** – in 2017–2019 the basic authorization to commit budget determined at the beginning of each year (about NIS 86 million during the three years together), was lower (at rates of 320%–490%) than the budget allocated until the end of the year (about NIS 444 million during the three years together), since additions were made to the basic budget every year following applications by the Ministry of Construction. The execution data in 2018–2019 was about 125 and NIS 156 million a year respectively that are about 30% and 40% of the need estimated by Amidar for proper maintenance of the public housing apartments – a total of about NIS 400 million per annum.
-  **Breakdown maintenance** – out of the 755 cases of safety defects that Amidar reported during 2020, in 146 (about 19%), the repair time exceeded 48 hours – the duration determined in the Service-Level Agreement (SLA). In about 15% of the apartments where works were performed (4,005 apartments), about 10% of all Amidar apartments, ten and more calls were opened and the breakdown maintenance works expenditure was about 38% of the total on breakdown maintenance in all the apartments, about an average of NIS 6,500 per apartment over three years. I.e., a considerable part of the breakdown maintenance budget is used for day-to-day maintenance of a few apartments.
-  **Extensive renovation** – the number of apartments where extensive renovation was carried out decreased in 2018–2020, lower than Amidar's estimation (2,000), and was an average of 970 apartments. About 92% of the apartments underwent extensive renovation in 2018–2020, and the expenditure was lower than about NIS 55,000 per apartment estimated by Amidar for proper day-to-day maintenance. About 35% of the expenditure was lower than NIS 10,000 per apartment. 59% of the tenants whose apartments underwent extensive renovation in 2018–2019 (1,290 tenants) called the



service hotline in 2020, within one-two year from the completion of the renovation, to report maintenance defects, and their call was dealt with, and 19% (409 tenants) called four or more times. It should be noted that these rates are higher than the rates of calls to the hotline among all the tenants in such a year – 47% and 13%, respectively; i.e., tenants whose apartments had undergone extensive renovation made more calls to the hotline.

-  **Apartments unfit for habitation** – by November 2021, Amidar classified 44 of the apartments under its management as unfit for habitation. According to Amidar, all the apartments were slated for renovation but had not yet been carried out, mainly due to budgetary constraints. The fact that apartments are unfit for habitation is inconsistent with the State's obligation to ensure a proper standard of public housing apartments and its obligation to preserve its assets.
-  **Dangerous structures** – according to Amidar's data, by the audit completion date in September 2021, 35 buildings were classified as hazardous, with 417 apartments, 138 of which were public housing apartments under its management. An examination of 23 buildings classified as hazardous by the local authority (not yet renovated to remove the dangerous hazard) found that seven of them have been awaiting renovation for up to one year; six have been awaiting for one year to two; six have been awaiting from two years to five, and four others have been awaiting for over six years.
-  **Re-occupancy of apartments** – by the audit completion date in September 2021, there are 5,700 households eligible for public housing by the Ministry of Construction and Housing. Approximately 26% of the apartments intended for re-occupancy (291 apartments) were inhabited after six months, and about 39% of the apartments managed by Amidar designed for occupancy have been standing vacant for more than 300 days. The Ministry of Construction and Housing did not have control over Amidar's compliance with the service level for apartment's re-occupancy, it did not examine the reasons for the re-occupancy delays beyond the time prescribed in the service appendix, and it did not fine Amidar for exceeding it.
-  **Control over maintenance works and renovations** – the rate of controls made by the engineering inspectors was approximately 2%, significantly smaller than the required rate of 5%. Likewise, substantial inconsistencies were found between the grades the district engineering inspectors awarded the schedules works times (an average of 94 points out of 100) and the actual state of affairs, and also in comparison to the grade given during the controls for contractors where the maintenance hotline had awarded them with low grades in the annual evaluation. The inconsistencies raise doubts about the quality and effectiveness of Amidar's internal control over the performance of the hotline works.
-  **The Ministry of Construction and Housing's supervision and control over the management agreement** – the Ministry of Construction and Housing did not examine



nor conclude the control findings to understand the reasons for the deviations to minimize and rectify them. Likewise, the Ministry did not appoint inspectors to examine the properties and their standard of maintenance and did not conduct any inspections of the properties.

 **The engagement procedures for the performance of works** – Amidar's Tenders Committee did not publish a call to receive bids from all the tender suppliers as required, even though the orders were over NIS 200,000. Likewise, considerable gaps were found in the distribution of works among the selected contractors. In 2020, 101 renovation contractors were paid NIS 177 million and NIS 100 million (approximately 56%) were paid to 21 (about 20%). The Maintenance and Tenders Department did not report to the Tenders Committee about the distribution of the works among the contractors in the years examined (2018–2020). The Tenders Committee, for its part, did not demand to receive the particulars of the distribution of the works, and it did not discuss this; consequently, the reasons for the gaps in the distribution of works among the various renovation contractors were not examined.



Time standards for performance of repairs – Amidar determined time standards for the repairs' performance in the apartments that are more stringent than the standard defined for these repairs in the management agreement.

Service forum – Amidar operates an internal service forum comprising members of the management and senior staff from the Service and Engineering Departments to discuss the company's service to tenants, such as the activity of the telephone customer's service hotline, the maintenance hotline, the apartment's occupation dates and the company's compliance with the schedules for the maintenance works.

Conducting feedbacks after "circle visits" – Amidar conducted the required number of feedbacks following circle visits² (10% – twice as many as needed).

Key recommendations

 It is recommended that the Ministry of Construction and Housing and the Ministry of Finance jointly examine the maintenance needs regarding the specifications prescribed in the Public Housing Law and the number of apartments and their condition and adopt an appropriate budget.

 It is recommended that Amidar examines cases on an individual basis where there is a large number of calls to the service hotline and consider whether a comprehensive

² An annual visit by an Amidar representative for examining the condition of the property.

