

ההסתדרות הציונית העולמית
The World Zionist Organization

THE OFFICE OF THE COMPTROLLER

ANNUAL REPORT

for 2021–2022

to

THE EXTRAORDINARY

ZIONIST CONGRESS

Jerusalem, April 2023

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Delegates to the Extraordinary Zionist Congress,

I am honored to submit to the Extraordinary Zionist Congress, April 2023, a Report on the activities of the Office of the Comptroller in the World Zionist Organization, its funds and subsidiaries, since the 38th Zionist Congress.

This volume includes reports that were discussed in the Control Committee of the Zionist General Council.

The operational bodies in the World Zionist Organization should implement the Comptroller's recommendations, following review and discussion, in order to improve ways of management, use of human resources, and funds allocated to them.

It should be noted that in the year 2022, under the leadership of the Chairman of the Zionist Executive, follow up was conducted, for the first time, on the correction of flaws and implementation of the recommendations raised in the Comptroller's reports carried out since the 38th Congress.

I would like to thank the Chairperson of the Control Committee and the members of the Committee and the controlled bodies for their cooperation and to the Office of the Comptroller' staff for their thorough and professional work.

Steven G. Stav
Comptroller

Jerusalem, April 2023

**Message of the Chairman of the Control Committee
The World Zionist Organization**

The World Zionist Organization's Control Committee's authority is derived from the World Zionist Organization's Constitution.

The Control Committee is made up of representatives of the member organizations and institutions in the World Zionist Organization. The members of the Control Committee are volunteers.

In the Control Committee — the entity responsible for follow up, control and propriety of the activity of the World Zionist Organization, we see the importance of reviewing the reports of the Comptroller of the National Institutions who examines the activities of the World Zionist Organization. The Comptroller and his staff work to provide the members of the Control Committee reports that include findings and recommendations for discussion and conclusion with the reviewed bodies.

The Control Committee aims to translate the Comptroller's conclusions and recommendations into action items by discussing his findings and invites representatives of the relevant organizations and institutions to its meetings. The Committee views the work of the Comptroller and his staff as an important auxiliary tool for proper management of the various organizations and institutions. The Committee follows up on the implementation of the Comptroller's recommendations for correction, together with the Comptroller and in cooperation with the reviewed institutions.

The Committee expresses its appreciation to the Comptroller and his staff for intensifying its ongoing activity in conducting audits and preparing reports, continuously aspiring to improve the work of the World Zionist Organization.

My appreciation to the members of the Control Committee for their contribution as volunteers. I would also like to express my appreciation to all those assisting in this important endeavor.

Nachlial Dison

April 2023

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Activities of the Office of the Comptroller During the Period Covered by the Report

Functions of the Comptroller

The authority of the Comptroller of the World Zionist Organization is drawn from Article 60 of the WZO Constitution, which determines the independent status and main functions of the Comptroller. Detailed provisions on the functions and mode of operation of the Comptroller can be found in the Statutes of the Comptroller and the Control Office, as passed at the Zionist General Council, (see the Statutes in the last section of this book).

It is the Comptroller's task to conduct an independent review of the WZO departments, the National Funds and other bodies, as defined in Clause 10 of the Statutes, in order to ascertain whether they operate within the desirable norms of legality, budgetary discipline, financial accountability, administrative propriety and efficiency and moral integrity. The Office of the Comptroller also deals with complaints from the public concerning the bodies coming under its purview.

The control findings, together with the Responses of the Chairman of the Zionist Executive, are debated in the Control Committee of the Zionist General Council, which has been set up for this purpose. The individual reports included in this Report to the Extraordinary Zionist Congress, have been debated in the Control Committee, together with the Responses of the Chairman of the Zionist Executive.

The WZO Comptroller, who is elected according to the Constitution by the Zionist Congress, may also serve as Comptroller of the Jewish Agency, if so elected by the Board of Governors of the Jewish Agency. This linkage of roles has existed in practice for many years.

One Office of the Comptroller — Several Entities Under Purview

It is important to stress that the Office of the Comptroller functions as one unit controlling the gamut of activities of the National Institutions. Thus it achieves

flexibility in placing control teams in the various controlled entities and creates a possibility of implementing lessons drawn from control of one entity to the other.

Reports of the Office of the Comptroller

This Comptroller's Report to the Extraordinary Zionist Congress was preceded by a Report submitted to the 38th Zionist Congress convened on October 2020. The Comptroller's Reports as of 2009, are available to the public on the WZO web site.

Annual Reports were also submitted to the Jewish Agency Board of Governors in June 2021 and July 2022.

**Reports Prepared by the Office of the Comptroller
of The World Zionist Organization
in the Years 2010–2022**

Arranged according to the year of publication

| The World Zionist Organization | |
|---------------------------------------|---|
| 2010 | The Finance Department |
| 2010 | Short Term <i>Shlichut</i> at the World Zionist Organization |
| 2010 | The Zionist Council in Israel |
| 2012 | The 36th Zionist Congress |
| 2012 | The World Zionist Unions — Use of WZO Allocation |
| 2012 | The Building at 17 Kaplan Street, Tel-Aviv |
| 2012 | Department for Diaspora Activities, Herzl Museum |
| 2012 | The Unit for Zionist <i>Shlichut</i> — The <i>Shlichim</i> Set up |
| 2013 | The <i>Hagshamah</i> Movements — Use of WZO Allocation |
| 2013 | The Zionist Council in Israel |
| 2013 | Center for Religious Affairs in the Diaspora |
| 2013 | The Human Resources Division |
| Feb. 2015 | The Unit for Morim Shlichim in the Diaspora |
| Feb. 2015 | Habayta — Aliyah Promotion Unit |
| Oct. 2015 | The Zionist Federation in South Africa |
| Oct. 2015 | The WZO Office in France |
| Oct. 2015 | Tarbut LeIsrael Ltd. |
| 2017 | Procurement and Payment Approval |
| 2017 | The Zionist Council in Israel |
| 2017 | 37th Zionist Congress |
| 2018 | The Zionist Archive |
| 2018 | The Education Department |
| 2018 | The Zionist Council in Israel, Employee Recruitment and Salaries |
| 2019 | Mount Herzl |
| 2019 | The Mount Herzl Education Center |
| 2019 | Aliyah Promotion Department |
| 2019 | Diaspora Activities Department |
| 2019 | Settlement Division |

| | |
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| 2019 | Ofek Israeli (PBC) — Corporate Governance |
| 2020 | The Activities in the Israel and Countering Antisemitism Department |
| 2020 | Department for Zionist Enterprises |
| 2020 | Department for Religious Affairs in the Diaspora |
| 2020 | The Property on 17 Kaplan Street, Tel Aviv |
| 2020 | Ofek Israeli Aliyah Promoting Company Ltd. (PBC) — Interaction with the World Zionist Organization |
| 2023 | Voting in the 38th Zionist Congress |
| 2023 | Finance Department Operations |
| 2023 | Payroll Operations |
| 2023 | Shlichim — Employment Terms |
| 2023 | Ami Chai — Pre IDF Program |
| 2023 | Jewish Colonial Trust Inc. |
| 2023 | Hameshakem Inc. |
| Keren Kayemeth LeIsrael | |
| 2010 | Communications and Public Relations Division |
| 2010 | The Shaar Hagay Khan (Carvansary) |
| 2010 | The Resources Development Division — Contribution Funded Projects |
| 2012 | Voluntary Retirement in 2009 |
| 2012 | The Education & Youth Division |
| 2013 | Forest Contractors |
| 2013 | Short Term <i>Shlichut</i> |
| Feb. 2015 | Salaries and Human Resources |
| Feb. 2015 | Investment Management |
| Oct. 2015 | Budget Building |
| Oct. 2015 | Spokesperson Unit |
| Oct. 2015 | Joint Programs with Third-Party Organizations |
| 2017 | Information Technology (IT) |
| 2017 | Finance and Economics Division, Payments to Suppliers |
| 2018 | Himnuta Company Ltd. |
| 2018 | Pension Payments |
| 2018 | Resources Development Division |
| 2019 | Land Policy and Land Use Research Institute |

| | |
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| 2020 | Corporate Governance — Extraordinary and Interested Party Transactions |
| 2020 | Land Development Division — Forestry Division |
| 2020 | Salary Payment |
| 2023 | Field and Forest Centers |
| 2023 | Firefighting Arrangements |
| Keren Hayesod | |
| 2010 | Short Term <i>Shlichut</i> |
| 2010 | Short Term <i>Shlichut</i> |
| 2012 | Procurements and Contracts |
| 2012 | High Priority Projects |
| 2013 | Payment Security |
| 2013 | Salaries and Human Resources |
| Feb. 2015 | Cash Management |
| Oct. 2015 | Property Management |
| 2017 | Salaries Human Resources |
| 2023 | Corporate Governance |

Voting in the 38th Zionist Congress

Voting in the 38th Zionist Congress

1. Objectives

To examine the following:

- 1.1 The election bylaws, focusing on voting practices, elections day procedures, and order of operations in case of irregularities in the elections.
- 1.2 Identity authentication for active members with voting rights, inactive members, and members without voting rights.
- 1.3 The overall event specification, detailing operational tasks for employees, third party suppliers, service providers, etc., and their respective duties.
- 1.4 Selection of in-house staff and providing suitable training.
- 1.5 Selection of a tech company to operate the conference: sending requests for quotations (RFQs) to several companies, quote screening, and shortlisting prospective suppliers.
- 1.6 Professional review of shortlisted candidates' capabilities for operating the conference, covering all applicable considerations: know-how, expertise, experience, tools, protections, ability to flag irregularities and report them in real time to the election committee, generating automatic reports with raw voting data and unusual incident reports.
- 1.7 Approval of the tech company to perform the work — review and approval by the organizational decision makers.
- 1.8 Quality assurance requirements, performance indicators, SLA metrics, and the inclusion of these in the relevant agreement.
- 1.9 Checks for conflicts of interest and non-dependence.
- 1.10 For IT systems: work plan for implementing technological solutions, suitability of chosen solution, compliance with operating procedures,

establishment of information security policies, data reliability and optimization.

- 1.11 Supervision over event management and proper system operation.
- 1.12 Compliance with elections day bylaws, and particularly as regards voting procedures.
- 1.13 Providing adequate solutions for failures and unexpected issues, such as: tracking incidents and correcting them before they cause damage.
- 1.14 Proper implementation of operating procedures for the technological solution, application of information security policies, management of cyber and hacking threats.
- 1.15 Real-time tracking and flagging of issues, and delays in the resolution of such issues.
- 1.16 Supervision over handling of legal issues which could undermine election integrity and data integrity, and proper handling of any incidents.
- 1.17 Compliance with work plans and operating procedures for the technological solution, data integrity and accuracy, and proper management of incidents.
- 1.18 Checking the match between actual voter authentication data with voter ID data as recorded in the voter registry/records prepared prior to the election.
- 1.19 Tallying votes and calculating the corresponding number of Congress delegates, bearing in mind disqualified votes, abstaining votes, ratio (of voters per delegate), etc.
- 1.20 Analysis of voting irregularities, using automated tools for analyzing unusual data.
- 1.21 Flagging repeat votes with similar properties, such as: using identical user name/code to enter the online voting system, using identical personal/member ID, different votes from the same IP address, fake users.
- 1.22 Votes cast or recorded by the online system before 16:00 or after midnight, as specified by the Election Hours Committee.
- 1.23 Unusual changes in the voter registry prior to or during elections.

- 1.24 Investigating failures and incidents which occurred during the election, their handling, and whether they undermine the voting process and any of the subsequent decisions.

2. **Method and Scope**

The audit was carried out during the 38th Zionist Congress, which convened on October 20, 2020, and continued for 3 days. The audit included talks with relevant supervisors in the World Zionist Organization; on-site observations over the three days of the Congress; and review of the following documents:

- 2.1 Supporting documents for quality assurance requirements, performance indicators, SLA metrics, and the inclusion of these in the supplier agreement.
- 2.2 Information security policies.
- 2.3 Disaster recovery procedures.
- 2.4 Operating procedures.
- 2.5 System intrusion control.
- 2.6 Delegate lists, voter registries, and approved substitutes.
- 2.7 Data optimization control reports.
- 2.8 Congress planning documents: operational schedules (checklists), operational staff and their respective duties, outside suppliers and service providers (including contracting activities: quoting and contract approval).
- 2.9 Documentation of tech system and control characterization: ability to flag irregularities and report them in real time to the election committee, generating automated reports including raw voting data and unusual incident reports.
- 2.10 Documentation of bidding process and selection of the production and IT companies for the Congress (received quotes, quote screening criteria, and contract approval).
- 2.11 Contract with Simul / Verus.
- 2.12 Activity log for the three days of the Congress (adherence to schedule / actual schedule, incidents, complaints).

- 2.13 Training for event operators.
- 2.14 Congress budget planning.
- 2.15 Risk assessment as part of the Congress preparation process.
- 2.16 Minutes for the committee meeting approving the Congress agenda (if several committees were involved — all applicable minutes).
- 2.17 Appeals regarding the Congress election process and the subsequent decisions.

Comptroller’s Comment:

The report has numerous detailed appendices which include Congress participants’ personal information. The appendices are not included in this final version of the report and are available for reference at the Office of the Comptroller.

3. General

The 38th Zionist Congress convened on October 20, 2020, and lasted for 3 days.

Due to the COVID-19 pandemic, and in order to convene the Congress on time in accordance with Section 13 to the World Zionist Organization (“WZO”) constitution, it was decided that the Congress would be virtual, without the various participants being physically present in the committees and votes.

To build and manage the virtual space, and to assure the integrity of remote voting activities, an IT and production company was hired (“the Production Company”).

Furthermore, TechUnity, a Jewish Agency subsidiary (“the IT Company”), took part in the initial stages of compiling the necessary data, optimizing such data, and transferring it to the Production Company. The IT Company was also present during the actual event, through an employee who was on-site to respond to any malfunctions, issues, and questions.

The audit was performed at the request of the National Institutions Comptroller and included a real-time audit of the virtual Congress and its remote voting operations. In the days preceding the Congress, the Office of the Comptroller interviewed WZO’s event manager, the Production Company’s production manager, and several other staff charged with compiling and optimizing data (from WZO and the IT Company).

During the Congress, the Office of the Comptroller's staff was present in several key operational centers: WZO's operations team; the tech team providing real-time voting support; the Production Company's team; and the legal supervision of voting activities team.

The Office of the Comptroller examined the event's management and the various teams' performance. The Office of the Comptroller interviewed various team members concerning attempts at voting fraud, data analysis, and documentation of incidents and flaws.

This report presents the findings and conclusions drawn over the three days of the Congress.

WZO's event manager's response

Preparations for the event included overall operational planning: prep talks with the various teams, compliance with security requirements and entrance permissions required by the International Convention Center in Jerusalem, etc. Critical decisions were always made by at least five people.

4. Event Operation and Management

4.1 Findings

- 4.1.1 Publication of voting results by name — At the end of each vote, results were not published identifying delegates by name and by vote. It is emphasized that efforts were made to conduct the virtual event in a manner similar to the physical one, where delegates can openly see the votes of all delegates present.
- 4.1.2 Security — Free access was granted to the International Convention Center for uninvited people, without any checks or approvals.
- 4.1.3 Ministry of Health guidelines — Noncompliance with Ministry of Health COVID-19 guidelines — The tech support space (call center and various operational staff) — Hadarim Yard — had 20 people working simultaneously without maintaining a minimum 2 meter distance (Appendix 13). It is noted that vacant rooms were available which were originally planned to house event operators in compliance with the Purple Pass guidelines. However, these were not used during the event.
- 4.1.4 Tech support staff training — WZO's tech support staff did not receive sufficient training for providing support during votes.

- 4.1.5 Password guidelines — Password guidelines were communicated to WZO’s tech support staff minutes before the first vote began.
- 4.1.6 Schedules — During the event, the Production Company and WZO had to adapt to frequently schedule changes and substantial uncertainty. Schedules on WZO’s website were never updated to reflect these changes. Furthermore, no notices were posted to the virtual space informing of changes to schedules or events.
- 4.1.7 Centralization — Operational authority in the event was centralized, with decisions and approvals for various actions being issued solely by WZO’s event manager and the IT and Production companies’ manager. This centralized command structure caused severe work load for these key personnel. Despite their tremendous efforts and professionalism, they could not address the multitude of issues brought before them with reasonable response times.
- 4.1.8 Support calls — Numerous calls were directed to WZO’s operational team, and not to the tech support center, which caused delays in call resolution. Furthermore, in many cases, there was uncertainty concerning ownership of support calls and whether they should be resolved by the IT and Production Company, the support center (with both IT and WZO staff), or WZO’s operational staff.
- 4.1.9 Documentation of calls and issues — There is no documentation of calls received by WZO’s tech support through online chats and by WhatsApp. Furthermore, there are no minutes of committee meetings conducted via Zoom, which suffered from technical and connectivity issues, nor of votes on proposed decisions (see Appendix 10).
- 4.1.10 Compliance with guidelines — The Office of the Comptroller is of the impression that WZO’s operating team complied with guidelines: passwords and information were not provided without due process, and delegates were not replaced by deputy delegates with proper authentication.

4.2 **Conclusions**

- 4.2.1 After voting, delegates’ votes were not personally identifiable, which was disadvantageous compared to in-person voting.
- 4.2.2 Due to the event’s distinctly Zionist nature, the lack of security

arrangements and screening at the building's entrance posed a risk for various scenarios, from undermining voting to physically harming operating staff.

- 4.2.3 Despite prior planning by WZO's production manager, Ministry of Health guidelines were not maintained, which increased exposure and risk for COVID-19 infections on-site.
- 4.2.4 A lack of training for WZO's tech support staff caused difficulties in providing adequate response to calls received during voting through the chat system and by WhatsApp.
- 4.2.5 Informing staff only minutes before an event can be assumed to be hasty and superficial, and would certainly not allow support staff to respond to questions and resolve issues. It is noted that conclusions were drawn from the way that password-related information was conveyed to the first shift, and so communication to the second (evening) shift was better.
- 4.2.6 Lack of clear and easily-accessible updates on schedule changes may have lowered participation rates for various events and in the various votes.
- 4.2.7 The centralized command structure put severe pressure on WZO's event manager and the Production Company's manager. Critical decision-making junctions were affected by bottlenecks which may very well have led to unapproved actions by junior operators.
- 4.2.8 Calls directed to the wrong person and uncertainty as to ownership of various call scenarios caused support calls to be handled with significant delay, or remain unresolved.
- 4.2.9 Lack of documentation of tech support calls, and the lack of minutes for the various committee meetings prevent the study of event performance and subsequent improvement. They also prevent investigation and resolution of complaints submitted by event participants.

4.3 **Recommendations**

- 4.3.1 **Appoint an assistant for WZO's event manager, and appoint supervisors for public health and security arrangements.**
- 4.3.2 **Detailed training should be provided, particularly for junior staff without decision-making powers.**

- 4.3.3 **Update WZO’s constitution and regulations and the Congress regulations, to provide for virtual voting when in-person voting is not possible (as in the case of the COVID-19 pandemic).**
- 4.3.4 **Instruct security staff at the International Conference Center entrance not to allow visitors not on the pre-approved visitors list.**
- 4.3.5 **Appoint a supervisor to manage real-time entrance permissions. Thus, if event-relevant people wish to enter but are not on the official lists, their entrance can be approved.**

WZO’s event manager’s response

- Response to the finding in Section 4.1.2 — Security — The online event took place in the International Convention Center, whose staff has experience running such events and maintains a high level of security. This is reflected in the preparations for the event, and was evident during the event itself. The International Convention Center was responsible for security arrangements. The guards on site were provided clear lists of all people permitted to enter the venue. All visitors were checked against this list and had to sign alongside their name. Visitors who arrived but were not on the list, the security guard did not let them enter, and checked with the Congress secretariat. Entry was permitted only after receiving approval. At no time was there any concern that unauthorized people would access the area from which the computer system was managed and sabotage voting operations.
 - * **Comptroller’s Comment:** All of the auditors working for the Office of the Comptroller did not appear on the lists. They freely entered the International Conference Center or only with registering their name without need to identify themselves.
- Response to the finding in Section 4.1.3 — Ministry of Health guidelines — All rooms and facilities in the International Conference Center complied with Purple Pass regulations. The Hadarim Yard can host 30 people under Purple Pass rules. The switch to the Hadarim Hall followed a malfunction which left the designated rooms without mission-critical internet access and without air conditioning. As staff numbers were increased, the rooms were much smaller than the Hadarim Hall and did not meet Purple Pass requirements. WZO’s team asked all people present to spread out, maintain distance, and wear masks at all times.
- Response to the finding in Section 4.1.4 — tech support training — The Production Company was responsible for training. WZO organized training

sessions via Zoom for the entire tech support team before the Congress. On the day of the Congress, all tech support staff were asked to arrive two hours early to receive additional instructions on-site. Training was insufficiently clear or thorough.

- Response to the findings in Sections 4.1.8 and 4.1.9 — handling and documentation of support calls and problems — The Production Company was supposed to be responsible for support call resolution. WZO decided to take additional precautions and prepare a multi-lingual team from among its own staff. The team was made available to the Production Company. In hindsight, it would have been better to have the Production Company’s tech guy sit together with WZO’s team.

IT Company’s response

Response to the finding in Section 4.1.9 — documentation of support calls and problems — The IT Company built a special form to streamline service workflows before and during the event. This proposal to open support calls automatically (facilitating their management) was not accepted.

Production Company’s response

- Response to the finding in Section 4.1.1 — publishing name-specific results — The names of all candidates were included in the results (e.g. — the recording of the standing committee). Candidate names were also included on the voting form. Results were open to party representatives if they wanted to increase voting among their members.
- Response to the finding in Section 4.1.4 — tech support training — The Production Company conducted two training sessions for tech support staff. A producer was assigned to the support staff to manage issues in real time. Instructional videos were produced for the Congress, explaining the voting process.

5. Data Integrity

5.1 Findings

5.1.1 Delegate lists — The lists of delegates with voting rights as received from the Production Company did not fully match the lists of delegates with voting rights received from the IT Company. 21 entries in the lists received from the IT Company were not on the lists received from the Production Company.

5.1.2 Substitution between delegates and deputy delegates — Under

constitutional regulations, only people on the list of delegates with voting rights approved by the Zionist Supreme Court, have a right to vote. The voter lists were approved by the Court prior to the Congress. **Propriety was found.** Furthermore, under Regulation 6(a) to the Zionist Congress Regulations, “A substitute delegate will assume a delegate’s position if the delegate is not participating in the Congress at all or has left the Congress after participating in part of the Congress. In this latter case, the substitute delegate will assume the position from the moment the delegate ceased to participate” (see copy of the regulations in Appendix 1). During the vote, on October 20–21, 2020, substitutions were made between 8 delegates and deputy delegates. However, these substitutions were only updated in the **IT Company’s** lists of delegates with voting rights, and not in the **Production Company’s** lists. It is noted that these 8 delegates were among the 21 mismatched entries mentioned in Section 1 above. Furthermore, after these substitutions were made, one would expect to see that votes were cast by the incoming deputy delegates, and not by the outgoing delegates. However, in votes where delegates were replaced by deputy delegates, the votes were cast by the delegates themselves, against regulations. It is emphasized that the deputy delegates who substituted the delegates **did not vote** (one can assume that the deputy delegates used the user names and passwords for the substituted delegates).

- 5.1.3 List of delegates with voting rights — The Production Company provided the Office of the Comptroller with two reports. The first is a list of all delegates with voting rights and their corresponding passwords. The other was a report of votes by IP address and password. Upon examination, the Office of the Comptroller found **10 users** who cast votes **but cannot be attributed** to the voter list received from the Production and IT companies (see Appendix 2 for a screenshot of the voting reports, including IP addresses and passwords used to vote, but which did not appear in the Production Company’s list of delegates with voting rights). It is noted that all unidentified votes were cast from Israel. The list of delegates which the Production Company received from the IT Company includes the represented country for each delegate. Upon examination, several delegates were recorded as representing a given country, but were actually voting from another country. This finding may be unusual. The IT Company’s list of delegates with voting rights included entries without ID

or passport numbers (see Appendix 4). Identification was based on the voter's IP address (see image in Appendix 3).

- 5.1.4 Incident log — Voting rights were indicated on the Production Company's system through an entry protected by a 4-digit password. The Production Company's voter list was found to include 19 non-delegate voters. The Office of the Comptroller was told that these were system support staff who were granted voting permissions. The Production Company's representative was asked whether reports were generated to track incidents identified during the event. The Office of the Comptroller was told that the Production Company could not generate an incident report. Furthermore, incidents were not logged. The Office of the Comptroller was told that no incidents were identified as of the date of our conversation. In practice, an incident did occur where the vote over Resolution 4.1 was disqualified upon appeal (see Appendix 8 for an email received from the Production Company's representative concerning unusual incidents; also see below for more information on the disqualification of the vote on Resolution 4.1). It is also emphasized that one could expect incident reports to show double-voting incidents and votes cast by support staff as detailed in the conclusions below.

5.2 Conclusions

- 5.2.1 The IT Company compiled the voter list. It verified and optimized the data, and then sent the list to the Production Company. Incomplete and inaccurate data transfer could have caused users who should have been granted voting rights not to receive such rights and not be able to vote; conversely, users who should not have been granted voting rights could have received such rights and been able to vote.
- 5.2.2 Production staff did not make sure to update the voting list after delegates had been substituted by deputy delegates. Thus, delegates who were substituted by deputy delegates cast votes against regulations, which clearly state that as soon as a delegate ceases participating in votes, they are replaced by a deputy delegate. **It is emphasized that there was no double-voting by both a delegate and deputy delegate.**
- 5.2.3 Users were found who cast votes but could not be definitively identified. This raises concerns that **unauthorized parties cast votes**. It is noted that, although these votes did not impact actual

outcomes as the same decision would have been made even had they been disqualified, **this finding undermines the integrity of the voting process** (see Appendix 7 below for the breakdown of votes where the vast majority voted Yes). Furthermore, votes by delegates from countries other than their represented country may raise concern that another person cast the vote instead of the delegate, as international travel was significantly less common during the COVID-19 pandemic, and so it is less reasonable for delegates to vote from countries other than their represented country.

5.2.4 This finding raises concern that these delegates were not definitively identified by the IT Company. It is noted that the Production Company which generated passwords for delegates and allowed them to cast their vote, received the lists from the IT Company. Thus, if these users were not properly identified, this can raise concern that unauthorized users were granted voting rights (see image in Appendix 4).

5.2.5 This is a material finding as 16 of 19 users were not definitively identified as Production Company staff (named TEST). These users could have been used to cast votes and impact voting results. Indeed, 3 users belonging to the support staff were found to have voted during the event, with one of these constituting a QA test by the Office of the Comptroller. These votes were not disqualified, but due to the decisive nature of the results, neither did they affect the outcome of any vote (see Appendices 6 and 7). It is emphasized that the Office of the Comptroller believes that 2 users with voting rights would have sufficed for the support staff, and could have been definitively identified to perform the necessary tests.

5.3 **Recommendations**

5.3.1 **IT should appoint a project manager to oversee compliance with WZO's requirements and rights by the Production Company before, during, and after the event. The project manager should perform the following tasks:**

- **Verify that the IT Company's voter list is complete and accurate, and includes all details required to definitively identify voters.**
- **Liaise between the Production Company and IT Company,**

and make sure that the optimized voter list is transferred completely and accurately from the IT Company to the Production Company.

- **Stress test the Production Company’s virtual environment.**
- **Test generic users with voting rights in the Production Company’s voter list, and submit them to a senior WZO representative after receiving explanations about each user’s function and why it needs voting permissions. The number of such users should be limited and they should be identified definitively with a specific person.**
- **Make sure that the Production Company maintains a detailed log of all incidents which occur during the event, and that the Production Company’s representative receives real-time alerts on incidents — such as double-voting.**

WZO’s Legal Counsel’s response

- Response to the finding in Section 5.1.4 — Repeat vote on Resolution 4.1 — It was due to a wording error in the proposed resolution, and not due to any voting irregularities, as also indicated by your inquiry with the secretary of Committee 4 and the committee chair’s comments below.
- Response to the finding in Section 5.1.3 — **delegates voting from countries other than their represented country** — There is no problem for a delegate from a given country to vote from another country. This is the norm in an in-person Congress.

IT Company’s response

- Response to the finding in Section 5.1.1 — delegate lists — The IT Company and WZO properly sent the names of all delegates/deputy delegates to the Production Company. This transfer was documented. Incomplete/inaccurate transfer as theorized by the Office of the Comptroller does not match our findings. The matter was documented and can be checked. Appendix A to the audit report indicates 2 types of discrepancies :
 - a. Substitutions — Names of delegates were sent to the Production Company on October 19, 2020, but the delegates were substituted by deputy delegates between October 20, 2020 and October 21, 2020.

These lists are not supposed to be included in Appendix A as unusual findings (we do not understand why the Office of the Comptroller

considers these entries unusual, when these entries are in proper order and are duly documented).

b. Unexplained — Names of delegates were sent to the Production Company were not included in the list of delegates being substituted, but do not appear in the Production Company's systems.

These delegates were entered directly in the Production Company's system. Entry was apparently made after all the data was transferred from the IT Company to the Production Company. The IT Company does not have access to these data, and so cannot comment on them.

- Response to the finding in Section 5.1.4 — integrity of list of delegates with voting rights — Data were thoroughly verified before the Congress, as follows:

First, data were transferred in a controlled manner by the political parties to WZO/the IT Company.

Then, data were entered by the IT Company, with control over data recorded by WZO.

Then, a new step was added for this Congress to provide additional verification, as this time delegates were not physically present in Israel. This time, all delegates and deputy delegates were required to personally fill in a form updating their personal information.

This step included an intensive online campaign and significant effort was made to have delegates complete the form themselves.

We therefore object to this conclusion.

It should be noted that, in contrast to the official agreed-up process and in contrast to the other parties, the World Likud sent their list of 72 Likud representatives only on the evening of October 19, 2020, two hours before the data had to be uploaded to the Production Company's systems. This list included new representatives, existing representatives, duplicate entries, and incomplete entries. The list accounted for 72 (3.8%) of the 1,892 delegates and deputy delegates.

As mentioned, checks had to be applied at the last moment for duplicate entries, prior to uploading the data.

These entries did not undergo the same extensive and methodical verification and review as the other Congress participants, as detailed above.

Data were uploaded by the IT Company, after coordinating with WZO's

representatives. Some of the entries uploaded at the last minute were incomplete.

- Response to the recommendation in Section 5.3.1 — an IT-appointed project manager — Technology is playing a progressively bigger part in the success of the Congress, as more and more actions are based on complex technological systems.

In the future, we recommend appointing a tech-oriented project manager from the IT Company, to support WZO from the get-go in establishing future technological requirements for the Production Company. The project manager would also integrate all of WZO's activities concerning the apps and infrastructure provided by the IT Company. The project manager would also support and monitor the IT Company's and Production Company's tech-related activities from start to finish (planning, set-up, development, testing, and training).

6. Data Security

6.1 Findings

- 6.1.1 Delegate passwords and personal information — A few minutes before the start of the first vote, the event manager asked the IT supervisor to print her out a list of all voters, along with their information and passwords. The event manager then passed this list out to the support representatives, even though WZO's instructions to the support team state that they are not authorized to give out passwords / vote on someone's behalf. Delegates who forgot or did not receive their password contacted WZO's support team for help resetting or recovering their password.

However, WZO's support team could not reset delegate passwords and they were prohibited from disclosing passwords to delegates except for one exception where a delegate requested his password and could partially recall it. The hard-copy voting lists with all usernames and passwords were left on the tables unattended and were openly accessible. When the call center shift changed, the voter lists were left out on the tables in several rooms, including all contact details, emails, passwords, addresses, phone numbers.

Information security was not maintained for the hard-copy print-outs.

- 6.1.2 Password policy — Actual performance did not comply with the password policy established by the Production Company.

Delegates with voting rights received a 4-digit password, while the official requirement was to combine both letters, numbers, and special characters (see Appendix 9). It is noted that the Production Company suggested applying a strict password policy, but the client requested a 4-digit password as voters tend to be older and would find it difficult to vote using complicated passwords. Furthermore, the system administrator password was extremely weak with only 3-digits — “123” (see Appendix 9).

6.1.3 Initial password setup and reset — All voting delegates were sent a Production Company-generated password to their email or phone several days before voting started. This password was used to log in to the system and vote. The Production Company stated that users were not required to reset their initial system-generated password or set up a new password.

6.1.4 User lock-out — The Production Company stated that no mechanism was used to lock out users after a given number of failed log-in attempts.

6.1.5 Delegate authentication in committee meetings — During the Congress, several committees convened and voted on proposed resolutions via Zoom. These resolutions were then put to vote in the Congress through the Production Company’s portal.

On the second day of the Congress, in the committee meeting of 16:30, the event managers approved free and general access to the virtual room, without definitive ID authentication. This happened as the IT Company did not receive a list of authorized participants.

6.1.6 No SLA agreements — The Congress did not sign a service level agreement (“SLA”) with the IT Company or the Production Company. SLAs are a commitment by the IT and Production companies toward the Congress, clearly guaranteeing a specific level of service quality, availability, and liability. SLAs would have established clear operational standards and clarified the services provided to the Congress. It is emphasized that, although WZO and the IT Company did not sign an SLA as they routinely work together, an SLA should have been signed to guarantee a set service level.

6.1.7 Disaster recovery — The Production Company did not provide a business continuity plan (“BCP”) or a disaster recovery plan (“DRP”). These are crucial plans which help the Company react

in case a disaster prevents a company from providing service to its customers.

6.2 Conclusions

- 6.2.1 Giving the tech support team access to voting passwords is a breach of information security which could potentially have led to several scenarios of illicit voting, such as disclosing passwords to the wrong person; voting by a support team member on a delegate's behalf; and loss of the password list and its misuse for illicit voting.
- 6.2.2 A 4-digit password is a very weak password, which could have raised concern that a person seeking to affect voting results could have accessed delegate usernames and voted in their stead. It is noted that the password policy was apparently based on the consideration that voters tend to be older and would have had problems with more complicated passwords. The system administrator had expansive permissions and could have made material changes to the system. If his account had been hacked, the hacker could have undermined the entire virtual voting process.
- 6.2.3 If the initial password is not reset with a new password, there is a risk that the initial password received via email or through the phone could have reached someone who hacked or gained access to the user's email or cellphone. That person could then use the password to vote instead of the delegate and affect voting results.
- 6.2.4 This finding raises concerns that hackers who wished to affect voting results tried to hack the system using software which enters all possible 4-digit passwords until gaining access and voting (known as a brute force attack). A user lock-out mechanism would have prevented this risk.
- 6.2.5 Under the aforesaid set-up, unrelated parties could have accessed the Zoom meeting if they had the link, and vote on proposed resolutions. This is a material finding, as proposals brought before the Congress are proposed resolutions adopted by the committees by a vote cast via Zoom. Delegates could have forwarded the link to the Zoom meeting to their friends, or the link could have otherwise leaked to unauthorized people who

could vote and affect committee decisions which were then put to the Congress for voting through the portal.

- 6.2.6 If there is no SLA, the service level provided by the IT and Production companies might not have matched the Congress's expectations.
- 6.2.7 As the Production Company did not have a disaster recovery plan assuring its ability to continue operating, a disaster could have put the Congress at risk of being cancelled.

6.3 **Recommendations**

- 6.3.1 **Do not hand out usernames and passwords of users with voting rights to tech support staff, and this information should not be available to support staff. Block access to voter passwords and usernames so that very few employees have access to this information. It is emphasized that the Production Company's system should include a button with an option to recover a password through a link sent to the voter's email or cellphone. This would reduce the load on tech support and the Congress Presidium if delegates forget their passwords.**
- 6.3.2 **The IT Company's project manager, to be appointed by the Congress as per the above recommendation, should test the Production Company's system and make sure that it complies with a password policy requiring a combination of letters, numbers, and special characters, minimum length, etc. This will make it harder for hackers to access user accounts and vote in their stead. All users should reset their initial password. Alternatively, identify users through multi-factor authentication where users enter their phone number or email address when accessing the Production Company's portal, and are then sent a one-time password for that vote.**
- 6.3.3 **The Production Company should lock users out after several failed log-in attempts, in order to block brute force attempts to hack a password.**
- 6.3.4 **The Congress included committee meetings where votes on proposed resolutions were held via Zoom. These proposed resolutions were then put to the Congress for voting through the Production Company's portal. Voters were required to log in to the portal, and then access the relevant committee**

meeting through a Zoom link. Security should be increased for Zoom-based meetings in several ways, such as pre-registration of committee members and setting up access passwords and waiting rooms. This would require a list of names, emails, and cellphone numbers to be prepared sufficient time before voting. Furthermore, at the end of every committee session, a detailed voting report should be issued which would allow in-depth analysis of voting results. The above recommendations would prevent unauthorized access to committees by forwarding the link to the committee Zoom meeting.

- 6.3.5 **Sign an SLA (service level agreement) with the IT Company and Production Company. The agreement would obligate these companies to provide the Congress a clearly-defined level of service quality, availability, and responsibility, with clear standards to govern workflows and the manner in which services are provided. Without an SLA, services provided by the IT Company and the Production Company may fail to meet the Congress's expectations.**
- 6.3.6 **The project manager to be appointed by the Congress as aforesaid should request a SOC2 report — a global standard for proving service management quality and security levels among tech service providers — based on Salesforce data. Salesforce provides the IT Company with its work environment in SaaS (software as a service) format. The project manager could then use the SOC2 report to check whether the IT Company applies the required controls.**
- 6.3.7 **The project manager to be appointed by the Congress as aforesaid should request a SOC2 report — a global standard for proving service management quality and security levels among tech service providers — based on Hertzner data. Hertzner is a German company providing cloud storage services for the Production Company. The SOC2 report could then be used to check whether the Production Company applies the required controls.**

Production Company's response

- Response to the finding in Section 6.1.2 — password policies (information security) — Due to the nature of the event and concern that delegates would

have trouble with stricter password requirements, it was decided to use digit-only passwords.

- Response to the finding in Section 6.1.3 — resetting initial passwords (information security) — The requirement was to make things as easy as possible for delegates. As such, they were not required to reset their passwords.
- Response to the finding in Section 6.1.4 — user lock-out (information security) — To make things easier for delegates, no lock-out mechanism was used.
- Response to the finding in Section 6.1.5 — delegate authentication in committees (information security) — The user system had clear controls over access to committees, and access to the Zoom meeting was only possible through the virtual environment. Zoom room numbers were never shown.
- Response to the finding in Section 6.1.6 — lack of SLAs (information security) — An SLA was included in the contract.
- Response to the finding in Section 6.1.7 — disaster recovery (information security) — The event had a BCP and DRP which was established internally by the Production Company (which is a software company). Thus, for example, the entire event had a back-up stream in case the stream could not be broadcast from the International Convention Center. There were also contingency voting forms, and a back-up team was located outside the International Convention Center in case immediate action was needed for the event. The entire event was recorded, and content was streamed through the cloud.
- Response to the finding in Section 6.3.1 (information security) — Agreed.
- Response to the finding in Section 6.3.2 (information security) — Agreed.

WZO's event manager's response

Response to the finding in Section 6.1.5 — delegate authentication in committees (information security) — During the Congress committee meetings, decisions on proposed resolutions were only made via Zoom. Access to the Zoom meeting through the portal serves as an initial screening stage and did not grant voting rights. Voting was done through an outside portal using a personal voter access code. Lists were sent to the Production Company by WZO representatives. For the sake of increased security, the Production Company asked for these lists three days before the Congress. In practice, the lists were not ready in time, which proved to be a significant challenge. The Production Company's video broadcast software did not meet our needs, and so we switched to Zoom, which did meet our needs.

In both cases, votes were cast through a highly-secure external link. Security on Zoom could be increased in several ways which require prior registration and access passwords, including waiting rooms. This, provided that such lists (including name, email, and cellphone number) are available sufficient time in advance. At the end of the call, a detailed voting report was generated, identifying votes by name, allowing in-depth analysis of voting results.

7. **Incidents**

7.1 **Findings**

7.1.1 Transfer of final voter lists — Final voter lists were received at 14:53 on Tuesday, October 20, 2020, only 7 minutes before voting started.

7.1.2 Delay of voting for the Standing Committee — On October 20, 2020, at 18:31, voting began for the Standing Committee. At 18:32 voting for the Standing Committee closed and was postponed by a Production Company representative, at the Congress Presidium's request. This delay was due to the fact that the Standing Committee that was supposed to bring resolutions to this vote never convened (the resolutions were drafted, but not formally approved by the committee). During the event, a post was placed on the portal stating that voting would be postponed to a later date. Around 22:00 at night, all delegates were notified by email and SMS that voting would be delayed (for a screenshot of the notice sent to delegates and the notice posted on the portal — see Appendix 11). At 23:55, voting resumed, running from 00:17 to 8:00 am. This vote included 2 resolutions. 13 votes were cast between 18:31 and 18:31, for only one of the two resolutions (see screenshot in Appendix 11 below).

7.1.3 Irregular vote — A material phrasing error was made in the Resolution 4.1 during its original vote, and so a repeat vote was required. This vote took place between 16:46 and 21:47 on October 22, 2020. Upon examination, another single and unusual vote was cast on October 23, 2020 (Friday) at 2:24. It is not likely that one single vote was cast outside the voting window.

This flaw could potentially have been abused by users who could have cast votes outside the specified voting window (see screenshot in Appendix 12).

7.2 Unusual incidents — incident inquiry — double voting

- 7.2.1 **Finding:** When voting, each delegate may only cast one vote for each resolution or appointment put to vote in the Congress. Upon examination during the event, it was found that the Production Company applied a control to prevent double-voting by delegates. This control was put to the test during the event, when a delegate tried to vote twice. The delegate was blocked and received a warning that he had already cast his vote. Analysis of voting results found 2 delegates who voted twice, despite the aforesaid control mechanism. One delegate voted twice from Israel, and the other voted once from Columbia and once from France (see Appendix 5). It seems that this double vote was made possible by a bug (a problem where a software system behaves incorrectly, unexpectedly, or in a manner other than planned).
- 7.2.2 **Conclusion:** This is a material finding as users were found to have cast double votes. It is noted that, although these votes did not affect the results — even if they had been disqualified, the outcome of the vote would still stand — this finding undermines the integrity of the voting process (see Appendix 7 for a breakdown of votes where the vast majority voted Yes).

Production Company’s response

The matter will be checked.

7.3 Unusual incidents — investigation of the incident involving Resolution Committee 4

- 7.3.1 **General** — In the Zionist Congress, votes are held on various non-appointment resolutions. Resolutions brought before the plenum to vote start out as proposed resolutions submitted for preliminary review and voting in resolution committees.

These proposed resolutions were submitted to 5 different resolution committees which convened simultaneously on Wednesday, October 21, 2020, from 16:00–18:00. Committees convened via Zoom, and voting delegates were assigned to the different committees. Each committee received two proposed resolutions for review and voting, based on the committee’s focus. Resolutions adopted by the resolution committees were submitted to a resolution formulation committee, and then brought before the plenum for a virtual vote. Committee 4 focused on combatting antisemitism and was tasked with

reviewing Proposed Resolution 4.1 for Combatting Antisemitism on Campus (“Resolution 4.1”), and Proposed Resolution 4.2 for Combatting BDS (“Resolution 4.2”). On the night between Wednesday and Thursday, the professional staff noticed that a material phrasing error had occurred in Resolution 4.1 as submitted to the Resolution Formulation Committee by the committee secretary. However, due to the late hour, it was not possible to check the matter with the Committee 4 chairwoman or secretary. Thus, after consulting with the Congress president, it was decided to strike Resolution 4.1 from the list of proposed resolutions until further clarification.

Inquiry with Committee 4’s secretary

Upon speaking with the Committee 4’s secretary, it seems that about two hours adequate instructions to properly carry out his duties.

The committee received two proposed resolutions (4.1 and 4.2). However, before the committee convened, he was asked to substitute the committee’s original secretary. As such, he did not have time to receive thorough and

discussion concerning Resolution 4.1 continued longer than expected, and so Resolution 4.2 was not presented for review or voting.

In the committee’s discussions, several objections were voiced, some of which were accepted by the resolution’s author and were added to the amended resolution. Other objections were not accepted by the resolution author, and were put to a separate vote.

Resolution 4.1 was put to a vote by Committee 4, and was adopted with the aforesaid amendments.

At 19:30, the Committee secretary had to present Resolution 4.1, as adopted by Committee 4, to the Resolution Formulation Committee. To this end, the secretary asked Committee 4’s chair for a copy of Resolution 4.1 as adopted, and the comments that she recorded during the Committee’s discussions, as the discussion took place in English.

The committee chairwoman sent the secretary a document whose title and part of its text belonged to Resolution 4.2.

As the secretary thought the document to be Resolution 4.1, he changed the title of the resolution, without checking the

document's content. He then submitted the document to the Resolution Formulation Committee, with Resolution 4.1's title, but Resolution 4.2's text.

After the Resolution Formulation Committee had convened and approved the resolution as submitted, one of the committee members noticed that the committee had received a document which did not match Resolution 4.1 — instead of a resolution dealing with combatting anti-Zionism on campuses (Resolution 4.1), the committee received a document dealing with combatting BDS (Resolution 4.2).

The committee secretary stated that, although he did not note to the Resolution Formulation Committee the details of his changes to the document title, in Committee 4's vote on Resolution 4.1 all voters were aware of the topic being discussed, and voted on a copy of the correct document.

Inquiry with Committee 4's chairwoman

The chairwoman of Committee 4 stated that, as Committee 4 was getting ready to convene, the Committee secretary was substituted. Before the Committee meeting, the Committee chair instructed the secretary to document the comments made during the discussion. The discussion was extensive and included a large number of vocal participants, and so no time was left to discuss Resolution 4.2

The chairwoman then received a text message from the Committee secretary asking her to send him the comments she recorded during the meeting. The chairwoman thus sent the secretary one of the copies of Resolution 4.2 which had not been discussed by the committee. She did not receive any further messages from the Committee secretary in this matter. The chairwoman stated that the Committee secretary did not check the content of the resolution, and only changed the title. She stated that, had he only glanced at the document's content, he would have immediately seen that it did not match Resolution 4.1

7.3.2 Summary and conclusions

After speaking with the chair and secretary of Committee 4, and in light of the findings from Office of the Comptroller's inquiry, it seems that the issue was due to a technical error caused by

lack of instruction for the Committee’s substitute secretary prior to the vote. Additional flaws were found in communication flow (which may have been due to language barriers) between the Committee chair and secretary, who were responsible for recording comments during the Committee’s discussions, and for submitting resolutions, as adopted, to the Resolution Formulation Committee.

On the morning of Thursday, October 22, 2020, the Resolution Formulation Committee received the correct copy of Resolution 4.1 for Combatting Anti-Zionism on Campuses, as adopted by Committee 4 by a majority of 74 to 7 (21 abstaining). The repeat vote was scheduled for Thursday, October 22, 2020, from 16:00–19:00.

8. Summary of Findings and Recommendations

| Section | Title | Findings | Recommendations |
|---------|---------------------------------------|---|--|
| 4 | Event Operation and Management | <ul style="list-style-type: none"> • Voting results were not advertised by name. • Security — there was free access to the convention center. • Noncompliance with Ministry of Health guidelines. • Insufficient training for tech support staff; password instructions provided very shortly before voting began. • Frequent schedule changes which were not updated on WZO’s website. • Centralized decision-making structure. • Call support — Numerous calls directed to WZO’s staff and not to the tech support center. • No documentation of calls or malfunctions. | <ul style="list-style-type: none"> • Appoint an IT specialist when contacting the IT and Production companies. • Provide detailed training, particularly for junior operations staff. • Update WZO’s Constitution and regulations, and the Congress regulations, to provide for virtual voting. • Instruct security staff at the convention center not to admit visitors not on the approved visitors list. Appoint a supervisor to manage real-time entrance permissions. |

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| 5 | Data Integrity | <ul style="list-style-type: none"> • Mismatch between Production Company’s and IT Company’s delegates list. • Production Company’s list of delegates with voting rights not updated after delegates were substituted by deputy delegates. • Delegates substituted by deputy delegates cast votes against regulations. • Several users voted, but cannot be identified on the Production Company’s voter list. • Several delegates represented one country, but voted from another country. This finding could be unusual. • On the IT Company’s list of delegates with voting rights, some entries did not specify ID or passport numbers. • No incident log. • The support and operating staff have numerous users with voting rights, some of which voted. | IT should appoint a project manager to oversee compliance with WZO’s rights and requirements by the Production Company before, during, and after the event. |
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| 6 | Information Security | <ul style="list-style-type: none"> • Breach of physical information security — Hard-copy voter lists with all usernames and passwords were left unattended in the open. • Noncompliance with the Production Company’s password policy. • No option to reset initial passwords. • No mechanism to lock out users after several failed attempts to log in to the voting portal. • No authentication of delegates in Zoom waiting rooms for committee meetings. • No SLA with the IT Company or Production Company. • Production Company did not present a BCP (business continuity plan) or DRP (disaster recovery plan). | <ul style="list-style-type: none"> • Do not hand out user names and passwords for users with voting rights to tech support staff. • Allow delegates to recover passwords, to reduce workloads for support staff if delegates forgot or lost their password. • IT’s project manager, to be appointed by the Congress as recommended above, should verify compliance with password policies. • All users should reset their initial password. Alternatively use multi-factor authentication. • Apply a user lock-out mechanism after several failed login attempts. • Increase security in Zoom meetings, for example through prior registration of committee members, and establishing access passwords for meeting rooms. • Sign SLAs with the IT Company and Production Company. • Request a SOC2 report — a global standard for proving service management and security levels among tech service providers — based on Salesforce and Hertzner data, to check compliance with control requirements by the IT and Production companies. |
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|---|------------------|--|--|
| 7 | Incidents | <ul style="list-style-type: none"> • Final voter lists were received at 14:53 on Tuesday, October 20, 2020, only 7 minutes before voting began. • Postponed vote for the Standing Committee — The vote opened for one minute and was then postponed until several hours later. In that minute, 13 voters managed to vote on one of the two resolutions. These voters may have assumed that they completed their voting for the Standing Committee, and so did not exercise their right to vote on the other resolution. • A single vote was cast outside the voting window. • 2 delegates cast double votes. • A repeat vote was held on Resolution 4.1 due to a material phrasing error. | |
|---|------------------|--|--|

November 2021

**Response of the Chairman of the Zionist Executive
to the Comptroller's Report on
Voting in the 38th Zionist Congress**

In accordance with Section 18B to the Statutes of the Comptroller and of the Control Office, which requires the Chairman of the Zionist Executive to respond to the Comptroller's reports, the following is my response to the Report concerning Voting in the 38th Zionist Congress.

This audit report reviews the National Institutions' need and methods to find real-time practical solutions for holding the Congress at a time of global pandemic. The scope of the audit and the response of the various staff illustrate the challenge and complexity of this endeavor.

The World Zionist Organization staff oversaw the deliberations and voting in the Congress following such detailed planning as was possible at the time.

The aforesaid notwithstanding, it is clarified that I place great emphasis on the findings of this audit. Together with the Secretary of the Zionist Executive, the Director General, and the other stakeholders, we will work to correct the flaws identified in the report.

On behalf of the World Zionist Organization, I thank for the audit.

(-) Yaakov Hagoel
Jerusalem, December 2021

Finance Department Operations

Finance Department Operations

A. Introduction

1. General

- 1.1. In accordance with its annual work plan, the Office of the National Institutions Comptroller performed an audit of the World Zionist Organization's ("WZO") Finance Department ("Department").
- 1.2. **The audit refers to the term preceeding the 38th Zionist Congress (before October 2020).**
- 1.3. The Finance Department performs numerous, diverse functions in an organization, including: budgeting, accounting, cash flow and liquidity management, treasury activities, reporting, etc. The Finance Department is usually also involved in laying out the organization's strategy and providing the Executive with accounting and financial information to support strategic planning and decision-making.
- 1.4. The audit included, among other things:
 - 1.4.1. The Department's organizational structure.
 - 1.4.2. Operating procedures.
 - 1.4.3. Budget preparation and management.
 - 1.4.4. Procurement.
 - 1.4.5. Payments in Israel.
 - 1.4.6. International payments.
 - 1.4.7. Segregation of duties in formal, IT-supported workflows.
- 1.5. The audit took place between September 2020 and January 2021.

2. Objectives

To examine various aspects of the Department's operations, vulnerability to potential risks, and effective control over such risks.

3. **Methods**

The audit included:

- 3.1. Preparatory meetings and coordination.
- 3.2. Receiving background material for review, analysis, and preparing the audit plan.
- 3.3. Meetings with:
 - 3.3.1. Director, Finance Department.
 - 3.3.2. Deputy Director, Finance Department.
 - 3.3.3. Coordinator, Accounting Control and Zionist Organization Operations.
 - 3.3.4. Budget, reporting and project control supervisor, and international payments coordinator.
 - 3.3.5. Supervisor, Payments in Israel Unit.
 - 3.3.6. Procurement and Logistics Supervisor.
 - 3.3.7. Account manager and bank reconciliation supervisor.
- 3.4. Review and analysis of the following:
 - 3.4.1. Planned budget vs. actual expenditure.
 - 3.4.2. Supplier ledger.
 - 3.4.3. Signatory rights and access permissions.
 - 3.4.4. Tenders Committee minutes.
 - 3.4.5. Contracts and payment documents.
 - 3.4.6. Follow-up, control, and similar files.

B. Organizational Structure

1. **WZO's organizational structure**

- 1.1. In addition to the Finance Department and the Human Resources Department, which are headquarter units, until the 38th Congress WZO's organizational structure comprised the following 7 operational departments:
 - 1.1.1. Diaspora Activities Department.
 - 1.1.2. Aliyah Promotion Department.
 - 1.1.3. Israel and Combatting Anti-Semitism Department.
 - 1.1.4. Education Department.
 - 1.1.5. Zionist Enterprises Department.
 - 1.1.6. Diaspora Religious Affairs Department.
 - 1.1.7. Settlement Division.

- 1.2. Each of these departments operate independently and separately, without a central, integrative authority directing their operations.
- 1.3. In professional terms, WZO's organizational structure could be described as overly decentralized — while decentralization can be a positive thing, over decentralization may impair an organization's performance. The above structure entails the following disadvantages:
 - 1.3.1. No pan-organizational perspective.
 - 1.3.2. Lack of uniformity in the organization's activities.
 - 1.3.3. Lack of uniformity in HR management.
 - 1.3.4. Redundancies.
 - 1.3.5. Sub-optimal utilization of resources (economies of scale).
 - 1.3.6. Waste.
 - 1.3.7. Lack of control and supervision.
 - 1.3.8. Difficulty in strategic planning, coordination, implementing instructions. etc.
- 1.4. The Office of the Comptroller notes that, after the 38th Congress, the Zionist Executive elected and appointed a director general for WZO. However, even in 2015–2019, when WZO had a director general, this did not change the organizational structure which remained essentially split into seven different perspectives from seven different departments.
- 1.5. The Finance and HR departments are headquarter units, and thus have a broader, cross-organizational viewpoint which differs from the other, self-contained departments. The Office of the Comptroller notes that this presents the Finance Department with various unique difficulties and challenges, some of which will be discussed in this report.

Conclusion

As a headquarters unit, the Finance Department differs from WZO's other departments by having a cross-organizational perspective. WZO's organizational structure does not support integrative approaches, and the Office of the Comptroller believes this can cause a lack of uniformity in the Finance Department's interaction with the various departments.

Recommendation

WZO should appoint a person with a broader perspective and integrative powers, whose role would include to coordinate workflows across the various departments through an overall organizational approach. The departments should answer to WZO's director general in all cross-organizational and general matters.

2. Finance Department's structure

- 2.1. According to information provided by the Department, the Finance Department has the following staff:
 - 2.1.1. Director.
 - 2.1.2. Deputy Director.
 - 2.1.3. Coordinator of accounting control and Zionist organization operations.
 - 2.1.4. Budget and project supervisor and international payments coordinator.
 - 2.1.5. Payments in Israel supervisor.
 - 2.1.6. Procurement and logistics supervisor.
 - 2.1.7. Account manager, bank reconciliation supervisor, and Eliner Library finance supervisor.
 - 2.1.8. Payments coordinator.
 - 2.1.9. Departmental and CFO secretary.
- 2.2. The Office of the Comptroller notes that the Department has a flat organizational structure. All Department employees answer to the Department Director and Deputy Director. The Department is missing job descriptions for its various staff.
- 2.3. The above list of departmental positions hints at the various services which the Department provides to WZO's other departments (e.g. — procurement and payments). These services require structured and uniform work flows.

Conclusion

The Finance Department's organizational structure lacks clearly-defined hierarchies and written job descriptions. In addition to the clarity that written job descriptions could provide, they would also be important in terms of knowledge retention and organizational memory for future staff and managers. The Office of the Comptroller also believes that employees are entitled to official job titles, which they could include in their signatures.

Recommendation

Establish an organizational structure which includes formal hierarchies and job titles. Furthermore, establish written, actionable job descriptions for all Department functions.

Finance Department's response

Job descriptions and employee hierarchy in the various workflows are clear to

all Finance Department staff, in accordance with their job. The Department's experience over the past 10 years, when most of the Department's staff were onboarded, is that employees are recruited based on their skills and professional experience and responsibilities are set accordingly.

C. Procedures and Systemic Controls

1. Procedures

- 1.1. The organization's management is responsible for implementing adequate control measures. These controls are based on a range of actions and reports required to direct the organization's operations effectively and efficiently, in accordance with proper conduct principles.
- 1.2. Operational procedures establish written policies which regulate organizational workflows.
- 1.3. WZO has not implemented operating procedures.
- 1.4. The Office of the Comptroller was told that departments are expected to apply the Jewish Agency's procedures. However, this guidance is applied neither uniformly nor consistently. Furthermore, no binding decision could be found from WZO's Executive to adopt the Jewish Agency's procedures.
- 1.5. In 2016, WZO's former director general drafted a set of procedures for finance, procurement, payroll, and other operations. These procedures were not approved by the Zionist Executive, and so were not rolled out to the departments.
- 1.6. There are several disadvantages to not having formal procedures, including:
 - 1.6.1. Lack of consistency and uniformity in workflows.
 - 1.6.2. Lack of in-depth planning of operations and lack of preventative controls minimizing operational risks.
 - 1.6.3. Inability of new employees/managers to get quickly acquainted with workflows and policies.
 - 1.6.4. Randomness in process workflows, potentially creating conflicts between employees or departments.
 - 1.6.5. Undermining routine controls and the ability of the organization's internal and external auditing functions to quickly assess actual workflows and controls.

- 1.6.6. Increased legal risk — A set of operational procedures reflects an organization's commitment to proper conduct. This can help mitigate legal risks, and serve as a defense in legal proceedings (e.g. — lawsuits concerning salaries, sexual harassment, unfair tendering, etc.).
- 1.6.7. Making employees responsible for workflow management — Without procedures, employees can be accused that their actions caused a loss of resources (or other failures). If an employee followed existing procedure, liability is diverted to management which failed to plan preventative controls into the workflows.
- 1.7. The Finance Department stated that the organization is subject to quarterly and annual audits, of various scopes, by:
 - 1.7.1. The National Institutions Comptroller.
 - 1.7.2. The Standing Committee for Finance and Budget — a committee whose members are chosen by the World Zionist Congress every five years.
 - 1.7.3. The accounting firm serving as WZO's external auditor.
 - 1.7.4. The accounting firm auditing JNF's share in WZO's budget.
- 1.8. The Office of the Comptroller believes a formal set of operating procedures regulating workflows and controls would help WZO's auditors to map existing controls, sparing the need to explain the organization's workflows and controls anew each time.
- 1.9. While WZO's auditors focus on specific issues or matters, operational procedures would provide day-to-day controls and a set of administrative rules for the organization. Thus, adopting procedures and administrative rules is an essential part of a formal control system which supports internal and external auditors in identifying potential flaws.
- 1.10. Departmental workflows for which no binding procedures have been set include:
 - 1.10.1. Annual budget preparation.
 - 1.10.2. Contracting, including:
 - Supplier databases.
 - Consultant databases.
 - Goods procurement.
 - Contracts for services and consulting.
 - Procurement and Tenders committees.
 - 1.10.3. Payments in Israel.

- 1.10.4. International payments.
- 1.10.5. Periodic controls (bank reconciliations, cash flow projections).
- 1.10.6. Petty cash.
- 1.10.7. Business travel abroad.

Conclusion

WZO operates without formal procedures reflecting policies born from a general, pan-organizational view. The Office of the Comptroller believes this weakens auditing and control efforts, and may damage the organization in general and the Finance Department in particular.

Recommendation

WZO should establish operating procedures for key workflows, and particularly those impacting the Finance Department's operations, as detailed in Section 1.10.

Finance Department's response

The Finance Department accepts the Office of the Comptroller's recommendations for establishing independent operating procedures for WZO, which should be approved by WZO's Executive.

Recently, the Finance Department has taken several pre-emptive preparatory actions to implement independent operating procedures, together with WZO's Director General.

Roll-out and implementation of independent procurement and contracting procedures for WZO would require budgetary resources and additional staff, and the Finance Department and WZO's Director General are preparing to allocate organizational resources accordingly.

2. Headquarter-level controls

- 2.1. Headquarter-level controls are necessary to assess the organization's operating efficiency and to identify weaknesses and failures which jeopardize the organization's resources.
- 2.2. Organizational culture, work-loads, IT resources, and professional capabilities may impact organizational controls by either removing them completely, or through the adoption of low-quality controls.
- 2.3. As concerns internal control functions, the Finance Department plays a key role in the organization's headquarter-level control efforts for

budgets, procurement, payments, cash flows, etc. These efforts are discussed in the respective sections in this report below.

- 2.4. Another example of headquarter-level controls in which the Finance Department is involved, is in the approval of collaborations with third parties.
- 2.5. As concerns the Department's control over payroll activities, it is noted that in addition to this report, the National Institutions Comptroller has performed a **specific audit on Payroll Operations in the WZO**.
- 2.6. In response to the Payroll report, the Finance Department's Deputy Director stated that controls over payroll activities are applied as follows: at the end of each payroll month, a Finance Department accountant receives from the Jewish Agency's Payroll Division the detailed payroll payment order specifying the beneficiaries for that month's salary payments. The accountant checks all salary payments against WZO's bank accounts, and following such reconciliation finalizes the accounting entries for all salary/payment recipients in the organization's books.

In order to assess the quality of this control, the Office of the Comptroller examined records of the Department's review of the September 2020 payroll. Documents included the payroll payment order received from the Jewish Agency's Payroll Division and the Finance Department's corresponding ledger entries. The Office of the Comptroller found that the Department's controls are not designed to identify salary discrepancies or fake employees. In effect, WZO does not address the risk that the payroll payment order received from the Jewish Agency may include individuals who are not actually WZO employees.

- 2.7. The Finance Department stated in response that the various departments do not provide specific reports. The Department works with various process stakeholders as follows:
 - 2.7.1. Routine budget management meetings with department directors.
 - 2.7.2. Finance Committee — Each year, the Finance Department presents the budget for approval on the Executive's behalf, as well as any necessary budget updates.
 - 2.7.3. Personnel committee — The Finance Department receives updates from the Human Resources Department on any new employees as well as salary updates.
 - 2.7.4. WZO's General Council — This organ represents the unions and organizations comprising WZO, and convenes once annually to discuss organizational policy.

- 2.7.5. Collaborations Committee — The committee reviews third-party collaborations.
- 2.7.6. Shlichim Committee — The committee approves new shlichut and extends ongoing Shlichut.
- 2.7.7. Tenders Committee.

Conclusion

There is insufficient control over payroll as concerns the payment order received from the Jewish Agency's Payroll Division, to verify that such orders do not include suspect transactions and/or fake employees.

Recommendations

- **The Finance Department should check employee salaries in the payroll payment order, to verify that the latter do not contain suspect transactions and/or fake employees.**
- **The Finance Department should formalize its payroll controls through an operational procedure. The procedure should describe such controls in detail, assign ownership to specific employees, and describe how they mitigate organizational risks.**

Finance Department's response

We implement full monthly controls for the organization's workforce. These include checking proper department assignment and budgets. For new employees (who in theory could be fake), the Finance Department checks and requests clarifications before recording the monthly salary payment order in the books.

Conclusion

Since the departments operate independently, the Finance Department does not apply controls over their operations. Furthermore, while the departments' expenses are correlated to their output, WZO does not review the ratio between costs and actual result. For example, some departments apply quantitative KPIs (key performance indicators), but the Office of the Comptroller believes that as these KPIs are not linked to financial data, the organization's ability to draw operational conclusions and control financial performance is undermined.

Recommendation

Consider requiring departments to prepare periodic performance reports, which would correlate results with expenses, and present comparative data from previous periods. For example, uniform KPIs can be applied

to all the departments, which would be reviewed periodically along with their underlying costs. This information could be analyzed over a continuous period to assess the plausibility of the departments' costs alongside their operational efficiency.

D. Segregation of Duties and Access Permissions

1. General

- 1.1. Segregation of duties seeks to guarantee that authority in procurement and finance-related workflows are not concentrated with one single person.
- 1.2. WZO has a fundamental segregation of duties between the Finance Department and the other departments. The various departments consume services and goods, and the Finance Department oversees payments, and in some cases contracting as well.

2. Segregation of duties through access permissions in the Priority Information System

- 2.1. The Office of the Comptroller asked for a print-out from the information system detailing access permissions for the following system screens:
 - 2.1.1. New supplier entry.
 - 2.1.2. Edits to existing supplier data.
 - 2.1.3. Ledger entries.
 - 2.1.4. Invoice entry.
 - 2.1.5. Accounting entry correction.
 - 2.1.6. Bank reconciliation.
 - 2.1.7. Payment order approval.
 - 2.1.8. Preparing electronic transfer orders.
 - 2.1.9. Approval of electronic transfer orders.
- 2.2. The access permissions supervisor spoke with the company supporting the information system, and was told that the requested reports cannot be provided. The Office of the Comptroller sent a sample of such reports retrieved from the Priority system to demonstrate how they could be retrieved. In response, of the above-mentioned documents only the following three permissions files were provided, in November 2020:
 - 2.2.1. Editing permissions for accounting/ledger entries — 24 users

had editing permissions for these documents. The Office of the Comptroller notes that this is an excessive number of access permissions to WZO's accounting and ledger modules. Furthermore, some of the users with access permissions were not WZO employees (see Appendix A).

2.2.2. Editing permissions in the supplier module — 5 users had both editing permissions in the supplier module and permissions to place procurement orders. The Office of the Comptroller notes that having access to both permissions undermines proper segregation of duties (see Appendix B).

2.2.3. Editing permissions in the Priority order/invoice module — 4 users had the editing permissions required to enter new invoices. The Office of the Comptroller notes that these 4 employees had access to all the examined modules — accounting, procurement, suppliers, and invoices (see Appendix A).

2.3. The Office of the Comptroller inquired how access permissions were managed without the knowing how to generate the various permissions reports. The relevant Department supervisor stated that permissions management is performed by designating users as either active or inactive (for examples of user management practices, see Appendix A).

2.4. The active/inactive user reports and the reports showing access permissions to specific screens seemed to contain conflicting data (e.g. — users with editing permissions in the system access reports appeared as inactive in the activity status report).

2.5. Upon inquiry with the Department, and with the help of WZO's third-party consultant for the Priority system, the Office of the Comptroller found that a large number of the users appearing in the above reports (which seemed to show a superfluous number of permissions) did not actually have access permissions. This was explained as follows:

2.5.1. Users are classified as active with a specific characterization flag in a specific field entitled 'Active in the system'.

2.5.2. When a user is off-boarded, they are designated to inactive status. Inactive users cannot access the system and edit information. In fact, their user name would not even appear in the user-selection list.

2.5.3. The reason for the conflicting data with the access permissions report was that, when an employee leaves, the Department's access management officer for the Priority system renders that

user inactive. However, the access management officer does not change their official access permissions. Thus, the module-specific permissions report would also include inactive users, even though they cannot actually access the system.

- 2.5.4. Users can also have read-only permissions. These users can view documents, regardless of their system permissions group, but do not have editing access.
- 2.5.5. The Office of the Comptroller also accepted the Department's explanation that the permissions granted to Jewish Agency employees are mission-critical.

Conclusions

Management of WZO's access permissions is achieved by designating users as either active or inactive within the specified permissions groups. The Office of the Comptroller's findings indicate that access permissions are well-managed. However, at the time of the audit, the only report used by the Department to control access permissions is the user status report. The Office of the Comptroller notes that by checking user activity status, the Department does not see which permissions a given user actually has. For example, an 'office and administrative supervisor' in the Zionist Shlichut Unit had editing permissions in the accounting module in addition to the Unit's accountant. This would not show up in the report which the Finance Department uses to check access permissions. The Office of the Comptroller believes it is important to check access permissions for specific modules (accounting, new suppliers, procurement, etc.) in addition to checking whether users are active or inactive.

Recommendation

The Department should choose one of the following two options to manage and control access permissions in the Priority System:

- **When off-boarding employees, cancel all their permissions/grant zero permissions in addition to designating their user as inactive. By managing permissions this way, the access reports would provide relevant and accurate information for sensitive system modules (supplier entry, accounting, procurement etc.). This report should be submitted periodically to the Department Director or Deputy Director.**
- **The same control can be achieved through WZO's current permissions management methods (without annulling user permissions during off-boarding), by periodically cross-checking the two reports (module-specific access report, and active users report).**

E. Budget Preparation and Management

1. General

- 1.1. Proper budget preparation is an integral part of an organization's planning activities. Proper budget preparation allows management to compare resource allocations with targets and work plans, and supports strategic planning and decision-making.
- 1.2. The quality of a budget's preparation and management is affected by the organization's operating methods and the available management and control resources. It is also shaped by the technological sophistication of the information systems supporting the budget's management. WZO uses the Priority finance module which allows, among other things, detailed budget development and management through tree maps (different hierarchies of sub-items under a main budget line item).
- 1.3. The Office of the Comptroller examined the preparation and management of WZO's 2019 budget.

2. Budget preparation

- 2.1. Budget preparation starts several months before the budget's ultimate publication. First, fixed costs are estimated based on data from the Priority system and information from HR. Furthermore, staff review active contracts with the government and other third parties.
- 2.2. Data are entered into an Excel spreadsheet, which is used to build the budget that will eventually be approved by the Executive. The Office of the Comptroller notes the disadvantage of building the budget in an Excel spreadsheet, as opposed to using the various budget-building options offered by Priority's finance module. Disadvantages include:
 - 2.2.1. Building the budget directly in Priority would save time.
 - 2.2.2. Priority has integrated controls over data fields, which would prevent data entry errors.
 - 2.2.3. Excel files can be changed (even by mistake) without any record of such changes. Priority provides a log of all changes to the budget.
 - 2.2.4. Using Priority instead of spreadsheets would increase employee familiarity with the system's capabilities.

2.3. Data from the Excel spreadsheet are then entered manually into Priority. The Office of the Comptroller notes that Priority can import data from Excel automatically. However, the budget preparation officer stated that he prefers entering data manually to have better control over the data being transferred.

2.4. Once data from the Excel have been entered into Priority, WZO's departments need to check whether their respective budgets have been entered properly. The Office of the Comptroller notes that the departments do not actively confirm budget items in Priority.

2.5. Summary of planned vs. actual budget performance in 2019 (in USD):

2.5.1. Revenues

| Description | Core planned, 2019 | Core, actual 2019 | Designated, planned 2019 | Designated, actual, 2019 |
|---|--------------------|-------------------|--------------------------|--------------------------|
| Revenues | | | | |
| JNF participation | -22,500,000 | -24,854,160 | | |
| WZO building in Tel Aviv (Kaplan 17) — rent revenues | -1,250,000 | -1,603,258 | | |
| Jewish Colonial Trust (dividend inflows) | -750,000 | -750,000 | | |
| Additional income from miscellaneous sources | 0 | -102,101 | | |
| Surplus carry-over — previous-year balances | -5,996,388 | 0 | | |
| Zionist Congress — JNF | | | -1,000,000 | -51,298 |
| Activities with Zionist organizations — JNF agreement | | | -6,000,000 | -6,915,829 |
| Shlichut in Diaspora communities | | | -16,500,000 | -17,228,891 |
| Ofek Israeli — Aliyah promotion | | | -2,344,200 | -2,052,586 |
| Aggregate income from Ministry of Education | | | -1,848,035 | -1,044,140 |
| Ministry of Agriculture — Settlement Division OPEX | | | -10,000,000 | -7,640,355 |

| Description | Core planned, 2019 | Core, actual 2019 | Designated, planned 2019 | Designated, actual, 2019 |
|---|---------------------------|--------------------------|---------------------------------|---------------------------------|
| Jerusalem and Heritage Ministry — Zionist Quiz | | | -202,700 | -212,585 |
| Aggregate income from Prime Minister's Office | | | -585,000 | -502,530 |
| JNF — Zionist Archives development and infrastructure | | | -810,000 | 0 |
| Herzl Centers in Diaspora universities | | | -225,000 | -74,490 |
| Total revenues | -30,496,388 | -27,309,519 | -39,514,935 | -35,722,704 |
| | | -10% | | -10% |

The above table indicates that actual core revenues in 2019 were 10% lower than forecast. Actual designated revenues were likewise 10% below forecast.

2.5.2. Expenses

| Description | Core, planned, 2019 | Core, actual, 2019 | Designated, planned, 2019 | Designated, actual, 2019 |
|---|----------------------------|---------------------------|----------------------------------|---------------------------------|
| Revenues | -30,496,388 | -27,309,519 | -39,514,935 | -35,722,704 |
| Expenses | | | | |
| Diaspora Activities Department | 2,466,435 | 2,274,793 | 328,560 | 233,056 |
| Acting Chairman's office, and Israel Department | 2,403,463 | 2,339,207 | 202,700 | 210,261 |
| Chairman's office, branding and positioning | 2,740,823 | 2,580,648 | 795,000 | 493,269 |
| Zionist Enterprises | 4,774,795 | 4,421,549 | 970,000 | 102,437 |
| Aliyah Promotion Department | 1,833,452 | 1,781,269 | 2,344,200 | 2,041,762 |
| Education Department | 3,253,676 | 2,838,438 | 1,158,275 | 711,421 |
| Zionist — Religious activities | 2,338,200 | 2,433,351 | | |
| Zionist activities with organizations and alliances | 3,022,953 | 1,764,687 | 6,000,000 | 6,885,592 |

| Description | Core, planned, 2019 | Core, actual, 2019 | Designated, planned, 2019 | Designated, actual, 2019 |
|-------------------------------------|---------------------|--------------------|---------------------------|--------------------------|
| General projects | 125,000 | 9,560 | | |
| Core activities and services | 5,704,404 | 5,189,650 | 27,716,200 | 25,081,672 |
| Liabilities and general obligations | 1,833,187 | 1,695,551 | | |
| | 30,496,388 | 27,328,703 | 39,514,935 | 35,759,470 |
| Deficit | 0 | 19,184 | 0 | 36,766 |

The above table indicates that actual performance of both core and designated expense budgets yielded a minor deficit.

2.6. The Office of the Comptroller examined actual budget performance in 2018.

| Description | Core, planned, 2018 | Core, actual, 2018 | Designated, planned, 2018 | Designated, actual, 2018 |
|--------------------------|---------------------|--------------------|---------------------------|--------------------------|
| Revenues | -31,476,653 | -25,262,528 | -31,270,800 | -37,932,931 |
| Expenses | 31,476,653 | 24,687,144 | 31,270,800 | 38,268,288 |
| (Surplus) Deficit | 0 | -575,384 | 0 | 335,357 |

The above table shows that actual core budget performance in 2018 yielded a surplus of USD 575,000, while actual designated budget performance yielded a deficit of USD 335,000.

Conclusion

The Department does not build the budget using Priority's finance module, but rather builds it manually in an Excel file. The Office of the Comptroller believes there is a disadvantage to this practice requiring substantial human controls to prevent errors. These could be avoided using Priority's integrated tools and features. For example, the Excel file does not provide log changes and edits to the budget file, while Priority tracks these changes making it easier to identify errors.

Recommendation

Consider building the budget through Priority's finance module. Furthermore, Department staff should receive periodic training to increase their familiarity with Priority. This would allow them to leverage the essential tools offered by this system.

Finance Department's response

Excel is used as a working draft, as detailed in Section 2.1's description of the budget development process. Excel is used for the first few months of the process, until planned budget amounts are finalized for approval. A clear example of this tool in use can be illustrated by planning a budget for a department with several employees. This budget can be changed easily during its planning stages, under various planning assumptions such as payroll forecasts, changes in workforce, cost-of-living additions granted under collective labor agreements, currency exchange rates, etc. It should be clarified that this tool does not substitute workflows based on Priority's finance and budget module. Once planning activities have been completed, there is no error-prone manual data entry. Instead, we use the system's tools to enter and copy data from Excel files into the budget module. Records and change logs match the data entry method. They appear in full in the system, and serve as both a control tool and a version-chain record, so no information is lost under current practices. The Finance Department's budget supervisor uses the capabilities offered by Priority's budget module, and even receives professional support upon request from the implementation company's support center.

Conclusion

After entering the data from Excel into Priority, there is no other person (other than the person who entered the data) who approves that data were indeed entered as per the approved budget. The Office of the Comptroller believes it is important to verify initial data entry into Priority, particularly in light of its manual entry from Excel. The Office of the Comptroller believes that relying on a given employee's capabilities does not prevent possible errors by other employees who may replace them in the future.

Recommendation

Receive active confirmation from the department directors that their budgets have been entered into Priority as approved.

Finance Department's response

The Finance Department will implement the Office of the Comptroller's recommendation to receive active confirmation from the department directors that their budgets have been entered into Priority as per the approved work plans and budgets.

3. Budget tracking and control

- 3.1. The Department's budget supervisor implements budget controls once every two weeks to check the various budget items' utilization.
- 3.2. The Office of the Comptroller examined how frequently the budget supervisor retrieves a budget report, and found that the report is retrieved at least twice a month (for a screenshot of the folder containing the report files, see Appendix B).
- 3.3. Upon inquiry, the budget supervisor stated that no funds are transferred across budget units (between departments).
- 3.4. Within a given department's budget, transfers up to USD 25,000 are permitted. Above this amount, transfers require Executive approval (i.e. — a department may move funds within its given budget, subject to the above limitations).
- 3.5. The Office of the Comptroller compared the planned 2019 budget against its actual performance. Below are some of the budget deviations that were found, and the Department budget supervisor's explanations.

| Budget unit | Planned budget | Actual performance | Budget deviation | Comment |
|--|----------------|--------------------|------------------|---------|
| Shlichim | 16,500,000 | 17,228,891 | 728,891 | 3.6.1. |
| Zionist org. activities | 6,000,000 | 6,885,592 | 885,592 | 3.6.2. |
| Religious services — Conservative Judiasim | 779,400 | 832,078 | 52,678 | 3.6.3. |
| Religious services — Reforme Judiasim | 779,400 | 823,918 | 44,518 | 3.6.3. |
| Mount Herzl | 166,000 | 212,936 | 46,936 | 3.6.4. |

- 3.6. The Office of the Comptroller received the following explanations -

- 3.6.1. These items relate to shlichim operations. These operations have a general, overall budget, as opposed to individual line items, as they would comprise thousands of line items. The Office of the Comptroller notes that the above table indicates that **USD 17 million are budgeted as a general amount, with no ability for accurate tracking or control over their utilization.** The Department's budget supervisor stated that, starting from 2020, all line items within this general amount will be updated. However, due to the sheer number of line items, this update will

be done twice a year. The Finance Department further stated that this is not a budget deficit — as part of the designated financing for the project, the full expense amount is received and recorded as revenues.

- 3.6.2. This constitutes additional support to the Zionist organizations from the designated budget, as part of the agreement with JNF. These over-budget expenses correlate with JNF allocations.
- 3.6.3. These are core budgets for the Religious Streams. Some of the differences between the planned and actual budget performance may be due to the fact that budgets are USD-based, while expenses are incurred in NIS.
- 3.6.4. This difference was caused by not receiving the government's share in Mount Herzl's operational costs, to the amount of USD 80,000. The Finance Department stated that revenues from the Prime Minister's Office was received and recorded as revenues, and not as an offset from expenses. Thus, in effect no deficit was incurred.

Conclusion

Lacking a formal process for approving budget changes and deviations, including milestones and controls, it is hard to track which budget items 'financed' deviations in other items. The Office of the Comptroller also notes that numerous changes are made to the budget during the year. This could lead to performance drifting away from the original budget approved by the Executive, and undermine comparison between planned and actual performance data.

Recommendations

- **Establish a procedure to regulate budget changes and deviations. Implement this procedure when using the Priority module. For example, block budget deviations to only be possible with managerial approval. Until such controls are implemented through the IT system, budget change logs can be generated, to be submitted once a month to the Department director or deputy director for approval.**
- **To support tracking and control, use Priority's ability to save budget version chains, while also displaying the original approved budget (excluding subsequent changes) against actual performance.**

Finance Department's response

As concerns tracking budget changes — Changes inside a given budget unit are permitted as per procedure, and subject to budget update request deadlines. We do not lose this information or our control over such changes.

We present the Executive with the requested budget changes including actual and requested changes for approval.

Conclusion

Since budget utilization is updated based on actual payments and a significant portion of WZO's operations are not based on earmarked budgets, a budget deviation is possible, as budget balances cannot be ascertained in real time.

Recommendation

The departments should earmark budgets at the start of each transaction (even if there is no contract). This would update budget balances before payments are made.

Finance Department's response

Starting 2020, we are earmarking funds once a purchase order has been made. Purchase orders include budget transactions for suppliers and service providers as well as for collaborations and contracts approved with organizations. Thus, the budget and finance system provides an accurate and clear picture of the budget, including all pending liabilities for which contracts have been signed.

Conclusion

Expenses for shlichut operations are presented as a general amount, as opposed to individual line items, as there would be thousands of such line items. The Office of the Comptroller believes this effectively means that USD 17 million are budgeted as a general item, without options for accurate tracking and control over their utilization. The Department's budget supervisor stated that, starting 2020, all individual line items comprising this general amount are updated.

Recommendation

Make sure that detailed updates are indeed made to the shlichut operations budget, at least twice-annually.

4. USD-based budgeting

4.1. While WZO's financial statements are presented in NIS, and a significant portion of its operations (payroll, payments to local suppliers, allocations

and support, etc.) are carried out in NIS, WZO's budget is prepared in USD. Upon inquiry into the matter, the Deputy Director of Finance stated:

"On both its revenue and expense sides, the organization has 3 operational components:

- WZO's current budget, which is mainly funded through the KKL's budget.
- Overseas shlichut budget — funded by the Jewish Agency for Israel.
- Designated projects budget, mainly from government ministries — funding is NIS-based, as are the account reconciliations.

A. Regarding WZO's current budget, the revenue derived from the agreement was set in USD. Each year, WZO is guaranteed a given exchange rate based on the average USD-NIS exchange rate in December preceding the fiscal year. Therefore, budget assumptions for budget planning and costing are based on the contractual exchange rate. In other words, at the start of the year we know for certain the allocated amount and plan accordingly.

As part of a professional review performed with the Israeli tax authorities, we analyzed the composition of WZO's operating budget in Israel and abroad. Activities with organizations which are fundamentally linked to the USD (except for NIS 38 million attributed to activities with Zionist organizations) the liability for granting support is based on the fiscal USD exchange rate specified for each contractual year.

Throughout the agreement's lifetime from 2016 to 2020, WZO never had to hedge the fiscal USD-based liability in case the actual USD-based expenses exceeded the contractual USD exchange rate and in practice the exchange rate for actual expenses turns out to be lower than the specified exchange rate.

B. Overseas shlichut budget — As previously indicated by the bank reconciliation system, these operations are carried out from special-purpose bank accounts. These accounts are in a variety of formats and currencies, and revenues match the functional currencies.

C. For designated government projects, we do not have any currency risk. Operations match the contractual budget and the corresponding liability, and we are paid against our actual expenditure. Currencies are translated based on actual expenditure and the exchange rate for the transaction date in the ERP system."

Conclusion

WZO's budget is managed in USD, even though most financial transactions actually take place in NIS. Furthermore, WZO's financial statements are prepared in NIS. The Deputy Director of Finance stated that the USD-based budget is due to the bulk of the budget being linked to the USD. The Office of the Comptroller believes that, since linkage is specified as of a given date (start of year), it is possible (and perhaps even easier) to manage the budget in NIS.

Recommendation

Study the feasibility of managing WZO's budget in NIS. The budget assumptions used for budget planning and costing could be changed proportionally (pro-rated to each item in the assumptions used in the USD-based budget).

Finance Department's response

According to WZO's long-term funding agreement with KKL and particularly for the next 5 years, half of the allocation is received in USD, and the rest is received in USD-linked NIS with a guaranteed base rate. The Finance Department believes that, in light of the funding agreements and the profile of the organization's expenses, planning and maintaining the budget in USD reflects more responsible budget management and control. Current practice also allows for better budget management and control as compared to a NIS-based budget.

Office of the Comptroller's comment

The NIS serves as the reporting currency for financial statements in Israel. Thus, budget approval and expenditure tracking should also be in NIS, and it should be possible to compare actual budget performance against the financial statements with the necessary adjustments. Moreover, since the vast majority of WZO's expenses are incurred in NIS, the entire budget, and particularly for the NIS-based expenses, should be managed in NIS.

In addition, budget and expenditure updates should be performed on an ongoing bases in NIS, with quarterly reports to WZO's Executive and the Finance Committee to approve such updates and reports.

F. Cash Flow Management

1. Forecast cash flows

1.1. Proper cash flow management allows an organization to meet its

liabilities. Cash flow management aims to estimate free cash balances for each quarter, two years ahead, among other things to assess options for obtaining credit facilities based on the organization's debt.