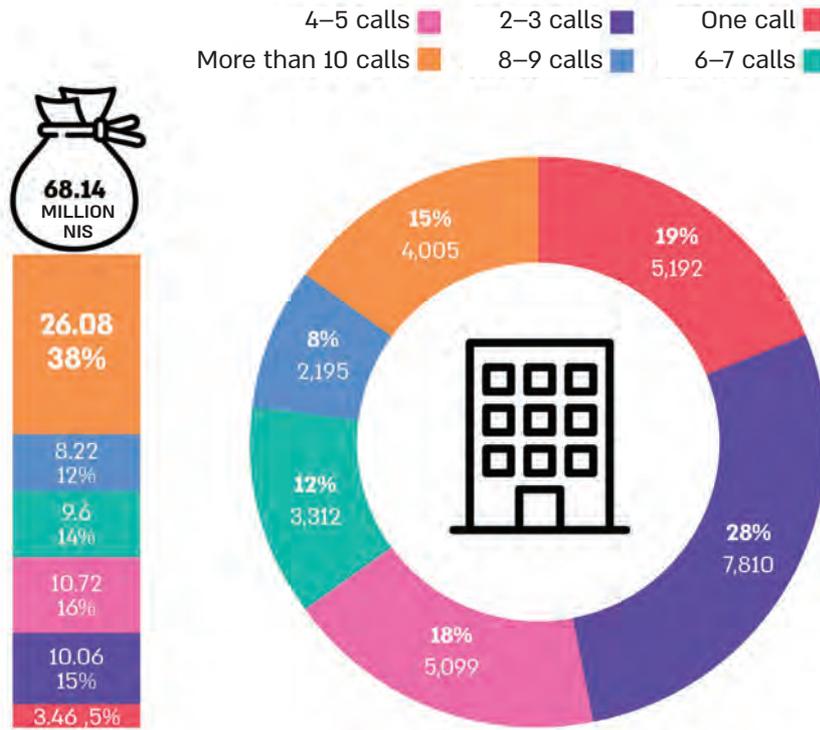


solution is required in their matter, for example – whether a more extensive renovation should be performed.

-  Amidar should repair safety defects within the time prescribed in the management agreement.
-  Given the multiplicity of calls from tenants after an extensive renovation had been carried out in their apartment, it is recommended that Amidar map out and examine why these tenants continued to call the hotline to repair defects and minimize them.
-  The Ministry of Construction and Housing should formulate a budgeted outline to deal with all the dangerous buildings immediately. Within this framework, it is also recommended considering the feasibility of the renovation of a structure to eliminate the safety dangers as opposed to alternatives such as selling or demolition and reconstruction, including as part of urban renewal, without reducing the stock of public housing.
-  The Ministry of Construction and Housing must exercise control over the re-occupancy process and ensure that the apartment is inhabited within the period prescribed in the service appendix, considering the long current waiting list (approximately 5,700 households). If the apartments cannot be inhabited due to a lack of demand or where renovation is not feasible, it should consider selling them.
-  The Ministry of Construction and Housing should ascertain that it performs all its controls over Amidar, and it is recommended to use the control results to improve Amidar's work.
-  Amidar's Tenders Committee should discuss the current data regarding the distribution of works to contractors, examine the reasons for the gaps and strive toward an equal distribution. It is recommended that Amidar examine methods of encouraging additional contractors to submit bids in its tenders.



The number of apartments where breakdown maintenance was carried out, according to the number of calls to the service hotline and according to the financial expenditure (in NIS millions), 2018–2020



According to Amidar's data, processed by the Office of the State Comptroller.



Summary

Amidar manages most public housing apartments (approximately 38,000 out of roughly 50,000). About 75% of them were built over 40 years ago and are occupied by tenants from a low socio-economic class in Israel. Amidar's management agreement with the Ministry of Construction and Housing regulates the apartments array, including its responsibility for their maintenance to ensure the rights and obligations of an eligible tenant under the Tenants' Rights in Public Housing Law, 1998, and its regulations.

As part of its apartment maintenance, Amidar uses external contractors to carry out day-to-day maintenance works, extensive renovation, and renovations before re-occupancy. The audit raised that in 2018–2020 Amidar had performed many actions, including maintenance works and the repair of defects in approximately 27,600 apartments and the renovation of about 6,800 apartments. However, Amidar's treatment needs improvement. The Ministry of Construction and Housing and Amidar should rectify the deficiencies noted in the audit to maintain a proper standard of public housing apartments.



Report of the State Comptroller of Israel | May 2022

Chapter Four

Defense System



Report of the State Comptroller of Israel | May 2022

Interdisciplinary Audit

**Security Components in
Front Line Communities
in the Regional
Commands –
Follow-up Audit**



Security Components in Front Line Communities in the Regional Commands – Follow-up Audit

Background

Through the Regional Commands, the IDF is responsible for the security and defense of about 900,000 residents living in 399 communities exposed to security risk (communities) near the borders and the Judea and Samaria areas. In addition to the IDF forces, the system for defending these communities also includes forces based on the community's residents whose role is to act in terrorist infiltration to the community until the arrival of the army's forces, including the Civilian military security coordinators (MRSC) and community defense squad. For defending the communities, security components have been defined for them including, by order of the Ministry of Defense (MOD), "infrastructure, buildings, facilities, paths, roads, equipment and other self-defense means, addressing routine security [in the communities] and constituting part of the emergency infrastructure, to help the residents defend the community, to serve as a barrier and deterrent to systemic enemy attack, terrorist attack or criminal attack, and to improve the emergency and rescue services in such an attack or incident".



Key figures

**NIS 500
million**

needed for supplementing security components in Judea and Samaria communities, according to the Home Front Command (HFC) estimate

**NIS 110
million**

needed for supplementing security components in communities in the north of Israel and next to the Gaza Strip (not including Judea and Samaria, the border with Jordan, and the border with Egypt), according to an HFC estimate

**NIS 54
million**

has been allocated to the HFC to strengthen security components in 21 communities in the Northern Command Region (NCR), of which the HFC has received and utilized NIS 34 million (63%)

144

incidents of terrorist infiltrations to communities in Judea and Samaria from January 2019 to September 2021

**NIS 85
million**

HFC's annual security components budget

71

MRSCs (51% of the MRSCs who responded to the questionnaire distributed by the State Comptroller Office)¹ stated that communication with IDF forces takes place using non-military communication means

**NIS 10.6
million**

has been allocated by the HFC for the acquisition of thousands of two-way radios for intra-community communication in a tender published in 2019. By the audit end date, the radios had not yet been distributed

21%

of "Barak Katom" devices required by the standard have been distributed to Judea and Samaria communities

1 140 MRSCs answered the questionnaire out of 430 MRSCs in all of the sectors (including MRSCs from communities that are under the responsibility of the Ministry of Public Security and MRSCs from communities in which there is more than one MRSC).



Audit actions

 From January 2020 to October 2021, the State Comptroller Office intermittently conducted a follow-up audit of the rectification of the deficiencies raised in the previous audit (published in 2018) on the security components in front-line communities. The audit was conducted in the IDF: in the HFC, Northern Command, Central Command, Southern Command, the Ground Forces command and the Operations Directorate, and the Settlement Unit in the MOD. Supplementary examinations were conducted in the Israel Police, the Mateh Binyamin, and South Mount Hebron Regional Councils. As part of the audit, the State Comptroller Office distributed a questionnaire to security officers and MRSCs in the local authorities where the front-line communities are located.

This audit report was presented to the Prime Minister and the Knesset State Audit Committee on February 15, 2022, and was classified as confidential until the State Audit Committee's subcommittee hearing.

By the authority under Section 17(c) of the State Comptroller Law, 1958 [Consolidated Version], and after considering the government's arguments, consulting with the bodies responsible for the protection of national security information and in coordination with the Chairman of the Knesset, since the subcommittee above did not convene, it was decided to publish this report while imposing confidentiality on sections of it. These sections shall not be submitted to the Knesset, nor shall they be published.

The findings of the audit report and its recommendations are valid as of the date of its presentation.

Key findings



 **The security components adequacy** – in 2017–2021, the HFC increased the portion of the budget for restoring and revitalizing security components. However, the budget size is still less than half of the budget required (about NIS 45 million is needed) as determined in 2017. The budget that the HFC, together with the Settlement Unit, allocates for maintenance of security components changed in 2015–2021 and stands at 82% on average of the budget required (about NIS 57 million is needed). In addition, the questionnaire distributed to the MRSCs raised gaps in the adequacy of various security components, including security fences, security roads, security lighting and guard booths.



The plan for closing the gaps in the security components – the previous audit raised that as the 2012 HFC plan was not implemented and due to the emergence of new needs, the gaps in the security components grew. Consequently, it was recommended that the IDF and the MOD, each in its responsibility and in coordination, formulate a plan for reducing the gaps in the security components. The follow-up audit found that **the deficiency was only slightly rectified**. The HFC did formulate plans to close the gaps, however, out of the plan for closing the security components gaps throughout the country, only the portion relating to communities in the north was approved at about NIS 54 million, and only about NIS 34 million was budgeted. In addition, the plan to reduce the gaps in Judea and Samaria was not discussed at the Ministerial Committee on National Security Affairs (the State Security Cabinet), and as a result, was not budgeted, even though this is the most threatened region and has significant gaps in the security components, estimated at about NIS 470 million.

Distribution of two-way radios – the previous audit found that the HFC provided 28% and 63% out of all of the Barak Katom devices and two-way radios for internal communication (respectively) that it was supposed to provide to front-line communities and did not set a timetable for completing the provision of these devices. It also found that Central and Southern Commands distributed other military radios to the communities without the distribution controlling or setting procedures or reporting to the HFC. As a result, the HFC did not have complete information on the communities' ability to communicate with IDF forces. The follow-up audit found that **the deficiency had not been rectified**. Despite the great importance of the existence of communications networks as part of the community defense doctrine, the IDF does not have a uniform and clear situation report of the gaps in distributing "Barak Katom" devices to the classified communities, with all that entails. It also found that the communication gaps led the MRSCs to use communication means that are not military and not part of the IDF acquired communication system. In addition, the HFC Commander's directive regarding distributing standard military radios to Judea and Samaria communities as an alternative to the "Barak Katom" devices was not implemented. This alternative does not fully address operational needs, as these devices also have reception problems in some areas of Judea and Samaria. Given the physical limitations of the device, it does not provide an available solution for the MRSCs.

Communication gaps in the Command Regions

Northern Command – the follow-up audit raised that the existing arrangement for communication between community defense forces and IDF forces in the Northern Command region is quite partial and has even worsened since the previous audit due to the change of use procedures of "Barak Katom" devices in routine times, without a proper alternative that provides immediate response for unexpected emergencies. The main communication means between MRSCs and IDF forces are not military and might not function in an emergency event.



Central Command – the follow-up audit raised that there are communication gaps between IDF forces and the defense forces of the communities in Judea and Samaria that arise from reception gaps and a lack of two-way radios. These gaps may constitute a severe operational failure in the communities' defensive system.

Southern Command – the follow-up audit raised communication coverage gaps in the Southern Command Region.

All regions – the follow-up audit raised that the **deficiency regarding the deployment of relay stations was slightly rectified**, and despite the IDF's investment in establishing new relay stations in 2017–2020, there are still substantial reception problems in all regions. It also found that the HFC's activity to strengthen intra-community communication does not address communication problems outside of the communities. In addition, the situation assessment raised by the MRSC questionnaire indicates that almost half of the MRSCs have difficulty maintaining communication with the IDF and with emergency services, including the Israel Police using the communication means at their disposal.



The HFC's communities' classification procedure – the previous audit raised that the HFC had not updated the classifying communities' procedure since 2011, including the division into classifications and the security components each community is entitled to have due to its classification. It also found that communities classified as "seam lines" are entitled to participation in the cost of maintaining infrastructural security components and supplementary security components. They are not entitled to restoring infrastructural and supplementary security components and establishing security components in the case of the community's expansion. The follow-up audit raised that **the deficiency has been rectified**. Since the last audit, the HFC has updated the classifying communities' procedure several times, including the standard of security components necessary for each classification. As part of updating the procedure, the "seam line" classification was canceled. These communities were reclassified according to the updated procedure for classifying communities, which also entitles them the standard of security components in all aspects of their life cycle: establishment, maintenance, and restoration.

The General Staff Order for Regional Defense and the operational directive for security components and the community defense – the previous audit raised that even though the Ground Forces hold overall responsibility for force buildup regarding the communities protection, the IDF had not assigned it a role in planning the security components in communities in the General Staff Order for Regional Defense, which regulates the responsibility of the bodies involved in defense of communities. The follow-up audit raised that **the deficiency has to a large extent, been rectified**. In February 2018, the IDF updated the General Staff Order for Regional Defense. The updated order states that the



Ground Forces are also responsible for approving the Regional Commands' operational requirements on the security components. Nevertheless, the IDF should ensure that there is complete compatibility between the General Staff Order for Regional Defense, which defines the roles of the IDF bodies involved in communities defense and their areas of authority and responsibility, and the operational directive on the communities defense that are meant to implement the General Staff Order for Regional Defense.