- 1.2. Priority's finance module supports full and detailed cash flow management. It can provide detailed tracking under various criteria, provide aging data, and forecast WZO's cash flows.
- 1.3. The Finance Department does not maintain cash flow forecasts (either inside or outside Priority).
- 1.4. The Office of the Comptroller was told that the working capital supervisor (who is the same employee responsible for tracking budget performance) routinely updates the Department Director and Deputy Director on the organization's bank balances.
- 1.5. The Office of the Comptroller received several documents from the Department demonstrating cash flow management, such as:
 - 1.5.1. Emails notifying the Department Director and Deputy Director on bank balances;
 - 1.5.2. Correspondence regarding substantial volumes of delayed payments prior to receiving KKL's allocations;
 - 1.5.3. Correspondence concerning deposits and withdrawals; etc.
- 1.6. While the Office of the Comptroller was impressed that the Department controls and manages these operations, workflows are a bit rudimentary and rely on WZO having substantial cash reserves.
- 1.7. The Office of the Comptroller believes that substantial cash reserves do not justify the lack of forecast cash flow being an integral part of the Department's formal control processes. The Office of the Comptroller believes that existing controls could be improved as follows:
 - 1.7.1. Managing cash flows and cash flow forecasts through Priority, or preparing a forecast cash flows file which would be updated based on changes in budget utilization and earmarked funds. This file should present a two year forecast so WZO could identify and respond to future crises.
 - 1.7.2. Set a minimum level for cash and cash equivalent balances. Balances falling below this threshold would constitute an alert indicator requiring emergency response.
- 1.8. WZO may also need to utilize bank credit in extreme scenarios where allocated funds are delayed. However, no agreements have been signed

with the banks for credit facilities (scope and terms). The Office of the Comptroller believes it would be preferable to negotiate these agreements in advance every so often, rather than negotiate them when the need arises.

- 1.9. The Office of the Comptroller requested that the Department provide information on past instances where KKL was significantly delayed in transferring funds. This information was requested to study what actions were taken at the time, whether calculations and/or estimates have been made as to how long WZO could operate without KKL's funds, etc. The Deputy Director of Finance responded as follows:

“The funding agreement with JNF began on January 1, 2016 and ended December 31, 2020. As part of KKL's status change to a public benefit company in 2015, it was statutorily required to notify the Endowments Registrar and report on its transaction with WZO. It was subsequently required to provide the Registrar with additional clarifications.

There were additional delays as the final understandings and agreements were reached concerning the funding components.

At the time, we could not estimate when all the regulatory proceedings would be completed.

As a result, WZO did not have a source for its budget and finances in 2016, and even in part of 2017.

The organization responded with the following actions:

1. Freezing material activity budgets, and not spending activity budgets associated with KKL allocations.
2. Using the organization's existing working capital to support cash flows covering fixed costs, essential operations, and minimal activities.
3. A credit facility was secured from a bank to supplement cash flows. In practice, the facility was only partially utilized.

In 2017, once the agreement had been affirmed and signed, KKL began to routinely transfer funds to cover WZO's operational budget.

It should be emphasized that, under the agreement, WZO receives its budget from KKL at quarterly intervals. At the start of each quarter, WZO receives the funds in advance. Funds are not received retrospectively, so we always have a surplus of working capital due to this quarterly advance. Furthermore, the agreement provides for unutilized surplus funds to be transferred for future use.”

The Finance Department further stated:

The organization's operating budget amounts to NIS 230 million a year. In quarterly terms, a minimum of NIS 60 million are required on average.

In regular years, designated government projects total NIS 45 million, and reconciliation is only made once the project has been completed and expenses incurred by the organization.

This requires a quarterly working capital in excess of the above average. Furthermore, WZO has liabilities from employee rights and other obligations, which require current cash flow balances and cash flow planning.

The Finance Department works to assure that current cash flows cover the organization's operations and liabilities. If weekly/monthly/quarterly payment forecasts indicate a surplus of cash, the Department works to maintain its value as much as possible through investments in short-term money-market funds which are preferable to bank deposits which offer only negligible yields.

Conclusion

The Finance Department does not maintain cash flow forecast, even though WZO's operations and projects run on 5-year cycles. The Office of the Comptroller believes the Department applies reasonable controls over cash flows, but with a short-term view compared to forecast cash flows (which anticipates at least an upcoming two year period). The Office of the Comptroller notes that maintaining cash flow forecasts may seem unnecessary in light of WZO's cash balances which can 'bridge' periods when allocations are delayed. However, the Office of the Comptroller believes that maintaining cash flow forecasts could improve WZO's cash flow management.

Recommendations

- **Consider using cash flow and forecast management through Priority's finance module. Alternatively, cash flow forecasts could also be maintained through a spreadsheet for a prospective period of at least two years, bearing in mind any long-term plans that WZO has.**
- **Set a minimum threshold level for cash and cash equivalent balances. If balances fall below this threshold, WZO would consider it an alert indicator requiring emergency response such as suspending payments/ increasing supplier credit terms, signing credit agreements with banks (in advance), etc.**

2. Surplus cash management

- 2.1. The Department's working capital supervisor updates the Director and Deputy Director of Finance on current cash balances. This information supports decisions such as additional investment in the managed investment portfolio, or investment in foreign currencies to secure and finance future foreign currency transactions in overseas operations.
- 2.2. The Finance Department stated that, as concerns projected cash flows, WZO's investment policy is routinely reviewed in consultation with the investment company.
- 2.3. The Office of the Comptroller reviewed the portfolio managed with the investment company. Data for the fourth quarter of 2019 were as follows (in NIS):

| | |
|---------------------------------------|---------------|
| Start of period | 01/10/2019 |
| End of period | 31/12/2019 |
| Start of period | 44,639,601.00 |
| Deposits | 8,000,000.00 |
| Withdrawals | 0 |
| Gain/loss for the period (NIS) | 185,464.14 |
| Assets under management end of period | 52,825.065.14 |
| Portfolio ROR | 0.37% |

- 2.4. The return on the portfolio in 2019 reached 3.22%, and 6.28% in 2017–2019 (three-year cumulative rate).
- 2.5. The Office of the Comptroller reviewed the investment policy and risk profile for the portfolio. As of the end of 2019, portfolio composition by investment type was as follows:

| Investment type | Share in portfolio value** |
|-----------------------------|----------------------------|
| Israeli stocks | 2.49% |
| Government bonds (Israel) | 23.42% |
| Corporate bonds | 8.33% |
| Funds (Investment Company)* | 61.03% |
| Short-term deposits | 4.76% |
| Forex deposits | 0.01% |

* Value of portfolio under conflict of interests — 57.12% are invested in the investment company's NIS-based deposits. Conflict of interest refers to the fact that the investment company that manages WZO's investment portfolio invests in its own securities in which it has a commercial interest).

** The investment company's report totals 100.04%.

2.6. The Office of the Comptroller examined portfolio volatility following the COVID-19 pandemic in NIS:

| | |
|---------------------------------------|---------------|
| Start of period | 01/04/2020 |
| End of period | 30/06/2020 |
| Start of period | 51,519,001.00 |
| Deposits | 0.00 |
| Withdrawals | 10,056,329.00 |
| Gain/loss for the period (NIS) | 728,563.36 |
| Assets under management end of period | 42,191,235.36 |
| Portfolio ROR | 1.46% |

The data indicate that, as of H1/2020, the pandemic had only a minor impact on the portfolio (the decrease in portfolio value was mainly due to withdrawals used to finance operations).

2.7. The Office of the Comptroller checked how the investment company was selected, when, whether an agreement has been signed, whether an investments committee periodically reviews investment policies and activity, etc. The Finance Department Director responded:

- “We started working with the investment company in 1999.
In our talks with the investment company’s representatives, we followed a policy of minimum-risk investments.
In 1999, 2 portfolios were opened with a 0% stock component.
In 2018, after talking with the investment company’s representatives, we changed our policy to include up to 15% stocks.
- Since we started working with the investment company in 1999, i.e. — 22 years ago, I could not find the necessary documentation.
- Every six months, we met with the Company’s representatives to review the portfolio.
I have proposed that WZO establish an investments committee. The committee would include at least one third-party member in addition to WZO’s staff. The committee would thoroughly review WZO’s investment policy.”

Conclusion

The contract with the investment company began in 1999 and there are no records of the contracting process. Furthermore, over the years, no additional bids have been requested or alternatives explored with other investment

houses. WZO does not have an investment committee to periodically review the organization's investment policy.

Recommendations

- **Send out a request for quotations to investment houses, and review their long-term performance.**
- **WZO should establish an investments committee to periodically review the portfolio's performance and WZO's investment policy.**

Conclusion

Management of WZO's surplus cash balances is conservative and has proven its stability during the temporary market crisis of the COVID-19 pandemic. It is emphasized that a large part of the investment portfolio (over 60%) is investment in the portfolio-manager's funds.

Recommendation

Obtain a legal opinion on any potential implications of the conflict of interest inherent in investing a material part of the portfolio in the portfolio manager's funds.

Finance Department's response

The Finance Department accepts the Office of the Comptroller's recommendation to review the portfolio's management, including the contract with the investment house. The matter will be studied with the Executive's secretary, and an investment committee will be established and will include professional members.

The investment committee will review, among other things, the management of the organization's cash flows in order to determine an optimal working capital level to support routine operations while utilizing the balance for financial or other investments.

G. Procurement

1. General

- 1.1. In examining procurement workflows, the Office of the Comptroller reviewed the supplier balances file, focusing on 2017–2019.
- 1.2. This review included a diverse group of 50 suppliers and service providers, and performed sample checks such as:

- 1.2.1. Contracting workflows (bids, tenders, etc.)
- 1.2.2. Whether or not agreements were signed.
- 1.2.3. New supplier entry and associated forms.
- 1.2.4. Reasons for continuous credit balances.
- 1.2.5. Supplier invoice approval.
- 1.2.6. Invoice details, plausibility, etc.

- 1.3. The Finance Department coordinates WZO’s procurement operations.
- 1.4. The procurement supervisor stated that, lacking a formal procurement procedure, procurement is carried out at the following value brackets:

| Value (NIS) | Process |
|---------------|-----------------|
| Under 10,000 | 1 bid at least |
| 10,000–60,000 | 3 bids at least |
| Over 60,000 | Closed tender |

- 1.5. The Office of the Comptroller reviewed several contracts to study how the process is carried out. Key findings were as follows:
 - 1.5.1. The Tenders Committee comprises the Finance Department Director, a legal counsel, and the procurement supervisor.
 - 1.5.2. The Committee receives the bids from the relevant department and the summary of results (even for non-tender procurement).
 - 1.5.3. Based on cost-quality criteria, the Committee decides to contract with the winning contractor.
 - 1.5.4. WZO does not maintain a service-specific supplier database, and workflows do not address the risk of bias in the materials submitted to the Committee. The Committee is wholly-reliant on the materials submitted by the departments, without any review by an independent third party such as the procurement supervisor.
 - 1.5.5. In the tender for an excellence course for mid-level management, minutes were kept of the bid opening session of August 20, 2019. However, contrary to common practice, the minutes do not specify who was present when the bid envelopes were opened, or what each envelope contained. The Office of the Comptroller examined minutes from another meeting, which took place on April 14, 2019. That tender concerned cleaning services for the Herzl Center and the Zionist Archives, and the minutes specified who was present, and mentioned the envelopes’ contents.

- 1.5.6. As concerns the documents of the cleaning services tender reviewed by the Office of the Comptroller, it is noted that on June 19, 2012, the Increased Enforcement of Labor Legislation Law went into effect. Among other things, the law imposes liability on the companies buying security, cleaning, and catering services, and prescribes fines and civil proceedings against the client of such services if they break the law. However, the law offers protection for clients of such services if they acted lawfully to check and uphold the rights of outsourced personnel — including through a certified salary inspector. While salary inspections for outsourced personnel is outside the scope of this audit report, the Office of the Comptroller believes that WZO should make sure that periodic salary inspections are indeed performed in connection with this contract and similar contracts for cleaning, security, and other services.
- 1.5.7. The Committee’s decision does not always specify the contract value. For example, minutes for the Tenders Committee’s meeting of October 3, 2019 state that a travel agency in Lithuania was chosen as a single supplier for educational tours in the Baltic states, without noting the value of the contract. The Office of the Comptroller wonders whether a the Tenders Committee’s procedures formally define what constitutes a single supplier, and what objective and independent criteria were applied to decide that the travel agency constituted a single supplier.
- 1.5.8. The Office of the Comptroller found that WZO does not use Priority’s procurement module, thus leaving out standard stages of a proper procurement process, such as issuing and approving procurement requests; opening new orders and approving them by authorized supervisors while maintaining segregation of duties; earmarking budgets against approved orders; supplier assessments; etc.

Conclusion

WZO does not maintain service-specific supplier databases, approved based on preset criteria. The Office of the Comptroller believes this may undermine the Finance Department’s ability to prevent bias in procurement processes.

Recommendation

WZO’s non-tender procurement activities should be managed through approved supplier databases. Furthermore, the Finance Department’s

procurement supervisor should approve suppliers prior to their entry into the database.

Finance Department’s response

The Finance Department is working to establish framework service agreements, based on past experience and each department’s requirements.

Framework agreements would allow better prices to be secured and streamline contracting activities for the Finance Department and WZO’s other departments.

Conclusion

A sample examination indicated that tender flows are not uniform. For example, the minutes from one envelope opening session did not specify the people present and did not mention the envelope contents, while minutes from another tender did include this information. In another instance, minutes from one Tenders Committee meeting did not specify the contract value, while minutes from another meeting did.

Recommendation

Establish a written operating procedure for the Tenders Committee. The procedure should specify the Committee’s workflows and documentation requirements. A fixed format can be established for Committee documents, such as envelope opening minutes; review and decision minutes; etc.

Conclusion

WZO has contracts for security and cleaning services. As the client of such services, by law it is liable for civil actions, criminal indictments, and fines from violations of labor laws related with its outsourced personnel.

Recommendation

Make sure to perform periodic salary inspections to assure compliance with labor laws in the employment of outsourced personnel under WZO contracts.

Conclusion

WZO does not use Priority’s procurement module, thus missing standard stages of proper procurement processes such as issuing and approving procurement requests; opening new orders and approving them by authorized supervisors while maintaining segregation of duties; earmarking budgets against orders; supplier assessment; etc.

Recommendation

Manage WZO's procurement process through Priority's procurement module.

Finance Department's response

As part of the Department's preparations to implement independent procurement and contracting procedures, in 2020 the Department began implementing Priority-based procurement workflows. Procurement orders are issued for all contracts and services, and use is made of service agreements when working with organizations.

2. Examination of procurement practices

2.1. The Office of the Comptroller performed a sample inspection of procurement practices for suppliers who received payments in 2019. Key findings were as follows:

| Supplier | Service | Valid agreement? | Procurement type and procurement supervisor comments | 2019 (NIS) |
|-------------------------|---------------------------------|-------------------------|---|-------------------|
| TNB Ltd. | Engineer | No | Single supplier — agreement extension pending | 1,015,684 |
| B.&Co. Attorneys at Law | Attorney | No | Unknown | 626,265 |
| AS Ltd. | Security | Yes | Based on a Jewish Agency agreement | 506,216 |
| 2M Ltd. | Graphic design | No | Changes from one event to another | 347,102 |
| BMN | Travel agent | No | 3 bids received | 335,237 |
| MI Ltd. | Information security consultant | Yes | Based on past agreement with Jewish Agency | 280,800 |
| ZT Ltd. | Computer hardware | No | Based on past agreement with Jewish Agency | 244,292 |
| SH Ltd. | Graphic design | No | Changes from one event to another | 202,869 |
| MAM | Outsourcing agency | No | Based on past agreement with Jewish Agency | 164,543 |
| ML Ltd. | Transportation | No | Based on past agreement with Jewish Agency | 155,063 |

| Supplier | Service | Valid agreement? | Procurement type and procurement supervisor comments | 2019 (NIS) |
|----------|----------------|------------------|--|------------|
| HHG | Refreshments | No | Changes from one event to another | 113,453 |
| AA Ltd. | Transportation | No | Based on past agreement with Jewish Agency | 31,606 |

3 contracts were sampled from 2020:

| Supplier | Service | Valid agreement? | Type of procurement and procurement supervisor comments | 2020 (NIS) |
|---------------------------------|-----------------------------|------------------|---|------------|
| SA Ltd. | Virtual Congress production | Yes | Tenders Committee | 666,958 |
| TNT Ltd. | Transportation | No | Unknown | 614,731 |
| AB Strategy and Consulting Ltd. | Strategy and communication | Yes | Tenders Committee — single supplier | 292,500 |

2.2. The above table indicates:

- 2.2.1. WZO contracted for services greatly exceeding NIS 60,000 in value, without any tender process. In one case (travel agency), 3 bids were received, but the total contract value in 2019 exceeded NIS 300,000.
- 2.2.2. Some contracts reached values of hundreds of thousands of shekels in 2019, without any formal contract (e.g. — for graphic design and refreshment services).
- 2.2.3. WZO purchased services without an agreement which, according to the procurement supervisor, were based on past agreements with the Jewish Agency. The Office of the Comptroller believes that, since WZO and the Jewish Agency are separate legal entities, the relevant Jewish Agency agreements should specifically include WZO as a party to the agreement. The Office of the Comptroller also believes that WZO cannot rely on expired past agreements. If it relies on a Jewish Agency agreement, it should maintain a valid copy of such agreement.
- 2.2.4. In 2020, WZO chose a strategy and communications consultant as a single supplier, without contacting other bidders in a tender process, despite the high value of the contract. The explanation which led the Tenders Committee to approve the contract is

that one of the firm's employees is familiar with Diaspora communities, is closely involved in Jewish affairs, and is familiar with the national institutions and their organizational culture. The Office of the Comptroller questions the logic of waiving the tender process, and whether said employee is truly the only person in the country with the aforementioned qualifications.

Conclusion

WZO contracts services in violation of its adopted procurement policy. For example services worth hundreds of thousands of shekels are purchased without any tender process, and numerous services are purchased without any contract between WZO and the supplier. The Office of the Comptroller believes this creates unnecessary risk for WZO as concerns commercial claims, insurance, copyright, etc. It is emphasized that the Office of the Comptroller does not accept the Department's response that in some cases services are based on prior contracts with the Jewish Agency, as services rendered to WZO require that valid agreements with WZO be in place.

Recommendation

Map the services purchased from suppliers in a manner similar to that performed by the Office of the Comptroller, and formalize contracts according to the official procurement policy. Furthermore, make sure to work with suppliers under a valid contract.

Finance Department's response

The Finance Department works and will continue to work using Jewish Agency agreements, as WZO can leverage economies of scale for such services as computer systems, security, car leasing, transportation and buses, etc.

The Finance Department does accept the Office of the Comptroller's recommendations and is working to map and optimize all payments and contracts in the organization and to formalize valid agreements in accordance with the established procurement policy.

H. Payments in Israel

1. General

- 1.1 The Finance Department provides services to WZO's other departments for contracting and paying Israeli suppliers.

- 1.2 The Department also handles the entry of new suppliers in the computer system, and updates their information.
- 1.3 Until about two years ago, suppliers would be paid upon submitting an invoice so long as the payment did not deviate from the budget. Due to a demand by KKL (which provides significant annual allocations for WZO), today the Finance Department also checks whether suppliers have an agreement as part of the payment approval process.
- 1.4 The Office of the Comptroller found that there is no formal procedure outlining how WZO's departments should forward bills to the Finance Department, and there is no uniformity in the way that bills are submitted. For example, it is unclear who in the various departments can submit bills for payment, and there is no policy regulating who in the various departments approves invoices subject to a value hierarchy.
- 1.5 The entire process consists of a WZO department placing an invoice, or an invoice and an agreement, into an inbox in the Finance Department payments in Israel supervisor's office, and she then processes these invoices.

Conclusion

Lacking a formal procedure outlining how WZO's departments should submit bills to the Finance Department, there is no uniformity in the way bills are submitted. Furthermore, it is unclear who in the various departments can submit bills to the Finance Department for payment.

Recommendation

Establish a payments procedure to guide workflows and the way that WZO's departments submit bills for payment to the Finance Department. The procedure should specify who can approve invoices in each department, and the Finance Department should not approve payment without those people's signatures.

2. Invoice payments in Israel

- 2.1. The Finance Department stated that most payments are made by electronic transfer, and WZO does not make any payments through organizational credit cards.
- 2.2. Checks are only used for one-time payments, mainly related to authorities such as the Income Tax Authority and the National Insurance Institute.

Checks are generated automatically, and printed on special paper in a special-purpose printer (no manually-written checks).

- 2.3. The Department has made sure that the check printer is a local printer and not a network printer. Only the Payments Unit supervisor is authorized to access the printer.
- 2.4. The Department also stated that the special paper for empty checks is stored in a locked closet.
- 2.5. Payments to suppliers without agreements:
 - 2.5.1. The Payments in Israel Unit supervisor checks with the Legal Bureau (mainly for service-related payments) if an agreement is necessary. If so, the agreement is signed retroactively. The Office of the Comptroller notes that there is no procedure or guideline to specify when an agreement is required. Signing agreements retroactively, after the goods or services have been received, puts WZO in a position where it has already committed to the arrangement (even though the parties may disagree on the wording of the agreement). It is important to sign agreements before receiving the goods or services, as it would allow budgets to be earmarked in Priority.
 - 2.5.2. If the unit supervisor decides that an agreement is not necessary and the supplier does not appear in the system, she enters the supplier based on the supplier details form (which requires a proper bookkeeping and withholding tax certificate, bank account ownership confirmation, and VAT-exempt certification if applicable).
- 2.6. Once a supplier has been entered in Priority:
 - 2.6.1 When the supplier has been entered in Priority, the invoice is received by the Payments in Israel Unit, and the supervisor checks the documents for the invoice.
- 2.7. Once the invoice is marked for payment, the system generates a draft payment file.
- 2.8. The system then generates a final electronic transfer file, and the Payments in Israel Unit supervisor uploads this file to the electronic transfer platform. The order is signed digitally by an authorized signatory using a smart card. The Office of the Comptroller notes that the Payments Unit supervisor is one of the authorized signatories. Technically, she

can thus carry out the entire process from entering a supplier, entering an invoice, preparing payment, and approving the electronic transfer order. The Office of the Comptroller was told that, in practice, payment authorization through the electronic transfer platform is carried out by the other signatories. The employee also has access and permissions to use the check printer.

- 2.9. Electronic transfer orders from October 29, 2020 were reviewed. According to Priority, these transfers should total NIS 2.381 million, which matches the net actual payments on the electronic transfer platform, after negligible tax deductions. **Propriety was found.**

Conclusion

Findings indicate that there is no procedure or guideline to indicate when the Department should require a contract. The Office of the Comptroller believes that signing agreements retroactively, after the transaction has been completed and the goods or services have been provided, puts WZO in a position where it has already become obligated (even though the parties may then disagree on the agreement format). It is important to sign agreements prior to receiving the goods or service, as this would earmark funds in Priority.

Recommendation

Establish a procedure to formalize the obligation to sign contracts with suppliers. Notify the various departments that signed agreements are a pre-condition for the Finance Department to effect payment.

Finance Department's response

The Finance Department believes it is important to update WZO's other departments on the sign agreements prior to conducting transactions. The Finance Department conducted a briefing on this matter in a special conference which was held recently for WZO's department directors.

Conclusion

The Payments in Israel Unit supervisor is one of WZO's authorized signatories. Technically, she is able to **carry out the entire process** from entering a new supplier, entering an invoice, preparing payment, and approving the electronic transfer order. She also has access and permissions to use the check printer. It is emphasized that segregation of duties is **critical** to protect the organization from embezzlement and fraud.

Recommendation

Consider options for maintaining segregation of duties and access

permissions in the Payments in Israel Unit supervisor’s work. It should not be technically possible for one single employee to perform all actions required to issue a payment.

Finance Department’s response

Starting 2021, the Payments Unit supervisor does not make any changes to supplier data, including creating new entries or updating existing information such as bank account details.

A Department employee, who is a certified accountant, performs all these tasks involving supplier data, but will not be involved in any other step of the payments in Israel approval process.

This change in our workflows segregates duties and authorizations in the payment process.

3. Supplier credit balances

3.1. The Department stated that supplier credit balances are reviewed once annually by the Finance Department’s Deputy Director, as part of a balance sheet. The Office of the Comptroller printed out all supplier credit balances as of November 2, 2020. Sample examination found the following:

| System ID | Invoice date | Payments in Israel supervisor’s explanations | Balance (NIS) |
|------------------|---------------------|---|----------------------|
| VI131001993 | 27/06/2013 | Due to the supplier’s debt, the department has ordered payments to be suspended (Eliner Library). | 351 |
| VI131001990 | 27/06/2013 | Due to the supplier’s debt, the department has ordered payments to be suspended (Eliner Library). | 423.8 |
| VI131003775 | 18/07/2013 | Due to the supplier’s debt, the department has ordered payments to be suspended (Eliner Library). | 175.5 |
| VI131003767 | 02/09/2013 | Due to the supplier’s debt, the department has ordered payments to be suspended (Eliner Library). | 535.6 |
| VI13 003768 | 08/10/2013 | Due to the supplier’s debt, the department has ordered payments to be suspended (Eliner Library). | 1,493.10 |

| System ID | Invoice date | Payments in Israel supervisor's explanations | Balance (NIS) |
|------------------|---------------------|--|----------------------|
| VI141001864 | 02/06/2014 | Due to the supplier's debt, the department has ordered payments to be suspended (Eliner Library). | 200 |
| VI193000020 | 12/02/2019 | Unpaid invoice, no answer received from the department (Shlichim) | 896 |
| VI191004580 | 28/02/19 | The department (Zionist Archives) needs to decide whether to continue working with the paper recycling company or another supplier. In the meantime they have asked to suspend payments. | 187.00 |
| VI191004514 | 05/10/19 | Awaiting the department's reply due to a problem with the invoice (Herzl Center) | 800.00 |
| VI191003569 | 18/11/19 | Payments on installments, not all of the balance has been received. | 40,000.00 |
| VI191004497 | 19/11/19 | Awaiting the department's reply due to a problem with the invoice (Zionist Enterprises) | 1,170.00 |
| VI191004395 | 26/12/19 | Payments on installments, not all of the balance has been received. | 80,000.00 |
| VI191004504 | 31/12/19 | Payment delayed due to a dispute. Will be resolved this week. | 2,495.61 |
| VI201000388 | 25/02/20 | | 2,250.00 |
| VI201001196 | 25/05/20 | | 7,030.00 |
| VI201002326 | 01/06/20 | | 2,000.00 |

Conclusion

Findings indicate that some invoices have been issued over a year ago and have yet to be paid due to disputes or pending inquiries between the Finance Department and the client department.

Recommendation

Review reports similar to that issued for the Office of the Comptroller at least every two months and make sure that payments are not overly-delayed.

Finance Department's response

The Finance Department will make sure to routinely track unpaid invoices to make sure that payments are not overly-delayed.

4. Entering and updating supplier data

- 4.1. In response to risks from fake supplier entries and unauthorized/malicious changes to supplier bank account details, the Finance Department implements a control mechanism whereby the Payments in Israel supervisor generates a monthly report of all changes to supplier records. The Deputy Director of the Department then reviews and approves this file.
- 4.2. The Office of the Comptroller reviewed this audit of supplier records in August 2020 (new supplier entries, or changes to existing suppliers).
- 4.3. The file contained 220 lines, **some of which repeated themselves and most of which were irrelevant.**
- 4.4. Below is a screenshot of this file, for illustration:

| שם משתמש/תאריך | עוד חודש | עוד יום | עוד יום | תאור חשבון שדה | חשבון |
|------------------------|----------|---------------|---------|---------------------------------|-------|
| 02/08/2020 10:44 adido | 284211 | | | 8714 בן עזרא אליו מס. חשבון בנק | 8714 |
| 02/08/2020 10:44 adido | 31 | | | 8714 בן עזרא אליו קוד הבנק | 8714 |
| 02/08/2020 10:44 adido | 074 | | | 8714 בן עזרא אליו סניף בנק | 8714 |
| 02/08/2020 10:44 adido | | תלפיות | | 8714 בן עזרא אליו שם הסניף | 8714 |
| 02/08/2020 10:44 adido | 8 | דרך חברון | | 8714 בן עזרא אליו כתובת | 8714 |
| 02/08/2020 10:44 adido | | ירושלים | | 8714 בן עזרא אליו עיר ומדינה | 8714 |
| 02/08/2020 10:44 adido | 93460 | | | 8714 בן עזרא אליו מיקוד | 8714 |
| 02/08/2020 10:44 adido | Y | | | 8714 בן עזרא אליו ברירת מחדל | 8714 |
| 02/08/2020 11:24 adido | 50110020 | | | 8715 גאמידה בע"מ. חשבון בנק | 8715 |
| 02/08/2020 11:24 adido | 10 | | | 8715 גאמידה בע"מ קוד הבנק | 8715 |
| 02/08/2020 11:24 adido | 707 | | | 8715 גאמידה בע"מ סניף בנק | 8715 |
| 02/08/2020 11:24 adido | | עסקים פתח | | 8715 גאמידה בע"מ שם הסניף | 8715 |
| 02/08/2020 11:24 adido | | סוטיין 1 אזור | | 8715 גאמידה בע"מ כתובת | 8715 |
| 02/08/2020 11:24 adido | | פתח תקוה | | 8715 גאמידה בע"מ עיר ומדינה | 8715 |
| 02/08/2020 11:24 adido | 49277 | | | 8715 גאמידה בע"מ מיקוד | 8715 |
| 02/08/2020 11:24 adido | Y | | | 8715 גאמידה בע"מ ברירת מחדל | 8715 |
| 02/08/2020 12:47 adido | 10860093 | | | 7059 ישראל אוטו מס. חשבון בנק | 7059 |
| 02/08/2020 12:47 adido | 10860093 | | | 7059 ישראל אוטו מס. חשבון בנק | 7059 |
| 02/08/2020 12:47 adido | 10 | | | 7059 ישראל אוטו קוד הבנק | 7059 |
| 02/08/2020 12:47 adido | 10 | | | 7059 ישראל אוטו קוד הבנק | 7059 |
| 02/08/2020 12:47 adido | 707 | | | 7059 ישראל אוטו סניף בנק | 7059 |
| 02/08/2020 12:47 adido | 707 | | | 7059 ישראל אוטו סניף בנק | 7059 |
| 02/08/2020 12:47 adido | | עסקים פתח | | 7059 ישראל אוטו שם הסניף | 7059 |
| 02/08/2020 12:47 adido | | עסקים פתח | | 7059 ישראל אוטו שם הסניף | 7059 |
| 02/08/2020 12:47 adido | | סוטיין 1 אזור | | 7059 ישראל אוטו כתובת | 7059 |
| 02/08/2020 12:47 adido | | סוטיין 1 אזור | | 7059 ישראל אוטו כתובת | 7059 |
| 02/08/2020 12:47 adido | | פתח תקוה | | 7059 ישראל אוטו עיר ומדינה | 7059 |
| 02/08/2020 12:47 adido | | פתח תקוה | | 7059 ישראל אוטו עיר ומדינה | 7059 |
| 02/08/2020 12:47 adido | 49277 | | | 7059 ישראל אוטו מיקוד | 7059 |
| 02/08/2020 12:47 adido | 49277 | | | 7059 ישראל אוטו מיקוד | 7059 |
| 02/08/2020 12:47 adido | | | Y | 7059 ישראל אוטו מיקוד | 7059 |
| 02/08/2020 12:47 adido | | | Y | 7059 ישראל אוטו ברירת מחדל | 7059 |
| 02/08/2020 12:47 adido | Y | | | 7059 ישראל אוטו ברירת מחדל | 7059 |
| 02/08/2020 12:47 adido | Y | | | 7059 ישראל אוטו ברירת מחדל | 7059 |

The Office of the Comptroller found that the relevant entries accounted for **less than 30 lines**, as compared to the 220 lines in the actual file.

Conclusion

The Office of the Comptroller believes the file presenting changes to supplier

bank account details to the Department's Deputy Director is improper. It contains **hundreds of irrelevant lines**, thus impeding efficient and effective review. The Office of the Comptroller believes that WZO's controls should be planned to be efficient and effective, so as not to become an unnecessary bureaucratic burden.

Recommendation

Provide the Department's Deputy Director with a report of changes to supplier bank account details which only contains relevant information. For example, data can be filtered (by a user without permissions to change supplier records) to only present changes to bank account numbers. This filter criteria would also present new suppliers. New entries should specify the name of the client department and the nature of the goods or services received. The person performing these checks could differentiate new accounts from old ones based on supplier ID numbers.

5. Sample examination of payments in Israel

The Office of the Comptroller chose several suppliers from various different fields (none of which had a valid agreement), and examined the manner in which their invoices were approved for payment. As aforesaid, WZO does not use Priority's procurement module, and approval is made manually on the invoices themselves. Findings were as follows:

5.1. Supplier — B. & Co. Attorneys at Law

- 5.1.1. Invoice ID: VI201001954.
- 5.1.2. Budget items: 'Zionist Archive — Planning and Future Development' — NIS 6,084; 'Miscellaneous legal services' — NIS 21,603.
- 5.1.3. Invoice total — NIS 27,687.
- 5.1.4. Invoice date — February 2, 2020.
- 5.1.5. Invoice approval — signed by the Payments in Israel supervisor and the Finance Department Director.
- 5.1.6. Comments: The supplier's invoice notes a total of 29.58 hours by an attorney and interns in the Jerusalem office. However, the hourly rate is uniform at NIS 800 regardless of whether work was done by a partner, junior, or intern. The supplier's proforma invoice states that the bill is linked to the USD at a rate of NIS 3.455 per USD until the actual payment date. The Office of the Comptroller questions whether the decrease in the USD exchange rate over 2020 were reflected in the supplier's payments, and

how this linkage basis was set lacking an agreement with the service provider (see Section g.2 to the report).

5.2. **Supplier — B. & Co. Attorneys at Law**

- 5.2.1. Invoice ID: VI191003217.
- 5.2.2. Budget items — ‘Miscellaneous legal services’ — NIS 80,202; ‘K.P. Properties — Archives, Kaplan, Herzl’ — NIS 128,553.
- 5.2.3. Invoice total — NIS 208,755.
- 5.2.4. Invoice date — October 7, 2019.
- 5.2.5. Invoice approval — Payment approval from the Finance Department Director, sent by email to the Payments in Israel supervisor. It is unclear why there is no signature by WZO’s direct POC working with the service provider to approve the scope of hours and expenses on the invoice.
- 5.2.6. Comments: The supplier billed for 219 hours, across 4 employees, all of which were partners and billed at a rate of NIS 800/hour. The invoice also includes travel costs, e.g. — travel to Tel Aviv and using the fast lane, at a cost of NIS 359.

5.3. **Supplier — L. & Co.**

- 5.3.1. Invoice ID: VI181000502.
- 5.3.2. Budget item — ‘Miscellaneous legal services’.
- 5.3.3. Invoice date — February 15, 2018.
- 5.3.4. Invoice total — NIS 4,441.
- 5.3.5. Invoice approval — Signed by WZO’s Secretary General, Finance Department Director, and Payments in Israel supervisor.
- 5.3.6. Comments: In contrast to the previous service provider, who works in the same field and who charged NIS 800/hour, the rate here was NIS 160/hour.

5.4. **Supplier — L. & Co.**

- 5.4.1. Invoice ID: VI181000300.
- 5.4.2. Budget item — ‘Miscellaneous legal services’.
- 5.4.3. Invoice date — January 14, 2018.
- 5.4.4. Invoice total — NIS 14,734.
- 5.4.5. Invoice approval — Signed by WZO’s Secretary General, Finance Department Director, and Payments in Israel supervisor.

- 5.5. **Supplier — P.A.**
- 5.5.1. Invoice ID — VI201002674.
 - 5.5.2. Budget item — ‘Advertising and outreach’ for an online talk on Jewish roots for the Jewish community in England.
 - 5.5.3. Invoice date: August 9, 2020.
 - 5.5.4. Invoice total — NIS 351.
 - 5.5.5. Invoice approval — Unidentified, hand-written signature.
- 5.6. **Supplier — S.H. Ltd.**
- 5.6.1. Invoice ID VI191003244.
 - 5.6.2. Budget item — ‘Print — conference booklet’ — programs for the Herzl Conference opening session.
 - 5.6.3. Invoice date — October 29, 2019.
 - 5.6.4. Invoice total — NIS 16,965.
 - 5.6.5. Invoice approval — Unidentified, hand-written signature.
- 5.7. **Supplier — 2.M. Ltd.**
- 5.7.1. Invoice ID — VI191001110.
 - 5.7.2. Budget item — ‘Production’ for print services.
 - 5.7.3. Invoice date — April 16, 2019.
 - 5.7.4. Invoice total — NIS 32,263.
 - 5.7.5. Invoice approval — Director of Religious Services, and a second, unidentified, hand-written signature.
- 5.8. **Supplier — T.N.B. Ltd.**
- 5.8.1. Invoice ID — VI191004469.
 - 5.8.2. Budget item — ‘Property development’ — for city entrance permits — town plan.
 - 5.8.3. Invoice date — December 19, 2019.
 - 5.8.4. Invoice total — NIS 76,383.45.
 - 5.8.5. Invoice approval — Signed by WZO’s Director General and the Finance Department Director.
 - 5.8.6. Comments — The invoice includes 209 hours across 5 people, one working at a rate of NIS 500/hour, and the rest at NIS 270/hour.
- 5.9. **Supplier — H.G.I.**
- 5.9.1. Invoice ID — VI1811001040.
 - 5.9.2. Budget item — 3411008 — fees for CI, Culture for Israel.

- 5.9.3. Invoice date — April 15, 2018.
- 5.9.4. Invoice total — NIS 17,400.
- 5.9.5. Invoice approval — Signed and stamped by the Education Department director.

Conclusion

Approved invoices indicate that invoices are occasionally hand-signed without any identifying details. The Office of the Comptroller believes the Finance Department should not rely on being able to recognize a hand-written signature which might not mention the signatory's name.

Recommendation

The payments procedure should require invoices to be signed by the director of the client department, along with clear, and clearly-identifying marks (signature and stamp).

Conclusion

The Office of the Comptroller found that one consultant is paid a particularly high rate (NIS 800/hour) and charges hundreds of hours a month, while another consultant in the same field charges at rate of (NIS 160/hour). The consultant also charged for travel costs and express lane charges without an agreement approving such charges.

Recommendation

Review the cost-benefit of working with that consultant in light of other possible options, and in any case sign a formal agreement with the consultant.

I. International Payments

1. General

- 1.1. The Finance Department's process for handling international payments is based on the International Payments supervisor receiving payment requests, while transfers are recorded under a general item (by country) without any associated supplier in Priority. The Office of the Comptroller notes that current practice does not allow adequate control over payments to overseas suppliers, and is fully dependent on the reliability of reports received by the Department.

- 1.2. Payments by overseas treasuries are carried out through an interface with the Jewish Agency’s Oracle system, and so are not subject to WZO controls.
- 1.3. International payments are issued from two accounts — ‘current’ and ‘shlichim’ — which were outside the scope of this audit report. International transfers from the ‘current’ Leumi account in 2019 were as follows:

| Currency | CAD | EUR | GBP | USD |
|----------|--------|-----------|---------|-----------|
| Total | 47,778 | 1,302,055 | 152,014 | 2,114,708 |

- 1.4. The ten leading recipients of international transfers in 2019, by geographic region:

| Zionist activities | CAD | EUR | GBP | USD |
|--------------------|--------|---------|---------|-----------|
| North America | 47,778 | | | 1,279,684 |
| France | | 523,198 | | |
| Paris* | | 445,955 | | |
| Argentina | | 2,380 | | 317,092 |
| Germany | | 228,571 | | 5,000 |
| England | | | 152,014 | 32,692 |
| US | | | | 109,828 |
| Australia | | | | 69,753 |
| Peru | | | | 50,867 |
| Chile | | | | 45,672 |

* Including the Paris treasury — EUR 405,000.

Conclusion

The International Payments supervisor is an authorized WZO signatory, and can effectively initiate a payment against a given budget item, **and approve the payment himself.**

Recommendation

Consider options for maintaining segregation of duties and authorizations in the International Payments supervisor’s roles, to technically prevent one single employee from being able to perform all actions necessary to issue payment.

Conclusion

The Office of the Comptroller believes that not recording specific suppliers/

organizations abroad who receive funds, and instead attributing payments to general items, undermines the control of international payments.

Recommendation

Consider entering overseas suppliers into the system based on payment volumes and frequency.

Finance Department’s response

The Finance Department will work to implement the Office of the Comptroller’s recommendation concerning segregation of duties and permissions for the International Payments supervisor. The Department will require a second approval for any transaction or payment, in addition to the International Payments supervisor.

The Finance Department will study the recommendation to enter overseas suppliers into the system, as concerns regular, key suppliers.

2. Sample examination of international payments

2.1. Based on the above data, the Office of the Comptroller selected several transfers to different locations to check the documents supporting each payment, and to understand the controls WZO employs before transferring payment:

| Comment | Transfer date | Beneficiary | Transfer description | Amount | Currency |
|----------------|----------------------|--------------------|---------------------------------|---------------|-----------------|
| A | 16/04/2019 | O.C.I | Zionist activities in Argentina | 104,568.00 | USD |
| | 16/04/2019 | S.R.L | Zionist activities in Argentina | 52,160.00 | USD |
| | 16/04/2019 | F.D.J | Zionist activities in Argentina | 22,869.00 | USD |
| | 16/04/2019 | A.E.C.D.E | Zionist activities in Argentina | 22,022.00 | USD |
| | 16/04/2019 | A.E.R.M | Zionist activities in Argentina | 16,459.00 | USD |
| | 16/04/2019 | B.A.P | Zionist activities in Argentina | 15,748.00 | USD |
| B | 02/07/2019 | Z.W.J.D | Zionist activities in Germany | 93,880.33 | EUR |

| Comment | Transfer date | Beneficiary | Transfer description | Amount | Currency |
|----------|---------------|-------------|-------------------------------------|-----------|----------|
| C | 18/04/2019 | J.L.I | Zionist activities in North America | 89,084.00 | USD |
| D | 15/04/2019 | A. | Zionist activities in France | 58,461.00 | EUR |
| | 15/04/2019 | L.A | Zionist activities in France | 55,632.00 | EUR |
| E | 28/01/2019 | A.I | Zionist activities in North America | 65,383.00 | USD |
| F | 13/02/2019 | Y.A.E.S | Zionist activities in North America | 2,804.80 | USD |
| G | 18/12/2019 | R.B | Chile treasury | 3,106.00 | USD |

2.2. The Office of the Comptroller had the following comments to the sample examination of the above transfers:

- A. Transfers to various organizations under the 2018 Latin America open call — The International Payments supervisor received a fund transfer request along with various other documents. The Office of the Comptroller notes that the Department’s control does not rely on detailed performance report with a set, uniform format. For example, one organization’s performance report included only laconic accounts in Spanish. The Office of the Comptroller believes a set, English-language format would allow control by employees who do not speak Spanish, French, German, etc.
- B. The Education Department director submitted a payment request with detailed expenses for Jewish-Zionist education in Germany.
- C. Approval was received from the Deputy Director of WZO’s Finance Department to transfer payment to JLI for designated educational programs. The Office of the Comptroller did not receive performance reports or other supporting documents for these payments.
- D. Transfers to various organizations under the 2018 open call for Europe — The International Payments supervisor receives a fund transfer request along with various other documents. The Office of the Comptroller notes that the Department does not rely on sufficient performance reports or other documents supporting payment. For example, under the 2018 open call for Europe, non-profits were required to submit audited performance reports:
 4. The organization must submit the following documents:

4.1 **Accountant-audited performance report** including stamp and signature, covering performance of the activities recognized below and during the project period.

Furthermore, include a letter from the same accountant confirming the data presented in said performance report.

The Department received the following report in request for NIS 225,000 (the amount approved under the open call):

| | Débits | Crédits |
|--------------------------------|-----------------|----------------|
| Events | | |
| Shabbatons, social events | 71 000 € | |
| Educational activity | 74000 € | |
| Lecturer (including lecturers) | 56000 | |
| Trip educational to Israel | 218000 | |
| Operating expenses | | |
| Général and administratives | 40600€ | |
| Salaries | 92500€ | |
| Donations | | 367.000€ |
| TOTAL | 552.100€ | € |
| Financial Gap | 185.100€ | |

While the report is signed by an auditing accountant, the Office of the Comptroller questions whether such a minimalistic performance report would be accepted by the government ministries supporting WZO's funding.

- E. As part of an agreement which WZO and KKL sign each Zionist Congress, a payment of USD 65,383 is made to Artzenu. The amount represents quarterly funding by KKL, based on reports submitted to KKL's outside auditor. The Office of the Comptroller did not see that WZO received any document from this auditor approving the reports.
- F. A payment of USD 2,804.80, reimbursing WZO's representative in New York for business expenses against an expense report and receipts.
- G. A USD 3,106 payment for two months (USD 1,553 a month) as pension payments for a former WZO employee in South America. The Department stated that this has been a fixed payment for several years.

Conclusion

WZO transfers tens and hundreds of thousands of shekels to various organizations abroad, which amount to millions of shekels a year. These transfers are made without entering suppliers into the ERP system. Transfers are made against general items for all supplier payments. Regardless of the inherent challenge in controlling overseas operations, these transfers are sometimes made without receiving adequate performance reports which demonstrate the contractually-required results.

Recommendation

Establish a procedure to regulate the format for payment requests, which should include detailed performance reports in English and documents supporting the amounts specified in the payment request. Furthermore, suppliers should be entered into the Proiority system for all contracts above a given value and/or which is expected to be recurring.

J. Bank Accounts and Reconciliations

1. Bank accounts

1.1. As of the end of 2020, WZO had 17 bank accounts. As of December 31, 2020, these accounts and their balances were as follows:

| Account No. | Account name | Balance (NIS) |
|--------------------------------------|---|----------------------|
| 1101032 | First International Bank — Current — Checking NIS | 536 |
| 1101034 | Bank Hapoalim New — Checking NIS | 4,330,589 |
| 1101051 | Bank Leumi Current — Checking NIS New | 7,056,402 |
| 1101061 | Bank Leumi Shlichim — Checking NIS New | 407,718 |
| Total balance in NIS accounts | | 11,795,245 |
| 1101037 | Bank Hapoalim New — Checking USD | 8,267,758 |
| 1101052 | Bank Leumi Current — Checking USD New | 1,101,911 |
| 1101062 | Bank Leumi Shlihcim — Checking USD New | 51,014 |
| Total balance in USD accounts | | 9,420,683 |
| 1101066 | Bank Leumi Shlichim — Checking AUD | 77,647 |
| 1101041 | Bank Hapoalim New — Checking CAD | 235,662 |
| 1101065 | Bank Leumi Shlichim — Checking CAD New | 9,251 |
| Total balance in CAD accounts | | 244,913 |
| 1101038 | Bank Hapoalim New — Checking EUR | 394,029 |

| Account No. | Account name | Balance (NIS) |
|--|---|----------------------|
| 1101053 | Bank Leumi Current — Checking EUR New | 69,917 |
| 1101032 | Bank Leumi Shlichim — Checking EUR New | 47,081 |
| Total balance in EUR accounts | | 511,026 |
| 1101039 | Bank Hapoalim New — Checking GBP | 290,760 |
| 1101054 | Bank Leumi Current — Checking GBP New | 6,194 |
| 1101032 | Bank Leumi Shlichim — Checking GBP New | 2,859 |
| Total balance in GBP accounts | | 299,813 |
| 1101068 | Bank Leumi Shlichim — Checking ZAR | 444 |
| Total balance in all accounts (NIS) | | 22,349,772 |

Finance Department's response

In practice, there are 3 current bank accounts — one with Bank Hapoalim, and 2 with Bank Leumi. Each account has secondary accounts, which are differentiated by currency and use based on WZO's needs in different countries and currencies.

Half of the Bank Leumi accounts refer to the designated project for placing shlichim abroad, and seek to assure control and guaranteed cash flows for the project. This is in line with the agreements and understandings with the Jewish Agency, which covers the full cost of the project to a material amount of USD 17 million.

A similar method of maintaining separate bank accounts for designated projects is common as a method for control and management. It is a best-practice, binding requirement in philanthropic projects and in large-scale designated projects.

- 1.2. The Office of the Comptroller notes that account 1101032, in EUR, with the International Bank, is inactive and should be closed.

Conclusion

WZO has an inactive bank account which has not yet been closed.

Recommendation

Close the inactive First International Bank account.

Finance Department's response

The Finance Department plans to maintain the account with the First International Bank, as a possible avenue for purchasing various banking products at more competitive bank fees compared to Leumi and Hapoalim.

2. Account reconciliations

- 2.1. Account reconciliations are made routinely once a week. The account reconciliation officer sends open transactions to the relevant supervisors for resolution.
- 2.2. The Office of the Comptroller examined the reconciliation files for the end of 2020, and found that most bank accounts did not have old open transactions. However, the NIS-based account in Bank Leumi had several transactions which had been open for more than a year, or even two (data as of November 2020):

| אסמכתא 1 | פרטים | מטבע ת. ערך | סכום בספרים | סכום בדף |
|----------|--------------------|-------------|-------------|-----------|
| | סליקה שלילית פסגות | 31/12/2017 | שח 2.21 | 0 |
| 0082789 | הע. אינטרנט 700 | 11/03/2018 | שח 0 | -150 |
| 0067620 | הע. אינטרנט 700 | 13/03/2018 | שח 0 | -150 |
| 0099026 | u-bank-י | 10/04/2018 | שח 0 | -192 |
| 0099052 | מפועלי אגו"י- | 11/04/2018 | שח 0 | -1,000.00 |
| 0035309 | העברה ברשימה | 26/04/2018 | שח 0 | -352 |
| 9515711 | העברה תוך יומי | 03/05/2018 | שח 0 | -1,050.00 |
| 0090856 | מועצה לשימור-י | 14/06/2018 | שח 0 | -90 |
| 9023012 | העברה תוך יומי | 12/07/2018 | שח 0 | -113 |
| 0090856 | מועצה לשימור-י | 19/07/2018 | שח 0 | -228 |
| 0105531 | העברה ברשימה | 01/08/2018 | שח 0 | -840 |
| 0097141 | משרד פיתוח נ-י | 09/08/2018 | שח 0 | -3,510.00 |
| 0087758 | יד הנדיב-י | 10/08/2018 | שח 0 | -150 |
| 3735512 | העברה תוך יומי | 06/09/2018 | שח 0 | -163 |
| 0506518 | ריבית לפקדון | 02/11/2018 | שח 0 | -0.24 |
| 0080056 | הראל חברה לב-י | 31/12/2018 | שח 0 | -2.46 |
| 0015467 | האונ' העברית-י | 01/02/2019 | שח 0 | -320 |
| 0080918 | ביה"ס הריאלי-י | 11/04/2019 | שח 0 | -350 |
| 0092536 | בית התפוצות-י | 12/04/2019 | שח 0 | -1,590.00 |
| 0099012 | מב. הפועלים-י | 05/06/2019 | שח 0 | -60 |
| 0018080 | האוניברסיטה-י | 31/07/2019 | שח 0 | -360 |
| 0013399 | חברת מוסדות-י | 24/10/2019 | שח 0 | -480 |
| 0099012 | מב. הפועלים-י | 05/12/2019 | שח 0 | -1,530.00 |

Conclusion

Findings indicate that some account reconciliation transactions have remained open for significant periods of time, sometimes for more than two years.

Recommendation

'Clear' open transactions and improve control over account reconciliations so that transactions do not remain open without explanations and over time.

Finance Department's response

As concerns open transactions in the Bank Leumi account — there is indeed

a very small number of open transactions, compared to the large volume of the organization’s transactions.

In essence, the open transactions are incoming credit transactions from the bank for which there was no information to support their attribution.

In its routine control over account reconciliations, the Finance Department is in regular contact with the banks to identify the source of these transactions, as per the applicable operational procedure. Open transactions are kept in the reconciliations for a specified inquiry period of up to two years. This is based on past experience where it was ultimately possible to obtain information on the source of the transactions. Once this two year period is over, open transactions are indeed ‘cleared’, as the Office of the Comptroller recommends.

K. Summary of Findings and Recommendations

| Title | Conclusion | Recommendation | Response |
|--------------------------------------|---|---|---|
| Organizational structure Secion 1 | As a headquarters unit, the Finance Department differs from WZO’s other departments by having a cross-organizational perspective. WZO’s organizational structure does not support integrative approaches, and the Office of the Comptroller believes this can cause a lack of uniformity in the Finance Department’s interaction with the various departments. | WZO should appoint a person with a broader perspective and integrative powers, whose role would include coordinating workflows across the various departments through an overall organizational approach. The departments should answer to WZO’s director general in all cross-organizational and general matters. | |
| Organizational structure Secion 2 | The Finance Department’s organizational structure lacks clearly-defined hierarchies and written job descriptions. In addition to the clarity that written job descriptions could provide, they would also be important in terms of knowledge retention and organizational memory for future staff and managers. The Office of the Comptroller also believes that employees are entitled to official job titles, which they could include in their signatures. | Establish an organizational structure which includes formal hierarchies and job titles. Furthermore, establish written, actionable job descriptions for all Department functions. | Job descriptions and employee hierarchy in the various workflows are clear to all Finance Department staff, in accordance with their job. The Department’s experience over the past 10 years, when most of the Department’s staff were onboarded, is that employees are recruited based on their skills and professional experience and responsibilities are set accordingly. |

| Title | Conclusion | Recommendation | Response |
|---|---|---|---|
| Procedures and centralized controls Section 1 | WZO operates without formal procedures reflecting policies born from a general, pan-organizational view. The Office of the Comptroller believes this weakens auditing and control efforts, and may damage the organization in general and the Finance Department in particular. | WZO should establish operating procedures for key workflows, and particularly those impacting the Finance Department's operations, as detailed in Section 1.10. | <p>The Finance Department accepts the Office of the Comptroller's recommendations for establishing independent operating procedures for WZO, which should be approved by WZO's Executive.</p> <p>Recently, the Finance Department has taken several pre-emptive preparatory actions to implement independent operating procedures, together with WZO's Director General.</p> <p>Roll-out and implementation of independent procurement and contracting procedures for WZO would require budgetary resources and additional staff, and the Finance Department and WZO's Director General are preparing to allocate organizational resources accordingly.</p> |
| Procedures and centralized controls Section 2 | There is insufficient control over payroll as concerns the payment order received from the Jewish Agency's Payroll Division, to verify that such orders do not include suspect transactions and/or fake employees. | <p>The Finance Department should check employee salaries in the payroll payment order, to verify that the latter do not contain suspect transactions and/or fake employees.</p> <p>The Finance Department should formalize its payroll controls through an operational procedure. The procedure should describe such controls in detail, assign ownership to specific employees, and describe how they mitigate organizational risks.</p> | We implement full monthly controls for the organization's workforce. These include checking proper department assignment and budgets. For new employees (who in theory could be fake), the Finance Department checks and requests clarifications before recording the monthly salary payment order in the books. |

| Title | Conclusion | Recommendation | Response |
|---|--|---|----------|
| Proce- dures and cen- tralized controls Secion 2 | Since the departments operate independently, the Finance Department does not apply controls over their operations. Furthermore, while the departments' expenses are correlated to their output, WZO does not review the ratio between costs and actual result. For example, some departments apply quantitative KPIs (key performance indicators), but the Office of the Comptroller believes that as these KPIs are not linked to financial data, the organization's ability to draw operational conclusions and control financial performance is undermined. | Consider requiring departments to prepare periodic performance reports, which would correlate results with expenses, and present comparative data from previous periods. For example, uniform KPIs can be applied to all the departments, which would be reviewed periodically along with their underlying costs. This information could be analyzed over a continuous period to assess the plausibility of the departments' costs alongside their operational efficiency. | |

| Title | Conclusion | Recommendation | Response |
|---|---|---|----------|
| Segregation of duties and access permissions Section 2 | <p>Management of WZO's access permissions is achieved by designating users as either active or inactive within the specified permissions groups. The Office of the Comptroller's findings indicate that access permissions are well-managed. However, at the time of the audit, the only report used by the Department to control access permissions is the user status report. The Office of the Comptroller notes that by checking user activity status, the Department does not see <u>which</u> permissions a given user actually has. For example, an 'office and administrative supervisor' in the Zionist Shlichut Unit had editing permissions in the accounting module in addition to the Unit's accountant. This would not show up in the report which the Finance Department uses to check access permissions. The Office of the Comptroller believes <u>it is important to check access permissions for specific modules</u> (accounting, new suppliers, procurement, etc.) in addition to checking whether users are active or inactive.</p> | <p>The Department should choose one of the following two options to manage and control access permissions in Priority:</p> <p>When off-boarding employees, cancel all their permissions/ grant zero permissions <u>in addition to designating their user as inactive.</u> By managing permissions this way, the access reports would provide relevant and accurate information for sensitive system modules (supplier entry, accounting, procurement etc.). This report should be submitted periodically to the Department Director or Deputy Director.</p> <p>The same control can be achieved through WZO's current permissions management methods (without annulling user permissions during off-boarding), by <u>periodically cross-checking the two reports</u> (module-specific access report, and active users report).</p> | |

| Title | Conclusion | Recommendation | Response |
|--|---|---|---|
| Budget preparation and management Section 2 | <p>The Department does not build the budget using Priority's finance module, but rather builds it manually in an Excel file. The Office of the Comptroller believes there is a disadvantage to this practice requiring substantial human controls to prevent errors. These could be avoided using Priority's integrated tools and features. For example, the Excel file does not provide log changes and edits to the budget file, while Priority tracks these changes making it easier to identify errors.</p> | <p>Consider building the budget through Priority's finance module. Furthermore, Department staff should receive periodic training to increase their familiarity with Priority. This would allow them to leverage the essential tools offered by this system.</p> | <p>Excel is used as a working draft, as detailed in Section 2.1's description of the budget development process. Excel is used for the first few months of the process, until planned budget amounts are finalized for approval. A clear example of this tool in use can be illustrated by planning a budget for a department with several employees. This budget can be changed easily during its planning stages, under various different planning assumptions such as payroll forecasts, changes in workforce, cost-of-living additions granted under collective labor agreements, currency exchange rates, etc. It should be clarified that this tool does not substitute workflows based on Priority's finance and budget module. Once planning activities have been completed, there is no error-prone manual data entry. Instead, we use the system's tools to enter and copy data from Excel files into the budget module. Records and change logs match the data entry method. They appear in full in the system, and serves as both a control tool and a version-chain record, so no information is lost under current practices. The Finance Department's budget supervisor uses the capabilities offered by Priority's budget module, and even receives professional support upon request from the implementation company's support center.</p> |

| Title | Conclusion | Recommendation | Response |
|--|---|--|--|
| Budget preparation and management Section 2 | <p>After entering the data from Excel into Priority, there is no other person (other than the person who entered the data) who approves that data were indeed entered as per the approved budget. The Office of the Comptroller believes it is important to verify initial data entry into Priority, particularly in light of its manual entry from Excel. The Office of the Comptroller believes that relying on a given employee’s capabilities does not prevent possible errors by other employees who may replace them in the future.</p> | <p>Receive active confirmation from the department directors that their budgets have been entered into Priority as approved.</p> | <p>The Finance Department will implement the Office of the Comptroller’s recommendation to receive active confirmation from the department directors that their budgets have been entered into Priority as per the approved work plans and budgets.</p> |
| Budget preparation and management Section 3 | <p>Lacking a formal process for approving budget changes and deviations, including milestones and controls, it is hard to track which budget items ‘financed’ deviations in other items. The Office of the Comptroller also notes that numerous changes are made to the budget during the year. This could lead to performance drifting away from the original budget approved by the Executive, and undermine comparison between planned and actual performance data.</p> | <ul style="list-style-type: none"> • Establish a procedure to regulate budget changes and deviations. Implement this procedure when using the Priority module. For example, block budget deviations to only be possible with managerial approval. Until such controls are implemented through the IT system, budget change logs can be generated, to be submitted once a month to the Department director or deputy director for approval. • To support tracking and control, use Priority’s ability to save budget version chains, while also displaying the <u>original approved budget (excluding subsequent changes) against actual performance.</u> | <p>As concerns tracking budget changes — Changes inside a given budget unit are permitted as per procedure, and subject to budget update request deadlines. We do not lose this information or our control over such changes.</p> <p>We present the Executive with the requested budget changes including actual and requested changes for approval.</p> |

| Title | Conclusion | Recommendation | Response |
|---|---|--|--|
| Budget preparation and management Secion 3 | Since budget utilization is updated based on actual payments and a significant portion of WZO's operations are not based on earmarked budgets, a budget deviation is possible, as budget balances cannot be ascertained in real time. | The departments should earmark budgets at the start of each transaction (even if there is no contract). This would update budget balances before payments are made. | Starting 2020, we are earmarking funds once a purchase order has been made. Purchase orders include budget transactions for suppliers and service providers as well as for collaborations and contracts approved with organizations. Thus, the budget and finance system provides an accurate and clear picture of the budget, including all pending liabilities for which contracts have been signed. |
| Budget preparation and management Secion 3 | Expenses for shlichut operations are presented as a general amount, as opposed to individual line items, as there would be thousands of such line items. The Office of the Comptroller believes this effectively means that USD 17 million are budgeted as a general item, without options for accurate tracking and control over their utilization. The Department's budget supervisor stated that, starting 2020, all individual line items comprising this general amount are updated. | Make sure that detailed updates are indeed made to the shlichut operations budget, at least twice-annually. | |

| Title | Conclusion | Recommendation | Response |
|--|--|---|---|
| Budget preparation and management Section 4 | WZO's budget is managed in USD, even though most financial transactions actually take place in NIS. Furthermore, WZO's financial statements are prepared in NIS. The Deputy Director of Finance stated that the USD-based budget is due to the bulk of the budget being linked to the USD. The Office of the Comptroller believes that, since linkage is specified as of a given date (start of year), it is possible (and perhaps even easier) to manage the budget in NIS. | Study the feasibility of managing WZO's budget in NIS. The budget assumptions used for budget planning and costing could be changed proportionally (pro-rated to each item in the assumptions used in the USD-based budget). | According to WZO's long-term funding agreement with KKL and particularly for the next 5 years, half of the allocation is received in USD, and the rest is received in USD-linked NIS with a guaranteed base rate. The Finance Department believes that, in light of the funding agreements and the profile of the organization's expenses, planning and maintaining the budget in USD reflects more responsible budget management and control. Current practice also allows for better budget management and control as compared to a NIS-based budget. |
| Cash flow management Section 1 | The Finance Department does not maintain cash flow forecast, even though WZO's operations and projects run on 5-year cycles. The Office of the Comptroller believes the Department applies reasonable controls over cash flows, but with a short-term view compared to forecast cash flows (which anticipates at least an upcoming two year period). The Office of the Comptroller notes that maintaining cash flow forecasts may seem unnecessary in light of WZO's cash balances which can 'bridge' periods when allocations are delayed. However, the Office of the Comptroller believes that maintaining cash flow forecasts could improve WZO's cash flow management. | Consider using cash flow and forecast management through Priority's finance module. Alternatively, cash flow forecasts could also be maintained through a spreadsheet for a prospective period of at least two years, bearing in mind any long-term plans that WZO has. Set a minimum threshold level for cash and cash equivalent balances. If balances fall below this threshold, WZO would consider it an alert indicator requiring emergency response such as suspending payments/ increasing supplier credit terms, signing credit agreements with banks (in advance), etc. | |

| Title | Conclusion | Recommendation | Response |
|-----------------------------------|---|---|---|
| Cash flow management Section 2 | The contract with the investment company began in 1999 and there are no records of the contracting process. Furthermore, over the years, no additional bids have been requested or alternatives explored with other investment houses. WZO does not have an investment committee to periodically review the organization's investment policy. | Send out a request for quotations to investment houses, to review their long-term performance. WZO should establish an investments committee to periodically review the portfolio's performance and WZO's investment policy. | |
| Cash flow management Section 2 | Management of WZO's surplus cash balances is conservative and has proven its stability during the temporary market crisis of the COVID-19 pandemic. It is emphasized that a large part of the investment portfolio (over 60%) is investment in the portfolio-manager's funds. | Obtain a legal opinion on any potential implications of the conflict of interest inherent in investing a material part of the portfolio in the portfolio manager's funds. | The Finance Department accepts the Office of the Comptroller's recommendation to review the portfolio's management, including the contract with the investment house. The matter will be studied with the Executive's secretary, and an investment committee will be established and will include professional members. The investment committee will review, among other things, the management of the organization's cash flows in order to determine an optimal working capital level to support routine operations while utilizing the balance for financial or other investments. |

| Title | Conclusion | Recommendation | Response |
|--------------------------|--|---|---|
| Procurement Section 1 | WZO does not maintain service-specific supplier databases, approved based on preset criteria. The Office of the Comptroller believes this may undermine the Finance Department's ability to prevent bias in procurement processes. | WZO's non-tender procurement activities should be managed through approved supplier databases. Furthermore, the Finance Department's procurement supervisor should approve suppliers prior to their entry into the database. | The Finance Department is working to establish framework service agreements, based on past experience and each department's requirements. Framework agreements would allow better prices to be secured and streamline contracting activities for the Finance Department and WZO's other departments. |
| Procurement Section 1 | A sample examination indicated that tender flows are not uniform. For example, the minutes from one envelope opening session did not specify the people present and did not mention the envelope contents, while minutes from another tender did include this information. In another instance, minutes from one Tenders Committee meeting did not specify the contract value, while minutes from another meeting did. | Establish a written operating procedure for the Tenders Committee. The procedure should specify the Committee's workflows and documentation requirements. A fixed format can be established for Committee documents, such as envelope opening minutes; review and decision minutes; etc. | |
| Procurement Section 1 | WZO has contracts for security and cleaning services. As the client of such services, by law it is liable for civil actions, criminal indictments, and fines from violations of labor laws related with its outsourced personnel. | Make sure to perform periodic salary inspections to assure compliance with labor laws in the employment of outsourced personnel under WZO contracts. | |

| Title | Conclusion | Recommendation | Response |
|--------------------------|---|--|---|
| Procurement Section 1 | WZO does not use Priority's procurement module, thus missing standard stages of proper procurement processes such as issuing and approving procurement requests; opening new orders and approving them by authorized supervisors while maintaining segregation of duties; earmarking budgets against orders; supplier assessment; etc. | Manage WZO's procurement process through Priority's procurement module. | As part of the Department's preparations to implement independent procurement and contracting procedures, in 2020 the Department began implementing Priority-based procurement workflows. Procurement orders are issued for all contracts and services, and use is made of service agreements when working with organizations. |
| Procurement Section 2 | WZO contracts services in violation of its adopted procurement policy. For example services worth hundreds of thousands of shekels are purchased without any tender process, and numerous services are purchased without any contract between WZO and the supplier. The Office of the Comptroller believes this creates unnecessary risk for WZO as concerns commercial claims, insurance, copyright, etc. It is emphasized that the Office of the Comptroller does not accept the Department's response that in some cases services are based on prior contracts with the Jewish Agency, as services rendered to WZO require that valid agreements with WZO be in place. | Map the services purchased from suppliers in a manner similar to that performed by the Office of the Comptroller, and formalize contracts according to the official procurement policy. Furthermore, make sure to work with suppliers under a valid contract. | The Finance Department works and will continue to work using Jewish Agency agreements, as WZO can leverage economies of scale for such services as computer systems, security, car leasing, transportation and buses, etc. The Finance Department does accept the Office of the Comptroller's recommendations and is working to map and optimize all payments and contracts in the organization and to formalize valid agreements in accordance with the established procurement policy. |

| Title | Conclusion | Recommendation | Response |
|--------------------------------|--|--|---|
| Payments in Israel Secion 1 | Lacking a formal procedure outlining how WZO's departments should submit bills to the Finance Department, there is no uniformity in the way bills are submitted. Furthermore, it is unclear who in the various departments can submit bills to the Finance Department for payment. | Establish a payments procedure to guide workflows and the way that WZO's departments submit bills for payment to the Finance Department. The procedure should specify who can approve invoices in each department, and the Finance Department should not approve payment without those people's signatures. | |
| Payments in Israel Secion 2 | Findings indicate that there is no procedure or guideline to indicate when the Department should require a contract. The Office of the Comptroller believes that signing agreements retroactively, after the transaction has been completed and the goods or services have been provided, puts WZO in a position where it has already become obligated (even though the parties may then disagree on the agreement format). It is important to sign agreements prior to receiving the goods or service, as this would earmark funds in Priority. | Establish a procedure to formalize the obligation to sign contracts with suppliers. Notify the various departments that signed agreements are a pre-condition for the Finance Department to effect payment. | The Finance Department believes it is important to update WZO's other departments on the need to sign agreements prior to conducting transactions. The Finance Department conducted a briefing on this matter in a special conference which was held recently for WZO's department directors. |

| Title | Conclusion | Recommendation | Response |
|--------------------------------|---|--|--|
| Payments in Israel Secion 2 | The Payments in Israel Unit supervisor is one of WZO's authorized signatories. Technically, she is able to carry out the entire process from entering a new supplier, entering an invoice, preparing payment, and approving the electronic transfer order. She also has access and permissions to use the check printer. It is emphasized that segregation of duties is critical to protect the organization from embezzlement and fraud. | Consider options for maintaining segregation of duties and access permissions in the Payments in Israel Unit supervisor's work. It should not be technically possible for one single employee to perform all actions required to issue a payment. | Starting 2021, the Payments in Israel Unit supervisor does <u>not</u> make any changes to supplier data, including creating new entries or updating existing information such as bank account details. A Department employee, who is a certified accountant, performs all these tasks involving supplier data, but will not be involved in any other step of the local payment approval process. This change in our workflows segregates duties and authorizations in the payment process. |
| Payments in Israel Secion 3 | Findings indicate that some invoices have been issued over a year ago and have yet to be paid due to disputes or pending inquiries between the Finance Department and the client department. | Review reports similar to that issued for the Office of the Comptroller at least every two months and make sure that payments are not overly-delayed. | The Finance Department will make sure to routinely track unpaid invoices to make sure that payments are not overly-delayed. |

| Title | Conclusion | Recommendation | Response |
|--------------------------------|--|--|----------|
| Payments in Israel Secion 4 | The Office of the Comptroller believes the file presenting changes to supplier bank account details to the Department's Deputy Director is improper. It contains hundreds of irrelevant lines , thus impeding efficient and effective review. The Office of the Comptroller believes that WZO's controls should be planned to be efficient and effective, so as not to become an unnecessary bureaucratic burden. | Provide the Department's Deputy Director with a report of changes to supplier bank account details which <u>only contains relevant information</u>. For example, data can be filtered (by a user without permissions to change supplier records) to only present changes to bank account numbers. This filter criteria would also present new suppliers. New entries should specify the name of the client department and the nature of the goods or services received. The person performing these checks could differentiate new accounts from old ones based on supplier ID numbers. | |
| Payments in Israel Secion 5 | Approved invoices indicate that invoices are occasionally hand-signed without any identifying details. The Office of the Comptroller believes the Finance Department should not rely on being able to recognize a hand-written signature which might not mention the signatory's name. | The payments procedure should require invoices to be signed by the director of the client department, along with clear, and clearly-identifying marks (signature and stamp). | |
| Local payments Secion 5 | The Office of the Comptroller found that a consultant is paid a particularly high rate (NIS 800/hour) and charges hundreds of hours a month, while another consultant in the same field charges at a fraction of that rate (NIS 160/hour). The consultant also charged for travel costs and express fast lane charges without an agreement approving such charges. | Review the cost-benefit of working with that consultant in light of other possible options, and in any case sign a formal agreement with the consultant. | |

| Title | Conclusion | Recommendation | Response |
|----------------------------|---|--|--|
| Intl. payments Secion 1 | The International Payments supervisor is an authorized WZO signatory, and can effectively initiate a payment against a given budget item, and approve the payment himself. | Consider options for maintaining segregation of duties and authorizations in the International Payments supervisor's roles, to technically prevent one single employee from being able to perform all actions necessary to issue payment. | |
| Intl. payments Secion 1 | The Office of the Comptroller believes that not recording specific suppliers/organizations abroad who receive funds, and instead attributing payments to general items, undermines the control of international payments. | Consider entering overseas suppliers into the system based on payment volumes and frequency. | The Finance Department will work to implement the Office of the Comptroller's recommendation concerning segregation of duties and permissions for the International Payments supervisor, The Department will require a second approval for any transaction or payment, in addition to the International Payments supervisor. The Finance Department will study the recommendation to enter overseas suppliers into the system, as concerns regular and key suppliers. |

| Title | Conclusion | Recommendation | Response |
|---|---|---|--|
| Infl. payments Secion 2 | WZO transfers tens and hundreds of thousands of shekels to various organizations abroad, which amount to millions of shekels a year. These transfers are made without entering suppliers into the Priority system. Transfers are made against general items for all supplier payments. Regardless of the inherent challenge in controlling overseas operations, these transfers are sometimes made without receiving adequate performance reports which demonstrate the contractually-required results. | Establish a procedure to regulate the format for payment requests, which should include detailed performance reports in English and documents supporting the amounts specified in the payment request. Furthermore, suppliers should be entered into the Priority system for all contracts above a given value and/or which is expected to be recurring. | |
| Bank accounts and reconciliations Secion 1 | WZO has an inactive bank account which has not yet been closed. | Close the inactive First International Bank account. | The Finance Department plans to maintain the account with the First International Bank, as a possible avenue for purchasing various banking products at more competitive bank fees compared to Leumi and Hapoalim. |

| Title | Conclusion | Recommendation | Response |
|---|--|---|---|
| Bank accounts and reconciliations Secion 2 | Findings indicate that some account reconciliation transactions have remained open for significant periods of time, sometimes for more than two years. | Clear open transactions and improve control over account reconciliations so that transactions do not remain open without explanations and over time. | <p>As concerns open transactions in the Bank Leumi account — there is indeed a very small number of open transactions, compared to the large volume of the organization’s transactions.</p> <p>In essence, the open transactions are incoming credit transactions from the bank for which there was no information to support their attribution.</p> <p>In its routine control over account reconciliations, the Finance Department is in regular contact with the banks to identify the source of these transactions, as per the applicable operational procedure. Open transactions are kept in the reconciliations for a specified inquiry period of up to two years. This is based on past experience where it was ultimately possible to obtain information on the source of the transactions. Once this two year period is over, open transactions are indeed ‘cleared’, as the Office of the Comptroller recommends.</p> |

December 2021

L. Appendices

Appendix A

Editing permissions in accounting/ledger system:

| Username | Accounting | Ledger |
|-----------------|-------------------|---------------|
| Adido | 1 | 1 |
| Alizai | 1 | 1 |
| Avigailt | 1 | 1 |
| Cohavan | 1 | 1 |
| Danas | 1 | 1 |
| Danieln | 1 | 1 |
| Davidav | 1 | 1 |
| Davidmi | 1 | 1 |
| Dianat | 1 | 1 |
| Elico | 1 | 1 |
| Etid | 1 | 1 |
| Gilada | 1 | 1 |
| Ilanan | 1 | 1 |
| Kobid | 1 | 1 |
| Mazalm | 1 | 1 |
| Morr | 1 | 1 |
| Naomir | 1 | 1 |
| Nataly | 1 | 1 |
| Ofraa | 1 | 1 |
| Orlyu | 1 | 1 |
| Rivas | 1 | 1 |
| Sarity | 1 | 1 |
| Taliay | 1 | 1 |
| Yosefl | 1 | 1 |
| Total | 24 | 24 |

Editing permissions in supplier module:

| Username | Suppliers | Procurement | Supplier conversion platform AE |
|-----------------|------------------|--------------------|--|
| Adido | 1 | 1 | |
| Davidav | 1 | 1 | |
| Morr | 1 | 1 | |

| Username | Suppliers | Procurement | Supplier conversion platform AE |
|--------------|-----------|-------------|---------------------------------|
| Nataly | 1 | 1 | 1 |
| Orlyu | 1 | 1 | |
| Yosefl | | 1 | |
| Total | 5 | 6 | 1 |

| Username | Name | Position | WZO employee as of Nov. 2020? | Comments |
|----------|------|--|-------------------------------|--|
| Adido | A.D. | Payments and Administration Unit Coordinator | Yes | |
| Alizai | A.A. | | No. | |
| Avigailt | A.T. | Budgets and Procurement Supervisor, Diaspora Activities Department | Yes | |
| Cohavan | C.N. | Senior Payroll Controller, JAFI | Yes | Seems she is a JAFI, not WZO, employee! |
| Danas | D.S. | Office and Administration Supervisor — Zionist Shlichut Unit | Yes | |
| Danieln | D.N. | | No | |
| Davidav | D.A. | | No | |
| Davidmi | D.M. | Account Manager — Zionist Shlichut Unit | Yes | |
| Dianat | D.T. | Finance and Payroll Systems Officer — Zionist Shlichut Unit | Yes | |
| Elico | E.C. | | No | Former Director General of WZO |
| Etid | E.D. | | No | |
| Gilada | G.A. | | No | |
| Ilanan | I.N. | | Yes | Could not find her in my records — check in which unit she works |
| Kobid | K.D. | Pensions and Payroll Division Director — JAFI | Yes | JAFI, not WZO, employee!! |
| Mazalm | M.M. | Senior Liabilities Officer — Settlement Division | Yes | |

| Username | Name | Position | WZO employee as of Nov. 2020? | Comments |
|----------|------|--|-------------------------------|---------------------------|
| Morr | M.R. | Payments and Liabilities Coordinator | Yes | |
| Naomir | N.R. | | No | |
| Nataly | N.C. | Mediatheque Project Manager | | |
| Ofraa | O.A. | Merkava Supervisor — Settlement Division | Yes | |
| Orlyu | O.U. | Control and Reporting Officer | Yes | |
| Rivas | R.C. | | No | |
| Sarity | S.M. | Payroll Controller — Jewish Agency | Yes | JAFI, not WZO, employee!! |
| Taliay | T.Y. | | No | |
| Yosefl | Y.L. | Account Manager — Religious Services | Yes | |

Editing permissions for invoice/order details:

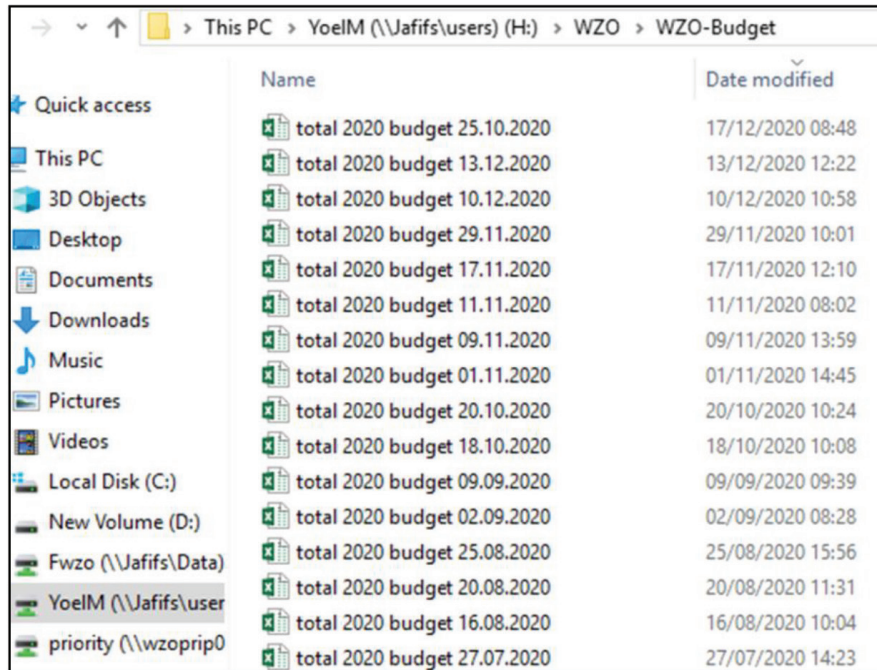
| Username | Invoice/order details |
|--------------|-----------------------|
| Yosefl | 1 |
| Adido | 1 |
| Orlyu | 1 |
| Nataly | 1 |
| Total | 4 |

Example of user management:

| Username | Active user? | Viewing permissions? |
|----------|--------------|----------------------|
| Ofraa | Y | |
| Gilada | | |
| Yoavha | | |
| Hanhala | Y | Y |
| Tabula | Y | |
| Yaakova | Y | Y |
| Suzanneb | | |
| Dubib | Y | Y |
| Sigib | Y | |
| Ronitb | Y | |

Appendix B

Screenshot of folder showing budget report retrieval frequency by budget supervisor



| Name | Date modified |
|------------------------------|------------------|
| total 2020 budget 25.10.2020 | 17/12/2020 08:48 |
| total 2020 budget 13.12.2020 | 13/12/2020 12:22 |
| total 2020 budget 10.12.2020 | 10/12/2020 10:58 |
| total 2020 budget 29.11.2020 | 29/11/2020 10:01 |
| total 2020 budget 17.11.2020 | 17/11/2020 12:10 |
| total 2020 budget 11.11.2020 | 11/11/2020 08:02 |
| total 2020 budget 09.11.2020 | 09/11/2020 13:59 |
| total 2020 budget 01.11.2020 | 01/11/2020 14:45 |
| total 2020 budget 20.10.2020 | 20/10/2020 10:24 |
| total 2020 budget 18.10.2020 | 18/10/2020 10:08 |
| total 2020 budget 09.09.2020 | 09/09/2020 09:39 |
| total 2020 budget 02.09.2020 | 02/09/2020 08:28 |
| total 2020 budget 25.08.2020 | 25/08/2020 15:56 |
| total 2020 budget 20.08.2020 | 20/08/2020 11:31 |
| total 2020 budget 16.08.2020 | 16/08/2020 10:04 |
| total 2020 budget 27.07.2020 | 27/07/2020 14:23 |

* It is noted that the modification shown in the above screenshot from December 17, 2020 for the file dated October 25, 2020 refers to the file being opened as part of the audit.

**Response of the Chairman of the Zionist Executive
to the Comptroller's Report on
The World Zionist Organization Finance
Department's Operations**

In accordance with Section 18B to the Statutes for the Comptroller and the Control Office of the World Zionist Organization, the Chairman of the Zionist Executive is to submit his response to the Comptroller's reports to the Chairman of the Control Committee. The following is my response to the Report on the Finance Department Operations.

Although the report, reviewing the Department's operations in the final quarter of fiscal 2020, covers past events, there are still important elements which should be adopted. This is particularly true when working with public funds, which require an extra measure of caution.

In the report, the Office of the Comptroller notes the 'over-decentralization' created by the World Zionist Organization's departmental structure, as set forth by the Congress. That structure and division of responsibilities reflects the will of the Jewish People, and allows the maximum number of organizations, institutions, factions, and views to co-exist under a single roof.

That said, the decentralization of authority does not dictate inaccurate use of funds or their effective utilization and so, even before receiving the report and upon assuming my position, I instructed the Director General and the Secretary of the Zionist Executive to convene special meetings of the Executive to discuss work plans and promote the resource pooling.

This effort, in addition to synching and unifying the organization by requiring departments to work together for their mutual benefit, significantly improves pan-organizational focus, reduces redundancies, and allows strategic and balanced budget planning.

WZO's Director General, who assumed his position a year ago is familiar with all of the World Zionist Organization's operations, and coordinates the various department directors. I welcome the Office of the Comptroller's conclusions in this matter and am sure that, as we continue to strengthen the organization's executive resources, we will maximize the output from the World Zionist Organization's resources in particular, and from the National Institutions in general.

Although the organization is celebrating 125 years of activity, we should adopt

the Office of the Comptroller's recommendations and move forward as concerns sophisticated management technologies. These can minimize uncertainty in managing the current budget and our various contracts. Work in this direction already began under the previous CFO, and we must now see to the task's completion.

We should also give serious thought to the Office of the Comptroller's recommendations that the Investments Committee should re-examine the contract with the investment house, in light of past performance and cost-benefit considerations. This is also the place to note that the report was drafted at the height of a global health crisis, which caused an economic crisis. Although the capital markets crashed in that period, the Finance Department's conservative policies saw us through the crisis and supported our intense activities among Jewish communities, who were of particular need of our strength at the time.

In closing, I would like to thank WZO's Director General, the CFO, and their staff for their continuous efforts in managing these public funds, and their constant desire to learn and improve, as is evident in the report.

On behalf of the World Zionist Organization, I thank you for the audit.

(-) Yaakov Hagoel
Jerusalem, April 2022

Payroll Operations

Payroll Operations

Chapter 1 — General

1. General

The audit of the World Zionist Organization’s (“WZO”) payroll operations took place in July–October 2020, in accordance with the Comptroller of the National Institutions’ long-term work plan.

The audit focused, among other things, on the following:

1. Accrual and utilization of vacation and sick leave and applicable procedures.
2. Contributions to pension, severance, and study funds.
3. Salary payments, salary components, pay slips, and promotions.

The audit focused on 2019, and was based on a sample of 35 out of 200 employees across WZO’s various units (including the Settlement Division). The sample was selected based on employment format, pay grade, and placement.

The audit did not include social benefit contributions (pension, study, etc.) to funds managed by insurance companies.

The issue is of paramount importance as the Ministry of the Economy’s Enforcement Unit audits employer payrolls to check compliance with the Increased Enforcement of Labor Laws Law, 2011. If this unit finds any flaws, even of a technical nature, it issues steep fines for every month of non-compliance and for each employee separately (i.e. — if a flaw is found, there is usually a large multiple of fines). The unit sometimes even initiates criminal proceedings against the employer and its managers.

2. Background

The World Zionist Organization was established in 1897 to build a homeland

for the Jewish People in Eretz Israel. Once the sovereign State of Israel had been established, WZO adapted its operations, and its key functions today are:

1. Gathering the Jewish People in their historical homeland, through Aliyah from all over the world.
2. Upholding Jewish continuity and preventing assimilation by promoting Jewish and Hebrew education and nurturing Jewish values and culture.
3. Combatting antisemitism.
4. Protecting the rights of Jews around the world.
5. Zionist information and outreach.
6. Strengthening Jewish unity and the central role that the State of Israel holds for the Jewish People.

Today, WZO consists of Jewish-Zionist movements and organizations who support the principles of the Jerusalem Program, adopted by the 27th Zionist Congress in 1968. The Jerusalem Program focuses on Jewish unity, the central role of the State of Israel in Jewish lives, Aliyah, promoting Jewish and Hebrew education, and protecting the rights of Jews worldwide.

WZO employs some 200 people under the following main employment formats:

- 1) Rank-rating — Older employees. These people are employed based on a professional rating system, similar to government employees. Ratings and ranks are based on employee position and seniority, and are formalized in collective labor agreements.
- 2) Personal salary agreements — Employees hired through personal employment contracts. Some senior staff are included in this category and are employed under personal employment contracts for executives.
- 3) 2014 Agreement employees — People employed under the 2014 collective labor agreement, which superseded the rank-rating system.
- 4) Ministerial-equivalent executives — Senior executives employed under a government minister rating.