The allocation of security components is based on various priorities – the previous audit raised that the Settlement Unit and the HFC separately provide budgets for basic security components according to different priorities. The HFC allocates the budget for establishing and acquiring basic security components according to the operational priorities determined by the Operations Directorate. While the Settlement Unit allocates the budget according to priorities determined by the Minister of Defense, and the two do not match. The follow-up audit raised that **the deficiency has to a large extent, been rectified**. The Mod Director General approves the Settlement Unit's and the HFC's work plans regarding the security components with a comprehensive perspective. The HFC approves sections of the work plans of the Settlement Unit, and it does so, among other things, based on the operational requirements of the Regional Commands. The amount of investment not according to the IDF priorities has been significantly reduced compared to the previous audit. Nevertheless, there is still a gap between the priorities for investment in security components set by the HFC and the Settlement Unit.

Equipment of the community defense departments in Central Command communities – the previous audit found that in 35 out of the 47 settlement defense departments that were examined, there was a shortage of necessary equipment, including in communities classified as "front." The follow-up audit raised that **the deficiency has to a large extent, been rectified**. Since the last audit, the shortage of equipment for the community defense departments has been largely reduced. Nevertheless, it found that the inventory of weapons in communities in the Center Command Region was about 40% higher than the standard and that the inventory of combat equipment indicates a shortage of about 6% compared to the standard. Consequently, the IDF should ensure the compatibility of weapons inventories with the required standard and consider collecting surplus weapons beyond the standard.



Key recommendations

-  Given the gaps in security components that have grown over the years, it is recommended that the MOD complete the proposal for decision on budgeting the gaps in security components in Judea and Samaria communities and bring it for discussion in the State Security Cabinet, alongside the required needs regarding the security components in additional regions, to approve a multi-year plan for closing the gaps in security components, subject to costs and risks, and to budget it accordingly.
-  Given the great importance of an available communication system between all of the forces responsible for defending the communities in coping with the danger of infiltration by hostile elements, the IDF, together with the MOD, should complete the distribution of the communication means that have been acquired to improve intra-community communication. In addition, given the shortage of "Barak Katom" devices in some of the communities, it is recommended that the IDF consider transferring devices of this kind from classified communities in which their use has been discontinued, to communities in which there is a shortage, instead of acquiring new devices, subject to the formulation of policy on the use of these devices.
-  The IDF should map out the needs and operational gaps that exist today regarding communication aspects between the community defense systems' and IDF forces, consider a solution to achieve continuous and effective communication between IDF forces and community defense forces, and formulate a plan for implementing it.
-  It is recommended that the MOD, together with the Ministry of Public Security, determine an operational doctrine and a central body – responsible and authorized for improving and optimizing the communication between all the bodies participating in emergency responses and the defense of communities.
-  It is recommended that the MOD define boundaries between the HFC activity and the activity of the Settlement Unit regarding basic security components to maximize efficiency in their activity.
-  The HFC should continue to develop the system for managing the inventory of security components and update it with the adequacy of the components to serve as a meaningful tool for managing the inventory of security components.



Main gaps in security components by region, April 2021

Sector		Threat probability	Main gaps
Central Command: Judea and Samaria		High	Infrastructure, technology and teleprocessing capabilities
Central Command: the Jordan Valley		Medium	Infrastructure, technology and teleprocessing capabilities
Northern Command: border with Syria	Up to 4 km	High	Restoration of basic security components
	4–9 km	Medium	Restoration of basic security components
Northern Command: border with Lebanon	Up to 4 km	High	Strengthening security infrastructure
	4–9 km	Medium	Restoration of basic security components
Southern Command: border with Gaza	Up to 4 km	High	Restoration of road infrastructure
	4–7 km	Medium	Restoration of road infrastructure
Southern Command: border with Egypt	Up to 4 km	Medium-high	Security infrastructure
Southern Command: border with Jordan	Up to 4 km	Low	Teleprocessing equipment



Extent of rectification of the main deficiencies raised in the previous audit

Security components in front-line communities – key findings of the follow-up audit		The extent of the deficiencies rectification in the follow-up audit			
Audit chapter	Previous audit deficiency	Not rectified	Rectified to a small extent	Rectified to a large extent	Fully rectified
Orders and directives related to community defense and security components	The HFC has not updated the classification of communities' procedure since 2011.				
	The IDF had not assigned the Ground Forces to plan the security components in communities by the General Staff Order for Regional Defense.				
Allocation of security components in front-line communities	The 2012 HFC plan was not implemented and caused the gaps in security components to grow.				
	The Settlement Unit and the HFC separately budgeted the basic security components according to different priorities.				
Communication and means of communication	The HFC had not provided the classified communities with all of the "Barak Katom" devices and two-way radios for internal communication that it was supposed to provide and had not determined a timetable for completing their supply. Central and Southern Commands had distributed other military radios to the communities with no distribution control or report to HFC.				



Security components in front-line communities – key findings of the follow-up audit					
Audit chapter	Previous audit deficiency	The extent of the deficiencies rectification in the follow-up audit			
		Not rectified	Rectified to a small extent	Rectified to a large extent	Fully rectified
Equipment for the community defense departments	In 35 out of the 47 community defense departments examined, there was a shortage of the required equipment.				
Management and control of security components by the HFC	The HFC does not have complete information about the gaps in security components in the classified communities and the cost of closing the gaps.				



Summary

About 900,000 residents live in front-line communities near Israel's borders and the territories of Judea and Samaria. In the effort to defend these communities from by terrorists' infiltrations, various bodies are engaged in establishing and maintaining security components in the scope of hundreds of millions of NIS over the years. The resources invested in the restoration and maintenance of security components are less than required by operational needs.

The follow-up audit raised that since the previous audit, published in 2018, some of the deficiencies regarding managing the allocation of security components have been rectified, as is expressed mainly in improving the coordination between the HFC and the Settlement Unit, in reducing the differences between the priorities of the two bodies for implementing security components and in formulating an aggregate work plan for handling the security components. The IDF and the MOD should rectify the deficiencies that have not been rectified and those that have arisen since the previous audit mainly the implementation of an effective and available communication system for all of the community defense forces and advancing the proposal for a decision on budgeting the closing of the gaps in security components in Judea and Samaria communities, which are the most threatened and are the top operational priority, bringing it to the discussion in the State Security Cabinet and budgeting it accordingly.



Report of the State Comptroller of Israel | May 2022

Interdisciplinary Audit

**Samaria and Judea
District of the
Israel Police –
Follow-up Audit**



Samaria and Judea District of the Israel Police – Follow-up Audit

Background

In September 1994, the Israel Police (IP) established the Samaria and Judea District ("the district"). The district covers a broad geographical area – from Mount Hebron in the south to the Megiddo region in the north and from the Judea and Samaria boundary line region in the west to the Jordan Valley in the east in Area C. The District is the second largest of the IP districts. Many roadways are paved within its territory, some of them main roads serving the Palestinian population and the Israeli residents.

Key figures

12,865

the number of cases opened in the District in 2020 for offenses of disturbing public order, security violations, and damage to property

48,371

the number of traffic tickets issued in the district in 2020, out of which 36,074 were issued to Palestinians (about 75%)

most of

of the inventory of ceramic vests intended to protect the safety of the district's police officers are old vests past their expiry date

tens

of the district's bulletproof vehicles do not address its needs to fulfill its missions

Audit actions

 From February to August 2021, the Office of the State Comptroller examined the activities of the IP, the Coordinator of Government Activities in the Territories (COGAT), the Civil Administration (CA), and the IDF to rectify the main deficiencies noted in the previous audit on the IP's District (the follow-up audit). The follow-up audit was conducted in the IP, COGAT, the CA, and the IDF: in Central Command and the Military Police. Supplementary examinations were done until November 2021.



This report was presented to the Prime Minister and the Knesset State Audit Committee on February 15, 2022, and was classified as confidential until the State Audit Committee's subcommittee hearing.

By the authority under Section 17(c) of the State Comptroller Law, 1958 [Consolidated Version], and after considering the government's arguments, consulting with the bodies responsible for the protection of national security information and in coordination with the Chairman of the Knesset, since the subcommittee above did not convene, it was decided to publish this report while imposing confidentiality on sections of it. These sections shall not be submitted to the Knesset, nor shall they be published.

The findings of the audit report and its recommendations are valid as of the date of its presentation.

Key findings



The extent of rectification of deficiencies that were raised in the previous audit

-  **Securing certain police activity** – in the follow-up audit, disparities were found in the standards of securing certain police activity and the procedure application. Some of these disparities **were not rectified** in relations to the previous audit.
-  **Bulletproof vehicles** – on the previous audit's completion date, the District operated only few tens of bulletproof vehicles for carrying out its missions, which were intended for transporting combat police and coping with riots on roadways and in villages. The previous audit noted that these vehicles are not suitable for police missions in the district and that there is a need for other, lighter bulletproof vehicles. The follow-up audit found that **the deficiency has not been rectified**: in June 2021, the District operated using the same kind and the same number of bulletproof vehicles serving a few hundred field police officers, which does not fully address the district's needs to fulfill its missions.
-  **Ceramic vests** – for a ceramic vest (a vest that protects against light weapons fire) to protect its wearer effectively, it is necessary to replace the ceramic plates located within it frequently by the manufacturer's instructions. The previous audit raised that the ceramic plates have past their expiry date in most of the Districts' ceramic vests and do not meet the manufacturer's requirements. The follow-up audit found that **the deficiency has not been rectified**: most of the inventory of ceramic vests intended for protecting the safety of the district's police officers are old vests, in which the ceramic



plates are past their expiry date, and they do not meet the manufacturer's requirements, which might risk the lives of the police officers and harm their ability to fulfill their missions.

Information on the licensing of Palestinian vehicles and on Palestinian drivers driving on the District's roads – the District Traffic Department is in charge of enforcement, handling traffic collisions and lawsuits in it and coordinating service for citizens. Thus, it needs to receive up-to-date information about the Palestinian vehicles and drivers traveling on the District's roads. In the previous audit, the Office of the State Comptroller noted to the CA on the ongoing deficiency in transferring this essential information, from the CA to the IP, for transport law enforcement in the District. It stated that the existing information gaps between the two bodies could endanger all road users. The follow-up audit found that **the deficiency has not been rectified**: the transfer of the essential information from the CA to transport law enforcement officials in the District is still deficient, and there are information gaps between them. The existing information gaps harm the functioning of law enforcement officials and might endanger all road users in the District's territories.

Investigating falsified real estate transaction offenses – the previous audit raised that the District police stations cannot handle suspicions of falsified real estate transactions in it due to the lack of professional personnel and that the investigations in these cases last a long time. The previous audit also found that delays in handling complaints regarding real estate fraud offenses could have serious consequences, such as violating the property rights of real estate purchasers, undermining public confidence in the law enforcement system, and harming economic activity in the District. The follow-up audit found that **the deficiency has not been rectified**: in recent years, there has been an increase in serious suspicions of falsified transactions and real estate purchases in the District; examining the permanent arrangement for investigations of falsified real estate offenses has not been completed, and the District does not professionally address the investigation and gathering of sufficient evidence to prosecute the suspects of these offenses.

Additional deficiencies that were raised in the current audit

The CA's handling of collecting fines due to traffic offences by Palestinian drivers – the follow-up audit raised that until December 2021, the CA did not prevent Palestinian drivers who did not pay the fines to enter into Israel. The scope of the fine that was not collected in 2014–2021 is estimated at NIS 270 million. In addition, it found that the data transfer on fines between the IP and the CA is done via Excel files without computer systems connection. It also raised that from 1998 (the year of the government's decision on the procedure for preventing entry into Israel for people with monetary debts to governmental authorities in Israel) until December 2021, the CA did not implement the procedure that the government of Israel had decided on.