The Jewish Agency's Pension and Payroll Division ("Payroll Division") issues pay slips for WZO's employees, as instructed by WZO's Human Resources ("HR") Division. In other words, the Jewish Agency serves as a pay-slip service provider for WZO, and WZO pays the Jewish Agency for these services.

WZO's HR Division consists of the HR director (full-time position), with three staff working below her: an HR POC (full-time position); an HR coordinator (full-time position); an operations coordinator (80% of full-time)

Payroll calculations are based on work hours for the previous month. For example, October pay slips reflect work hours and pay data for September.

Thus, by the 10th of each month, unit directors approve all attendance reports for the previous month generated through the attendance management system. Furthermore, all employees double-sign their attendance reports — when filing the initial report, and after any necessary changes are made.

The Payroll Committee, comprising the Finance Department director, the director general, and the HR director, makes decisions concerning pay updates. These could include changes to the organization's headcount, rank/ratings, changes to employment agreements, changes to position scope, etc. Following the Committee's approval, a pay update order is sent to the Jewish Agency's Payroll Division which then applies the update and issues the relevant employee pay slips.

The Jewish Agency's Payroll Division uses Malam Ltd.'s services to prepare pay slips and calculate employee pay. Malam Ltd. handles payroll for numerous public-sector organizations, and particularly for rank-rating employees in the civil service. The Jewish Agency therefore leverages the company's skill, experience, and knowledge.

3. **Methods**

- 3.1 The Office of the Comptroller met with the director of WZO's Finance Department and the director of WZO's HR Division.
- 3.2 The Office of the Comptroller received the full list of WZO's 200 employees, from which a sample of 35 employees was selected. The sampled months were July and October 2019.
- 3.3 The Office of the Comptroller was in continuous contact with key WZO personnel, and received the following documents:
 - 3.3.1 Salary cost reports for the 35 sampled employees.
 - 3.3.2 July and October pay slips for the 35 sampled employees.
 - 3.3.3 Contracts and personal agreements for some of the sampled employees.
 - 3.3.4 Collective labor agreements applicable to WZO.
 - 3.3.5 Electronic transfer confirmations for contributions to insurance companies.
 - 3.3.6 Electronic transfer details for WZO's monthly salary payments.
 - 3.3.7 101 forms for sampled employees.

- 3.3.8 102 forms for the sampled months (July and October).
- 3.3.9 Payment clearance confirmation from the insurance funds.
- 3.3.10 The accounting staff's payroll entries.
- 3.3.11 Attendance reports for the sampled employees.

3.4 **Specific checks**

- WZO's compliance with the Annual Leave Law, 1951.
- WZO's compliance with the Sick Pay Law, 1976.
- Accrual of vacation and sick leave, as dictated by law.
- Compliance of pension and severance contributions.
- Compliance of study fund contributions.
- Employee and employer contributions for all sampled employees, against the terms specified in personal contracts and collective labor agreements.
- Payment compliance with contracts, collective labor agreements, and other agreements.
- Individual add-ons in pay slips and underlying calculations.
- Pay raises.
- National Insurance contributions, as required by law.
- Payroll tax contributions, as required by law.
- Timely salary payment and pension fund contributions, as required by law.
- Pay slip compliance with Amendment 24 to the Pay Protection Law, 1958.

Chapter 2 — Findings and Recommendations

1. Routine Controls Over Payroll

The Office of the Comptroller also examined WZO's HR Division's controls over payroll operations.

- 1.1 As aforesaid, payroll calculations for WZO's employees are outsourced to the Jewish Agency's Pension and Payroll Division. This creates two key problems:
 - 1.1.1 WZO's absolute dependence on the Jewish Agency's Payroll Division.

1.1.2 Pay slips for WZO's staff are issued by the Jewish Agency and sent directly to WZO's employees.

The Office of the Comptroller requested WZO's agreement with the Jewish Agency governing the calculation and issue of pay slips for WZO employees. If such an agreement exists, **the Office of the Comptroller has not received it.**

HR Department's response

Such an agreement is not found at HR. This was an organizational-level decision, and there are no records of it at HR.

WZO's Finance Department's response

The arrangement and understandings concerning WZO's receipt of payroll services from the Jewish Agency have been in effect for decades. The arrangement was laid out in 1997, during the restructuring of WZO's and the Jewish Agency's operations. The arrangement was subsequently re-affirmed under the 2009 agreement with the Jewish Agency. In recent months, WZO and the Jewish Agency are discussing and reviewing the various mutual services exchanged by the organizations, including payroll.

- 1.2 Due to these issues, it is extremely difficult for WZO's HR Division to apply effective control over pay slips, payroll calculations, and the accuracy of WZO's payroll data. The Office of the Comptroller was told that, in effect, no control is applied over pay slips. This means that employee pay slips may contain errors. These would not necessarily be due to miscalculation; they could even be caused by mismatches between the data recorded by the Jewish Agency for WZO's staff, and the terms agreed upon with the employees.

HR Division's response

The Payroll Division receives staff employment data (contracts), and pays salaries accordingly. Routine monthly checks are applied over sick days, vacation, and overtime. Employee data will be checked periodically on a sample basis to minimize errors.

The Office of the Comptroller found the following issues:

- There were employees working under personal agreements and rank-rating formats whose pay slips differed from their contractual terms.
- Some employees receive improper levels of additional pay.
- The bonus for the 2014 Agreement is not paid to all entitled employees.

- A holiday bonus was below the scope of an employee's position.
- Numerous attendance reports recorded round hours (even for employees not working in positions of trust). Manager confirmation of attendance reports is not checked.
- There is no control over overtime exceeding the permitted quota.
- Employees who had left WZO a long time ago still appeared in the employee roster.
- Mismatches were found between employees' actual sick day accrual and their contractual terms.

- 1.3 Following decisions by the Salary Committee on rank changes or pay changes, WZO's HR Division transmits the data to the Jewish Agency's Payroll Division for implementation. WZO's HR Division does not apply any subsequent control over such implementation.

The Office of the Comptroller was told that these checks are not carried out because the Jewish Agency's Payroll staff are extremely busy and sometimes do not have the time to provide the necessary materials or answers for such checks. Furthermore, the checks are not carried out as WZO's HR staff do not have time to check actual pay on pay slips. This is due to the fact that WZO's HR Division comprises only a director and 3 staff members.

In 2011, Israel passed the Increased Enforcement of Labor Laws Law. The Law seeks to increase and streamline the enforcement of labor laws through an administrative process for fining employers and service recipients. Under the Law, the Ministry of Labor and Welfare may audit payroll operations in companies operating in Israel. If flaws are found, the Ministry may impose steep fines of tens of thousands of shekels. In these audits, the Ministry of Labor may check compliance with all applicable labor laws.

Recommendations

- **Consider alternatives for processing WZO's payroll, keeping in mind cost/benefit considerations — When signing an agreement with the Jewish Agency for services rendered by its Payroll Division, allocate a dedicated staff member to handle all requests by WZO's HR Division. Alternatively, allocate a dedicated WZO employee, who would sit with the Jewish Agency's Payroll Division and handle all aspects of WZO's payroll.**
- **Apply adequate control through additional personnel in the HR Division, over WZO's pay slips. These controls should verify that**

employees receive their due pay under their personal contracts, collective labor agreements, applicable labor laws in Israel, and according to periodic changes due to pay raises, etc. (as detailed below, in Section 3 — WZO Salary Payments).

- **WZO should perform a thorough internal audit through a Ministry of Labor-certified salary inspector. Such internal audit should identify, and if necessary — correct, any flaws in employee salaries. Following this thorough audit, WZO could start building an adequate internal control system over its payroll operations, being confident in its starting position.**

- 1.4 A lot of WZO's employee information is kept in hard-copy. Some of the older employees' files are kept in the archives, and in any case these materials have not been scanned or digitized. This makes it harder and extremely time-consuming to locate documents or information.

Recommendation

Study the viability of scanning and digitizing the personal files of WZO's employees, to streamline HR workflows.

HR Department's response

In 2018, the Executive decided to streamline WZO's HR workflows, and allocated a development budget. This is a lengthy and thorough process which is being carried out with Tech Unity. As part of this streamlining initiative, and subject to the work plan with Tech Unity, about a month ago an option was rolled out in the HR system to file documents in digital employee files, and this has become our standard practice.

- 1.5 The Office of the Comptroller examined actual payments to WZO employees. Upon inquiry with WZO's Finance Department and the Jewish Agency's Payroll Division, the Office of the Comptroller was told that salaries are paid by electronic transfer from WZO's bank account to WZO's employees. The electronic transfer order is generated automatically by the MALAM Payroll software, and the Jewish Agency's Payroll staff approve the amounts. After studying the whole process end-to-end, the Office of the Comptroller found that, in practice, not a single WZO employee is involved in the actual payment process, and that funds are issued from WZO's bank account without review or approval. Although the accuracy of the numbers is in no way being questioned, the Office of the Comptroller believes that WZO's Finance Department should at least check the amount being paid from WZO's account, and compare it with the payroll accounting entry for WZO's workforce.

Recommendation

WZO's Finance Department should perform monthly checks on actual salary payments and the social benefit contributions transferred to the insurance companies through WZO's bank account. The Finance Department should compare these amounts with the nominal salaries being paid to WZO's workforce that month.

Finance Department's response

The Department checks these fund transfers each month. The Office of the Comptroller's recommendation has been routinely implemented over the past year: at the end of each salary month, a WZO Finance Department employee (accountant) receives from the Jewish Agency's Payroll Division the detailed salary payment order — the various recipients receiving the monthly salary payments. As part of our control, the employee checks each salary payment against transactions in WZO's bank accounts, and finalizes the entry for all salary/payment recipients in WZO's books following account reconciliation.

As an organization and as the Finance Department, we accept the findings. The HR Division will not make do with instructing the Payroll Division to update or change salaries, as it is both importance and necessary to apply controls beyond the internal controls applied by the Jewish Agency's Payroll Division and information systems. The Finance Department and Payroll Division have therefore decided to implement new operational and control workflows, as follows:

1. Each month, the HR Division will verify that payroll operations (pay updates, new employees, agreement updates) are implemented in employee pay slips as instructed by the HR Division. This can be carried out before the data for the month is finalized and final pay slips are generated. It should be clarified that these controls and checks are in addition to the Payroll Division's controls, and will not replace them.
2. As concerns data optimization in the IT systems and updating employee rights in the Lavi and other systems — checks and reconciliations of these systems should be routinely performed against employee entitlements and employee pay slips.
3. In our professional opinion, the above operational and control workflows will not require additional personnel for the HR Division, and can be implemented effectively and efficiently with the current

staff. The Finance Department will offer professional assistance and advice to the HR Division in implementing the Office of the Comptroller's recommendations and the new controls prescribed for the HR Division.

2. **Executive Salaries**

- 2.1 WZO has several senior department directors, who also serve as members of the Executive. These employees' rank is set as 'minister-equivalent', according to the rating for ministers, Knesset members, etc. The audit sample included 3 of these employees. The Office of the Comptroller asked the pension and severance fund manager, who also serves as coordinator for executive employment terms, for the work contracts for these sampled executives. To the best of the Office of the Comptroller's understanding, there are no contracts, but rather appointment letters. The Office of the Comptroller received full cooperation to our requests and questions.
- 2.2 These employees' salaries are composed mainly of a base salary, cost-of-living additions, and a 4% deduction.
- 2.3 The Office of the Comptroller received the initial appointment letters for the sampled executives. These letters do not provide full information concerning the employees' salaries, such as updated salary amounts, vacation and sick day accrual, convalescence benefits, clothing expense benefits, additional payments, and pension contributions. It was therefore not possible to fully validate actual salaries paid to these employees.
- 2.4 Based on the appointment letters, and following inspection of the sampled executives' pay slips, the following were found:
 - 2.4.1 Accrual and utilization of vacation and sick days — Employees accrue 26 vacation days and 25 sick days each year. Utilization was based on attendance report data. However, as detailed below, since these are positions of trust and employees do not need to punch their card twice a day, attendance reports were compiled manually with identical hours across all days. It is thus not possible to know if vacation and/or sick day utilization was correctly recorded in these employees' pay slips.

HR Division's response

Department directors are not required to log their work attendance due to the status and nature of their position.

- 2.4.2 Pension contributions on executive pay slips matched the rates established in the Jewish Agency’s procedure, as adopted by WZO (see Chapter 5 below). Tax value was also assigned for excess contributions to pension and study funds — **Propriety was found.**
- 2.4.3 Attendance reports — Work attendance reports for these employees were found to have been entered manually, with 8 work hours a day, at regular and rounded hours. These employees hold positions of trust, and so are not required to log their work attendance — **Propriety was found.**
- 2.4.4 Company car — The appointment letters state that employees are entitled to a company car, and that a tax value should be attributed according. Upon examination — **Propriety was found.**
- 2.4.5 Convalescence pay — Employees were found not to have received convalescence pay in 2019. The appointment letters did not specify whether employees are entitled to convalescence pay, or if their salaries include the statutory add-ons, such as convalescence pay.

Recommendation

Consult WZO’s legal counsel concerning convalescence pay to executives, and make sure that their appointment letters provide for these payments as required.

HR Division’s response

Department directors/Executive members are ‘elected officials’ and not considered ‘employees’. The matter will be studied with legal counsel.

- 2.5 The salary specified in the appointment letters did not match the actual amount on the pay slips. However, the appointment letters state that pay will be updated according to the salary for new Executive members. The Office of the Comptroller was told that salaries for new Executive members are linked to the salary for a government minister. Upon examination, actual salary payments to the sampled executives was identical to the ministerial salary as set forth in Regulations File 8158 — Updates to Ministerial Salaries in 2019 — **Propriety was found.**
- 2.6 According to Section 4 in the Minister and Deputy Minister Salary Resolution, 1982, in addition to the base salary, an additional cost-of-

living item will be paid under such rules and rates as common for civil servants. Upon examination of the cost-of-living addition paid to the sampled executives, any differences were immaterial — **Propriety was found.**

- 2.7 The Office of the Comptroller was told that in December 1997, the Zionist General Council's Finance Committee decided to reduce the salary for members of the Executive by 4% compared to the ministerial salary. Upon examination, a 4% deduction was made to Executive member salaries — **Propriety was found.**

3. WZO's Salary Payments

- 3.1 As mentioned, WZO employees work under several employment formats, including rank-rating, personal employment agreements, and executive salary employees. For sampled employees, a comparison was made of salary components on pay slips and salary cost reports, and the data in the relevant employment agreements, collective labor agreements, statutory requirements, and rating tables for civil servants.

3.1.1 Rank-rating employees — Collective labor agreements were compared with the base salaries for each employee, and the civil servant salary tables were compared against the base salary for rank-rating employees. No cases were found where actual salary payments differed from the salary prescribed for the employees by these tables and as per their seniority.

3.1.2 Personal employment agreements — Collective labor agreements were compared against the base salaries for employees. Furthermore, each employee's personal agreement was compared against their base salary. For one employee (3% of the sample size), their actual base salary exceeded the salary specified in the employment contract and the salary update form. Upon inquiry, the Jewish Agency's Payroll Department presented records of another update to the employee's pay, and this update matched the employee's actual pay. **Propriety was found.**

- 3.2 Statutory minimum wage — All of the employees' salaries were compared against the minimum wage of NIS 29.12/hour, as specified in the Minimum Wage Law, 1987. **All salaries were compliant. Propriety was found.**

- 3.3 CPI linkage — The Office of the Comptroller was told that salaries for

new WZO employees and employees working under set-term personal contracts are linked to the known CPI for a given month, and are updated quarterly based on any increase or decrease in the CPI. If the CPI goes up, pay increases accordingly. If the CPI goes down, pay is not actually reduced, but rather a debt is accrued based on such CPI decrease. This debt is offset against any future CPI increases. Since December 2015, WZO has applied a different method, where it separates the linkage component as a separate pay slip item. Thus, linkage will increase or decrease in accordance with changes in the CPI, but a drop in the CPI will not cause an employee's pay to fall below their base salary.

- 3.4 21 employees (60% of the sample size) had a linkage component on their pay slips. The employees' personal contracts were checked for linkage clauses. 11 employees, or 52% of the employees with linkage components, had their pay linked to the CPI in 2019 even though such linkage was not referenced in their personal contracts.

Recommendations

Make sure that contracts for new employees link their base salaries to the known CPI, if such linkage applies.

Perform a general check of all contracts for employees with CPI-linked salaries. Make sure that their contracts include linkage clauses, and amend the contracts if necessary.

HR Division's response

According to the 2014 collective labor agreement, it is not mandatory to link employee salaries to the CPI. Therefore, linkage to the CPI is not included as a mandatory clause in employee contracts, to allow WZO greater flexibility in this matter.

- 3.5 Upon examining calculations for salary CPI linkage — **Propriety was found.**
- 3.6 Salary additions — WZO employees receive the following salary additions under collective labor agreements:
- 3.6.1 2001 addition — An additional 3.6% on the gross base salary, study benefits, and pay supplementation addition. These calculations were examined and **propriety was found.**
- 3.6.2 Additions under the 2009 salary agreement — A 5% addition

for MACHAR¹ and administrative employees. The addition is based on the gross base salary plus study benefits and the 2001 addition. These calculations were examined and **propriety was found**.

- 3.6.3 Additions under the 2011 salary agreement — A 7.25% addition on the gross base salary plus the 2001 and 2009 agreements. These calculations were examined and **propriety was found**.
- 3.6.4 Salary supplementation — Rank-rating employees are entitled to a salary supplementation of 30% of their gross base salary plus Study Fund A and Study Fund B benefits. Employees who joined the organization after October 1, 2013 are entitled to salary supplementation of only 20%. These calculations were examined and **propriety was found**.
- 3.6.5 2016 addition — A 3.875% addition on the gross base salary plus the 2001, 2009 and 2011 agreements, salary supplementation, and the study fund benefits. These calculations were examined and **propriety was found**.
- 3.6.6 Study Fund A — An additional payment to college graduates employed under MACHAR ratings and to eligible administrative-rating staff. The Study Fund A benefit amounts to an additional NIS 328.76. These calculations were examined and **propriety was found**.
- 3.6.7 Study Fund B — An additional payment to college graduates employed under MACHAR ratings. The Study Fund B benefit amounts to NIS 238.76 up to rank 41; NIS 430.86 for ranks 41–44, and from rank 44 the benefit is the higher of either 9% of the gross base salary or NIS 430.86. These calculations were examined and **propriety was found**.
- 3.6.8 Administrative benefit — An additional payment to administrative-rating employees, under the 2008 collective labor agreement. Entitlement is composed of three tiers. For each tier, consisting of 40 study hours, employees are entitled to an additional NIS 105. After completing the three tiers, the addition amounts to NIS 315. These calculations were examined and **propriety was found**.

1 MACHAR employees — Salaried employees with academic degrees in social sciences and humanities, who are paid by rank on the MAHAR rating scale and are covered by the Histadrut Union's collective labor agreements.

- 3.7 Special bonuses — WZO employees are entitled to special bonuses under collective labor agreements:
- 3.7.1 Jubilee bonus — Employees who have been 25 years or more with the organization are entitled to annual jubilee bonuses. The bonus is paid annually, and is based on 60% of their gross base salary plus all the aforementioned additions. These calculations were examined and **propriety was found**.
 - 3.7.2 2014 Agreement bonus — Under the collective labor agreement of November 24, 2014, between the Jewish Agency and WZO and the Histadrut Union, employees are entitled to a bonus of NIS 2,500 for 3 years up to and including 2016; and a bonus of NIS 2,650 a year from 2017 up to 2022. The bonus is paid once an employee completes 5 years with the national institutions. Upon examining the sampled employees whose pay is governed by the 2014 Agreement, only one employee had been with the organization for more than 5 years, and was thus entitled to a bonus of NIS 2,650. The employee received the bonus. **Propriety was found**.
- 3.8 Holiday bonus — Each WZO employee working in the months on which Passover or Rosh Hashana fall, respectively, is entitled to a holiday bonus of NIS 870, based on the scope of their position and after completing one full year with the organization. These payments were examined and **propriety was found**.
- 3.9 Convalescence pay — Most employees receive this payment once a year, while some employees receive it monthly. All employees receiving the item as an annual payment received convalescence pay of 13 days, as specified in the 1992 collective labor agreement — **Propriety was found**. Furthermore, employees receiving the item as monthly payments under their personal agreements and the 2014 Agreement, received the payment as per the day count and rates specified for private-sector employees, as specified in the agreement — **Propriety was found**.
- 3.10 Clothing allowance — Most employees receive this payment once a year, while some receive it monthly. Employees were paid for clothing expenses at Level 4 amounts, as dictated by the collective labor agreement. **Propriety was found**.
- 3.11 Wage Protection Law — The Office of the Comptroller examined pay slip compliance with this law. Section 5 in Amendment 24 to the Law requires employers to note the number of work days and work hours

actually worked by their employees in the period for which the wages are being paid. WZO's pay slips did not note this information, but do note that employees have direct access to their attendance report, which constitutes an integral part of the pay slip.

Recommendation

Consult WZO's legal counsel concerning the detailed presentation of actual work days and hours on pay slips, as required by law, and whether attaching the work attendance report meets the statutory requirements.

Jewish Agency Pension and Payroll Division's response

Indeed, the Wage Protection Law requires that employers note actual work days and work hours for a given month of pay. However, this is not possible as salaries are paid out on the 1st of each month. Since the salaries are calculated before this date, the relevant work month is still ongoing and the attendance reports are not yet finalized. It is therefore not practically feasible to apply these statutory provisions. We are following the common practice applied for hundreds of thousands of civil servants receiving their pay on the 1st of each month.

- 3.12 Salary payout date — Salary payout dates were checked for compliance with the Wage Protection Law. Salaries are paid out on the 1st of each month. This was verified against the electronic transfer orders and with WZO's employees. **Propriety was found.**
- 3.13 Pay slip handout — The Wage Protection Law, 2008, and Amendment 24 to the Wage Protection Law, require employers to hand pay slips out to employees. Pay slips must provide information concerning the employee and employer as specified in Section 24(b) in the schedule to the Law.
- 3.14 Handout of pay slips was verified for the sampled employees. **Propriety was found.**
- 3.15 Income Tax and National Insurance deductions — Companies hiring employees in Israel must deduct taxes and make payments to the Income Tax Authority and National Insurance Institute.
 - 3.15.1 The Office of the Comptroller examined calculations for income tax deductions from employee salaries, based on their respective credit points, residence discounts, and various deductions. The calculation was verified for a sample of 35 employees. **No material differences were found.**

3.15.2 The Office of the Comptroller checked the calculations for National Insurance deductions from employee salaries, for both the employer's and the employee's share, for the sampled employees. **No material differences were found.**

3.16 Payroll tax payments — WZO is considered a non-profit organization, and must therefore pay a 7.5% payroll tax on its employees' salary components, in accordance with the Value Added Tax Law. The Office of the Comptroller examined this tax payment for the sampled employees. Differences were found for 2 employees (6% of the sample size) in October 2019. The differences for these employees were due to non-payment of payroll taxes on the 'convalescence differences' component.

Recommendations

- **Payroll tax payments should account for the employees' total salary, including differential components.**
- **Work with the payroll software to correct the payroll tax payments for convalescence differences paid to all employees.**

HR Division's response

In the past, there was indeed a problem with payroll tax not being paid for item 1262 (convalescence differences). This bug was identified and fixed in 2020, so that today payroll tax includes this item as well.

3.17 Attendance reports — The Office of the Comptroller was told that all WZO employees must clock in and out of work through WZO's online portal. The portal has a link to the Jewish Agency's work attendance system, which also serves WZO's staff.

3.17.1 Under the Jewish Agency's procedure, adopted by WZO, employees may only make 3 corrections a month to their attendance reports. The Office of the Comptroller was told that WZO prefers that only 2 corrections a month be approved. It is noted that the Office of the Comptroller received final attendance reports, after any corrections. It was thus not possible to check whether employees entered data manually and not possible to check compliance with the procedure.

3.17.2 The Office of the Comptroller was told that managers can approve 5 changes in their employees' attendance reports. The system does not block this option, even though the Jewish Agency's procedures, as adopted by WZO, only allow for 3 changes.

Recommendation

Draft an internal WZO procedure allowing employees to make 2 to 4 manual changes each month, as decided by the Executive. Assure compliance with the number of manual changes permitted through either a system block or an alert to HR.

HR Division's response

It is not possible to block this option in the system, as employees can manually update their reports as needed. As aforesaid, the Jewish Agency has an attendance reporting procedure which WZO has adopted, and employees are refreshed on this procedure once a year or as necessary.

3.17.3 In examining work attendance reports, the Office of the Comptroller found 24 reports (34% of the 70 sampled reports) from 14 employees (40% of the sampled employees) where all hours were rounded off, for both start and end times. It is not possible to know whether these were manual entries, as the Office of the Comptroller received the finalized reports, including any corrections. It is further noted that 10 of these employees hold positions of trust, and a further 2 employees were not subject to the Work and Rest Hours Law. Therefore, in effect, there were only 2 employees where all hours were rounded off.

HR Division's response

These 2 employees were field staff, who enter their hours manually.

Recommendations

- **Refresh employees on procedures requiring them to clock in and out of work each day. HR should perform spot checks of attendance reporting each month.**
- **WZO should apply internal controls over managerial approval of their employees' work hours, and check instances where managers automatically approve manually-entered attendance times.**

HR Division's response

Employees are refreshed on procedures at the start of each year through letters, and whenever HR feels that reporting practices are becoming lax. Spot checks are periodically applied.

3.18 Overtime — Employee contracts specify whether employees are entitled to overtime pay, in addition to their official work hours. The Office of

the Comptroller examined overtime pay to eligible employees. Findings were as follows:

- 3.18.1 The attendance report for one employee stated that she had an approved overtime quota of 30 hours. In practice, the employee logged 24 hours of overtime, but was not paid for these hours. Her employment contract did not refer to overtime.

Recommendation

Check why they employee’s attendance report states that she is eligible for paid overtime.

HR Division’s response

If a manager does not approve an attendance report for whatever reason, overtime is not passed on to payroll, and this was the case here. The employee was paid for all approved overtime in the subsequent months.

- 3.18.2 One employee, working as a diver, exceeded their allotted hours in July 2019, and logged 76 hours of overtime. However, their employment contract does not allow paid overtime, and so they were not paid for this time. The Office of the Comptroller was told that a special agreement has been signed with drivers, which provides for overtime. This overtime is unique for drivers holding positions of trust.

- 3.18.3 11 employees (31% of the sample size) exceeded their approved overtime quota and did not receive pay. Some worked numerous hours without pay.

Recommendation

Make sure that employees do not exceed their approved overtime quotas. Furthermore, consider delegating responsibilities and tasks to reduce workload for employees who regularly exceed their approved overtime quotas.

- 3.19 Unpermitted work hours — 2 employees (6% of the sample size) worked more than 12 hours a day. It is noted that one of these employees, also mentioned in Section 3.18.2, worked more than 58 hours a week. Under their employment agreement, this employee is not entitled to overtime pay, while in practice they logged extensive overtime (some 20 hours of overtime a week, or 80 hours’ overtime a month). It is further noted that the second employee holds a position of trust, but is only allotted a

limited number of overtime hours due to the nature of his work. In practice, the employee's overtime hours exceeded the work hours for which they were paid.

HR Division's response

Employees are aware of the overtime procedure and receive periodic refreshers on this procedure. Furthermore, this year we have launched an organizational portal with all of the organization's procedures.

- 3.20 **No fake employees** — The Office of the Comptroller checked for any fake employees in WZO. **All department directors were asked to confirm** that they were indeed familiar with all employees listed in their departments in the lists obtained from the Jewish Agency's Payroll Department.
- 3.21 One employee was found in the Payroll Department's lists who was listed as working in a WZO department, even though the department director stated that the employee had left several years ago. Upon inquiry with the Payroll Department, the Office of the Comptroller was told that the employee had been listed erroneously, and that she had not been issued a pay slip since her departure in September 2017.

Recommendation

As part of WZO's routine controls during employee offboarding, WZO should make sure that they are removed from the existing employee rosters in the various systems, including the organizational email.

Jewish Agency Payroll and Pension Division's response

We were asked to issue a WZO staff report through the payroll system. Due to an erroneous query in preparing the requested report, an inactive employee found its way into the list prepared specifically for the Office of the Comptroller. This does not mean that the employee was active in the payroll system and/or had received undue pay. We do not believe there is any flaw requiring correction in this case.

4. Vacation and Sick Leave — Contributions, Payments, and Utilization

The Office of the Comptroller examined the accrual, utilization, and redemption

of annual vacation leave and annual sick leave by WZO employees. This examination was performed to check compliance with WZO's procedures and controls applicable to vacation and sick leave, reporting of such leave, workplace-mandated leave, compliance with vacation accrual limits, logging vacation and sick day balances, and vacation and sick day redemption. The Office of the Comptroller also checked WZO's compliance with the following laws and provisions, and their corresponding regulations: Annual Leave Law, 1951; Sick Pay Law, 1976; Sick Pay Law (Absence due to Child's Illness), 1993; Sick Pay Law (Absence due to Parent's Illness), 1993.

Vacation Accrual, Utilization, and Redemption

Statutory framework

Annual leave is one of the rights granted employees under protective legislation. The right to vacation is considered a fundamental right given to employees as part of an employer's obligation to minimal working conditions.

Under Israeli law, the main piece of legislation regulating employee rights to leave is the Annual Leave Law. The law specifies the duration of paid annual leave to which all employees are entitled.

Annual leave is an unconditional right. Thus, vacation quota arrangements in a given industry or sector, or agreed upon with an employee individually under their employment contract, can only expand an employee's rights beyond those specified by the law. As such, an arrangement or agreement which detracts from the statutory rights is considered null and void. It is emphasized that, in contrast to the vacation quota specified in the law, which is unconditional, any additional vacation days granted under a special arrangement or agreement are not subject to statutory protections.

Accrual of leave and annual leave quota

General

The number of annual vacation days allotted to WZO employees is determined by their personal employment agreements and their time with the company (seniority).

A standard employee's vacation quota is updated according to their seniority, in accordance with the applicable collective labor agreements and legislation:

| | |
|---|---------|
| In the first year and through their first 3 years | 14 days |
| From their 4th year and through their 5th year | 16 days |
| From their 6th year and through their 8th year | 18 days |
| From their 9th year onward | 25 days |

A maximum of 63 vacation days may be accrued, unless a higher quota has been set in an applicable collective labor agreement.

According to Jewish Agency procedures, as adopted by WZO, employees with less than one year's seniority may accrue a negative vacation balance of no more than 2 days. An employee with over a year's seniority may accrue a negative balance of no more than 5 days. In special cases, employees are approved a greater deviation from their allotted vacation quotas.

Findings

4.1 The Office of the Comptroller examined actual monthly accrual and annual quotas for employee vacation days, by comparing the pay slips for sampled employees against their personal agreements and the vacation procedure.

4.1.1 For one employee (3% of the sample) actual vacation accrual **exceeded** her contractual terms and seniority. Based on her seniority and considering her part-time position, the employee was entitled to 10.5 days of vacation a year, while in practice she received 13.4.

4.1.2 For 2 employees (6% of the sample) actual vacation accrual was **below** their contractual terms and seniority. For example, one employee was entitled to 18 days' leave a year based on his seniority, but in practice only received 16 days' leave a year.

4.1.3 For one employee (3% of the sample) vacation accrual grew by 22.5 days between July 2019 and October 2019, while her monthly accrual only totals 2.08 days. In other words, under her allotted monthly accrual, she should have accrued 6.24 days in that period, but instead accrued 22.5 days, exceeding her allotment by 16.26 days.

This problem was due to the data in the Lavi system differing from the data in the BI system, and so from the actual pay slips. The vacation log for the employee in the Lavi system did not match the data obtained from the BI system reports.

HR Division's response

According to the data in the Lavi system, the balances are in line with her seniority. In light of this finding, the HR Division will request that the Lavi and BI systems be aligned.

4.1.4 One employee (3% of the sample) worked a 75% position in July,

and a 50% position in October. However, her vacation accrual did not change accordingly.

4.2 The Office of the Comptroller compared vacation utilization in employee pay slips against the attendance report data. Findings were as follows:

4.2.1 For 3 employees (9% of the sample) partial vacation days were deducted against hours of absence in July 2019. This utilization was based on actual hours for a given day, and not against a standard 8-hour work day. For example, if an employee was absent for 1 hour and 55 minutes, he was deducted 0.19 days, instead of 0.24 days.

4.2.2 For one employee (3% of the sample), 5 days of leave were deducted in her July 2019 pay slip, even though attendance reports show that she only utilized 4 days.

Recommendation

Perform monthly spot checks of pay slips to make sure that vacation accrual matches employee contracts.

HR Division's response

The above employee was late in submitting her illness documents. Her vacation days were switched for sick days.

4.2.3 3 employees (9% of the sample) worked on Jerusalem Day (which is designated a n employer-covered vacation day for all employees) and thus had to be credited for a vacation day. In practice, they did not accrue the additional day on their July 2019 pay slips. However, annual vacation logs for these employees indicated that they were credited for an extra vacation day during the year.

4.3 The Office of the Comptroller compared vacation day records on employee pay slips against their vacation balances as logged in the BI system.

4.3.1 For one employee (3% of the sample), there was a mismatch between vacation day utilization in her July 2019 pay slip, and the number recorded in her vacation balances report.

HR Division's response

The annual Employee Day occurred in July 2019, and the system did not process the transaction code correctly for this employee.

On August 12, this entry was corrected, and her vacation balance was updated accordingly.

- 4.3.2 For 6 employees (17% of the sample), there was a mismatch between the vacation balance in their July 2019 pay slip and their vacation balance reports.
- 4.3.3 For 2 employees (6% of the sample), there was a mismatch between the vacation balance in their October 2019 pay slip and their vacation balance reports.

Recommendation

Apply controls to verify the match between vacation balance reports and vacation accrual and utilization as presented on pay slips.

HR Division's response to Sections 4.3.2 and 4.3.3

WZO's HR Division is not responsible for the payroll system and receives the data from the Jewish Agency's HR function, which manages the Lavi attendance system. A BI system developer has updated the system. In light of the findings, the HR Division will perform periodic data checks and request alignments when necessary.

- 4.4 The Office of the Comptroller examined the vacation balance report from the BI system, as of December 31, 2019.
 - 4.4.1 For 9 employees (5% of all WZO staff), there was a mismatch between the cumulative end-of-year vacation balance and the independent calculation based on start-of-year balances and ongoing accrual and utilization.

Recommendation

Make sure that vacation days are accrued and utilized in accordance with employee contracts and seniority, collective labor agreements, and WZO procedures, and based on employee attendance reports.

HR Division's response

Vacation balances as of December 2019 match the balances for January 2020. The Office of the Comptroller received vacation logs from the Lavi system and vacation balances. The BI system is not an operational system, but only provides information. At the moment, the Jewish Agency is making repairs and updates

to the system, and we do not use it at all to check vacation/sick days. The only effective and operational system at the moment (May 2021) is the Lavi attendance-management system.

- 4.4.2 2 employees (1% of WZO's overall workforce) were credited for vacation days in excess of their allotted quota.

HR Division's response

With the HR director's approval, overtime can be credited through vacation hours.

- 4.4.3 21 employees (11% of WZO's overall workforce) had end-of-year vacation balances exceeding the maximum accrual limit set in the Jewish Agency's procedures, as adopted by WZO.

HR Division's response

Employees with end-of-year balances of more than 63 days have their over-limit days detracted from their quota, and their vacation balances revert to 63 days at the start of the following year. Professional staff who, for various reasons, cannot utilize their vacation days can request extensions. These extensions are approved by the HR director, and the employees then have up to 3 months in the subsequent year in which to utilize these days.

Recommendation

Make sure to comply with vacation procedure guidelines, and not allow employees to exceed their approved balance, including accruals of more than 63 vacation days and/or negative balances of more than 5 vacation days. Make sure that the payroll system automatically blocks excessive accrual of vacation days, without special approval. Furthermore, perform end-of-year checks to assure compliance.

HR Division's response

Pay slip data are correct as of the print-out date. If the data changes after that date, such changes only appear in our system, as the system and its data are dynamic while pay slips remain static.

- 4.4.4 2 employees (1% of WZO's overall workforce) with more than 1 year of seniority had a negative balance of more than 5 vacation days.

BI reports and Lavi attendance reports

4.5 The Office of the Comptroller compared vacation balances as presented in reports generated through the BI and Lavi attendance-logging systems. It is noted that the BI system interfaces directly with the payroll system when generating pay slips. Findings were as follows:

4.5.1 The Office of the Comptroller compared employee names signed on the attendance reports in the Lavi system, against employee names in the BI system. In July 2019, 5 employees (3% of the 182 employees in the report) appeared in the Lavi report but not in the BI report. In October 2019, there were 4 such employees, accounting for 2% of the 184 employees in the report.

HR Division's response

There were 3 employees who did not work in those months, and so did not appear in the BI reports. We are looking into the remaining names.

4.5.2 The Office of the Comptroller compared the employees in the BI system to those in the Lavi system. In July 2019, there were 16 employees in the BI report (8% of the 193 employees in the report) who did not appear in the Lavi report. In October 2019, there were 11 such employees, accounting for 6% of the 191 employees in the report.

HR Division's response

These employees are not currently with WZO.

Office of the Comptroller's reply

These employees appear in lists generated through the BI system. In this case, if your records show that they are not WZO employees, then the BI data should be updated.

4.5.3 In July 2019, 10 employees, accounting for 5% of the 182 employees in the report, had Lavi vacation balances exceeding their balance in the BI system and on their pay slips. In the October 2019 report, there were 8 such employees, accounting for 4% of the 184 employees in the report.

4.5.4 In July 2019, 69 employees, accounting for 38% of the 182 employees in the report, had Lavi vacation balances below their balance in the BI system and on their pay slips. It is noted that, for most employees, differences were minor. In October 2019,

there were 84 such employees, accounting for 46% of the 184 employees in the report.

- 4.5.5 In July 2019, vacation utilization data in the Lavi system differed from data in the BI system and pay slips for 61 employees, accounting for 34% of the 182 employees in the report. In October 2019, such differences were found for 67 employees, accounting for 36% of the 184 employees in the report.

Recommendations

- **Correct the BI system and align the data in the Lavi and BI systems. Alternatively, use another system instead of the BI system.**
- **Apply routine controls over data in the various systems, to make sure that data fully align.**

HR Division's response

The BI system is a strictly informative system managed by the Jewish Agency. Unfortunately, it does not accurately reflect data in the Lavi system, and so we do not use it as an administrative tool.

Accounting for workplace holidays (Passover and Sukkot)

The Office of the Comptroller was told that the workplace is closed during the Passover and Sukkot holidays. On these holidays, vacation days are accounted for as follows — the first two days are deducted from the employee's balance, and all other days are at the employer's expense.

Findings

- 4.6 The Office of the Comptroller received the vacation logs specifying the sampled employees' vacation dates. However, work attendance reports for the relevant months were not received. Furthermore, the vacation logs did not include the workplace holiday dates for the aforementioned holiday periods, and so the Office of the Comptroller could not check performance and conduct for these workplace holidays.

Recommendation

Vacation logs should include all days where employees were on vacation, including workplace holidays.

Mandatory vacation

General

The law requires all employees to go on at least seven days' consecutive leave a year. Employees may accrue unutilized leave from one year to the next, except for these seven days' leave which they are legally required to take each year.

Findings

- 4.7 The Office of the Comptroller checked compliance with the minimum requirement of 5 days' consecutive leave (plus the weekend, making for 7 days' consecutive leave, as required by law) in 2019. Compliance was checked against the vacation log and the attendance report. **Propriety was found.**

Vacation log

Statutory provision

Section 26 to the Annual Leave Law states that, "Employers must maintain a vacation log specifying for each employee such details as set forth in the regulations".

The vacation log must specify, for each employee entitled to annual leave or vacation redemption, the following information:

- Name, father's name, and surname;
- ID number;
- Start of work date;
- Vacation date;
- Vacation fee payments and payment dates;
- End of work date;
- Vacation redemption payments and payment dates.

Findings

- 4.8 The Office of the Comptroller received vacation logs for some of WZO's employees. Vacation logs comprise a table with all the data required by law. However, in practice, all of the vacation logs received did not include information on employees' fathers' names or vacation fee payments. Furthermore, as noted in Section 4.6 above, vacation logs did not include workplace holiday dates.

Recommendation

Record all data required by law in the vacation logs. Furthermore, vacation logs should include all days where employees were on vacation, including workplace holidays.

Sick Day Accrual, Utilization, and Redemption

Statutory framework

Sick pay rights aim to allow employees who are unfit for work due to illness, to continue receiving all or part of their pay during their illness period.

The main law governing employee rights to sick pay is the Sick Pay Law, 1976. This law is accompanied by several other laws such as the Sick Pay Law (Absence due to Child’s Illness), and the Sick Pay Law (Absence due to Parent’s Illness), which will be discussed in greater depth below.

Like the right to annual leave, employee rights to sick pay are unconditional, and sick pay is considered equivalent to wages for all intents and purposes. The Sick Pay Law seeks to guarantee income for employees who are unable to do their regular job due to illness. Section 1 of the Law defines illness as: “Temporary or permanent inability by the employee to perform their work due, based on medical findings, to impaired health”.

Right to sick pay

General

Section 4 of the Sick Pay Law specifies the entitlement period for sick pay as follows:

“The entitlement period for sick pay will not exceed a cumulative period of one and a half day for each full month of work by the employee with that same employer or in that same workplace.”

Sections 2(a) and 5 specify the percentage of sick pay from an employee’s salary as follows:

| | |
|--------------------------|-------------|
| For the 1st day | No sick pay |
| For the 2nd and 3rd days | 50% |
| For the 4th day onwards | 100% |

Under the Jewish Agency’s Sick Leave Procedure, as adopted by WZO, regular employees will receive full pay from their first day of sick leave, as a benefit.

Findings

- 4.9 The Office of the Comptroller examined pay for employees who utilized sick days, based on the salary costs report. Employees received full pay from their first day of sick leave, as per procedure. **Propriety was found.**

Sick day accrual and balances

General

Under the Jewish Agency's Sick Leave Procedure, adopted by WZO, regular employees may accrue 25 sick days a year. Furthermore, there is no limit on accruing sick days.

Findings

- 4.10 The Office of the Comptroller examined sick day accrual on employee pay slips, and compliance with procedural and statutory provisions.

4.10.1 One employee (3% of the sample size) worked 50% of full-time, and so may accrue 1.04 sick days a month. In practice, she accrued 1.25 sick days a month.

Recommendation

Make sure that employees accrue sick days as per their work agreements and as dictated by law. Perform monthly spot checks to assure proper sick day accrual.

4.10.2 One employee worked 75% of full time in July, and 50% of full time in October. However, her sick day accrual did not change accordingly.

Recommendation

Make sure that employees accrue sick days as per their work agreements and as dictated by law. Perform monthly spot checks to assure proper sick day accrual.

4.10.3 Sick day utilization on pay slips was checked against work attendance reports. Propriety was found except for one employee (3% of the sample size), whose attendance report for June 2019 indicated that she used 0.45 sick days due to her child's illness. In practice, utilization was not recorded on her pay slip.

HR Division's response

Sick days due to a child's illness are recorded in the Lavi system. Attached is the employee's sick day balance, showing the relevant utilization. WZO's HR is not responsible for payroll data.

Office of the Comptroller's reply

In addition to recording sick days due to a child's illness in internal WZO reports, such utilization must also be reflected on pay slips. The fact that "WZO is not responsible for payroll data" only increases the need for routine control over pay slips.

Recommendations

- **Make sure that employee pay slips record utilized sick days for the month.**
- **Apply routine controls and perform monthly spot checks of sick day utilization on pay slips.**

4.11 Sick day data on employee pay slips were compared with sick day balances in the BI system.

4.11.1 One employee (3% of the sample size) had mismatches in sick day utilization data between their July 2019 pay slip and their balances report.

HR Division's response

WZO's HR is not responsible for the payroll system and for payroll data sent from the Lavi system. The employee may have updated his report later.

Office of the Comptroller's reply

In addition to properly recording sick day utilization in internal WZO reports, such information must also be properly reflected on pay slips. Incorrect data on the employee's pay slip strengthens the need for routine controls over pay slips. Furthermore, employees should be prevented from updating reports after their approval.

Recommendation

As a control measure, make sure that sick day balance reports in the BI system match the data on attendance reports and pay slips.

- 4.11.2 4 employees (11% of the sample size) had mismatches between their sick day balance on their July 2019 pay slips and their balance report.

HR Division's response

WZO's HR is not responsible for the payroll system and for payroll data sent from the Lavi attendance management system. Pay slip data are accurate as of the print-out date. If the data change after this date, such change only appears in the Lavi and BI systems. System data are dynamic, while pay slips are not.

- 4.11.3 3 employees (9% of the sample size) had mismatches between their sick day balances on their October 2019 pay slips and their balance report.

BI and Lavi reports

- 4.12 Sick day balances recorded in the BI system reports were compared against the Lavi system reports.

- 4.12.1 For 3 employees (2% of all employees on the report), sick day balances for July 2019 in the Lavi system exceeded their balances in the BI system and on their pay slips. In October 2019, such mismatches were found for 3 employees (2% of all employees on the report).

HR Division's response

Data were changed retrospectively in the Lavi and BI systems. The finding does not constitute a flaw.

- 4.12.2 For 4 employees (2% of the 182 employees in the report), sick day balances for July 2019 in the Lavi system were lower than their balances in the BI system and on their pay slips. It is noted that such differences were minor. In October 2019, such mismatches were found for 5 employees (3% of the 184 employees in the report).

HR Division's response

WZO's HR is not responsible for the payroll system or for data sent from the Jewish Agency's HR Unit and its Lavi work attendance system. A BI system developer updated the system.

- 4.12.3 Sick day utilization was identical in both systems' reports in both of the sampled months. **Propriety was found.**

Recommendations

- **Update the BI system to align the data in the Lavi work attendance system and the BI system. Alternatively, use another system instead of the BI system.**
- **Apply routine controls and check that data from the Lavi system matches that from the BI system.**

HR Division's response

The BI system is used for informative purposes only by the Jewish Agency's management. Unfortunately, it does not accurately reflect the data from the Lavi attendance management system, and so we do not use it for either administrative or informative purposes.

** The audit did not include sick day utilization for a child's or parent's illness, as the organization's sick day reports did not distinguish between types of sick days.

5. Pension, Severance, and Study Fund Contributions

The Office of the Comptroller examined contributions to pension, severance, and study funds.

The audit examined compliance with the Expansion Order for Comprehensive Pension Insurance in Israel Law, 2011, and an additional expansion order from 2016 which increased contribution rates starting July 2016. The Office of the Comptroller also checked compliance with collective labor agreements applicable to the various employee groups and with personal employment contracts. In this case, compliance was checked with applicable contribution rates in excess of the statutory rates, and with contributions to study funds.

The Office of the Comptroller examined both employer and employee contributions to pension, severance, and study funds, in July and October 2019.

Contributions to pension and severance funds

Statutory framework

The Expansion Order for Comprehensive Pension Insurance in Israel was published on January 1, 2008. This was the first piece of legislation to formalize the right of all salaried employees in Israel to pension, and to obligate employers to contribute funds towards their employees' pension insurance based on specific brackets and up to the average salary in Israel.

If an employee had pension insurance coverage before starting work, they

would be entitled to pension insurance contributions after three months, applied retrospectively from their first day on the job. If an employee did not have pension insurance coverage before starting work, they would be entitled to pension insurance only 6 months after starting work. The 2008 expansion order set progressive contribution brackets for provident and pension funds from 2.5% to 15%.

In 2011, a new order was issued establishing another pension bracket with a contribution rate of 17.5%. In 2016, a further expansion order was signed, which increased contribution rates to pension insurance starting from the July 2016 paycheck. This order applies to all employers and employees in Israel.

Under this order, contributions to pension and severance funds in the audit period were as follows: employee's share — 6%; employer's share — 6.5%; severance component — 6% (8.33%).

According to WZO procedures and the circular of July 14, 2015, contributions to pension and severance funds are as follows: employee's share — 7%; employer's share — 7.5%; severance component — 8.33%; overall — 22.83%.

Findings

- 5.1 Pay slips were checked for contributions to pension funds, for both the employee's and employer's shares. **Propriety was found.**
- 5.2 Rank-rating employees were found to have an additional contribution to their provident funds of 5% for both the employee's and employer's share. This contribution matches the collective labor agreements. **Propriety was found.**
- 5.3 Employees working under the 2014 Agreement were found to have another employer-covered contribution of 0.67%. The agreement does not mention this contribution.
- 5.4 Pay slips were checked for severance component rates. **Propriety was found.**
- 5.5 The salary of record for pension contributions was checked for sample employees. Propriety was found, except for two employees (6% of the sample size) whose employment contracts entitle them to pension contributions based on their base salary plus their overtime component. In practice, contributions were calculated based on their base salaries only.

Recommendation

Make sure to calculate pension contributions based on the salary components prescribed for such calculations in the relevant month and as specified in their employment contracts.

HR Division's response

WZO does not have any employees receiving pension contributions for overtime, except for employees receiving a general payment for overtime, regardless of actual time worked. This was a localized mistake in these specific agreements. The agreements will be corrected.

Amount and timing of contributions to pension and severance funds

Under the Supervision of Financial Services Regulations (Provident Funds) (Contributions to Provident Funds), 2014, contributions must be transferred by the earlier of either 7 business days of the monthly salary payment, or by the 15th of the subsequent month.

Findings

- 5.6 The timing of contributions to pension insurance funds was checked, based on the payments report generated by the payroll software. Contributions were made on time. **Propriety was found.**

Contributions to study funds

General

A study fund is a savings vehicle for salaried employees, the self-employed, and members of communal kibbutz and moshav townships. Study funds were originally designed to allow employees to fund continuing education such as professional conferences and studies. However, today, study funds are usually used as a general medium-term savings option. They are the only non-long term savings channel which is tax-exempt following Israel's capital market tax reform, and subject to such caps as detailed below.

Findings

- 5.7 For six employees (17% of the sample size) contributions were made to study funds even though they are not mentioned in their employment contracts.

Recommendation

Check the employees' entitlement to study fund payments. If they are entitled to such payments, amend their contracts accordingly.

HR Division's response

These employees fall under the 2014 Agreement, which does not include study fund contributions. These employees were specifically approved a study fund contribution by the HR director.

- 5.8 Pay slips were checked for employer- and employee-side contributions to study funds. Rates were compliant. **Propriety was found.**
- 5.9 Contributions were compared to the rates prescribed under personal employment contracts (2.5% and 7.5%, employee and employer share, respectively). **Propriety was found.**

Cap limit for study fund contributions

In order to be eligible for tax benefits, employer contributions are limited to 7.5% of the gross salary, and no more than 3 times the employee's contribution, up to a maximum monthly salary of NIS 15,712 (as of 2019), or 10% of the salary (the lower of the two). Contributions can be made to study funds in excess of this limit, but additional contributions will not be tax-exempt.

Findings

- 5.10 Pay slips were checked for employee- and employer-side contributions to study funds. For employees whose contribution exceeded the limit (NIS 15,712, the Office of the Comptroller checked if a tax value was duly assigned. **Propriety was found.**

Amount and timing of study fund contributions

According to the Supervision of Financial Services Regulations (Provident Funds) (Payments to Provident Funds), 2014, contributions should be transferred to the funds within the earlier of either 7 business days from the monthly salary payment date, or the 15th of the subsequent month.

Findings

- 5.11 The timing of study fund contributions was checked according to the payments report generated by the payroll software. Contributions were made on time. **Propriety was found.**

6. Summary of Findings and Recommendations

| Topic | Finding | Recommendation | Response |
|--|---|----------------|--|
| 1.1 Routine controls on payroll | The Office of the Comptroller requested WZO's agreement with the Jewish Agency regulating the calculation and issue of pay slips for WZO employees. | – | <p>Such an agreement is not found at HR. This was an organizational-level decision, and there are no records of it at HR.</p> <p><u>WZO's Finance Department's response</u> — The arrangement and understandings concerning WZO's receipt of payroll services from the Jewish Agency have been in effect for decades. The arrangement was laid out in 1997, during the restructuring of WZO's and the Jewish Agency's operations. The arrangement was subsequently re-affirmed under the 2009 agreement with the Jewish Agency. In recent months, WZO and the Jewish Agency are discussing and reviewing the various mutual services rendered by each organization, including payroll operations.</p> |

| Topic | Finding | Recommendation | Response |
|-------|---|--|--|
| 1.2 | <p>As payroll operations are outsourced, it is extremely difficult for WZO's HR Division to apply effective control over pay slips, payroll calculations, and the accuracy of WZO's payroll data. The Office of the Comptroller was told that, in effect, no control is applied over pay slips. This means that errors might occur in employee pay slips. These would not necessarily be due to miscalculation; they could even be caused by mismatches between the data recorded by the Jewish Agency for WZO's staff, and the terms agreed upon with the employees.</p> | <ul style="list-style-type: none"> • Consider alternatives for processing WZO's payroll, in light of cost/benefit considerations <ul style="list-style-type: none"> — In signing an agreement with the Jewish Agency for services rendered by the Payroll Division, allocate a dedicated staff member to handle all requests by WZO's HR Division. Alternatively, allocate a dedicated WZO employee, who would sit with the Jewish Agency's Payroll Division and handle all aspects of WZO's payroll. • Apply <u>adequate control</u> through additional personnel in the HR Division, over WZO's pay slips. These controls should verify that employees receive their due pay under their personal contracts, collective labor agreements, applicable labor laws in Israel, and according to periodic changes due to pay raises, etc. • WZO should perform a thorough internal audit through a Ministry of Labor-certified salary inspector. Such internal audit should identify, and if necessary — correct, any flaws in employee salaries. Following this thorough audit, WZO could start building an adequate internal control system over its payroll operations, being confident in its starting position. | <p>The Payroll Division receives staff employment data (contracts), and pays salaries accordingly.</p> |

| Topic | Finding | Recommendation | Response |
|-------|---|--|---|
| 1.4 | <p>Much of WZO's employee file information is kept in hard-copy. Some of the older employees' files are kept in the archives, and in any case these materials have not been scanned or digitized. This makes it harder and extremely time-consuming to locate documents or information.</p> | <p>Study the viability of scanning and digitizing the personal files of WZO's employees, to streamline HR workflows.</p> | <p>In 2018, the Executive decided to streamline WZO's HR workflows, and allocated a development budget. This is a lengthy and thorough process which is being carried out with Tech Unity. As part of this streamlining initiative, and subject to the work plan with Tech Unity, about a month ago an option was rolled out in the HR system to file documents in digital employee files, and this has become our standard practice.</p> |

| Topic | Finding | Recommendation | Response |
|--|---|---|---|
| 1.5 Monthly control over actual salary payments | The Office of the Comptroller examined actual payments to WZO employees. Upon inquiry with WZO’s Finance Department and the Jewish Agency’s Payroll Division, the Office of the Comptroller was told that salaries are paid by electronic transfer from WZO’s bank account to WZO’s employees. The electronic transfer order is generated automatically by the MALAM Payroll software, and the Jewish Agency’s Payroll staff approve the amounts. After studying the whole process end-to-end, the Office of the Comptroller found that, in practice, not a single WZO employee is involved in the actual payment process, and that funds are issued from WZO’s bank account without review or approval. Although the accuracy of the numbers is in no way being questioned, the Office of the Comptroller believes that WZO’s Finance Department should at least check the amount being paid from WZO’s account, and compare it with the payroll entry for WZO’s workforce. | WZO’s Finance Department should perform monthly checks on the amount being paid as salaries and the amount of the social benefit contributions transferred to the insurance companies through WZO’s bank account. The Finance Department should compare these amounts with the salaries being paid to WZO’s workforce that month. | Each month, the Finance Department checks fund transfers. See the Deputy Director of the Finance Dept.’s response: “Recently, for about the past year, the Office of the Comptroller’s recommendation has been routinely implemented as follows — at the end of each salary payment month, a WZO Finance Dept. accountant receives from the Payroll Division the salary payment order, including the various recipients for the monthly salary payments. As part of her controls, the accountant checks all salary payments against transactions in the organization’s bank accounts, and finalizes the entries for all salary/payment recipients in the organization’s books following such account reconciliation. |
| 2.4.1 Vacation and sick days for senior staff | Since these are positions of trust and employees do not need to punch their card twice a day, attendance reports were compiled manually with identical hours across all days. It is thus not possible to know if vacation and/or sick day utilization was correctly recorded in these employees’ pay slips. | — | Department directors are not required to log their work attendance due to the status and nature of their position. |

| Topic | Finding | Recommendation | Response |
|---|---|--|--|
| 2.4.5 Conva- lescence fees for senior staff | Employees were found not to have received convalescence pay in 2019. The appointment letters did not specify whether employees are entitled to convalescence pay, or if their salaries include the statutory add-ons, such as convalescence pay. | Consult WZO's legal counsel concerning convalescence pay to executives, and make sure that their appointment letters provide for these payments as required. | Department directors/Executive members are 'elected officials' and not considered 'employees'. The matter will be studied with legal counsel. |
| 3.4 Salary linkage to the CPI | 11 employees, or 52% of the sampled employees with linkage components, had their pay linked to the CPI in 2019 even though such linkage was not referenced in their personal contracts | Make sure that contracts for new employees link their base salaries to the known CPI, if such linkage applies. Perform a general check of all contracts for employees with CPI-linked salaries. Make sure that their contracts include linkage clauses, and amend the contracts if necessary. | According to the 2014 collective labor agreement, it is not mandatory to link employee salaries to the CPI. Therefore, linkage to the CPI is not included as a mandatory clause in employee contracts, to allow WZO greater flexibility in this matter. |
| 3.11 Wage Protection Law | Pay slip components were checked for compliance. WZO's pay slips did not note the actual number of work days and work hours, but did note that employees have direct access to their attendance report, which constitutes an integral part of the pay slip. | Consult WZO's legal counsel concerning the detailed presentation of actual work days and hours on pay slips, as required by law, and whether attaching the work attendance report meets the statutory requirements. | <u>Jewish Agency Pension and Payroll Division's response</u> Indeed, the Wage Protection Law requires that employers note actual work days and work hours for a given month of pay. However, this is not possible as salaries are paid out on the 1st of each month. Since the salaries are calculated before this date, the relevant work month is still ongoing and the attendance reports are not yet finalized. It is therefore not practically possible to apply these statutory provisions. We are following the common practice applied for hundreds of thousands of civil servants receiving their pay on the 1st of each month. |

| Topic | Finding | Recommendation | Response |
|------------------------------|--|--|--|
| 3.16 Payroll tax payments | In examining payroll tax payments, differences were found for 2 employees (6% of the sample size) in October 2019. The differences for these employees were due to non-payment of payroll taxes on the 'convalescence differences' component. | <ul style="list-style-type: none"> • Payroll tax payments should account for the employees' total salary, including differential components. • Work with the payroll software to correct the payroll tax payments for convalescence differences paid to all employees. | In the past, there was indeed a problem with payroll tax not being paid for item 1262 (convalescence differences). This bug has been identified and was fixed in 2020, so that today payroll tax is paid for this item as well. |
| 3.17 Attendance reports | <p>Under the Jewish Agency's procedure, adopted by WZO, employees may only make 3 corrections a month to their attendance reports. The Office of the Comptroller was told that WZO prefers that only 2 corrections a month be approved. It is noted that the Office of the Comptroller received final attendance reports, after correction. It was thus not possible to check whether employees entered data manually. <u>It is therefore not possible to check compliance with the procedure.</u></p> <p>The Office of the Comptroller was told that managers can approve 5 changes in their employees' attendance reports. The system does not block this option, even though the Jewish Agency's procedures, as adopted by WZO, only allow for 3 changes.</p> | • Draft an internal WZO procedure allowing employees 2–4 changes per month to system-logged attendance entries. Assure compliance with the permitted number of manual changes through either a system block or an alert to HR. | It is not possible to block this option in the system, as employees can manually update their reports as needed. As aforesaid, the Jewish Agency has an attendance reporting procedure which WZO has adopted, and employees are refreshed on this procedure once a year or as necessary. |

| Topic | Finding | Recommendation | Response |
|--|---|---|---|
| 3.17.3 Manual changes to attendance reports | 24 reports (34% of the 70 sampled reports) from 14 employees (40% of the sampled employees) where <u>all hours were rounded off</u> , for both start and end times. It is not possible to know whether these were manual entries, as the Office of the Comptroller received the finalized reports, including any corrections. It is further noted that 10 of these employees (29% of the sample size) hold positions of trust, and a further 2 employees are not subject to the Work and Rest Hours Law. Therefore, in effect, there were <u>only 2 employees</u> where all hours were rounded off. | <ul style="list-style-type: none"> • Refresh employees on procedures requiring them to clock in and out of work each day. HR should perform spot checks of attendance reporting each month. • WZO should apply internal controls over managerial approval of their employees' work hours, and check instances where managers automatically approve manually-entered attendance times. | <ul style="list-style-type: none"> • The 2 employees are field staff, who enter their hours manually. • Employees are refreshed on procedures at the start of each year through letters, and whenever HR feels that reporting practices are becoming lax. Spot checks are periodically applied. |
| 3.18.1 Overtime | The attendance report for one employee stated that she had an approved overtime quota of 30 hours. In practice, the employee logged 24 hours of overtime, <u>but was not paid for these hours</u> . Her employment contract did not refer to overtime, so it is not clear why her attendance report includes approved overtime. | Check why they employee's attendance report states that she is eligible for paid overtime. | If a manager does not approve an attendance report for whatever reason, overtime is not passed on to payroll, and this was the case here. The employee was paid for all approved overtime in the subsequent months. |
| 3.18.3 | 11 employees (31% of the sample size) exceeded their approved overtime quota and did not receive pay. Some worked numerous hours without pay. | Make sure that employees do not exceed their approved overtime quotas. Furthermore, consider delegating responsibilities and tasks to reduce workload for employees who regularly exceed their approved overtime quotas. | Employees have caps on overtime, which limit overtime hours. Employees either exceeded their caps and were therefore not paid, or their pay already includes overtime. |

| Topic | Finding | Recommendation | Response |
|--------------------------------|---|--|---|
| 3.19 Unpermitted work hours | 2 employees (6% of the sample size) had worked more than 12 hours a day. Although these employees are paid for overtime, their actual work hours exceeded the work hours for which they were paid. | - | Employees are aware of the overtime procedure. Once in a while, employees are refreshed on this procedure. Furthermore, this year we have launched an organizational portal with all the organization's procedures. |
| 3.21 No fake employees | One employee was found in the Payroll Department's lists who was listed as working in a WZO department, even though the department director stated that the employee had left several years ago. Upon inquiry with the Payroll Department, the Office of the Comptroller was told that the employee had been listed erroneously, and that she had not been issued a pay slip since her departure in September 2017. | As part of WZO's routine controls during employee offboarding, WZO should make sure that they are removed from the existing employee rosters in the various systems, including the organizational email. | We were asked to issue a WZO staff report through the payroll system. Due to an erroneous query in preparing the requested report, an inactive employee found its way into the list prepared specifically for the Office of the Comptroller. This does not mean that the employee was active in the payroll system and/or had received undue pay. We do not believe there is any flaw requiring correction in this case. |

| Topic | Finding | Recommendation | Response |
|--|--|---|---|
| 4.1.1 Vacation day accrual | For one employee (3% of the sample) actual vacation accrual exceeded her contractual terms and seniority. | <ul style="list-style-type: none"> • Make sure that vacation days are utilized and accrued according to employee contracts and seniority, subject to applicable collective labor agreements and WZO procedures, and based on work attendance reports. • Perform monthly spot checks of pay slips to make sure that vacation accrual matches employee contracts. | - |
| 4.1.2 | For 2 employees (6% of the sample) actual vacation accrual was below their contractual terms and seniority. | | - |
| 4.1.3 | For one employee (3% of the sample) vacation accrual grew by 22.5 days between July 2019 and October 2019, while her monthly accrual only totals 2.08 days. In other words, under her allotted monthly accrual, she should have accrued 6.24 days in that period, but instead accrued 22.5 days, exceeding her allotment by 16.26 days. | | <p>According to the data in the Lavi system, the balances are in line with her seniority. In light of this finding, the HR Division will request that the Lavi and BI systems be aligned.</p> <p><u>Office of the Comptroller's reply</u></p> <p>This problem was due to the data in the Lavi system differing from the data in the BI system, and so from the actual pay slips. The vacation log for the employee from the Lavi system did not match the data obtained from the BI system reports.</p> |
| 4.1.4 | One employee (3% of the sample) worked a 75% position in July, and a 50% position in October. However, her vacation accrual did not change accordingly. | | |
| 4.2.1 Vacation utilization on pay slips | For 3 employees (9% of the sample) partial vacation days were deducted against hours of absence in July 2019. This utilization was based on actual hours for a given day, and not against a standard 8-hour work day. For example, if an employee was absent for 1 hour and 55 minutes, he was deducted 0.19 days, instead of 0.24 days. | | Perform monthly spot checks of pay slips to make sure that vacation accrual matches employee contracts. |

| Topic | Finding | Recommendation | Response |
|---|--|---|--|
| 4.2.2 | For one employee (3% of the sample), 5 days of leave were deducted in her July 2019 pay slip, even though attendance reports show that she only utilized 4 days. | Perform monthly spot checks of pay slips to make sure that vacation accrual matches employee contracts. | The above employee was late in submitting her illness documents. Her vacation days were switched for sick days. |
| 4.3 Vacation data on pay slips and reports | There were mismatches when comparing vacation day balances on employee pay slips and data from the BI vacation balance reports. | Apply controls to verify the match between vacation balance reports and vacation accrual and utilization as presented on pay slips. | WZO's HR Division is not responsible for the payroll system and receives the data from the Jewish Agency's HR function, who manages the Lavi attendance system. A BI system developer has updated the system. In light of the findings, the HR Division will perform periodic data checks and request alignments when necessary. |
| 4.4.1 End-of-year vacation balance report | For 9 employees (5% of all WZO staff), there was a mismatch between the cumulative end-of-year vacation balance and the independent calculation based on start-of-year balances and ongoing accrual and utilization. | – | Vacation balances as of December 2019 match the balances for January 2020. The Office of the Comptroller received vacation logs from the Lavi system and vacation balances. The BI system is not an operational system, but only provides information. At the moment, the Jewish Agency is making repairs and updates to the system, and we do not use it at all to check vacation/sick days. The only effective and operational system at the moment (May 2021) is the Lavi attendance-management system. |
| 4.4.2 | 2 employees (1% of WZO's overall workforce) were credited for vacation days in excess of their allotted quota | – | With the HR Director's approval, overtime can be credited through vacation hours. |

| Topic | Finding | Recommendation | Response |
|---|--|---|---|
| 4.4.3 Exceeding approved limit for end-of-year vacation balances | 21 employees (11% of WZO's overall workforce) had end-of-year vacation balances exceeding the maximum accrual limit set in the Jewish Agency's procedures, as adopted by WZO | Make sure to comply with vacation procedure guidelines, and not allow employees to exceed their approved balance, including accruals of more than 63 vacation days and/or negative balances of more than 5 vacation days. Make sure that the payroll system automatically block excessive accrual of vacation days, without special approval. Furthermore, perform end-of-year checks to assure compliance. | Employees with end-of-year balances of more than 63 days have their over-limit days detracted from their quota, and their vacation balances revert to 63 days at the start of the following year. Professional staff who, for various reasons, cannot utilize their vacation days can request extensions. These extensions are approved by the HR director, and the employees then have up to 3 months in the subsequent year in which to utilize these days. |
| 4.4.4 | 2 employees (1% of WZO's overall workforce) with more than 1 year of seniority had a negative balance of more than 5 vacation days. | | Veteran employees are allowed to accrue negative balances of up to 3 days. However, HR makes sure to charge negative balances each month. |
| 4.5 Comparison of BI and Lavi reports | There were mismatches when comparing vacation balances in BI system reports (BI is a work attendance reports which interfaces directly with the payroll system when preparing pay slips) and in Lavi system reports (Lavi is WZO's internal work attendance management system). | <ul style="list-style-type: none"> • Correct the BI system and align the data in the Lavi and BI systems. Alternatively, use another system instead of the BI system. • Apply routine controls over data in the various systems, to make sure that data fully align. | <ul style="list-style-type: none"> • The BI system is a strictly informative system managed by the Jewish Agency. Unfortunately, it does not accurately reflect data in the Lavi system, and so we do not use it as an administrative or informative tool. |
| 4.6 Accounting for workplace holidays | The Office of the Comptroller received the vacation logs specifying the sampled employees' vacation dates. However, work attendance reports for the relevant months were not received. Furthermore, the vacation logs did not include the workplace holiday dates for the aforementioned holiday periods, and so the Office of the Comptroller could not check performance and conduct for these workplace holidays. | Vacation logs should include all days where employees were on vacation, including workplace holidays. | |

| Topic | Finding | Recommendation | Response |
|--------------------------------|---|---|--|
| 4.8 Vacation logs | Vacation logs comprise a table with all the data required by law. However, in practice, none of the vacation logs received included information on employees' fathers' names or vacation fee payments. Furthermore, as noted in Section 4.6 above, vacation logs did not include workplace holiday dates. | Record all data required by law in the vacation logs. Furthermore, vacation logs should include all days where employees were on vacation, including workplace holidays. | – |
| 4.10.1 Sick day accrual | One employee (3% of the sample size) worked 50% of full-time, and so may accrue 1.04 sick days a month. In practice, she accrued 1.25 sick days a month. | Make sure that employees accrue sick days as per their work agreements and as dictated by law. Perform monthly spot checks to assure proper sick day accrual. | |
| 4.10.2 | One employee worked 75% of full time in July, and 50% of full time in October. However, her sick day accrual did not change accordingly. | Make sure that employees accrue sick days as per their work agreements and as dictated by law. Perform monthly spot checks to assure proper sick day accrual. | |
| 4.10.3 Sick day utilization | Sick day utilization on pay slips was checked against work attendance reports. Propriety was found except for one employee (3% of the sample size), whose attendance report for June 2019 indicated that she used 0.45 sick days due to her child's illness. In practice, utilization was not recorded on her pay slip. | Make sure that employee pay slips record <u>utilized</u> sick days for the month. Apply routine controls and perform monthly spot checks of sick day utilization on pay slips. | Sick days due to a child's illness are recorded in the Lavi system. Attached is the employee's sick day balance, showing the relevant utilization. WZO's HR is not responsible for payroll data. <u>Office of the Comptroller's reply</u> In addition to recording sick days due to a child's illness in internal WZO reports, such utilization must also be reflected on pay slips. The fact that "WZO is not responsible for payroll data" only increases the need for routine control over pay slips. |

| Topic | Finding | Recommendation | Response |
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| 4.11 Comparison of BI reports and pay slips | One employee (3% of the sample size) had mismatches in sick day utilization data between their July 2019 pay slip and their balances report. | As a control measure, make sure that sick day balance reports in the BI system match the data on attendance reports and pay slips. | <p>WZO's HR is not responsible for the payroll system and for payroll data sent from the Lavi system. The employee may have updated his report later.</p> <p><u>Office of the Comptroller's reply</u></p> <p>In addition to properly recording sick day utilization in internal WZO reports, such information must also be properly reflected on pay slips. Incorrect data on the employee's pay slip strengthens the need for routine controls over pay slips. Furthermore, employees should be prevented from updating reports after their approval.</p> |
| 4.12 Comparison of BI and Lavi reports | Mismatches were found in sick day balances between the BI reports and the Lavi reports. | <ul style="list-style-type: none"> • Update the BI system to align the data in the Lavi work attendance system and the BI system. Alternatively, use another system instead of the BI system. • Apply routine controls and check that data from the Lavi system matches that from the BI system. | <ul style="list-style-type: none"> • Data were changed retrospectively in the Lavi and BI systems. The finding does not constitute a flaw. • WZO's HR is not responsible for the payroll system or for data sent from the Jewish Agency's HR Unit and its Lavi work attendance system. A BI system developer updated the system. • The BI system is used for informative purposes only by the Jewish Agency's management. Unfortunately, it does not accurately reflect the data from the Lavi attendance management system, and so we do not use it for either administrative or informative purposes. |

| Topic | Finding | Recommendation | Response |
|---|--|--|---|
| 5.5 Salary of record for pension contributions | Two employees (6% of the sample size) had employment contracts entitling them to pension contributions based on their base salary plus their overtime component. In practice, contributions were calculated based on their base salaries only. | <ul style="list-style-type: none"> • Make sure to calculate pension contributions <u>based on the salary components</u> prescribed for such calculations in the relevant month and as specified in their employment contracts . | WZO does not have any employees receiving pension contributions for overtime, except for employees receiving a general payment for overtime, regardless of actual time worked. This was a localized mistake in these specific agreements. The agreements will be corrected. |
| 5.7 Study fund contributions | For six employees (17% of the sample size) contributions were made to study funds even though they are not mentioned in their employment contracts. | Check the employees' entitlement to study fund payments. If they are entitled to such payments, amend their contracts accordingly. | These employees fall under the 2014 Agreement, which does not include study fund contributions. These employees were specifically approved a study fund contribution by the HR director. |

June 2021

**Response of the Chairman of the Zionist Executive
to the Comptroller's Report on
Payroll Operations in the World Zionist Organization**

In accordance with Section 18B to the Statutes for the Comptroller and the Control Office of the World Zionist Organization, the Chairman of the Zionist Executive is required to submit his response to the Comptroller's reports, the following in my response to the report on Payroll Operations in the World Zionist Organization.

The human resource, our staff, is the most crucial of our organization's resources. The report sampled 35 out of 200 employees, and reviewed the operations of the organization's administrative departments — namely, WZO's Finance Department and Human Resources Department. Naturally, and as part of WZO's past 'resource pooling' efforts, workflows involving the Jewish Agency's payroll staff were also audited.

The audit demonstrates that supervision, management, and controls are applied at each junction in the workflow and in all aspects concerning statutory, contractual or procedural compliance.

Of particular note was the Office of the Comptroller's finding of the desire to learn from the process and agreement to share all information available to the audited staff.

This is also the place to commend the departmental staff, past and present, who work tirelessly, with meticulous attention to detail and incomparable professionalism to protect the organization, and pay adequate compensation to our employees.

In consider the audit's findings of extreme importance, and am glad that work to correct flaws began even before the final report was submitted for response.

On behalf of the World Zionist Organization, and on behalf of our staff, I thank you for the audit.

(-) Yaakov Hagoel
Jerusalem, January 2022

Shlichim — Employment Terms

Shlichim — Employment Terms

1. Objectives

To examine employment terms for long-term shlichim.

2. Method and Scope

2.1 The audit took place as part of the Office of the Comptroller’s work plan, in the second half of 2020 and in early 2021. Data covered the period of 2018–2020.

2.2 The audit focused on the following

- a. Pay slips
- b. Agreements between shlichim and the World Zionist Organization
- c. End of employment
- d. Vacation pay
- e. Verification reports

2.3 The audit included meetings with the following WZO and Jewish Agency staff:

- a. Director, WZO Zionist Shlichut Unit
- b. Accountant, WZO Finance Unit
- c. Former Acting Director, Jewish Agency Unit for Shlichim and Israel Fellows
- d. Shlichut placement and service terms supervisor, Jewish Agency Shlichim and Israel Fellows Unit
- e. Director, Overseas Finance Division in the Jewish Agency’s Finance Unit
- f. Attorney, Jewish Agency Legal Department

Office of the Comptroller comment — WZO’s Zionist Shlichut Unit employs shlichim around the world on the Jewish Agency’s behalf. WZO also employs shlichim to serve as its global representatives. The Office of the Comptroller examined the employment terms for **all** long-term shlichim. The audit yielded

two reports — one for the Jewish Agency as professional supervisor for the shlichim, and one for WZO as the employer.

3. General

3.1 **The World Zionist Organization and the Jewish Agency**

The World Zionist Organization (“WZO”) and the Jewish Agency have a long-standing collaboration in their Zionist shlichut operations. Together, they have determined to strengthen ties between Israel and the Diaspora, including strengthening Jewish identity through a global network of shlichim.

Starting 2009, the Jewish Agency’s and WZO’s operations were split, but shlichim and Zionist shlichut operations remain shared by both organizations.

Most shlichim (173) handled by the Jewish Agency’s Shlichim and Israel Fellows Unit are employed by WZO. They are an integral part of the Jewish Agency’s operations abroad. There are also a few (9) shlichim who serve as WZO representatives in Buenos Aires, Warsaw, Paris, London, and the US. Their shlichut is devoted entirely to WZO’s core activities around the world.

It is emphasized that WZO and the Jewish Agency work together to decide on the shlichut location, shlichut duration, and the shlichim’s duties. Since WZO bears the cost of the shlichim’s employment, these costs are reconciled as part of the general accounts reconciliation between the two organizations.

The Jewish Agency’s Shlichut Unit and WZO’s Zionist Shlichut Unit also oversee the placement of over 2,000 shlichim each year to overseas summer camps, as well as placements with Jewish communities, youth movements, college campuses, *shnat sherut* shlichim, and placements as teachers in overseas schools.

The shlichut network is based on two main pillars:

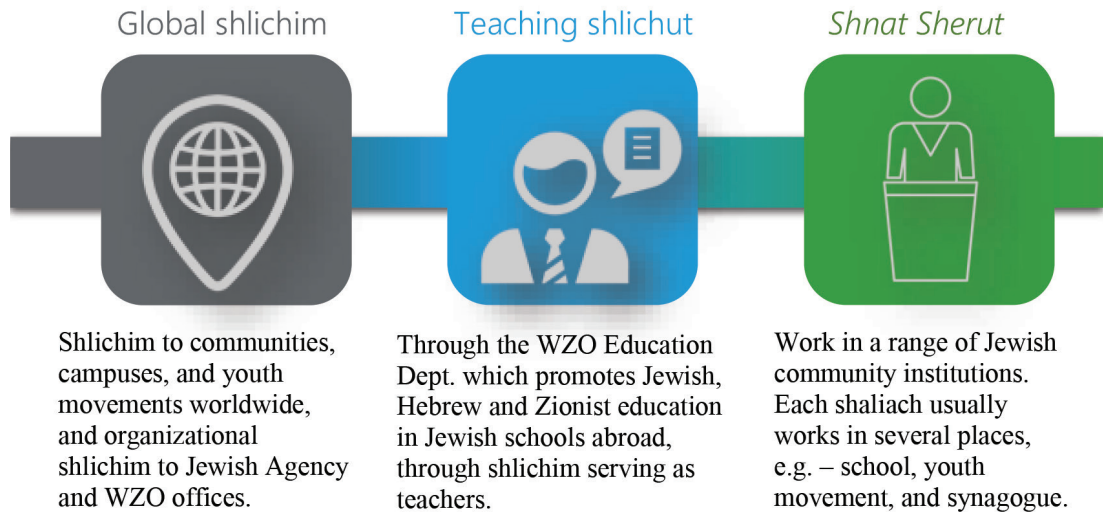


Short-term shlichut.

Long-term shlichut

The Jewish Agency's three main tracks for long-term *shlichut* are as follows:

The Jewish Agency's three main tracks for long-term shlichut are as follows:



Under the long-term shlichut tracks, the Office of the Comptroller examined shlichim to communities, movements, organizations, and college campuses. Placements as teachers and *shnat sherut* were not examined.

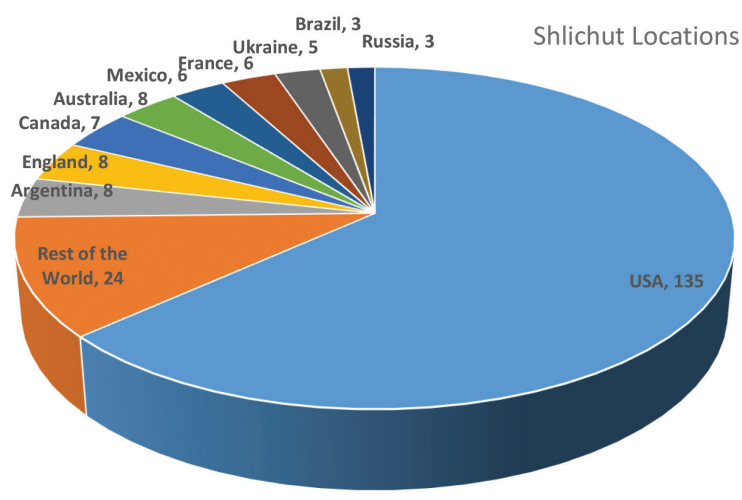
The examined shlichut types were as follows:



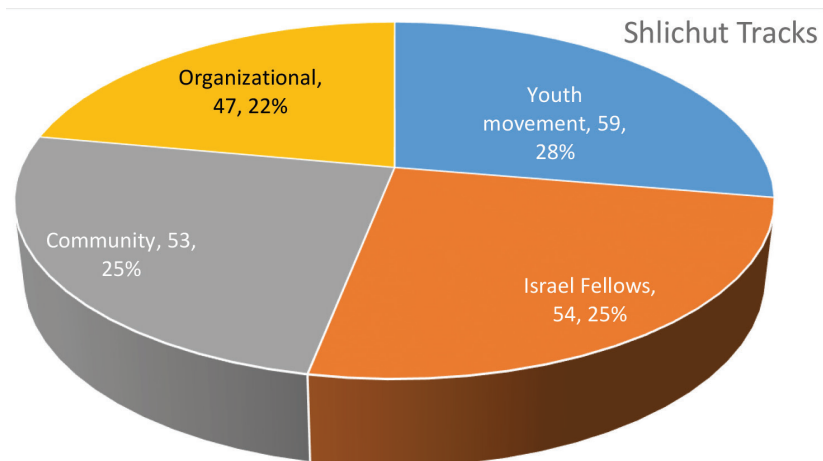
3.2 Shlichut locations and tracks

Long-term Zionist shlichut can be found in 180 different locations worldwide: North America, Melbourne, Europe (Paris, Vienna, London, etc.), South Africa, Canada, and Latin America. Israel Fellow shlichut to college campuses usually takes place in the US, with several additional locations in Canada, Europe, and Latin America.

Breakdown of long-term shlichut by geographic location (countries with the largest number of shlichim), as of August 2020, was as follows:



Long-term shlichim, by shlichut track, as of August 2020:



3.3 Agreements

Before embarking on their shlichut, shlichim sign an agreement with their employer (WZO). The parties are bound to the terms of the agreement

and WZO's shlichut code which constitutes an integral part of such agreements (the agreement and the shlichut code jointly — “the Shlichut Agreement” or “the Agreement”).

The main parts of the agreement are:

- Agreements are usually for a set period of one to two years. At the end of this period, the Agreement expires, without need for prior notice.
- All Agreements state that as “the position requires a special measure of personal trust and as WZO cannot supervise and monitor work hours”, the provisions of the Work and Rest Hours Law do not apply to the employee.
- The Agreements regulate costs and expenses covered by the employer for flights from and to Israel, for the shaliach and their family, including luggage. Agreements also provide for tuition fees for the shaliach's children (kindergarten and schools).
- Agreements specify the shaliach's duties toward the employer, both during and after the shlichut.
- Agreements regulate such issues as insurance, social benefit contributions, and pension contributions, which are usually attached as an appendix to the Agreement.
- Agreements state that they are subject to the laws of Israel.
- Agreements include a conflict of interest declaration, and a declaration of a clean criminal record for the five years prior to the Agreement.

Chapter 1

Findings and Recommendations

4. Shlichut Agreement

Employee Notice Law

4.1 The Employee Notice Law (Employment Terms), 2002, states that employers must notify employees of their employment terms within 30 days of the start of their employment. This information includes:

- (1) The employer's identity and the employee's identity.
- (2) Start of work date. If the employment contract is for a set period — the employer will note that fact.
- (3) General job description.

- (4) The name or job description of the employee's direct supervisor.
- (5) All payments made to the employee as wages and the timing of such payments. However, if an employee's wages are based on their rating under a collective labor agreement — the employee's rating and rank.
- (6) The duration of an ordinary work day or ordinary work week for the employee, as applicable.
- (7) The employee's weekly day of rest.
- (8) Types of employee and employer payments for the employee's social benefits, and the organizations to which the employer actually transfers such payments. However, if an employer begins to actually transfer the payments after notice is served, he will provide the employee with this information in a separate notice.

Section 2 to the law states that employers must also notify employees of any change in the above employment terms.

Findings

- 4.2 The Office of the Comptroller examined compliance with the above law. Compliance was found, except in indicating the shlichim's direct supervisors. The salary agreements sampled by the Office of the Comptroller identified the director of WZO's Zionist Shlichut Unit as the shlichim's direct supervisor, even though she is not.

The Office of the Comptroller notes that the direct supervisor is usually a shaliach serving as regional director, another organizational shaliach, or the Deputy Director General of the Jewish Agency and the Director of the Aliyah and Klitah Unit.

Recommendation

The shlichim's employment contract with WZO should identify the person actually serving as each shaliach's direct supervisor.

Response of WZO's Zionist Shlichut Unit and the Jewish Agency's Shlichut Unit

We will work to include the regional director's name as direct supervisor in each shaliach's Shlichut Agreement.

5. Salaries

General

All shlichim are Israeli employees, whose salaries and employment terms are set according to the applicable laws in Israel. Salaries are presented through pay slips in Israel, and shlichim may specify where they would like their salaries deposited (in Israel, in their shlichut destination abroad, or a combination of both).

5.1 The Income Tax Rules (Taxable Income Abroad), 1982, establish rules for salaries paid to employees working abroad. These include:

- “The following expenses may be deducted from an overseas employee’s salary provided that documents or receipts have been submitted to confirm each expense to the tax assessor’s satisfaction”:
 1. Housing costs for the employee, their partner, or children living with the employee.
 2. Tuition fees for the shaliach’s children who are below 19 years of age.
 3. Medical expenses

5.2 Salary components are identical for shlichim working for the Jewish Agency and for WZO. Components are based on the shlichut track and specific employment agreement, and include the following main items:

- **Base salary** — All regional directors¹ receive a base salary of USD 6,000 a month as compensation for their routine duties. For other shlichim, their base salary varies with their shlichut track and agreement terms.
- **Rent** — In general, shlichim are reimbursed for rent costs in their destination country. In some exceptional cases, shlichim are not entitled to rent costs due to the nature of their employment or if these costs are covered by local partners of the overseas organizations, such as youth movements, Jewish communities, etc. As indicated by the Income Tax Rules for taxable wages abroad, reimbursement for housing costs is deductible from the shlichim’s taxable income. In other words, taxes are not deducted from a shaliach’s salary for these amounts.
- **Car expenses** — Some shlichim receive a benefit of USD 850 a month for car-related expenses incurred during their shlichut. In

1 Shlichim who manage the Jewish Agency’s overseas offices, WZO’s overseas operations, or other senior shlichim.

contrast to rent costs, the Income Tax Regulations do not allow deduction of this component, and so a tax value is attributed to this benefit.