The District's Control Center (CC) – the previous audit raised that one of the main lessons learned from investigating the murder of the three adolescents and Operation "Brother's Keeper" is that it is imperative to improve the functioning of the 100 hotlines, with an emphasis on the telephone exchanges technological improvement by the command and control operational concept. The operation of the CC, which also includes the 100 hotlines, requires a fast, professional and service-oriented response to callers and management and control of emergency events. The previous audit raised that in June 2017, the District's CC operated with 11 police officers who had been temporarily assigned to it from throughout the district and had not been trained for their positions. The follow-up audit found that the deficiencies had been rectified. In September 2021, police officers were not temporarily assigned to the CC, and the position holders at the CC were trained for their position. It also raised that in 2019, the district's entire 100-hotline telephone exchanges system had been replaced with digital telephone exchanges, and were technologically improved. However, two regional districts expressed dissatisfaction regarding the District's CC interface with the civilian hotline operating within their territory, which requires clarification between the two bodies.

Shielding of the District CC – the previous audit raised that the District CC is located in an unshielded building and that the district have no alternative CC to transfer its activity in times of emergency if the need arises. The follow-up audit raised that the deficiency has been rectified. The construction of a new and shielded CC in the district is about to be completed and is meant to be operated by the beginning of 2022. In November 2020, an alternative CC for the District was inaugurated at the national headquarters of the IP.

The average response time for calls received at the District's 100 hotlines is – 2.67 seconds, which is 35% shorter than the national average response time of – 4.14 seconds.

Investigation of Border Police gunfire incidents that caused injuries or deaths in the District – the previous audit stated that for many years, the District itself had investigated Border Police officers who were involved in gunfire incidents that caused the injury or death of Palestinians, not by the Police's orders and at a slow pace. In January 2018, the Prime Minister decided that handling complaints against Border Police officers who operated under the IDF's command in the District would be transferred to the IDF or the Military Police. The follow-up audit raised that the deficiency has been rectified: in October 2019, the authority for examining and investigating all incidents of gunfire carried out by Border Police officers who operated in the District under IDF command was transferred to the IDF (to the National Unit for Operational Investigations in the Military Police headquarters), and by the audit completion date, the IDF had investigated seven cases of gunfire by Border Police officers in the district.



Key recommendations

-  The Office of the State Comptroller notes the IP and the Ministry of Public Security to reconsider and reassess the security needs of certain police activity and to optimize this activity.
-  Given the importance of acquiring bulletproof vehicles that are suitable for the district's needs and its impacts on the district's operational ability to fulfill its missions, it is recommended that the IP complete the supply of bulletproof vehicles to the district, according to the established standard. In addition, it should complete the District's needed acquisition of ceramic or alternative vests that are not past their expiry date and, by the manufacturer's requirements.
-  COGAT should act to realize development of the computer interface between the CA's and the IP's computer systems. Afterward, the CA and the IP should cooperate to transfer the information between the District and COGAT efficiently.
-  It is recommended that the CA and COGAT examine additional ways to improve the collection of fines issued to Palestinians in coordination with the IP to increase the effectiveness of transport law enforcement.
-  The IP should act to complete the examination of ways to establish a professional district fraud unit for the District. This unit could efficiently investigate real estate fraud cases, especially as there has been an increase in serious suspicions of the falsification of real estate acquisitions and transactions in the District.



Security and protection deficiencies that raise concerns about the safety of the District's police officers





Summary

The District Police has an essential role in enforcing the law and maintaining public order in it. The district handles serious security offenses alongside incidents of nationalistic and criminal offenses. Threats of hostile terrorist activity, the number of incidents with an emphasis on terrorist attacks, and the finding of weapons in the District's territories lead to its police officers operating in a high-risk environment. The follow-up audit raised that some of the deficiencies found in the previous audit have been rectified fully or to a large extent. The IP, the Ministry of Public Security, the IDF, and COGAT should rectify the deficiencies that have not been rectified since the publication of the previous audit to ensure the security and safety of the civilian population, road users in the District, and its police officers.



Report of the State Comptroller of Israel | May 2022

The Government Defense Industries

**Aspects of the
Relationships
between Israel
Aerospace Industries
Ltd. and the Ministry
of Defense with an
Emphasis on
Development Projects**



Aspects of the Relationships between Israel Aerospace Industries Ltd. and the Ministry of Defense with an Emphasis on Development Projects

Background

Israel Aerospace Industries Ltd. (IAI) is a wholly government-owned company. The company operates through four business divisions in four main activity sectors: missiles and space, military electronics, military aircraft, and civilian aviation. In 2020, its sales totaled about USD 4.18 billion, of which about USD 3.33 billion were to the military market (about 79%). Since 2007, the company has been a "reporting corporate" as defined in the Securities Law, 1968¹. Accordingly, it is subject to the law's provisions and regulations.

The Ministry of Defense (MOD) is a central and dominant body in the defense acquisitions in Israel, which operates in several spheres with respect to the defense industries: it is an essential customer of them, works to increase their sales abroad, and as a regulator of defense exports. The Minister of Defense is responsible for the government's defense industries. The MOD engages with its suppliers, including IAI, by its directives, which among other things, determines economic rules for its engagements. In general, the MOD's engagement forms with its suppliers are divided into cost-plus engagements and fixed-price engagements.

In 2020, IAI's revenues from MOD acquisitions totaled about USD 993 million, about 24% of its revenues. The remaining orders from the MOD were about 20% of the company's order backlog as of December 31, 2020 (about USD 2.6 billion). In general, the IAI's research and development (R&D) activity for the MOD takes place mainly through orders received from it, part of which are combined with self-financed by the company. The R&D activity includes R&D programs at initial stages² and full-scale development projects³ (development projects).

1 A corporate that is obliged to file reports and announcements to the Securities Authority and the Tel-Aviv Stock Exchange, or only to the Securities Authority according to the securities law.

2 Up to the pre-development stage (inclusive).

3 Full-scale development (FSD) – mainly engineering adjustments and supplements that are made to a technology demonstration until reaching an operational system. Full-scale development projects sometimes also include producing an initial series of the product.