In this regard, Shlichut Agreements note that taxes payable on this component are covered by the organization. i.e. — already reflected in the pay slip.² Thus, shlichim receive USD 850, **net**, each month.

- **Additional components** — Shlichim are entitled to various additional payments in their pay slips, based on the nature and type of their shlichut. For example — clothing allowance in cold cities, ‘challenging conditions bonus’ in eligible cities, holiday gifts. Shlichim are also entitled to tuition fees, with the regional office paying these costs directly to the relevant educational institutions. These costs are thus not included in the shlichim’s pay slips, as no tax value must be attributed to them under the Income Tax Rules.

Findings

5.3 The Office of the Comptroller compared the shlichim’s salaries as specified in their employment agreement, with their pay slips. A sample of 31 shlichim was examined (JAFI shlichim, as well as WZO representatives).

In most cases, contractual amounts fully matched shlichim pay slips, except for two cases with immaterial mismatches.

Furthermore, in three cases, employment agreements had been approved by the Unit headquarters, but there were no records of a valid agreement.

Recommendations

- A. **Make sure to document shlichut extensions through contract appendices.**
- B. **Make sure that actual salary payments match the contractual employment terms.**

Response of WZO’s Zionist Shlichut Unit and the Jewish Agency’s Shlichut Unit

In the past year, shlichut extensions or terminations were done directly through the ERP system, and the appendix was saved directly to the shaliach’s file.

2 Through an additional salary component which covers income tax and National Insurance payments on a given base salary component, allowing an employee to receive their base salary component in net terms, after taxes and National Insurance fees. The additional amount is based on the employee’s marginal tax rate and National Insurance fees.

6. Vacation and Sick Days

6.1 The Annual Leave Law, 1951 (“Annual Leave Law”) states:

Section 2 — Right to an Annual Leave

“Every employee is entitled to an annual leave which will be given in accordance with the provisions of this Law”.

Section 7A — Accrual of Leave Days

“Leave cannot be accrued; however, with the employers consent an employee may utilize at least seven days of leave and add the balance of their leave in the subsequent two years of work”.

If an employee accrues vacation days, they are liable to lose the right they had to such vacation, had they taken it at the proper time. The logic behind this rule is to encourage employees to utilize their annual leave, so that they can have time off and avoid burnout.

6.2 For an employer to be able to cancel an employee’s accrued vacation days, they must demonstrate that the employee was given a chance to go on vacation, and that the employee either refused to do so or such non-utilization was caused by the employee.

It is emphasized that the obligation to send employees on vacation lies with the employer, and so employers cannot prevent an employee from exercising this right. Should the employer not allow the employee to exercise their right, they will not be allowed to cancel the accrued leave balance.

6.3 Section 13 — Redemption of Vacation Days states: “If an employee’s employment ends before being given the vacation to which they are due by their termination date, the employer will pay vacation redemption fees to an amount equal to the vacation fees that the employee would have received had they gone on vacation on the day of the employee’s termination”.

6.4 Shlichim employment agreements state that, “The shaliach may not accrue their vacation and must utilize their vacation days during their shlichut year, nor will they be entitled to redemption of vacation days at the end of their shlichut”.

It is noted that shlichim also receive vacation days through local holidays when campuses/community institutions are closed.

6.5 Section 4(a) to the Sick Leave Pay Law, 1976, states: “The entitlement period to sick leave pay will not exceed a cumulative period of one and

a half days for each full month of work by the employee with that same employer or in that same workplace from the day on which this Law started to apply to such employee, and no more than 90 days, net of the period for which the employee received sick pay under this Law”.

- 6.6 Section 2(a) to the Sick Pay Law, 1976, states: “An employee who is absent from work due to illness will be entitled to receive from their employer, subject to the maximum entitlement period set out in Section 4:
- (1) From the fourth day of such absence — payment under this Law for their illness period (“Sick Pay”);
 - (2) For the second and third day of such absence — one half of such Sick Pay;”
- 6.7 An attorney from the Jewish Agency’s Legal Department who oversees labor law compliance, supports WZO in its employment of shlichim, both for WZO’s own activities, and for Jewish Agency activities. Among other things, the attorney oversees the Shlichut Agreements and shlichim employment terms.
- 6.8 The treasurers in the Jewish Agency’s regional offices provide WZO, among other things, with payroll services for shlichim operating in their region. These services are provided for WZO as it does not have its own staff to handle these matters abroad. Treasurers consolidate payroll data for shlichim handling Jewish Agency tasks, as well as for WZO representatives. Treasurers then forward this data to WZO’s headquarters in Jerusalem, for final payroll preparation (for details, see Section 11 below).

Findings

- 6.9 The Jewish Agency’s legal Department stated that the employer has elected (as permissible by law) not to allow employees to add their unutilized vacation balance to subsequent work years. Thus, shlichim’s employment agreements do not allow vacation accrual, and employees must utilize their vacation days by the end of their shlichut.
- 6.10 Upon examination, shlichim were indeed found not to receive redemption of vacation days at the end of their employment — **Propriety was found.**
- 6.11 Accrued vacation and sick day balances are not tracked for shlichim. These data are also not properly recorded in the payroll system. Furthermore, pay slips do not specify the accrued vacation balance, as

required under Amendment 24 to the Wage Protection Law (see section concerning Amendment 24, below).

- 6.12 Shlichim do not receive periodic updates on their vacation balances. The employer does not send them requests to utilize their vacation days, stressing that they must use these days in each given year. The office of the Comptroller emphasizes the importance of such request, particularly in the last year of shlichut, when shlichim must prepare for the end of their shlichut while maintaining their rights and utilizing their accrued vacation days.
- 6.13 As aforesaid, shlichim do not work during local holidays when campuses/ community institutions are closed. As there is no follow-up on vacation utilization, it is unclear whether local holidays are considered part of the shlichim's vacation quota. The shlichim's agreements with WZO do not refer to this matter.
- 6.14 A questionnaire sent by the Office of the Comptroller to former shlichim asked "Did you fully utilize the vacation days to which you were entitled during your employment?". 50% of those who responded (11 out of 22 shlichim) answered that they had not fully utilized their vacation days during their shlichut. 86% (19 shlichim) said that they did not receive updates from their employer concerning their accrued vacation days. **These data confirm the possibility that the employees' basic right to vacation (Section 2 to the Law) is not exercised in full.**
- 6.15 As a result, the organization is at risk of not complying with Section 13 to the Annual Leave Law, concerning the employer's duty to pay for unutilized vacation days (even though the agreements with the shlichim state that they are not entitled to vacation redemption at the end of their shlichut). This is due to the fact that, as aforesaid, it is possible that shlichim did not actually utilize their full vacation balance.
- 6.16 Sick days — There are no records of shlichim work hours across all regional offices and locations where shlichim are placed (see details in Section 7 below). Neither are records kept of days when shlichim were absent from work due to illness. Thus, these data are not presented in shlichim pay slips or in the payroll system.

WZO's payroll accountant (in the Jerusalem headquarters) stated that she does not receive reports from regional offices concerning sick day utilization.

As a result, it is not possible to check whether shlichim exceeded their

allotted sick day quota as prescribed by law (18 days a year, and up to 90 cumulative days). It is thus possible that shlichim over-utilize sick leave.

Recommendations

- A. **Maintain records of vacation and sick day utilization by shlichim, and include these data in the payroll system.**
- B. **Provide shlichim with annual vacation day balance reports, with special attention to shlichim in the last year of their shlichut. Reports should state that the employer allows and encourages shlichim to utilize their vacation.**

Response of the Jewish Agency Legal Department

We will draft a letter to be sent to shlichim once a year, a few months before they end their shlichut in the summer. The letter will remind shlichim to utilize their vacation balances.

Response of WZO's Zionist Shlichut Unit and the Jewish Agency's Shlichut Unit

Managing shlichim's employment is extremely complicated and unique — WZO serves as the shlichim's official employer, but does not supervise their day-to-day work. In the field, shlichim work with the local Hillel/Jewish Federation/youth movement director to coordinate and report their leave.

Some local treasuries manage their shlichim's vacation days and absence. In light of the Office of the Comptroller's findings, we are looking into buying a vacation and sick day reporting module, and characterizing the tool for the two payroll systems. Initial estimates are that this will cost USD 200,000.

7. Wage Protection Law — Amendment 24

- 7.1 The Wage Protection Law (Amendment 24), 2008 requires employers to provide employees with written pay slips, including all information on pay calculations as specified in the Amendment.
- 7.2 For employees covered by Section 30(a)(6) to the Work and Rest Law, i.e. — employees with a special measure of trust who are excluded from the Work and Rest Law, the Amendment specifies that such fact must be explicitly stated on the pay slip.
- 7.3 Section 30(a)(6) to the Work and Rest Law states that the law will not apply to "Employees in management positions or positions requiring

a special measure of personal trust”. Amendment 14, 2014 to the law states that the law will also not apply to “Employees whose employment conditions and circumstances do not allow the employer any supervision over their work and rest hours”.

- 7.4 The Office of the Comptroller sampled 30 employees to examine whether WZO’s pay slips comply with the Wage Protection Law. Findings were as follows:

Findings

1. Employee’s surname, first name, and ID number — **Found.**
2. Employer’s name, company number, and address — **Found.**
3. Start of employment date, time working with the employer — **Found, including shlichut end date.**
4. Number of work days and work hours in the workplace in the relevant pay period — **Found.**
5. Number of work days and work hours actually worked by the employee in the relevant pay period — **Not found.**
6. Salary, net of absence — **The absence component was not found.**
7. Other payments over the normal salary: overtime, premiums, fees, etc. — **Found.**
8. National Insurance and income tax deductions (monthly and cumulative) — **Found.**
9. Deductions and contributions to provident funds — **Found.**
10. Contributions to study funds (if applicable) — **Found.**
11. Overall deductions (mandatory and voluntary) — **Found.**
12. Vacation and sick days (balances and monthly utilization — **Not found.**
13. Overall amount (gross) and actual amount (net) payable to the employee — **Found.**
14. Reference to minimum monthly and hourly wages — **Found.**
15. Statement on the pay slip that the Work and Rest Hours Law does not apply to the employee — **Not found.**

In summary — pay slips do not comply with Amendment 24 to the Wage Protection Law in items 5, 6, 12, and 15. These items concern the tracking and management of work attendance, as it is not possible to comply with Amendment 24 without managing employee attendance.

7.5 The Office of the Comptroller examined the job descriptions for the various shlichim and found that most do not meet the definition for “employees holding management positions or positions requiring a special measure of personal trust”. This is backed by various tests set by case precedents, such as — policy-making, team management, decision-making, pay grade, etc. However, due to the required mobility in their jobs and work environment, most shlichim meet the second criteria set in Section 30(a)(6) to Amendment 14 of the Work and Rest Law, as their employment conditions and circumstances do not allow the employer any supervision over their work and rest hours.

Recommendations

- A. **Specify the actual number of work days on pay slips.**
- B. **Provide cumulative data on vacation and sick leave balances on pay slips, and utilization of such balances.**
- C. **State that the Work and Rest Hours Law does not apply to the employee, on their pay slip.**

8. Termination of Employment

8.1 Upon termination of employment, Israeli law prescribes certain obligations for the employer,³ including as concerns the following forms and confirmations

- Confirmation of employment period— Upon termination, employers must provide employees with written confirmation specifying their start of work date and termination date, in accordance with Section 8 of the Notice for Dismissal and Resignation Law.
- ‘Transfer of ownership’ letter.⁴
- Forms 161 and 161A.⁵
- Notice for dismissal and resignation.⁶

8.2 In 2019–2020, 200 shlichim ended their shlichut.

3 See Appendix B.

4 Upon termination, employees are entitled to the sums accrued in their various funds. To this end, employers commonly send a letter to the companies managing these funds, transferring ownership to the employee or their new employer.

5 For employees to be exempt from paying income tax on their severance fees, pension funds, and any applicable bonuses.

6 Subject to the provisions of the Notice for Dismissal and Resignation Law, 2001.

Findings

- 8.3 The Office of the Comptroller examined whether shlichim's termination (consensual, at the end of the shlichut period) followed due process as indicated in Section 8.1 above. This included examination of employees' final pay slips, containing the final account reconciliation with each employee.
- 8.4 The Office of the Comptroller sampled four shlichim whose employment ended in 2020. Findings were as follows:

| No. | Initials | 161 | Transfer of ownership — provident fund | Final reconciliation pay slip | Employment period confirmation |
|-----|----------|-----|--|-------------------------------|--------------------------------|
| 1 | S.L. | √ | √ | √ | Missing |
| 2 | V.R.T. | √ | √ | √ | Missing |
| 3 | L.T. | √ | √ | √ | Missing |
| 4 | H.A. | √ | √ | √ | Missing |

Following on the data presented in the table concerning transfer of ownership in provident funds, it should be noted that, in their response to the Office of the Comptroller's questionnaire (see Section 15 below), shlichim indicated that transfer of their provident funds at the end of their employment **was properly managed**.

- 8.5 The above table indicates that, at the end of their shlichut, shlichim did not receive confirmation of their employment period. Examination found that confirmations of employment periods are only issued upon the shaliach's request. However, the Office of the Comptroller was told that an automated process is currently being characterized in the ERP-HR system, where the system will automatically issue and send such confirmation at the end of the shlichut period.
- 8.6 In 2019–2020, two shlichim were in the process of being dismissed, as follows:

Employee 1 (L)

- The shlichim began her shlichut in September 2019. Due to professional issues which arose overseas several months after the start of her employment, WZO's Zionist Shlichut Unit decided to initiate a hearing process for the employee.
- The shlichim was issued a summons to a hearing, signed by the director

of the Zionist Shlichut Unit. The letter included the relevant details for the hearing.

- A hearing was held for the employee on February 11, 2020 (via Zoom).
- The shlicha opted to enlist an attorney to represent her, and so a settlement agreement was signed with the employee whereby she withdrew her claims against WZO and the Jewish Agency due to the early termination of her shlichut.
- The settlement agreement prescribed the following compensation:
 - o Reimbursement for costs of EUR 300.
 - o A special bonus of NIS 18,251, equal to 3 months' pay.
 - o Reimbursement of the shlicha's attorney's fees for the process.
- The employee was issued a termination of employment letter signed by the director of WZO's Zionist Shlichut Unit, stating that the cause of termination was her dismissal. In this letter, the employer duly detailed the shlicha's employment period: September 3, 2019 — March 31, 2020.

Employee 2 (S)

- The youth movement shlicha, began her shlichut in August 2019. About a year after starting her work, due to professional issues and dissatisfaction with her conduct in disciplinary matters, a summons to hearing was sent on July 7, 2020, duly detailing the complaints brought against the employee.
- On July 9, 2020, a hearing was held for the shlicha. Due to the COVID-19 pandemic and rising infection rates, the hearing was held via Zoom.
- Quoted from the hearing's conclusions: "We seriously considered S's response (shlicha's name omitted by the Office of the Comptroller) after the hearing. We were impressed by S's candor and her assumption of responsibility for the problems and complaints voiced in the hearing. However, in light of the severity of the issues, and due to the global uncertainty caused by the COVID-19 pandemic, we decide that S may continue her shlichut, but that her shlichut will end on March 31, 2021. We will review S's performance at the end of the year (December 2020), and should we be satisfied with her performance, we will consider the possibility of extending her shlichut to its original end date — August 15, 2021".
- After the shlicha had been given the opportunity to continue her

shlichut, and due to the COVID-19 situation in her host country, the movement contacted WZO and asked to end the shlichah's employment, due to budget challenges and the COVID-19 pandemic preventing any activities from taking place. In light of the above, the shlichah was again summoned to a hearing on October 12, 2020. In this hearing, it was decided that, due to the youth movement's budget challenges in the host country, and the uncertainty caused by the COVID-19 pandemic, the shlichut would end on October 31, 2020. The final decision was approved by the director of WZO's Zionist Shlichut Unit.

- The employee's hearing was duly held on October 12, 2020.

Recommendation

Issue a letter specifying the employment period for all employees leaving the organization.

Response of WZO's Zionist Shlichut Unit and the Jewish Agency's Shlichut Unit

As noted, a letter specifying each shaliach's employment period will be implemented in the ERP system, and sent automatically to each shaliach.

9. Pension and National Insurance Contributions

- 9.1 Following publication of the expansion order for comprehensive pension insurance in Israel, from 2008 all employees must receive pension insurance coverage through contributions by both the employee and the employer to the employee's pension insurance fund. Employers are also obligated to contribute to employee severance pay funds.
- 9.2 Starting from the January 2017 payroll, contributions total 18.5% of an employee's pay, of which 6% are covered by the employee and the remaining 12.5% are covered by the employer (6.5% employer contribution to an annuity component and 6% employer contribution to a compensation component).
- 9.3 Section 14 to the Severance Pay Law, 1963, states that employer contributions to annuity funds, pension funds, executive insurance, etc., may serve as substitutes for the employer's severance pay obligations. The arrangement also exempts employers from retrospectively supplementing compensation for pay raises recorded during the employment period. Contributions will substitute the full amount of the compensation only

if the employer contributed the full amount of the severance pay rate (8.33%) each month.

- 9.4 Section 14 also entitles employees to severance benefits accrued in the fund if they resigned their position, regardless of the circumstances (except if compensation is annulled due to severe actions by the employee). This holds true even if the employee did not complete a full year of work.
- 9.5 Section 28 to the Severance Pay Law, 1963, states, “An agreement between an employer and employee which indicates that compensation is included in the employee’s wages, where the agreement is approved by the Minister of Labor or a person authorized by the Minister of Labor, will override the provisions of this law as concerns compensation, provided that the employer and employee are not subject to any collective labor agreement mandating the payment of severance pay”.

Findings

- 9.6 The Office of the Comptroller examined whether employer and employee contributions to pension and severance funds (“Social Benefit Contributions”) comply with statutory requirements, and whether the amount of such Social Benefit Contributions as presented on employee pay slips matches the amount actually deposited in the provident funds. A sample of 10 shlichim was examined.

The Office of the Comptroller examined the calculation of Social Benefit Contributions on pay slips, and the match between Social Benefit Contributions as presented on pay slips and the actual deposits in provident funds. **Propriety was found.**

- 9.7 The Office of the Comptroller examined whether National Insurance fees were paid for the shlichim. We examined a total of 36 pay slips, and all shlichim were found to pay National Insurance fees in Israel. These payments guarantee them the insurance coverage to which all Israeli citizens are entitled. The Office of the Comptroller did not examine the accuracy of the amounts paid as National Insurance fees, calculated by WZO through its HILAN payroll system.
- 9.8 Several shlichim were found who did not sign an agreement applying Section 14 to the Severance Pay Law, 1963. As such, these shlichim are subject to Section 28, which allows employers, in certain cases, to pay severance contributions as per the base salary which is lower than the actual salary.

The Office of the Comptroller notes that no explanation was found for some shlichim being entitled to severance pay under Section 28 to the Severance Pay Law, 1963, while most are entitled to severance pay under Section 14 to the Severance Pay Law, 1963.

The Office of the Comptroller sampled 30 shlichim, and found that 14 had signed an agreement which applies the provisions of Section 28 to the Law, while 16 had signed agreements applying Section 14 to the Law.

- 9.9 The Office of the Comptroller sampled 10 shlichim, whose shlichut agreement applied Section 28, and checked the match between their base salary for severance purposes, as specified in their agreement, and the basis for their actual contributions (pay slip). Findings were as follows:

| No. | Initials | Base salary for severance, in pay slip (NIS) | Base salary for severance, contractual (NIS) |
|-----|----------|--|--|
| 9 | P.R. | 6,304 | 6,298 |
| 3 | S.T. | 5,295 | 5,300 |
| 15 | A.M. | 15,900 | 15,900 |
| 17 | S.M. | 9,178 | 9,175 |
| 20 | H.R. | 15,900 | 15,900 |
| 22 | H.P. | 15,179 | 15,174 |
| 23 | K.A. | 11,928 | 11,928 |
| 31 | L.M. | 10,273 | 10,273 |
| 32 | R.A. | 15,900 | 15,900 |
| 33 | P.S. | 7,231 | 7,231 |

Contributions to severance pay constitute 8.33% of the base salary (in 100% of the sample). Furthermore, the base salary for severance pay purposes specified in the shlichut agreement fully matched actual contributions (except for immaterial differences due to currency exchange rates). **Propriety was found.**

It is emphasized that this match was between the pay slip and the agreement, and so the Office of the Comptroller marked the **findings of this examination as proper.**

- 9.10 Employers wishing to apply Section 28 to the Severance Pay Law in their salary agreements (in this case — shlichut agreements) must seek approval from the Minister of Labor, Welfare, and Social Services (“Minister of Labor”), or a person authorized by the Minister of Labor.

Although the organization applies the section to several shlichim, it was not found to have received any valid approval from the Minister of Labor (at least since summer 2020).

This has two implications:

- a. Non-compliance with regulations.
- b. In certain cases, there is risk for lawsuits from shlichim, who can sue for severance pay under Section 14 instead of the practice in their case of applying Section 28 (Section 28, to which the parties have signed, is formalized in the shlichut agreement between WZO and the shaliach). In this case, the employer would be required to increase the amount of its severance contributions.

The following two examples illustrate the difference between applying Section 28 and applying Section 14.

The table presents the basis for calculating severance pay for shlichim, where the shlichut agreement stipulated that severance will be paid under Section 28, and contributions were made accordingly. This figure is contrasted with the difference in their monthly accrual, had Section 14 been applied.

| No. | Base salary in pay slip (NIS) | Existing calculation basis (Section 28) | Difference in basis of calculation (NIS, per month) | Difference in monthly accrual at 8.33% of base |
|-----|-------------------------------|---|---|--|
| 31 | 17,558 | 10,273 | 7,285 | 607 |
| 20 | 21,180 | 15,900 | 5,280 | 438 |

9.11 It is emphasized that the basis for these employees' National Insurance and income tax payments was their base pay (as presented in the agreement and pay slip), and so contributions **were in due order**.

9.12 In summary — the fact that some employees accrue reduced severance benefits (under Section 28) as compared to other employees (under Section 14) indicates an unexplained inequality.

Furthermore, the organization does not comply with the Severance Pay Law's requirement for approval by the Minister of Labor.

Recommendation

- A. **Consider applying Section 14 to the Severance Pay Law for all shlichim, in order to maintain equality and uniformity in their rights.**

- B. Receive the Ministry of Labor’s approval to apply Section 28 to the Severance Pay Law for shlichim whose severance contributions are calculated using a base salary which is lower than their actual pay.**

Response of WZO’s Zionist Shlichut Unit and the Jewish Agency’s Shlichut Unit

Since overseas salaries are defined as overall pay without ‘pension’ and ‘non-pension’ components, over the years it has been decided to organize shlichim’s pay under Section 28 to the Severance Pay Law.

In our last meeting with the Ministry of Labor’s Head Labor Relations Officer, it was decided that the basis for calculating employer contributions to pension and severance benefits for shlichim will be the higher of either at least 3 times the minimum wage (currently NIS 15,900), or past salaries from a workplace in Israel (in order to maintain continuous pension coverage for shlichim from their previous work place).

In accordance with this arrangement, the salary agreements for the relevant shlichim included a corresponding appendix, and contributions to pension and severance benefits were made according to this arrangement.

The audit report was a significant catalyst in this matter, and it was decided that, from the summer of 2021, all shlichim will sign uniform agreements applying Section 14 to the Severance Pay Law.

Response of the Jewish Agency Legal Department

There is an arrangement with the Ministry of Labor and Welfare for the National Institutions’ shlichim. This arrangement allows contributions to pension benefits to be made as detailed above, based on their last paycheck in Israel or based on the average wage in Israel, as the shlichim’s salaries abroad include a salary component based on their living abroad under different cost-of-living conditions. This does not apply to most shlichim, who earn minimum wage. The arrangement only applies to shlichim whose salaries exceed the average wage in Israel but are below the pay for regional directors who are entitled to full benefit contributions due to their position and status.

10. Representation Fees

- 10.1 Representation fees are paid to senior shlichim, as reimbursement for work-related hosting costs. Reimbursements range from USD 100 to USD 300 a month, are paid by the Jewish Agency’s overseas treasuries, and are not a pay slip item. As detailed in Section 6 above, treasuries

are responsible for the shlichim's payroll and employment terms, both for Jewish Agency placements and WZO's representatives abroad.

- 10.2 Representation fees are regulated under Section 0.5 of the Payment of Representation Fees to Overseas Shlichim Procedure of 2008 ("Representation Fee Procedure") as follows: "A local-currency amount paid to the shaliach serving in the shlichut country in one of the positions specified from time to time by the Executive and where the person holding such position is entitled to representation fees as reimbursement for their actual costs against receipts or declarations for hosting and refreshment costs at their home or a venue for a guest who is not a shaliach or a representative of the World Zionist Organization and/or the Jewish Agency, club membership fees, etc."

Section 3.6 to the Representation Fee Procedure states: "The aforesaid reimbursement will only be made against receipts provided by the shaliach for such costs. However, expenses under Section 3.5.2 for which no receipts are provided, will be permitted for reimbursement provided that the shaliach specified the date of the event, information concerning its nature, and its attendants." (See details in Appendix B)

- 10.3 According to Section 25 of the Israel Tax Authority's Provisions for Bookkeeping in Israel, records of expenses must be kept for a specified period of time after they are incurred.

Findings

- 10.4 In practice, several methods are applied for reimbursing representation fees:
- Receipts/invoices are submitted to the treasury along with a request for representation fees to the exact amount of the sum of such invoices (up to the maximum representation fee limit). Such practice is illustrated by the finding from the Latin America office in 2017. Additional examples of such proper conduct include the representation fees paid to the regional director in London (2021) and WZO's representative in London (2021).
 - Receipts/invoices are submitted to the treasury along with a request for reimbursement at the maximum amount set for the shaliach in their employment agreement. In this case, invoices may exceed the maximum amount set in the shaliach's employment agreement, but the maximum payment matches the representation fees specified in the agreement with each representative.

- A request is made for representation fees without any receipts/invoices. The local treasury prepares a form summarizing all monthly expenses for the shaliach. Reimbursement is made at the amount specified in the shaliach's employment agreement.

10.5 Upon examining several forms claiming representation costs, findings were as follows:⁷

- There is no uniformity in the treasuries' and shlichim's practice for claiming representation expenses.
- FSU offices pay shlichim a set amount as representation fees, without requiring invoices/receipts. However, shlichim attach a declaration to each form detailing dates of those meetings where hosting expenses were incurred. The Office of the Comptroller notes that such practice is formalized through the procedure.
- In some cases, expense amounts were identical for every date where the shaliach claimed hosting expenses. For example — 5 different events where the claimed expense was exactly USD 50. This calls into question the accuracy and reliability of these reports.
- There is no control over claimed representation expenses, including the information provided in the expense summary forms (if such information is provided), such as: meeting dates, meeting participants, etc.

Recommendation

As much as possible, only pay representation fees against receipts and invoices. In exceptional cases only, where receipts cannot be provided, make sure to include a detailed declaration noting the meeting date, participant names, and the meeting purpose. Meeting dates should also be included when providing receipts/invoices.

Response of the Jewish Agency Finance Unit

As set forth in the Representation Fee Procedure, representation fees are paid to shlichim as reimbursement for actual hosting costs. Payment is to be made against receipts, or against a declaration for specific expenses set forth in the Procedure. This practice is applied in all countries where representatives operate.

Following the Office of the Comptroller's recommendation, we will refresh offices on filling out declaration forms according to the procedure,

⁷ In the Office of the Comptrollers' examinations of the various offices in 2017–2019.

and emphasize the obligation to include details on meetings and meeting participants.

11. Computer Interfaces between Offices Overseas and the Jerusalem Headquarters

The Office of the Comptroller examined the interfaces⁸ between WZO's headquarters and its regional offices. These interfaces are used to handle the vast majority of the shlichim. Findings were as follows:

- 11.1 The shlichim's salary data are processed by two payroll accountants in WZO's Zionist Shlichut Unit. These data are used to generate pay slips through the HILAN payroll system.
- 11.2 Each file supervisor in WZO handles some of the shlichim (based on shlichut type and destination country). The file supervisors 'set up shlichim', i.e. — enter their personal details in the Jewish Agency's ERP HR module. This then allows the Zionist Shlichut Unit and the regional offices to manage their human resources, including employer cost data, start and end of employment dates, and other personal data.
- 11.3 Once the employee is set-up in the ERP system, WZO's payroll accountant sets-up the shlichim (again) in the HILAN system, in order to generate their pay slips. It is emphasized that WZO generates pay slips through HILAN, which does not interface with the ERP system.
- 11.4 Once shlichim have been set up, each month WZO's payroll accountants receive routine payroll data from the regional offices by email. At the same time, payroll accountants receive 'transaction orders' by email from the ERP system. Shlichut start and end dates can be fed into the HILAN system based on these transaction orders.
- 11.5 Once pay slips are ready (initial preparation for review purposes only), the payroll accountants send an Excel file to each office, detailing employee pay data by salary components. Once the offices have approved the pay data, final pay slips are generated through the HILAN system's 'Calculation' function.
- 11.6 Once payroll has been completed and pay slips have been sent, a payroll

8 A means of connecting computerized information systems or workflows and a means of access to transfer information between computerized information systems.

order is entered in Priority (WZO's finance-management system), as follows:

- The payroll accountant exports an Excel file from the HILAN system. The file contains payroll data for all shlichim in a given country. The file is not 'complete' and requires certain adjustments, such as changing currencies or exchange rates, for actual payment.
- The payroll accountant makes these changes manually, and saves the Excel file in .tx. format. This allows the file to be imported into other systems and programs, such as Priority.
- The payroll accountant imports this file into Priority, transferring all the information necessary for entering the payroll order, which is issued automatically once data have been imported.
- The payroll accountant generates an alert item report through Priority, specifying the data which were not properly imported from the Excel file. Payroll accountants then make the necessary corrections manually, and import a new file, until the alert report comes out clean.

11.7 Once the payroll order has been entered, the information is transmitted through an interface between Priority and the ERP system.

11.8 The interface between these two systems requires manual intervention, which makes it prone to human error. Significant time and effort must also be invested to control against such potential errors. An example of this issue can be the use of Excel files which are sent to and from the payroll accountants by email.

11.9 As aforesaid, employees are set up in the HILAN system manually. The Office of the Comptroller believes that an automatic interface between the Jewish Agency's ERP HR module and the HILAN system could prevent errors affecting data integrity and accuracy, and save time currently wasted on repeated data entry.

11.10 The lack of interfaces between the systems used to manage HR and shlichim payroll impacts payroll control practices. For more information, see Section 14 below.

Recommendations

- A. **Minimize manual intervention in the payroll calculation process.**
- B. **Study options for implementing an automatic interface between the Jewish Agency's ERP HR module and the HILAN system.**

Response of WZO's Zionist Shlichut Unit and the Jewish Agency's Shlichut Unit

An automatic interface between the Jewish Agency ERP HR module and the HILAN payroll system is in the advanced stages of review with the Jewish Agency's IT company, Tech Unity.

12. Medical Services and Insurance

- 12.1 All shlichim, regardless of placement location, are covered by a David Shield health insurance policy.
- 12.2 In 2019, 7,471 claims were filed by shlichim and their families through the David Shield policy worldwide. In 2020 — 8,007 claims.
- 12.3 In 2019, there were 5 major insurance events, with a total amount of USD 283,524. In 2020, there were 7 major insurance events, for a total amount of USD 197,482.
- 12.4 If shlichim paid an out-of-pocket deductible, it was fully reimbursed.
- 12.5 There were no cases where shlichim had to pay for medical services which should have been covered by their insurance policy.
- 12.6 The Office of the Comptroller was told that, in general, medical services were readily available, and shlichim contacted the David Shield representatives directly if necessary. The Shlichim Unit in Jerusalem was not involved in the real-time interaction with the insurance company, except in one case.

13. Salary Payment Transfers

Transfers for overseas salaries

There are several ways to transfer shlichim salaries. Usually, part of their salary is paid in local currency in the shlichut country, while the rest is transferred to their bank account in Israel. Pay slips in Israel reflect 100% of the shlichim's salaries, and specify the amount paid in Israel and the amount paid in the shlichut country. Several examples of transfers to shlichim:

- 13.1 Latin America — Shlichim salaries are transferred to their bank accounts in Israel, while a small part of their pay is issued abroad through a local organization. Pay slips are issued in Israel and include the entire salary amount, minus the amount paid abroad, for which a local pay slip is issued.

In light of economic volatility in these countries, the Finance Unit is considering changing the shlichim's employment format.

13.2 Europe — Shlichim are issued pay slips in both Israel and abroad. Their pay is calculated based on their net pay in Israel, as follows:

- Their gross salary under their employment agreement is calculated in Israel.
- The pay slip in Israel includes all applicable deductions under Israeli law, yielding a net amount payable to the shlichim.

Fund transfers were found to be in proper order.

13.3 FSU — The office has an internal accounting unit, which prepares pay slips for office staff (shlichim, and non-Israeli local staff).

- Shlichim receive part of their pay in Israel and a small portion in the regional office. Pay is made in local currency through the local legal entity operating the regional office, to the shlichim's local bank accounts in the FSU.
- Payment in Israel is made to the Israel bank accounts, after deducting the advance paid in Russia.
- Shlichim withdraw cash from their bank account in the FSU through an ATM machine, and can also withdraw cash from their Israeli bank account (local ATM). Shlichim can also withdraw cash from their Israeli bank account when they are in Israel, and bring these amounts back with them to the shlichut country.
- In some FSU countries, shlichim receive their entire pay in Israel. They do not have local bank accounts, and do not receive any pay locally in their shlichut country.
- In these cases, shlichim withdraw cash from their Israeli bank account (in the FSU country), through a local ATM. Shlichim can also withdraw cash from their Israeli accounts when visiting Israel, and then bring these amounts in cash back to their shlichut country.

13.4 Salary payments in Israel

After final calculation of the shlichim's salaries (data are locked and cannot be edited), the HILAN system sends to WZO's bank accounts an electronic transfer file with the shlichim's details, their salary payment, and their bank account details. The Payments and Administration Unit coordinator and the director of the Overseas Treasures and Budget in WZO are the authorized signatories for transferring payments to shlichim by electronic bank transfer. Salaries are transferred once the authorized signatories send their approvals to the bank.

The Office of the Comptroller sampled 28 shlichim to check if the net amount due in their pay slips matched the actual payment amounts. Findings were as follows:

| No. | Initials | Pay slip match with bank transfer, Dec. 2019 | Pay slip match with bank transfer, Jan. 2020 | Pay slip match with bank transfer, Jul. 2020 |
|-----|----------|--|--|--|
| 1 | V.S. | √ | √ | √ |
| 2 | D.H. | √ | √ | √ |
| 3 | S.T. | √ | √ | √ |
| 4 | L.S. | √ | √ | √ |
| 5 | Z.Y. | √ | √ | √ |
| 6 | P.A. | √ | √ | √ |
| 7 | K.M. | √ | √ | √ |
| 8 | L.K. | √ | √ | √ |
| 9 | P.R. | √ | √ | √ |
| 10 | Y.A. | √ | √ | √ |
| 11 | L.A. | √ | √ | √ |
| 12 | K.Y. | √ | √ | √ |
| 13 | L.M. | √ | √ | √ |
| 14 | Z.A. | √ | √ | √ |
| 15 | A.M. | √ | √ | √ |
| 16 | Y.A. | √ | √ | √ |
| 17 | S.M. | √ | √ | √ |
| 18 | K.N. | √ | √ | √ |
| 19 | H.R. | √ | √ | √ |
| 20 | M.T. | √ | √ | √ |
| 21 | H.P. | √ | √ | √ |
| 22* | K.A. | N/A | N/A | √ |
| 23 | G.T. | √ | √ | √ |
| 24* | S.R. | N/A | √ | √ |
| 25 | B.M. | √ | √ | √ |
| 26 | G.T. | √ | √ | √ |
| 27 | L.M. | √ | √ | √ |
| 28 | R.A. | √ | √ | √ |

* Data for these employees was from July 2020, as they had not yet started working in the previous periods. The above table indicates that actual payments fully matched amounts on pay slips. **Propriety was found.**

14. Fiscal Controls Over Shlichim Payroll

General

- 14.1 Controls are proactive measures to supervise compliance of tasks performed by relevant staff. There are various types of controls, such as preventative controls and diagnostic controls. The type of control and its location in the workflow is dictated by the type of action being performed. Depending on the nature of this action, both manual and automated (computerized) controls may be implemented. Proper application of effective controls may improve an organization's performance and minimize damage under routine operations.
- 14.2 WZO's Shlichim Payroll Department employs two payroll accountants who process payroll data and generate pay slips (in Israel) for shlichim.

Findings

- 14.3 The Office of the Comptroller examined the controls applied in WZO's payroll process. The following controls were found:
- Each month, before generating pay slips, HILAN allows a test to be run, i.e. — generating test pay slips to check data accuracy. After running this test, the payroll accountants review **all** pay slips (even though each of them is only responsible for generating slips for some of the shlichim).
 - The payroll accountant uses the HILAN system to create an Excel file for each regional office. This file consolidates the payroll data for that office, including base salaries, eligibility for rent fees, various payments, social benefit contributions, etc. The file is then sent to the various regional treasurers, and serves as the basis for salary calculations on the local pay slip, according to each country's rules and practices. Treasurers confirm the accuracy of the reported data, or send requests for corrections if necessary, thus serving as an additional control in the process.
 - Upon examining the transfer of data between treasuries and WZO's payroll accountants, the Office of the Comptroller found that records are kept of the information being transferred, including any comments and corrections.
 - A monthly control is applied by WZO's budgets supervisor. This includes checking actual vs. planned expenditure on a monthly level for each shaliach. This control includes comparing employer costs for each salary by comparing actual payments as recorded in Priority

against the planned budget for each shaliach. If any discrepancy is found, the supervisor contacts the Payroll Unit and the local treasury for explanations.

14.4 The Office of the Comptroller believes the payroll workflow lacks controls. For example:

- A report presenting payroll data for the current month against the previous month's data, and the same month in the previous year. This report would allow analysis of changes in pay.
- A detailed report on new salary components (salary categories) in a given month, and the person who approved their addition.
- An alerts report providing a status overview based on preset indicators. For example: a change of a certain percentage in a salary component; active shlichim for whom no pay slip was generated; shlichim who left the organization but still receive pay; etc.

Recommendation

WZO's Payroll Department should implement several automated controls as detailed in Section 14.4 above. These should be applied systematically to help locate and prevent flaws in the payroll workflow and potential errors.

Response of WZO's Zionist Shlichut Unit and the Jewish Agency's Shlichut Unit

We will adopt the Office of the Comptroller's recommendation and build a report to present changes from one month to the next.

Chapter 2 — Questionnaire for Former Shlichim

15. Questionnaire for Shlichim

General

As part of the audit of shlichim employment terms abroad, the Office of the Comptroller sent a questionnaire to shlichim who had completed their shlichut period. The questionnaire focused on the shlichim's employment terms during their stay abroad and up to completion of their tenure.

The questionnaire was sent to 50 former shlichim, who had served in the US, South America, Europe, the FSU, Australia, and South Africa.

Through this survey, the Office of the Comptroller sought to gauge performance concerning the shlichim’s employment terms, which would assist in analyzing data and formulating conclusions from the broader audit.

22 shlichim responded to their questionnaires, and answers were received anonymously (for details, see Appendix C).

Key points identified through the survey

- Written information on service terms — lacking.
- Professional hierarchy for shlichim — insufficiently clear.
- Salary payments and termination of employment — satisfactory.
- Vacation days — shlichim do not utilize their entire vacation allotment. However, utilization of vacation days is not properly monitored and employees are not notified of their remaining vacation balance.
- Extension of employment agreements — performed a reasonable time before the end of the employment period.

Summary of Recommendations

| Section and title | Recommendation |
|---|---|
| 4 Shlichut Agreement — Employee Notice Law | The shlichim’s employment contract with WZO should identify the person actually serving as each shaliach’s direct supervisor. |
| 5 Shlichim Salaries | A. Make sure to document shlichut extensions through contract appendices. B. Make sure that actual salary payments match the contractual employment terms. |
| 6 Vacation and Sick Days | A. Manage vacation and sick day utilization by shlichim, and include these data in the payroll system. B. Provide shlichim with annual vacation balance reports, with special attention to shlichim in the last year of their shlichut. Reports should state that the employer allows and encourages shlichim to utilize their vacation. |
| 7 Wage Protection Law — Amendment 24 | A. Specify the actual number of work days on pay slips. B. Provide cumulative data on vacation and sick leave balances on pay slips, and utilization of such balances. C. State that the Work and Rest Hours Law does not apply to the employee, on the pay slip. |

| Section and title | Recommendation |
|--|--|
| 8 Termination of Employment | Issue a letter specifying the employment period for all employees leaving the organization. |
| 9 Social Benefits and National Insurance Contributions | <p>A. Consider applying Section 14 to the Severance Pay Law for all shlichim, in order to maintain equality and uniformity in their rights.</p> <p>B. Receive the Ministry of Labor's approval to apply Section 28 to the Severance Pay Law for shlichim whose severance contributions are calculated using a base salary which is lower than their actual salary.</p> |
| 10 Representation Fees | As much as possible, only pay representation fees against receipts and invoices. In exceptional cases only, where receipts cannot be provided, make sure to include a detailed declaration noting the meeting date, participant names, and the meeting purpose. Meeting dates should also be included when providing receipts/invoices. |
| 11 Computer Interfaces between Offices and Jerusalem Headquarters | <p>A. Minimize manual intervention in the payroll calculation process.</p> <p>B. Study options for implementing an automatic interface between the Jewish Agency ERP HR module and the HILAN system.</p> |
| 14 Fiscal Controls Over Shlichim Payroll | WZO's Payroll Department should implement several automated controls as detailed in Section 14.5 above. These should be applied systematically to help locate and prevent flaws in the payroll workflow and potential errors. |

Appendices

Appendix A (Section 5)

| No. | Initials | Salary | Rent | Car | Comments |
|-----|----------|--|---|--|---|
| 1 | V.S. | Contractual — USD 6,000. Actual — USD 6,000. | Contractual — shaliach is entitled to the lower of either USD 2,300 in rent, or their actual rental costs. Actual — USD 2,400. The amount was duly approved. | Contractual — USD 850. Actual — USD 850. Pay slip — net payment of USD 754.04. | |
| 2 | D.H. | Contractual — USD 4,165.41. Actual — USD 4,216. | Contractual — shaliach is entitled to the lower of either USD 2,000 in rent, or their actual rental costs. Actual — USD 2,400. Upon examination, rent was increased to USD 3,000, approved by WZO's Director General. | Contractual — not stated. Actual — none. | Deviation of USD 51 in base salary. |
| 3 | S.T. | Contractual — USD 1,500. Actual — USD 1,500. | Contractual — the lower of either USD 1,600 in rent, or actual rental costs. Actual — USD 1,600. | Contractual — USD 850. Actual — USD 850. Pay slip — net payment of USD 251.35. | Contract expired Sept. 15, 2017 — Sept. 14, 2019. Unit could not find the signed extension annex, but committee approved shlichut extension. |

| No. | Initials | Salary | Rent | Car | Comments |
|-----|----------|--|--|---|----------|
| 4 | L.S. | Contractual — USD 6,000. Actual — USD 6,000. | Contractual — the lower of either USD 3,900, or actual rental costs. Actual — USD 3,900. | Contractual — USD 850. Actual — USD 850. | |
| 5 | Z.Y. | Contractual — USD 6,000. Actual — GBP 4,628.3, equal to USD 6,000. | Contractual — the lower of either GBP 1,500, or actual rental costs. Actual — GBP 2,215, approved by WZO's Chairman and Director General. | Contractual — USD 850. Actual — GBP 655.68, equal to USD 850. Pay slip — net payment of GBP 581.65. | |
| 6 | P.A. | Contractual — USD 3,200. Actual — EUR 2,868.74, equal to USD 3,200. | Contractual — the lower of either USD 1,250, or actual rental costs. Actual — EUR 1,120.6, equal to USD 1,250. | Contractual — not mentioned. Actual — none. | |
| 7 | K.M. | Contractual — USD 6,000. Actual EUR 5,378.89, equal to USD 6,000. | Contractual — the lower of either EUR 1,750 or actual rental costs. Actual — EUR 1,650. | Contractual — USD 850. Actual — EUR 762.01, equal to USD 850. Pay slip — net payment of EUR 675.98. | |
| 8 | L.K. | Contractual — GBP 1,375. Actual — GBP 1,375. | Contractual — the lower of either GBP 1,000, or actual rental costs. Actual — GBP 917. | Contractual — not mentioned. Actual — none. | |

| No. | Initials | Salary | Rent | Car | Comments |
|-----|----------|--|---|--|------------------------|
| 9 | P.R. | Contractual — EUR 1,600. Actual — EUR 1,600. | Contractual — the lower of either EUR 1,300, or actual rental costs. Actual — EUR 1,300. | Contractual — not mentioned. Actual — none. | |
| 10 | Y.A. | Contractual — USD 2,600. Actual — EUR 2,330.85, equal to USD 2,600. | Contractual — entitled to housing as determined by the local partners. Actual — pay slip (duly) does not include a rent component. | Contractual — not mentioned. Actual — none. | |
| 11 | L.A. | Contractual — USD 6,000. Actual — USD 6,000. | Contractual — the lower of either USD 1,500 or actual rental costs. Actual — USD 1,500. | Contractual — not mentioned. Actual — none. | |
| 12 | K.I. | Actual — USD 3,000. | Actual — pay slip does not include a rent component. | Actual — none. | Contract not received. |
| 13 | L.M. | Contractual — USD 6,000. Actual — USD 6,000. | Contractual — the lower of either USD 3,100 or actual rental costs. Actual — USD 2,800. | Contractual — not mentioned. Actual — none. | |
| 14 | Z.A. | Contractual — USD 6,000. Actual — USD 6,000. | Contractual — the lower of either USD 2,100 or actual rental costs. Actual — USD 2,000. | Contractual — not mentioned. Actual — none. | |

| No. | Initials | Salary | Rent | Car | Comments |
|-----|----------|--|---|--|---|
| 15 | A.M. | Contractual — USD 5,440.68. Actual —USD 5,440.68, composed: based + family bonus + challenging conditions bonus + challenging conditions bonus. | Contractual — not mentioned. Actual — not on pay slip. | Contractual — not mentioned. Actual — none. | Contract expired. Aug. 14, 2017 — Aug. 15, 2019. Unit could not find the signed extension annex, but committee approved the extension. |
| 16 | Y.A. | Contractual —AUD 4,014. Actual — AUD 4,014.51. | Contractual — the lower of either AUD 2,415 or actual rental costs. Actual — AUD 2,460 paid until Feb. 2020, and AUD 2,530 from March 2020. Rent duly update following change in personal status after (maternity). | Contractual — not mentioned. Actual — none. | |
| 17 | S.M. | Contractual — USD 2,600. Actual — USD 2,600. | Contractual — not mentioned. Actual — not on pay slip. | Contractual — not mentioned. Actual — none. | |
| 18 | P.A. | Contractual — salary not noted. Actual — no pay slip as she is not actually employed by WZO. | Contractual — not mentioned. Actual — none. | Contractual — not mentioned. Actual — none. | |
| 19 | K.N. | Contractual — USD 6,000. Actual — USD 6,000. | Contractual — up to BRL 13,000. Actual — BRL 13,000. | Contractual — USD 850. Actual — USD 850. | |

| No. | Initials | Salary | Rent | Car | Comments |
|-----|----------|---|--|---|---|
| 20 | H.R. | Contractual — USD 6,000. Actual — USD 6,000. | Contractual — lower of either USD 1,500 or actual rental costs. Actual — USD 1,400. | Contractual — not mentioned. Actual — none. | |
| 21 | M.T. | Contractual — USD 6,000. Actual — USD 6,000. | Contractual — lower of either USD 1,700 or actual rental costs. Actual — USD 2,300. Deviation approved. | Contractual — USD 850. Actual — USD 850. Net on pay slip — USD 754. | |
| 22 | H.P. | Contractual — USD 4,300. Actual — USD 4,300 in 2019. From Jan. 2020 pay increased to USD 4,800, approved by Deputy Director General for HR and Administration. | Contractual — entitled to rent in line with job requirements, as will be decided by local partners. Actual — pay slip (duly) does not include rent component. | Contractual — not mentioned. Actual — none. | |
| 23 | K.A. | Contractual — USD 3,500. Actual — USD 3,500. | Contractual — the lower of either USD 1,600 or actual rental costs. Actual — USD 1,600. | Contractual — not mentioned. Actual — none. | |
| 24 | P.A. | Contractual — USD 1,400. Actual — USD 1,400. | Contractual — entitled to rent in line with job requirements, as will be decided by local partners. Actual — not on pay slip. | Contractual — not mentioned. Actual — none. | |
| 25 | G.T. | Contractual — USD 1,400, USD 1,550 in the second year, and a net advance of USD 500 deducted over the first 5 pay checks. Actual — USD 1,550. | Contractual — entitled to rent in line with job requirements, as will be decided by local partners. Actual — not on pay slip. | Contractual — not mentioned. Actual — none. | The Unit could not find the signed extension annex, but committee approved extension. |

| No. | Initials | Salary | Rent | Car | Comments |
|-----|----------|---|---|---|---|
| 26 | A.R. | Contractual — USD 1,400; second year — USD 1,550. Actual — USD 1,400. | Contractual — not mentioned. Actual — pay slip (duly) does not include rent component. | Contractual — not mentioned. Actual — none. | |
| 27 | G.T. | Contractual — USD 1,330, provided amount stays above minimum wage in Israel. Actual — USD 1,330 + supplementation to minimum wage. | Contractual — not mentioned. Actual — none. | Contractual — not mentioned. Actual — none. | |
| 28 | S.R. | Contractual — USD 1,330 + supplementation to minimum wage. Actual — USD 1,330 + supplementation to minimum wage. | Contractual — the lower of either USD 1,600 or actual rental costs. Actual — USD 1,500. | Contractual — not mentioned. Actual — none. | |
| 29 | B.M. | Contractual — USD 6,000. Actual — CAD 7,901.63, equal to USD 6,000. | Contractual — the lower of either USD 2,600 or actual rent costs. Actual — CAD 3,873.91, equal to USD 2,942. Amount exceeds contract and was not approved. | Contractual — USD 850. Actual — CAD 1,119.4, equal to USD 850. | Exceptional approval received from Service Terms Committee for rent of CAD 3,850. Actual amount paid exceeds the approved amount by USD 23.91. |
| 27 | G.T. | Contractual — USD 1,330 provided amount stays above minimum wage in Israel. Actual — USD 1,330 plus supplementation to minimum wage. | Contractual — not mentioned. Actual — none. | Contractual — not mentioned. Actual — none. | |

| No. | Initials | Salary | Rent | Car | Comments |
|-----|----------|---|---|---|----------|
| 31 | L.M. | Contractual — USD 4,974.88. Actual — USD 4,974.88. | Contractual — not mentioned. Actual — none. | Contractual — not mentioned. Actual — none. | |

Appendix B — Termination of Employment (Section 8)

Termination of Employment

When terminating employment, employers must comply with various requirements under Israeli law. In addition to a monetary reconciliation with the employee, employers must comply with various other requirements, primarily:

- **Confirmation of the employee’s employment period** — Upon termination, employers must provide employees written confirmation as to the start and end date of their work with the employer, as dictated by Section 8 to the Notice for Dismissal and Resignation Law. Employers must provide employees with such confirmation within 14 days of their last day of work, or within 7 days of the employee’s written demand to receive such confirmation. Should the employer fail to do so, they are subject to fines.
- **Transfer of ownership letter** — Upon termination, employees are entitled to the release of funds accrued in their name in the various provident funds, pension funds, study funds, executive insurance policies, etc. To this end, it is common for employers to send letters to the companies managing these funds, notifying of the transfer of ownership of the funds to the employee or their new employer.
- **Forms 161 and 161A** — For employees to be exempt from paying income tax on their severance pay, pension funds, and retirement bonuses, employers must complete Form 161 — *Employer’s Notice of Termination of an Employee’s Work*. Employees must complete Form 161A — *Employee’s Notice Upon Termination of Work*.

The Notice for Dismissal and Resignation Law, 2001, mandates that notice be given for dismissal and resignation, as follows:

“...Employers wishing to dismiss an employee will give them notice of dismissal as prescribed by this Law”.

“Employers will issue their employees, upon termination of their employment, a written letter specifying the start and end date of their employment”.

Hearings aim to allow employees to voice their arguments before a decision is made that may terminate their employment. The right to hearing is not formalized in any law, and is based on labor court rulings. Over the past two years, the courts have applied this requirement to employers. According to these labor court rulings, giving employees several hours' notice prior to their hearing is considered an act in bad faith.

Furthermore, the summons to hearing must include any complaints brought against the employee in full. The summons must also provide as much detail as possible on the employer's reasons for considering the employee's dismissal.

The need to present arguments in the summons is due to the fact that, in the hearing itself, employers can only discuss complaints presented in the summons. No new complaints, suspicions or findings may be presented which were not included in the summons to hearing, in order to allow employees to prepare in advance.

Hearings must be documented through minutes, and a copy of such minutes must be provided to the employee.

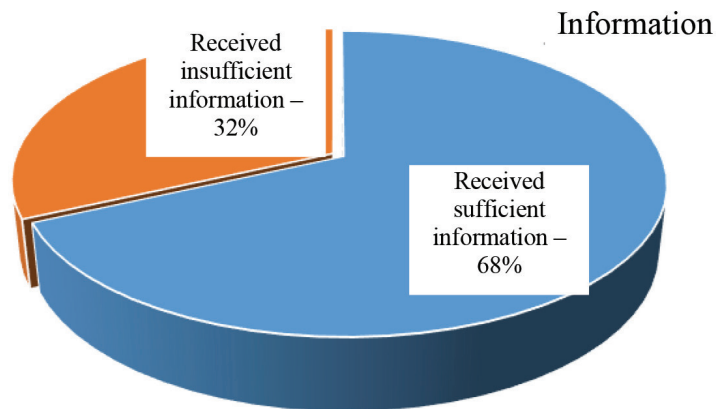
Appendix C — Questionnaire for Former Shlichim

Breakdown of responses from 22 former shlichim for key issues in the questionnaire:

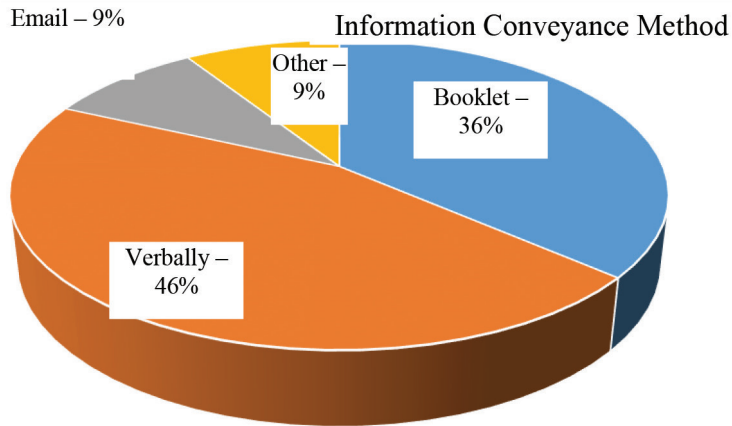
15.2 Information before starting the job overseas

Questions:

- a. Did you receive sufficient information concerning the service conditions abroad, before starting your shlichut?



- b. Please indicate how the information concerning the service conditions abroad was received:



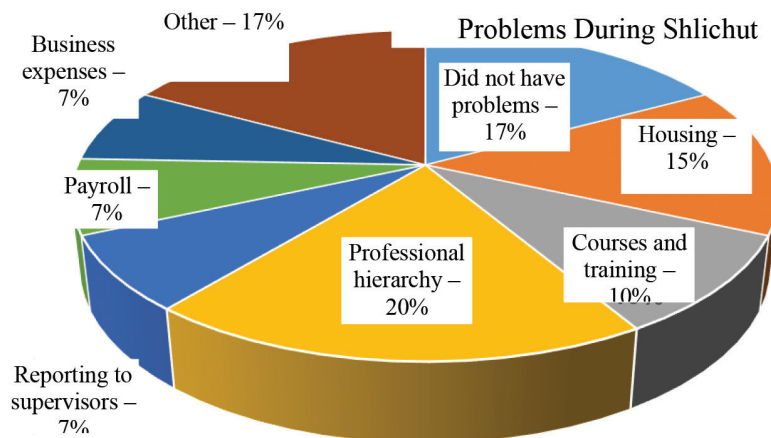
The data indicate that two-thirds of shlichim responded that they received sufficient information. However, about half (45.5%) said that the information was provided verbally, with only a third responding that information was received in booklet form.

Thus, information should be provided more through booklets and less through verbal communication, in order to provide clear and accurate information.

15.3 Problems during the shlichut

Questions:

- Did you have any problems during your shlichut? In what matters?
- To what extent was your POC available to help handle your problems?



- Responses indicate a broad range of service-related problems. The most common problem, experienced by more than a quarter

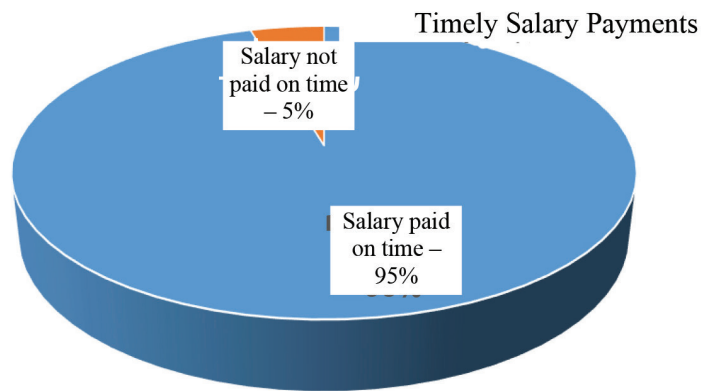
of the respondents (27%), related to their professional hierarchy and reporting to their superiors.

- b. 55% of respondents indicated that their POC in the headquarters in Israel was very or extremely available to handle their problems. 40% of respondents indicated a moderate level of availability.

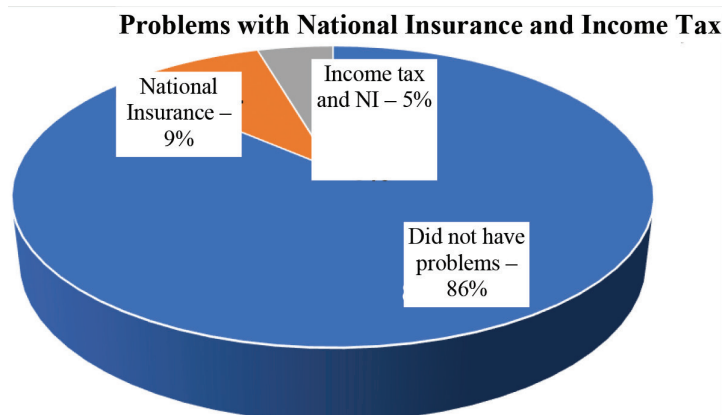
Thus, responses to Question A indicate that shlichim find the professional hierarchy with their supervisors unclear, including uncertainty by shlichim as to whom they should report.

15.4 Salary payments and end of employment

- a. Were salaries paid on time?



- b. When asked — Did you have any problems receiving compensation and releasing pension funds at the end of your employment? — **100% of respondents said that they did not have any problems.**
- c. With which of the following did you have any problems during your shlichut, or at the end of your employment?

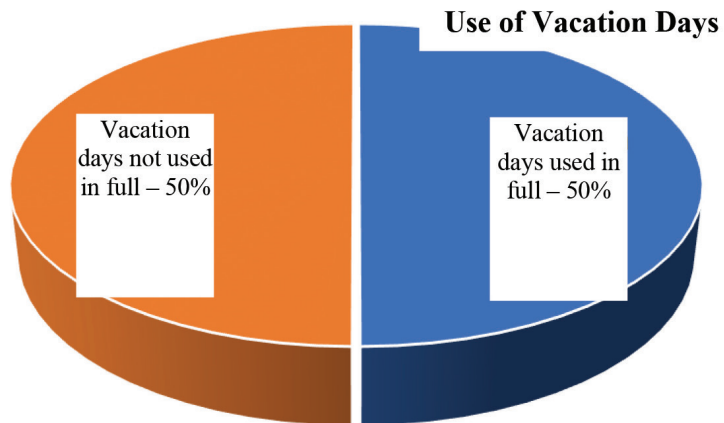


The data indicate that most respondents did not have any problems with salaries being paid on time, receipt of compensation, release of provident funds, or any problems with the National Insurance Institute or Israel Tax Authority.

15.5 Vacation days

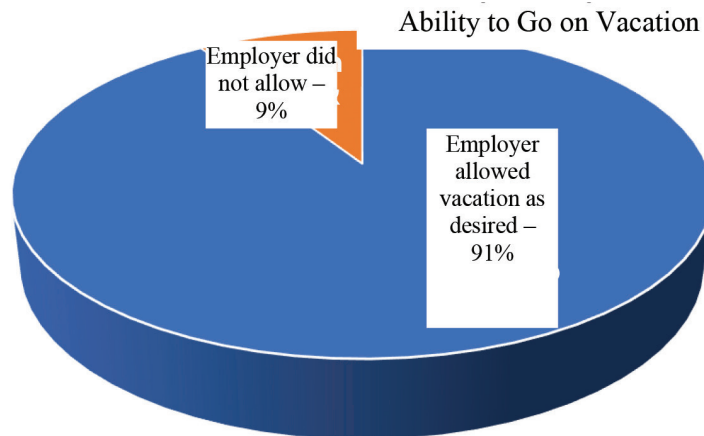
Questions

- a. Did you fully utilize your allotted vacation days during your employment period?
- b. How many vacation days did you leave unused?



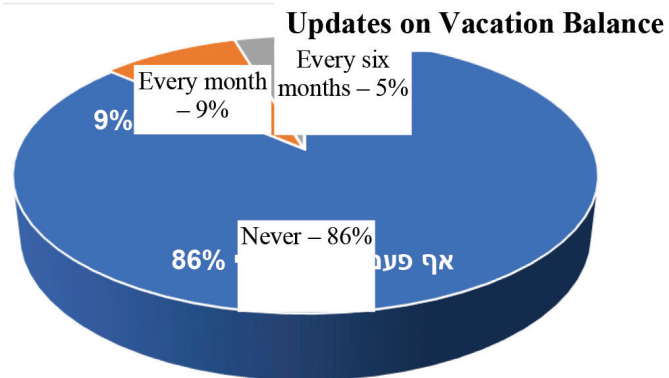
Question B saw a range of different answers, the most common being, “There was no follow-up; Don’t know; I did not keep orderly records of it”.

- c. Did your employer allow you to go on vacation as you wished?



The above indicates that most employers allowed the shlichim who responded to go on vacation as requested.

- d. How frequently during your shlichut did you receive updates on your unutilized vacation balance?



The above indicates the following two conclusions:

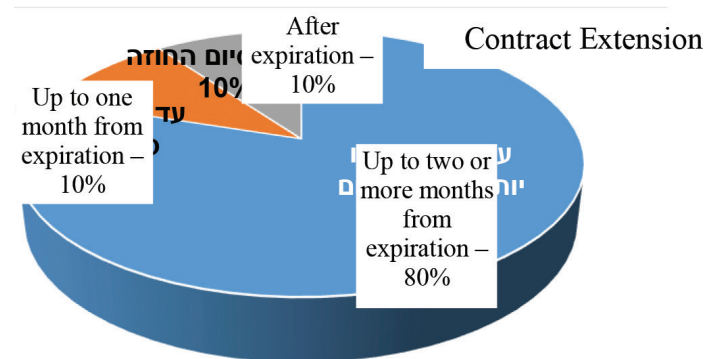
- A material portion (50%) of shlichim did not utilize their entire allotted vacation balance.
- Most shlichim (86%) did not receive updates concerning their vacation balances.

15.6 Contract renewal

- a. Did you sign an extension of your employment contract toward the end of your shlichut?

55% of respondents said they signed a contract extension.

- b. If so, how long before the end of your original contract did you sign the extension?



The above indicates that, in most cases of extension, contracts were extended several months before the end of the existing contract, giving shlichim reasonable time to make arrangements.

Response of the Chairman of the Zionist Executive to the Comptroller's Report on Shlichim Employment Terms

In accordance with Section 18B to the Statutes for the Comptroller and the Control Office of the World Zionist Organization, the Chairman of the Zionist Executive is required to submit his response to the Comptroller's reports, the following is my response to the report on Shlichim Employment Terms.

The report covers the employment terms for WZO's overseas shlichim, serving on the front line of the Zionist movement's activities. As agents for the World Zionist Organization in its various locations, shlichim work day and night to strengthen the ties between Israel and the Diaspora.

From the start of the screening process, we invest substantial resources to identify the most suitable candidates. At the end of a grueling selection process, we dispatch the best of the best on these important shlichut missions.

The audit makes it clear that, despite the significant complexity of operating a global network of shlichim, these operations are well-managed. The administrative challenge is ever-present, and only increases when operations must be managed remotely.

The rights of these shlichim are of paramount importance and are meticulously maintained, particularly as regards their right to vacation and their professional hierarchy in the organization. The match between the questionnaire circulated by the Office of the Comptroller among former shlichim and their experiences and the audit findings obligates us as an organization. I have no doubt that the Finance Department, which is responsible for these matters, has already started finding a solution to remedy these flaws.

This audit report is an opportunity to thank the professional staff for their work in managing the shlichut network. As the people found at every key junction in the organization, I would also like to thank the Finance Department for their ongoing and meticulous supervision.

On behalf of the World Zionist Organization, I thank the Comptroller of the National Institutions for the audit.

(-) Yaakov Hagoel
Jerusalem, July 2022

Ami-Chai Pre-IDF Program

Ami-Chai Pre-IDF Program

1. Introduction

- 1.1. In accordance with its work plan, the Office of the Comptroller of the World Zionist Organization (“WZO”) examined the Ami-Chai pre-IDF program (“the Program”) operating under the Zionist Council in Israel (“the Council”).
- 1.2. The audit included the following:
 - Routine management, work plan, and budget.
 - Security and safety arrangements.
 - Off-campus activities — planning and performance.
 - Student and alumni satisfaction.
- 1.3. The audit took place in WZO’s offices in Jerusalem, and in the Program’s offices, in June-October 2020. The audit focused on the 2017–2018 and 2019–2020 school years.

The audit included meetings and talks with the Head and Director of the Israel and Combatting Anti-Semitism Department; the Director of the Zionist Council; the Program head; the Program director; the Program’s educational director; and additional staff as deemed necessary.

- 1.4. Objectives:
 - a. To review the Program’s work plan and objectives, and compliance therewith.
 - b. To review the annual budget and its alignment with operations.
 - c. To examine the Program’s organizational structure and staff.
 - d. To examine the Program’s budget utilization.
 - e. To examine the Program’s security and safety arrangements.
 - f. To examine the planning and performance of off-campus activities.
 - g. To survey satisfaction levels among Program students and alumni.
 - h. To identify weaknesses in work flows and controls, and recommend improvements.

1.5. Key documents used in the audit:

- ◆ Work plans (Gantt charts) for the 2017–2018 and 2019–2020 school years.
- ◆ Program budget and expenditure data for 2018–2020.
- ◆ On-campus safety and security procedures for the Program.
- ◆ Off-campus safety procedures.
- ◆ Aharonishki Committee recommendations on *Safety as Organizational Culture in Pre-IDF Programs*.
- ◆ Minutes and meeting summaries for the Program’s administration from 2019–2020.
- ◆ Student and teacher headcounts for the 2017–2018 and 2019–2020 school years.
- ◆ Employment agreements and a sample of pay slips and attendance records of Program employees.
- ◆ A sample of payment requests received from lecturers in the years 2019–2020.
- ◆ Documents concerning the contract for catering services, including price quotes, supplier contract, and invoices.
- ◆ Documents concerning student employment in off-campus work, including agreements, attendance reports, payment requests, etc.
- ◆ Field trip files for 5 off-campus activities in 2018–2020.
- ◆ Trial balance sheets and revenue and expense reports for 2018–2020.
- ◆ Electrical systems inspection certificates for 2018 and 2020.
- ◆ Fire safety officer’s certification of fire suppression systems for 2019 and 2020.
- ◆ Fire and Rescue Authority certification, dated February 6, 2019.
- ◆ Specific documents received upon request.

1.6. Methods:

- ◆ Meetings and talks with Program supervisors and additional staff, as deemed necessary.
- ◆ Examining budget items and actual expenditure, in 2018–2020.
- ◆ Examining work plans and schedules for off-campus activities and actual performance, for the 2017–2018 and 2019–2020 school years.
- ◆ Examining the Program’s procurement work flows and compliance with generally accepted practices.
- ◆ Examining employment of the Program’s administration and

instructors, including sample examination of employment contracts, pay slips, and work attendance reports for 2018–2020.

- ◆ Examining account reconciliations with lecturers and teachers, including sample examination of payment requests and invoices.
- ◆ Visiting the Program, including a tour of the campus and the Program’s buildings.
- ◆ Examining compliance in security and safety practices, including compliance with procedures from third-party regulators and internal guidelines set by the Program administration.
- ◆ Examining planning and performance for off-campus activities in the 2017–2018 and 2019–2020 school years. This includes sample examination of 5 field trip files from 2018–2020.
- ◆ Interviews with 13 Program alumni from the 2017–2018 and 2019–2020 school years.
- ◆ Consolidation of findings.
- ◆ Preparing the audit report, including conclusions and recommendations.

The Office of the Comptroller thanks the Program’s administration and its various staff for their help and cooperation during the audit.

2. General

The Zionist Council

The Zionist Council was established in 1970. The Council operates as an independent unit in WZO’s Israel and Combatting Anti-Semitism Department. The Council aims to serve as a federation of Zionist communities and a joint umbrella organization for all Zionist stakeholders in Israel. The Council coordinates educational and outreach activities in Israel and is a pan-Israeli Zionist volunteer organization without any specific political affiliation. The Council comprises representatives from various organizations and institutions in Israel, representatives from local authorities, youth movements, educational institutions, and more.

The Zionist Council operates through two charities, one of which is named The Zionist Council in Israel and which focuses solely on operating pre-IDF programs.

The Council’s goals, as posted on its website

- To strengthen the Zionist foundations of Israeli society.
- To increase Israeli society’s connection with Judaism.

- To cultivate Zionist-Jewish education and social activism among youths and adults.

According to its website, the Council operates across six geographic districts and through various programs and projects such as public forums, the Tzameret organization, the Ami-Chai program, etc.

Ami-Chai Pre-IDF Program

The Program was established by the Zionist Council in Israel in 2001, and initially operated in the town of Argaman in the Jordan Valley. In 2008, the Program migrated to Kibbutz Kramim in the northern Negev. The Program offers high school graduates a chance to postpone their IDF service by one year to take part in an educational volunteer program.

The Program is hosted by Kibbutz Kramim. The campus includes 6 mobile structures, of which 3 are allocated to male students and 3 to female students. Each structure has 3 bedrooms and a shared living room. The campus is also adjacent to another single-story building which holds administrative offices, a lecture hall, and kitchen.

In recent years, the kibbutz has allocated additional areas to the Program. The Program’s administration plans to expand the campus and add additional mobile structures. Further in the future, the Program plans to build a permanent building which would include classrooms, a beit midrash, administrative offices, and an active kitchen.

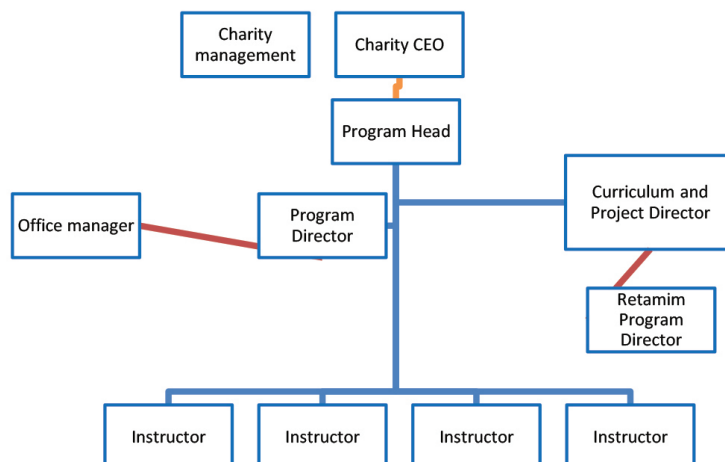
The Program targets a broad audience of boys and girls, of both secular and religious background. The Program’s curriculum is based on the following principles: hands-on learning, personal responsibility, volunteerism, preparing for meaningful IDF service, manual labor, operating as a collective group, field trips, and educational projects.

Program attendance in the 2017–2018 and 2019–2020 school years, by student sex:

| School year | Boys | Girls | Total |
|-------------|------|-------|-----------|
| 2017–2018 | 26 | 28 | 54 |
| 2018–2019 | 27 | 24 | 51 |
| 2019–2020 | 31 | 29 | 60 |

Organizational structure

The Ami-Chai Program is structured as follows:



The Program head, director and curriculum and project director are full-time positions. The four instructors live in the kibbutz near the campus, and are employed in various part-time positions as set by the Program director.

On August 26, 2018, the Joint Council of Pre-Military Programs announced formal job descriptions for various staff positions in pre-IDF programs. The Program also has formal job descriptions for its administrative staff, which specify each staff member’s responsibilities.

Operating procedures

The Program applies operating procedures for administrative workflows such as payroll, attendance, procurement, and contracting; and Program-specific operating procedures for, among other things, education, security, and safety on- and off-campus.

The following are the key procedures prepared by the Program’s administration, and which support its administrative and educational operations (security and safety procedures will be discussed in Chapter 3 — Program Security and Safety Arrangements).

- Contracting Procedure
- Employee Recruitment Procedure
- Payments Procedure
- Petty cash Procedure
- Ami-Chai Procedures for Staff and Students
- Ami-Chai Program Instructor File

The Office of the Comptroller examined the Program’s organizational structure, its employee job descriptions as per the Joint Council of

Pre-Military Programs' recommendations, separation of duties, and employment contracts for the Program's administrative staff. The Office of the Comptroller also examined implementation of decisions from Program administration meetings.

Findings

2.1. The Program has duly defined job descriptions, in accordance with The Joint Council of Pre-Military Programs' recommendations. The Program maintains proper separation of duties between its various staff. The following positions have been defined: Program head, curriculum and project director, operations director, and office manager. Each position has specific administrative, educational, curricular, strategic, and accounting responsibilities.

2.2. Supervision by WZO's Department

The Program represents the entirety of the Zionist Council in Israel Charity's operations. The Council is included in WZO's organizational structure as an Israel and Combatting Anti-Semitism Department unit. In practice, executive, professional, and financial decisions are made by the Program's administration, without actual supervision by the Israel and Combatting Anti-Semitism Department. Program staff meetings do not include representatives from the Department, and the Department's management is not involved in the Program's decision-making. Furthermore, the Program does not submit reports to the Department's management. Since no minutes are kept of Program administration meetings (except for a handful of cases involving off-campus activities), it is not possible to assess involvement by the Israel Department and/or the director general of the Zionist Council in Israel.

Recommendation

Review the Program's and the Zionist Council in Israel's supervision by WZO's department, determine the administrative impact of such supervision accordingly, and apply the resulting guidelines. Furthermore, formalize reporting requirements for the Program to the Council's director general and to the Israel Department's management. Reports should at least be annual.

In addition, document meetings by the Program's administration and its decision-making processes involving the Council's director general and the Israel Department's staff.

Zionist Council's response

Recommendation accepted.

2.3. Compliance with labor laws

Upon examining employment data for the Program head, Program director, and educational director, employment data for instructors, and a sample of three pay slips and work attendance report for all the above, the following flaws were found:

- Employment contracts for the Program head, Program director, and educational director were not signed by the Council.
- The Office of the Comptroller examined the employment terms for the four Program instructors. The base salary set in their employment contracts was NIS 6,000 for a full-time position. The contract does not provide for overtime. In practice, pay slips presented salaries as having a base component of NIS 5,300, and a general overtime component of NIS 700. Thus, pay slips did not match the contracts.
- Sample examination of instructor attendance reports indicated that instructors regularly work substantial overtime each day. Thus, the amount of NIS 700 for such overtime (according to their pay slips) may not cover the cost of these hours under minimum wage requirements (and certainly not under the contract). For example, in December 2019, one instructor worked a total of NIS 197.5 hours, of which 23 hours' overtime payable at 125% and 7.5 hours' overtime payable at 150%. The Office of the Comptroller's calculations indicate that, in this month, the employee's gross salary should have been NIS 6,027.84, if calculated at minimum wage times their actual work hours. Their gross salary should have been NIS 6,823, if calculated at the hourly rate set in their work contract. However, their actual gross salary for that month totaled NIS 6,000.

This issue puts the Council at risk for possible future lawsuits.

- Instructors receive accommodations and meal service from the Program. However, their pay slips do not attribute a tax value to these benefits.

Recommendations

- **The Council's management should formalize and sign the employment agreements for the Program head, Program director, and educational director.**
- **Modify the Program's reconciliations with its instructors, so that**

overtime pay matches their employment contracts and applicable labor laws.

- Make sure that employee pay slips assign a tax value to any cash-equivalent benefit.

Zionist Council's response

Recommendation accepted.

3. Budget and Work Plans

Budget and expenditure data

The Program director is responsible for building the Program's budget and schedule.

The general meeting of the Zionist Council convenes each year in July, prior to the start of the school year, to approve the Program's annual budget.

Key figures from the Program's budget and expenditure in 2018–2020 (NIS):

| Budget item | 2018 | | 2019 | | 2020 | |
|--------------------------------------|------------------|------------------|------------------|------------------|------------------|--------------------------|
| | Budget | Actual | Budget | Actual | Budget | Actual (as of June 2020) |
| Revenue | | | | | | |
| From WZO | 350,000 | 257,311 | 350,000 | 350,000 | 350,000 | 0 |
| Other revenue ⁽¹⁾ | 2,159,248 | 2,254,928 | 2,248,076 | 2,539,498 | 2,746,200 | 1,237,554 |
| Total revenue | 2,509,248 | 2,512,239 | 2,598,076 | 2,889,498 | 3,096,200 | 1,237,554 |
| Expenses | | | | | | |
| Salaries | 1,080,000 | 1,084,418 | 1,140,000 | 1,139,305 | 1,162,500 | 575,454 |
| Other OPEX ⁽²⁾ | 1,140,400 | 983,190 | 1,114,250 | 1,275,933 | 1,369,700 | 576,815 |
| General and administrative expenses | 209,800 | 213,363 | 207,300 | 216,922 | 214,000 | 108,967 |
| Procurement / renovation | 79,048 | – | 136,526 | 155,987 | 350,000 | 42,949 |
| Total expenses | 2,509,248 | 2,280,971 | 2,598,076 | 2,788,147 | 3,096,200 | 1,304,185 |
| Operating (surplus) / deficit | – | (231,268) | – | (101,351) | – | 66,631 |

(1) Other revenues include revenues from the Ministry of Education, internal sources (student tuition and student labor), and revenue from projects and donations.

(2) Other OPEX include expenses for lecturers, food, housing, vehicles, activities, and projects.

In 2016, the Program began implementing an operational streamlining plan under Ministry of Education supervision, after posting repeated deficits in previous years. Thus, in the 2016–2017 school year, the Program received Ministry of Education recognition for one year.

After a year of supervision by an advisory accountant, in which the Program's finances stabilized and its net asset deficit decreased by 40%, the Program received recognition for a further 5 years, from the 2017–2018 school year and through to the 2021–2022 school year.

Goals and objectives

According to its website, the Program's goals and objectives are as follows:

- Strengthening Jewish, Israeli, and Zionist identity for students.
- Nurturing a sense of mission, social commitment, and fulfillment.
- Creating an optimal life system based on collective living and mutual support, where religious, Masorti, and secular people live together through a sense of obligation toward social improvement (tikkun) and creating a model society.
- Creating a constructive dialog between the diverse opinions in the Program, based on tolerance, discourse, and understanding the importance of disagreements.
- Providing knowledge on the nation and society, the state, ethics, and democracy, to serve as a lifelong moral toolkit.
- Nurturing a love of learning and a thirst for knowledge.
- Connecting to nature by working the land and internalizing sustainability concepts.
- Promoting manual labor as a means of enjoying creativity.
- Developing physical fitness and improved stamina, preparing students for their IDF service.
- Strengthening ties with Program alumni, to re-affirm values and social entrepreneurship.

In achieving its goals, the Program provides students with curricula on the following topics: Middle East and Arabs, volunteerism and social responsibility, Jewish nationhood, Jewish diversity, settlement, Judea and Samaria, gender, craft, sustainability, etc.

Work plan

The Program's curriculum director prepares annual work plans and schedules for the students' off-campus activities. Work plans are based on monthly

schedules for each of the two semesters. They include workshops, lectures, and off-campus activities, planned at the single-day level. Schedules specify planned dates for work plan items and off-campus activities. The Program's budget is built at the individual activity level, with activities matching the annual work plan.

Off-campus employment of students

The Program has activities known as 'Labor Week' and 'Farm Week', where students are employed in various projects. In exchange for the students' labor, the Program receives revenues.

Students are employed by Target Ltd. as salespeople and ushers in central Tel Aviv.

The Program tracks student work hours, and payment is made after comparing these records with the placement agency.

Procurement and contracts

The Program has contracted regular suppliers for food and catering services, printing services, medical equipment, and security.

The Program also hires speakers to conduct workshops and seminars. As of the audit date, the Program employs 35 regular lecturers, each of whom conducts a 2–5 session workshops. The Program also has ties with a further 40 speakers who are invited for one-time talks.

The Program does not have employee-employer relationship with the vast majority of lecturers and they are not considered Program employees.

The Office of the Comptroller examined the following:

- **Work plan development according to the Program's annual budget, and breakdown into specific activities, including budget-building practices and actual utilization — Propriety was found.**
- **The Program's goals and objectives, and alignment with WZO's goals.**
- **Work plans and schedules for Program activities, and their actual performance.**
- **Procurement and contracting practices, including contracts with speakers. This included compliance with generally accepted practices, and a sample examination of procurement and contracts from 2018–2020.**

Findings

3.1. Catering services contract

Examination of the contract with the catering supplier indicated that a new contract was signed with the supplier in August 2020. Examination of the price quotes received for these services found that the other two quotes were received retroactively, about three weeks after the agreement with the supplier had been signed. It would thus seem that no competitive bidding took place, as required by the Program's procedures, and by the Jewish Agency's Procurement Procedure adopted by WZO.

Recommendation

Make sure that 3 price quotes are obtained for procurement and contracts valued above NIS 10,000, prior to supplier selection and contracting, as required by the procedure. Furthermore, properly compare prices and document the review and decision process prior to contracting.

Zionist Council's response

The contract with the catering supplier is under continuous review to improve services and menus. Before the start of each operating year, we review suppliers and available options. Choice of supplier is dictated by price and service levels.

3.2. Monthly account reconciliations with the catering supplier

Examination of invoices issued by the catering supplier found that, each month, the supplier submits an invoice for a general amount (NIS 7–8,000 a month), without detailing the supplied goods. It is noted that the agreement with the supplier specifies rates for each serving and daily service volumes. The monthly bill is based on the number of servings ordered that month.

In its response to the draft report, the Zionist Council wrote, "We maintain detailed records of our orders from the catering service. Each month, we compare these figures before approving the invoice for payment. If a mismatch is found, we ask the supplier for a detailed report, or to correct their invoice".

The Program provided the Office of the Comptroller a review report for the sampled months. Based on the raw reporting data for the number of dishes served in December 2019, the cost of these dishes under the agreement totals NIS 21,000. In practice, the approved bill totaled only

NIS 7,500. The raw report includes redundant entries, and it is unclear how it represents a charge of

NIS 7,500. It is thus impossible to assess the level of control applied to these invoices.

Approving a final bill without proper records of the number of servings ordered and the actual service volumes may cause over/underpayment.

Recommendation

Maintain daily logs of the number of servings ordered and the number of servings supplied. At the same time, ask the supplier to submit detailed bills specifying daily figures. When approving monthly payments, check the number of supplied servings against the number of billed servings.

3.3. Contracts with speakers

The Program receives services from 35 regular lecturers who conduct talks and multiple-session workshops. The Program also hires 42 speakers for one-time engagements, to conduct workshops and other educational activities. In 2020, the Program's lecturing staff included lectures whose contract had run continuously since 2013. Upon examination, the Office of the Comptroller found that the Program does not sign agreements with these speakers. In other words, payment terms to speakers and requirements concerning professional qualifications and reporting are not formalized.

It is noted that, in 2019 and 2020, the budget for speaker engagements totaled NIS 69,700 and NIS 100,000, respectively. It is unclear why the budget was increased, when budget utilization in 2019 stood at only 64%.

Recommendation

Formalize contractual terms with regular speakers through a long-term framework agreement/work order, as common. The agreement should specify payment terms and set professional requirements for the speakers. The Program should also establish reporting requirements for speakers, including confirmation of talk content and teaching aids.

Furthermore, review the expense budget approved for speaker engagements, and the need to increase the budget despite its low utilization rate in previous years.

Zionist Council's response

The issue has been resolved, and starting from the current school year (2020–2021), all speakers submitting invoices have signed agreements.

3.4. Attribution of revenues and expenses to budget items

Analysis of planned vs actual budget performance indicates that the Program did not exceed its overall annual budget. However, the 'OPEX equipment, maintenance, and administration' item was NIS 50,000 over-budget in 2018, and NIS 90,000 over-budget in 2019. Upon inquiry with the Program director, this was due to incorrect attribution of costs to this budget item.

Furthermore, in 2018, out of a total of NIS 126,000 recorded in the 'Revenues from student labor' item, revenues of NIS 81,000 were attributable to the Joint Council of Pre-Military Programs, and so were not student labor revenues. Analysis of revenues indicated that a total of NIS 35,000 were received from the Joint Council of Pre-Military Programs in support of the Program's Retamim volunteer project, while NIS 46,000 were received through Keren Kayemeth-JNF's allocations for the Program.