Key figures

an absolute majority

of the engagements of DDR&D⁴ with IAI and with Rafael Advanced Defense Systems Ltd. in 2017–2020 had an exemption from a tender⁵

a significant majority

of the dozens of main development projects⁶ of IAI for the MOD in 2016–2020 were done in fixed-price engagements

a few percent

the minimal operating profit margin that IAI defined in its strategic plan for engagements in fields "that are necessary for defense needs of the MOD" in contrast with other percentages in the rest of its engagements with the MOD and with other customers

190

the average annual number of deals that IAI signed with the MOD during the past three years, at an average of USD 5.2 million per deal

a certain portion

of the main development projects carried out by IAI for the MOD in 2016–2020, with an operating loss. This in contrasts with a smaller portion of the projects it carried out for foreign customers

about NIS 1 billion

the maximum debt amount of the MOD to IAI in the years 2017–2020 (this debt was in February 2020)

4 The Directorate of Defense Research & Development in the MOD.

5 During the years 2017–2020, the MOD, via the DDR&D, carried out hundreds of tender-exempt engagements with IAI and with Rafael; during these years, IAI and Rafael competed in several individual tenders and won some of them.

6 Projects in which there is a development component, and the revenues from them amounted to a multi-year total of 15 million dollars and up between the years 2016–2020. During 2016–2020 IAI carried out dozens of main development projects for the MOD and many dozens of main development projects for foreign customers.



Audit actions

 From October 2020 to September 2021, the State Comptroller Office examined the relationships between the IAI and the MOD with an emphasis on development projects, including the MOD's policy on ordering development projects; the IAI's policy on carrying out the said projects for the Mod; the forms of engagement in these projects; the profitability of the IAI's development activity for the MOD; the IAI's participation in the development costs of the said projects; and accounting and economic aspects of the engagements under this activity. The audit was conducted in IAI and the MOD. Supplementary examinations were done in the Ministry of Finance, the Israel Securities Authority (ISA), the Ministry of Justice, the Government Companies Authority (the Companies Authority), the Ministry of Economy and Industry, and Rafael Advanced Defense Systems Ltd. (Rafael).

This report was presented to the Prime Minister and the Knesset State Audit Committee on December 30, 2021, and was classified as confidential until the State Audit Committee's subcommittee hearing.

By the authority under Section 17(c) of the State Comptroller Law, 1958 [Consolidated Version], and after considering the government's arguments, consulting with the bodies responsible for the protection of national security information and in coordination with the Chairman of the Knesset, since the subcommittee above did not convene, it was decided to publish this report while imposing confidentiality on sections of it. These sections shall not be submitted to the Knesset, nor shall they be published.

The findings of the audit report and its recommendations are valid as of the date of its presentation.

Key findings



Form of engagement in development projects



In the MOD, including in the DDR&D, no metrics have been set for assessing the projects technological risk levels, such as TRL⁷, this among other things, to match engagements forms with project risk levels, with an emphasis on development projects.

7 TRL – Technology Readiness Level. A world standard set by NASA (the National Aeronautics and Space Administration), which is customary for rating development risks in projects according to their level of readiness.



MOD directives regarding setting the profit ratio in development projects

-  In its directives, the MOD defined uniform profit margins for all of its engagements in all of its areas of activity and with all of its suppliers (5.3%–9.8⁸ by the engagement form). It did not define different profit margins for development projects, despite their unique characteristics and especially due to the technological risks in their implementation.
-  Despite the risks inherent in development projects and the impact of their occurrence on timetables and the costs of projects – the MOD, in its directives to the defense industries, including IAI, does not enable them to include a component of unexpected costs in price quotes for carrying out projects. It should be noted that IAI includes unexpected costs in its internal calculations.

IAI's policy regarding its activity in development projects for the MOD

-  In its strategic plan, IAI defined a certain minimum operating profit margin for future engagements in activity "that is necessary for a defense need of the MOD" in contrast with other minimum profit margins for the rest of its engagements with the MOD and with other customers, without having based this on calculations to examine the operating profit margin necessary for providing it with sufficient profit margins to prevent losses to the company carrying out these projects.

IAI profitability in development projects for the MOD

-  The State Comptroller Office analyzed profitability in the IAI's main development projects for the MOD and foreign customers, including development projects that are losing money, and raised findings on these issues.

The participation of the defense industries in financing development projects for the MOD

-  In its directives, the MOD has not determined rules regarding the extent of the participation and the level of the commercial discount it demands from its suppliers. The defense industries participate in the development costs of projects for the MOD in significant amounts totaling hundreds of millions of USD. The continued application of the MOD's policy, according to which the defense industries will be asked to significantly participate in the development costs of projects, could influence their business situation in the long term and, as a result – also on their ability to provide optimal technological solutions to the defense system in the future.

8 In a fixed-price contract, an additional 0.5 is given that is contingent on the length of the contract and the existence of risks arising from the length of the engagement



Payments by the MOD to IAI

-  The Ministry of Finance's control procedure, including the head of the Finance Department and accountant⁹ of the MOD's control of the MOD's engagements, did not allow to ensure all budgetary sources for paying its liabilities on time.
-  In 2017–2020, the MOD did not pay all of its debts to the IAI and Rafael on time¹⁰; this trend worsened in 2020. In February 2020, the MOD's debts to IAI totaled over NIS 1 billion; and in March 2020, its debts to Rafael totaled about NIS 694 million. The MOD did not pay the interest due to the delays in these payments, which is not in line with its directives.
-  The delay in the MOD's debts payments to the major defense industries is not compatible with the rules of good governance, and it causes them cash flow uncertainty and harms their operating activities' cash flow, exposing them to the risk of not meeting financial covenants to financial corporations and bondholders, and harms the relationship with their suppliers. This is in addition to financing and factoring costs¹¹, which have harmed the profits of governmental defense industries and the dividend that they would pay to the state from these profits. The IAI estimated the costs of financing in 2017–2020 due to delayed payments in the tens of millions of NIS, out of which about 42% are due to financing costs to external sources.

IAI payments to its suppliers

-  In 2018–2020 IAI did not pay its suppliers on the payment dates in accordance with the provisions of the Law on the Delivery of Payments to Suppliers, 2017 (no later than 45 days from the date when the invoice has been submitted to it or 30 days from the end of the month when the invoice has been submitted to it). In 2020, the credit period for payment to suppliers reached 81 days.

Accounting aspects regarding IAI development projects for the MOD

-  The accounting records of fixed assets and intangible assets in the financial reports of the MOD are based on figures that are reported by its various units, which are not uniform in terms of the R&D costs attributed to asset categories, meaning – the records are lacking, and are not systematic and uniform, and they are not in line with governmental accounting standards.

9 The head of the Finance Department also serves as the accountant of the MOD.

10 Except during the months May 2018 – July 2019, in which the MOD paid its debts to Rafael on time.

11 Current financing in exchange for future repayment, minus agreed interest and fee.



IAI transactions with controlling shareholders¹²

 The IAI's procedure on transactions with interested persons¹³ has not been updated since 2014, even though changes have occurred in the examining criteria of transactions with the controlling shareholder¹⁴, as shown in the company's reports to the Securities Authority and the Tel Aviv Stock Exchange Ltd.



The State Comptroller Office commends the MOD's actions to establish an export team and to improve procedures of export licenses and GTG activity¹⁵ and the examination process regarding various aspects of the Ministry's activity interfaces with the defense industries as part of establishing an industries team.

Key recommendations

The MOD's directives regarding setting the margin ratio in development projects

-  It is recommended that the MOD comprehensively examine the profit components in its engagements with the industries vis-à-vis the risk inherent in them, among other things, by carrying out international comparisons and analyzing accepted industry yields.
-  It is recommended that the MOD carry out administrative work, considering the positions of the defense industries, to examine the optimal way to include unexpected cost components in advance in its engagements with the defense industries for carrying out its projects, especially development projects with significant inherent risks; and by the findings of its examination, it should update its directives on the issue. This is to enable,

-
- 12 Control as defined in the Securities Law – the ability to direct the activity of the corporation, except for the ability that stems only from fulfilling the role of director or other position holder at the corporation. It is presumed of a person that he controls a corporation if he holds half or more of a certain kind of control means in the corporation (the right to vote at an Assembly of the General Meeting or the right to appoint directors or the CEO).
 - 13 The procedure determines the responsibility for identifying the company's transactions with interested persons (as defined in the Securities Law), internal reporting on them and their approval, and reporting to the public on such transactions.
 - 14 In this report – the controlling shareholder is the State of Israel via the MOD.
 - 15 Government to government (GTG) are agreements in which the MOD signs agreements with the governments of target countries for the development and production of weapons systems. Along with the sides signing these agreements, the MOD, on behalf of the State of Israel, signs "back to back" agreements with the Israeli defense industries, in which the defense industries commit to implementing the commitments that the state has taken upon itself in the aforementioned agreements.



among other things, transparent conduct on unexpected costs between it and the defense industries, including IAI.

Tenders aspects regarding the DDR&D's engagements with IAI and Rafael

- 💡 It is recommended that the MOD's Director General advance the guidelines formulation for the DDR&D's committee of developers' considerations in choosing the engagement format – public tender, closed tender, or exemption from a tender. It is also recommended that the DDR&D establish an information system for managing the competitive procedures that it carries out so that it can present a situation report of all of the engagements it carries out via tenders and other competitive procedures, the reasons for adopting one procedure or another, and its results.

IAI's policy on its activity in MOD development projects

- 💡 It is recommended that the MOD, the Ministry of Finance, and the Companies Authority appoint a committee to examine the policy on the participation of the defense industries (governmental and other) in financing development projects, including the impact of this policy on their operating activities, their financial strength and their business situation in the medium and long term, and their ability to provide a variety of future technological solutions that will address the IDF's needs. It is also recommended that guidelines and a business model be determined and published.

IAI's policy on its activity in MOD development projects

- 💡 It is recommended that IAI examine, based on calculations, the minimum operating profit margin needed in MOD's development projects that will allow it to achieve net profits and anchor targets in this field in its updated strategic plan. It is also recommended that IAI thoroughly examine establishing a mechanism for approving engagements with the MOD, at a determined monetary extent, whose profitability is lower than the minimal profit margin set in the company's strategy. In addition, it is recommended, given the characteristics of the MOD's development projects carries out by IAI, including the large share of development in them and the risks inherent in them, that IAI examine its assessments regarding their profitability before their approval and at all stages of their implementation, referencing, among other things, to their technological level risk, especially in projects whose profitability from the start is expected to be low. It is also recommended that IAI formulate a methodology for assessing the expected benefit from projects of this kind in addition to the potential profitability, so that it can present relevant figures before their approval by the company.

MOD payments to IAI

- 💡 The MOD should abide by the payment dates determined in its directives and pay linkage differentials and interest to its suppliers in cases where it does not pay its debts on time.
- 💡 The Ministry of Finance's Accountant General and the MOD's Finance Department, in coordination with the Ministry of Finance's Budgets Department and MOD's Budgets



Department, should act to improve and strengthen the control mechanisms for the MOD's engagements to ensure that their scope and conditions match the size of its budget and that the Ministry can make the payments for them on time.



It is recommended that the Ministry of Finance bodies (the Accountant General and the Budgets Department), the MOD, and the Attorney General of Israel regulate the MOD's payment dates to IAI and the other defense industries and that they formulate agreed guidelines regarding the format of factoring and method of approving it.

IAI's payments to its suppliers



IAI must pay its suppliers on the dates determined in the Law on the Delivery of Payments to Suppliers and pay linkage differentials and interest by law on payments in arrears.

IAI transactions with controlling shareholders



It is recommended that given the conditions of the transactions between IAI and the MOD, the IAI's Board of Directors examine the need to determine updated criteria for the company's transactions with the controlling shareholder, with an emphasis on non-negligible transactions, for defining how to approve and internally report on them. Among other things, this increases its involvement in the issue, including its monitoring. In addition, it is recommended that the Board of Directors consider determining criteria for examining transactions with the controlling shareholder by divisions and by their activity level.



Summary

IAI's activity for the MOD, in general, and in development projects, in particular, has direct and indirect impacts on its business results, and it is essential for it in many aspects. The audit raised deficiencies relating to the IAI's management and control of MOD's development projects and the MOD's management and control regarding its engagements with IAI and the rest of the defense industries, with an emphasis on development projects. It was found that these issues, directly and indirectly, affected IAI's business situation, and they could influence its situation. Given the national importance of the activity of the defense industries for the MOD in defense and the economy terms, it is recommended that the MOD, the Ministry of Finance, and the Companies Authority work, in cooperation with the major defense industries, set guiding principles for the interfaces between them, while maintaining balance and transparency in the various spheres of their relationships; This to maintain the IDF's technological superiority and its strength as well as the resilience of the defense industries.