Recommendation

Make sure to attribute revenues and expenses to the correct budget items, in the same year that they arose. Furthermore, apply periodic control over budget performance data, to assure compliance with the management-approved budget. If changes must be made to the budget, such changes should be made through a controlled process together with the Program's management, and documented in formal minutes.

Zionist Council's response

Recommendation accepted.

4. Safety and Security Arrangements

Statutory framework

Pre-military programs operate under the Pre-Military Programs Law, 2008 ("the Law") and the "Pre-Military Programs Regulations (Recognition of Pre-Military Programs), 2009 ("the Regulations").

The Law defines pre-military programs as an educational institution mainly

targeting security service candidates and whose goals are to prepare students for a full service term in the IDF and to educate towards social and civic responsibility.

The Law authorizes the CEO of the Ministry of Education to recognize a program according to provisions set by the Minister of Education, with the approval of the Knesset's Education, Culture, and Sports Committee. The Law also states that the state treasury will provide budgetary support for recognized programs. The scope of such support will be calculated as the multiple of the amount specified in the Law by the number of students in that program. This support will be funded by the Ministry of Education and the Ministry of Defense in equal parts.

On-campus safety and security

The Program's administration maintains a safety routine, which seeks to assure the safety and personal security of Program students living under boarding school conditions. This routine includes:

- Electricity — At the start of each school year, the Program director summons a certified electrician to inspect the Program and boarding school building. The electrician performs the required inspections and repairs, and then submits an electrician's report certifying the infrastructure in the Program and boarding school building.
- Firefighting — The Program is subject to regulatory requirements set by the National Fire and Rescue Authority. In April 2018, the Fire and Rescue Authority inspected the Program, and in February 2019 the Program received the Fire and Rescue Authority's certification.
- Sanitation — The Program is overseen by the Bnei Shim'on Regional Council's sanitation supervisor. The sanitation supervisor periodically inspects the Program and makes sure that it complies with generally accepted standards. It is noted that the Program uses third party catering services and so, as of the audit date, it does not operate an on-site kitchen. However, in the future the Program plans to build an in-house kitchen. Operating an active kitchen would require the Program to comply with Ministry of Health regulations.
- Hazard reporting — During the audit, the Office of the Comptroller was told that the Program's staff and students are trained to report any safety hazard encountered on-campus.

Aharonishki Committee

Following the tragedy in Nahal Tzafit (April 2018), on April 30, 2018 the Joint

Council of Pre-Military Programs decided to establish a committee headed by Police Commissioner (Ret.) Shlomo Aharonishki, who had formerly headed the Israel Police. The committee was tasked with formulating a safety and protection policy for pre-military programs, propose a best-practice operating model, and provide program staff with organizational and safety tools.

In October 2018, the Aharonishki Committee submitted its report and recommendations to the Joint Council of Pre-Military Programs, the Ministry of Education, and the Ministry of Defense.

The Committee's key recommendations were as follows:

1. Specifying minimum requirements for staff positions.
2. Defining the powers, responsibilities, and interaction between staff members.
3. Providing training and instruction for program staff.
4. Preparing a safety file for each program.
5. Establishing a knowledge base for education and organizational improvement.

It is noted that, when the Committee published its report, no operating procedures or regulatory guidelines had been issued by the Ministry of Education and/or the Ministry of Defense establishing safety and security requirements for pre-military programs. The Aharonishki Committee's recommendations were published as non-binding recommendations.

The Office of the Comptroller found that the Program complies with recommendations 2–3 above.

The Office of the Comptroller examined the Program's on-campus safety and security practices. This included compliance with internal and external procedures for security and safety. The Office of the Comptroller also reviewed the Aharonishki Committee's recommendations on 'Safety as Organizational Culture in Pre-IDF Programs, including options for adopting the Committee's recommendations.

Findings

- 4.1. Responsibilities and job descriptions have been set for all Program employees, concerning safety and security on- and off-campus. The Program also manages its safety routine, including reporting safety hazards and monitoring safety and sanitation in buildings.

It is noted that, the Office of the Comptroller's survey of Program alumni indicated that the Program enforces its safety routine, and all incidents are reported and handled immediately by the Program's administration.

4.2. The Office of the Comptroller received the following documents:

- Electrician's inspection certification for the electricity panels and infrastructure in the boarding school, for 2018 and 2020 — **Propriety was found.**
- Certification from the fire safety officer appointed by a fire suppression system company, for 2019 and 2020 — **Propriety was found.**
- Fire and Rescue Authority certification dated February 6, 2019. This is a one-time certification issued by the Fire and Rescue Authority following a surprise inspection. The certification notes that the dormitories house 45 students, however the actual number of students in the Program in recent years was greater than 45 and reached 68 students in the 2020–2021 school year. This may affect decisions concerning firefighting arrangements and escape routes — **Propriety not found.**

Recommendation

Proactively work to obtain annual certification from the Fire and Rescue Authority's Fire Protection Division. Make sure that such certification matches the number of students in the Program.

Zionist Council's response

Today, the number of students residing in the Program does not exceed 45 due to the COVID-19 pandemic. Another group stays in the kibbutz's rental units. It is noted that the kibbutz holds a valid and certified business license, compliant with COVID Purple Pass requirements.

Furthermore, after checking with a firefighting consultant and with the head of the firefighting station, our certification is in proper order and valid — there is no difference in the firefighting guidelines for the two figures. Based on our inquiry, the Program's certification is valid up to 80 people. However, following the Office of the Comptroller's recommendation, we contacted the Fire and Rescue Authority and requested another inspection to update the number of students.

Furthermore, in accordance with applicable guidelines, the Program performs annual inspections and repairs to its firefighting systems and equipment. These inspections and repairs are carried out by a specialist company, in accordance with Ministry of Education requirements. According to relevant experts, the

recommendation to proactively approach the Fire Authority each year is not a professional requirement. The Authority independently inspects our facilities every two or three years. Furthermore, we are required to submit our Fire Authority certification to the Ministry of Education once every five years.

5. **Off-Campus Activities**

Most of the Program's activities take place off-campus and include loaded marches, terrain navigation, drills, etc. These activities aim to provide students with survival skills, improve physical fitness, and prepare them for their military service. The Program's annual curriculum includes 4 loaded marches, wilderness hikes, and workshops.

The Program's educational director is responsible, among other things, for planning off-campus activities. For each off-campus activity, a team of 4 students is appointed. This team works with the educational director to prepare the plan and schedule for the activity, and to perform risk assessments.

A trip file is compiled for each off-campus activity. The file includes summaries of team meetings, approval from the Field-Trip Coordination Office (an office operated by the Society for the Protection of Nature in Israel on behalf of the Ministry of Education's Security, Safety, and Emergency Division), a list of all field-trip participants, procedures relevant for that trip, contact phone numbers, emergency numbers, etc.

Security and safety procedures for off-campus activities

The Program is subject to Ministry of Education and Ministry of Defense regulations concerning security and safety arrangements. The Program has also issued operating procedures to its staff and students, and compiled an instructor file with security and safety guidelines.

About a year ago, the Ministry of Education's Safety Division issued a procedures file for pre-IDF programs, entitled *Safety in Field Trips and Off-Campus Activities*. These procedures were adapted to the off-campus activities common in these programs, and were adopted by the Joint Council of Pre-Military Programs.

The file includes the following procedures: Endurance Initiation Marches Procedure; Navigation Treks in Pre-IDF Programs Procedure; Bathing in Cisterns, Springs, and Pools Procedure; Bathing in the Mediterranean Sea Procedure; and Student-Led Trips Procedure.

The Program has adopted these procedures, and complies with their provisions. As part of the Program's off-site emergency preparedness arrangements, all

Program students attend a first aid course in the first month of the Program. This training then exempts the Program from including professional medics in activities, yielding a cost savings for the Program. Students receive first aid certification which includes a course and formal certificate, and training which helps them throughout the year in their off-campus activities.

The Office of the Comptroller examined the Program’s conduct in planning and carrying out off-campus activities. This included the Program’s legal status and its oversight by regulatory bodies. The Office of the Comptroller also examined compliance with internal and external procedures applicable to off-campus activities.

The Office of the Comptroller also sampled five off-campus activities planned and carried out in the 2017–2018 to 2019–2020 school years. This included the planning and implementation workflows for these activities, including decision-making, third-party approvals, and composition of the staff participating in the sampled activities.

In all sampled cases, approvals had been obtained from the Field Trip Coordination Office, a list of field trip participants had been prepared, the file included Joint Council procedures applicable to that trip, contact numbers, and emergency numbers — Propriety was found.

5.1. Prep meetings for off-campus activities

The Program’s field trips procedure establishes a prep meeting schedule for all off-campus activities:

- 8 weeks before the activity — a meeting with the field trip coordinator, and establishing planning boundaries.
- 6 weeks before the activity — preliminary plan approval in a staff meeting.
- 4 weeks before the activity — final plan approval by the field trip coordinator, filling in the field trip coordination form, and booking transportation.
- 3 weeks before the activity — preparations.
- 2 weeks before the activity — final post-prep changes, ordering food, assigning training and instruction.
- 1 week before the activity — preparing food kits, approving instruction, presenting task assignments in a staff meeting.

Upon examining 5 off-campus activity files from 2018–2020, the Office of the Comptroller found that the staff meeting from the day before the activity was documented in only one instance.

Recommendations

- **Prep meetings should comply with the internal procedures set and approved by the Program’s administration, and the assigned tasks and decisions from these meetings should be recorded in the trip file. Furthermore, in each meeting, verify that each participant has performed their tasks from the previous meeting.**
- **The Program’s field trip procedure should include another prep meeting on the day before the activity. Decisions from this meeting, immediately prior to the activity, should be documented.**

Zionist Council’s response

Recommendation accepted.

6. Alumni Satisfaction Survey

The Office of the Comptroller performed a satisfaction survey among 13 Program alumni from the 2016–2017 and 2019–2020 school years. The survey was conducted by phone.

The Office of the Comptroller received complete lists of alumni from the past three Program classes, and selected 13 alumni at random. Survey respondents were asked questions on the following matters:

- What led them to choose Ami-Chai over other programs.
- The Program staff’s conduct, and their interaction with the educational staff.
- The Program’s contribution to their military service.
- Boarding school conditions in the Program.
- Security and safety arrangements on- and off-campus in the Program.
- Debriefings, organizational improvement, and discussion of incidents that occurred during their time in the Program.
- Recommendations for improvement.

The overall impression from these phone calls was that alumni were happy with their choice to attend the Ami-Chai Program, and its location in Kibbutz Kramim. Among other things, alumni favorably noted their ties with the Program’s staff and other alumni, the level of the curriculum, and the comfortable living conditions.

In three interviews, alumni mentioned that the Program did not

significantly contribute to their military service, and that expectations should be aligned between the Program’s administration and students in this regard.

In six additional calls, alumni noted that meals were of very poor quality. It is noted in this context that the Program director stated that the Program has contracted a new catering service provider starting August 2020, for the 2020–2021 school year, and that the administration is aware of this issue and is working to address it.

Summary of Recommendations

| Chapter | Title | Recommendation |
|---------|--|--|
| 2 | Supervision by WZO’s department | <p>1. Review the Program’s and the Zionist Council in Israel’s supervision by WZO’s department, determine the administrative impact of such supervision accordingly, and apply the resulting guidelines. Furthermore, formalize reporting requirements for the Program to the Council’s director general and to the Israel Department’s management. Reports should at least be annual.</p> <p>2. Document meetings by the Program’s administration and its decision-making processes involving the Council’s director general and the Israel Department’s staff.</p> |
| 2 | Compliance with labor laws | <p>1. The Council’s management should formalize and sign the employment agreements for the Program head, Program director, and educational director.</p> <p>2. Modify the Program’s reconciliations with its instructors, so that overtime pay matches their employment contracts and applicable labor laws.</p> <p>3. Make sure that employee pay slips assign a tax value to any cash-equivalent benefit.</p> |
| 3 | Catering service agreement | <p>Make sure that 3 price quotes are obtained for procurement and contracts valued above NIS 10,000, prior to supplier selection and contracting, as required by the procedure. Furthermore, properly compare prices and document the review and decision process prior to contracting.</p> |

| Chapter | Title | Recommendation |
|----------------|--|--|
| 3 | Monthly reconciliations with catering supplier | Maintain daily logs of the number of servings ordered and the number of servings supplied. At the same time, ask the supplier to submit detailed bills specifying daily figures. When approving monthly payments, check the number of supplied servings against the number of billed servings. |
| 3 | Contracting speakers | Formalize contractual terms with regular speakers through a long-term framework agreement/work order, as common. The agreement should specify payment terms and set professional requirements for the speakers. The Program should also establish reporting requirements for speakers, including confirmation of talk content and teaching aids. Furthermore, review the expense budget approved for speaker engagements, and the need to increase the budget despite its low utilization rate in previous years. |
| 3 | Allocation of revenues and expenses to budget items | Make sure to attribute revenues and expenses to the correct budget items, in the same year that they arose. Furthermore, apply periodic control over budget performance data, to assure compliance with the management-approved budget. If changes must be made to the budget, such changes should be made through a controlled process together with the Program's management, and documented in formal minutes. |
| 4 | Fire and Rescue Authority certification | Proactively work to obtain annual certification from the Fire and Rescue Authority's Fire Protection Division. Make sure that such certification matches the number of students in the Program. |
| 5 | Prep meetings for off-campus activities | 1. Prep meetings should comply with the internal procedures set and approved by the Program's administration, and the assigned tasks and decisions from these meetings should be recorded in the trip file. Furthermore, in each meeting, verify that each participant has performed their tasks from the previous meeting. 2. The Program's field trip procedure should include another prep meeting on the day before the activity. Decisions from this meeting, immediately prior to the activity, should be documented. |

March 2021

Response of the Chairman of the Zionist Executive to the Comptroller's Report on Ami Chai — Pre-IDF Program

In accordance with Section 18B to the Statutes for the Comptroller and the Control Office of the World Zionist Organization, which requires the Chairman of the Zionist Executive to submit his response to the Comptroller's reports, the following is my response to the report on the Ami Chai Pre-IDF Program.

Pre-IDF programs are another element building the character of Israeli youths prior to a significant IDF service experience. We in the World Zionist Organization were privileged to have played an active role in the educational development of these youths prior to their enlistment.

Despite the intense and challenging activities sampled between the 2018 and 2020 school years, the report mostly presents a normal and compliant picture, except for flaws remedied during the audit or accepted as part of the outstanding cooperation between the audited staff and the Office of the Comptroller. This cooperation was also noted in the report.

In responding to this audit report, I would like to recall the Tzafit disaster, where students were put in danger, which proper planning and reasonable execution could have prevented.

The audit report refers to the Aharonishki Committee's conclusions. It notes that as of the audit date, the program complies with some of the recommendations, but there is room for improvement in defining qualification requirements for various staff, preparing a safety file for the program, and creating an information center for organizational improvement and learning. We must comply with procedures in full, and even go beyond the letter of the law to constantly assure the safety of these students.

I would like to thank the program's staff and its director for their outstanding value-driven work, which reflects our aim to create a model Israeli society in keeping with Zionist ideals. And as Janusz Korczak said, "He who cares for days sows wheat, who cares for years plants trees, who cares for generations educates people."

On behalf of the World Zionist Organization, I thank you for the audit.

(-) Yaakov Haogel
Jerusalem, April 2022

Jewish Colonial Trust Ltd.

Jewish Colonial Trust Ltd.

1. General

The audit of Jewish Colonial Trust Ltd. (“the Company”) took place in February-June 2022, in accordance with the National Institutions’ Comptroller’s long-term work plan.

The audit focused, among other things, on the following:

1. Corporate governance in the Company.
2. Controls over Company investments.
3. The Company’s conduct and that of its corporate organs (Investment Committee, Board of Directors, etc.).

2. Background

Jewish Colonial Trust Ltd. was incorporated in Israel on February 22, 1953, as a public company.

According to its memorandum of association, the Company’s goals include receiving the enterprise, business, assets, and liabilities of Otzar Hityashvut Hayehudim Jewish Colonial Trust Limited, a company incorporated in England. The Company will furthermore work to establish, develop, operate, and manage industries, ventures, and settlement plans in Eretz Israel in any manner which may, in the Company’s Board’s opinion, be to the benefit of the Jewish People in any country or place.

Over the years, the Company’s main holdings consisted of Bank Leumi shares.

Following a settlement agreement approved by the Tel Aviv District Court on November 28, 2016, the Company ceased being a public company and became a privately-held company as of January 10, 2017.

The Company is a holding company whose investments mainly consist of securities. According to the Company’s financial statements for 2021, the Company’s investments, including financial assets at fair value and long-term investments, totaled NIS 789 million (2020 — NIS 628 million).

The Company's main operating segments are:

1. Financial investments (securities traded on the Tel Aviv Stock Exchange — **TASE**, investment in investment funds, and holdings in Bank Leumi shares).
2. Developing, building, and managing photo-voltaic (i.e. — solar) power generation facilities and projects.

As of March 2022, the Company's shareholders were the World Zionist Organization ("WZO") (90.56% of equity; 95.28% of voting rights), and Keren Hayesod — United Israel Appeal (9.44% of equity; 4.72% of voting rights).

History

Formerly: The Zionist Organization Bank.

In English, the Company is known by the acronym JCT.

The Company's origin lies in a decision by Theodor Herzl in 1896 concerning the need to establish an economic body to support the realization of the Zionist vision. Two years later, in August 1898, the Second Zionist Congress decided to establish a Hebrew bank with an equity of GBP 2 million. Since the affluent Jewish figures of the time refused to aid the Zionist movement, it was decided to sell the bank's shares to the general Jewish Diaspora. In order to allow Jews from all walks of life to take part in the bank's foundation, it was decided that two million shares would be issued, at a value of GBP 1 each.

Ultimately, only GBP 250,000 were raised, but this was enough to establish the bank. In 1899, the Company was registered in London as a company held through shares. In 1901, Zionist banker Zalman David Levontin was appointed general manager of the new bank. In 1902, the Company established a subsidiary — The Anglo-Palestine Company (later — the Anglo-Palestine Bank; the bank is better known under the names APC and APC Bank). In 1903, Levontin came to Israel, and in July he opened the first APC branch in Eretz Israel, in Jaffa. Over the following years, APC opened several more branches in Israel, and worked to realize Herzl's vision of promoting the Zionist effort.

In its first years, the Company cleared checks and issued loans. It also invested in the Jewish banks of Lodzkie Bank Depozytowej in Poland and the Jewish Central Bank in Lithuania. The Company also transferred funds from South Africa to Europe, developed import and export ties with Eastern Europe, and was involved in the diamond trade in Belgium. In the 1920s, the Company saw profits from these businesses, but operations decreased in the wake of the Great Depression. As such, it was decided to move the Company's business to

Eretz Israel. In 1934, the Company ceased to operate as a financial institution in England, and became a holding company with controlling interest in APC Bank. In 1936, the Company's shares began trading on the Securities Exchange Bureau, the precursor to the Tel Aviv Stock Exchange.

The founding of the State of Israel brought about two material changes in both the Company and its subsidiary — In 1950, Bank Leumi LeIsrael (BLL, herein — “Bank Leumi”) was established in Israel, and received all the assets and liabilities of the Anglo-Palestine Bank. Three years later, another company was incorporated in Israel by the name of Jewish Colonial Trust Ltd., which received the operations and assets of the English company Otzar Hityashvut Hayehudim Jewish Colonial Trust Company [Limited]. The following years saw no material changes in the Company, other than an increase in its investment in Bank Leumi.

During the bank equity crisis of October 1983, in an attempt to prevent a collapse in the banks' share values, the government announced that it was nationalizing the banks whose shares were regulated, converting the shares into USD-linked, State-backed debentures. In each of the relevant banks, a subsidiary was established under the name ‘Betuchut’ (Sureties), whose purpose was to execute the arrangement and uphold the government's rights in the securities bought in consultation with the company. In Bank Leumi, this was a Jewish Colonial Trust subsidiary known as BLL Sureties (1983) Ltd.

One of the outcomes of this bank share arrangement was the end of the Company's control of Bank Leumi. In order to secure the interests of the public shareholders, the Company's shareholdings in Bank Leumi were transferred to the State. Thus, control of the bank was transferred to the largest shareholder, which was now the Israeli government. On March 8, 1990 the Jewish Colonial Trust ceased to have absolute control over its offspring, Bank Leumi LeIsrael. In compensation for its agreement to forego control of the bank, the Company received 3% of Bank Leumi's equity shares, in addition to its pre-existing 1.9% shareholding.

In 2015, the Company was sued to distribute its shares in Bank Leumi as a dividend in kind to its shareholders. The lawsuit ended with a settlement, whereby the Company bought back its shares from all shareholders other than the World Zionist Organization, Keren Hayesod, and the Ministry of Justice — Custodian General. As a result, the Company ceased being a public, TASE-traded company.

Today, the Jewish Colonial Trust, whose controlling shareholder is the World Zionist Organization, is a financial investments company and a company investing in infrastructure development ventures.

3. **The Audit**

- 3.1 The Office of the Comptroller met with the Company's Director General, WZO's Secretary General, and the Company's Secretary.
- 3.2 Furthermore, upon request, the Office of the Comptroller received the following documents:
 - 3.2.1 Annual and quarterly financial statements for 2018–2021.
 - 3.2.2 The Company's accounting records and trial balance sheet from 2018 through today.
 - 3.2.3 Changes in the Company's holdings in Bank Leumi from 2014 through today.
 - 3.2.4 The internal auditing plan approved by the Company's Audit Committee.
 - 3.2.5 The Company's internal audit reports, including in years when the Company was still public.
 - 3.2.6 Risk survey report from 2020.
 - 3.2.7 Goren ruling concerning the Company's founders' shares.
 - 3.2.8 Valuation for solar infrastructure firm, Doral.
 - 3.2.9 Minutes from the Company's Board meetings in 2018–2021.
 - 3.2.10 Minutes from Investment Committee meetings in 2015–2021.
 - 3.2.11 Minutes from the Jewish Colonial Trust 120-Year Anniversary Committee meetings in 2018–2019.
 - 3.2.12 Minutes from the Audit Committee meeting of November 4, 2020.
 - 3.2.13 Details of salaries paid to officers and Board members in 2018–2021.
 - 3.2.14 The Company's bylaws.
 - 3.2.15 List of Company shareholders who have not been located.
 - 3.2.16 The Company's periodic report for 2016, submitted to the TASE in March 2017.
 - 3.2.17 The Company's operating procedures.

4. Findings and Recommendations

4.1 Board of Directors

Findings

A. **Factors in choosing and appointing Board members** — The minutes for the general meeting of December 29, 2021 detail a decision to re-appoint directors (in accordance with the bylaws), and to appoint an additional director. The decision to appoint an additional Board member was adopted unanimously without discussion. Upon inquiry as to the factors behind director appointments, it seems that Board member appointments are made in the World Zionist Organization’s Expanded Assets Committee, and Committee members propose names for discussion. The Office of the Comptroller received transcripts (stenograms) from WZO’s Expanded Asset Committee’s meetings of April 19, 2021 and April 25, 2021. Upon examining these transcripts, they were found to include discussions on the choice of new Board members. Since no official minutes were obtained, it is difficult to identify the speakers in this discussion.

B. **Number of members** — Section 98 to the Company’s bylaws dictates that at least 5 members may be appointed to the Company’s Board, and 15 members at most.

The number of Board members increased from 7 in 2018 to 11 in 2021. The Office of the Comptroller was told that WZO wished to bring a broader range of members to the Board to increase its involvement and supervision over the Company. No minutes were received for the general meeting appointing the 4 new Board members in 2021. According to the transcripts (stenograms) from WZO’s Expanded Assets Committee, it seems that appointment of these new Board members was discussed there.

In 2018–2021, only one Board member left, in 2018. Furthermore, of the 11 active Board members in 2022, 5 had been serving for over 10 years (appointed in December 2010), and one Board member had been serving for eight and a half years (appointed in December 2013).

C. **Board member qualifications** — No information was received concerning the Board members’ education, their experience, their CVs, or any substantiating documents. The issue of Board member qualifications (and particularly those of the Investment

Committee) was also not discussed upon their appointment. In fact, the Office of the Comptroller could not examine the Board members' or the Investment Committee members' qualifications or their ability to perform their duties. The Company's director general stated that he does not have the Board members' CVs or education certificates. A review of the transcripts from WZO's Expanded Assets Committee's discussions indicates that it does not believe that minimum qualification requirements should be set for Board members, and that each member's qualifications are reviewed individually.

D. **Sub-committee appointments**

- Minutes from Board meetings show that, in its meeting of March 29, 2018, the Board appointed its members to 4 committees: Investment Committee, Audit Committee, JCT 120-Year Anniversary Committee, and the Bank Leumi Committee which discusses the Company's policy in Bank Leumi's general meetings. The minutes did not include any discussion or explanations concerning each committee's composition. Furthermore, in practice only 3 of these 4 committees convened periodically. The Bank Leumi Committee never convened.
- The Office of the Comptroller received the Board and Board Committee Workflows Procedure, dated February 2015. Chapter 4 to the procedure specifies the functions and composition of the committee for examining the Company's financial statements ("Balance Sheet Committee"). Chapter 6 to the procedure specifies the functions and composition of the Law and Regulations Committee. Chapter 7 to the committee specifies the functions and composition of the Compensation Committee. Examination of the minutes for the Company's Board and Board committees received by the Office of the Comptroller indicates that the Company has not appointed these committees.

E. **Frequency of Board and sub-committee meetings** — The following table details the number of Board and sub-committee meetings each year, as indicated by the minutes received by the Office of the Comptroller:

| Committee | Year | No. of minutes | Comments |
|------------------------------------|------|----------------|-------------------------------------|
| Board Committee | 2018 | 7 | One meeting by phone |
| | 2019 | 4 | |
| | 2020 | 3 | Two meetings by Zoom |
| | 2021 | 4 | All meetings by Zoom |
| | 2018 | 3 | |
| | 2019 | 2 | |
| | 2020 | 5 | 3 meetings by Zoom |
| | 2021 | 2 | Two meetings by Zoom |
| Investment Committee | 2018 | 3 | |
| | 2019 | 2 | |
| | 2020 | 5 | 3 meetings by Zoom |
| | 2021 | 2 | 2 meetings by Zoom |
| JCT 120-Year Anniversary Committee | 2018 | 2 | |
| | 2019 | 4 | |
| Audit Committee | 2020 | 1 | No minutes received for other years |
| Bank Leumi Committee | | – | Committee did not convene |

The Office of the Comptroller believes the frequency of the Board Committee meetings in 2018–2021 to be reasonable.

However, the frequency of the Investment Committee's meetings in 2018, 2019, 2021 was insufficient. For a company where investment makes up the core of its operations, the investment committee should convene more frequently, such as once every two months or once every quarter.

F. Minutes from Board meetings

1. In general, the examined minutes were unsigned. This goes against Section 108(b) to the Companies Law, which states, “*Minutes approved and signed by the board member who managed the meeting, will serve as prima facie evidence of their content*”. This also violates Section 11.2 to the Board and Board Committee Workflows Procedure of February 2015.
2. Minutes indicate that previous meeting minutes are not always approved.
3. In general, the examined minutes were not numbered. Only the Investment Committee's minutes from 2015 were numbered.

From 2016 onward, minutes from the Board and sub-committee meetings were not numbered.

4. There were two instances where identical minutes were received for meetings from different dates — minutes for the Investment Committee’s meetings of August 28, 2018 and October 28, 2018 were completely identical. Likewise, minutes for the 120-Year Anniversary Committee’s meetings of July 8, 2018 and October 28, 2018, were also completely identical. The matter was referred to the Company for clarification, but to date the Company’s response has not been received.
5. Except for the above, minutes included all necessary details — date, attendance, agenda, discussion, and decisions.

G. **Board members’ pay**

- Minutes from the Board meeting of February 20, 2018 note that the general meeting of December 31, 2017 resolved to set the annual Board member fee at NIS 40,000, and that pay for meeting participation would be NIS 1,200 per meeting. Section 101 to the Company’s bylaws states that Board member pay will be set by the general meeting, and so the Company complied with its bylaws.
- Calculations were received for Board member pay and meeting participation pay in 2020–2021. Upon examination, calculations were found to be in due order and compliant with the law, regulations, and amounts set in the general meeting of December 31, 2017. The Office of the Comptroller also sampled meeting participation pay included in the period 1–6/2020 and 7–12/2021. This included examining the number of meetings in which the Board members participated based on minutes from said periods (including examining rate reductions in case of remote participation, as per the regulations). **Propriety was found.**
- According to the calculation for Board member pay and meeting participation pay in 2020–2021, as received from the Company, some Board members were found to have been paid against invoices while for others the Company issued an internal invoice and deducted the VAT itself. For example, in the pay calculations for Q4/2021, of 10 Board members who received pay — 5 submitted invoices, and for 5 the Company issued an internal invoice. Furthermore, according to said calculation, the

Company was found to deduct withholding tax for some of the Board members. **Propriety was found.**

- H. **Preventing conflicts of interest** — The Company’s director general stated that Board members are not required to sign any conflict of interest document, in violation of Section 4 to the Transactions Involving Personal Interest for a Controlling Shareholder or Officer Procedure of April 2013. That section requires the Company secretary to send declarations the Company’s officers and controlling shareholders to identify potential conflicts of interest. The Office of the Comptroller believes, that in light of the Company’s profile where the bulk of its operations are based on Board decisions concerning substantial monetary investments, Board members should be required to complete a questionnaire to identify potential conflicts of interest, especially as the issue is formalized through a Company procedure.
- I. **Internal audit plan** — As detailed in Section 4.6(c) below, in its meeting of November 4, 2020, the Audit Committee recommended that the Company’s Board adopt the internal audit plan for 2021. However, no minutes were received of any Board meeting discussing and approving the annual internal audit plan for 2021.

Recommendations

- A. **The shareholder (WZO) should adopt criteria for appointing Company Board members.**
- B. **When appointing members to its Board and sub-committees, the Company should discuss such appointments in general meeting. Furthermore, discussions should be documented through general meeting minutes.**
- C. **The Board and Board Committee Workflows Procedure of February 2015 requires that a committee be convened to study the Company’s financial statements (“Balance Sheet Committee”), as well as a Law and Regulations Committee, and a Compensation Committee. The Company should review the need for such committees, and update its procedure accordingly.**
- D. **The Company should make sure that minutes are numbered and signed, and retain a physical copy of signed minutes in its registered offices. Furthermore, the Company should make sure to approve previous meeting minutes in its Board and sub-committee meetings.**

- E. **The Company should draft a current procedure for preventing conflicts of interest. The procedure should require Board members to answer a questionnaire for identifying potential conflicts of interest.**
- F. **The Company's Board should discuss the Company's annual internal audit plan.**

Company response

Section c. — The Board Workflows Procedure will be updated to specify the standing committees. The Board Workflows Procedure is tailored for a public company, which the Company used to be. There is no obligation to appoint committees. The Board will discuss adapting the procedure to the fact that the Company is no longer a public company, as defined by law.

Section d. — Board and Board committee meetings will be numbered, and minutes will be signed.

Section e. — We will draft a conflicts of interest procedure and send a corresponding questionnaire to all Board members. Board members will be required to sign a declaration upon their appointment and/or re-appointment, and update the Company on changes in the information provided in their declaration.

4.2 **Investment Committee — Functions and Performance**

Findings

- A. **Investment Committee member qualifications** — The Investment Committee was appointed by the Board in 2018, as detailed in Section 4.1(d) above. Upon its appointment, no discussion took place concerning the committee members' qualifications or suitability for the job. As detailed in Section 4.1(c) above, the Office of the Comptroller did not receive any CVs or professional experience information for the committee members. It is emphasized that investment is an extremely material matter for the Company, and so it is paramount that Investment Committee members have relevant experience. And yet, it was not possible to examine the Investment Committee members' qualifications or suitability for the job. **The Office of the Comptroller believes that the Investment Committee members' appointment is unsatisfactory, which may have material impact when making investment decisions in the Company.**

- B. Investment Committee meeting frequency — As detailed in Section 4.1(e) above, the frequency of the Investment Committee’s meetings in 2018, 2019, and 2021 was insufficient. In a company where investment accounts for the core of its operations, the investment committee should meet at least quarterly or every two months.
- C. Investment Committee discussions — Minutes from the Investment Committee’s meetings indicate that discussions are not adequately thorough, and investment amounts are insufficiently founded. For example, in its minutes for meeting of March 9, 2021, the Investment Committee resolved to contract Y. L. Investment Portfolio Management Ltd., and invest a total of NIS 70 million. The discussion did not establish any basis or reasons for this amount as compared to any other sum. Furthermore, investment-related discussions were usually found not to refer to the composition of the Company’s portfolio, or a thorough review of all the criteria set forth in the Company’s investment policy.
- D. The Investment Committee as a sub-committee — The minutes for the Board of Directors and the Investors Committee meetings indicate that some investment-related issues are only discussed by the Board, without prior discussion by the Investment Committee, and vice versa. For example, the minutes for the Investment Committee meeting of March 9, 2021 resolve, as aforesaid, to contract Y.L. with a NIS 70 million investment, and even sell Bank Leumi shares to fund the investment. No minutes were found of a Board meeting discussing this decision by the Investment Committee. The matter was mentioned in the Board’s meeting of April 20, 2021, as part of the director general’s review, as a decision that had been made and implemented.
- E. Contract with Y.L. Investment Portfolio Management Ltd. — In the Board meeting of June 16, 2020, the Chairman of the Board noted that the Board recommended the Company contract two portfolio managers. In the Investment Committee meeting of November 22, 2020, issues were pointed out in the contracts with the P .and A. investment houses, and the Company’s director general asked the Investment Committee’s approval to pursue a contract with Y. L. In the Investment Committee meeting of March 9, 2021, the director general reported that the original intention had been to contract Y.L. and P. However, since P. was being sold, the Company had suspended negotiations and decided to contract Y. L. It was further decided to approach another portfolio manager to obtain

their proposal. Examination of the minutes for the period March-December 2021 found no progress in this contract with another investment house.

The Office of the Comptroller believes it uncommon that a company contract only one investment house for such a substantial sum. Even with smaller amounts, it is common to split the contract with several institutions to generate competition and incentives.

- F. Diversification — Minutes for the Investment Committee meeting of August 13, 2019 include a proposal to diversify the Company’s portfolio, and it was decided to study the matter. The Office of the Comptroller reviewed the Company’s holdings (financial assets at fair value) before and after the decision, using the Company’s financial statements for 2018–2021. The Company was found to have implemented its decision and diversified its portfolio.

- G. Portfolio management policy

The Company has established an investment policy, which was discussed and approved by the Investment Committee on February 12, 2020. The policy document includes the profile of existing investments — exposure to geographic regions, currencies, investment channels, restrictions on credit types, restrictions on borrower types, and restrictions on investment in bonds / credit risk in Israel.

Findings

1. Upon examination, the Office of the Comptroller believes the policy deals mainly with financial considerations, without reflecting a preference for Zionist-relevant investments over other investments. The Company’s memorandum includes Zionist goals as part of the Company’s goals, as detailed in Section 4.8 below. This is also reflected in Section 1.1 to the Company’s Investment Procedure of November 2012 — “*The Company has Zionist goals and wishes to manage its investment in line with these goals*”.
2. In formulating its investment policy, one could have expected the Company to perform a preliminary survey of consultants to serve as a basis for its policy. This is especially true in light of the small number of projects that the Company invests in. The Office of the Comptroller did not receive any documents indicating that such a preliminary consultant survey was carried out.

3. In its meeting of July 22, 2020, the Investment Committee noted that the investment policy was formulated on February 12, 2020, before the COVID pandemic, and so the policy should be re-evaluated. Despite this recommendation, minutes from subsequent meetings did not find any updates to the investment policy adopted on February 12, 2020, nor was there any record of a re-evaluation of the Company's portfolio management policy.
 4. The Office of the Comptroller was told that the Company was consulted by institutional investment organizations, but no documents or details were received to support these statements.
- H. Preparations for Investment Committee meetings — In the minutes for the Investment Committee's meeting of November 22, 2020, discussing the contract with Y.L., part of the discussion concerned clarification of details from the agreement. The agreement was not provided to the participants, nor did any participant have the necessary information during the discussion. The Office of the Comptroller believes the Committee members could not have formed a complete picture concerning this contract during the discussion. In these types of meetings, the Company should make sure there is someone present who is familiar with the agreement. The Company should also provide a draft of the agreement to the Committee members prior to the meeting, for their review.

A similar finding can be found in the minutes for the Board meeting of June 16, 2020, where a Board member noted that they had not received, as part of the material circulated prior to the meeting, a table related to a slide provided by the investment consultant detailing scenarios by investment policy.

- I. **Reliance on third party consultants — A review of the Investment Committee's minutes found that, in 2016, a consultant helped the Company in making investment decisions, and participated in Investment Committee meetings. The consultant was found to have a personal interest, and was expected to receive a commission on the transactions. As a result, the Investment Committee re-convened and re-examined the matter. The Office of the Comptroller believes, as detailed in Section 4.10(e) below, that the Company does not take sufficient action to prevent potential conflicts of interest, as evidenced by the above incident.**

- J. There were no instances of investments being made before Board and/or Investment Committee approval. **Propriety was found.**
- K. Investment in a solar energy company — In 2014, the Company acquired 50% of the issued share capital of Company D, in consideration for NIS 22,375 thousand. In 2018, the Company bought 10% of the share capital of D Renewable Energy Resources Ltd., in consideration for NIS 33,400 thousand. In 2019, the Company sold its holdings in Company D to D Renewable Energy Resources Ltd. in consideration for NIS 39 million (as per the fair value appraised in a third party valuation on April 2, 2019). The Office of the Comptroller found the Company's decisions in these transactions to have been reasonable, based on a valuation report, and profitable for the Company. **Propriety was found.**

Recommendations

- A. **The Company should establish criteria for appointing Investment Committee members.**
- B. **The Investment Committee should convene at least quarterly.**
- C. **The Company should make sure that Investment Committee members discuss potential investments with consideration to Zionist-relevant investments, as dictated by the Company's goals, and in accordance with criteria set forth in the Company's investment policy.**
- D. **In material investments (e.g. — individual and cumulative investments above NIS 10 million), the Investment Committee should hold preliminary discussions, while decisions are made by the Board.**
- E. **The Company should contract several investment houses and not just one investment house (Y.L). This would generate competition, incentives, and facilitate contract termination if the Company is not happy with the services.**
- F. **When formulating its investment policy, the Company should rely on a preliminary survey of investment consultants to compare proposals.**
- G. **Make sure to provide full, detailed documents before Board and sub-committee meetings, to enable more substantial discussions.**
- H. **In light of the finding where a consultant had personal interest**

but provided investment advice in 2016, the Company should formulate a conflict of interest procedure to prevent similar incidents in the future, as detailed in Section 4.10(e) below.

Company response

Recommendation (a) — We consider job-suitability when appointing committee members.

Recommendation (b) — The recommendation is accepted and will be implemented.

Recommendation (c) — Company investments are Zionist-oriented and match the Company’s goals.

Recommendation (d) — The recommendation is accepted and will be implemented.

Recommendation (e) — The Company has decided not to apply the ‘league’ approach, and reviews portfolio manager performance against its investment policy and against a corresponding metric for the portfolio.

Office of the Comptroller’s reply

The Office of the Comptroller does not accept the Company’s argument and believes that, for the abovementioned reasons, the Company should contract several investment houses, and not just one investment house.

Recommendation (g) — The recommendation is accepted and will be implemented.

Recommendation (h) — In this case, we believe there was no conflict of interests. The Company was aware of the matter and approved the consultant’s remuneration.

4.3 Audit Committee

Findings

- A. The Chair of the Company’s Audit Committee has been a Company Board member since December 2010, i.e. — for over 10 years. This goes against Section 21.1 to the Board and Board Committee Workflows Procedure of February 2015, which states, “*The chair of the Audit Committee will be an external Board member who has not served more than nine years on the Company’s Board*”.
- B. The Office of the Comptroller received minutes from the Audit Committee’s meeting of November 4, 2020. The minutes were not signed.

Recommendations

- A. **The Company should consider changing the Audit Committee Chair, who has been serving for 12 years in violation of the procedure. Alternatively, the Company should update its procedure.**
- B. **Make sure to document and retain signed minutes of Audit Committee meetings.**

Company response

We will retain signed minutes.

4.4 **Holdings in Jewish Colonial Trust Ltd. Shares**

General

As mentioned, as of March 2022, the Company's shareholders were WZO (90.56% of equity; 95.28% of voting rights) and UIA (9.44% of equity; 4.72% of voting rights).

On November 28, 2016, the Tel Aviv District Court approved a settlement agreement in Class Action 1570-01-15 which requested a distribution in kind of all of the Company's shareholdings in Bank Leumi LeIsrael Ltd. and in Originating Motion 19308-05-15 which requested the court to order the distribution of Bank Leumi shares held by the Company as a dividend in kind to all shareholders ("the Settlement Agreement"). The Settlement Agreement stated that the Company would buy back from all its shareholders who subscribed to the Settlement Agreement (excluding WZO, UIA, and the Administrator General, who notified of their non-subscription to the Settlement Agreement) their holdings in the Company's shares in consideration for Bank Leumi shares and cash, as per the terms set forth in the Settlement Agreement.

Findings

- A. The Company has un-located shareholders from decades ago. The Office of the Comptroller received a file containing a list of un-located shareholders. There are 102 such shareholders holding 1,030 Company shares. The Company's director general stated that these are delisted shares. He stated that, under the aforementioned Settlement Agreement, the Company received 563,355 shares in Bank Leumi, whose value as of March 31, 2022 totaled NIS 19,470 thousand in consideration for the Company shares held by the un-located shareholders. The director general stated that the un-located

shareholders are not entitled to Company shares, but rather to Bank Leumi shares.

- B. Minutes from Company Board meetings indicate that the issue of un-located shareholders comes up from time to time. However, the Office of the Comptroller believes that serious efforts are not made to locate these shareholders. The Director General stated that letters were sent to the addresses available to the Company, and these letters were returned to sender.
- C. The issue of the un-located shareholders also came up in the Audit Committee's meeting of November 4, 2020, where the Company's Director General even noted that the issue warrants review by the internal auditor. However, the Audit Committee decided not to include the matter in the long-term internal audit plan.
- D. The Director General stated that the Company's liability to un-located shareholders through unpaid dividends totals NIS 2,869 thousand, and Bank Leumi shares whose value as of March 31, 2022 totaled NIS 19,470 thousand as stated in sub-section (a) above. The Office of the Comptroller was told that the Company deposited funds in a savings account to cover its dividend-based liabilities in case of any future call on these payments (the Director General stated that these funds are kept in a savings deposit at the Bank Leumi interest rate). The Director General further stated that the deposit totals NIS 3,030 thousand. The Office of the Comptroller did not receive any calculation of the Company's liability or any supporting documents concerning the deposit balance.
- E. The Company Secretary stated that it is difficult to obtain information on un-located shareholders from before 2017.
- F. Dividend payout — Despite its accrued earnings, the Company did not distribute dividends in 2020–202. The Company does not have a dividend distribution policy.

Recommendations

- A. **The Company should take serious action to locate all its un-located shareholders. Consider using third party consultants and/or investigation firms.**
- B. **In light of the Company's accrued earnings, the Company should discuss and formulate a dividend distribution policy.**

4.5 **Procurement and Contracting**

General

The Office of the Comptroller received a Supplier Contracting Procedure, dated April 21, 2011. The procedure specifies the supplier selection process, and establishes a value hierarchy for when the Company must obtain one, two, or three quotes. The procedure also assigns ownership and responsibility to specific staff, and provides for repeat order, urgent orders, and orders based on fixed payments to the service provider.

Findings

- A. Minutes from the Board and sub-committee meetings indicate that decisions are sometimes made to contract a service provider without considering other options. For example, minutes from the JCT 120-Year Anniversary Committee's meeting of January 15, 2019 detail a decision to contract Mrs. L.P. to convert the bank's book entitled *The Jewish Colonial Trust* into an e-book. According to the minutes, there was no discussion on any other potential provider for the service, and the committee approved the contract. Furthermore, that same meeting also approved the contract for the service provider who would supervise Mrs. L.P.'s work on the JCT's behalf (supervising consultant). Here, too, no other candidates were proposed. The Company's books for 2019 indicate that the amounts paid to these service providers mandate three price quotes under the Supplier Contracting Procedure.
- B. Upon examination, the Supplier Contracting Procedure of April 21, 2011 does not provide for potential conflicts of interest or related party transactions. Furthermore, it has been more than a decade since the procedure's approval. The procedure should be reviewed and updated.
- C. The internal audit report from November 2016 concerning contracts for legal counsel and litigation services found that some of the sampled service providers did not have signed contracts. This flaw was re-examined in the present audit, and the Office of the Comptroller requested signed agreements for several sample service providers. Findings were as follows:
 1. No agreement was received for the Company Secretary. The Director General stated that no agreement has been signed with her.
 2. The Office of the Comptroller received a summary of an agreement with the law firm of K & Co., dated November 27,

2021. The summary was not signed. Furthermore, the Company stated that it could not find a signed copy of the agreement, and that the summary provided to the Office of the Comptroller was the new, abridged version sent to the Company in November 2021. The Company also stated that the Company disagrees with the consideration specified in the summary, of NIS 4,800 a month plus VAT. In practice, the Company pays another amount of NIS 1,200 a month.

3. The Office of the Comptroller received an agreement signed with the Company's internal auditor — S. H. & Co., on October 13, 2021. The agreement was duly signed and detailed.
4. The Office of the Comptroller received a letter of contract from the Company's accounting firm, dated June 12, 2021. The letter was signed by the Company's Director General and included the Company's stamp and a Company Board member's signature. The letter was also duly detailed.

In light of sub-sections (1) and (2) above, **the finding from the internal audit report more than 5 years ago has not been corrected.** The Company contracts relatively few service providers. **But in some cases, agreements have not been signed, and the flaw has not been corrected.**

Recommendations

- A. **The Company should make sure to comply with its Supplier Contracting Procedure's quoting requirements before choosing a supplier.**
- B. **The Supplier Contracting Procedure should be reviewed and re-approved with any necessary changes. The procedure should also provide for related party transactions and for potential conflicts of interest as detailed in Section 4.10(e) below.**
- C. **The Company should make sure to sign agreements with all third party service providers, and retain these signed agreements.**

Company response

Recommendation (a) — The Company will comply with the Suppliers Procedure.

Recommendation (b) — The procedure will be reviewed and updated as necessary.

Recommendation (c) — Recommendation accepted.

4.6 Internal Auditor

Findings

- A. The Company appointed a new internal auditor on September 10, 2019. In the Audit Committee meeting of November 4, 2020, the internal auditor presented a risk survey performed by their firm, S. H. & Co., in 2020. According to this survey, the intrinsically high-risk audit points related to the Company's investment operations — investments, Investment Committee, investment operations, investment valuations, investment policies, and control over investment inflows including supervision over portfolio managers.
- B. **Despite the above, no investment-related audit has been performed in the Company. In fact, for the period spanning the internal auditor's appointment and up to the present audit (in June 2022), the Office of the Comptroller received only one audit report.** The Office of the Comptroller received an internal audit report on payment method prepared in 2021, as part of the Audit Committee's auditing plan for 2021. This report was prepared even though the risk survey found this issue to have a low intrinsic risk profile.
- C. In its meeting of November 4, 2020, the Audit Committee recommended that the Board adopt the internal auditing plan for 2021. However, no minutes were received from the Company's Board discussing and approving the annual auditing plan.
- D. The Office of the Comptroller received internal audit reports from 2014–2016, on the following topics:
- Contracts with legal counsels and litigation, from 2016.
 - Investment management through investment portfolio managers, from 2016.
 - Follow-up on previous audit report recommendations, from October 2015.
 - Risk survey to identify auditing targets, from March 2015.
 - Non-financial investments, from November 2014.

The Office of the Comptroller received a long-term internal auditing work plan for 2015–2018. The issues listed for 2017–2018, and half of 2016 were not audited at all. In other words — the internal auditor's work plan was not implemented.

Recommendations

- A. **The Company's Board should discuss the Company's annual internal auditing work plan.**
- B. **An audit should be performed of the Company's investment operations, which are of a high intrinsic risk profile according to the 2020 risk survey.**
- C. **The Company should make sure to meet the internal auditing targets set forth through an approved long-term internal auditing work plan.**

Company response

Recommendation (b) — The internal auditor will follow the auditing plan, and we will recommend that they audit investment operations.

Recommendation (c) — The Office of the Comptroller's recommendation is accepted and will be implemented. The auditor will follow the long-term auditing work plan.

4.7 **Bank Leumi Shares**

General

The Office of the Comptroller received a print-out of the Company's transactions in Bank Leumi shares from January 1, 2014 to January 1, 2022. No information was received on transactions in these shares from before 2014, but the Director General stated that in most of those years no transactions took place. According to the information for the period from January 1, 2014 to January 1, 2022, most of the transactions in Bank Leumi shares were made in 2017, when the shares were sold on the TASE, there was a buyback of shares, and additional shares were sold in November 2017. In 2017, there was a significant drop in the number of shares, from 73,299,000 shares on January 1, 2017, to 19,954,752 shares on January 1, 2018. From January 1, 2018 to January 1, 2021, there were no transactions at all in these shares. In 2021, 3,253,016 shares were sold to fund the investment in Y.L. investment house. A further 1,244,415 shares were sold to finance a loan to the World Zionist Organization (according to the Company's audited financial statements for 2021, the Company provided WZO a loan of NIS 35 million on October 11, 2021. The loan principal is denominated in NIS, unlinked, and bears an annual interest of 3.05%. WZO is to repay the principal in one lump sum, on December 31, 2022). As of January 1, 2022, the number of shares held by the Company totaled 15,457,321, valued at NIS 517,047 thousand. As detailed in Section 4.4 above, in November 2016, the Tel Aviv

District Court approved a settlement agreement whereby the Company would buy back from all its shareholders subscribing to the settlement agreement (excluding WZO, UIA, and the Administrator General) all their holdings in Company shares, in exchange for Bank Leumi shares and cash. Following this settlement agreement, the number of Bank Leumi shares held by the Company in 2017 decreased significantly.

Transactions in Bank Leumi shares held by the Company, based on the print-out received by the Office of the Comptroller:

| Period | Shares | Stake |
|--|--------------|-------|
| Jan. 1, 2014 | 73,294,000 | 4.97% |
| Jan. 1, 2015 | 73,294,000 | 4.97% |
| Jan. 1, 2016 | 73,294,000 | 4.97% |
| Sale | (240,000) | |
| Purchase | 245,000 | |
| Jan. 1, 2017 | 73,299,000 | 4.81% |
| Sale on TASE | (9,536,228) | |
| Buyback | (34,984,714) | |
| Repayment of loan from a company, payable in shares | 1,914,486 | |
| Sale — Nov. 2017 | (10,746,475) | |
| Shares received through settlement, through registered-share holdings | 24,974 | |
| Returned shares | (16,814) | |
| Jan. 1, 2018 | 19,954,752 | 1.31% |
| Jan. 1, 2019 | 19,954,752 | 1.34% |
| Jan. 1, 2020 | 19,954,752 | 1.36% |
| Jan. 1, 2021 | 19,954,752 | 1.37% |
| Sale 1 | (3,253,016) | |
| Sale 2 | (1,244,415) | |
| Jan. 1, 2022 | 15,457,321 | 1.1% |

Findings

- A. The Office of the Comptroller examined transactions in Bank Leumi shares from January 1, 2014 to January 1, 2022, as provided in a detailed print-out. The print-out was in due order and matched the financial statements. **Propriety was found.**
- B. In comparing the value of the shares as presented in the 2015–2021 financial statements, and the value at the TASE closing price at the

end of each year, the value was found to be identical or close to identical, with immaterial differences. **Propriety was found.**

- C. The discussions in the Company's Board regularly refer to the Bank Leumi shares, including routine review of any increase/decrease in the share's price.
- D. No minutes were provided for decisions during the significant decrease in the Company's holdings in Bank Leumi shares in 2017.
- E. The Company's Board did not discuss the sale of these shares in 2021 — at what price the shares would be sold, and whether the timing was right for the sale.
- F. As aforesaid, some of the Bank Leumi shares were sold. This was due, among other things, to the Company's policy of diversifying its investments, as detailed in Section 4.2(f) above.

Recommendation

Company minutes should document any significant increase/decrease in the Company's holdings due to sales/purchases, such as the decrease in the Company's holdings in Bank Leumi shares in 2017, and the sale of these shares in 2021.

Company response

The Company will make sure that minutes provide detailed documentation of share transactions.

4.8 **Company Bylaws**

Findings

- A. The Office of the Comptroller received the Company's bylaws and memorandum of association, updated as of February 27, 2017. The memorandum of association specifies the Company's goals in expansive detail. Findings were as follows:
 - The memorandum of association lists numerous goals, not all of which are actually pursued. However, the Office of the Comptroller believes the finding to be immaterial, as there is no obligation to pursue all goals.
 - Some of the goals listed on the Company's memorandum are of a Zionist nature, for example — "...conducting industries, ventures, and settlement programs in Eretz Israel...", or "...managing the Jewish People's Aliyah to Eretz Israel ... for the

benefit of the Jewish People in any land or place”. However, as detailed in Section 4.2(g)(1) above, the Company’s portfolio management policy does not specifically refer to Zionist goals. The Office of the Comptroller believes that, even if there is no obligation to pursue all the prescribed goals, the Company’s memorandum/bylaws should include goals which the Company actually intends to pursue.

- B. There were no flaws indicating that the Company violates its bylaws.

Recommendation

The Company should consider updating its bylaws to include clear and current goals which the Company actually intends to pursue and achieve. In particular, the Company should consider whether it intends to pursue Zionist-oriented goals in its operations.

Company response

Company operations do not deviate from the goals set forth in its memorandum, even if it does not realize them all. Should the Company wish to pursue any operations not included in the goals listed in its memorandum, then a change in its bylaws would be warranted.

4.9 **Accounting**

Findings

The Company’s accounting firm, LA, provides the Company both accounting and auditing services. Regulation 3(12) to the Accountant Independence in Israel Regulations (Accountant Regulations)(Conflicts of Interest and Diminished Independence through Other Occupations), 2008, states that the external auditor’s engagement for accounting services in an audited entity which is a public company whose annual turnover exceeds NIS 5 million undermines the auditor’s independence. As detailed in Section 2 above, until 2017 the Company was a public company, and so Regulation 3(12) to the Accountant Independence Regulations applied to it up to that date. Since the Company is now a private company, the regulation no longer applies. **Propriety was found.**

4.10 **Company Management**

A. **Reports to the Companies Authority**

Findings

On checking the Company’s file through the Ministry of Justice

website, the Office of the Comptroller found that the Company is designated as noncompliant, since the Company does not file reports to the Companies Registrar and does not pay its annual fee as required under the Companies Law and Regulations. Upon inquiry with the Company's Director General, no satisfactory explanation was received for this failure to file reports and pay the annual fee.

Recommendation

The Company should make sure to file its mandatory reports with the Companies Registrar and pay its annual fee as required by the Companies Law and Regulations.

Company response

The Company has paid its debt to the Registrar and will make sure to file reports on time.

B. Director General's pay

General

The Office of the Comptroller received the agreement with the Company's Director General. The agreement was signed August 31, 2010, and indicates that the Director General started working with the Company on August 1, 2010, at 40% of a full-time position.

Findings

The Office of the Comptroller received Form 106 for the Company's Director General for 2021. Upon comparing the Director General's pay with the benchmark for government companies of comparable size, the Director General's pay was found to be reasonable.

Propriety was found.

C. Operating procedures

The Company provided the Office of the Comptroller with the following procedures:

- Internal Enforcement for Securities Procedure, from October 2012.
- Reporting and Public Disclosure Procedure, from April 2013.
- Investment Procedure, from November 2011, updated November 2012.
- Company Secretary Workflows Procedure, from April 2013.

- Board and Board Committee Workflows Procedure, from February 2015.
- Supplier Contracting Procedure, from April 2011.
- Non-Usage of Insider Information Procedure, from April 2013.
- Preventing Securities Fraud and Manipulation Procedure, from April 2013.
- Tracking and Reporting Interested Party and Officer Holdings in the Company and Holdings where the Company is an Interested Party Procedure, from April 2013.
- Transactions with a Personal Interest for a Controlling Shareholder or Officer Procedure, from April 2013.
- Compliance and Regulations Procedure, from August 2011.

Findings

- A. The Company's procedures were found to be over 7 years old, with some even over 10 years old. Furthermore, some procedures concern issues that were relevant when the Company was public, and have not been updated to the Company's current form of incorporation, as a private company.
- B. The Office of the Comptroller found flaws in the procedures' implementation, as detailed in this report above. Other than the above, no further flaws were identified.

Recommendation

The Company should update its procedures to align them with its current corporate format as a private company. Procedures should then be ratified by the Board.

Company response

The Company will review all its procedures, annul those procedures which are no longer relevant, and update those that need updating.

D. Preventing conflicts of interest

Findings

The Company does not take sufficient action to prevent potential conflicts of interest. As detailed in Section 4.1(h) above, the Company does not require its Board members to sign any declarations in this matter, and does not work to identify potential conflicts of interest. Furthermore, the Company procedures pertaining to conflicts of

interest are out of date, and do not explicitly refer to Company employees and third party consultants.

Recommendation

The Company should formulate an updated procedure on preventing conflicts of interest. The procedure should include a provision requiring Company employees, officers, and third party consultants to answer a questionnaire to identify potential conflicts of interest.

Company response

A conflicts of interest procedure will be formulated, and all relevant staff will sign the appropriate declarations.

4.11 Quarterly Financial Statements

Findings

The Company’s reviewed quarterly statements for 2018–2020 were unsigned.

Recommendation

Although a private company is not required to file quarterly reports, since the Company does prepare such reports, they should be signed by the Company’s auditing accountant, the Board, and the Director General.

5. Summary of Recommendations

| Section | Topic | Recommendation |
|-------------------|----------------------------|---|
| 4.1 (a), (b), (c) | Board member appointment | <ul style="list-style-type: none"> • The shareholder (WZO) should adopt criteria for appointing Company Board members. • When appointing members to its Board and sub-committees, the Company should discuss such appointments in general meeting. Furthermore, discussions should be documented through general meeting minutes. |
| 4.1(d) | Sub-committee appointments | The Board and Board Committee Workflows Procedure of February 2015 requires that a committee be convened to study the Company’s financial statements (“Balance Sheet Committee”), as well as a Law and Regulations Committee, and a Compensation Committee. The Company should review the need for such committees, and update its procedure accordingly. |

| Section | Topic | Recommendation |
|---------------------|---|---|
| 4.1(f) | Board meeting minutes | The Company should make sure that minutes are numbered and signed, and retain a physical copy of signed minutes in its registered offices. Furthermore, the Company should make sure to approve previous meeting minutes in its Board and sub-committee meetings. |
| 4.1(h) | Preventing conflicts of interest | The Company should draft a current procedure for preventing conflicts of interest. The procedure should require Board members to answer a questionnaire for identifying potential conflicts of interest. |
| 4.1(i) 4.6(c) | Internal auditing plan | The Company's Board should discuss the Company's annual internal audit plan. |
| 4.2(a) | Investment Committee member qualifications | The Company should establish criteria for appointing Investment Committee members. |
| 4.2(b) | Investment Committee meeting frequency | The Investment Committee should convene at least quarterly. |
| 4.2(c), (d), (g)(1) | Investment Committee discussions | <ul style="list-style-type: none"> • The Company should make sure that Investment Committee members discuss potential investments with consideration to Zionist-relevant investments, as dictated by the Company's goals, and in accordance with criteria set forth in the Company's investment policy. • In material investments (e.g. — individual and cumulative investments above NIS 10 million), the Investment Committee should hold preliminary discussions, while decisions are made by the Board. |
| 4.2(e) | Contract with Yelin Lapidot | The Company should contract several investment houses and not just one investment house (YL). This would generate competition, incentives, and facilitate contract termination if the Company is not happy with the services. |
| 4.2(g)(2) | Consultant survey | When formulating its investment policy, the Company should rely on a preliminary survey of investment consultants to compare proposals. |
| 4.2(h) | Preparation for Investment Committee meetings | Make sure to provide full, detailed documents before Board and sub-committee meetings, to enable more substantial discussions. |
| 4.3(a) | Audit Committee chair's appointment | The Company should consider changing the Audit Committee Chair, who has been serving for 12 years in violation of the procedure. <u>Alternatively</u> , the Company should update its procedure. |

| Section | Topic | Recommendation |
|------------|---|--|
| 4.3(b) | Audit Committee minutes | Make sure to document and retain signed minutes of Audit Committee meetings. |
| 4.4(a)–(e) | Unlocated shareholders | The Company should take serious action to locate all its un-located shareholders. Consider using third party consultants and/or investigation firms. |
| 4.4(f) | Shareholder dividends | In light of the Company’s accrued earnings, the Company should discuss and formulate a dividend distribution policy. |
| 4.5(a) | Supplier Contracting Procedure | The Company should make sure to comply with its Supplier Contracting Procedure’s quoting requirements before choosing a supplier. |
| 4.5(b) | Updating the Supplier Contracting Procedure | The Supplier Contracting Procedure should be reviewed and re-approved with any necessary changes. The procedure should also provide for related party transactions and for potential conflicts of interest as detailed in Section 4.10(e) below. |
| 4.5(c) | Agreements with third party service providers | The Company should make sure to sign agreements with all third party service providers, and retain these signed agreements. |
| 4.6 | Internal audit on investment operations | An audit should be performed of the Company’s investment operations, which are of a high intrinsic risk profile according to the 2020 risk survey. |
| 4.6(d) | Long-term internal audit plan | The Company’s Board should discuss the Company’s annual internal auditing work plan. The Company should make sure to meet the internal auditing targets set forth through an approved long-term internal auditing work plan. |
| 4.7(e) | Documenting decisions to transact in shares | Company minutes should document any significant increase/decrease in the Company’s holdings due to sales/purchases, such as the decrease in the Company’s holdings in Bank Leumi shares in 2017, and the sale of these shares in 2021. |
| 4.8 | Company goals | The Company should consider updating its bylaws to include clear and current goals which the Company actually intends to pursue and achieve. In particular, the Company should consider whether it intends to pursue Zionist-oriented goals in its operations. |
| 4.10(a) | Reporting to the Companies Registrar | The Company should make sure to file its mandatory reports with the Companies Registrar and pay its annual fee as required by the Companies Law and Regulations. |
| 4.10(c) | Company procedures | The Company should update its procedures to align them with its current corporate format as a private company. Procedures should then be ratified by the Board. |

| Section | Topic | Recommendation |
|----------------|----------------------------------|--|
| 4.10(d) | Preventing conflicts of interest | The Company should formulate an updated procedure for preventing conflicts of interest. The procedure should include a provision requiring Company employees, officers, and third party consultants to answer a questionnaire to identify potential conflicts of interest. |
| 4.11 | Quarterly financial statements | Although a private company is not required to file quarterly reports, since the Company does prepare such reports, they should be signed by the Company's auditing accountant, the Board, and the Director General. |

October 2022

Response of the Chairman of the Zionist Executive to the Comptroller's Report on Jewish Colonial Trust Ltd.

In accordance with Section 18B to the Statutes for the Comptroller and the Control Office of the World Zionist Organization which requires the Chairman of the Zionist Executive to submit his response to the Comptroller's reports, the following is my response to the report on Jewish Colonial Trust Ltd.

The report focuses on that important entity, the Jewish Colonial Trust. Back in 1896, Theodor Herzl, who envisioned our State and founded our organization, already understood that a far-reaching Zionist endeavor must be backed by a sound economic body. And so, since 1898 the Jewish Colonial Trust has been working and growing, making significant economic achievements for the Zionist movement. The visionaries and pioneers of that age left us with tools to realize their Zionist vision, as well as ours.

As stated in the report, the company has known ups and downs over the years, but when the purpose is paramount, and the leadership fit, even crises and changes can be navigated, as detailed in the report.

However, since one cannot just leave it at that, I would like to point out several issues indicated by the report which should be addressed before making any decisions concerning the public funds entrusted to us to support the continued strength of the Zionist movement.

- 1) First and foremost, as a financial entity with substantial volumes of capital investments, the company must focus not only on maximizing profit, but also the need to support Zionist-oriented companies and ventures. In contrast to all other investment funds, we set goals for the company more than 100 years ago, and it is important that we follow them, as that is our mandate in the company.
- 2) The Gemara, in Baba Metzia, gives advice for managing one's finances: "A person should always divide his money into three — one in the ground (real estate) and one third invested in business and one third keep in his possession (cash)".

Professionally, it is clear that both in the past and in the present the company's board has worked tirelessly to generate profit through the Jewish Colonial Trust. However, there may be room to follow both the Gemara and the Comptroller's recommendations and better diversify the investment. The

diversification profile presented by the Comptroller puts the Jewish Colonial Trust's funds at risk if a certain company / sector finds itself in distress, without any supplementary hedges.

- 3) In line with the practice for members of the Zionist Executive and officers in this organization, Jewish Colonial Trust officers should be clear of any hint of possible conflicts of interest. I welcome the company's response, which during the audit already noted that it would change its board operations procedure to match the recommendations.
- 4) As concerns dividends payable to shareholders from decades ago, I accept the Office of the Comptroller's recommendation and it is our obligation to make efforts to locate them or their heirs if possible.

This audit report is an opportunity to thank the board members, past and present, and the professional officers for their efforts in laying a suitable economic foundation for the tremendous endeavor created here 125 years ago, and which still has a long way to go. I would like to wish the new chairman of the board luck and success in realizing the company's goals and in correcting the flaws as presented in the audit report.

On behalf of the World Zionist Organization, I thank the National Institutions Comptroller for the audit.

(-) Yaakov Hagoel
Jerusalem, November 2022

HaMeshakem
Employment for the Elderly and Individuals with
Limited Working Capacity Ltd.

HaMeshakem

Employment for the Elderly and Individuals with Limited Working Capacity Ltd.

1. Introduction

As part of its work plan, the Office of the National Institutions Comptroller (“the Office of the Comptroller”) performed an audit of **HaMeshakem Ltd.** The audit took place between March and November 2020, and included the following:

- A. The performance of the Company’s statutory organs.
- B. Revenue presentation on the Company’s financial statements.
- C. Contract with Ministry of Welfare, and implementation of said contract.
- D. Implementation and updates of the HQ staff’s employment agreements.
- E. Possible risks and exposure with the Israeli income tax and VAT authorities.
- F. Operating procedures for suppliers and service providers, and compliance with said procedures.
- G. Contracts with suppliers and service providers, and implementation of said contracts.

The audit mainly took place in the Company’s main offices, where the Company’s accounting and payroll operations take place.

Note: Due to COVID restrictions in place at the time, the Office of the Comptroller inspected one employment center, instead of the original plan to inspect five.

The audit included meetings with the following:

- CEO
- CFO
- Internal Auditor
- Chief Accountant

Operations and Acquisitions Manager
Human Resources Manager
Payroll accountant
Member of the HQ accounting staff

2. **General**¹

HaMeshakem is a mixed government company² and is the leading company in Israel for occupational rehabilitation and inclusion of people with disabilities in Israel's economy. Since its founding in 1962, HaMeshakem has provided a stable, dependable, rehabilitative employment environment for some 2,800 employees working in supported, sheltered jobs in some 100 towns nationwide.

The Company's staff are a diverse, multi-cultural mosaic of different parts of Israeli society. The Company is a multi-disability company, employing people with physical, emotional, cognitive, and sensory disabilities. 75% of the Company's staff are over 45.

The Company has an annual turnover of NIS 150 million. The Company is co-owned by the World Zionist Organization (60%) and Ministry of Labor, Welfare, and Social Services (40%).

The Company's main offices are located in Or Yehuda, with 20 employees.

2.1 **The Company's business**

Industrial Division

The Company has 21 projects across the country. These provide services to institutional and private-sector clients across a range of industries, such as:

- Outsourced packing services — for food, metal objects, electrical and tech appliances, toiletries, and cosmetics.
- Manufacturers — manufacturing plastics, dog food, razors, pads, and print.
- Textiles — 6 sewing shops in Israel's outlying areas employ some

1 Background material was received from the Company.

2 According to the Government Companies Law, 1975, Chapter 1 — General Provisions — “Mixed Company” — “A company which is not a government company and where half or less of the voting power in its general meetings or the right to appoint half or less of its directors is given to the State”.

180 staff and mainly produce uniforms for the IDF and Israel Police, as well as facemasks for the COVID pandemic.

- Digital scanning center — provides professional scanning, document management, and archival services including project characterization, preparation of scan files, document scanning, and nationwide indexing services.

Gardening and Occupations Division

HaMeshakem is one of Israel's largest gardening contractors, specializing in building, maintaining, and developing hundreds of thousands of square meters of gardens nationwide for public, institutional, and private-sector organizations. These jobs employ some 450 people, including professional gardeners, some of whom hold professional certification.

Placement Division

HaMeshakem has extensive experience placing, employing, and rehabilitating people with disabilities in all parts of the Israeli economy. The division provides placement services for numerous organizations including government ministries, military bases, and private-sector companies and organizations. The division is a driving force in rehabilitating workers with disabilities through their inclusion in the workforce. This is accomplished by providing professional, comprehensive solutions for both the employee and employer, while focusing on rehabilitative and occupational considerations.

HaMeshakem follows a unique, integrative model for creating a work environment that's both occupational and rehabilitative, based on a large network of social workers and occupational rehabilitation experts. In HaMeshakem, each employee receives a personalized plan based on their abilities, skills, and preferences which maximizes each person's employment potential. HaMeshakem has formal employment relations with its employees, paying full social benefits and uniform salaries.

HaMeshakem provides its employees an accessible, diverse, enriching, and empowering workplace, which promotes personal and occupational development through courses, numerous social activities, cultural benefits, and health services.

Chapter 1 — Contracts with Government Ministries

3. Contract with the Ministry of Welfare and Social Services (“Welfare Ministry”)

The Office of the Comptroller checked the implementation of the Welfare Ministry contract, based on the agreement and its ancillary documents. The Office of the Comptroller also checked the Company’s risk exposure if the terms of the agreement and/or ancillary documents were not met in full (for details of the ancillary documents, see Appendix A).

3.1 **State Comptroller’s report**

The following quote is taken from the State Comptroller’s 2007 report concerning HaMeshakem, and which indicated that Company reporting should be based on actual work days.

“A sample examination by the State Comptroller’s Office found that the number of days reported by HaMeshakem to the Welfare Ministry exceeded the number of days recorded in the Company’s internal reporting system”.

3.2 **2008 restructuring plan, and Welfare Ministry’s response to the plan**

Following the State Comptroller’s audit of the Company in 2006–2007, and after a joint review team was set up by the Welfare Ministry and the Ministry of Finance, the Welfare Ministry appointed an accountant to draft an organizational restructuring plan for the Company.

In this restructuring plan, the accountant noted, among other things, the following, ***“Each month, HaMeshakem will submit a full list of actual employees for the reported month, with the following information: full ID number, employee name, referring party, actual number of work days, actual number of work hours”*** (emphasis added herein).

The restructuring plan also states that **payment to HaMeshakem will be based on an employer’s cost report, to be attached.**

The minutes from the April 1, 2009 meeting of the Inter-ministerial Tenders Committee for Procurement of Goods and Services, state:

“...The Ministry will continue its contract with HaMeshakem while continuing to implement the overall restructuring plan”.

Appendix C to said minutes refers to the Welfare Ministry and prescribes monetary mechanisms for the contract. The appendix states that

calculations will be based on 90% actual attendance, reflecting the average actual work performance for all rehabilitation placements in the Company.

3.3 **Welfare Ministry funding for salary costs of rehabilitation placements**

The addendum to the Welfare Ministry's agreement with the Company, dated April 29, 2019 ("Contract Extension"), states that the Ministry's monthly funding per rehabilitation placement will total 60% of NIS 2,958 (excluding VAT). However, the Welfare Ministry's contract extension with HaMeshakem from October 22, 2019 (covering 2020), specifies that the Welfare Ministry's payments to HaMeshakem will only total 60% of NIS 2,876 a month.

It is noted that the Welfare Ministry's support for HaMeshakem's costs is decreasing over the years.

Conclusion

The restructuring plan drafted by the accounting firm as instructed by the Ministry of Finance's Accountant General following the aforesaid State Comptroller's report, the minutes from the Inter-ministerial Tenders Committee's meeting, and the Welfare Ministry's Contract Extension for 2020 — all indicate that HaMeshakem should have submitted payment requests to the Welfare Ministry only for actual work performed by its employees in the billed month.

Company's response

- A. The Company had only received the draft restructuring plan, and not the final report.
- B. The restructuring plan was drafted over a decade ago, and the draft does not reflect the Company's current obligations. Furthermore, minutes from recent years do not mention any 'continued implementation of the restructuring plan'.

Office of the Comptroller's comment

On August 16, 2021, HaMeshakem signed another contract (valid through December 31, 2025) with the Ministry of Labor and Welfare. Under this agreement, the Welfare Ministry's monthly funding to HaMeshakem totals 60% of NIS 2,965 (excluding VAT). In contrast to prior agreements, this agreement does not refer to or require that employees be employed with "90% actual attendance". Following the audit, HaMeshakem's CFO contacted the Welfare Ministry's Adult and

Senior Service Director to approve HaMeshakem’s billing practices with the Ministry. On June 1, 2022, the latter responded by email that, **“Following on the response of the Ministry’s Chief Accountant, who has recently retired, and on the response of the Administration budget manager, I approve your reporting format for payments to HaMeshakem employees”**.

Furthermore, the Office of the Comptroller has recently received a legal opinion dated March 16, 2021 (Appendix C). The opinion states that HaMeshakem’s legal interpretation of ‘actual attendance’ is reasonable, as is the contract’s performance, which constitutes an ‘implied contract’. Thus, according to the opinion, the Company is compliant.

In light of the above, it would seem that as from the effective date of the new agreement, HaMeshakem’s billing practices for Welfare Ministry funding meets the Welfare Ministry’s formal requirements for reporting on HaMeshakem employees.

3.4 Review of Company invoices submitted to the Welfare Ministry in 2019

The Office of the Comptroller examined calculations for bills submitted from January to October 2019. Findings were as follows:

1. The Company reports employees for whom no pay slips were issued

According to the calculation in the table below, the Company overbilled the Ministry by NIS 1,016,960 in January–October 2019.

2. The average monthly work hour calculation submitted by the Company indicates that, in most months, the Company meets the 90% average work attendance requirement based on a 5-hour daily position.

Calculations for Bills Submitted to the Welfare Ministry

| Month | Employees billed to the Welfare Ministry | Employees with Status 1 and 3 pay slips ³ | Reported employees not recorded as Status 1 | Total | Diff. |
|-------|--|--|---|-------|-------|
| 1/19 | 2,646 | 2,580 | 4 | 2,584 | 62 |
| 2/19 | 2,625 | 2,558 | 4 | 2,562 | 63 |
| 3/19 | 2,635 | 2,582 | 4 | 2,586 | 49 |

3 Status 1 — rehabilitation placement.

Status 3 — rehabilitation placement under special salary terms.

| Month | Employees billed to the Welfare Ministry | Employees with Status 1 and 3 pay slips ³ | Reported employees not recorded as Status 1 | Total | Diff. |
|-------|--|--|---|-------|-------|
| 4/19 | 2,613 | 2,544 | 4 | 2,548 | 65 |
| 5/19 | 2,633 | 2,554 | 4 | 2,558 | 75 |
| 6/19 | 2,658 | 2,586 | 4 | 2,590 | 68 |
| 7/19 | 2,657 | 2,647 | 4 | 2,651 | 6 |
| 8/19 | 2,640 | 2,555 | 4 | 2,559 | 81 |
| 9/19 | 2,642 | 2,562 | 5 | 2,567 | 5 |
| 10/19 | 2,642 | 2,538 | 5 | 2,543 | 99 |
| | | | | | 573 |

The above table indicates that the Company billed the Welfare Ministry for 573 employees who did not actually work (were not issued pay slips) in January-October 2019. The monetary value of billing the Welfare Ministry for 573 employees who were not issued pay slips totals NIS 1,016,960 (NIS 1,774.80 X 573).

Of the NIS 1,774.80 which the Welfare Ministry pays the Company in funding for each rehabilitation placement, the 'fixed costs' component totals NIS 98, while the salary cost component totals NIS 1,676.80.

In 2018, the internal auditor prepared a follow-up report on correction of the above flaws, and found the following:

- Some employees were absent, but were still reported to the Welfare Ministry.
- Some employees had died, but were reported to the Welfare Ministry.
- Company reports to the Welfare Ministry included employees who were on unpaid leave or in prison.

The Office of the Comptroller inquired if corrections were submitted to the Welfare Ministry following the internal auditor's findings. They were not.

It is noted that following discussions with HaMeshakem on the draft audit report, the Office of the Comptroller examined HaMeshakem's bill to the Welfare Ministry for December 2021. The bill included 2,440 employees claimed by HaMeshakem in that month, excluding 7 employees on unpaid leave, and as backed by the relevant invoice (number 263499).

However, upon further inquiry, the bill which excluded the 7 people on unpaid leave was based on the State's request to distinguish between

employees on unpaid leave and actual employees, due to the COVID pandemic. In other words, this is not Company policy and does not reflect its future conduct.

Recommendation

Work with the Welfare Ministry to arrange payment for the fixed cost component for the entire 2,800 staff quota for rehabilitation placements, which the Company is allotted under its agreement with the Welfare Ministry. This includes increasing the amount for these costs.

Office of the Comptroller comment

The Office of the Comptroller believes the Company should not bill the Welfare Ministry for employees who did not actually work in a given month (i.e. — a person for whom no pay slip was issued).

However, in light of the opinion recently received by the Office of the Comptroller (Appendix C), stating that the Company’s interpretation of the terms of the agreement is valid — the Office of the Comptroller accepts the Company’s calculation, reporting, and billing methods for the Ministry of Welfare and Social Affairs, including as concerns employees who did not actually work in a given month.

3.5 The Company’s internal audit reports concerning its contract with the Welfare Ministry

A review of the Company’s internal audit reports from 2016 indicates that the issue of billing the Welfare Ministry for non-working employees was raised in these reports as well. Relevant quotes from these reports are presented in Appendix B below.

3.6 Audit Committee’s response to the internal audit report on flaw corrections from 2018

The minutes from the Audit Committee’s meeting of February 14, 2019, state, “*The Audit Committee asks the CEO to clarify the criteria, and ask the auditor to re-examine the matter in six months*”.

The present audit found that, despite the Audit Committee’s instructions, the internal auditor did not re-examine the matter after six months.

Conclusions

The internal auditor properly performed her duties in the two audit reports of 2016 and 2018. She brought the flaws she encountered in her audits before the Company’s management and Audit Committee.

The Company did not submit retrospective amendments following the flaws identified by the internal auditor in 2016.

Moreover, the internal auditor's follow-up report from 2018 on flaw corrections indicates that the Company did not implement the internal auditor's recommendations in full.

In light of the severity of the flaws identified by the internal auditor, one would expect the Audit Committee to have issued immediate instructions to implement the internal auditor's recommendations (including for correcting past flaws).

As mentioned, the Audit Committee did not follow-up on the implementation of its own recommendations.

Recommendations

- **The Company should prepare an actionable work plan for correcting the flaws identified in the internal auditor's report from 2016, and the flaw correction report from 2018.**
- **An internal procedure should be established for following up on Audit Committee recommendations.**
- **The Company should make sure that the internal auditor prepares another follow-up report as instructed by the Audit Committee in the minutes from the Audit Committee meeting of February 14, 2019.**

Company response

The internal auditor will perform the audit in January 2021.

3.7 The legal counsel's response to the internal auditor's work

The Office of the Comptroller encountered a letter written by the Company's legal counsel, dated October 25, 2016, referring to the draft internal audit on reports to the Welfare Ministry. The letter summarizes the legal counsel's position on the draft internal audit report following the request by the Company's CEO at the time, as conveyed by the legal counsel, that understandings be reached with the internal auditor concerning the final audit report.

This letter from the legal counsel includes recommendations for amendments to the report, and instructions to remove segments from the draft audit report submitted to the Company's CEO at the time.

The Office of the Comptroller believes it is improper for a CEO to ask the legal counsel to meet with the internal auditor to change an audit report.

Thus, for example, Section 10.2 to the legal counsel’s letter of October 25, 2016, states, “*Remove the following recommendation:*

The report’s findings indicate that the Company increased the number of employees actually working and reported them to the Welfare Ministry in order to obtain a greater budget...”

It is noted that this paragraph was not included in the final internal audit report.

Conclusion

The internal auditor’s work was subject to outside intervention, which changed her recommendations in the final report.

Recommendation

The Company must guarantee the internal auditor’s independence and prevent any intervention in her work.

Company response

There was no intervention in internal audit operations. Moreover, everything was done together with the internal auditor.

Chapter 2 — Service Provider Contracts

The Office of the Comptroller sampled expenses from 2019.

Examination included service provider invoices, withholding tax exemption certificates, bookkeeping certificates, contract compliance, mainly for on ongoing services, and compliance with Company procedures.

4. The following accounting files were sampled for expenses:

- Rental fees
- Subcontractors
- Rehabilitation empowerment
- Legal costs
- Rehabilitation counselor
- Safety counseling
- Software services
- Sales promotion

4.1 Rental fees

The Office of the Comptroller sampled 100% of all rental fees for areas leased by the Company throughout the country.

4.1.1 AADG Properties and Investments Ltd. — Leased building at 9 Halutzei HaTa'asia, Haifa

| | |
|---------------------------------|-------------------------------------|
| Agreement dated July 13, 2010 | 1,150 sq.meter |
| Appendix dated December 1, 2012 | 575 sq.meter |
| Appendix dated July 1, 2015 | <u>575</u> (at NIS 18/square meter) |
| | 2,300 square meters |

Starting July 1, 2015, the Company leased the second half of the floor pursuant to the agreement from December 1, 2012. The agreement dated July 1, 2015 did not specify the square meter area added. The Office of the Comptroller assumes it was 575 square meters at NIS 18/meter, i.e. — 2,300 square meters x NIS 18 = NIS 41,400. The amount matches the amount on the sampled invoice.

4.1.2 Michael Tzuk — Leased building at 7 HaShfela Street, Kiryat Arie, Petah Tikva.

Agreement dated January 10, 2012 — NIS 65,000 a month, plus linkage.

Addition dated January 6, 2016 — NIS 70,000 a month, plus linkage.

Upon examination, the amount plus linkage matched the amount on the sampled invoice.

The agreements and/or addition do not specify the square meter area to be leased.

4.1.3 Sam'aan George Shukha — 56 HaHaroshet Street, Natzrat Illit industrial area, Nof HaGalil.

The following documents were provided:

Agreement dated February 24, 2010 with Salina Industries (1972) Ltd. — previous owner.

An area of 1,612 square meters for NIS 23, 777 a month plus VAT, and linkage to the CPI.

Appendix dated March 11, 2015, after the property was purchased by Sam'aan George Shukha, for a period starting January 1, 2015 through December 31, 2019, at the terms specified in the original agreement from February 24, 2010.

Addition dated January 14, 2018, for leasing another floor with

an area of 922 square meters, for NIS 23,050 plus VAT, without linkage.

Finding — The amount on the sampled invoice matches the above terms.

4.1.4 Gav Yam Land Corporation Ltd. — 26 HaShoftim Street, Holon industrial area

Agreement dated May 21, 2018, for 1,400 square meters at NIS 51,100 a month, plus VAT and linkage.

Finding — The amount on the sampled invoice matches the above terms.

4.1.5 Sarit Agencies — 3 Yoni Netanyahu Street, Or Yehuda

Agreement dated September 7, 2010, for 352 square meters at NIS 42.5 / square meter, plus VAT and linkage.

Finding — For years, the Company has paid NIS 357 a meter instead of NIS 352 as specified in the agreement.

The explanation given verbally whereby the municipality has recently re-measured the property is irrelevant for the overpayment in the period prior to such re-measurement, which should have complied with the parties' agreement.

4.1.6 Industrial Buildings Corporation Ltd. — HaNatan, Kiryat Gat

Agreement dated October 2014.

In 2019 (until October 31, 2019) — NIS 22,874 plus VAT and plus linkage starting October 15, 2014. The rental invoice for July 2019 was sampled.

Finding — The amount on the invoice matches the above terms.

4.1.7 Weizman Itzhak (50% of the leased property) — Tveria Illit industrial area

Agreement September 1, 2008, through August 31, 2017, for 422 square meters of developed area.

Appendix dated August 22, 2017, extending the lease through August 31, 2020, for NIS 9,400 plus 10% in the first option period, and plus 10% in the second option period.

Finding — The sampled invoice matched the above.

Conclusions

- A. **The accountant obtains withholding tax exemption and bookkeeping certificates as required by law, though he does not sign these certificates. Failure to sign invalidates the certificates, as stated on the documents themselves.**
- B. **Some invoices did not specify the relevant rental period.**
- C. **Some agreements did not specify the square meter area being leased.**
- D. **The professional staff was not aware of the requirement to check withholding tax exemption certificates under the rental fee clause, or the option to issue such certificates in an expanded format. The expanded format alone allows verification that the recipient is exempt from withholding tax on rental fee payments. This certificate format does not need to be signed by the accountant.**
- E. **Or Yehuda property — The Company has been overpaying for 5 square meters for years. A municipal re-survey, performed recently in the Company's offices, is irrelevant for overpayment of past rental fees.**

Recommendations

1. **The finance and procurement staff should undergo additional professional training on relevant tax and VAT practices.**
2. **Issue the expanded form of the withholding tax exemption and bookkeeping certificates.**
3. **Make sure that invoices include all information, such as rental period.**
4. **Make sure that agreements specify the square meter area being leased.**
5. **Retroactively recover the excess rental fees paid for the Or Yehuda property.**

4.2 Sample invoices

The Office of the Comptroller sampled invoices for the following expense items:

- Subcontractors
- Rehabilitation counselor

- Counseling
- Software services
- Sales promotion

The Office of the Comptroller checked whether invoices and/or payment requests and withholding tax exemption and bookkeeping certificates were obtained prior to payment.

The Office of the Comptroller does not have any comments, except that the Company's accountant did not sign the withholding tax exemption and bookkeeping certificates, as required by the Israel Income Tax Authority.

Company response

Comment accepted.

4.3 Rehabilitation empowerment expense item in the Company's books

An advanced (pre-paid) expense item, for recording costs attributable to the subsequent year. It is thus unclear why the item was used to charge Company retreat expenses for the current year, or participation fees which were also attributable to the current year.

Upon examination of 2019, the Office of the Comptroller found that the amount recorded under this expense item (which was mainly attributable to a retreat in Eilat) was decreased in the accounting records by NIS 862,682 against an advanced expense item. On the other hand, the advanced expenses item, which was not part of the inflow/outflow item group, records employee participation fees of NIS 719,573 in the retreat.

Conclusion

The financial statements do not present the full cost of the retreat as incurred. At the same time, accounts do not present the participation fees charged from participants, or disclose the amount of the offset.

Furthermore, the accountant did not sign the withholding tax exemption and bookkeeping certificates.

Recommendation

Financial statements should fully present the gross value of revenues and expenses.

Alternatively, present these in net amounts, with appropriate notation details to present the offset.

The Office of the Comptroller did not examine the tax implications of over-presentation of the expenses attributable to the Eilat retreat.

Company response

It is more appropriate to present the cost of the Company's retreat in net amounts, after offsetting employee participation in said costs. The separation between expense and revenue items would inflate the Company's income statement. It is noted that, under the present presentation method, financial statement readers can understand the expense incurred by the Company.

Office of the Comptroller comment

The Office of the Comptroller agrees with presenting retreat costs after offsets (net amount), provided that such presentation is accompanied by a suitable note.

4.4 Legal costs

The Company pays a monthly fee of NIS 21,000 plus VAT for legal counsel. Monthly billing did not include any details on the services provided.

The accountant did not sign the tax certificates as required.

Recommendation

Monthly bills from the legal counsel should provide details, including the name of the attorney providing the service, service date, work hours, and nature of services. This will allow legal services to be tracked.

4.5 Safety counseling costs

The Office of the Comptroller examined three service providers under this item. The item was found to include the monthly salary costs of a salaried Company employee. This employee's salary costs were not recorded under the salaries and ancillary costs item in the Company's books. Thus, that item was misrepresented in the Company's financial statements as it did not include said employee's pay.

Furthermore, the accountant did not sign the tax certificates as required.

Recommendations

- 1. Record employee salary costs under the salaries and ancillary costs item.**

2. The annual financial statements should present the full amount of employee salary costs.

Company response

Since the employee is a safety consultant, his pay should be classified along with the other consultants' costs under the professional services expense item.

This is because, in accounting, the economic essence takes precedence over legal form. The nature of this employee's salary costs are for safety consultation, even though the legal format of this transaction is effected through a pay slip. The separation in the note provides readers of the financial statements with all expenses incurred for professional services.

Office of the Comptroller comment

The Office of the Comptroller does not share the professional opinion put forth by the Company.

4.6 Directors' fees

The Office of the Comptroller found that Company directors do not submit payment requests specifying the dates of those Board meetings which they attended and for which remuneration is due. Payment for Board meetings is calculated by the Company's accountant, without any signed payment requests from directors.

Directors who are registered as self-employed with the tax authorities submit invoices after receiving payment from the Company. These invoices also do not specify meeting dates.

Conclusions

For directors who are not registered as self-employed individuals, an expense is recorded without any documentation to support the Company's expense.

For directors who are registered as self-employed individuals, expenses are paid without any payment request specifying the meeting dates or amount requested.

Recommendation

There is nothing to prevent the Company from providing directors with details of the meetings that they attended, as is the current practice. However, directors must sign this document before payment can be made.

Company response

The Company accepts the recommendations and will make sure that directors sign the payment request.

5. Compliance with Supplier and Service Provider Contracts — Sample Examination

5.1 Consultant fees

An agreement was signed December 1, 2015. Monthly payments matched the agreement terms.

Conclusion — No comments.

5.2 Software services — Payroll Services Provider

The Office of the Comptroller received a 'Proposal to supply, customize, implement, and operate a system for managing payroll and payment clearing, human resources, and work attendance', dated June 2018. The Office of the Comptroller also received another letter dated August 16, 2018, informing of a winning bid in a tender, with only HaMeshakem's signature. This proposal included a detailed price list, including per-employee rates and additional services. The proposal also specified the contract period. These documents cannot supersede a formal agreement, signed by both parties.

The Company pays for payroll services based on the aforementioned price list, which states that payroll services provider will charge NIS 1.36 for each employee. In practice, provider charged NIS 1.39 per employee on its 2019 invoices (a difference of NIS 0.03 per employee). In addition, the price list attached to the proposal makes no mention of the billed items specified in the invoice dated June 30, 2019 (examined by the Office of the Comptroller).

Recommendations

- 1) Sign an agreement with payroll services provider.**
- 2) Make sure that payment to the payroll services provider for software services complies with the proposal that won the tender.**

Company response

We checked with payroll services provider about the difference identified by the Office of the Comptroller, and the Company was refunded this amount.

5.3 Legal costs –Law Firm

An agreement was signed December 17, 2008. Monthly payments matched the contractual terms.

The Office of the Comptroller received minutes dated March 11, 2013, whereby the attorney's fees were increased by 5%, to NI 21,000 a month, plus VAT. The Company has used this firm's legal services since 2008, and it does not seem like the Company compared the cost of these legal services against other firms.

Recommendation

Even if the Company is happy with the legal services it receives from its current firm, since the contract has been ongoing for more than a decade, the Company should check the cost of these services against other options on the market.

Company response

The matter will be discussed in the next Board meeting, and resolved accordingly.

5.4 Sales promotion costs — Public Relations Services

An agreement was signed September 27, 2016, providing a monthly retainer of NIS 7,000 plus VAT for public relations services. Monthly payments match the contractual terms.

The Office of the Comptroller received a summary of quotes received by the Company, and the recommendation of a relevant committee composed of five Company employees. The selected consultant submitted the highest bid for NIS 11,000, and so scored lower than the other two companies considered at the time.

Minutes from the committee's meeting of August 14, 2016, attended by the chairman of the Company's Board, decided to go against the committee's overall score, based on preset criteria, and offer the consultant to lower their bid to NIS 7,000 plus VAT a month, to match the Company's budget.

After the selection process, the consultant indeed lowered their fee to NIS 7,000 a month, which matched the lowest bid submitted by another bidder.

Conclusion

It seems that the Company's conduct in selecting its PR consultant,

which included establishing criteria, placing an ad in the paper, and establishing a committee of five Company employees — was proper.

However, the final decision phase indicates contradictions and improprieties between the information collected by the committee, and the final consultant selection.

Such workflows may put the Company at risk of lawsuits from service providers who submit high-scoring bids, but are ultimately rejected on other criteria.

Moreover, the chairman of the Board’s participation in the decision-making process and his selection of the winning bidder, is questionable.

Recommendation

Follow pre-determined criteria when conducting tenders.

Company response

HaMeshakem is not a government company, and so is not subject to the Mandatory Tenders Law.

The Chairman of the Board attended the meeting, but was not part of the decision-making.

It is further noted that the decision to choose the PR company to provide these services was mainly due to the fact that it (as stated by the company’s CEO at the time, Mr. Eran Zini) is a small firm, with high availability to serve the Company. This is in contrast to other firms who scored higher, but had a greater gap between the presentation given by their senior staff, and the day-to-day operations which would have been delegated to more junior employees.

Once the PR company emerged as the Company’s preferred provider, negotiations ensued to lower their price to match the lowest bid.

Office of the Comptroller comment

The Office of the Comptroller does not share the opinion put forth by the Company.

The Company is referred to the State Comptroller’s report from 2007, which stated, among other things:

“The State Comptroller’s Office believes the Company should review its procurement procedure and align it with substantive law to guarantee the realization of the efficiency and equal-opportunity principles underlying the tendering method”.

5.5 Rehabilitation counselor costs

A. Counselor

The Office of the Comptroller received an agreement from November 2015, and minutes from the Exemptions Committee’s meeting of January 17, 2019, for a monthly retainer calculated at an hourly rate. The hourly rate matches the Exemptions Committee’s decision of January 17, 2019. The Office of the Comptroller received minutes from the Exemptions Committee’s meeting of April 17, 2018, waiving the need to compare prices.

Conclusion — OK. No comments.

B. Consultation Training and Personal Coaching

The Office of the Comptroller received an agreement with a Projects Consulting and Training Company from November 2014, specifying an hourly rate of NIS 140 including VAT. Invoice examination found that invoices came from registered company number 67860031. It seems that until 2018, bills were submitted by an individual who is not the actual service provider.

It seems that, upon payment, the Company did not cross-reference the invoice ID against the contracted supplier.

Recommendation

Do not pay a service provider whose details do not match those in the service agreement.

Chapter 3 — Operating Procedures

6.

The Office of the Comptroller met with the Operations and Acquisitions Manager on June 21, 2020, together with the Company’s internal auditor. The employee was asked to present the Company procedures found in her office, which she uses in the course of her work. The employee presented two documents:

1. Procedure Update — Goods and Services Procurement Procedure, dated July 1, 2019.
2. Tender-Based Procurement Procedure, dated January 22, 2021.

The employee did not have the following Company procedures, even though they should be part of her professional toolbox:

1. Supplier Payment Procedure, dated January 22, 2017.
2. Gift Procurement and Distribution Procedure, dated July 17, 2007.
3. Signing Supplier Agreements Procedure, dated February 19, 2015.
4. Approved Supplier Approval Procedure, dated December 19, 2015.
5. Procurement Committee Minutes on Limitations to Consultant Contracts, dated November 22, 2010.

Conclusions

The Company does not check whether the entity submitting the invoice and receiving payment matches the contracted supplier.

Insufficient knowledge and information by the employee responsible for procuring goods and services causes mistakes during contracting and in the follow-up on contract implementation.

Recommendations

1. **Provide the Operations and Acquisitions Manager professional guidance, including a refresher on the Company’s contracting procedures.**
2. **Since some of the procedures are quite old, procedures should be updated.**
3. **Create an organizational portal where employees could access all Company procedures as needed.**

Chapter 4 — Headquarters Staff Salaries

7. Salary Terms — General

The Office of the Comptroller examined the salary terms for the Company’s HQ staff, and compared them against the salary agreement in each employee’s file. The Office of the Comptroller checked for pay raise approvals and whether they were duly signed by the relevant supervisors, except for the CEO, whose pay was approved by the Board.

Gross pay was checked for the following staff:

| | |
|-------------------------------------|---|
| CEO | √ |
| CFO | √ |
| VP Rehabilitation | √ |
| Gardening and Occupations Manager | √ |
| Chief Accountant | – |
| Strategic Development Manager | √ |
| Operations and Acquisitions Manager | √ |
| Internal Auditor | √ |
| Safety and Security Manager | √ |
| Human Resources Manager | √ |

Findings

7.1 CFO

The employee file did not have some of the pay raise approvals. The HR Manager presented them upon request, except for minutes from the Board meeting of January 2013, updating his pay. This latter document was not received.

7.2 HR Manager

- A) The file was missing 5 pay raise approvals.
- B) In September 2018, her pay was recalculated. The Office of the Comptroller found a difference of NIS 442 a month, between the approved pay raise and the calculated amount.

After the Office of the Comptroller noted the error, the employee presented a new approval, which was not in her employee file, approving an 8% raise instead of a 5% raise, thus eliminating the gap.

According to the Ministry of Finance Wage and Labor Agreements Supervisor's letter of December 4, 2013, board approval must be obtained for pay raises exceeding 5%.

The minutes from December 24, 2018, record the following decision:

“The CEO presents the HR Manager's salary, requests the Board's approval to raise her pay to 50% of the CEO's salary in two instalments.

The Board unanimously accepts the CEO's recommendation”.

The fact that the Board minutes do not specify the amount of the approved pay, does not facilitate ascertaining the monetary value of the adopted decision.

Company response

HaMeshakem received the Salary Supervisor's approval for pay ranges for its executive staff, with such ranges defined as percentages of the CEO's salary.

The request that the Board change the HR Manager's employment terms was made accordingly, i.e. — as a percentage of the CEO's pay. In any case, the Company's Board approved raising the HR Manager's pay up to 50% of the CEO's salary, and this was then implemented.

7.3 **Internal Auditor**

- A) According to Section 8(a) to the Internal Audit Law, 1992, the internal auditor should be paid solely for her work as internal auditor.

The Office of the Comptroller found that the internal auditor received a one-time payment of NIS 3,000 (gross) for work unrelated to her function as internal auditor. This payment was approved by the CEO. The CEO is not authorized to change the internal auditor's pay, as that power rests solely with the Company's Board, following the Audit Committee's recommendation.

- B) The Company's CEO approved an increase in the scope of the employee's position, starting January 2019. The CEO is not authorized to make such change — it must be recommended by the Audit Committee and approved by the Board. The minutes from the Audit Committee meeting of November 6, 2019 approve the change (ten months after it had been made).

Company response

Section 6.3(a) — The internal auditor sent a letter to the Company's CEO and to the chair of the Audit Committee, to return these amounts to the Company for the sake of appearance.

Section 6.3(b) — In its meeting of November 6, 2019, the Audit Committee was asked to change the scope of the internal auditor's employment position, in light of her substantial work load.

7.4 **Chief Accountant and Payroll Accountant**

The employee was hired in 1990. Her tenure appointment, dated June 5, 2016, does not include details concerning the employee's pay, only her rank under the Company's collective labor agreement. This creates

uncertainty and a potential for misaligned expectations between the employee and the Company.

Findings concerning the general workforce

- 7.5 Some of the pay raise approvals were unclear. The approval only specified the percentage of raise, without specifying the amount used as a basis for calculating such percentage. Since this format was used several times over the years for the same employees, it was not possible to track their new, updated pay at each raise junction.
- 7.6 At the time of the audit, the employee files for the HR Manager and the CFO were missing some of the pay raise approvals. Approvals were only provided during the audit, and some of these were six years old.
- 7.7 Approvals for employee pay raises are often signed digitally without an original CEO signature.

Recommendations

1. **Decisions concerning employee pay raises should state the updated salary amount, as well as the approved raise amount. This applies for both Board approvals, and executive approvals.**
2. **The Company's management should check why the personnel files for two key staff members were missing approvals for pay raises. This includes looking into the presentation of alternative approvals during the audit, in lieu of the approvals in the employee files.**
3. **Make sure that all salary approvals are documented in employee files.**
4. **Digital signatures should not be used for approving salaries. The CEO should sign these personally.**

Chapter 5 — Presentation of Welfare Ministry Revenues on the Company's Financial Statements

8.

The Office of the Comptroller sampled accounting records for Welfare Ministry funds received in 2019. Welfare Ministry funds account for a material portion of the Company's annual revenue.

Documents received

1. Signed, audited financial statements as of December 31, 2019 (signed by the Company's auditors on March 16, 2020).
2. Welfare Ministry income calculations in 2020, excluding VAT — November 2019 — May 2020.
3. Welfare Ministry income calculations in 2019, excluding VAT — November 2018 — October 2019.

Findings

Note 2(l) to the financial statements as of December 31, 2019, concerning significant accounting policies, state, "*Recognition of revenues: Revenue is measured at the fair value of the received consideration and/or the consideration which the Company is entitled to receive, for revenues from the sale of goods or provision of services in the ordinary course of business...*" (emphasis added).

In its accounts as of December 31, 2019, the Company did not include revenues from the Welfare Ministry from November and December 2019, to a total amount of NIS 9,392,241 (excluding VAT):

- Invoice 237964, dated January 9, 2020, for NIS 4,673,048.
Haeshakem's invoice states, "Welfare Ministry funding, January 2020."
- Invoice 239071, dated February 9, 2020, for NIS 4,719,193.
HaMeshakem's invoice states, "Welfare Ministry funding, February 2020."
The Welfare Ministry's notice from February 9, 2020, states, "HaMeshakem advance, December 2019".

Excluding these revenues, the Company's total equity as of December 31, 2019, totaled NIS 60,592,000. Failure to include November and December revenues of NIS 9,392,241 in the financial statements as of December 31, 2019, caused an under-presentation of the Company's equity as of said date.

The Company's chief accountant stated that this method of not including Welfare Ministry revenues for November and December in that year's financial statements has been applied by the Company for many years.

However, the Office of the Comptroller found that other revenues from government ministries in November and December are recorded in the year in which services were rendered, and not upon receipt of the consideration.

Conclusion

HaMeshakem presents Welfare Ministry revenues on a cash basis, reflecting 10 months out of the current fiscal year + 2 months from the previous year. Such accounting treatment goes against the accounting policies presented in Note 2(l) to the financial statements.

Such presentation practices, applied by the Company for years, create an ongoing material misrepresentation of revenues and equity at the end of each calendar year. Thus, the financial statements presented to the Board and general meeting each year do not adequately reflect the Company's financial position.

It is noted that Section 29(1a) to the VAT Law states that, for services rendered by a business whose annual turnover exceeds NIS 15 million and is required to maintain their books according to Schedule K to the Income Tax Directives (Bookkeeping), 1973, the tax (VAT) will apply when services are rendered. Thus, since HaMeshakem's turnover exceeds NIS 15 million, the Company is obligated to issue invoices upon rendering service, regardless of when the consideration is actually received.

Recommendations

1. Amend the financial statements to align the equity presentation with the accounting policy presented in the notes, and so as to reflect the Company's position at the end of each year. In other words — fully present revenues on an accrual basis.
2. Amend reports to the VAT authorities and make sure that future reports comply with statutory requirements.

Company response

For the sake of clarity, we will add the following paragraph to our Accounting Policies — Recognition of Revenues:

“Revenues received as a government ministry support for the salaries of rehabilitated employees are recognized upon receipt of an accountant's approval on amounts due to be received, or upon actual receipt of funds, the earlier of the two”.

Office of the Comptroller comment

Following discussions with HaMeshakem and in light of the Office of the Comptroller's comments, Note 2 to the Company's financial statements as of December 31, 2021 states that the Company has amended its revenues receivable item as of December 31, 2020 by NIS 8,518 thousand, and has

increased its surplus balance accordingly by said amount in its statement of changes in financial position.

Thus, HaMeshakem implemented Recommendations 1 and 2 to the Office of the Comptroller's satisfaction.

Chapter 6 — Minutes

9.

9.1 Board of Directors

The Office of the Comptroller examined minutes from January 1, 2017, to December 31, 2019.

Each meeting's minutes are approved in the subsequent meeting.

According to the obtained minutes, the Board met on the following dates:

| Year | Dates | | | |
|-------------|---------------|---------------|----------------|---------------|
| 2017 | Mar. 16, 2017 | Jul. 6, 2017 | Sept. 14, 2017 | Dec. 24, 2017 |
| 2018 | Mar. 8, 2018 | Jun. 21, 2018 | Sept. 6, 2018 | Dec. 24, 2018 |
| 2019 | Mar. 20, 2019 | Aug. 6, 2019 | Dec. 25, 2019 | |

9.2 Audit Committee

The Office of the Comptroller examined minutes from January 1, 2018 to December 31, 2019.

Each meeting's minutes are approved in the subsequent meeting.

According to the minutes obtained, the committee met on the following dates:

| Year | Dates | |
|-------------|---------------|--------------|
| 2018 | Feb. 5, 2018 | Jul. 9, 2018 |
| 2019 | Feb. 14, 2019 | Mar. 5, 2019 |

9.3 Finance Committee

The Office of the Comptroller examined minutes from January 1, 2018 to December 31, 2019.

Each meeting's minutes were approved in the subsequent meeting.

According to the minutes obtained, the committee met on the following dates:

| Year | Dates | | | |
|-------------|---------------|---------------|--------------|---------------|
| 2018 | Feb. 25, 2018 | Dec. 16, 2018 | | |
| 2019 | Feb. 24, 2019 | Mar. 5, 2019 | Aug. 6, 2019 | Nov. 13, 2019 |

Findings

1. Minutes are not numbered, which hampers continuity verification.
2. Minutes are not signed by the Company’s Chairman, the Audit Committee chair, or the Finance Committee chair, respectively. Thus, it is unclear whether these were final documents approved by the respective organs.
3. In the examined period, meetings were attended, on average, by six to seven Board members, representing a majority of Board members.
4. Finance Committee decisions concerning employee pay raises do not provide data in absolute terms, but only as a percentage. This makes it impossible to understand the monetary significance of the decision.

Recommendations

1. **Minutes should be numbered in consecutive order.**
2. **The Board and committee chairs should sign their respective minutes.**
3. **Board decisions concerning employee pay raises should provide absolute figures.**

Company response

1. Recommendations accepted.
2. Minutes are signed by participants approving them by email — accepted practice.

Chapter 7 — Investment Portfolio Management

10.

- 10.1 Upon request, the Office of the Comptroller received documents pertaining to the management of the Company’s investment portfolio — see Appendix D.

Findings

1. The Investment Committee clearly operates professionally, and its decisions are based on information obtained from investment firms, with an overall view of the Company’s goals.

2. Although the Finance Committee decided to limit investment in shares to a maximum of 15%, the portion in the investment portfolio managed by investment company H, exceeded this limit, amounting to 19.72%.
3. The Company stated that it does not have a signed agreement with investment company P, specifying the investment policy.

Recommendations

1. **Check with H. Ltd. why it has failed to comply with the Company's investment policy.**
2. **Obtain a signed, formal agreement from P. Ltd., confirming the Company's investment policy.**

Company response

- 1) Inquiry with H Ltd. on non-compliance with the Company's established investment policy — H received our email concerning the change in our investment policy (lowering the portion of shares in the portfolio from 20–25% to 10–15%) on December 29, 2019, with a read receipt on the mail dated January 1, 2020. The Office of the Comptroller checked balances and investment composition as of December 31, 2019, and so did not find the change in the proportion of shares in the portfolio.

Had the Office of the Comptroller examined the data for January 2020, it could have seen that the proportion of shares in the portfolio decreased to 14.61%, and H had applied the Company's investment policy.

- 2) Signed, formal agreement with P Ltd. — On any change in the Company's investment policy (which is dynamic and changes periodically), a formal letter is sent to the investment firm on the Company's new policy. The Company receives confirmation by return email to its CFO. The Company also checks compliance with its policies on a monthly basis. The return mail confirmation practice has been used over the entire period of our investment through P Ltd. and our other investment firms.

Office of the Comptroller's comment

The exchange of correspondence between the Company and its investment firms is not a substitute for signing a general contract.

Chapter 8 — Compliance in Tax Authority Filings

11.

11.1 Compliance in tax authority filings

The Office of the Comptroller received the following documents:

11.1.1 A. Annual report for a private company concerning general meetings, dated April 29, 2019 and May 19, 2020.

B. Company details as recorded by the Companies Authority, as of November 18, 2019.

11.1.2 Account statement from the VAT Authority, as of May 25, 2020.

11.1.3 Account statement from the Corporate Income Tax Authority, as of May 25, 2020.

11.1.4 Account statement from the Withholding Tax Authority, as of May 25, 2020.

11.1.5 Account statement from the National Insurance Institute, as of May 15, 2020.

Findings

According to the above documents, the Company did not have any debts, other than a NIS 6,336 debt to the National Insurance Institute, which is being resolved by the Chief Accountant.

Conclusion

The Company does not have any risk exposure.

11.2 Receipt entries

The Office of the Comptroller sampled 15 random deposits from the Company's three bank accounts, and checked the following:

A. Issue of receipts.

B. Receipt date vs. the check deposit date.

Conclusion

Propriety was found.

11.3 Finance and Procurement Department

During the audit, the Office of the Comptroller found that there is a need to update the staff's knowledge of income tax and VAT regulations.

Recommendations

1. **Provide professional training for Finance and Procurement Department staff at least once a year (in addition to routine updates) on issues (and initially including basic issues) pertaining to income tax, withholding taxes, and value added tax.**
2. **Provide the accountant with comprehensive training on income tax and VAT, and assign him greater responsibility than he currently has.**
3. **Consolidate all agreements with suppliers and service providers in one database, including approvals relevant for income tax and VAT purposes.**
4. **Provide the accountant at the head office with all data concerning supplier agreements, in light of his statement that he only has the lease agreements on file.**

Summary of Recommendations

| | |
|-------|---|
| 3.4 | Work with the Welfare Ministry to arrange payment for the fixed cost component for the entire 2,800 staff quota for rehabilitation placements, which the Company is allotted under its agreement with the Welfare Ministry. This includes increasing the amount for these costs. |
| 3.6 | <ul style="list-style-type: none"> • The Company should prepare an actionable work plan for correcting the flaws identified in the internal auditor's report from 2016, and the flaw correction report from 2018. • An internal procedure should be established for following up on Audit Committee recommendations. • The Company should make sure that the internal auditor prepares another follow-up report as instructed by the Audit Committee in the minutes from the Audit Committee meeting of February 14, 2019. |
| 3.7 | The Company must guarantee the internal auditor's independence and prevent any intervention in her work. |
| 4.1.7 | <ol style="list-style-type: none"> 1. The finance and procurement staff should undergo additional professional training on relevant tax and VAT practices. 2. Issue the expanded form of the withholding tax exemption and bookkeeping certificates. 3. Make sure that invoices include all information, such as rental period. 4. Make sure that agreements specify the square meter area being leased. 5. Retroactively recover the excess rental fees paid for the Or Yehuda property. |
| 4.3 | <p>Financial statements should fully present the gross value of revenues and expenses.</p> <p>Alternatively, present these in net amounts, with appropriate notation details to present the offset.</p> <p>The Office of the Comptroller did not examine the tax implications of over-presentation of the expenses attributable to the Eilat retreat.</p> |

| | |
|-----|---|
| 4.4 | Monthly bills from the legal counsel should provide details, including the name of the attorney providing the service, service date, work hours, and nature of services. This will allow legal services to be tracked. |
| 4.5 | <ol style="list-style-type: none"> 1. Record employee salary costs under the salaries and ancillary costs item. 2. The annual financial statements should present the full amount of employee salary costs. |
| 4.6 | <p>There is nothing to prevent the Company from providing directors with details of the meetings that they attended, as is the current practice.</p> <p>However, directors must <u>sign this document</u> before payment can be made.</p> |
| 5.2 | <ol style="list-style-type: none"> 1) Sign an agreement with the Payroll Services Provider. 2) Make sure that payment to the Payroll Services Provider for software services complies with the proposal that won the tender. |
| 5.3 | Even if the Company is happy with the legal services it receives from its current firm, since the contract has been ongoing for more than a decade, the Company should check the cost of these services against other options on the market. |
| 5.4 | Follow pre-determined criteria when conducting tenders. |
| 5.5 | Do not pay a service provider whose details do not match those in the service agreement. |
| 6 | <ol style="list-style-type: none"> 1. Provide the Operations and Acquisitions Manager professional guidance, including a refresher on the Company's contracting procedures. 2. Since some of the procedures are quite old, procedures should be updated. 3. Create an organizational portal where employees could access all Company procedures as needed. |
| 7.7 | <ol style="list-style-type: none"> 1. Decisions concerning employee pay raises should state the updated salary amount, as well as the approved raise amount. This applies for both Board approvals, and executive approvals. 2. The Company's management should check why the personnel files for two key staff members were missing approvals for pay raises. This includes looking into the presentation of alternative approvals during the audit, in lieu of the approvals in the employee files. 3. Make sure that all salary approvals are documented in employee files. 4. Digital signatures should not be used for approving salaries. The CEO should sign these personally. |
| 8 | <ol style="list-style-type: none"> 1. Amend the financial statements to align the equity presentation with the accounting policy presented in the notes, and so as to reflect the Company's position at the end of each year. In other words — fully present revenues on an accrual basis. 2. Amend reports to the VAT authorities and make sure that future reports comply with statutory requirements. |
| 9.3 | <ol style="list-style-type: none"> 1. Minutes should be numbered in consecutive order. 2. The Board and committee chairs should sign their respective minutes. 3. Board decisions concerning employee pay raises should provide absolute figures. |

| | |
|-------------|---|
| 10.1 | <ol style="list-style-type: none"> 1. Check with H investment company why it has failed to comply with the Company's investment policy. 2. Obtain a signed, formal agreement from P investment company, confirming the Company's investment policy. |
| 11.3 | <ol style="list-style-type: none"> 1. Provide professional training for Finance and Procurement Department staff at least once a year (in addition to routine updates) on issues (and initially including basic issues) pertaining to income tax, withholding taxes, and value added tax. 2. Provide the accountant with comprehensive training on income tax and VAT, and assign him greater responsibility than he currently has. 3. Consolidate all agreements with suppliers and service providers in one database, including approvals relevant for income tax and VAT purposes. 4. Provide the accountant at the head office with all data concerning supplier agreements, in light of his statement that he only has the lease agreements on file. |

October 2022

Appendices

Appendix A — Welfare Ministry Contract — Documents Received during the Audit

1. Service agreement for the period January 1, 2007 through March 31, 2007, dated February 25, 2007.
2. General service conditions (undated), and Appendix 1, dated September 25, 2007.
3. Agreement extension for the period April 17, 2007 through June 30, 2007, dated April 29, 2007.
4. Agreement dated January 4, 2010, for the period January 1, 2010 through April 30, 2010.
5. Agreement dated October 20, 2010, for the period January 1, 2011 through December 31, 2011.
6. Minutes number 71/2014 (undated and unsigned), for extending the contract period from January 1, 2012 through December 31, 2014.
7. Letter dated October 13, 2015, concerning an extension from November 1, 2015, through December 31, 2015.
8. Letter dated December 13, 2015, concerning an extension from January 1, 2016, through September 30, 2016.
9. Contract extension dated August 25, 2016, for the period October 1, 2016 through December 31, 2016.
10. Contract extension (unsigned) dated September 4, 2017, for the period October 1, 2017 through December 31, 2017.
11. Contract extension dated January 1, 2018, for the period January 1, 2018 through July 31, 2018.
12. Contract extension dated April 23, 2018, for the period August 1, 2018 through December 31, 2018.
13. Contract extension dated December 9, 2018, for the period January 1, 2019 through June 30, 2019.
14. Contract extension dated September 24, 2019, for the period July 1, 2019 through December 31, 2019.
15. Tender Exemption Committee meeting summary, dated April 5, 2009.
16. Audit Committee minutes (unnumbered), for 2018 and 2019.
17. Letter from the Company's legal counsel, dated October 25, 2016.

18. Draft restructuring plan submitted to the Welfare Ministry by H.G.J. & Co. CPAs in May 2008.
19. Internal auditor's reports as detailed above.
20. Minutes from the Welfare Ministry's Inter-ministerial Tenders Committee for Procurement of Goods and Services meeting of April 1, 2009.
21. 'Contract Extension with HaMeshakem for 2020 — for 2,800 Rehabilitation Placements', dated October 22, 2019.

Appendix B — Company's Internal Auditor Reports from 2016

The internal auditor's report of November 2016, Section 1, key findings:

- A. Page 7: *"The audit emphasizes that according to the State Comptroller's report from 2008 * and the restructuring plan prepared for the Company in 2008, the Company must report to the Welfare Ministry only on actual work days". (* should be 2007 — Office of the Comptroller comment).*
- B. Page 4, concerning the June 2016 review:
"The above table indicates a gap between the number of rehabilitation placements reported to the Welfare Ministry and the number of placements actually working according to the attendance reports entered in the Payroll Services system. The Company was found to submit monthly reports to the Welfare Ministry with employees for whom no pay slip was issued, i.e. — did not work, thus increasing the Company's personnel roster.
The audit emphasizes that Welfare Ministry funding is given for employee salaries".
- C. Page 6: *"Upon sample examination for the months of January and March 2016, the audit found employees who were absent and had not received pay from the Company for over six months, employees who were absent but are still reported to the Welfare Ministry. There were employees who were absent due to prolonged illness, were not working, but were still reported to the Welfare Ministry".*
- D. Page 8: *"Some employees were found to have quit the Company, but were still reported to the Welfare Ministry as part of the Company's personnel roster".*
- E. Page 9: *"Some employees had passed away but were reported to the Welfare Ministry, i.e. — the Company received funding for salary costs for deceased employees. Some employees were on unpaid leave but were still reported to the Welfare Ministry. Some employees were in prison or under house arrest, but the Company reported them to the Welfare Ministry".*

- F. Page 12: *“The audit emphasizes that the restructuring plan requires the Company to submit monthly lists of all employees actually working that month. Each month, there were employees who worked only a few days that month, but were still reported with 56% work attendance (=90% attendance at full time). Each month, for each such employee, the Company received funding for a full month’s salary”.*
- G. Page 22: *“The audit found that the gaps between employees reported on the internal reporting system, and the reports to the Welfare Ministry, were due to the fact that, each month, the Company also reported employees who were not issued pay slips”.*
- H. Page 29: *“Some employees are on extended unpaid leave, but are still reported to the Welfare Ministry”.*

Appendix C — Legal Opinion from Gideon Fisher & Co.
Concerning Charges for Absent Employee Work Hours

March 16, 2021

To Whom It May Concern,

Re: Billing the Welfare Ministry for Absent Employee Work Hours

1. HaMeshakem Ltd. and the Welfare Ministry have a long-standing contract for providing employment services for people with disabilities. However, the parties’ agreements as well as their extension appendices were phrased in general terms and deal only with the consideration and payment terms.
2. Thus, the 2011 agreement specifies the payment terms and consideration, but makes no mention of employee absence and its effect on the consideration. The agreement extensions, as made from time to time, also do not mention anything other than the contract’s value and scope.
3. **My conclusion is thus that the issue of billing the Welfare Ministry for absent employees has never been dealt with in writing in the parties’ contractual arrangements, and is thus open to interpretation.** According to the Supreme Court’s ruling in Civil Appeals 4628/93 *State of Israel v. Apropim Housing and Development (1991) Ltd.* Supreme Court Rulings 49 (2), 265, if a contract is vague or mute, the parties’ intent in the contract should be interpreted under the circumstances and as per their conduct over the agreement’s lifetime.
4. On October 22, 2019, the Director of Adult and Elderly Services and Sheltered

Employment in the Ministry of Labor, Welfare, and Social Services' Disabilities Administration, Mr. Danny Katz, sent a request to extend the contract with HaMeshakem for 2020. Section 2 to the request, entitled *Calculation of Reduced Employment Position*, notes, "**A position of 5 hours a day. Actual attendance: 90%. Total: 53% of full time position**".

5. This raises two questions: 1) Can the Welfare Ministry be billed for absent employees. 2) Can the phrase "Actual attendance — 90%" be interpreted so that attendance rates are based on the overall monthly attendance for all employees and not per individual employee. In other words, is it possible to calculate an average work attendance for all employees, and use this to bill the Welfare Ministry for absent employees as well, should the average exceed 90%. Or would a reasonable interpretation require the calculation to be made for each employee separately.
6. I believe that both questions can be answered in the positive. Billing the Welfare Ministry for absent employees is implied by the very fact that Danny Katz's document from 2019 explicitly refers to partial attendance. Obviously, had the Welfare Ministry expected that absent employees not be billed, then the reference to partial attendance would never have appeared in an official Ministry document.
7. Moreover, if there is any concern for unjust enrichment by HaMeshakem through these bills, at the Ministry of Labor and Welfare's expense, it is immediately laid to rest when one considers the fact that HaMeshakem does not gain from these charges. This, since dismissing an absent employee and hiring a new employee in their stead, would have increased HaMeshakem's profit, as it would have received the full amount of the Ministry of Labor and Welfare's funding, for the new employee as well.
8. **The obvious conclusion is thus that allowing absent employees to keep their workplace, instead of firing them, for a limited period of only three months is due to reasons that are not economic in nature, and thus cannot be considered unjust enrichment.**
9. Concerning the method for calculating work attendance, Mr. Katz's letter does not specify whether the intention is to perform the calculation for each employee separately, or based on the overall monthly attendance. Thus, an interpretation stating that a monthly average work attendance may be calculated for all employees is reasonable, both lacking any provision to the contrary and in light of the fact that this calculation method was applied for years and created an 'implied agreement' (agreement through action) between HaMeshakem and the Ministry of Labor and Welfare.

10. In light of the above, I believe that HaMeshakem's conduct is proper in billing the Ministry of Labor and Welfare for employees who are absent from work, so long as this is done for a limited time of three months' absence only, due to a desire to protect the employee and avoid their untimely dismissal, cannot be considered unjust enrichment and lacking any contradictory contractual clauses, is also not in breach of any agreement.

Yodan Kuritzki, Atty.

[/ signature]

Gideon Fisher & Co.

Yodan Kuritzki, Atty.

Licence number 74453

Ariel Levi, CEO

Effi Frenkel, CFO

Appendix D — Investment Portfolio Management — Documents Presented during the Audit

1. Letter dated February 4, 2019, from a Finance Committee member to the CFO, mentioning the three largest portfolio managers in Israel. The letter includes a request to receive background information on their operations and a request to schedule a meeting with their representatives, after studying the material that will be received.
2. Summary of 4 meetings, dated February 19, 2019. Meetings were with representatives from A. Ltd, H. Finance, Y. L. Ltd., and PT. Ltd.
3. CFO's letter to the Investment Committee, dated July 14, 2019, with a summary of the Investment Committee's decisions of July 11, 2019. The letter was attached with illegible, handwritten pages.
4. Approval, signed by the Company's authorized signatories on August 4, 2019, issued to E. Provident and Study Funds, requesting to transfer funds between tracks in the central compensation fund.
5. Minutes from the Finance Committee meeting of November 13, 2019, which decided to change the Company's investment policy as follows:
 - a) Reduce the proportion of shares in the portfolio from 20–25% to 10–15%.
 - b) Shorten the duration from 3–6 years to 2–3 years.
 - c) Reduce the share of corporate bonds to 20%, rated AA or higher.
 - d) Linkage: CPI-linked — 35%, NIS-based — 35%, currency-based — 20%.

6. Minutes from the Finance Committee meeting of December 17, 2019, which decided that shares will account for 10–15% of the portfolio.
7. Agreement with A. Ltd., dated December 29, 2019.
8. Periodic report as of December 31, 2019, from A. Ltd.
9. Portfolio composition, as of December 31, 2019, in P. Ltd.
10. Portfolio composition, as of December 31, 2019, in H. Ltd.
11. Letter dated December 29, 2019, to P. Ltd. detailing the changes in the Company's investment policy, as specified in the decision from November 2019 (most of the Company's own funds are invested through this firm).

Appendix E — Legal Opinion — Nature of Contract between Welfare Ministry and HaMeshakem Ltd. (Support or Service Procurement?)

Jerusalem, 25th of Tevet, 5782
December 29, 2021

Re: **Nature of Contract between the Welfare Ministry and HaMeshakem Ltd. — Support or Service Procurement**

1. Introduction

You have requested my legal opinion on the nature of the regular and frequent contracts between the Ministry of Welfare and Social Affairs (“the Ministry”) and HaMeshakem Employment for the Elderly and Individuals with Limited Working Capacity Ltd. (“the Company”).

The National Institutions Comptroller (“the Comptroller”) believes the contract to be “procurement of services”. The Company, through the accounting firm of Brightman, Almagor, Zohar & Co. (“the Accounting Firm”), claims that the contract is, in essence, “support”.

According to the Accounting Firm, the difference between the two approaches is also reflected in the method for reporting the Company's revenues, as detailed below.

2. After reviewing the material that you sent me and material that I have read, whose details will be provided below, I believe the Office of the Comptroller's opinion is correct, and the Accounting Firm's opinion to be incorrect.

I will present my opinion below. First, I will examine the nature of the contract between the parties. I will then review the way the contract was created, in evidence to its nature.

3. Nature of Contract between the Ministry and Company: Support or Service Procurement

Guidance 1.2005 issued by the Attorney General of Israel (“the Attorney General’s Guidance”), refers to the matter at hand.

Section 3 to the Attorney General’s Guidance states (emphasis added herein — AD):

“3. Support vs. non-support budgeting, or service procurement

3.1 In general, there are three ways for the State to finance the operations of non-government entities, based on the circumstances. First is through direct **budgeting** — whether singularly ... or based on equal-opportunity criteria for payment,... The second is through **contracting**, as regulated mainly through the Mandatory Tendering Law, 1992 (“Mandatory Tendering Law” — AD)... The third, through **support** under Section 3A to the law (Budget Foundations Law, 1985 — AD) (emphasis in original).

3.2 In order to determine the funding method suitable for a given entity by State authorities... the persons ...in that authority... should study the extent to which such funding meets the following criteria — each criterion separately, and all jointly.

- a. State obligation — Is the funded activity a task to which the State is obligated, by law... In general, use of support funds is intended for cases where the State wishes to encourage a certain activity to which it is not obligated by law. In cases where the State is obligated by law to perform or finance activity, this will usually be done by budgeting, or procurement of services through a contractual arrangement.
- b. Impact on the funded entity’s independence — The more the entity’s discretion is restricted in matters pertaining to the funded activity, as a result of such activity being directed and outlined by the State, the less such funding is considered support and the more it is considered a procurement of services by the State, which is normally performed via tender...
- c. Initiative for the activity — Should the initiative for the activity and the main interest behind it come from the entity performing

the activity, this would indicate that the funding constitutes support, and vice versa — should the initiative for the activity and the main interest behind it come from a government ministry, this would indicate that the funding constitutes a procurement of services...”

4. The Attorney General’s Guidance states, explicitly, that contractual arrangements, regulated mainly through the Mandatory Tendering Law, is counter-indicative of support. We will keep this distinction in mind below.
5. Employment of people with disabilities — State obligations by law

According to the Attorney General’s Guidance, if the contract concerns matters to which the State is obligated by law, then it is considered a procurement of services, and not State support.

I believe that the State is expressly obligated to address the employment of the disabled — through Section 16 to the Equal Rights for the Disabled Law, 1998:

“16.(a) The Labor and Welfare Minister will initiate, develop, and prepare plans concerning -

(1) Employment and rehabilitation of people with disabilities, with preference to their integration in ordinary work places.

(2)...”

It can thus be stated that the State is obligated, by law, to see to the employment of the disabled. The preamble to the contract, in our present case, emphasizes that its focus is “...the employment of people with disabilities” similar to the aforesaid statutory provision.

6. It seems that the Company agrees with the description of the contract’s goal — employment of people with disabilities — as a State obligation.

In a meeting of the Knesset Labor, Welfare, and Health Committee, which took place on July 18, 2017, the Company’s CEO at the time, Mr. Eran Zini, noted,

“HaMeshakem currently provides, **or enables the State of Israel to cope with 3 main barriers...**” (emphasis added herein — AD).⁴

Thus, the State must see to the employment of the disabled, and utilizes

4 See page 16 to Minutes 585 of the Knesset Labor, Welfare, and Health Committee meeting of July 18, 2017 (“Committee Minutes”).

the Company's expertise in this field. According to the Company's CEO, it helps the State fulfill its obligation to assure the employment of people with disabilities.

7. The Chair of the Knesset Labor, Welfare, and Health Committee at the time, Knesset Member Eli Alaluf, also stated,

"...One of the problems of disadvantaged populations in Israel is the issue of exercising their rights... Complete the great initiative that you (the Company — AD) know how to handle, so that these people can enjoy what's due to them. Not as a favor, **but as an obligation of the State...**" (emphasis added herein — AD).

8. To summarize, it is the State's duty, by law, to see to the employment of people with disabilities. The legislator has imposed this obligation on the State, the Chair of the Knesset Labor, Welfare, and Health Committee stressed that fact, and the Company's CEO also agreed with this description.

9. Impact on the funded entity's independence

I believe a review of the service contract between the Ministry and the Company proves that the Company has no discretion in matters concerning the funded activities. The contract describes the services which the Company must provide "**according to the terms of the tender**", which the Ministry dictates unilaterally, without Company involvement.

According to Section 3.2.b to the Attorney General's Guidance, presented in Section 3 above, this also leads to the conclusion that we have before us a procurement of services by the State.

10. Initiative for the activity: the Ministry

The Ministry issued the tender, and exempted the Company in order to employ disabled individuals and integrate them in the job market, as required by law. Thus, the Ministry initiated the activity.

According to Section 3.2.c to the Attorney General's Guidance, as presented above, this also leads to the conclusion that we have before us a procurement of services by the State.

11. I believe the above proves that the contract between the Ministry and the Company constitutes a procurement of services, and not support.
12. Thus, the following only adds an aside on the matter: the contract format also proves that the contract constitutes a procurement of services, and not support.

13. Contract format — evidence for procurement of services

There is no question that the contract between the Ministry and the Company, in the form of a contract, in principle, reflects a procurement of services, and not support. I will explain.

14. For State support, the State is subject to the provisions of Section 3A to the Budget Foundations Law, 1985 (emphasis added herein — AD):

“3A. ...

(e) The supervisor for the budget item will establish equitable **tests** for distributing the amount specified in said budget item in support of public institutions...

(f) ...

(g) **The tests** and procedure will be published in the Official Gazette.

(.) ...”

15. The contract was not based on **tests** established under the Budget Foundations Law because, in practice, the Ministry has not set suitable tests for the employment of people with disabilities.⁵ Legally, the Ministry must issue a tender (or issue an exemption from tender, under the Mandatory Tendering Law), and this was duly done by the Ministry.

16. Comment

In any case, the Company is not designated a “public institution” under the Budget Foundations Law, engaged in non-profit activity. Section 5 to the Attorney General’s Guidance defines the Company, and similar companies, as “other entities”.

The Attorney General’s Guidance allows government ministries to support other entities pursuant to the Ministry of Finance Accountant General’s TAKAM Directive 6.2.1 — *State Budget Support for Other Entities*. The government ministry must establish suitable tests for distributing its support of other entities.

17. Had the Ministry considered the Company “another entity” and wished to **support** the Company, it should have established tests for other entities, consulted with the Attorney General concerning their equitable nature,⁶ and

5 To emphasize: The Ministry has established tests for granting support to public institutions engaged in **treating** people with disabilities and their rehabilitation (see Official Gazette 5776, pp. 7490; Official Gazette 5781, pp. 4990).

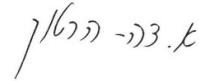
6 An example of support tests for other entities: tests for disbursement of support funds from the Ministry of Culture and Sport to royalties companies (Official Gazette 5781, pp. 6293). See the introduction to these tests stating, “...and in consultation with the Attorney General...”.

published them in the Official Gazette. However, all the above did not occur in the present case.

18. Summary

- a. Attorney General Guidance 1.2005 specifies how to distinguish between support and procurement of services by the government. The principles in this guidance dictate that the contract between the Ministry of Welfare and Social Affairs and HaMeshakem Ltd. constitutes a procurement of services, and not support.
- b. The format of the contract between the State and the Company, for the transfer of government funds to the Company, matches a procurement of services, and not support, which is distributed **only** subject to equitable tests duly published in the Official Gazette.
- c. The Company must consider its revenues from the Ministry as a procurement of services, on all this entails, including compliance with Section 29 to the Value Added Tax Law, 1975, and according to the generally accepted accounting policies as presented in the notes to the Company's financial statements.

Sincerely,



Amnon De-Hartoch, Atty.

Appendix F — HaMeshakem’s Response to the Audit Report

July 10, 2022

Re: Response to the Audit Report of June 26, 2022

We hereby submit our response to the draft report, which we received on June 26, 2022.

In opening our response, we wish to note and clarify, that HaMeshakem considers audit functions to be extremely important, and believes that audits can effect changes and improve conduct and workflows. For these reasons, HaMeshakem fully cooperated with the audit.

HaMeshakem is a mixed government company whose whole purpose is the occupational rehabilitation of employees with disabilities. The Company is fully transparent and has excellent work relations with all government ministries, including the Accountant General, Budgets Division, and particularly the Ministry of Labor, Welfare, and Social Services. Since 2008, the Company has undergone a dramatic administrative transformation in which, over 4 years, the Company decreased government funding for the salary costs of our dear employees from 68% to 60%, thus effectively saving millions of shekels of State funds.

The Company welcomes any audit of its operations, out of a belief that there is always room for improvement. Even so, we found that in some cases, the Office of the Comptroller drew conclusions and recommendations based on erroneous interpretations of its findings.

HaMeshakem’s position, as presented more than once to WZO’s Comptroller is (as detailed) that billing the Welfare Ministry on a 90% annual average is in keeping with the agreements signed with the Ministry.

WZO’s Comptroller objected to this approach, and in light of its objection we jointly decided to contact the Welfare Ministry and seek its approval. On June 1, 2022, the Welfare Ministry confirmed by email that it accepts our billing practices, and the Office of the Comptroller even noted this in its report, saying, “In light of the above, it would seem that starting from the effective date of the new agreement, HaMeshakem’s billing practices for Welfare Ministry funding meets the Welfare Ministry’s formal requirements for reporting on HaMeshakem’s employees”.

In our request to the Welfare Ministry (which was submitted to the Office of the Comptroller), we explicitly noted that “We would thank you to confirm by return mail that no change has occurred concerning **the aforesaid and compared to past years**”. The Ministry confirmed the request. The Office of the Comptroller confirmed that, for its part, it would seem that our reports are in proper order.

In light of the above, we demand the deletion of all of **Chapter 1 and Appendix**

B to the audit report, as even under the Office of the Comptroller's strict approach, there is no justification for keeping these passages. This is particularly true in light of the Welfare Ministry's confirmation both in writing and in verbal discussions.

Chapter 1 — Contracts with Government Ministries

3.1 2008 restructuring plan, and the Welfare Ministry's response to said plan

We reject the manner in which the Office of the Comptroller presented the data, and its conclusions:

- A. To the best of our knowledge, HaMeshakem never received said restructuring plan, but only its **draft** version. In any case, the Welfare Ministry and Finance Ministry's response to this restructuring plan is mainly the reduction of the Welfare Ministry's funding from 68% to 60%, within 4 years (as was indeed the case). Furthermore, one cannot infer things from a restructuring plan drafted over a decade ago, tie it with minutes from an Inter-ministerial Tenders Committee meeting which was also written over a decade ago, and apply them to current practices for billing the Ministry, when to the best of our understanding and knowledge minutes from recent years say nothing on "continued implementation of the restructuring plan". A review of the Company's financial statements easily shows that HaMeshakem has indeed implemented significant streamlining measures from 2008 to today. The financial statements also show that, despite an increase of over 40% in the minimum wage (which results in an identically proportional growth in wages for the Company's disabled employees), government funding for HaMeshakem decreased dramatically from 47% (of all Company revenues) in 2008, to 36% (of all Company revenues) in 2019. This was achieved through constant improvement and by providing outstanding rehabilitation services to those people who most need them in Israel.
- B. HaMeshakem operates strictly according to agreements signed by the Company's authorized signatories, and the Welfare Ministry's authorized signatories. These agreements are the only agreements that are binding on the parties. Contrary to the audit report's findings, none of these agreements refers to any hourly rate, but only a monthly rate. In light of the above and the agreements presented to the Office of the Comptroller, it is unclear why the Office of the Comptroller based findings on internal minutes from the Welfare Ministry, to which HaMeshakem is not party and in which it did not participate. It is unclear why the Office of the Comptroller preferred these over agreements that were signed and approved by both parties, particularly since case precedent establishes

that, if a document has been signed by the parties, it supersedes any other unsigned document (written document presumption).

- C. The Office of the Comptroller's partial quote of the above sentence takes the restructuring plan out of context and de facto renders the Office of the Comptroller's conclusion completely redundant. The quote indicating the conclusion that HaMeshakem must report on an hourly basis is due to the fact that the minutes from the Tenders Committee meeting of April 1, 2009 state, "...The Ministry will continue its contract with HaMeshakem while continuing to implement the overall restructuring plan" (Office of the Comptroller's quote from said minutes). The above quote would seem to indicate that the Tenders Committee requires that HaMeshakem implement the entire draft restructuring plan as it must comply with the "overall restructuring plan".

The full quote is as follows, "The Ministry will continue its contract with HaMeshakem while continuing to implement the restructuring plan which includes changing the Company's organizational structure, streamlining its operations, and strengthening the Company's capabilities in occupational rehabilitation, under the Rehabilitation Division's supervision." This sentence notes what is expected of HaMeshakem. At no point was it noted that the Ministry is expected to be billed for actual work hours.

One can easily notice that the Hebrew word 'hakolelet' was not put in the sentence to emphasize that HaMeshakem must perform the entire restructuring plan, but rather to emphasize what the restructuring plan includes, in contrast to the Office of the Comptroller's partial quote.

- D. At no point were we asked by the Welfare or Finance ministries to bill them on an hourly basis. To the best of our knowledge, there is no such model used by the Welfare Ministry. This is also supported by the fact that Ministry reports are all monthly. If this were true, then the Ministry would have specified an hourly rate for us to bill by. The fact is that no such rate exists, but only a monthly rate. All Ministry calculations on which the above report is based are strictly monthly calculations.

3.2 Examination of Company bills submitted to the Welfare Ministry in 2019

We reject the manner in which the Office of the Comptroller presented the data, and its conclusions:

Background: HaMeshakem and the Welfare Ministry have a long-standing contract or providing occupational rehabilitation services for people with disabilities. To the best of our knowledge, HaMeshakem is the only entity which the Welfare Ministry does not support through local authority allocation,

but rather through direct monthly support from the Welfare Ministry. This is due to the fact that HaMeshakem is the only sheltered program in Israel which maintains direct employment relations with the service recipients. Over the years, the Welfare Ministry has established standards for HaMeshakem's workforce, and has limited the number of Company employees to 2,667. About 3 years ago, the Company received approval to increase its roster to 2,800 employees.

Concerning the case at hand:

- A. According to the appendices, calculations, and minutes sent by the Welfare Ministry to HaMeshakem (a large portion of which are quoted in the Office of the Comptroller's report), there is no requirement not to bill employees whose position has been maintained. On the contrary, calculations do account for employee absences, and allow billing calculations based on an average work attendance of 90% (the Office of the Comptroller even quoted this fact in its audit report). A review of all bills submitted to the Welfare Ministry for the audit period (i.e. — 2019) shows that average attendance exceeded 90%. Thus, billing complied with the agreement. The calculation for employee work attendance is attached herewith as Appendix A.
- B. Furthermore, prior to the audit date, HaMeshakem asked the Welfare Ministry for clarification concerning the 90% annual average billing requirement. On June 1, 2022, the Company received the Welfare Ministry's confirmation that billing practices were indeed in proper order. HaMeshakem's request to the Ministry and its confirmation by return email are attached herewith as Appendix B.
- C. HaMeshakem's agreement with the Welfare Ministry does not specify any partial billing mechanism in proportion to the number of people absent. Rather, the calculation performed over the years was based on the number of employees as actually reported, which is composed of employees for whom pay slips were issued and employees who are not entitled to pay slips but their position is maintained for up to 3 months.
- D. The Company's goal is the occupational rehabilitation of employees with disabilities, and so based on professional recommendations and in order to maintain functional, employment, and rehabilitation continuity for our dear employees, we hold their workplace for a period of at least 3 months while our professional staff supports the employee and stays in continuous contact with them. Had the Company been driven by commercial interests, then in the above cases the Company would have immediately dismissed

any such employee, and hired another employee in their stead, to the maximum quota approved by the Welfare Ministry. Thus, as even the Office of the Comptroller states, the Company would have been entitled to full payment. However, since that is not the Company's goal (we do not dismiss employees at all, and certainly not to maximize our profit), and since the Company's entire focus is to retain, empower, and rehabilitate our dear employees, we do bill the Welfare Ministry for employees who are absent from work for a period of up to 3 months.

- E. Each employee with disability who misses work in a given month, takes up a workplace for another employee which the Company could have hired and for whom the Company could have received the Welfare Ministry's support (it holds the employee's place in HaMeshakem, bearing in mind the existing staff quota). This is particularly true considering that HaMeshakem is limited in the number of rehabilitation placements it can employ, as specified by the Accountant General and the Welfare Ministry.
- F. In contrast to other NGOs who are reimbursed for fixed costs, HaMeshakem receives virtually no support for such costs. Fixed costs do not change when an employee is absent, and so the monthly bill for those employees aims to cover each unit's fixed costs.
- G. HaMeshakem maintained employment relations with all employees for which the Welfare Ministry was billed. As these employees did not give notice that they were leaving the Company, nor did HaMeshakem dismiss them, it would have been more appropriate to issue them a zero-sum pay slip. For bureaucratic/technical reasons, this was not done. However, the essence of the matter stands, that employment relations were maintained.

In light of the response and explanations above, the Office of the Comptroller is requested to delete Chapter 1 in its entirety.

3.5 The Company's internal audit reports on its contract with the Welfare Ministry

As concerns reporting on the number of employees, all our comments from Section 3.2 stand.

Furthermore, the internal auditor's reports pertain to 2016, 2017, and 2018. In this period, HaMeshakem reported over 90,000 employees with disabilities. Of these, a very small number of errors were indeed made. For example, Section (h) refers to employees who had died, gone on unpaid leave, or were incarcerated in 2018. The total number of these cases was 5, out of some 30,000 reports that year, i.e. — 0.0016%. These were indeed mistakes,

but following the aforementioned audit reports, we improved our reporting methods and hope not to repeat such mistakes.

As noted in the beginning of this letter, HaMeshakem welcomes any audit of any kind, and resolutely believes in continuous improvement through constructive criticism. This is evidenced by the fact that both the Company's internal auditor and Audit Committee discussed the methods for billing the Welfare Ministry several times in recent years. A substantial number of procedures were subsequently changed, including material changes in how data are collected, calculation methods for billing the Ministry, and more.

In January 2021, HaMeshakem refunded the Welfare Ministry for erroneous charges related to 29 employees. We ask that the Office of the Comptroller note in its audit report that these were a small handful of cases out of some 30,000 reports that year.

In light of the response and explanations above, the Office of the Comptroller is requested to change its findings in this chapter.

3.6 Audit Committee's response to the internal auditor's report

The internal auditor's response is as follows:

"The internal auditor is required to submit another follow-up report as instructed by the Audit Committee in the Audit Committee minutes of February 14, 2019."

I should note that, in the November 6, 2019, I updated the Audit Committee members that, "The examination of the Welfare Ministry reports is ongoing, and a follow-up on flaw corrections will be performed in 3 months." It should be noted that the Company is working to regulate its reports despite the challenging times, and the internal audit is a regular, active partner in these efforts.

The internal audit will perform the audit in January 2021.

In March 2021, the Audit Committee was asked to discuss this matter again (for the third time), and concluded that we are in compliance with the agreement and that a legal opinion in the matter should be obtained. The legal opinion indeed supported the Company's position (and was accordingly also sent to the Office of the Comptroller).

3.7 Legal counsel's response to the internal auditor's work

The Company's legal counsel's response is as follows:

The Office of the Comptroller is required to delete this chapter as it is neither factually nor legally correct. It is emphasized that there was no intervention

in the internal auditor's work. Moreover, any action that was taken, was taken in cooperation with HaMeshakem's internal auditor.

The Office of the Comptroller reached such an extreme conclusion that the legal counsel intervened in internal audit operations, without the Office of the Comptroller having bothered to speak with the legal counsel before formulating its position on the finding and drawing conclusions. Such conduct is not in light with accepted auditing practices.

Moreover, the Office of the Comptroller bases its statement solely on the style of the letter in which the internal auditor was asked to delete a recommendation (Section 10.3 to the letter), and the recommendation was subsequently deleted. With all due respect, this does not constitute any form of intervention in an audit report.

Below is my detail of the events as they actually occurred and which shows that there was no improper intervention in the internal auditor's work:

1. During the audit, the Company's internal auditor contacted HaMeshakem's CEO, Mr. Eran Zini, and updated him on her audit as it entered its consolidation phase. The meeting indicated that several legal questions needed to be resolved.
2. Thus, the legal counsel was summoned to a meeting attended by the Company's internal auditor and CEO. This meeting discussed the issues found by the internal auditor and their implications for the Company.
3. The Company's CEO asked that the internal auditor and legal counsel formulate a work plan, with the legal counsel providing his legal opinion, and the internal auditor reviewing the matters.
4. In this meeting, the legal counsel, who also served as legal counsel for the Institute of Internal Auditors, clarified that the report is issued by the internal auditor, and that all statements and actions are ultimately at the internal auditor's discretion.
5. The Company's internal auditor and legal counsel then went out for lunch, during which they agreed on a work plan. Coming back from lunch, the internal auditor and legal counsel went back to the Company's CEO at the time, Mr. Eran Zini, and let him know that they had agreed that the legal counsel would issue the internal auditor a letter in his name, noting where he believes changes should be made in the draft report, and that the Company's internal auditor would have the final say in the matter.

6. On October 25, 2016, the legal counsel accordingly sent a letter to the internal auditor with only the CEO in CC, as agreed between the CEO, the internal auditor, and the legal counsel, and with the internal auditor's consent.
7. The letter on which the Office of the Comptroller bases its finding, and as per the aforesaid agreement, also clarified that final discretion on the contents of the report was given to the internal auditor, and her alone!.
8. The Company's internal auditor reviewed the matter and acted as she saw fit. It is further noted that, other than the letter sent with the internal auditor's consent, the legal counsel had no involvement in the matter. In evidence, the legal counsel did not issue another letter concerning the final report.
9. In light of the above, there was clearly no gross intervention and/or intervention of any kind in the internal auditor's work. The legal counsel was approached by HaMeshakem's CEO, in consultation with the internal auditor. As such, the legal counsel's letter was issued in full collaboration with the Company's internal auditor, and with the CEO's knowledge! Moreover, the letter itself, as agreed, stated that the internal auditor would decide whether and how to make changes in the draft report (which was a preliminary draft before submission for responses!). For the avoidance of doubt, it is also noted that, in practice, the internal auditor did not accept all of the legal counsel's comments, and all actions were in keeping with the internal auditor's powers!.
10. Should the Office of the Comptroller decide not to delete this finding, then it must obtain a statement from the Company's CEO at the time, Mr. Eran Zini.
11. An unequivocal email from the Company's internal auditor to its present CEO and the Company's legal counsel clarifying the matter is attached herewith as Appendix C.

Chapter 2 — Service Provider Contracts

4.1 Rental fees

- 4.1.2 This property was leased in 2012 for NIS 65,000. It was leased its entirety based on an appraisal prior to the lease. The appraisal report is attached herewith as Appendix D.

The property was clearly leased on the lower end of appraisal range, and the lease included both the building and the logistics yard. In light of the above, we believe the contract need not have specified the square meter area as they are noted in the appraisal report itself.

The Company accepts the Office of the Comptroller's conclusions (a)-(f) in their entirety.

The Company accepts the Office of the Comptroller's recommendations 1-4 in their entirety.

As a result of the above, Accounting has started checking withholding tax exemption and bookkeeping certificates through the Israel Income Tax Authority's System 1000. Before each payment, this system checks the supplier's status, negating the need to sign the certificates.

Each month, printouts are generated through the Income Tax Authority's System 1000. These printouts are retained as required by law, and do not need to be signed.

As concerns Section 5, a document was found from Sarit Agencies (which was submitted to the Office of the Comptroller) which reported to the Or Yehuda municipality and updated HaMeshakem that the leased area was 352 square meters + 5 square meters — 357 square meters total. However, we will try to negotiate with the property owner to lower the bill to 352 square meters.

4.2 Sample invoices

We accept the Office of the Comptroller's comment.

4.3 Employee empowerment costs

The opinion of accounting firm Brightman Almagor (who prepares the Company's financial statements), which differs from the Office of the Comptroller's recommendation, is attached herewith as Appendix E.

4.4 Legal costs

The contract with Gideon Fisher & Co. entails a monthly retainer, for which the **same** attorney from the law firm comes in person to work a 40% position in the Company's offices, in addition to general legal representation by the firm (lawsuits, property registration, agreements, etc.).

4.5 Safety consultant costs

The opinion of accounting firm Brightman Almagor (who prepares the Company's financial statements), which differs from the Office of the Comptroller's recommendation, is attached herewith as Appendix E.

In this regard, it is further noted that HaMeshakem receives a fixed cost component in its monthly Welfare Ministry payments for each employee. Payment includes indemnification for safety costs, and so the safety consultant's pay is included in this expense and not under salary costs.

4.6 Directors' fee costs

The Company accepts the Office of the Comptroller's recommendation and will have directors sign the payment request.

5.2 Software service costs –Payroll Services Provider

HaMeshakem has a signed agreement with the Payroll Services Provider.

We checked with the Payroll Services Provider about the difference found by the Office of the Comptroller, and the Company was reimbursed for this amount.

5.3 Legal costs

The Company contracted a law firm through a bidding process. The services that the Company receives are optimal, and the Company is happy with these legal services. It is noted that, in its services, the law firm also includes all lawsuits and provides an attorney who works from the Company's offices twice a week, in addition to the various other services. The law does not limit the term for the legal counsel's tenure and the decision is given to the Company's management. In light of the above, the matter will be brought before the Board of Directors in its next meeting, for decision.

5.4 Sales promotion costs — Public Relations Services

We wholeheartedly object to the manner in which the data were presented and to the Office of the Comptroller's conclusions:

HaMeshakem is not a government company, and so is not subject to the Mandatory Tendering Law.

However, recognizing the importance of good faith, integrity, and proper conduct, the Company decided to issue an RFQ.

The process for selecting our public relations supplier (and not sales promotion) consisted of placing an advertisement, scheduling a day when all bidders presented their offers to the Company's management, consolidating the management team's impressions, and scheduling another interview for the three most impressive (highest-scoring) bidders with the Company's management and Chairman.

The Chairman of the Company's Board, Mr. Arnon Tiberg serves as chairman of the Company's Outreach Committee — which manages the Company's

public relations efforts, and so the matter was brought before him at the end of the process. It should be noted that the Chairman of the Board was present in the meeting, but was not involved in the decision-making.

It is further noted that the decision to choose the Public Relations Company as most suitable to provide these services was mainly due to the fact that it (as stated by the Company's CEO at the time, Mr. Eran Zini) is a small firm, with high availability to serve the Company. This is in contrast to the other firms which, although scored higher, but had a greater gap between the presentation given by their senior staff and the day-to-day operations which would have been delegated to more junior employees.

Once the Company decided that the Public Relations Company was its preferred provider, it opened negotiations to lower the price to match that of the lowest bid.

Summaries from the presentations, summary of the decision to select the PR firm, and the advertisement are attached herewith as Appendix F.

In light of the above response and explanations, the Office of the Comptroller is asked to change the findings and conclusions in this chapter, and either clarify its comment concerning questionability or alternatively delete this comment.

5.5 Rehabilitation Counselor Costs

The Company accepts the Office of the Comptroller's conclusions and recommendations.

Chapter 4 — HQ Staff Salaries

6.2 HR Director's salary

HaMeshakem received the Wage Supervisor's approval for the pay ranges for the Company's executive staff, with pay ranges defined as a percentage of the CEO's pay. Mr. Kobi Amsalem's letter of December 3, 2013 is attached herewith as Appendix G.

In light of the above, the Company's Board was asked to change the HR Director's employment terms in similar terms, i.e. — as a percentage of the CEO's salary. In any case, the Company's Board approved the raise in the HR Director's pay up to 50% of the CEO's salary, and this was indeed carried out.

6.3 Internal Auditor's salary

The internal auditor's response is as follows:

“In accordance with Section 8(a) to the Internal Auditing Law, 1992, the internal auditor should have received pay solely for her work as internal auditor.

The Office of the Comptroller found that the internal auditor received a one-time payment of NIS 3,000 (gross) for work unrelated to her work as internal auditor. This payment was approved by the CEO, who is not authorized to change the internal auditor’s pay.”

It is noted that, each year, HaMeshakem sends its disabled staff on a Company retreat. HaMeshakem’s headquarters has a very limited staff, and so over the years all management staff, including the internal auditor, have always taken part in these activities and in the realization of the Company retreat for its disabled employees.

I consider it a great privilege to be involved in organizing such a value-driven activity for the Company’s disabled staff.

It is emphasized that full transparency was maintained with the Audit Committee, and the Committee members were updated that I took part in preparing the Company retreat. I should note that these functions did not undermine my regular auditing duties.

The above notwithstanding, as the external audit called my attention to this matter, I sent on my own initiative a letter to the Company’s CEO and the chair of the Audit Committee, in which I requested to repay these funds to the Company for the sake of appearances (June 3, 2020).

Section 6.3 b.

“The Company’s CEO approved an increase in the scope of the employee’s position starting January 2019. Authority to approve such change is not given to the CEO, but rests with the Audit Committee.

The change was only approved in the minutes from the Audit Committee’s meeting of November 6, 2019.”

The addition to which the external audit refers is the addition which appears in the pay slip as a “one-time addition”. Thus, it is not an increase in the scope of the position, but rather an addition following performance of a Company risk survey. The survey is performed once every 5 years and requires extensive, in-depth examinations, which could not have been possible under my work hours at the time.

The Audit Committee meeting of November 6, 2019, in light of the workload that required me to work 5 days a week, asked the CEO to change the scope of my position. The Audit Committee members are partners to my work and full transparency is maintained in all audit activities.

Furthermore, the Audit Committee members had raised the issue of the scope of my employment 3 years ago in various talks with the Company's CEO at the time.

Chapter 6 — Minutes

1. The Company accepts the Office of the Comptroller's recommendations.
2. Minutes are signed by email confirmation of those attending— common practice.

Chapter 7 — Investment Portfolio Management

9.1 Checking with H. Ltd. concerning non-compliance with the Company's established investment policy — H. Ltd. received our email concerning the change in the Company's investment policy (reducing the percentage of shares from 20–25% to 10–15%) on December 29, 2019, with the read-receipt on the email being received on January 1, 2020. The Office of the Comptroller checked the balances and investment composition as of December 31, 2019, and so did not find the change in the share composition of the portfolio.

Had the Office of the Comptroller examined data for January 2020, it would have seen that the percentage of shares in the portfolio had gone down to 14.61% and H. Ltd. had implemented the investment policies set forth by the Company.

Signed, formal agreement with P. Ltd. –

On any change in the Company's investment policy (which is dynamic and changes from time to time), a formal letter is sent to the investment firm concerning the new investment policy, and the Company receives confirmation by return email to the CFO. Monthly follow-ups are also made on compliance with said policy.

Such confirmation by return email has been used throughout our entire contract with P. Ltd. and with other investment firms.

Chapter 8 — Compliance in Tax Authority Filings

No comments.

Summary

1. The factual details and appendices attached to this response indicate that HaMeshakem has always complied with proper conduct principles, and operated transparently, fairly, professionally, and with dedication for decades.

2. As noted, the draft report relied on a series of incorrect facts, which led to conclusions which were factually and legally incorrect.
3. In light of the extensive detail in our response, which presented the Office of the Comptroller with the accurate facts, fully-backed with documents and other evidence, we ask the Office of the Comptroller to delete the relevant chapters entirely from the final report.
4. We again emphasize that the Office of the Comptroller is neither authorized and/or has the Company's permission to publish the report or any part thereof.

Sincerely,
Ariel Levi
CEO

**Response of the Chairman of the Zionist Executive
to the Comptroller's Report on
HaMeshakem
Employment for the Elderly and
Individuals with Limited Working Capacity Ltd.**

In accordance with Section 18B to the Statutes for the Comptroller and the Control Office of the World Zionist Organization, which requires the Chairman of the Zionist Executive to submit his response to the Comptroller's reports, the following is my response to the report on HaMeshakem Employment for the Elderly and Individuals with Limited Working Capacity Ltd.

The report examined important aspects in HaMeshakem's financial conduct and its material contracts with employees, suppliers, and the State of Israel. Since its inception, the World Zionist Organization has strived to build a model society in Israel. One of the most important values espoused by the founders of the Zionist movement and Herzl was that of equal opportunity. In Herzl's utopia, a disabled individual is integrated seamlessly in society with full accessibility and adaptation to his physical abilities.

To this end, and in order to realize that vision, the Israeli government and the World Zionist Organization founded HaMeshakem. Through this company, vision is becoming reality, and some 2,800 people are employed in special placements which support their disability or even turn it into an advantage in the performance of specific tasks.

In reviewing the report, and despite the findings, I would like to point out the company's progress since the State Comptroller's report of more than ten years ago, through the internal audits, and to the writing of these words.

Upon receiving the findings, I talked with the Office of the Comptroller concerning the legacy reports to the Ministry of Welfare and even the obvious should be said aloud. Accurate information is an important pillar in all our collaborations, with both private and/or government entities.

After I was presented with documents showing the correction of the flawed reports and the arrangements with the Ministry of Welfare, including written agreement from a Ministry of Welfare contact concerning reporting procedures, I uphold the Comptroller's recommendations and ask that information remain accurate in the future.

The audit indicates ongoing cooperation and discussion with the Office of the Comptroller, and above all this shows a desire to learn and improve. It is important that the company's organs and auditing functions serve the company by continuing the work and tracking the correction of flaws in the annual work plan.

Our power as elected officials and as officers in companies with significant social goals is to accept criticism in a constructive manner. This attributes builds strength and trust over time.

On behalf of the World Zionist Organization, I thank you for the audit.

(-) Yaakov Hagoel
Jerusalem, July 2022

Keren Kayemeth LeIsrael — KKL (PBC)
Education Division — Field and Forest Centers

Keren Kayemeth LeIsrael — KKL (PBC) Education Division — Field and Forest Centers

1. Method and Scope

The audit of Keren Kayemeth LeIsrael-Jewish National Fund's ("KKL or the "Company") field and forest centers was performed as part of the Office of the National Institutions Comptroller's work plan for 2020. The audit examined field center operations in 2017–2019. The audit was carried out in July-October 2020.

The audit examined conduct in KKL (PBC) field and forest centers ("Field Centers").

The audit included tours and inspections of said Field Centers, receipt of various documents from KKL and inquiries with regulatory authorities.

The audit included talks with the following KKL personnel:

- A. Director, Education Division.
- B. Director, Field Centers.
- C. Director, Nes Harim Field and Forest Center, and additional Center staff.
- D. Director, Tzipori Field and Forest Center, and additional Center staff.
- E. Director, Shuni Field and Forest Center, and additional Center staff.
- F. Director, Yatir Field and Forest Center, and additional Center staff.
- G. Assistant to KKL's Director General.
- H. Controller, Education Division.
- I. Building regulation supervisor.
- J. Director, Booking Department.
- K. Director, Domestic Market Department.
- L. Director, MAOF Market Department
- M. Marketing staff in the International Market Department.

By nature, audits highlight flaws and failures. However, this does not detract from the dedicated and professional work being done by KKL's various departments. The Office of the Comptroller would like to thank the staff and

management of KKL's Education Division for their cooperation and help in preparing the various documents.

In his response to the draft audit report, the director of KKL's Education Division noted that the findings refer to the period before he assumed his position. The Division director further noted that he accepts the recommendations in this report, as they align with the changes which he is leading in Field Center operations. The Division director added that he plans to integrate the lessons and recommendations of this report into the Division's work plan for the coming year.

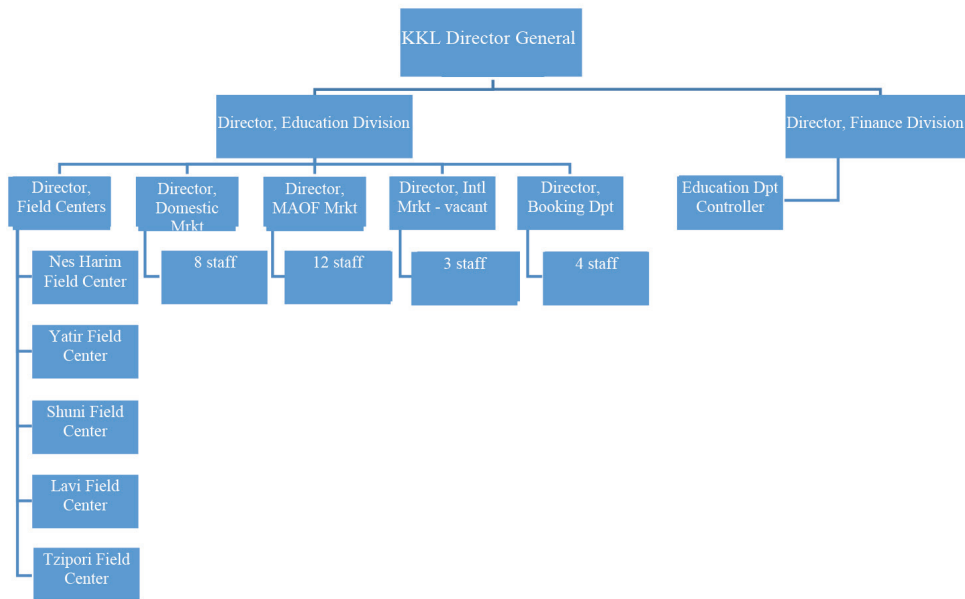
2. Introduction

KKL aims to cultivate love of Israel, love of Eretz Israel, and to connect educators and pupils with Jewish Identity, history, heritage, forestry, nature, the environment, and values of maintaining all these in experience-driven, enriching, and enjoyable ways. To this end, KKL runs unique educational programs in Israel and abroad in various informal educational contexts, e.g. — youth movements, youth organizations, community centers, shnat sherut, etc., and in formal educational contexts in schools.

Part of the Education Division's activities take place in the field and forest centers in five sites throughout the country: Yatir Forest, Nes Harim, Shuni, Lavi Forest, and Tzipori. These centers host and accommodate groups from formal and informal educational programs, international groups, and individuals on private trips. Field Centers offer groups educational content through KKL instructors on various topics — KKL and its activities; educational values and KKL values such as ecologically-responsible consumption, and eco-environmentalism. The Centers offer various services, as detailed in this report.

In general, each Center offers spacious tents and wood cabins. Enclosed and secure Centers offer specially-prepared 'camping areas' for outdoor sleeping and camping activities ("Camping Areas"). Centers also offer outdoor and indoor classrooms, sports and leisure equipment, and shaded seating areas under the trees, which allow high-value educational experiences along with outdoor activities. In 2016, KKL's management commissioned a report on the management and operation of these Field Centers. The report was prepared by Ran Haklai Urban Economics Ltd. and served as the foundation for KKL's strategy in managing its Field Centers. Furthermore, in 2019, the director of KKL's Field Centers commissioned an abridged report on the matter for the incoming Education Division director. These reports mainly focused on the marketing and management of Field Center operations.

The Education and Field Center Division is organized as follows:



3. Field Centers — General Information, Facilities, Occupancy, and Utilization

Nes Harim Field and Forest Center

The Nes Harim Field and Forest Center spans an area of 150,000 square meters. In 2017–2019, the Center hosted some 330,000 visitors. The Center is adjacent to the town of Nes Harim (100 meters), on land zoned as forest. KKL considers the Center part of its Center District (Dan Area, Jerusalem, and towns in central Israel). The Center began operating as a summer camp in 1980, with tent accommodations. In 1997, wood cabins were built, and in 2009 KKL began utilizing its Field Centers as conference centers and weekend vacation areas for family trips.

The Center’s staff includes six people — the director, an administrator, instruction coordinator, maintenance supervisor, conference coordinator (managing the conference center), and a marketing supervisor for weekend family visits.

The Center also has a security guard manning the entrance 24/7, and additional security staff whose number changes with the number of guests on-site. These services are overseen by the Security Department, and are provided by an outside contractor.

On-site facilities

1. The Center has 44 cabins, with 6 beds each. Cabins are currently being renovated, and handicap-accessible cabins are being built. In all, there are 276 beds. Cabins are divided into 4 areas, with 12 cabins in each area.
2. There are two Camping Areas — a smaller area which can accommodate 100 guests; and a larger area which can accommodate 350 guests. The large Camping Area is inoperative, as it is located on land which is not zoned accordingly. Each area has an outdoor kitchen.
3. Play areas and sports equipment.
4. Classrooms.
5. Cafeteria — The cafeteria is a kitchenette where food can be heated, but not cooked.
6. Conference center — The Center has a building which can serve as a conference center and host conferences and events.

Utilization data for the Camping Areas and cabins in 2017–2019, as recorded by KKL

| Year | Camping Area utilization rate | Cabin utilization rate | Utilization rate — Camping Area and cabins |
|-------------|--------------------------------------|-------------------------------|---|
| 2017 | 55.7% | 7.5% | 51.5% |
| 2018 | 44.7% | 7.8% | 41.5% |
| 2019 | 43.5% | 10.6% | 40.7% |

Tzipori Field and Forest Center

The Tzipori Field and Forest Center is located in the central Lower Galilee, near HaMovil Junction, and adjacent to the Israel Nature and Parks Authority’s Tzipori National Park. The site is situated in the middle of a forest, surrounded by numerous hiking trails and tourist attractions. According to the town plan, the Center has an approved area of 41,000 square meters, with an additional 12,000 square meters of forested areas and access roads which are outside the official town plan. Some of the area is a designated nature reserve under Regional Zoning Plan 8, while some is designated as forest under Regional Zoning Plan 22. In 2017–2019, the Center received some 251,000 visitors.

The Center initially opened as a summer camp for overseas participants in the late 1970s, and before that served as a plant nursery. Since the late 1980s and the early 1990s, KKL began installing mobile buildings, toilets, and showers on-site. In these years, a perimeter fence and tents were installed on the site,

and construction began on the cafeteria and activity areas. In the early 2000s, wood cabins were added, along with classrooms, air-conditioning, etc.

The Center’s staff comprises three people: the Field Center director; an administrator who also oversees maintenance; and an instruction coordinator. The Center also has a security guard manning the gate 24/7, and additional security staff whose number changes according to the number of guests on-site. These services are overseen by the Security Division, and are provided by an outside contractor.

On-site facilities

1. Cabins — there are 6 cabins with 4 beds each (2 bunk-beds), equipped with fridges and air-conditioning. These are for educational staff, drivers, and first aid staff accompanying groups.
2. Tents — there are 28 tents with 8 beds each (224 beds).
3. Camping Area — capacity of 300 people.
4. Basketball/tennis court.
5. 5 classrooms.
6. Cafeteria — the cafeteria is kitchenette where food can be heated, but not cooked.
7. Outdoor kitchen — near the Camping Area; includes stainless steel surfaces, refrigerator, and stove.

Utilization data for Camping Areas and cabins in 2017–2019, as recorded by KKL

| Year | Camping Area utilization rate | Cabin utilization rate | Tent utilization rate | Overall utilization rate (Camping Areas, cabins, and tents) |
|------|-------------------------------|------------------------|-----------------------|---|
| 2017 | 38.7% | 6.1% | 2% | 35.1% |
| 2018 | 32.9% | 6.0% | 4% | 30.0% |
| 2019 | 28.4% | 6.8% | 5% | 26.1% |

Lavi Field and Forest Center

The Lavi Field and Forest Center is located in the eastern Lower Galilee, some 20 minutes from the Tzipori Field Center. The Center is adjacent to the Golani Junction, near KKL’s plant nursery, and has been operating in various formats since 1978. The Center spans an area of some 120,000 square meters. In 2017–2019, the Center hosted some 148,000 visitors. KKL considers the Center part of its North District.

The Center has five staff: the Field Center director; an administrator; maintenance supervisor; instruction coordinator; and an administrative assistant who mainly provides phone and office support. The Center also has a security guard manning the gate 24/7, and additional security staff whose number depends on the number of visitors. These services are overseen by the Security Department, and are contracted from a security services company.

On-site facilities

1. 7 cabins with 5 beds each. During the Office of the Comptroller’s visit to the Center on August 2, 2020, 5 additional cabins were under construction.
2. 41 tents with 8 beds each.
3. Outdoor kitchen for the tent area.
4. Two Camping Areas — a larger one with a capacity for 500 people; and a smaller one with a capacity for 150 people.
5. Outdoor kitchen for the Camping Area.
6. Play area.
7. Three classrooms
8. Seven outdoor classrooms
9. Cafeteria — a kitchenette where food can be heated, but not cooked.

Utilization data for the Camping Areas and cabins in 2017–2019, as recorded by KKL

| Year | Camping Area utilization rate | Cabin utilization rate | Tent utilization rate | Overall utilization rate (Camping Areas, cabins, and tents) |
|------|-------------------------------|------------------------|-----------------------|---|
| 2017 | 33.6% | 6.8% | 3% | 31.1% |
| 2018 | 33.7% | 7.5% | 4% | 31.3% |
| 2019 | 35.5% | 7.8% | 4% | 33.0% |

Yatir Field and Forest Center

The Yatir Field and Forest Center is located in the KKL-planted Yatir Forest, the largest man-made forest in the world, and the largest forest in Israel. The Yatir Forest spans some 30,000,000 square meters and is named after a Biblical city whose ruins are located in the forest. The forest is located in the ‘desert outskirts’ region, east of Hura. In 2017–2019, the site received some 146,000 visitors.

The Yatir Field Center first opened as a Field Center in 2016, and is currently undergoing significant improvement and expansion. KKL considers the Center part of its South District. The Center spans some 150,000 square meters. In

2019, the Center’s business license was changed to increase its accommodation capacity from 250 to 400.

The Center has four staff members — the Field Center director; an administrator; a maintenance supervisor; and an instruction coordinator. The Center also has a security guard manning the entrance 24/7, with additional security staff whose number depends on the number of visitors. Services are overseen by the Security Department, and contracted from a security services company.

On-site facilities

1. Two ‘Abraham-style’ tents which can accommodate 70 people each (140 people total).
2. Camping Area — 250 people.
3. Outdoor kitchen.
4. Cafeteria — a kitchenette where food can be heated, but not cooked.
5. Ranger’s House — a building with rooms for educational staff. The building is not in use and is currently pending regulation.
6. Outdoor amphitheater.

Utilization data for the Camping Areas and cabins in 2017–2019, as recorded by KKL

| Year | Camping Area utilization rate | Tent utilization rate | Overall utilization rate (Camping Areas and tents) |
|------|-------------------------------|-----------------------|--|
| 2017 | 25.1% | 1% | 22.4% |
| 2018 | 17.4% | 1% | 15.6% |
| 2019 | 15.8% | 2% | 14.3% |

Shuni Field and Forest Center

The Shuni Field and Forest Center opened in 2019. The Office of the Comptroller decided to examine the Center as it hosts school children and other visitors. The site is located in the heart of Bik’at HaNadiv, on the eastern slopes of Chotem HaCarmel, on the way from Binyamina to Zichron Ya’acov. The site spans some 11,400 square meters. The Field Center is currently located on 4,000 square meters, and the

remaining area is under development. In 2019, the site hosted some 5,000 visitors. The site is first mentioned in the Talmud as the village of Shumi, and its archaeological findings include an amphitheater, aqueduct, and pools. The site served as a base for pioneer settlement activities, and as a base for the HaEtsel underground movement.

The Center has four staff members — the Field Center director; an administrator; a maintenance supervisor; and an instruction coordinator. The Center also has a security guard manning the entrance 24/7, and addition security staff whose number depends on the number of visitors on-site. These services are overseen by the Security Department, and contracted from a security services company.

On-site facilities

1. Camping Area — 150 people.
2. Outdoor kitchen.

Utilization Data for the Camping Areas in 2019, as recorded by KKL

| Year | Utilization rate — Camping Areas | Overall utilization rate |
|------|----------------------------------|--------------------------|
| 2019 | 9.0% | 8.8% |

Findings

1. Data indicate that, except in Lavi and Shuni (for which previous year utilization data was not available), Field Centers show a continuous decline in accommodation utilization rates. This decline is particularly prominent in the Camping Areas (in Tzipori — a 4% annual decrease; and in Yatir and Nes Harim — a 5% annual decrease on average).
2. The overnight guests report is based on visitor **bookings** and not on **actual stays**. Actual stays are usually less than the bookings.
3. The overnight stays report, which is supposed to reflect visits to the Field Centers, presents events which did not take place in the Field Center. For example, the 2018 overnight stays report for Yatir states that 2,000 guests stayed in the center for 23 days. Upon inquiry, this figure turned out to be requests from the district for educational kits for activities conducted elsewhere. These requests were logged as activity in the Field Center and increased overnight stays in Yatir in 2018 by 46,000 stays, out of a total of 67,769 stays for the entire year.
4. Facilities differ materially between centers. Nes Harim includes cabins, a conference center, and Camping Areas; Tzipori and Lavi mainly include tents and Camping Areas; Shuni only has Camping Areas; and Yatir has large tents ('Abraham-style' tents) and Camping Areas. Nes Harim and Tzipori offer basketball and tennis courts, which are not available in the other Field Centers. Shuni does not have a cafeteria, while the other Field Centers do.
5. The regular staff positions are relatively similar across Centers (director, administrator, maintenance supervisor, and instruction coordinator).

However, there are material differences in the number of permanent staff. For example, Nes Harim has 6 regular staff, while Tzipori has only 3 regular staff.

6. The Camping Areas are designed to accommodate large groups — 500 in Lavi, 300 in Tzipori, 250 in Yatir, and 350 in Nes Harim.

Group sizes across Centers in 2017–2019

| Field Center | Average Group Size | Median |
|--------------|--------------------|--------|
| Yatir | 109 | 80 |
| Lavi | 137 | 102 |
| Nes Harim | 142 | 107 |
| Tzipori | 122 | 95 |
| Shuni | 71 | 67 |

IT seems that group sizes average about 130 people, with a median of about 100 people. This indicates partial utilization of Camping Area capacity.

7. In the Nes Harim and Lavi Field Centers, land is managed by Himnuta Ltd. (a KKL subsidiary), while in the other Field Centers, land is under KKL management. The Office of the Comptroller was told that this is due to a previous plan to transfer management of all Field Centers from KKL to Himnuta Ltd. However, this initiative was suspended.
8. The Office of the Comptroller received Field Center occupancy data from several sources: booking system data, data provided by Field Center directors, and a presentation provided by the Education Division director. There were material gaps between these data and the occupancy data provided in response to the draft report. Furthermore, the director of the Yatir Field Center stated in his response that the booking system is inaccurate in its occupancy calculations, and that this is a known issue.

Recommendations

1. **KKL should set marketing targets and track the growth or decrease in Field Center utilization rates. For more findings in this matter, see the chapter entitled *Marketing*.**
2. **Overnight stay reports should be based on actual stays, and not on planned stays.**
3. **Optimize booking system data to reflect the actual number of visitors for each site. Furthermore, if possible, KKL should consider operating a separate module in KKL's booking system for its Field Centers. The system is currently used for various purposes which do not necessarily concern the Field Centers.**

4. **Establish a list of critical personnel for Field Centers. This list should include the Center director, maintenance supervisor, instruction coordinator, and administrator. Any additional staff employed by a Field Center would need to be justified.**
5. **Divide Camping Areas into smaller complexes, with an occupancy of about 130 people. Furthermore, to optimize utilization, each complex should be provided with an outdoor kitchen. This will allow better utilization of the Camping Areas, and will support a more diverse group mix, which could stay simultaneously in the Camping Areas.**

Summary of responses from KKL's Director of Field Centers, and the individual Field Center directors

1. KKL's Director of Field Centers asked to clarify that operating years have 364 days — 134 days for formal educational institutions, 126 days for informal educational institutions, and 104 days for weekends. As presented in the report, the bulk of the Field Center's operations concern educational tourism, for both formal and informal educational contexts. In examining occupancy rates and the inherent tension between the Field Center as a profit center and the Field Center as an educational center, we must keep the above in mind.

KKL's Director of Field Centers also stated that occupancy rates are measured based on actual stays. A statutory master plan was prepared for all Field Centers. Differences in staff across the various Centers are due to each Center's respective needs during the high season. The Director of Field Centers also stated that Recommendation 6 will be studied.

2. The director of the Nes Harim Field Center stated that, according to the work plan submitted and approved together with the Planning Division, the smaller Camping Area will be expanded in 2021 and adapted to accommodate a large number of people simultaneously. This includes the addition of outdoor kitchens and toilets for each area.
3. The director of the Tzipori Field Center stated that the Field Center's infrastructure does not support stays during the rainy season, between December and March (depending on the weather that year). Thus, the Center effectively operates for only 8–9 months out of the year.
4. The director of the Lavi Field Center stated that the Lavi Field Center has future development plans to allow for optimal utilization of its area. For example, the Camping Area will be reconfigured as 3 Camping Areas, each of which will accommodate 250 school children, and include an outdoor kitchen, toilets, showers, and camping area.

4. Policy and Procedures

A. Policy

General

KKL has not established a formal policy concerning the Field Center’s goals, and has not adopted a principle decision whether they are a commercial enterprise (i.e. — a self-sufficient business), or whether their operations should be fully- or partially-subsidized. KKL’s website notes that, “**KKL’s field and forest centers are located in the midst of the green woodlands and between blossoming hills, and offer visitors an educational experience, joining environmental values with Zionism and love of Eretz Israel**” (emphasis added).¹

The 2016 Ran Haklai Report states in greater length, and slightly differently, that, “**The field and forest centers realize KKL’s educational vision with practical Zionism of connecting the public with its land and cultivating a generation of future leaders. Through its field and forest centers, KKL impacts the love of**

Eretz Israel, return to nature, and a value-driven connection to the land, its heritage, and landscapes” (emphasis added).

The Office of the Comptroller was told that the Ran Haklai Report was discussed by several forums, such as the Board of Directors’ Education Committee, the Education Division’s management, and the KKL Executive Forum. However, no minutes were found of these discussions, other than a discussion with KKL’s director general which took place on March 13, 2018, and which yielded the following decisions:

1. “Based on what was said, **every field center should be an independent business unit**. Action should be taken concerning marketing and organizational adjustment. The director general wants to know what the barriers are in terms of market, personnel, and infrastructure” (emphasis added).
2. “Concerning Ran Haklai’s comments — The director general accepts the gradual approach but feels that, as the incremental processes take shape, he would like to know what can be done **right now** to improve the situation” (emphasis added).

The assistant to KKL’s director general added that apparently there was also a meeting with representatives from the workers’ union, who presented

¹ Source: KKL website — <https://www.kkl.org.il/youth-and-education/halon-lamechanchim/field-and-forest-centers/>

another expert opinion concerning the Field Centers. However, it seems that no minutes were kept of this meeting, nor are there any records of this other expert opinion.

Findings

1. Material documents and minutes are missing for various KKL forums, despite KKL's procedure for documenting discussions.
2. It seems that KKL does not have an official policy concerning its Field Centers, which would address the following questions:
 - Which audiences should KKL target in its resource allocation?
 - What are the priorities for the allocation?
 - What are the sources for the Field Centers' funding?
 - Are Field Centers expected to be economically self-sufficient?
 - Does KKL wish to add new Field Centers? If so, where would these be located geographically? etc.

Recommendations

1. **Make sure to document discussions in the various forums, including the specific documents circulated prior to the discussion, as per KKL's Discussion Documentation Procedure.**
2. **KKL's management should formulate, and present to the KKL Board of Directors, a policy document for the Field Centers. A discussion should be held with a resolution adopting the policy.**

This policy should specify, for example, which audiences should be targeted when allocating KKL resources, what are the priorities, what are the sources for the Field Centers' funding, are Field Centers expected to be economically self-sufficient, does KKL wish to open new Field Centers and if so — where, targeting additional audiences and households, etc.

Summary of the response from the directors of KKL's Field Centers

Policy is set by the organization's management, and we follow this policy.

B. Operating procedures

The Office of the Comptroller requested procedures applicable to Field Center operations. The following procedures were received:

| Procedure | Updated |
|---|---------------|
| Marketing Educational Activities (Israel) | Dec. 20, 2017 |
| Facility and Field Center Security | Jan. 7, 2018 |
| Educational Activity Development and Implementation | Dec. 21, 2017 |
| Booking Center | Dec. 21, 2017 |

Findings

1. The Booking Center Procedure is not current and is incomplete in its description of actual workflows. For example — the procedure does not include advanced payments by clients; does not include cancellations; does not include booking suspensions; etc.
2. KKL is missing procedures applicable to Field Center operations. These include, for example:
 - 2.1. Marketing of educational enterprises aiding and promoting outlying areas (Hebrew acronym — MAOF), and international marketing activities.
 - 2.2. Annual and long-term work plans for Field Centers.
 - 2.3. Safety and accessibility surveys in Field Centers.
 - 2.4. Billing for Field Center stays.
 - 2.5. Firefighting and fire compliance inspections in Field Centers.
 - 2.6. Cancellations and activity suspension in Field Centers.
 - 2.7. Hosting private events in Field Centers.
 - 2.8. Construction in Field Centers.
 - 2.9. Tree surveys and sanitation in Field Centers.
 - 2.10. Information security in Field Centers.
 - 2.11. Wireless networks in Field Centers.

Recommendations

1. **Update the Booking Center Procedure to fully align with actual workflows. The procedure should include, among other things, payment advances by customers; cancellations; booking suspensions; etc.**
2. **Establish a set of procedures for Field Center operations. The list of missing procedures is described in the above findings. Each procedure should include an update date, update owner, conditions for updating material changes to workflows such as, change in organizational structure, change in associated information systems, etc. These procedures should be formulated in accordance with KKL's rules for adopting, formulating, and changing operating procedures.**

Summary of the Field Center directors' response

Recommendation accepted. A review will be performed of all applicable procedures.

5. Work Plans

General

Annual and long-term work plans first and foremost seek to implement organizational strategy, clarify the direction in which the organization is heading, and specify the organization's goals for the coming and subsequent years.

The Office of the Comptroller requested the work plans for the various Field Centers for 2017–2019, including follow-up on performance. The following materials were received:

1. 2018–2019 work plans for the Lavi Field Center.
2. Summary of development work plans for Field Centers, dated December 5, 2018.
3. Requirements and development needs + price quotes — Tzipori Field Center — 2018.
4. Work plan for the 2018 budget — Tzipori Field Center.

Findings

1. There is no procedure requiring all Field Centers to prepare and follow annual or long-term work plans.
2. It seems that the work plans that were drafted were implemented sporadically, without an overall vision and without a long-term work plan.
3. No work plans were found for some of the Field Centers — Nes Harim, Yatir, and Shuni did not provide any work plans; Lavi did not provide a work plan for 2017; Tzipori did not provide work plans for 2017 and 2019.

Recommendations

1. **Prepare a procedure for Field Centers governing work plan requirements. The procedure should provide for both annual and long-term work plans.**
2. **Each Field Center should draft an annual and long-term work plan. Plans should include among other things, the following:**
 - 2.1. **The following surveys:**
 - 2.1.1. **Safety survey**

- 2.1.2. **Firefighting survey.**
- 2.1.3. **Tree sanitation survey — It is noted that, since Field Centers are located in forested areas, or at least in areas with numerous trees, failure to periodically prune and inspect trees at the Field Centers may lead to trees falling/collapsing, and even injury to visitors.**
- 2.1.4. **Security survey.**
- 2.1.5. **Accessibility survey.**
- 2.1.6. **Customer service survey, identifying gaps, and formulating strategies for remediating customer service flaws.**
- 2.2. **Performance frequency requirements for each survey.**
- 2.3. **Remediation and follow-up on flaws identified in surveys.**
- 2.4. **Development and upgrade plans.**
- 2.5. **Training and instruction plans for staff.**
- 3. **Work plans should be established together with the Field Center director and the Education Division director to provide a comprehensive view and to assure plan formulation and compliance.**

6. Finances

A. General

Field Centers are not operated as profit centers. Therefore, in order to obtain an overall view of the Field Centers' economic activity, data must be gathered from KKL's booking system and accounting and budget management system. The following table shows expense and revenue calculations for Field Centers, as presented to the Office of the Comptroller (NIS millions):

| Year | Fixed Costs | | | | Total fixed costs | Variable costs | | Total fixed + variable | Revenues | Profit (loss) |
|--------------|-------------|-----------------|--------------------|---------|-------------------|-----------------|-------|------------------------|----------|---------------|
| | Salaries | Static security | Cleaning and other | Storage | | Manned security | Board | | | |
| 2018 | 5.38 | 2.48 | 7.03 | 0.40 | 15.29 | 2.35 | 3.42 | 21.06 | 5.93 | (15) |
| 2019 | 5.69 | 3.83 | 10.11 | 0.57 | 20.20 | 2.19 | 5.09 | 27.48 | 8.54 | (19) |
| Total | 11.07 | 6.31 | 17.14 | 0.97 | 35.49 | 4.54 | 8.51 | 48.54 | 14.47 | (34) |
| Change | 6% | 54% | 44% | 43% | 32% | -7% | 49% | 30% | 44% | 27% |

Notes

1. The table does not include data from 2017, as that year some of the data were not attributed to Field Centers in the ERP system (e.g. — salaries). Attribution began from 2018.
2. Expenses exclude depreciation, as KKL does not account for depreciation when assessing Field Center profitability.

3. Data exclude investments.
4. Data indicate that KKL increased its expenses and investment in Field Centers. Year-on-year, the average change across all expense categories was +31%.

Findings

Revenues are presented in net cash terms, and do not reflect the Field Centers' gross revenues. Calculating the Field Centers' gross revenues (before refunds and discounts) shows that Field Centers generated NIS 46 million, and issued discounts and refunds of NIS 27 million. The Field Centers' expenses do not include depreciation on fixed assets.

Recommendations

Field Centers should operate as profit centers. Revenue data for each Center should include gross revenues from each activity, and then discounts and refunds, as per KKL director general's decision from the meeting of March 18, 2018 (see chapter entitled *Policy*). Include depreciation costs in each Center's profit and loss calculations.

B. Budget management

Field Center expenses are recorded under several budget items. Salaries (included as part of KKL's general salary item), maintenance, storage, and security costs are recorded under each individual Field Center's budget, the extraordinary cost budget item, development budgets, etc. Discounts/budgets which KKL offers to groups for educational activities are not presented as a budget item assigned to a specific Field Center. Instead, they are presented as budgets for unit-specific educational activities, e.g. — MAOF, international, domestic, etc. The following table presents designated budgets for Field Centers in 2017–2019 (NIS millions):²

| Center | Item | Planned | Actual 2017 | | Planned | Actual 2018 | | Planned | Actual 2019 | |
|---------|-------------|---------|-------------|------|---------|-------------|------|---------|-------------|------|
| | | 2017 | NIS | % | 2018 | NIS | % | 2019 | NIS | % |
| Lavi | Maintenance | 1.30 | 1.26 | 97% | 2.50 | 1.88 | 75% | 2.63 | 2.62 | 100% |
| | Equipment | 0.08 | 0.08 | 100% | 0.10 | | | 0.07 | 0.07 | 100% |
| | Security | | | | 0.60 | 0.60 | 100% | 0.82 | 0.80 | 98% |
| Tzipori | Maintenance | 0.91 | 0.91 | 100% | 1.82 | 1.16 | 64% | 1.54 | 1.46 | 95% |
| | Equipment | 0.07 | 0.07 | 100% | 0.07 | | 2% | 0.13 | 0.09 | 69% |
| | Security | | | | 0.60 | 0.60 | 100% | 0.85 | 0.85 | 100% |

² In 2017, the security budget totaled NIS 2,514,000, as one general item.

| Center | Item | Planned | Actual 2017 | | Planned | Actual 2018 | | Planned | Actual 2019 | |
|-----------|-------------|---------|-------------|------|---------|-------------|------|---------|-------------|------|
| | | 2017 | NIS | % | 2018 | NIS | % | 2019 | NIS | % |
| Nes Harim | Maintenance | 1.93 | 1.93 | 100% | 3.66 | 2.56 | 70% | 3.45 | 3.40 | 99% |
| | Equipment | 0.16 | 0.16 | 100% | 0.25 | 0.23 | 92% | 0.25 | 0.24 | 96% |
| | Security | | | | 0.60 | 0.59 | 98% | 0.86 | 0.85 | 99% |
| Shuni | Maintenance | | | | 0.18 | 0.14 | 78% | 1.02 | 0.83 | 81% |
| | Equipment | | | | | | | 0.10 | 0.01 | 10% |
| | Security | | | | | | | 0.41 | 0.40 | 98% |
| Yatir | Maintenance | 1.54 | 1.54 | 100% | 2.15 | 1.58 | 73% | 2.50 | 2.50 | 100% |
| | Equipment | 0.06 | 0.06 | 100% | 0.15 | 0.13 | 87% | 0.15 | 0.15 | 100% |
| | Security | | | | 0.69 | 0.69 | 100% | 0.96 | 0.93 | 97% |

Notes

1. Data indicate that Field Centers show reasonable utilization of budgets across most items.
2. Data indicate that the most significant item for Field Centers is maintenance.
3. Budgets are allocated based on Field Center needs, as presented by the Center director to the Education Division and KKL's management. Thus, budget allocations are not uniform.
4. The overall current budgetary investment in Field Centers between 2017–2019 totaled NIS 35.2 million, excluding NIS 5 million per annum in employee salary costs.

Investments in Field Center development (extraordinary costs) in 2017–2019 (rounded, NIS millions)

| Center | 2017 | 2018 | 2019 |
|--------------|-------------|--------------|-------------|
| Lavi | – | 3.30 | – |
| Tzipori | – | 0.85 | – |
| Shuni | – | 0.05 | 9.90 |
| Nes Harim | – | 3.50 | – |
| Yatir | – | 2.30 | – |
| General | 5.46 | 1.00 | – |
| Total | 5.46 | 11.00 | 9.90 |

Notes

1. Data indicate that the Tzipori Field Center received the smallest investment.
2. The largest investment was in the Shuni Field Center, as it was under re-development in this period.
3. Overall current investments/expenses and extraordinary costs in 2017–2019 totaled NIS 76 million.

Findings

1. In order to obtain an overview for a Field Center, data must be gathered from various sources and systems in KKL. This hampers the ability to obtain a status overview for each Field Center, and for all Field Centers in general.

2. Budget allocation between Field Centers depends, among other things, on the Field Center directors' respective ability to negotiate with KKL's Field Centers Director and with the Education Division director. For comparison, in the audit period, KKL invested a total of NIS 14.7 million in the Nes Harim Center (current budget and extraordinary costs), while the Tzipori Center received only NIS 6 million. Thus, Nes Harim received almost 2.5 times the funding of Tzipori, even though Tzipori is located in a geographically more heavily-toured area rich in nature sites, national parks, and heritage sites.
3. Budgets are not managed according to work plans. Thus, budgets are managed ad-hoc and without an overall view, as noted in the chapter dealing with work plans.

Recommendations

Allocate and manage budgets based on each Field Center's needs, and subject to annual and long-term work plans.

Summary of the Finance Division director's response

The recommendation is accepted. There are specific budget allocations for each Field Center, based on annually-approved work plans presented to the Education Division's management.

C. Billing

Customers are billed for Field Center services through an Education Division bank account with the Postal Bank. Payments are made either by check or by bank transfer. Sometimes, revenues are deposited into other KKL bank accounts. After payment, KKL account supervisors reconcile bank accounts to attribute inflows to specific Field Centers.

There is no formal function which monitors billing. The Office of the Comptroller was told that responsibility for billing activities falls on the marketing personnel. However, they receive data on whether or not payment has been made from the Finance Department.

The Office of the Comptroller requested a debt aging report for the Field Centers, but no such report was available. The following table presents a debt aging report prepared by the Office of the Comptroller for Field Center debts. The table only includes cases opened between 2017–2019, and is current as of September 1, 2020.

| Age | Cases outstanding | Value of payments outstanding (NIS) |
|--------------|-------------------|-------------------------------------|
| Over 3 years | 34 | 324,665 |
| 2–3 years | 70 | 960,294 |
| 1–2 years | 155 | 1,368,523 |
| Under 1 year | 127 | 1,069,127 |

On detailed examination, the Office of the Comptroller found cases where KKL continued marketing trips to customers who had yet to settle their debt. Such customers include, for example: Kadima Science Ltd. (cases 42947, 48781 from 2018 and 2019); Noam Masorti Movement (cases 42258, 48368 from 2018 and 2019); Kol Ami pre-IDF program (cases 48386, 41582, 41583, 37220 from 2017, 2018, and 2019).

Findings

1. The option to pay through several different bank accounts, and not just a specific bank account belonging to one Field Center creates substantial reconciliation work load for KKL’s accounting staff, and impairs comparison of actual payments against the booking system.
2. The limit on payment only by bank transfer or check impedes customers in transferring payment.
3. No formal billing process was found.
4. There was no follow-up on difficult debts, or on transfer of difficult debts for legal action.
5. There were no guidelines or procedures for handling cases where customers do not settle their debts.
6. There were stay cases where, post-stay, payment was transferred to a third party to transfer payment, and not to the party who signed the contract prior to the stay. Transfers were made by the marketing staff. The work flow for changing payee is unclear, as is the method for transferring the debt, and for tracking actual payments. The Office of the Comptroller did not receive a comprehensive report covering all such cases, or details on whether they were ultimately paid (e.g. — cases 41072, 42949, 33663, 38537, 41745).

Recommendations

1. **Payments to Field Centers should be consolidated in one specific account for Field Centers. Furthermore, each booking should include an additional field, so that when payment is recorded in the ERP system, it will show up in the booking system as well.**
2. **Expand payment options to include credit cards, payment apps, etc. to facilitate payment.**

3. **Draft a billing procedure for Field Centers. The procedure should assign responsibilities and should include, at least, the following:**
 - 3.1. **Checking for customer debts before booking.**
 - 3.2. **Tracking debts and difficult debts.**
 - 3.3. **Submitting difficult debts for legal action.**
 - 3.4. **Debt forgiveness.**
4. **Track difficult debts and submit them for legal action.**
5. **Make sure that payments for stays are made by the actual consumer. Transferring payment to a third party undermines tracking of payment performance, and may cause the transaction to be disavowed.**

Summary of the Finance Division director's response

1. Payments to Field Centers are transferred to a special Education Division account. Field Center operations cannot be separated from the Department's other operations.
2. Recommendation accepted.
3. Recommendation accepted.
4. Recommendation accepted. It is noted that the Education Division director has instructed the department directors not to conduct activities for active debtors. A development demand was also made for the IT system, to prevent cases from being opened to active debtors.
5. These are mainly payments by chains such as Amal, Ort, etc. This is how these organizations operate, and it would otherwise be impossible for these debts to be settled.

D. Field Center price lists

The Office of the Comptroller received the price list used by the Field Centers in 2017–2019. The Office of the Comptroller was told that the price list was reviewed by the Price List Committee, which at the time was part of the Economic Cluster (which no longer exists in KKL). There were no records of the discussions concerning the price list, nor of the calculations behind the prices on the price list.

Findings

1. Minutes and documents are missing for various KKL forums.
2. The calculation underlying the prices on the Field Centers' price list could not be found.

Recommendations

1. **Make sure to record and retain documents.**
2. **Prepare a calculation for the Field Center price list. This calculation should be practical based on KKL policy, as set. For example, if KKL decides that these operations should be self-sufficient, the price list should attempt to cover actual costs.**

7. Marketing Operations

A. General

Marketing is the first step in implementing a contract with the Field Centers, as the Office of the Comptroller was told that only marketing staff can initiate contact with a customer to book activity in a Field Center.

Marketing operations are carried out with formal education institutions (the State, State-religious, and independent education systems), and with informal education institutions (youth movements, youth organizations, community centers, pre-IDF programs, and environmental groups). Additional operations are carried out in the community through the community centers. Through its marketing channels, KKL offers educational activities in its Field Center, such as one-day visits, two-or multiple-day activities with overnight stays in the Field Centers, and special occasion and holiday activities (Tu B'Shvat, National Month, World Cleanup Day, etc.). KKL also markets to Jewish communities abroad and to groups visiting Israel such as Birthright/Taglit. Marketing operations are made in person with a representative from the group wishing to stay in a Field Center, or over the phone.

The basic package offered by the marketing staff is part of the 'Haruzim' program. It includes a visit of several hours including instruction, or a plan including overnight stays, board, instruction, and site security services. The package does not include security and visits to sites outside the Field Center. Instruction is provided by one of two companies who won KKL's instruction tender. These companies send Field Guide instructors to a seminar focusing on KKL content. These seminars are conducted by KKL's Instruction Department, or by the Field Center instruction coordinators.

Findings

1. Field Centers are not promoted on digital platforms such as Facebook, Instagram, or any advertising platform except the marketing staff.

2. Field Center activities are hidden under the Education Division's activities on KKL's website. The Office of the Comptroller also found the Field Centers when searching KKL Education Division's 'Green Window' website.
3. There is a lack of uniformity between the various Centers' web pages. For example, Yatir, Lavi, and Tzipori's home page mentions 'KKL Window — Educational Programs in Field Centers'. However, Nes Harim and Shuni's home page does not mention the program. Websites for Nes Harim, Tzipori, and Lavi offer virtual tours of the Center (upon examination, the links were broken and the video could not be loaded), while Shuni and Yatir do not offer this feature.

Recommendations

1. **Formulate an overall marketing plan across all channels.**
2. **Utilize digital channels such as Facebook, Instagram, etc., to promote visits to KKL Field Centers.**
3. **Highlight Field Center activities on KKL's website and on the Green Window website, either as a pop-up or banner. This would increase public awareness and familiarity with Field Center activities.**
4. **Field Center websites should be uniform in format.**

Summary of the Pedagogic Department director's response

There is room for increasing exposure to Field Centers on social media. Today, following the Education Division director's instructions, routine meetings are held with the Information Division to increase exposure to the Education Division's activities, including information on Field Centers.

B. Marketing workflows

Marketing operations are carried out without any centralized management, under three principal departments — the Domestic Market Department, the International Market Department, and the MAOF Department.

Domestic Market Department

The Domestic Market Department's marketing operations are divided into three regions, based on where the customer is based: North, Center, and South. Operations are carried out through marketing staff working from each of KKL's districts. The Department employs a supervisor, and 8 staff.

The Domestic Market Department promotes Field Center activities to students of both formal and informal education institutions. Marketing operations are carried out through meetings with education department directors from the local authorities, meetings with school principals, and meetings with youth movement representatives. Annual plans are built for each youth movement.

When a potential customer is considering staying at a Field Center, they are referred to the marketing staff responsible for the region where that customer is based (a customer in Be'er Sheva planning a stay in a Field Center in the north contacts the marketing staff in the South District). The marketing staff's phone numbers are listed on KKL's website under each Field Center.

MAOF (Educational Enterprise for Promoting and Supporting Outlying Areas)

The MAOF program launched in 2000 under the slogan *Reaching New Heights*. The Program's goals are "Social, value-driven, and cultural empowerment of the community through educational programs and content focusing on Zionism, ecology, love of Eretz Israel, and leadership development".³

The project runs in 35 municipal authorities across the country. These authorities are chosen by KKL's Education Committee. In each authority, the program runs for five years. The program empowers the local community through activities which instill values and knowledge, at both the individual and collective level. Among other things, these activities seek to nurture local pride, community involvement, and personal responsibility.

The MAOF Department employs a supervisor and 12 staff, working across KKL's various districts. Each marketing employee is responsible for several towns/municipal authorities.

International Market Department

The International Department in KKL's Education Division seeks to strengthen ties with the Jewish Diaspora, and strengthen the sense of connection that teens from around the world feel with Israel, its values, and landscapes. The Department operates in Israel through POCs who are in contact with institutions abroad, and supported by the Education

3 Source: KKL website.

Department's shlichim abroad. The Department seeks to strengthen the ties between tomorrow's leaders with the people and the land of Israel.⁴

In the past, the International Department employed three marketing staff and two POCs. Today, the Department employs only three marketing staff. The Department mainly brings groups from around the world for visits and seminars in Field Centers. Marketing staff liaise with global youth movements, KKL's overseas offices, Taglit organizers, MASA organizers, etc. The Office of the Comptroller was told that, once a year, the International Department's director would present the Department's activities to the Education Division director.

Marketing Family stays in Field Centers

Families wishing to stay at KKL's Field Centers contact a specific employee at the Booking Center. In 2019, the Nes Harim Center added an employee to promote weekend stays for that specific Field Center.

Findings

1. The marketing staff does not have an overall supervisor to integrate and coordinate marketing efforts for Field Centers.
2. There is no booking center for families. Family bookings are handled by one single employee. If she is not available, the booking cannot be made.
3. Family stays at Field Centers are not advertised on KKL's website, or on any other platform. In order to book, one must either know the contact person, or receive a phone number passed on by word of mouth.
4. It is unclear what is the minimum number of guests for which a Field Center will open on weekends. The Office of the Comptroller was told that different Field Centers apply different numbers, from 50 to 70 guests. It is unclear how these figures were set.
5. There is a significant drop in visits across all Field Centers in the winter. This is mainly due to the outdoor conditions, rain, and the lack of sidewalks in some Field Centers (Tzipori, Yatir).

Recommendations

1. **Consider appointing a person to coordinate all marketing efforts for Field Centers. This marketing supervisor's duties would**

4 Source: KKL website.

include supervising marketing staff performance, connecting Field Center activities with the various advertising channels, managing the Field Centers' pages on the KKL website, reviewing existing staff allocations to each department, etc.

- 2. Promote Field Centers as potential accommodations for family visits on the various media channels. Furthermore, advertise contact information for Field Centers for family bookings, including phone numbers, emails, and options to leave a voice message for subsequent call-back.**
- 3. Draft and circulate a procedure for weekend family stays. The procedure should include all activities offered to guests, and (following an accurate calculation) the minimum number of guests for which weekend stays are economically viable.**
- 4. In order to increase occupancy across all sites, train instructors and improve equipment in Field Centers (e.g. — heating elements in tents) to allow Field Centers to better accommodate guests in the winter.**

C. Description of Marketing workflows

Visits to Field Centers are managed through the booking system, which is accessible to all staff involved in the booking process: marketing personnel, booking personnel, Field Centers, the Security Division, and the Finance Department. Bookings are made in the same manner regardless of marketing department.

Before making a booking, marketing staff use the booking system to check if the relevant Field Center is available on the requested dates, and offers alternatives if necessary. After agreeing on a Field Center and dates, the marketing staff make the booking through the booking system. Marketing staff enter the following mandatory details: customer name, age group, number of youths in the group, number of instructors, stay type, and relevant activities. Additional data should also be entered, such as whether transportation should be arranged, meals, etc. A booking cannot be made without the mandatory fields (preventative control).

Once the marketing staff has saved a booking, it is forwarded to the booking center for review, as detailed below. Once the booking center approves the booking, the marketing staff emails a visit summary to the customer, along with an agreement for their signature. Since mid-2019, customers are required to pay 25% of the visit cost in advance, in order to secure their booking.

If a customer wishes to add/change their booking after it has been saved, the customer contacts the marketing staff, and the approval process is reiterated.

Under Section 6 to the Marketing of Educational Activities (Israel) Procedure of 2017, regional marketing staff must update the Domestic Marketing Department director on key marketing activities. The Marketing Department director reports to the Education Division director on marketing activities once a month. These reports were not found in the Israel Department, but rather other reports which were made as necessary. For the MAOF and International departments, the above requirement is not present as a procedural guideline.

Overall figures for marketing operations in 2017–2019:

| Year | 2017 | 2018 | 2019 |
|--|-------|-------|-------|
| Marketing files opened | 2,584 | 3,099 | 3,176 |
| Marketing staff who opened files | 44 | 37 | 39 |
| Average files per staff member | 59 | 84 | 81 |
| Highest file count for a staff member | 283 | 253 | 465 |
| Lowest file count for a staff member | 1 | 1 | 1 |
| Staff who opened less than 10 files | 16 | 25 | 24 |
| Percentage of files opened by the top 10 staff members | 65% | 59% | 65% |

Notes

- Data indicate that there is no direct correlation between the number of marketing staff and the average number of bookings. The number of marketing staff was highest in 2017, while the average number of bookings and the total files opened were lowest.
- Data also show that more than 60% of the marketing staff booked less than 10 files in 2018–2019.
- Each year, over 60% of the files were opened by only ten members of the marketing staff.
- Some marketing staff only made one booking during the entire year.

Findings

1. There is no limit on the notice required to book a visit to a Field Center. A visit might be booked in January and take place in December or even later.
2. KKL does not charge customers for cancellations if the customer informs of the cancellation more than 12 hours before the visit date.
3. KKL allows customers to suspend visits, i.e. — the site is reserved for the visit date, even though there is no certainty that the visit will

actually take place. There are no clear guidelines for how long a visit can be suspended.

4. Examination of all marketing staff who opened files found non-marketing staff who opened files, e.g. — 37494, 38471, 38754, 48803, 34798, 35642, 37451. Furthermore, marketing permissions were found for non-marketing personnel, such as the director of the Yatir Field Center, administrators, instruction coordinators, Booking Department staff, etc.
5. It is unclear why KKL guidelines state that Field Centers cannot market and open booking files independently. The Office of the Comptroller was told that groups frequently contact a Field Center directly to coordinate a visit. Furthermore, since both the Field Center, the marketing staff, and the booking center all use the same system, everyone can see the various bookings. Thus, the guideline that only marketing staff can open a booking file is inefficient.

Recommendations

1. **Draft a procedure for bookings, cancellations, and suspensions. The procedure should specify how much time in advance a booking can be made, for how long it can be suspended, and guidelines for handling cancellations.**
2. **Marketing staff should report regularly to the Education Division director about their marketing activities.**
3. **A procedure should be drafted for managing marketing operations in the International and MAOF departments.**
4. **A survey should be made of system permissions to identify unnecessary permissions. Permissions should be granted on a need-to-know basis.**
5. **Allow Field Centers to market and open bookings themselves. This would add administrative and operational flexibility and increase occupancy in Field Centers. The Office of the Comptroller was told that groups often contact Field Centers directly, but are then referred to the marketing staff. The Office of the Comptroller believes there is no reason not to allow Field Centers to market themselves through their own staff. The recommendation also aligns with the Ran Haklai Report.**

Summary of the KKL Houses director's response

It has been decided that Field Center staff can be in touch with potential customers and book visits independently.

8. Booking Center

The booking center is not a marketing unit, and its staff work from the Education Division's offices in Jerusalem. The booking center comprises a supervisor and four employees. Three of the employees check and approve all booking files, while the fourth employee tracks and approves instruction supplier invoices.

As aforesaid, once the marketing staff open a booking, it is forwarded to the booking center. A booking center employee then checks that the Field Center is available on the requested dates, and that the group profile matches the Field Center (it is noted, as aforesaid, that the marketing personnel perform exactly the same tasks before booking). Only after the booking center approves a booking, is the booking returned to the marketing staff so that they can send the customer a contract for signature.

Once the customer approves the booking, the booking center is responsible for the logistical arrangements for the visit, including transportation, musicians, and reservations to third-party sites.

One of the booking center employees also handles bookings by private households for all Field Centers except Nes Harim (since 2019). Nes Harim has its own employee to handle family bookings.

In response to the draft audit report, the booking center supervisor noted that the booking center serves as a command-and-control center for all of the Education Division's marketing operations. The booking center thus serves as a central pillar in the Division's routine operations.

Findings

The booking center's tasks can be performed by the marketing staff or by a marketing staff member working from a Field Center. In practice, when opening a booking file, marketing staff check the same information as the booking center. It is noted that marketing staff are more familiar with the customer's needs than the booking center. The division between the booking center, marketing personnel, and Field Centers introduces unnecessary complexity in booking activities, and a lack of administrative and operational flexibility for Field Centers. A similar recommendation was made in the Ran Haklai Report.

Recommendation

Consider merging the booking center and the Marketing Department, so that the booking center's tasks are carried out by all process stakeholders. The Office of the Comptroller further believes that Field Centers should

be allowed to market themselves, and open bookings independently. This would streamline operations and increase Field Center occupancy.

Summary of the booking center supervisor’s response

The booking center supervisor stated that she believes it is critical to apply control, and to check and approve the thousands of files opened each year. She believes KKL should consider developing the booking center to operate by region, with booking and logistics coordinators working by geographic regions — South, Center, and North.

9. Safety and Accessibility

A. General

There is a very real concern for safety hazards in Field Centers. This is due to the nature of the venue, which hosts tens to hundreds of thousands of visitors each year; the nature of the population staying at the Centers, which is usually young; and the Centers’ location in the middle of a forest. The Office of the Comptroller asked for KKL’s procedure governing safety surveys for Field Centers, and two consecutive safety surveys from each Center, to make sure that any flaws identified in a survey are, at the very least, corrected the following year.

Findings

The Office of the Comptroller was told that there is no clear definition or procedure dealing specifically with safety surveys in Field Centers. Thus, not all sites could provide two consecutive safety surveys. The surveys that were received were as follows:

- Nes Harim Field Center — The Office of the Comptroller received one safety survey carried out on January 21, 2019. The survey notes 23 flaws, some for immediate remediation, and some for remediation within 30–90 days. Following this survey, the site was certified by KKL’s Safety Department on June 25, 2019. Certification is valid for one year.
- Lavi Field Center — No safety surveys received.
- Yatir Field Center — No safety surveys received.
- Shuni Field Center — No safety surveys received for 2019 (the year when the site first opened to visitors). A survey was received dated June 2020.
- Tzipori Field Center — Three safety surveys received, one for each year of the audit period. The surveys indicate that the flaws identified in 2017 were still present in 2018. No identical flaws were found in 2018–2019.

B. Safety hazards

The Office of the Comptroller performed a sample inspection of the sites to check for safety hazards. Results were as follows:

Nes Harim Field Center

1. The communications board was open and not fitted with a thermometer.
2. A firefighting station cabinet was found open.
3. No signage was installed indicating escape routes.

Yatir Field Center

1. Several empty fire extinguishers were found scattered around an unlocked.

Lavi Field Center

1. The communications board was open and not fitted with a thermometer.
2. Firefighting stations were found open. The Office of the Comptroller was told that some of them had been in use and had yet to be serviced.
3. Broken firefighting stations were found.
4. The firefighting system for the cabins was flawed. The water pressure boiler had a sizable hole. There was significant flooding both inside and outside the room in which the firefighting system was located.
5. There is a metal fence opposite the Center's fence. It seems that the metal fence was the site's previous perimeter fence, and it is open in several places. Passage through these gaps could injure visitors.
6. Empty fire extinguishers and canisters were found in the firefighting equipment room which were past expiration (last inspected on August 1, 2017). Extinguishers were kept in a cabinet without a key to open said cabinet. The kitchen had extinguisher holders without extinguishers, and open extinguisher cabinets.

Tzipori Field Center

1. The communications board was open and not fitted with a thermometer.
2. Electrical boards near the tent and Camping Areas had crooked doors where a hand could be pushed through.
3. Extinguishers were kept in a cabinet without an access key.
4. Some extinguisher cabinets were open.
5. Some firefighting stations were open.

Shuni Field Center

1. The communications board was open and not fitted with a thermometer.

2. Fire extinguishers were scattered around the site, not locked in a cabinet.
3. An electrical board was open and unlocked.
4. There were no signs indicating emergency exits.
5. In one firefighting station a hose had been chewed by rodents.
6. Some extinguishers were stored in boxes inside their cabinets.
7. Some extinguishers were empty.
8. A broken sewer manhole was found near one of the firefighting stations.

Findings

1. KKL does not have a specific procedure regulating periodic safety inspections of its Field Centers.
2. Numerous safety flaws were identified, mostly relating to fire safety.
3. There is no follow-up on flaws identified in safety and accessibility surveys.

C. Accessibility

Upon request, the Office of the Comptroller received an accessibility survey for the various sites. The Office of the Comptroller received accessibility surveys and accessibility certification for all Field Centers. Surveys of the various sites were performed in 2019–2020. However, there were no indications of follow-up on flaws identified in these surveys.

Recommendations

1. **Draft a procedure regulating Field Center safety surveys. The procedure should, at least, specify: the person responsible for performing safety surveys; the person responsible for remediating flaws; in case of critical flaws, specify a time frame for a repeat survey; survey frequency.**
2. **Perform an overall safety survey for the Field Centers and present the findings and the remediation work plan to KKL's Field Centers director.**
3. **Follow-up on urgent flaws immediately. This should be integrated into each Center's annual work plan as aforesaid.**
4. **Document accessibility-related repairs.**

Summary of the Field Center directors' response

1. The Field Center directors stated that the flaws mentioned in the draft report are in various stages of being corrected.
2. The director of the Nes Harim Field Center stated that, in 2020 and with the help of the Central District's Construction Unit, all flaws mentioned in the safety, electricity, and accessibility reports had been corrected. Moreover, the Field Center had obtained all the necessary structural engineer and electrician certifications

10. Security and Medical Evacuation

KKL's Facility and Field Center Security Procedure of January 7, 2018 regulates security arrangements in Field Centers. Security arrangements consist of manned elements, and physical elements. Manned elements refer to a security guard who mans the Field Center entrance 24/7. Furthermore, when a group makes a booking, it is sent to KKL's Security Department which arranges additional security staff for the group as required by the Israel Police and Ministry of Education. These requirements are specified in the field order for security arrangements found in each site. The field order is handed to the group for review upon arrival. Security guards are contracted from a security services company. These security arrangements are uniform across all Field Centers.

Security guards arriving with the group to the Field Center are briefed that in the event of a terrorist incident, they are not considered part of the camp's rapid-response team in order to prevent possible friendly fire.

The Office of the Comptroller examined the physical security arrangements in the various Centers:

Nes Harim Field Center

1. PA system.
2. Regular fence.
3. CCTV in the conference center — upon inspection, the camera was found inoperative.

Yatir Field Center — site was closed for construction

1. PA system — the PA system was not operational at the time.
2. Fence — the fence was removed due to on-site construction.

Lavi Field Center

1. PA system.

2. CCTV — Cameras were connected to the security guard's post at the entrance. The security guard was asked to rewind the recording, but he did not know the password.
3. Motion-sensitive fence — the site has a motion-sensitive fence which sends alerts to the security guard post. Upon inspection, the fence did not identify any motion despite being shaken several times.

Tzipori Field Center

1. PA system.
2. Regular fence.

Shuni Field Center

1. PA system.
2. CCTV — Cameras are connected to the security guard's post. The security guard was asked to rewind the recording, but he did not know the password.
3. Regular fence.

In addition to the security guard's post, all Field Centers were equipped with a defibrillator. However, there were no signs indicating that the device is on-site, and the security guard's post did not have any signs explaining how to use the device.

Findings

1. KKL's procedure regulating Field Center security arrangements was last updated over two years ago (January 2018).
2. There is no list of physical security components which should be installed and maintained in Field Centers.
3. There are no signs indicating the location of the defibrillator in the security guard's post. There are no instructions on operating the device. There are no signs directing visitors to escape routes in the various sites.
4. The security guard at the gate does not receive full training for using the camera system.
5. The Lavi Field Center's fence did not identify motion even though it is equipped with a motion-sensing device.
6. Safety and security briefings were not given to a group which arrived during the audit of the Lavi Field Center. This was due to the group arriving during mealtime. Visitors were immediately let in to eat, and the instructor then immediately moved on to the educational content.

Recommendations

1. **Update KKL's procedure regulating Field Center security arrangements. The procedure should include routine inspection of security components, and assign responsibilities to the Security Department and the Field Center for the proper operation of these components.**
2. **Establish a set of uniform security arrangements for all Field Centers (PA system, CCTV, motion-sensitive fence) which must be operational at all times.**
3. **Install directional signs across the Field Centers directing visitors to escape routes and the defibrillator device at the entrance.**
4. **As part of the security guards' training, they should receive the password for the CCTV system. This will allow them to obtain and convey information in case of an incident.**
5. **Perform routine inspections to check the proper condition of physical security components in Field Centers. Inspections should be performed as part of the Field Centers' annual work plan.**
6. **When a group enters a Center, they should immediately receive a safety and security briefing. A group representative should also sign off to confirm that such briefing was received.**

Summary of KKL's Security director's response

1. KKL's Facilities and Field Center Security Procedure is only one of the relevant documents. As it states, it must be read in conjunction with the operational security order for any specific Field Center. The procedure is revalidated annually and specifies all security arrangements and components — including protective systems and technologies, and physical security arrangements in each Center.
2. Security infrastructure is part of KKL's overall security approach and is included under section 8.4.5 of KKL's Security Policy of January 16, 2010. Field Centers fall under the model of fully-secured facilities, which includes all required components including CCTV, PA systems, motion-sensing fences, lighting, etc. The construction status of the technology-based systems in the Field Centers is as follows:
 - Lavi Field Center — completed — system operational.
 - Nes Harim Field Center — under construction — completion December 2020.
 - Yatir Field Center — under construction — completion December 2020.

- Shuni Field Center — under construction — completion March 2021.
- Tzipori Field Center — under construction — completion March 2021.

Upon completion of construction in all Field Centers, all Field Center systems will be connected to an active surveillance center manned 24/7, fully controlled by the security services company.

3. Installing directional signage for escape routes and defibrillator devices is the Field Center directors' responsibility.
4. The security guard at the entrance is trained and briefed on using the CCTV system, including the fence sensing system. Due to privacy concerns, neither security guards nor any other personnel are authorized to access the recording system, including with camera passwords. The only person authorized to do so is KKL's regional security supervisor, and the active shift supervisor at the Field Center.

**** The Office of the Comptroller believes there is no issue with privacy, as the security guard watches those same cameras live, in order to provide the immediate response a security guard is expected to provide in case of an incident.**

5. Field Centers perform daily, weekly, and monthly inspections, including surprise inspections by the Security Unit and by a security services company and its control center. These inspections are documented and reviewed daily through a on line patrol system. Additional control is applied by KKL's district security supervisors. Inspections control for numerous parameters, including security guard training and security infrastructure in the Center, PA system, CCTV, detectors, lighting, fencing, vegetation and hazards along the fence, security guard post at the entrance to the site, gates, and barriers.

Summary of the Lavi Field Center director's response

1. Recommendation 6 — accepted.

11. Planning, Building, and Business License

A. Building permit — general

Section 145 of the Planning and Building Law prohibits the paving or closing of a road, construction of a building, its demolition and reconstruction or any change in the building, other than internal changes, without first obtaining a permit from the local licensing authority. Once such permit is obtained and construction completed, the

applicant must contact the municipal authority to request an occupancy permit (aka — Form 4).

Furthermore, Section 59(a) to the Planning and Building Regulations (Construction Licensing), 2016, states that such permit shall be valid for three years, unless an extension has been requested to five years.

This means that any unpermitted construction is a criminal offense, with a range of administrative sanctions that can be applied. These include an administrative demolition order, a prevention of action order, a power cut-off order, etc.

B. Town plans and building permits — Field Centers

The Office of the Comptroller reviewed the town plans and building permits for the Field Centers:

Nes Harim Field Center

The site falls under Plan MY/903. The schematic for the Field Center is as follows:



The plan zones the area as a man-made forest with a designated usage as a field and forest center, with accommodations and guest house, toilets, education structures, a multi-purpose structure to serve as an auditorium, a cafeteria, activity rooms, staff dormitories, and all Field Center activities. The map indicates that part of the Field Center is located in a forest-zoned area and not in the field-center-zoned area (marked with an arrow). Therefore, all buildings in that area are not legal (basketball court, old cafeteria, and an unidentified structure).

The site is subject to Building Plan 903. This is a non-binding plan which lays out in general terms the buildings in the Center. The Field Center

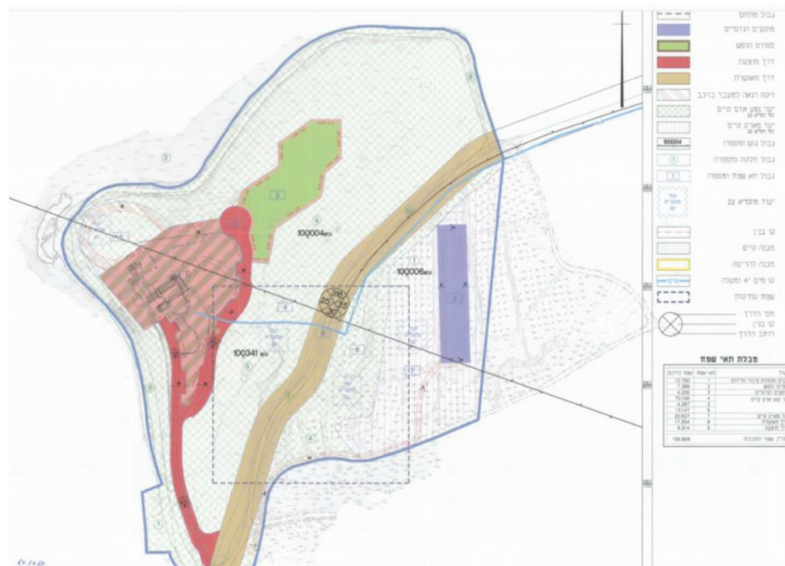
falls under the municipal jurisdiction of the Mateh Yehuda Regional Council. Examination of the Mateh Yehuda Regional Committee's website yielded the following permits:

| Permit No. | Application Description | Status | Filing Date | Comments |
|-------------------|---|--|--------------------|--|
| 20190502\3 | Light construction: field tents, outdoor kitchen, showers, storage space, and updates to the building plan. Outdoor accommodations — field tents. | Request for planning information | Nov. 26, 2019 | A very preliminary stage of a permit application |
| 20160447 | Formalization of 12 existing cabins in a youth camp, regulation of 4 existing classrooms, and installation of 4 standard protective spaces. | Permit granted, but Form 4 not issued | Oct. 13, 2016 | |
| 20160342 | Formalization of existing conditions from Permit 24863 | Permit granted, but Form 4 not issued | Jul. 25, 2016 | Residential unit at the Center |
| 20160251 | Formalizing changes in landscape development: localized change in access path route | Permit granted, but Form 4 not issued | May 19, 2016 | |
| 20160122 | Installation of 3 teaching facilities including 3 adjacent pergolas and 2 pergola structures | Permit received, but Form 4 not issued | Feb. 29, 2016 | |
| 20140029 | Construction of firefighting water reservoir and pump room and a general firefighting plan for a youth camp | Permit granted, but Form 4 not issued | Jan. 16, 2014 | |
| 20130522 | Construction of wooden pergola in a youth camp | Hearing set with the Planning and Building Committee | Sept. 3, 2013 | |

| Permit No. | Application Description | Status | Filing Date | Comments |
|------------|--|--------------------|---------------|---|
| 20030124 | Enlargement of food distribution room | Denied | May 25, 2003 | |
| 20020149 | Formalization of 13 existing cabins in a youth camp, 4 existing classrooms, and installation of 4 standard protective spaces | Application opened | Apr. 10, 2002 | A very preliminary stage in a permit application. |

Yatir Field Center

The area falls under Plan 187/02/11. The schematic for the site is as follows:



The plan aims to establish a planning framework for developing the ‘Yatir Fort — Rangers’ House’ and its surrounding environment as a forest center offering accommodations, leisure, education, and nature hikes.

The South District Committee’s website indicated the following permits:

| Permit No. | Application Description | Status | Filing date | Comments |
|------------|--|----------------------------|---------------|----------|
| 849/06/11 | Formalizing existing structures in the ‘Ranger’s House’ complex in the Yatir Forest, including the Rangers’ House, showers and tents, storage, electrical panel room | Permit, under construction | Jul. 11, 2016 | |

In touring the site, the Office of the Comptroller found that construction was underway. Construction work for the site’s expansion and development was clearly apparent.

Shuni Field Center

The site falls under Plan S/339 — Shuni Fort — Jabotinsky Park National Site. The schematic for the site is as follows:



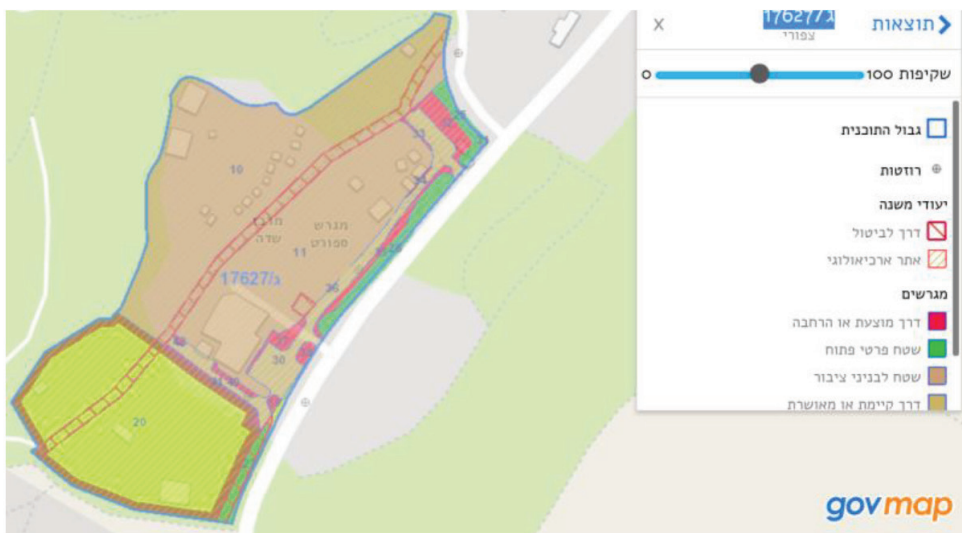
As noted above, only part of the Field Center is currently operational, on Lot 2015 (marked with an arrow on the map). The Yeshuvey Habaron Regional Committee’s website yielded the following permits:

| Permit No. | Application Description | Status | Filing Date | Comments |
|------------|--|---------------------------------------|---------------|----------|
| 20010669 | Building a pergola for a dining area. | Permit granted, but Form 4 not issued | Jun. 4, 2001 | |
| 20001251 | Development works — dismantling and rebuilding concrete slabs (Phase 1). | Permit granted, but Form 4 not issued | Dec. 25, 2000 | |
| 20000148 | Building a transformer room in the Jabotinsky Park. | Permit granted, Form 4 issued | Mar. 9, 2000 | |

| Permit No. | Application Description | Status | Filing Date | Comments |
|------------|---|---------------------------------------|---------------|---|
| 20011369 | Building storage and toilets. Ground floor — kiosk and toilets, 53.0 sq.m. area. – 2 storage rooms of 14.0 + 3.73 = 17.73 sq.m. – Service yard of 22.92 sq.m. – Roofed area of 26.76 sq.m. – Wooden pergola of 51.54 sq.m. First floor — information station of 25.0 sq.m. – Pergola-roofed scenic lookout balcony of 42.0 sq.m. | Permit granted, but Form 4 not issued | Nov. 12, 2001 | In the committee hearing it was stated that cabins were built on-site without permit. |
| 20150768 | Building a toilet facility — on the Shuni boardwalk | Not approved | 26/10/2015 | |

Tzipori Field Center

The site falls under Plan C/17627. The plan includes in the Field Center an area on the western part of the site which was previously part of the forest, and the eastern area where the fence borders the road.

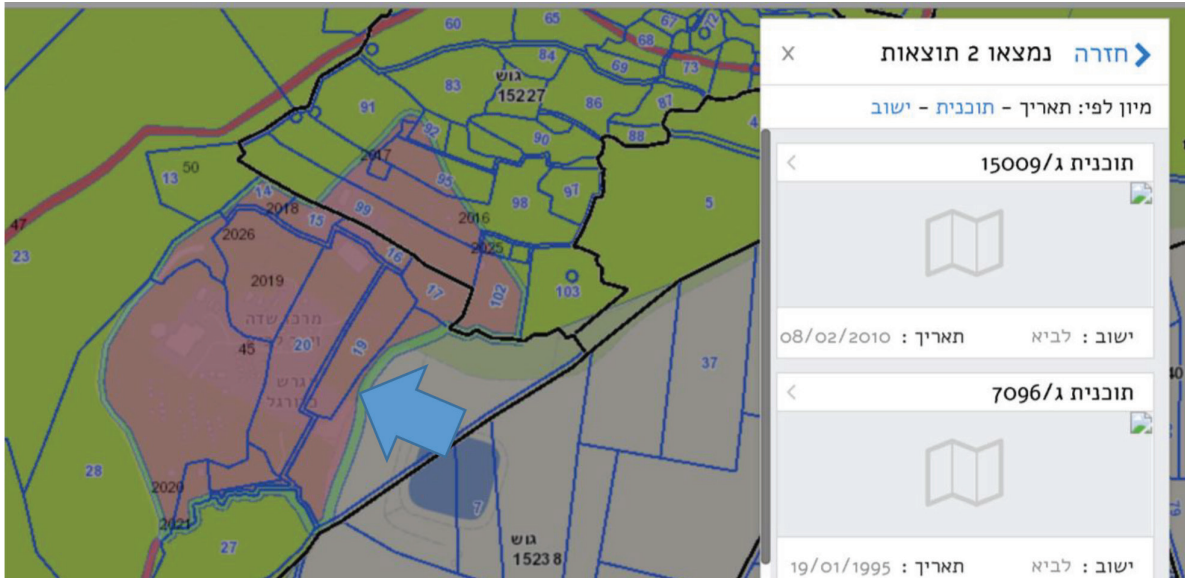


The Yizrael Regional Committee's website yielded the following permits:

| Permit No. | Application Description | Status | Filing Date | Comments |
|------------|---|-------------------------|-----------------------------|---|
| 120200904\ | Approval of existing tents in a field school with 7 mobile structures of 25 sq.m. each. | Request for information | Jun. 4, 2020 | Very preliminary stage |
| 20180128\1 | Placement of 7 mobile wooden cabins instead of tents as guide accommodations + internal renovation on 2 existing cabins + installing outdoor kitchen w/o development + construction of protective area. | Approved | Jan. 29, 2018 | Although the protective area was approved, it has yet to be built and the site is without protection. |
| 20150291 | Shower and service structures — Tzipori Educational Center. | Permit + Form 4 | May 6, 2015 | |
| 20140043 | 3 wooden sheds | Permit, no Form 4 | Jan. 13, 2014 | |
| 20131157 | Paving works | Inactive | Dec. 9, 2013 | |
| 990613 | Construction of 36 wooden structures in the KKL camp adjacent to the entrance to Moshav Tzipori, formal division into 'residential' structures, kitchen, cafeteria, stone structure, concrete slabs, toilets. | Permit, no Form 4 | Jul. 29, 1999 | The 36 wooden structures were not built. Tents were apparently placed instead. |
| 960151 | Construction of 36 wooden buildings in the KKL camp adjacent to the entrance to Moshav Tzipori. | Inactive | Apr. 11, 1996 11/04/1996 | Replaced by Application 990613 |

Lavi Field Center

The site falls under Plan C/15009 and C/7096. Schematics are as follows:



The Lower Galilee Planning and Building Committee website yielded the following permits:

| Permit No. | Application Description | Status | Filing Date | Comments |
|------------|--|-------------------|---------------|----------|
| 800709 | Command center, storage shed, and medical clinic with an area of 136.65 sq.m. | Permit, no Form 4 | May 27, 1980 | |
| 800908 | Construction of kitchen and cafeteria in the Lavi Forest, with an area of 424.43 sq.m. | Permit, no Form 4 | May 27, 1980 | |
| 800909 | Construction of toilets and showers in the Lavi Forest with an area of 38.76 sq.m. | Permit, no Form 4 | May 27, 1980 | |
| 970033 | Repairs to existing kitchen, addition to the kitchen, addition of lobby and toilets. Existing area — 456.00 sq.m. Proposed area — 326.89 sq.m. Total — 782.89 sq.m. | Permit, no Form 4 | Mar. 2, 1997 | |
| 20010016 | Construction of shed for instruction center, with an area of 416 sq.m. | Permit, no form 4 | Jan. 28, 2001 | |

| Permit No. | Application Description | Status | Filing Date | Comments |
|------------|---|-------------------|---------------|------------------|
| 20150246 | Formalization of instruction center, cabins, toilets, and sheds with an area of 1606.81 sq.m. Adding 79.06 sq.m of protected areas. | Permit, no Form 4 | Dec. 30, 2015 | |
| 960055 | Construction of 85 wooden structures with an area of 25 sq.m. each. | Permit, no Form 4 | Apr. 18, 1996 | Units not built. |
| 20010015 | Assembly of wooden cabins — Lavi Youth Camp 7 units x 25 sq.m. | Permit, no Form 4 | Jan. 28, 2001 | |

C. Business license

The Business Licensing Law requires every business specified in the Business Licensing Order (Businesses Subject to Licensing), 1995, to obtain a license from the municipal authority. The business license seeks to guarantee that all suitable means and arrangements have been employed for the business's proper operation in accordance with the law and the public benefit. Managing a business without a license is a criminal offense and a business which fails to comply faces closure, steep fines, or even incarceration of the business owner. The law requires business owners to post their license in a clearly-visible location in the business.

The Office of the Comptroller requested and received valid business license documents for all Field Centers.

Findings

1. During the audit, buildings were found in all Field Centers which did not have permits or occupancy forms (the offices in Shuni; the basketball court in Nes Harim; the gas containers in all sites; the wooden cabins in various sites; and more, as detailed in the above tables).
2. The Office of the Comptroller requested a list of all buildings in all Field Centers, indicating whether each building has a permit and an occupancy form. However, no such list was available.
3. In all Field Centers, various structures were found (LPG tanks, paved roads, etc.) for which permits must be requested, as they were built without permit.
4. The Field Centers had areas with incorrect zoning designations, as

per the blue line in the plans (Nes Harim — the large Camping Area, the basketball court; Tzipori — a forest and roadside fence).

5. Some permits had been issued but not used. For example — permit 960055 to build 85 wooden cabins with an area of 25 square meters each in the Lavi Field Center.
6. The Lavi Field Center did not perform an archaeological survey, which can aid in planning and construction proceedings. All other Field Centers had performed such surveys.
7. The Field Centers do not post their business licenses in clearly visible locations.

Recommendations

1. **Do not carry out works without a duly-issued building permit. After completing construction of permitted buildings, make sure to obtain occupancy forms (Form 4). It is noted that work must begin to utilize a building permit within one year from its issue, and the building permit must be utilized within three years from its issue.**
2. **Maintain a list of all Field Center buildings, indicating whether each building has a permit and an occupancy form.**
3. **Obtain permits for non-construction works as well, such as LPG tanks, paved roads, etc.**
4. **Where part of a Field Center falls outside the blue line, obtain a town plan to formalize the zoning designation for the land.**
5. **For each Field Center, draft a non-statutory development plan. This plan would allow decision-makers to see where each Field Center is going in a non-binding, forward-looking manner. This will prevent the issue of unutilized permits.**
6. **Perform an archaeological survey in the Lavi Field Center to obtain a full picture of on-site conditions. This could also shorten processing times and save money when obtaining building permits and carrying out construction, if archaeological findings are identified on-site.**
7. **Post business licenses in clearly-visible locations in each Center.**

Summary of the Tzipori Field Center director's response

The development plan in Tzipori is currently in the advanced stages of planning or execution.

Summary of the response from the consulting engineer for Field Center development

He accepts the Office of the Comptroller's recommendations concerning building permits and occupancy forms. He also notes that all Field Centers are in one stage or another of obtaining permits, occupancy forms, preparing detailed plans, and preparing master plans, as per each Center's needs.

Summary of KKL's director of Field Centers' response

- As instructed by KKL's Director General, a committee has been convened to formalize building statuses. The committee has mapped and numbered all Field Center buildings on the GIS system. Formalization procedures have been initiated for all non-permitted buildings, to obtain building permits and occupancy forms. The director of Field Centers also noted that, today, all construction work in Field Centers is carried out as required by law.
- Recommendation 6 will be studied, and Recommendation 7 will be applied.

12. Insurance

The Office of the Comptroller received KKL's insurance policies currently in effect to examine insurance coverage for Field Center operations. KKL and Himnuta are covered by an 'all-risk' policy, which includes professional liability; employer liability; expanded fire coverage; finance and fiduciary coverage; contracted works coverage; third party coverage; and electronic equipment coverage.

The expanded fire insurance policy also covers claims filed against KKL and Himnuta overseas, should they apply to Field Centers.

Findings

1. The fire insurance policy has scope clauses requiring the installation of extinguishers, hydrants, hoses, and fire detection measures to a given standard and to a given number. Equipment is expected to be in proper condition and installed across KKL/Himnuta's sites. As indicated in the chapter dealing with safety, KKL may not comply with the terms of this policy.
2. Although the expanded fire coverage applies to all of KKL/Himnuta's real-estate and non-real estate assets, only the Nes Harim Field Center appears in the list of facilities.

Recommendations

1. **Once a year, before renewing the insurance policy, inspect fire safety arrangements in accordance with the policy's requirements. This will assure valid insurance coverage.**
2. **Include all Field Centers in the facilities list on the policy.**

13. Information Security

The Office of the Comptroller examined various aspects of information security, both physical and logical. This examination was performed for the Field Center's wireless networks, communications cabinets and fire-extinguishing arrangements near IT systems.

Findings

1. The user name and password for the computer in the Yatir Field Center were written in a notebook next to the keyboard. This would allow anyone who noticed to access the computer and the organizational intranet.
2. Some Field Centers have an unprotected wireless network for guests. In the Lavi Field Center, the Office of the Comptroller managed to ping (send a telecom signal to a specific address on the network and receive confirmation that the signal was received) the instruction coordinator's computer through the unprotected wireless guest network. This indicates a physical connection between the networks and would allow hackers relatively simple access to the organizational intranet.
3. In all Field Centers except Yatir, communications boards were unlocked and without air conditioning. Upon manual inspection, the temperature in these boards was elevated, which could result in fire under certain conditions.
4. No smoke detectors were installed near the communications boards.

Recommendations

1. **Do not write passwords and user names in notebooks, on memos, etc.**
2. **Perform penetration tests (PTs) for the wireless networks in all Field Centers, to prevent unauthorized access to KKL's intranet.**
3. **Communications boards should be locked, and install temperature sensors in each board.**
4. **Install smoke detectors near communications boards.**
5. **Perform an information security survey in all Field Centers.**

14. Personnel Training

As noted above, each Field Center has a basic staff roster of a director, administrator, maintenance supervisor, and instruction coordinator. The Office of the Comptroller requested a list of training received by the various Field Center staff. The Office of the Comptroller was told that instruction coordinators are trained on new lesson kits or new curricula developed by KKL's Education Division. Center directors receive explanations on the various systems they use, but do not have any formal training program. Maintenance staff do not receive any formal training at all, but these are usually people with a technical background.

The Organization of Labor Supervision Regulations (Information and Employee Training), 1999, govern employee safety arrangements in the workplace. Failure to comply with these regulations is a criminal offense which carries a prison sentence. Under the regulations,⁵ workplace owners must train employees on the risks to which they are exposed, at least once a year. Employers must also train maintenance staff,⁶ and this training must be provided either through the Israel Institute for Occupational Safety and Hygiene or a person certified by the Chief Labor Supervisor. Training must be logged,⁷ indicating at least the following:

names of employees attending the training; training dates; type of training; training topics; instructor name; instructor qualifications; and instructor's function.

Furthermore, the Workplace Safety Regulations (Working at Heights), 2007, require employees working at heights on a ladder or on rooftops to undergo certification for such work with a certified instructor. Furthermore, maintenance staff may not perform any electrical work permitted only to certified electricians.

Findings

1. Field Center staff in general, and maintenance staff in particular do not undergo training as required by law, even though they use tools, work at heights, etc.
2. Field Center staff do not have any job-based training program.
3. The Office of the Comptroller was told that the maintenance employee in the Yatir Field Center was sent on a seminar focusing on tools in the workplace, but such training was not documented.

5 Regulation 2.

6 Regulation 3B.

7 Regulation 6.

4. No specific guidelines were issued for employing personnel in the Field Centers during the COVID-19 pandemic, even though they are not expected to have any significant work in the near future.

Recommendations

1. **Formulate a training program for all Field Center staff in general, and for maintenance staff in particular. Training should particularly focus on statutory requirements such as: working at height, risk training; etc.**
2. **Training should be documented in a training log.**
3. **Formulate job-specific training programs for Field Center staff.**
4. **Since Field Centers are generally inactive during the present period due to COVID-related restrictions, make intelligent use of the staff currently on-site.**

Summary of the Lavi Center director's response

The maintenance employee and Center director at Lavi attended a Ministry of Labor safety trustee course.

15. Summary of Recommendations

| Section | Finding | Recommendation | Director's response |
|---|--|---|--|
| 3. Field Centers — Facilities, occupancy and utilization. | <p>1. Field Centers show a continuous decline in accommodation utilization rates. This decline is particularly prominent in the Camping Areas.</p> <p>2. The overnight guests report is based on visitor bookings and not on actual stays.</p> <p>3. The overnight stays report, presents events which did not take place in the Field Center.</p> <p>4. Facilities differ materially between centers.</p> <p>5. The regular staff positions are relatively similar across Centers.</p> <p>6. The camping site's design indicates partial utilization of Camping Area capacity.</p> <p>7. The Office of the Comptroller received Field Center occupancy data from several sources.</p> | <p>1. KKL should set marketing targets and track the growth or decrease in Field Center utilization rates.</p> <p>2. Overnight stay reports should be based on actual stays.</p> <p>3. Optimize booking system data to reflect the actual number of visitors for each site.</p> <p>4. Establish a list of critical personnel for Field Centers.</p> <p>5. Divide Camping Areas into smaller complexes.</p> | <p>1. Occupancy rates are measured based on actual stays. A statutory master plan was prepared for all Field Centers. Differences in staff across the various Centers are due to each Center's respective needs during the high season.</p> <p>2. The smaller Camping Area in Nes Harim will be expanded.</p> <p>3. The Tzipori Field Center infrastructure does not support stays during the rainy season.</p> <p>4. Lavi Field Center has future development plans to allow for optimal utilization of its area.</p> |
| 4. Policy and procedures — Policy | <p>1. Material documents and minutes are missing for various KKL forums, despite KKL's procedure for documenting discussions.</p> <p>2. It seems that KKL does not have an official policy concerning its Field Centers.</p> | <p>1. Make sure to document discussions in the various forums.</p> <p>2. KKL's management should formulate, and present to the KKL Board of Directors, a policy document for the Field Centers.</p> | <p>Policy is set by the organization's management, and we follow this policy.</p> |
| 4. Policy and procedures — Operating procedures | <p>1. The Booking Center Procedure is not current.</p> <p>2. KKL is missing procedures applicable to Field Center operations.</p> | <p>1. Update the Booking Center Procedure.</p> <p>2. Establish a set of procedures for Field Center operations.</p> | <p>Recommendation accepted.</p> |

| Section | Finding | Recommendation | Director's response |
|--|--|--|---|
| 5. Work Plans | <p>1. There is no procedure requiring all Field Centers to prepare and follow annual or long-term work plans.</p> <p>2. The work plans that were drafted were implemented sporadically.</p> <p>3. No work plans were found for some of the Field Centers.</p> | <p>1. Prepare a procedure for Field Centers governing work plan requirements. The procedure should provide for both annual and long-term work plans.</p> <p>2. Each Field Center should draft an annual and long-term work plan.</p> <p>3. Work plans should be established together with the Field Center director and the Education Division director</p> | |
| 6. Finances — A. General. | Revenues are presented in net cash terms, and do not reflect the Field Centers' gross revenues. | Field Centers should operate as profit centers. Revenue data for each Center should include gross revenue. | |
| 6. Finances — B. Budget management | <p>1. Data must be gathered from various sources and systems in KKL.</p> <p>2. Budget allocation between Field Centers is unbalanced.</p> <p>3. Budgets are not managed according to work plans.</p> | Allocate and manage budgets based on each Field Center's needs, and subject to annual and long-term work plans. | The recommendation is accepted. |
| 6. Finances — A. Billing | <p>1. The option to pay through several different accounts, and not just a specific bank account.</p> <p>2. The limit on payment only by bank transfer or check impedes customers in transferring payment.</p> <p>3. No formal billing process was found.</p> <p>4. There was no follow-up on difficult debts.</p> <p>5. There were no guidelines or procedures for handling cases where customers do not settle their debts.</p> <p>There were stay cases where, post-stay, payment was transferred to a third party.</p> | <p>1. Payments to Field Centers should be consolidated in one specific account.</p> <p>2. Expand payment options to include credit cards, payment apps, etc.</p> <p>3. Draft a billing procedure for Field Centers.</p> <p>4. Track difficult debts and submit them for legal action.</p> <p>5. Make sure that payments for stays are made by the actual consumer.</p> | <p>1. Payments to Field Centers are transferred to a special Education Division account.</p> <p>2. Recommendation accepted.</p> <p>3. Recommendation accepted.</p> <p>4. Recommendation accepted.</p> <p>5. These are mainly payments by school chains.</p> |

| Section | Finding | Recommendation | Director's response |
|---|--|---|---------------------|
| 6. Finances – B. field center price list | <p>1. Minutes and documents are missing for various KKL forums.</p> <p>2. The calculation underlying the prices on the Field Centers' price list could not be found.</p> | <p>1. Make sure to record and retain documents.</p> <p>2. Prepare a calculation for the Field Center price list.</p> | |
| 7. Marketing operations – A. General | <p>1. Field Centers are not promoted on digital platforms.</p> <p>2. Field Center activities are hidden under the Education Division's activities on KKL's website.</p> <p>3. There is a lack of uniformity between the various Centers' web pages.</p> | <p>1. Formulate an overall marketing plan across all channels.</p> <p>2. Utilize digital channels such as Facebook, Instagram, etc., to promote visits to KKL Field Centers.</p> <p>3. Highlight Field Center activities on KKL's website and on the Green Window website.</p> <p>4. Field Center websites should be uniform in format.</p> | |
| 7. Marketing operations – B. Marketing workflows | <p>1. The marketing staff does not have an overall supervisor to integrate and coordinate marketing efforts for Field Centers.</p> <p>2. There is no booking center for families' bookings.</p> <p>3. Family stays at Field Centers are not advertised on KKL's website.</p> <p>4. It is unclear what is the minimum number of guests.</p> <p>5. There is a significant drop in visits across all Field Centers in the winter.</p> | <p>1. Consider appointing a person to coordinate all marketing efforts for Field Centers.</p> <p>2. Promote Field Centers as potential accommodations for family visits on the various media channels.</p> <p>3. Draft and circulate a procedure for weekend family stays.</p> <p>4. Train instructors and improve equipment in Field Centers.</p> | |

| Section | Finding | Recommendation | Director's response |
|---|---|---|--|
| 7. Marketing operations — C. Marketing workflows | <p>1. There is no limit on the notice required to book a visit to a Field Center.</p> <p>2. KKL does not charge customers for cancellations if the customer informs of the cancellation more than 12 hours before the visit date.</p> <p>3. KKL allows customers to suspend visits.</p> <p>4. Examination of all marketing staff who opened files found non-marketing staff who opened files.</p> <p>5. It is unclear why KKL guidelines state that Field Centers cannot market and open booking files independently.</p> | <p>1. Draft a procedure for bookings, cancellations, and suspensions.</p> <p>2. Marketing staff should report regularly to the Education Division director about their marketing activities.</p> <p>3. A procedure should be drafted for managing marketing operations in the International and MAOF departments.</p> <p>4. A survey should be made of system permissions to identify unnecessary permissions.</p> <p>5. Allow Field Centers to market and open bookings themselves.</p> | <p>It has been decided that Field Center staff can be in touch with potential customers and book visits independently.</p> |
| 8. Booking center | <p>The booking center's tasks can be performed by the marketing staff or by a marketing staff member working from a Field Center.</p> | <p>Consider merging the booking center and the Marketing Department.</p> | <p>The booking center supervisor stated that she believes it is critical to apply control, and to check and approve the thousands of files opened each year.</p> |
| 9. Safety and Accessibility — General | <p>1. KKL does not have a specific procedure regulating periodic safety inspections of its Field Centers.</p> <p>2. Numerous safety flaws were identified, mostly relating to fire safety.</p> <p>3. There is no follow-up on flaws identified in safety and accessibility surveys.</p> <p>4. Document accessibility-related repairs.</p> | <p>1. Draft a procedure regulating Field Center safety surveys.</p> <p>2. Perform an overall safety survey for the Field Centers.</p> <p>3. Follow-up on urgent flaws immediately.</p> | <p>The flaws mentioned in the draft report are in various stages of being corrected.</p> |

| Section | Finding | Recommendation | Director's response |
|-------------------------------------|---|---|---|
| 10. Security And Medical Evacuation | <p>1. KKL's procedure regulating Field Center security arrangements was last updated over two years ago.</p> <p>2. There is no list of physical security components which should be installed and maintained in Field Centers.</p> <p>3. There are no signs indicating the location of the defibrillator in the security guard's post.</p> <p>4. The security guard at the gate does not receive full training for using the camera system.</p> <p>5. The Lavi Field Center's fence did not identify motion even though it is equipped with a motion-sensing device.</p> <p>6. Safety and security briefings were not given to a group which arrived during the audit of the Lavi Field Center.</p> | <p>1. Update KKL's procedure regulating Field Center security arrangements.</p> <p>2. Establish a set of uniform security arrangements for all Field Centers (PA system, CCTV, motion-sensitive fence) which must be operational at all times.</p> <p>3. Install directional signs across the Field Centers directing visitors to escape routes and the defibrillator device at the entrance.</p> <p>4. As part of the security guards' training, they should receive the password for the CCTV system.</p> <p>5. Perform routine inspections to check the proper condition of physical security components in Field Centers.</p> <p>6. When a group enters a Center, they should immediately receive a safety and security briefing.</p> | <p>1. KKL's Facilities and Field Center Security Procedure is only one of the relevant documents.</p> <p>2. Security infrastructure is part of KKL's overall security approach and is included under section 8.4.5 of KKL's Security Policy</p> <p>3. Installing directional signage for escape routes and defibrillator devices is the Field Center directors' responsibility.</p> <p>4. The security guard at the entrance is trained and briefed on using the CCTV system.</p> <p>5. Field Centers perform daily, weekly, and monthly inspections.</p> |

| Section | Finding | Recommendation | Director's response |
|---|--|---|--|
| 11.Planning, Building, and Business License | <p>1. Buildings were found in all Field Centers which did not have permits or occupancy forms.</p> <p>2. The Office of the Comptroller requested a list of all buildings in all Field Centers, however, no such list was available.</p> <p>3. Various works were carried out without permit in all field centers.</p> <p>4. The Field Centers had areas with incorrect zoning designations.</p> <p>5. Some permits had been issued but not used.</p> <p>6. The Lavi Field Center did not perform an archaeological survey.</p> <p>7. The Field Centers do not post their business licenses in clearly visible locations.</p> | <p>1. Do not carry out works without a duly-issued building permit.</p> <p>2. Maintain a list of all Field Center buildings, indicating whether each building has a permit and an occupancy form.</p> <p>3. Obtain permits for non-construction works as well, such as LPG tanks, paved roads, etc.</p> <p>4. Where part of a Field Center falls outside the blue line, obtain a town plan to formalize the zoning designation for the land.</p> <p>5. For each Field Center, draft a non-statutory development plan.</p> <p>6. Perform an archaeological survey in the Lavi Field Center to obtain a full picture of on-site conditions.</p> <p>7. Post business licenses in clearly-visible locations in each Center.</p> | <p>The development plan in Tzipori is currently in the advanced stages of planning or execution.</p> <p>He accepts the Office of the Comptroller's recommendations concerning building permits and occupancy forms.</p> <p>As instructed by KKL's Director General, a committee has been convened to formalize building statuses.</p> <p>Recommendation 6 will be studied, and Recommendation 7 will be applied.</p> |
| 12. Insurance | <p>1. KKL may not comply with the terms of it "all risk" policy.</p> <p>2. Although the expanded fire coverage applies to all of KKL/Himnuta's real-estate and non-real estate assets, only the Nes Harim Field Center appears in the list of facilities.</p> | <p>1. Once a year, before renewing the insurance policy, inspect fire safety arrangements in accordance with the policy's requirements. This will assure valid insurance coverage.</p> <p>2. Include all Field Centers in the facilities list on the policy.</p> | |

| Section | Finding | Recommendation | Director's response |
|-----------------------------|--|--|--|
| 13. Information Security | <p>1. The user's name and password for the computer in the Yatir Field Center were written in a notebook next to the keyboard.</p> <p>2. Some Field Centers have an unprotected wireless network for guests.</p> <p>3. In all Field Centers except Yatir, communications boards were unlocked.</p> <p>4. No smoke detectors were installed near the communications boards.</p> | <p>1. Do not write passwords and user names in notebooks, on memos, etc.</p> <p>2. Perform penetration tests (PTs) for the wireless networks in all Field Centers, to prevent unauthorized access to KKL's intranet.</p> <p>3. Communications boards should be locked, and install temperature sensors in each board.</p> <p>4. Install smoke detectors near communications boards.</p> <p>5. Perform an information security survey in all Field Centers.</p> | |
| 14. Personnel Training | <p>1. Field Center staff in general, and maintenance staff in particular do not undergo training as required by law.</p> <p>2. Field Center staff do not have any job-based training program.</p> <p>3. The maintenance employee in the Yatir Field Center was sent on a seminar focusing on tools in the workplace, but such training was not documented.</p> <p>4. No specific guidelines were issued for employing personnel in the Field Centers during the COVID-19 pandemic.</p> | <p>1. Formulate a training program for all Field Center staff in general, and for maintenance staff in particular.</p> <p>2. Training should be documented in a training log.</p> <p>3. Formulate job-specific training programs for Field Center staff.</p> <p>4. Since Field Centers are generally inactive during the present period due to COVID-related restrictions, make intelligent use of the staff currently on-site.</p> | The maintenance employee and Center director at Lavi attended a Ministry of Labor safety trustee course. |

June 2021

**Response of the Chairman of the Zionist Executive
to the Comptroller's Report on
Keren Kayemeth LeIsrael — KKL (PBC) —
Education Division — Field and Forest Centers**

In accordance with Section 18B to the Statutes for the Comptroller and the Control Office of the World Zionist Organization, which requires the Chairman of the Zionist Executive to submit his response to the Comptroller's reports, the following is my response to the report on Keren Kayemeth LeIsrael (PBC), Education Division, Field and Forest Centers, based on a review by my staff.

As mentioned in the report, field centers are an essential tool in realizing the educational vision of both JNF and practical Zionism, as outlined by the National Institutions and directed by the various Congresses over the years. The connection between the People and the land can be realized by educating the young generation to love their homeland, return to nature, and connect with the values, heritage, and landscape.

Before commenting on the audit itself, I would like to note that safety concerns, as reflected in the opening words of Section 9 in the General chapter which state, "There is material concern for safety hazards in field centers" require us to correct the flaws immediately and without delay.

Maintaining visitor safety should be the top priority for every officer in the organization.

Having referred to this central and important issue, I should emphasize that the hundreds of thousands of visitors to the various centers show that the Israeli public votes with their feet, by enjoying the JNF's services.

Naturally, there is room to adopt the Office of the Comptroller's recommendations for documenting decisions through minutes, and for applying thorough planning and management practices in the centers. At its core, the audit shows that JNF is willing to learn and improve, and for that I am thankful.

In closing, I place great emphasis on the audit's findings and am happy to see that work to correct flaws began even before the final report was submitted for response.

On behalf of the World Zionist Organization, the members of the Zionist Executive, and the staff, I thank you for the audit.

(-) Yaakov Hagoel
Jerusalem, January 2022

Keren Kayemeth LeIsrael — KKL (PBC)
Firefighting Arrangements

Keren Kayemeth LeIsrael — KKL (PBC)

Firefighting Arrangements

1. Introduction

The Keren Kayemeth LeIsrael (“KKL”) firefighting operations were examined as part of the Comptroller of the National Institutions’ work plan for 2022. KKL’s firefighting arrangements include fire trucks, lookout towers, KKL-employed emergency responders, and regional emergency responders who put out fires in KKL forests (firefighting duties are not the core duties of these staff, except for fire truck drivers). The audit focused on 2019–2020, and also examined partial data for 2021. According to KKL records, in 2019–2020, KKL staff put out 2,817 fires across the country, in 366,000,000 square meters of forest.

KKL’s firefighting operations are currently carried out under Section 32 to the National Fire and Rescue Authority Law, 2012 (“the Law”). The Law empowers the Fire Commissioner (“the Commissioner”) *“To instruct ... the organizations responsible for forested areas, including the Keren Kayemeth LeIsrael, to establish firefighting crews trained to respond in the event of a fire in the areas under their responsibility until Fire and Rescue Authority crews arrive on site, and to aid the Authority in its activities once it has arrived at the scene.”*

KKL and the Israel Fire and Rescue Services (“the Fire Services”) signed an agreement pursuant to Section 33 of the Law. Over the years, several agreements have been signed, formalizing the relationships and interactions between the two as concerns deployment of fire crews in forested areas.

The Office of the Comptroller believes the main issue in KKL’s firefighting arrangements to be the lack of an integrative, over-arching function assuring optimal performance in both day-to-day and emergency situations. Such function would also be responsible for overseeing associated personnel, and submit annual reports to KKL’s management.

In the response to the audit report, a ranger from the Western Galilee Ranger Unit stated that he had been appointed as Emergency Forest Fire Protection Officer, under the Land Development Administration

director, following a recent tender. Furthermore, the job description for the ‘Forest Fire Protection Officer’, who is subordinate to the Chief Forester/Forestry Division director had been changed to Routine Forest Fire Protection Officer.

The Office of the Comptroller commends the change, but does not believe it to be enough. A supervisor should be appointed to coordinate all firefighting activities in KKL, with an organization-wide view. Such supervisor would receive reports, oversee, prepare, and consolidate work plans for the various units involved in firefighting activities, and assure compliance of all KKL firefighting activities. This supervisor should be assigned to a non-operational unit, so as to avoid problems concerning segregation of duties. Furthermore, the supervisor’s interaction with all the various fire-related stakeholders in KKL should be well defined.

The Forestry Division director stated that KKL is currently developing several professional tools related to its fire-prevention work plan, supporting the planning stages and tracking performance. Furthermore, it is working to implement tech-based tools, including remote sensing capabilities, to help direct firefighting efforts and support decision-making in case of fire.

2. Agreements, and KKL’s Firefighting Doctrine

KKL’s firefighting doctrine is based on agreements signed over the years with the Fire Services, and a joint firefighting doctrine drafted, among other things, in collaboration between the two organizations. KKL uses the following documents to guide its firefighting operations:

- The first agreement between KKL and the Fire Services was signed on July 27, 2012, when the Law was still a bill. The agreement outlines a firefighting procedure to be established between KKL and the Fire Services:
 1. The Commissioner must set guidelines and staff requirements for KKL in the following matters:
 - 1.1. Number of staff to be employed on KKL’s firefighting crews.
 - 1.2. Amount and type of equipment to be kept by KKL at all times.
 - 1.3. The time of year when KKL is required to maintain firefighting crews.
 - 1.4. The scope and type of training required of firefighting crews.
 - 1.5. Frequency and type of drills and hands-on training required of firefighting crews.

- 1.6. Building and manning lookout towers in forests and woodland areas.
 2. The agreement also states that the annual cost of all firefighting expenses for KKL will not exceed NIS 14 million.
 3. Each year, KKL must increase or decrease its firefighting investment, based on the increase or decrease in forested areas overseen by KKL, based on a NIS coefficient for every 1,000 square meters of forest.
 4. If the annual cost of maintaining the firefighting forces exceeds the above budget, KKL must obtain the Fire Services' instructions on which firefighting efforts should be downsized.
 5. The agreement is valid for 15 years from signature (i.e. — until July 2027).
- On August 16, 2018, KKL and the Fire Services signed an agreement entitled *Procedure Regulating the Operation of Firefighting Crews for KKL's Open Areas*. The procedure specifies the following:
 1. KKL's firefighting staff.
 2. Training for KKL staff engaged in firefighting.
 3. Fire service readiness and availability.
 4. Management of fires.
 5. Joint operations between KKL forces and Fire Services forces during a fire.
 6. A list of protective equipment for firefighters. According to this chapter, "KKL firefighting crews will be equipped with personal protective equipment in accordance with the firefighting doctrine, in routine and emergency situations".
 - A document has been established, entitled *Doctrine for Fighting Fires in Forests, Woodlands, and Open Areas*, Version 2, February 2013. This is a lengthy document (200 pages), complex in nature and oriented toward professional contexts. The document provides background, procedures, tactics, and guidelines on fighting fires. Among other things, the document reviews the following:
 1. Introduction and familiarization with fire behavior in forests, woodlands, and open areas
 2. How fires grow in size and intensity.
 3. Tactics and methods for fighting fires in forests, woodlands, and open areas.

4. Adapting resources (equipment and personnel) to realize the selected firefighting method.
5. Creating uniform accepted terminology for all firefighting organizations.

Findings

- 1.1. The firefighting doctrine is out of date and incomplete. For example:
 - 1.1.1. Chapter 6 — *Forward Command Post Operating Procedure* — *FCP 'Caesar'* — is marked as a draft procedure awaiting the Commission/Operations Division's comments.
- 1.2. Management of the NIS 14 million annual investment budget pursuant to the KKL-Fire Services agreement — There is no detailed review of KKL's annual investment in firefighting activities. Both the Emergency Forest Fire Protection Officer and the Routine Forest Fire Protection Officer stated that they believe KKL investments exceed NIS 14 million a year. Furthermore, it is unclear who in KKL is responsible for preparing these calculations.

Recommendations

Perform annual calculations for KKL's investment in firefighting activities in accordance with KKL's agreement with the Fire Services. These calculations should include all components such as: salaries, additional insurance premiums, non-consumable and consumable equipment, etc.

Summary of the Emergency Forest Protection Officer's response

The Fire Services are responsible for the doctrine, as they integrate the operations of all relevant organizations. The doctrine's revamp has recently been completed, but it has yet to be validated by the Commissioner.

KKL's management's response

Response to Section 2.1 — The Caesar FCP belongs to the Fire Services. KKL is not involved in this.

3. Operating Procedures

The Office of the Comptroller requested a list of KKL's firefighting procedures. The following documents were provided:

1. Lookout Tower Operations Procedure — updated June 6, 2020.
2. Forest Fire Debriefing Methods — updated November 13, 2018.

3. Preventing and Fighting Forest and Woodland Fires — updated November 13, 2018.
4. Professional guidance entitled *Guidelines for Creating Fire Buffer Zones* — The guidance is not drafted as a KKL procedure, and does not have an approval/update date. The Office of the Comptroller was told that the guidance was circulated in December 2021, and prepared by the Forestry Division based on the Fire Services' regulations.
5. Guidelines for Creating Buffer Zones Around Towns and in Access Roads to a Town — updated November 29, 2021.

Findings

1. The list of procedures is incomplete. A lack of clear operating procedures where people's lives are at stake may result in loss of life and put KKL at risk for claims of damages and negligence.
2. Some of the procedures have not been updated for 4 years.

Recommendations

- **Update the procedural codex with the following:**
 - **Training and readiness for firefighting crews.**
 - **Supply and renewal of personal equipment for fire crew members.**
 - **Equipment supply and renewal for fire trucks.**
 - **Fire truck maintenance and readiness.**
 - **Medical exams for fire crew members.**
- **Procedures should be updated or affirmed at least every two years.**

KKL management's response

- KKL has firefighting procedures and instructions. We are currently working to update our workflows in this matter, and update our procedures and instructions accordingly.
- Concerning affirmation of procedures — In March 2021, we instructed our management staff to review procedures which had not been reviewed in the past 3 years. Managers responded by indicating whether procedures needed updates, or were still valid. Furthermore, some of the procedures were converted into directives in 2021. These included lookout tower operation and buffer zone creation directives. We will make sure to re-affirm these every two years.
- Concerning medical exams and medical requirements for staff — A directive has been issued (by the Safety Unit). This instruction will be updated to include explicit instructions concerning medical exams for professional field personnel.

- Concerning the fire truck maintenance and readiness procedure — The Fire Services are currently updating their regulations. We await their ratification following meetings with KKL and the Israel Nature and Parks Authority.

4. **Organizational Structure**

The organizational structure of KKL's firefighting staff is spread across several units, as follows:

- Ranger from the Western Galilee Ranger Unit — duties include firefighting as part of his previous job as KKL's Forest Protection Officer. He has extensive knowledge and experience in firefighting, and professional ties with counterparts in the Fire Services. Today, he is the only person in KKL with authority to launch firefighting aircraft, and the Fire Services have authorized him to conduct some of the training for firefighting crews.
- Routine Forest Fire Protection Officer — a Forestry Division employee who assumed the position in 2021. The officer's job is to establish fire protection policies for forests, subject to the Head Forester's review.
- Firefighting crews — each district has designated firefighting staff (working as drivers or firefighters). Fire crews are supervised by the district director. Each employee's job description is specified in the Regulation of Fire Crew Operations in KKL Open Areas Procedure. Firefighting duties are secondary duties, and not the employees' routine job.
- North District Transportation Safety Officer and Firefighting Director — responsible, among other things, for the specialized firefighting system.
- District directors — their duties include preparing forest maintenance work plans, which include firefighting components. Block foresters (forest block supervisors) are subordinate to the district directors.
- Safety supervisor — responsible for lookout towers, some of the training for fire crews, mechanical upkeep of fire trucks, equipment and instruments protecting firefighting crews.
- Transportation Safety Officer — responsible for mechanical upkeep of vehicles (engine, body, tires, etc.).
- District director — orders debriefings on fires and manages large-scale fires and unusual incidents in their District.

Findings

1. The organizational structure of KKL's firefighting staff is extremely

decentralized. There is no central supervision and staff positions are not based on formal procedures specifying each person's powers and duties, interaction between various staff members, or responsibilities for supervision and control. For example, although the safety supervisor's duties, as detailed below, include performing annual risk surveys for lookout towers, the Office of the Comptroller found that he was not aware of the relevant procedure (issued by the Forestry Division). He stated that the fire safety supervisor (a position which does not exist in the current organizational structure) should perform these risk surveys.

2. The Office of the Comptroller believes that the ranger from the Western Galilee Ranger Unit, who was appointed during the audit as Emergency Forest Fire Protection Officer, is key to KKL's firefighting efforts. The loss of such a key figure could cause a significant loss of organizational knowledge. This would undermine the organization's efforts to handle various scenarios which were previously managed by that employee. Recreating the employee's knowledge might require substantial investment of organizational resources.

The Office of the Comptroller believes the loss of the Western Galilee Ranger Unit ranger would undermine some of the workflows in which he was involved, and his knowledge would be irrevocably lost, either entirely or in part.

Recommendations

- **Assign an organizational supervisor, responsible for overseeing all of KKL's firefighting efforts.**
- **Define the responsibilities and interactions of KKL's various firefighting staff, such as: responsibility for training KKL fire crews, contact point for the Fire Services, preparing firefighting work plans and guidelines, etc.**
- **Prepare a plan for retaining the knowledge accrued by the employee from the Western Galilee Ranger Unit who was recently appointed as Emergency Forest Fire Protection Officer.**

KKL management's response

- In addition to the Emergency Forest Fire Protection Officer, the Forestry Division has an employee who oversees buffer zones. We are currently working to formally define and split responsibilities between the Emergency Fire Protection Officer and the Forestry Division's buffer zone supervisor, after having reviewed and studied the various organizational and practical aspects of the matter.
- Concerning knowledge retention — the organization has a structured

process for retaining employee knowledge. Before an employee leaves or retires, an alert is sent to the knowledge retention supervisor, who consults the relevant supervisors on how to retain the employee's knowledge (interviews, documentation, document collection, etc.).

5. **Work Plans**

Upon requesting KKL's firefighting work plans, the Office of the Comptroller was told that KKL does not have such plans. Neither the Forest Fire Protection Officer nor the Western Galilee ranger had work plans for 2019–2020.

Findings

KKL does not have annual or long-term work plans for its firefighting operations.

Recommendation

The Emergency Forest Fire Protection Officer should formulate annual and long-term work plans for firefighting operations. At the least, plans should provide for the following:

- o **Professional training for firefighting staff.**
- o **Annual drills.**
- o **Physical fitness tests.**
- o **Budget controls.**
- o **Medical exams.**
- o **Safety and working at height training.**
- o **Control over equipment availability and condition in fire trucks, and over personal protective equipment for fire crews.**
- o **Review of doctrines and procedures.**
- o **Control over operating condition of fire trucks, for both vehicular and firefighting systems.**

Emergency Forest Fire Protection Officer's response

Professional training is conducted before the start of the fire season. Annual drills were carried out before the fire season and this year (2022) included deployment of the new forward command post. All firefighting staff undergo physical exertion testing as specified by KKL's designated doctor. Safety training is provided by the safety officer. Working-at-height training is only provided for those whose jobs require such training. Weekly and monthly inspections are performed for fire trucks, covering both vehicular and firefighting systems.

KKL management's response

The 2023 work plan will place additional emphasis on emergency firefighting tasks. It is emphasized that, in 2022, the Forestry Division's work plan referred to fire prevention and protection in buffer zones.

6. Preventative Action

Actions to prevent forest fires include forest lookouts during the fire season, for early detection of fires, alerting crews, and directing them to the fire's location. Actions also include forestry interventions such as creating and maintaining buffer zones, forest thinning, and grazing permits, to minimize each forest's fire potential. In 2021–2022, the Forestry Division also updated the GIS (Geographic Information System) for fire buffer zones to include information such as: creation date, zone type (settlement/forest/facility), and status (existing/planned).

6.1 Lookout towers

As part of its efforts to provide early warning of fires, KKL operates 31 lookout towers in prominent locations around the country.¹ Towers are built of concrete and steel. Lookouts manning these towers alert of any suspected forest fire. In case of a fire, lookouts direct fire crews towards the identified fire centers.

Lookout towers are not manned year-round, but only during the 'fire season'. The fire season is defined based on actual grass conditions. It usually starts in April in the south of Israel and in May in the north and center. The season ends in October-November. Lookout posts are manned by KKL employees, Hashomer HaChadash² employees, and KKL contractors.

Lookout tower operations are formalized by KKL's Lookout Tower Operations Procedure, updated June 6, 2020. The procedure states that towers will be manned at the discretion of the district director, based on the alert level set by the Forestry Division. Lookout tasks are based on the fire risk index provided by the Israel Meteorological Service.

The procedure also requires KKL's safety supervisor to perform risk surveys together with the fire protection officer and other staff members,

- 1 Tower locations can be found on KKL's website: <https://kkl-open-data-hub-kkl.opendata.arcgis.com>
- 2 HaShomer HaChadash is an Israeli non-profit providing security services in open grazing areas, assisting farmers, and promoting Zionist and agricultural education.

to assess the risks and readiness of lookout towers in each district. These surveys must be performed no later than March of each year.

The Office of the Comptroller requested a log of alert levels from 2019–2020 to compare against actual tower manning assignments. The Office of the Comptroller was told that alert levels are not logged. Alert levels are circulated by emails and text messages.

On March 31, 2022, the Office of the Comptroller visited four lookout towers: Heletz, Negba, HaMeginim Forest, and HaMalachim Forest. Towers in Negba, HaMalachim Forest, and Heletz were fenced, with barbed wire on the ground surrounding the fence. The tower in HaMeginim Forest was closed with construction net. The tower in HaMalachim Forest was covered in substantial amounts of graffiti (see images in Appendix A).

Findings

- 6.1.1. There is no formal documentation of alert levels in the various districts, or the manning of lookout towers as dictated by such alert levels. Failure to log alert levels reduces control and the ability to assess the lookout towers' impact and efficacy in identifying fires and alerting crews, or the lookouts' performance.
- 6.1.2. There is no access path to the Negba lookout tower. The doors to the tower were welded shut and it seems that there are no plans to man the tower in the current fire season, which starts in April in the south. It is noted that KKL's procedure requires the safety supervisor to perform risk surveys of all lookout towers by the end of March.
- 6.1.3. The lookout tower in HaMeginim Forest does not have a surrounding fence. This may lead hikers to try and break in to the tower.
- 6.1.4. The observation tower in HaMalachim Forest is covered in graffiti (photos in Appendix A).

Recommendations

- **Document alert levels in each District. This would help with incident debriefing and organizational learning on the probability of fire by various forest blocks. This would also allow review and control over tower manning assignments.**
- **Perform risk surveys of lookout towers by March of each year, to verify their readiness and usability.**

- **Establish access paths to all manned lookout towers, as part of the risk survey.**
- **Build a perimeter fence around lookout towers, to prevent hikers from climbing the towers.**
- **Assure the maintenance and cleanliness of lookout towers as part of the risk survey. Rectify hazards as necessary.**

Emergency Fire Protection Officer's response

Some lookout towers are not manned at all.

Concerning the recommendation to document alert levels in each region — the Fire and Rescue Authority and the Israel Meteorological Service perform joint debriefings.

Concerning the recommendation to fence lookout towers — fences do not help. Locking mechanisms should be installed on all tower access openings.

Recommendation 1 — Accepted.

Recommendation 2 — Accepted.

Recommendation 3 — We will review the matter again, but all manned lookout towers have easy access paths for vehicles. After all, our lookout mans the tower.

Recommendation 4 — Concrete towers are locked with steel doors and do not require perimeter fencing.

Recommendation 5 — Will be addressed based on each region's priorities.

KKL management's response

- Response to Section 6.1.4 — In general, it is noted that concrete lookout towers are locked with steel doors. Steel lookout towers are fenced and the door to the stairwell is locked. The tower in HaMeginim Forest has a metal door which prevents access. We do not see the need to fence every single tower.
- Response to Section 6.1.5 — Concerning the graffiti on the lookout tower in HaMalachim Forest — will be handled based on the region's priorities.

6.2 **Buffer zones**

Buffer zones are intended to allow safe and effective deployment of land-based fire crews by creating areas of thin vegetation, reducing the strength of the fire front. This is intended to minimize the size of the burn area and damage caused by fire to forests, property, and human

life. In particular, buffer zones help prevent the fire from spreading from one fire cell to another.

The creation of buffer lines and buffer zones in forests is regulated by the Forestry Division's Forest Buffer Zone Creation Guidelines. Forest buffer zones are defined as an area in KKL-managed forests where the vegetation is treated so as to significantly reduce the speed of a fire's progression and its strength, so as to allow safe and effective deployment of firefighting crews.

The guidelines provide methods for creating buffer zones based on terrain type, vegetation type, and the area in the country where the buffer zone is located. Guidelines concerning buffer lines were circulated in December 2021 and are currently being implemented.

Findings

The Office of the Comptroller requested a list of preventative actions and buffer zones (creation and maintenance) for the various districts, including area and budget data. The Office of the Comptroller also requested a list of pre-emptive forestry interventions under both routine (summer/winter) and emergency (war, civil unrest, etc.) conditions. The Routine Forest Fire Protection Officer stated that the forest management system cannot provide specific intervention data for 2019–2020. It is noted that the forest fire protection officer assumed his position towards the end of 2021. As aforesaid, during the audit, his job description was changed to 'Routine Forest Fire Protection Officer'.

Recommendation

Document all forest fire prevention interventions in the various districts, including budget and area data. This would facilitate accurate resource allocation across geographic regions in both routine and emergency situations.

Routine Forest Fire Protection Officer's response

In the years covered by the audit, KKL created and maintained buffer zones. However, these were not classified as fire prevention activities. Starting 2020–2021, we rolled out a forest management system supporting classification into both primary and secondary items.

KKL management's response

In general, all forest interventions are aimed at reducing the available biomass in the forest, thus reducing fire intensity. High-branch pruning,

disconnective pruning, sanitation, thinning, and creation of forest buffer zones are further supported by ruminant grazing. All interventions are performed by KKL employees/contractors/herd owners and documented through contracts, tenders, and permanent or temporary grazing agreements.

Starting 2021, there is full documentation of fire protection intervention plans. Furthermore, the Forestry Division is currently working on a holistic system for tracking and controlling annual plans and their performance.

7. Personnel Training and Management

A large portion of KKL's agreements with the Fire Services deals with training personnel for firefighting tasks. Key items are as follows:

1. KKL's firefighting crews will only include persons who have received professional training from the Fire Services' representatives or persons acting on their behalf and/or KKL, as specified in this document and in accordance with the doctrine, as updated from time to time (Chapter 3, Section 1 to the agreement).
2. Training of KKL's crews will be carried out by the start of the fire season each year, except for 2018. In 2018, training of KKL's firefighting crews including persons performing firefighting roles, will begin immediately upon completion of a training plan for the various roles, in coordination between the Fire Services and KKL (Chapter 3, Section 3 to the agreement).
3. KKL employees will be trained by the Fire Services or persons acting on their behalf to perform roles in KKL's fire crews (except for the roles of crew leader and logistics support staff) in addition to their job in KKL, unless KKL chooses to train them otherwise, in coordination with the Fire Services (Chapter 4, Section 1 to the agreement).
4. Training, instruction, and refreshers for crew leaders and logistics support staff will be carried out by KKL or persons acting on its behalf, in accordance with programs approved by the Fire Services (Chapter 4, Section 2).
5. At the end of training, the training provider (Fire Services or persons acting on their behalf or KKL) will certify that personnel have met the training requirements and are qualified to hold their intended roles (Chapter 4, Section 3).
6. Once every calendar year, a professional refresher will be provided to all personnel. KKL will maintain individual records for each employee

working in KKL's firefighting crews. Refreshers will be carried out by KKL employees certified by the Fire Services. Refresher curriculum will be approved by the Fire Services (Chapter 4, Section 4).

7. Training and professional courses will be provided to members of KKL's firefighting crews, with attention, among other things, to professional, operational and/or statutory changes.

Findings

KKL does not receive any support from the Fire Services (through training, coordination, refreshers, or courses). The West Galilee Ranger Unit ranger's inquiries with the Fire Services in this matter did not receive sufficient response from the Fire Services. Thus, the training and curricula provided to KKL's fire crews are based solely on KKL's judgment.

Recommendation

KKL's management, with help from its legal counsel, should contact the Fire Services considering the latter's failure to comply with their part of the agreement. This should indicate the importance that KKL places on this matter, and will provide formal documentation if the Fire Services or other organizations raise the issue in the future.

7.1. Procedures/Training Programs

The Office of the Comptroller requested the set of procedures/training programs approved by the Fire Services and indicating the training received by all fire crews, workflows for approving course curricula with the Fire Services, refresher dates, physical fitness test dates, etc., as detailed in the agreement with the Fire Services. These materials could not be found.

The Office of the Comptroller also examined firefighting training refreshers provided to firefighting staff as of the 2021 fire season.

Findings

- 7.1.1 There are no procedures/training programs for all fire crews as specified in the agreement with the Fire Services.
- 7.1.2 The Office of the Comptroller examined the refreshers given to firefighting staff as of the 2021 fire season. Of 290 employees on the roster, 11 had not undergone refresher training for their firefighting duties, as follows (by region):

| District | Region | Employee No. |
|----------|---------------------------|--------------|
| South | Northern Negev | 7305 |
| South | Northern Negev | 9980 |
| South | Northern Negev | 7167 |
| South | Western Negev | 8922 |
| South | Negev Mountains and Arava | 3399 |
| South | Negev Mountains and Arava | 7440 |
| South | Negev Mountains and Arava | 3445 |
| Center | Coast | 3031 |
| Center | Coast | 3025 |
| Center | Coast | 1599 |
| Center | Coast | 3074 |

In all other regions (Central Mountains, Menashe Sharon, Lower Galilee, Western Galilee, Upper Galilee, Golan) — **Propriety was found.**

- 7.1.3 The Office of the Comptroller requested the curricula and components for the firefighting refresher training, and the list of participants, components and curricula for fire drills and exercises. However, these documents could not be found.

Recommendations

- **Draft training procedures and programs for firefighting crews. Training procedures and programs should be coordinated with the Fire Services.**
- **All employees engaged in firefighting activities should undergo firefighting refresher training each year.**
- **Work together with the Fire Services to establish curricula for refreshers and exercises for fire crews, and the components of these exercises. Furthermore, all training activities should be documented, indicating participants, goals, conclusions, successes, and points for improvement from such exercises, etc.**

KKL management's response

- Concerning the procedures — We are currently working on it, with outside support and in collaboration with the Emergency Forest Fire Protection Officer.
- Concerning the training program — This program is currently being prepared by the Fire Services, in collaboration with the Emergency Forest Fire Protection Officer.

7.2. **Safety training and medical exams**

According to Section 12 of the Organization of Labor Supervision Regulations (Safety Officers), 1996, employers must “Assure routine medical exams for employees exposed to elements requiring such exams”.

Furthermore, the Organization of Labor Supervision Regulations (Information and Employee Training), 1999, regulate workplace safety for employees. Failure to comply with these regulations is a criminal offence carrying a prison sentence. According to the regulations,³ workplace owners must provide employees with training on the risks to which they are exposed at least once a year. Training must be documented⁴ with at least the following information: names of employees attending training, training dates, training type, training topic, instructor name, instructor qualifications and job.

In addition, the Workplace Safety Regulations (Working at Height), 2007, state that employees working at height using ladders or on rooftops must be certified to work at height by a certified instructor.

Firefighting crews are exposed to intense physical exertion and risks inherent in their job, and so the Office of the Comptroller requested and received a list of fire crews from the employee roster. The Office of the Comptroller also requested and received the dates for their recent medical examination and the date of their safety training for the 2021 fire season.

Findings

7.2.1. Of 290 employees on the roster, 11 had not attended safety training for the 2021 fire season:

| District | Region | Employee No. |
|-----------------|---------------------------|-----------------------|
| South | Northern Negev | 7305 |
| South | Northern Negev | 9980 |
| South | Northern Negev | 7167 |
| South | Western Negev | 8922 |
| South | Negev Mountains and Arava | 3399 |
| South | Negev Mountains and Arava | 7440 |
| Center | Central Mountains | 80202203 ⁵ |
| Center | Central Mountains | 3464 |

3 Section 2 to the Regulations.

4 Section 6 to the Regulations.

5 Employee number not specified on list. Employee’s ID number is provided herein.

| District | Region | Employee No. |
|----------|-----------------|--------------|
| Center | Menashe Sharon | 7697 |
| North | Western Galilee | 7326 |

In all other regions (Lower Galilee, Upper Galilee, Golan) — **Propriety was found.**

- 7.2.2. The Office of the Comptroller examined the South District. Of 105 employees on the roster in this district, 32 had not undergone a medical exam or their exam status was unclear for the 2021 fire season:

| Region | Employee No. | Medical Exam Validity Date |
|---------------------------|--------------|----------------------------|
| Northern Negev | 2261 | June 4, 2020 |
| Northern Negev | 2723 | May 25, 2020 |
| Northern Negev | 7012 | Pending |
| Northern Negev | 9980 | Pending |
| Northern Negev | 7298 | Pending |
| Northern Negev | 7299 | Pending |
| Northern Negev | 7683 | Pending |
| Northern Negev | 3117 | April 20, 2019 |
| Western Negev | 3309 | Not specified in the file |
| Western Negev | 3411 | Unfit |
| Western Negev | 8692 | Not specified in the file |
| Negev Mountains and Arava | 2659 | March 3, 2021 |
| Negev Mountains and Arava | 2146 | March 3, 2021 |
| Negev Mountains and Arava | 4087 | July 5, 2020 |
| Negev Mountains and Arava | 3399 | August 9, 2017 |
| Negev Mountains and Arava | 3334 | March 14, 2021 |
| Negev Mountains and Arava | 7440 | April 11, 2019 |
| Negev Mountains and Arava | 8967 | July 5, 2020 |
| Negev Mountains and Arava | 9661 | July 5, 2020 |
| Negev Mountains and Arava | 9445 | July 5, 2020 |
| Negev Mountains and Arava | 3162 | September 24, 2020 |
| Negev Mountains and Arava | 2769 | March 3, 2021 |
| Negev Mountains and Arava | 3210 | March 7, 2021 |
| Negev Mountains and Arava | 7028 | July 2, 2020 |
| Negev Mountains and Arava | 7171 | June 25, 2020 |
| Negev Mountains and Arava | 7027 | July 2, 2020 |
| Negev Mountains and Arava | 3445 | March 3, 2021 |

| Region | Employee No. | Medical Exam Validity Date |
|---------------------------|---------------------|-----------------------------------|
| Negev Mountains and Arava | 3401 | March 17, 2019 |
| Negev Mountains and Arava | 3200 | May 14, 2020 |
| Negev Mountains and Arava | 4243 | May 17, 2020 |
| Negev Mountains and Arava | 3192 | March 7, 2021 |
| Negev Mountains and Arava | 9904 | March 8, 2021 |

Thus, numerous employees did not provide medical certification or do not hold valid medical certification. Not having valid medical certification may subject unhealthy employees to substantial risk, and thus exposes KKL to lawsuits for negligence, etc.

Recommendations

- **Make sure to provide firefighting refresher training to all firefighting staff once a year as specified in the aforesaid regulations.**
- **Make sure to perform periodic medical exams for firefighting staff, at least once a year, to mitigate KKL's liability.**

KKL management's response

- Concerning annual refreshers — This is under the Emergency Fire Protection Officer's responsibility, who performs these refreshers once a year before the start of the fire season, through specific training for each region.
- Concerning medical exams — Fitness exams for firefighting duties are performed every two years based on the opinion of a designated doctor as received several years ago. Furthermore, employees have been instructed to update KKL of any change in their medical condition. We believe that the current practice of bi-annual exams is sufficient.

8. Compensation to Firefighting Personnel

The Office of the Comptroller received the list of employees who received bonuses for their firefighting duties in 2021 (214 emergency responders and 23 fire truck drivers). The list was examined and compared against the list of firefighting personnel provided by the Western Galilee Ranger Unit ranger.

Findings

- 8.1. There were 6 employees who had not undergone safety training but received a firefighting bonus: 9980, 8922, 7326, 7305, 7167, 3464.

- 8.2. There were 25 employees who did not have a valid medical exam but received a firefighting bonus: 9980,7299 ,8967 ,9445 ,9661 ,9904 , ,3334 ,3401 ,3411 ,3445 ,4087 ,4243 ,7012 ,7027 ,7028 ,7171 ,7298 2146 ,2659 ,2769 ,3162 ,3192 ,3200 ,3210 ,3324.
- 8.3. There were 8 employees who had not undergone refresher training but received a firefighting bonus: 9980,3031 ,3074 ,3445 ,7167 ,7305 ,8922 , 3025.
- 8.4. There were 77 employees who were not on the 2021 firefighting personnel roster provided by the Western Galilee Ranger Unit ranger, but received a firefighting bonus.⁶

Recommendations

- **Do not allow KKL employees on the firefighting staff without the necessary approvals.**
- **Do not pay firefighting bonuses when it seems the employees are not on the firefighting personnel roster.**
- **Check and make sure that all firefighting staff hold the necessary approvals, and map which employees received firefighting bonuses. If the latter were not on the firefighting roster, investigate why they received bonuses and consider requiring them to return such funds. If they are part of the firefighting staff, update the personnel roster accordingly.**

9. Firetruck Fleet Management

The person in KKL responsible for keeping the firefighting fleet in good order⁷ is the North Transportation Safety Officer and Firetruck Fleet Supervisor. The safety officer has been trained by the Fire Services and provides training to KKL’s firetruck drivers. Firetrucks are serviced once a year near their annual certification test. The region forester supplements any consumables as required in each truck.

Nationwide, KKL has 25 fire trucks and 57 drivers, as follows:

| District | Region | Forest Block | Trucks | Comments |
|----------|---------------------------------|-------------------------|--------|----------|
| North | Upper Galilee and Golan Heights | Kiryat Shmona Bar’am | 1 | |

6 For the full list, see Appendix B.

7 Excluding truck body elements such as engine, tires, etc.

| District | Region | Forest Block | Trucks | Comments |
|----------|---------------------------------|------------------|--------|-------------------------|
| North | Upper Galilee and Golan Heights | Biriya Hazon | 1 | |
| North | Upper Galilee and Golan Heights | Golan Heights | 1 | |
| North | Western Galilee | Carmel Alonim | 1 | |
| North | Western Galilee | Segev Kiryat Ata | 1 | |
| North | Western Galilee | Hanita Ma'alot | 1 | |
| North | Lower Galilee Gilboa | Nazareth | 1 | |
| North | Lower Galilee Gilboa | Tiberias | 1 | |
| צפון | Lower Galilee Gilboa | Gilboa | 1 | |
| Center | Menashe Hasharon | Alona | 1 | |
| Center | Menashe Hasharon | Eiron | 1 | |
| Center | Menashe Hasharon | Hasharon | 1 | |
| Center | Coast | Ayalon Eshtaol | 2 | Including back-up truck |
| Center | Coast | Ben Shemen | 1 | |
| Center | Coast | Massuah | 1 | |
| Center | Central Mountains | Corridor | 1 | |
| Center | Central Mountains | Nes Harim | 1 | |
| Center | Central Mountains | Ma'aleh Hamisha | 1 | |
| South | Northern Negev | Shikma | 1 | |
| South | Northern Negev | Lakhish | 1 | |
| South | Northern Negev | Lahav | 1 | |
| South | Western Negev | Merchavim | 1 | |
| South | Western Negev | Grar | 0 | |
| South | Western Negev | Eshkol | 1 | |
| South | Negev Mountains and Arava | Yatir | 1 | |
| South | Negev Mountains and Arava | Meitar | 0 | |
| South | Negev Mountains and Arava | Ramon | 0 | |

The above indicates that fire trucks are not stationed in every forest block. The Office of the Comptroller was told that the reason the number of fire trucks is low in the South is that the forest blocks in the area are small.

The Office of the Comptroller requested and received documentation of maintenance services for trucks 56-734-60, 11-114-39, 55-324-78. All firetrucks had undergone safety inspections, winter servicing, annual maintenance, and routine maintenance in 2020–2021. **Propriety was found.**

Findings

1. According to the personnel roster provided for the 2021 fire season, each firetruck is assigned 3 drivers. The following forest blocks did not have three drivers per truck (each region is divided into three forest blocks):

| Block | Missing drivers |
|----------------------|------------------------|
| Lahav | 2 |
| Grar | 2 |
| Eshkol | 2 |
| Segev Kiryat Ata | 1 |
| Nazareth | 1 |
| Gilboa | 1 |
| Alona | 1 |
| Massuah | 1 |
| Corridor | 1 |
| Ma'aleh HaHamisha | 1 |
| Kiryat Shmona Bar'am | 1 |

2. The Office of the Comptroller compared the list of firetruck drivers provided by the North Transportation Safety Officer and Firetruck Fleet Supervisor to the list of training sessions provided by the Western Galilee Ranger Unit ranger. Of the 58 drivers on the North Transportation Safety Officer and Firetruck Fleet Supervisor's list, 37 were non-compliant, including drivers who had not undergone any training, drivers not on the personnel roster, and drivers without medical exams. In summary:⁸

| Status on the Western Ranger Galilee Ranger Unit Ranger's List | No. |
|---|------------|
| OK | 21 |
| Not named as a driver on the roster | 21 |
| Not on the roster | 10 |
| Invalid medical exam | 3 |
| Undated medical exam | 2 |
| Expired driver's license | 1 |

Recommendations

- **KKL should appoint a person to make sure that all firefighting staff have undergone the training, certification, and examinations required before assuming their duties.**

8 For the full list, see Appendix C.

- **Make sure that training, refreshers, and medical exams are all valid for all firetruck drivers. Do not allow personnel who are not fully compliant to drive a fire truck.**

KKL management's response

- First, it is noted that KKL's 'firefighting bonus' is only given to firetruck drivers to the amount specified in the collective labor agreement between KKL's management and the workers' union. Other firefighting staff are compensated for actual/shift work.
- In light of the recommendations and findings in this report, it was decided that the regional ranger and regional director will need to sign off on the list of shift and actual firefighting duties. The emergency response shift list will only include employees who meet the criteria for manning firefighting shifts, i.e. — valid medical exams, safety training, and firefighting training. Furthermore, firetruck drivers are required to undergo additional training by the transportation safety officer and firetruck fleet supervisor. All the above will be mandatory for admission into the firefighting staff and thus to any subsequent compensation. The above will be integrated into KKL's procedures/directives.
- The Office of the Comptroller's recommendations are accepted. In light of this report, a reminder will be issued on guidelines for placing employees on firefighting shifts.
- Furthermore, we have started streamlining the system to guarantee that only qualified employees are compensated for manning firefighting shifts.

10. Fire Data Management

Every fire that occurs on KKL land is entered into KKL's information system. Data include the fire date, burn area, fire location, whether the police or fire services were summoned, cause of the fire, etc. The Office of the Comptroller was told that reports are not analyzed for trends or future improvement.

Findings

- 10.1. According to KKL fire debriefing procedures, the fire database is missing such information as whether there were any injuries, whether the fire was caused by KKL works, or whether it constituted an unusual incident.
- 10.2. System reports are not analyzed for trends or for allocating resources across different regions based on recorded data.
- 10.3. The Office of the Comptroller analyzed a report retrieved from the fire documentation system. Analysis covered both the number of fires and the

burn area (in thousands of square meters), by forest block in 2019–2021. The full analysis is attached in Appendices D and E. Key points were as follows:

- 10.3.1. Analysis of fire incidence and forest blocks indicates that the Eshkol fire block recorded the highest number of fires (29% of all fires), even though the total burn area accounted for only 2.6% of the total burn area for the period (during the incendiary balloon attacks from Gaza).
- 10.3.2. This forest block accounted for 54% of the fire areas in the South District, and 22% of the burn areas.
- 10.3.3. The Nazareth forest block recorded the second highest number of fires (12%), and the largest burn area about 45% (the fire in the Churchill Forest).
- 10.3.4. The Lower Galilee-Gilboa area recorded the largest burn area about 60% of the total forest (the Gilboa fire caused from an Israel Border Police fire range and the Moradot Natzeret forest).
- 10.3.5. The Western Negev accounted for 41% of all fires as compared to the Western Galilee-Carmel area which accounted for only 2.2% of the fires (during the incendiary balloon attacks from Gaza).
- 10.3.6. Furthermore, the Western Galilee-Carmel and Negev Mountains and Arava areas saw the smallest burn area, at 0.4% each.

The above analysis indicates that resource and manpower allocation across the regions may be incorrect. An area with numerous small fires could perhaps make due with only one fire truck per district and several vehicles with firefighting equipment in each region. Conversely, areas with less frequent, but larger fires should be equipped with several firetrucks.

Office of the Comptroller comment

After circulating the draft audit report, the Office of the Comptroller received different data provided by the system. The data do not significantly alter the recommendations.

Recommendations

- **The fire database should also include the following data: injuries, whether the fire constitutes an unusual incident. This is warranted by KKL's fire debriefing procedure.**
- **Periodically analyze the data concerning the number and size of the**

fires. Change the allocation of firefighting resources between forest blocks based on such analysis.

KKL management's response

- From 2021, the Routine Forest Fire Protection Officer analyzes fire data to plan fire protection interventions, and to plan post-fire forest rehabilitation activities.
- Technically, the fields 'Injuries', 'KKL responsibility for the fire' and 'Unusual incident' can be added (note — once professional staff define what constitutes an unusual incident). The fields will be added by the IT Division following user-driven system characterization.
- In any case, changes to the reporting apps will only be done outside the fire season (January-April) and based on prioritization of changes and development tasks, as incorporated in the work plan.

11. Fire Debriefings

After a fire, KKL performs debriefings based on various criteria. These criteria and the debriefing methods are specified by the Forest Fire Debriefing Methods Procedure, updated November 13, 2018. The procedure mandates debriefings if one of the following criteria is met:

- A fire where the forest area burnt is 100,000 square meters or more — a major fire event.
- A fire which resulted in injuries.
- A fire where unusual incidents occurred.
- A fire caused as a result of and/or due to KKL activities.

The person responsible for requesting the debriefing is the regional director at the time nearest the fire date. Before conducting the debriefing, the regional director must request a debriefing by a 'fire investigator'.

Debriefings should include the following persons: district director, Forestry Division director, Routine Forest Fire Protection Officer, firefighting supervisor for the fire, foresters involved in the firefighting efforts, KKL's safety supervisor, KKL's communications supervisor, the Fire Services' firefighting supervisor, representatives from the aerial firefighting wing, and additional representatives as dictated by the regional director. The debriefing process is managed by the Forestry Division director or, if he is not available, the Routine Forest Fire Protection Officer.

Debriefings should investigate the following:

- Cause of the fire.

- Alert level and forces deployed near the fire and their alignment with the fire risk level.
- Were the times to identification, alert, and arrival of forces reasonable? If not, what failed?
- Was fire suppression compliant with common KKL guidelines (firefighting supervisor, sectors, staging area, communications, dispatch of aircraft, integration with a forward command post, use of a central communications hub, water supply, equipment, ground and aerial lookouts, receipt of weather forecasts, etc.).
- Failures in cooperation between KKL and non-KKL players.
- Safety and security of firefighting crews.
- *Failures in equipment, communications systems, and other materials.*

Debriefing reports must be circulated to participants and other relevant KKL staff. The Routine Forest Fire Protection Officer is responsible for implementing debriefing recommendations within one month of the document’s publication.

The Office of the Comptroller examined the fire database for 2019–2021.

The Office of the Comptroller examined 10 fires which meet the above criteria according to the fire database, to make sure that their debriefings complied with the above. None of the sampled debriefing reports included all the topics specified in the Forest Fire Debriefing Methods Procedure.

| Debriefing Report Number |
|---------------------------------|
| 3651 |
| 5238 |
| 2702 |
| 2772 |
| 2929 |
| 3000 |
| 3096 |
| 3153 |
| 3298 |
| 3725 |

The Office of the Comptroller also received several sample debriefing reports. The Office of the Comptroller examined these reports to check their compliance with the procedure:

1. Beit Meir fire report
 - 1.1. Dated August 6, 2019, missing the following: debriefing

- participants, general description of the area, fire crews involved in the fire.
- 1.2. The report was a joint report for the Aderet fire from July 17, 2019. Technical data are missing for the Aderet fire.
 - 1.3. The Office of the Comptroller could not find the fire in KKL's database (by date, size, or location).
2. Forest fire report: Tavor — July 25, 2019; Churchill (Moradot Natzeret) — July 27, 2019
 - 2.1. The report includes debriefings for two fires.
 - 2.2. The Office of the Comptroller could not find the fire in KKL's database (by date, size, or location).

Findings

1. Some fires were not debriefed, as required by the procedure.
2. Fire debriefing reports did not have unique identifiers in the database.
3. Existing reports were lacking in some details.
4. It is unclear whether there is any follow-up on recommendations from the reports.

Recommendations

- **Debriefings should be held for every fire that meets the criteria in the procedure and occurs on KKL land.**
- **Debriefings should cover all information dictated by KKL's fire debriefing procedure.**
- **Each debriefing report should indicate the fire identification number in the database for follow-up and control.**
- **Establish a formal forum to follow up on flaws identified in debriefing reports, to support organizational learning and improvement.**

KKL management's response

In general, the recommendations are accepted. Concerning the recommendation to establish a forum to follow up on flaws identified in debriefings and to learn from past fires, it is noted that debriefings are currently performed in accordance with the procedure and the regional director is responsible for making sure that any identified flaws are corrected.

12. Damage from Hostilities

According to the fire database, 345 fires occurred due to 'enemy fire', resulting

in fires covering 7,000,000 square meters. Under the Property Tax Law and Regulations, 2014, any person sustaining property damage due to racially or nationally motivated attacks defined as an act of hostility is entitled to compensation subject to the following terms:⁹

1. They are the owners of the damaged property, or they pay for the repair/restoration of damages caused to another's property.
2. The property damage was caused by a racially- or nationally-motivated attack defined as an act of hostility.
3. The damaged property was not cash, jewelry, art, or antiques.
4. The damaged property is located in Israel.

KKL's Legal Department stated that, since the Second Lebanon War, KKL files property tax claims where appropriate. It is noted that KKL and the property tax authorities disagree whether a tree is a compensatory asset under the Property Tax and Compensation Fund Law, 1961. The matter is pending decision by an appeals committee. In 2017, KKL filed a claim with the property tax authorities for compensation for fire damages caused by hostilities, to the amount of NIS 58 million (pending decision by Appeals Committee 1406). Furthermore, in 2018, KKL filed a claim with the property tax authorities to reclaim damages from fires caused by the Hamas terror organization, which released dozens of incendiary kites and balloons toward Israel, which caused extensive fires in forests, fields, property, infrastructure, etc. ("Terrorist Kite Attacks" or "Terrorist Arson").

KKL mapped the forest fires in the area surrounding Gaza in the period between April and November 2018, and counted 1108 incidents, with a total burnt area of 11,400,200 square meters. Damages were estimated at NIS 83,031,658.

In response to the draft report, KKL's Legal Department stated that KKL, together with Otef Azza residents and US citizens, filed a claim with the federal court in Washington D.C., against a fundraising organization in the US. The claim argues that the organization funnels funds to known terrorist organizations, and effectively helped fund the Terrorist Kite

9 Information on eligibility for compensation for terrorism, from Kol Zchut: https://www.kolzchut.org.il/he/%D7%A4%D7%99%D7%A6%D7%95%D7%99_%D7%A2%D7%9C_%D7%A0%D7%96%D7%A7_%D7%A9%D7%A0%D7%92%D7%A8%D7%9D_%D7%9C%D7%A8%D7%9B%D7%95%D7%A9_%D7%91%D7%92%D7%99%D7%9F_%D7%A4%D7%92%D7%99%D7%A2%D7%AA_%D7%90%D7%99%D7%91%D7%94_%D7%A2%D7%9C_%D7%A8%D7%A7%D7%A2_%D7%92%D7%96%D7%A2%D7%A0%D7%99_%D7%90%D7%95_%D7%9C%D7%90%D7%95%D7%9E%D7%A0%D7%99

Attacks. During the attacks in 2018, more than 2,155 fires were started, which destroyed 35,398,000 square meters of open land including forests, agricultural fields, and nature reserves, and caused serious harm to animals in the area. In addition to the unprecedented damage to nature and the environment, the continuous attacks severely undermined the personal safety of the area's residents, their livelihoods (vast agricultural lands located in the area), and their mental and physical health. KKL's damages are estimated at NIS 90 million.

The Office of the Comptroller has no comments.

13. Legal Action

The Office of the Comptroller requested a list of all incidents where lawsuits claiming damages were brought against arsonists. Of particular interest were whether criminal charges were pressed and arsonists indicted, and cases where the fire was caused by negligence and the cause of the fire is known.

The Office of the Comptroller was told that no lawsuits claiming damages are filed for forest fires.

Findings

1. According to KKL's fire database for 2019–2021, 59 fires were suspected arson incidents and fires where causes were criminal in nature. Of these, arson complaints were only filed to the police in 5 fires.
2. There were 216 fire incidents caused by burning trash, agricultural activity or mechanical tools/welding. The Office of the Comptroller believes that in some of these cases, the person who caused the fire can be identified.

Recommendations

- **Consider suing arsonists for damages.**
- **Establish a uniform policy for filing lawsuits or police complaints due to fires. Decide what happens once a complaint is filed (follow-up, filing suit, etc.).**

KKL management's response

KKL has an instruction to file police complaints for every fire, and particularly in cases of suspected arson. This will be formalized through directives/procedures, and in any case the relevant supervisor will refresh regional/district directors on this guidance.

14. Insurance

The Office of the Comptroller received a copy of KKL's employer's liability insurance policy. The policy was issued by one of the leading insurance companies in Israel and is based on its 2016 employer's liability policy. The policy is valid through October 31, 2022. The Office of the Comptroller also received a copy of the personal accident insurance policy issued by the insurance company and valid through December 31, 2022.

Findings

1. The employer's liability policy includes a terrorism exclusion clause. This exclusion means that injuries caused by a terrorist attack are not covered by the policy. It is noted that a large number of the fires in the south were caused by the Terrorist Kite Attacks, and so in case of an insurance event the insurer may refuse the claim.
2. The document attached to the employer's liability policy specifies insured occupations for KKL. These occupations do not include KKL's firefighting activities.
3. The personal accident policy only covers accidents, and it is unclear to what extent it would apply for injuries sustained fighting fires.

Recommendation

Make sure that the list of KKL occupations on the policy explicitly includes firefighting. Thus, if an insurance event occurs during firefighting activities, the insurer will acknowledge the claim in its entirety. In order to reduce the premium on the insurance policy, KKL can try to insure only the employees on the firefighting roster. Furthermore, the personal accidents policy should also note that the insurance covers events occurring during firefighting activities.

KKL management's response

Referring to Section 14.1 — It is not possible to insure activities caused by terrorism under an employer's liability policy. Policies for terrorism-related liabilities are available. These are unique policies which are not off-the-shelf products. In the past year, we contacted the insurance company and asked that they study the matter. Unfortunately, the company was not able to make a proposal.

Referring to Section 14.2 — Corrected.

Referring to Section 14.3 — Personal accidents insurance covers insurance events as set forth in the policy. Therefore, if the damages are included in the policy's coverage, the coverage will apply.

15. **Appendix A — Photos of Lookout Towers**

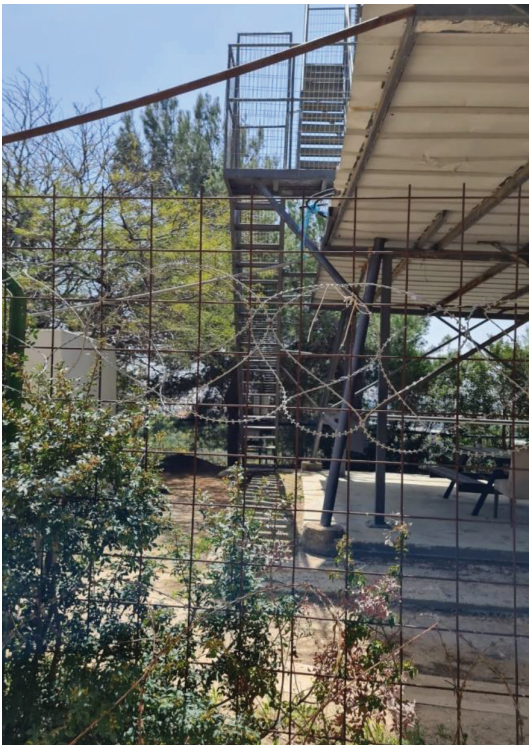
HaMeginim Forest lookout tower



Negba lookout tower



Heletz lookout tower



HaMal'achim Forest lookout tower



16. **Appendix B — Employees who Received Bonuses**

| Employee No. | | |
|--------------|-------|------|
| 2255 | 2175 | 4232 |
| 9792 | 9031 | 4156 |
| 3010 | 9508 | 9052 |
| 8456 | 7292 | 7332 |
| 4206 | 3137 | 2749 |
| 2604 | 9277 | 9981 |
| 7122 | 8560 | |
| 2814 | 10089 | |
| 7352 | 3176 | |
| 4233 | 7279 | |
| 2624 | 3075 | |
| 7280 | 3169 | |
| 4183 | 8057 | |
| 3209 | 4242 | |
| 7433 | 7422 | |
| 9207 | 7237 | |
| 2148 | 1729 | |
| 7285 | 8038 | |
| 4294 | 3066 | |
| 9161 | 8536 | |
| 9709 | 7173 | |
| 4090 | 3179 | |
| 9414 | 7515 | |
| 2552 | 7404 | |
| 3014 | 9748 | |
| 9025 | 3069 | |
| 2876 | 9976 | |
| 4051 | 3197 | |
| 2869 | 7174 | |
| 2075 | 4224 | |
| 8765 | 2689 | |
| 9424 | 7000 | |
| 3003 | 2790 | |
| 2782 | 3371 | |
| 8507 | 2476 | |
| 7264 | 4276 | |
| 3279 | 2911 | |

17. Appendix C — Employee Certification Status

| | Region | Status |
|-----|--|----------------------------------|
| 1. | South District– Western Negev | Undated medical exam |
| 2. | North District — Western Galilee | Expired driver certificate |
| 3. | South District– Negev Mountains and Arava | Expired medical exam |
| 4. | South District– Negev Mountains and Arava | Expired medical exam |
| 5. | South District– Negev Mountains and Arava | Expired medical exam |
| 6. | North District– Western Galilee | Not on personnel roster |
| 7. | North District– Lower Galilee Gilboa | Not on personnel roster |
| 8. | North District — Lower Galilee Gilboa | Not on personnel roster |
| 9. | Center District — Menashe Hasharon | Not on personnel roster |
| 10. | Center District — Coast | Not on personnel roster |
| 11. | Center District — Coast | Not on personnel roster |
| 12. | Center District — Coast | Not on personnel roster |
| 13. | Center District — Coast | Not on personnel roster |
| 14. | South District — Northern Negev | Not on personnel roster |
| 15. | South District — Western Negev | Not on personnel roster |
| 16. | North District — Upper Galilee and Golan Heights | Not a driver on personnel roster |
| 17. | North District — Upper Galilee and Golan Heights | Not a driver on personnel roster |
| 18. | North District — Upper Galilee and Golan Heights | Not a driver on personnel roster |
| 19. | North District — Upper Galilee and Golan Heights | Not a driver on personnel roster |
| 20. | North District — Upper Galilee and Golan Heights | Not a driver on personnel roster |
| 21. | North District — Upper Galilee and Golan Heights | Not a driver on personnel roster |
| 22. | North District — Upper Galilee and Golan Heights | Not a driver on personnel roster |
| 23. | North District — Upper Galilee and Golan Heights | Not a driver on personnel roster |
| 24. | North District — Western Galilee | Not a driver on personnel roster |
| 25. | North District — Lower Galilee Gilboa | Not a driver on personnel roster |
| 26. | North District — Lower Galilee Gilboa | Not a driver on personnel roster |
| 27. | North District — Lower Galilee Gilboa | Not a driver on personnel roster |
| 28. | North District — Lower Galilee Gilboa | Not a driver on personnel roster |
| 29. | North District — Lower Galilee Gilboa | Not a driver on personnel roster |
| 30. | Center District — Coast | Not a driver on personnel roster |
| 31. | Central District — Central Mountains | Not a driver on personnel roster |
| 32. | Central District — Central Mountains | Not a driver on personnel roster |
| 33. | Central District — Central Mountains | Not a driver on personnel roster |
| 34. | Central District — Central Mountains | Not a driver on personnel roster |
| 35. | Central District — Central Mountains | Not a driver on personnel roster |
| 36. | South District — Western Negev | Not a driver on personnel roster |
| 37. | South District — Northern Negev | Medical exam status unclear |

18. Appendix D — Breakdown of Fires by Number

| District | District Total | Region | Region Total | Forest Block | 2019 | % | 2020 | % | 2021 | % | Block Total | Block % of Total | Block % of District | | |
|------------------|----------------|---------------------------|--------------|---------------------|------|--------------|------|------|------|------|-------------|------------------|---------------------|------|-------|
| South | 2094 | Negev Mountains and Arava | 84 | Yatir | 5 | 0.5 | 8 | 0.5 | 8 | 0.8 | 21 | 0.5% | 1.0% | | |
| | | | | Meitar | 8 | 0.7 | 28 | 1.6 | 27 | 2.6 | 63 | 1.6% | 3.0% | | |
| | | Western Negev | 1581 | Eshkol | 300 | 27.7 | 584 | 33.8 | 236 | 22.6 | 1120 | 29.0% | 53.5% | | |
| | | | | Grar | 100 | 9.2 | 180 | 10.4 | 100 | 9.6 | 380 | 9.9% | 18.1% | | |
| | | | | Merhavim | 17 | 1.6 | 47 | 2.7 | 17 | 1.6 | 81 | 2.1% | 3.9% | | |
| | | Northern Negev | 429 | Lahav | 73 | 6.7 | 85 | 4.9 | 87 | 8.3 | 245 | 6.4% | 11.7% | | |
| | | | | Lakhish | 9 | 0.8 | 50 | 2.9 | 26 | 2.5 | 85 | 2.2% | 4.1% | | |
| | | | | Shikma | 9 | 0.8 | 57 | 3.3 | 33 | 3.2 | 99 | 2.6% | 4.7% | | |
| | | Center | 927 | Central Mountains | 154 | Corridor | 11 | 1.0 | 13 | 0.8 | 20 | 1.9 | 44 | 1.1% | 4.7% |
| | | | | | | Mount Hebron | 12 | 1.1 | 21 | 1.2 | 63 | 6.0 | 96 | 2.5% | 10.4% |
| Jerusalem | 6 | | | | | 0.6 | 2 | 0.1 | 6 | 0.6 | 14 | 0.4% | 1.5% | | |
| Coastal Plain | 261 | | | Ayalon — Eshtaol | 6 | 0.6 | 16 | 0.9 | 13 | 1.2 | 35 | 0.9% | 3.8% | | |
| | | | | Ben Shemen | 51 | 4.7 | 39 | 2.3 | 106 | 10.1 | 196 | 5.1% | 21.1% | | |
| | | | | Messuah | 4 | 0.4 | 7 | 0.4 | 19 | 1.8 | 30 | 0.8% | 3.2% | | |
| Menashe — Sharon | 512 | | | Hasharon — Horashim | 12 | 1.1 | 49 | 2.8 | 37 | 3.5 | 98 | 2.5% | 10.6% | | |
| | | | | Menashe — Alona | 38 | 3.5 | 35 | 2.0 | 14 | 1.3 | 87 | 2.3% | 9.4% | | |
| | | | | Eiron | 111 | 10.3 | 161 | 9.3 | 55 | 5.3 | 327 | 8.5% | 35.3% | | |
| | | | | | | | | | | | | | | | |

| District | District Total | Region | Region Total | Forest Block | 2019 | % | 2020 | % | 2021 | % | Block Total | Block % of Total | Block % of District |
|--------------|----------------|---------------------------------|--------------|------------------------|--------------|------|--------------|------|--------------|-----|--------------|------------------|---------------------|
| North | 836 | Western Galilee — Carmel | 85 | Hanita — Ma'alot | | 0.0 | 5 | 0.3 | 1 | 0.1 | 6 | 0.2% | 0.7% |
| | | | | Carmel — Alonim | 11 | 1.0 | 7 | 0.4 | 2 | 0.2 | 20 | 0.5% | 2.4% |
| | | | | Segev — Kiryat Ata | 6 | 0.6 | 40 | 2.3 | 13 | 1.2 | 59 | 1.5% | 7.1% |
| | | Central Galilee — Golan Heights | 166 | Hazon — Biriya | 13 | 1.2 | 25 | 1.4 | 28 | 2.7 | 66 | 1.7% | 7.9% |
| | | | | Kiryat Shmona — Bar'am | 21 | 1.9 | 10 | 0.6 | 10 | 1.0 | 41 | 1.1% | 4.9% |
| | | | | Golan Heights — Hula | 32 | 3.0 | 16 | 0.9 | 11 | 1.1 | 59 | 1.5% | 7.1% |
| | | Lower Galilee — Gilboa | 585 | Gilboa | 25 | 2.3 | 16 | 0.9 | 15 | 1.4 | 56 | 1.5% | 6.7% |
| | | | | Tiberias | 30 | 2.8 | 30 | 1.7 | 22 | 2.1 | 82 | 2.1% | 9.8% |
| | | | | Nazareth | 172 | 15.9 | 199 | 11.5 | 76 | 7.3 | 447 | 11.6% | 53.5% |
| Total | | | | | 1,082 | | 1,730 | | 1,045 | | 3,857 | | |

19. Appendix E — Breakdown of Fires by Area (square meter, thousands)

| District | District Total | Region | Region Total | Forest Block | 2019 | % | 2020 | % | 2021 | % | Total | Block % of Total | Block % of District |
|------------------|----------------|---------------------------------|--------------|------------------------|--------|----------------|---------|---------------|--------|----------------|---------|------------------|---------------------|
| South | 52,701 | Negev Mountains and Arava | 1,697 | Yatir | 2 | 0 | 414 | 0 | 61 | 0 | 477 | 0.1% | 0.9% |
| | | | | Meitar | 89 | 0 | 877 | 0 | 255 | 0 | 1,221 | 0.3% | 2.3% |
| | | Western Negev | 32,103 | Eshkol | 1,814 | 2 | 7,589 | 3 | 2,213 | 3 | 11,616 | 2.6% | 22.0% |
| | | | | Grar | 1,240 | 1 | 3,927 | 2 | 1,486 | 2 | 6,653 | 1.5% | 12.6% |
| | | | | Merhavim | 477 | 0 | 1,504 | 1 | 11,852 | 15 | 13,833 | 3.1% | 26.2% |
| | | Northern Negev | 18,902 | Lahav | 776 | 1 | 7,001 | 3 | 365 | 0 | 8,142 | 1.8% | 15.4% |
| | | | | Lakhish | 50 | 0 | 1,562 | 1 | 7,814 | 10 | 9,426 | 2.1% | 17.9% |
| | | | | Shikma | 162 | 0 | 627 | 0 | 544 | 1 | 1,333 | 0.3% | 2.5% |
| | | Center | 74,728 | Central Mountains | 8,628 | Corridor | 51 | 0 | 238 | 0 | 155 | 0 | 444 |
| Hebron Mountain | 230 | | | | | 0 | 862 | 0 | 6,963 | 9 | 8,055 | 1.8% | 10.8% |
| Jerusalem | 70 | | | | | 0 | 2 | 0 | 58 | 0 | 130 | 0.0% | 0.2% |
| Coastal Plains | 25,591 | | | Ayalon — Eshtaol | 101 | 0 | 208 | 0 | 77 | 0 | 386 | 0.1% | 0.5% |
| | | | | Ben Shemen | 20,032 | 19 | 1,424 | 1 | 1,891 | 2 | 23,347 | 5.3% | 31.2% |
| | | | | Messuah | 649 | 1 | 87 | 0 | 1,121 | 1 | 1,857 | 0.4% | 2.5% |
| Menashe — Sharon | 40,510 | | | Hasharon — Horashim | 38 | 0 | 1,593 | 1 | 674 | 1 | 2,305 | 0.5% | 3.1% |
| | | | | Menashe — Alona | 2,769 | 3 | 300 | 0 | 758 | 1 | 3,827 | 0.9% | 5.1% |
| | | | | Eiron | 13,055 | 12 | 17,625 | 7 | 3,697 | 5 | 34,377 | 7.8% | 46.0% |
| North | 316,027 | Western Galilee — Carmel | 1,732 | Hanita — Ma'alot | | 0 | 106 | 0 | 0 | 0 | 106 | 0.0% | 0.0% |
| | | | | Carmel — Alonim | 150 | 0 | 384 | 0 | 19 | 0 | 553 | 0.1% | 0.2% |
| | | | | Segev — Kiryat Ata | 53 | 0 | 651 | 0 | 369 | 0 | 1,073 | 0.2% | 0.3% |
| | | Central Galilee — Golan Heights | 44,439 | Hazon — Biriya | 542 | 1 | 255 | 0 | 287 | 0 | 1,084 | 0.2% | 0.3% |
| | | | | Kiryat Shmona — Bar'am | 1,069 | 1 | 243 | 0 | 7,450 | 10 | 8,762 | 2.0% | 2.8% |
| | | | | Golan Heights — Hula | 7,065 | 7 | 9,558 | 4 | 17,969 | 23 | 34,592 | 7.8% | 10.9% |
| | | Lower Galilee — Gilboa | 269,856 | Gilboa | 21,192 | 20 | 423 | 0 | 1,334 | 2 | 22,949 | 5.2% | 7.3% |
| | | | | Tiberias | 29,671 | 28 | 14,160 | 5 | 4,809 | 6 | 48,640 | 11.0% | 15.4% |
| | | | | Nazareth | 5,460 | 5 | 187,340 | 72 | 5,468 | 7 | 198,268 | 44.7% | 62.7% |
| Total | | | | 106,807 | | 258,959 | | 77,689 | | 443,456 | | | |

20. Summary of Findings and Recommendations

| Section | Findings | Recommendations | Response |
|--|---|--|--|
| 2. KKL Agreements and Fire-fighting Doctrine | <p>2.1. The firefighting doctrine is out of date and incomplete. For example:</p> <p>2.1.1. Chapter 6 — <i>Forward Command Post Operating Procedure — FCP 'Caesar'</i> — is marked as a draft procedure awaiting the Commission/Operations Division's comments.</p> <p>2.2. Management of the NIS 14 million annual investment budget pursuant to the KKL-Fire Services agreement — There is no detailed review of KKL's annual investment in firefighting activities. Both the Emergency Forest Fire Protection Officer and the Routine Forest Fire Protection Officer stated that they believe KKL investments exceed NIS 14 million a year. Furthermore, it is unclear who in KKL is responsible for preparing these calculations.</p> | <p>Perform annual calculations for KKL's investment in firefighting activities in accordance with KKL's agreement with the Fire Services. These calculations should include all components such as: salaries, additional insurance premiums, non-consumable and consumable equipment, etc.</p> | <p><u>Summary of the Emergency Forest Protection Officer's response</u></p> <p>The Fire Services are responsible for the doctrine, as they integrate the operations of all relevant organizations. The doctrine's revamp has recently been completed, but it has yet to be validated by the Commissioner.</p> <p><u>KKL's management's response</u></p> <p>Response to Section 2.1 — The Caesar FCP belongs to the Fire Services. KKL is not involved in this.</p> |

| Section | Findings | Recommendations | Response |
|---------------|---|--|---|
| 3. Procedures | <p>3.1. The list of procedures is incomplete. A lack of clear operating procedures where people’s lives are at stake may result in loss of life and put KKL at risk for claims of damages and negligence.</p> <p>3.2. Some of the procedures have not been updated for 4 years.</p> | <ul style="list-style-type: none"> • Update the procedural codex with the following: <ul style="list-style-type: none"> o Training and readiness for firefighting crews. o Supply and renewal of personal equipment for fire crew members. o Equipment supply and renewal for fire trucks. o Fire truck maintenance and readiness. o Medical exams for fire crew members. • Procedures should be updated or affirmed at least every two years. | <ul style="list-style-type: none"> • KKL has firefighting procedures and instructions. We are currently working to update our workflows in this matter, and update our procedures and instructions accordingly. • Concerning affirmation of procedures — In March 2021, we instructed our management staff to review procedures which had not been reviewed in the past 3 years. Managers responded by indicating whether procedures needed updates, or were still valid. Furthermore, some of the procedures were converted into directives in 2021. These included lookout tower operation and buffer zone creation directives. We will make sure to re-affirm these every two years. • Concerning medical exams and medical requirements for staff — A directive has been issued (by the Safety Unit). This instruction will be updated to include explicit instructions concerning medical exams for professional field personnel. • Concerning the fire truck maintenance and readiness procedure — The Fire Services are currently updating their regulations. We await their ratification following meetings with KKL and the Israel Nature and Parks Authority. |

| Section | Findings | Recommendations | Response |
|-----------------------------|--|---|--|
| 4. Organizational structure | <p>4.1. The organizational structure of KKL's firefighting staff is extremely decentralized. There is no central supervision and staff positions are not based on formal procedures specifying each person's powers and duties, interaction between various staff members, or responsibilities for supervision and control. For example, although the safety supervisor's duties, as detailed below, include performing annual risk surveys for lookout towers, the Office of the Comptroller found that he was not aware of the relevant procedure (issued by the Forestry Division). He stated that the fire safety supervisor (a position which does not exist in the current organizational structure) should perform these risk surveys.</p> <p>4.2. The Office of the Comptroller believes that the ranger from the Western Galilee Ranger Unit, who was appointed during the audit as Emergency Forest Fire Protection Officer, is key to KKL's firefighting efforts. The loss of such a key figure could cause a significant loss of organizational knowledge. This would undermine the organization's efforts to handle various scenarios which were previously managed by that employee. Recreating the employee's knowledge might require substantial investment of organizational resources.</p> <p>The Office of the Comptroller believes the loss of the Western Galilee Ranger Unit ranger would undermine some of the workflows in which he was involved, and his knowledge would be irrevocably lost, either entirely or in part.</p> | <ul style="list-style-type: none"> • Assign an organizational supervisor, responsible for overseeing all of KKL's firefighting efforts. • Define the responsibilities and interactions of KKL's various firefighting staff, such as: responsibility for training KKL fire crews, contact point for the Fire Services, preparing firefighting work plans and guidelines, etc. • Prepare a plan for retaining the knowledge accrued by the employee from the Western Galilee Ranger Unit who was recently appointed as Emergency Forest Fire Protection Officer. | <p><u>KKL management's response</u></p> <ul style="list-style-type: none"> • In addition to the Emergency Forest Fire Protection Officer, the Forestry Division has an employee who oversees buffer zones. We are currently working to formally define and split responsibilities between the Emergency Fire Protection Officer and the Forestry Division's buffer zone supervisor, after having reviewed and studied the various organizational and practical aspects of the matter. • Concerning knowledge retention — the organization has a structured process for retaining employee knowledge. Before an employee leaves or retires, an alert is sent to the knowledge retention supervisor, who consults the relevant supervisors on how to retain the employee's knowledge (interviews, documentation, document collection, etc.). |

| Section | Findings | Recommendations | Response |
|---------------|---|--|---|
| 5. Work plans | KKL does not have annual or long-term work plans for its firefighting operations. | <p>The Emergency Forest Fire Protection Officer should formulate annual and long-term work plans for firefighting operations. At the least, plans should provide for the following:</p> <ol style="list-style-type: none"> 16. Professional training for firefighting staff. 17. Annual drills. 18. Physical fitness tests. 19. Budget controls. 20. Medical exams. 21. Safety and working at height training. 22. Control over equipment availability and condition in fire trucks, and over personal protective equipment for fire crews. 23. Review of doctrines and procedures. 24. Control over operating condition of fire trucks, for both vehicular and firefighting systems. | <p><u>Emergency Forest Fire Protection Officer's response</u></p> <p>Professional training is conducted before the start of the fire season. Annual drills were carried out before the fire season and this year (2022) included deployment of the new forward command post. All firefighting staff undergo physical exertion testing as specified by KKL's designated doctor. Safety training is provided by the safety officer. Working-at-height training is only provided for those whose jobs require such training. Weekly and monthly inspections are performed for fire trucks, covering both vehicular and firefighting systems.</p> <p><u>KKL management's response</u></p> <p>The 2023 work plan will place additional emphasis on emergency firefighting tasks. It is emphasized that, in 2022, the Forestry Division's work plan referred to fire prevention and protection in buffer zones.</p> |

| Section | Findings | Recommendations | Response |
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| 6.1 Pre-ventative action — concrete lookout towers | <p>5.0.1. There is no formal documentation of alert levels in the various regions, or the manning of lookout towers as dictated by such alert levels. Failure to log alert levels reduces control and the ability to assess the lookout towers' impact and efficacy in identifying fires and alerting crews, or the lookouts' performance.</p> <p>5.0.2. There is no access path to the Negba lookout tower. The doors to the tower were welded shut and it seems that there are no plans to man the tower in the current fire season, which starts in April in the south. It is noted that KKL's procedure requires the safety supervisor to perform risk surveys of all lookout towers by the end of March.</p> <p>5.0.3. The lookout tower in HaMeginim Forest does not have a surrounding fence. This may lead hikers to try and break in to the tower.</p> <p>5.0.4. The observation tower in HaMalachim Forest is covered in graffiti (photos in Appendix A).</p> | <ul style="list-style-type: none"> • Document alert levels in each region. This would help with incident debriefing and organizational learning on the probability of fire by various forest blocks. This would also allow review and control over tower manning assignments. • Perform risk surveys of lookout towers by March of each year, to verify their readiness and usability. • Establish access paths to all manned lookout towers, as part of the risk survey. • Build a perimeter fence around lookout towers, to prevent hikers from climbing the towers. • Assure the maintenance and cleanliness of lookout towers as part of the risk survey. Rectify hazards as necessary. | <p><u>Emergency Fire Protection Officer's response</u></p> <p>Some lookout towers are not manned at all.</p> <p>Concerning the recommendation to document alert levels in each region — the Fire and Rescue Authority and the Israel Meteorological Service perform joint debriefings.</p> <p>Concerning the recommendation to fence lookout towers — fences do not help. Locking mechanisms should be installed on all tower access openings.</p> <p>Recommendation 1 — Accepted.</p> <p>Recommendation 2 — Accepted.</p> <p>Recommendation 3 — We will review the matter again, but all manned lookout towers have easy access paths for vehicles. After all, our lookout mans the tower.</p> <p>Recommendation 4 — Concrete towers are locked with steel doors and do not require perimeter fencing.</p> <p>Recommendation 5 — Will be addressed based on each region's priorities.</p> <p><u>KKL management's response</u></p> <ul style="list-style-type: none"> • Response to Section 6.1.4 — In general, it is noted that concrete lookout towers are locked with steel doors. Steel lookout towers are fenced and the door to the stairwell is locked. The tower in HaMeginim Forest has a metal door which prevents access. We do not see the need to fence every single tower. • Response to Section 6.1.5 — Concerning the graffiti on the lookout tower in HaMalachim Forest — will be handled based on the region's priorities. |

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| 6.2 Pre-ventative action — buffer zones | <p>The Office of the Comptroller requested a list of preventative actions and buffer zones (creation and maintenance) for the various regions, including area and budget data. The Office of the Comptroller also requested a list of pre-emptive forestry interventions under both routine (summer/winter) and emergency (war, civil unrest, etc.) conditions. The Routine Forest Fire Protection Officer stated that the forest management system cannot provide specific intervention data for 2019–2020. It is noted that the forest fire protection officer assumed his position towards the end of 2021. As aforesaid, during the audit, his job description was changed to ‘Routine Forest Fire Protection Officer’.</p> | <p>Document all forest fire prevention interventions in the various regions, including budget and area data. This would facilitate accurate resource allocation across geographic regions in both routine and emergency situations.</p> | <p><u>Routine Forest Fire Protection Officer’s response</u></p> <p>In the years covered by the audit, KKL created and maintained buffer zones. However, these were not classified as fire prevention activities. Starting 2020–2021, we rolled out a forest management system supporting classification into both primary and secondary items.</p> <p><u>KKL management’s response</u></p> <p>In general, all forest interventions are aimed at reducing the available biomass in the forest, thus reducing fire intensity. High-branch pruning, disconnective pruning, sanitation, thinning, and creation of forest buffer zones are further supported by ruminant grazing. All interventions are performed by KKL employees/contractors/herd owners and documented through contracts, tenders, and permanent or temporary grazing agreements. Starting 2021, there is full documentation of fire protection intervention plans. Furthermore, the Forestry Division is currently working on a holistic system for tracking and controlling annual plans and their performance.</p> |
| 6. Personnel training and management | <p>KKL does <u>not</u> receive any support from the Fire Services (through training, coordination, refreshers, or courses). The West Galilee Ranger Unit ranger’s inquiries with the Fire Services in this matter did not receive sufficient response from the Fire Services. Thus, the training and curricula provided to KKL’s fire crews are based solely on KKL’s judgment.</p> | <p>KKL’s management, with help from its legal counsel, should contact the Fire Services considering the latter’s failure to comply with their part of the agreement. This should indicate the importance that KKL places on this matter, and will provide formal documentation if the Fire Services or other organizations raise the issue in the future.</p> | |

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| 7.1 Procedures/training programs | <ul style="list-style-type: none"> • There are no procedures/training programs for all fire crews as specified in the agreement with the Fire Services. • The Office of the Comptroller examined the refreshers given to firefighting staff as of the 2021 fire season. Of 290 employees on the roster, 11 had not undergone refresher training for their firefighting duties (see table above). <p>In all other districts (Central Mountains, Menashe Sharon, Lower Galilee, Western Galilee, Upper Galilee, Golan) — Propriety was found.</p> <ul style="list-style-type: none"> • The Office of the Comptroller requested the curricula and components for the firefighting refresher training, and the list of participants, components and curricula for fire drills and exercises. However, these documents <u>could not be found.</u> | <ul style="list-style-type: none"> • Draft training procedures and programs for firefighting crews. Training procedures and programs should be coordinated with the Fire Services. • All employees engaged in firefighting activities should undergo firefighting refresher training each year. • Work together with the Fire Services to establish <u>curricula</u> for refreshers and exercises for fire crews, and the components of these exercises. Furthermore, all training activities should be <u>documented</u>, indicating participants, goals, conclusions, successes, and points for improvement from such exercises, etc. | <p><u>KKL management’s response</u></p> <ul style="list-style-type: none"> • Concerning the procedures — We are currently working on it, with outside support and in collaboration with the Emergency Forest Fire Protection Officer. • Concerning the training program — This program is currently being prepared by the Fire Services, in collaboration with the Emergency Forest Fire Protection Officer. |
| 7.2 Employee training and medical exams | <p>7.2.3. Of 290 employees on the roster, 11 hand not attended safety training <u>for the 2021 fire season</u> (see table above).</p> <p>In all other districts (Lower Galilee, Upper Galilee, Golan) — Propriety was found.</p> <p>7.2.4. The Office of the Comptroller examined the South District. Of 105 employees on the roster in this district, 32 had not undergone a <u>medical exam</u> or their exam status was unclear for the 2021 fire season (see table above).</p> <p>7.2.5. Thus, numerous employees did not provide medical certification or do not hold valid medical certification. Not having valid medical certification may subject unhealthy employees to substantial risk, and thus exposes KKL to lawsuits for negligence, etc.</p> | <ul style="list-style-type: none"> • Make sure to provide firefighting refresher training to all firefighting staff once a year as specified in the aforesaid regulations. • Make sure to perform periodic medical exams for firefighting staff, at least once a year, to mitigate KKL’s liability. | <p><u>KKL management’s response</u></p> <ul style="list-style-type: none"> • Concerning annual refreshers — This is under the Emergency Fire Protection Officer’s responsibility, who performs these refreshers once a year before the start of the fire season, through specific training for each region. • Concerning medical exams — Fitness exams for firefighting duties are performed every two years based on the opinion of a designated doctor as received several years ago. Furthermore, employees have been instructed to update KKL of any change in their medical condition. We believe that the current practice of bi-annual exams is sufficient. |

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| 8. Compensation | <ul style="list-style-type: none"> • There were 6 employees who had not undergone safety training but received a firefighting bonus: 9980, 8922, 7326, 7305, 7167, 3464. • There were 25 employees who did not have a valid medical exam but received a firefighting bonus: 9980,9661 ,9904 , 7028 ,7171 ,7298 ,7299 ,8967 ,9445 ,3411 ,3445 ,4087 ,4243 ,7012 ,7027 ,3192 ,3200 ,3210 ,3324 ,3334 ,3401 2146 ,2659 ,2769 ,3162. • There were 8 employees who had not undergone refresher training but received a firefighting bonus: 9980,7305 ,8922 , 3025 ,3031 ,3074 ,3445 ,7167. • There were 77 employees who were not on the 2021 firefighting personnel roster provided by the Western Galilee Ranger Unit ranger, but received a firefighting bonus. | <ul style="list-style-type: none"> • Do not allow KKL employees on the firefighting staff without the necessary approvals. • Do not pay firefighting bonuses when it seems the employees are not on the firefighting personnel roster. • Check and make sure that all firefighting staff hold the necessary approvals, and map which employees received firefighting bonuses. If the latter were not on the firefighting roster, investigate why they received bonuses and consider requiring them to return such funds. If they are part of the firefighting staff, update the personnel roster accordingly. | |

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| 9. Firetruck fleet management | <p>a. According to the personnel roster provided for the 2021 fire season, each firetruck is assigned 3 drivers. The following forest blocks did not have three drivers per truck (each region is divided into three forest blocks) (see table above).</p> <p>b. The Office of the Comptroller compared the list of firetruck drivers provided by the North Transportation Safety Officer and Firetruck Fleet Supervisor to the list training sessions provided by the Western Galilee Ranger Unit ranger. Of the 58 drivers on the North Transportation Safety Officer and Firetruck Fleet Supervisor's list, 37 were non-compliant, including drivers who had not undergone any training, drivers not on the personnel roster, and drivers without medical exams (see table in Appendix C).</p> | <ul style="list-style-type: none"> • KKL should appoint a person to make sure that all firefighting staff have undergone the training, certification, and examinations required before assuming their duties. • Make sure that training, refreshers, and medical exams are all valid for all firetruck drivers. Do not allow personnel who are not fully compliant to drive a fire truck. | <ul style="list-style-type: none"> • First, it is noted that KKL's 'firefighting bonus' is only given to firetruck drivers to the amount specified in the collective labor agreement between KKL's management and the workers' union. Other firefighting staff are compensated for actual/shift work. • In light of the recommendations and findings in this report, it was decided that the regional ranger and regional director will need to sign off on the list of shift and actual firefighting duties. The emergency response shift list will only include employees who meet the criteria for manning firefighting shifts, i.e. — valid medical exams, safety training, and firefighting training. Furthermore, firetruck drivers are required to undergo additional training by the transportation safety officer and firetruck fleet supervisor. All the above will be mandatory for admission into the firefighting staff and thus to any subsequent compensation. The above will be integrated into KKL's procedures/directives. • The Office of the Comptroller's recommendations are accepted. In light of this report, a reminder will be issued on guidelines for placing employees on firefighting shifts. • Furthermore, we have started streamlining the system to guarantee that only qualified employees are compensated for manning firefighting shifts. |

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| 10. Fire data management | <ul style="list-style-type: none"> • According to KKL fire debriefing procedures, the fire database is missing such information as whether there were any injuries, whether the fire was caused by KKL works, or whether it constituted an unusual incident. • System reports are not analyzed for trends or for allocating resources across different regions based on recorded data. • The Office of the Comptroller analyzed a report retrieved from the fire documentation system. Analysis covered both the <u>number of fires</u> and the <u>burn area</u> (in thousands of square meters), by forest block in 2019–2021. The full analysis is attached in Appendices D and E. Key points were as follows: <ul style="list-style-type: none"> o Analysis of fire incidence and forest blocks indicates that the Eshkol fire block recorded the highest number of fires (29% of all fires), even though the total burn area accounted for only 2.6% of the total burn area for the period (during the incendiary balloon attacks from Gaza). o This forest block accounted for 54% of the fire areas in the South District, and 22% of the burn areas. o The Nazareth forest block recorded the second highest number of fires (12%), and the largest burn area (the fire in the Gilboa from an Israel Border Police fire range and the Moradot Natzeret forest). o The Western Negev accounted for 41% of all fires as compared to the Western Galilee-Carmel area which accounted for only 2.2% of the fires (during the incendiary balloon attacks from Gaza). | <ul style="list-style-type: none"> • The fire database should also include the following data: injuries, whether the fire constitutes an unusual incident. This is warranted by KKL's fire debriefing procedure. • Periodically analyze the data concerning the number and size of the fires. Change the allocation of firefighting resources between forest blocks based on such analysis. | <ul style="list-style-type: none"> • From 2021, the Routine Forest Fire Protection Officer analyzes fire data to plan fire protection interventions, and to plan post-fire forest rehabilitation activities. • Technically, the fields 'Injuries', 'KKL responsibility for the fire' and 'Unusual incident' can be added (note — once professional staff define what constitutes an unusual incident). The fields will be added by the IT Division following user-driven system characterization. • In any case, changes to the reporting apps will only be done outside the fire season (January-April) and based on prioritization of changes and development tasks, as incorporated in the work plan. |

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| | <p>o Furthermore, the Western Galilee-Carmel and Negev Mountains and Arava areas saw the smallest burn area, at 0.4% each.</p> <p>The above analysis indicates that resource and manpower allocation across the regions may be incorrect. An area with numerous small fires could perhaps make due with only one fire truck per district and several vehicles with firefighting equipment in each region. Conversely, areas with less frequent, but larger fires should be equipped with several firetrucks.</p> <p><u>Office of the Comptroller comment</u></p> <p>After circulating the draft audit report, the Office of the Comptroller received different data than provided by the system. The data do not significantly alter the recommendations.</p> | | |
| 11. Fire debriefings | <ul style="list-style-type: none"> • Some fires were not debriefed, as required by the procedure. • Fire debriefing reports did not have unique identifiers in the database. • Existing reports were lacking in some details. • It is unclear whether there is any follow-up on recommendations from the reports. | <ul style="list-style-type: none"> • Debriefings should be held for every fire that meets the criteria in the procedure and occurs on KKL land. • Debriefings should cover all information dictated by KKL's fire debriefing procedure. • Each debriefing report should indicate the fire identification number in the database for follow-up and control. • Establish a formal forum to follow up on flaws identified in debriefing reports, to support organizational learning and improvement. | <p>In general, the recommendations are accepted. Concerning the recommendation to establish a forum to follow up on flaws identified in debriefings and to learn from past fires, it is noted that debriefings are currently performed in accordance with the procedure and the regional director is responsible for making sure that any identified flaws are corrected.</p> |

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| 13. Legal action | <ul style="list-style-type: none"> • According to KKL’s fire database for 2019–2021, 59 fires were suspected arson incidents and fires where causes were criminal in nature. Of these, arson complaints were only filed to the police in 5 fires. • There were 216 fire incidents caused by burning trash, agricultural activity or mechanical tools/welding. The Office of the Comptroller believes that in some of these cases, the person who caused the fire can be identified. | <ul style="list-style-type: none"> • Consider suing arsonists for damages. • Establish a uniform policy for filing lawsuits or police complaints due to fires. Decide what happens once a complaint is filed (follow-up, filing suit, etc.). | <p><u>KKL management’s response</u></p> <p>KKL has a guidance to file police complaints for every fire, and particularly in cases of suspected arson. This will be formalized through directives/procedures, and in any case the relevant supervisor will refresh regional/district directors on this guidance.</p> |
| 14. Insurance | <ul style="list-style-type: none"> • The employer’s liability policy includes a terrorism exclusion clause. This exclusion means that injuries caused by a terrorist attack are not covered by the policy. It is noted that a large number of the fires in the south were caused by the Terrorist Kite Attacks, and so in case of an insurance event the insurer may refuse the claim. • The document attached to the employer’s liability policy specifies insured occupations for KKL. These occupations do not include KKL’s firefighting activities. • The personal accident policy only covers accidents, and it is unclear to what extent it would apply for injuries sustained fighting fires. | <p>Make sure that the list of KKL occupations on the policy explicitly includes firefighting. Thus, if an insurance event occurs during firefighting activities, the insurer will acknowledge the claim in its entirety. In order to reduce the premium on the insurance policy, KKL can try to insure only the employees on the firefighting roster. Furthermore, the personal accidents policy should also note that the insurance covers events occurring during firefighting activities.</p> | <p><u>KKL management’s response</u></p> <p>Referring to Section 14.1 — It is not possible to insure activities caused by terrorism under an employer’s liability policy. Policies for terrorism-related liabilities are available. These are unique policies which are not off-the-shelf products. In the past year, we contacted the insurance company and asked that they study the matter. Unfortunately, the company was not able to make a proposal.</p> <p>Referring to Section 14.2 — Corrected.</p> <p>Referring to Section 14.3 — Personal accidents insurance covers insurance events as set forth in the policy. Therefore, if the damages are included in the policy’s coverage, the coverage will apply.</p> |

August 2022

Response of the Chairman of the Zionist Executive to the Comptroller's Report on Keren Kayemeth LeIsrael — KKL (PBC) — Firefighting Arrangements

In accordance with Section 18B to the Statutes of the Comptroller and the Control Office of the World Zionist Organization, which requires the Chairman of the Zionist Executive to submit his response to the Comptroller's reports, the following is my response to the report on Keren Kayemeth LeIsrael — KKL (PBC) — Firefighting Arrangements.

The comprehensive document submitted by the Comptroller of the National Institutions presents a snapshot of the important firefighting arrangements, which are aimed at protecting our important assets — KKL's forests. In addition to our love of all that the tree symbolizes in our Jewish and Israeli experience, and our stewardship of the Earth, there is serious responsibility for the wellbeing of countless hikers and residents in these forested areas.

The numbers, as presented in the audit report for 2019–2020, paint a dramatic picture of the reality facing Israel's forests with an inconceivable figure of 2,817 fires, which consumed 366,000,000 square meters. Unfortunately, the reality of terror attacks which we have seen since the Jewish People first started returning to their homeland do not spare the forests, and in recent years millions of square meters have been maliciously burnt in the Western Negev and Galilee.

In analyzing the causes for these fires, I see that we are unable to wholly prevent forest fires, but proper and serious preparations will surely minimize the damage to property and persons.

Among the aforementioned report's findings, I would like to emphasize those things that KKL should prepare for before the next 'fire season', and the sooner the better:

- Appointing a person whose sole responsibility is to build and prepare KKL's forces for operation in a hierarchal structure that would maintain continuity without causing dependence on any single person.
- Validating all procedures and compliance therewith in routine and emergency operations.
- Creating an improvement-oriented culture based on incident debriefings, similar to that seen in the security organizations which seek to learn and improve from one incident to the next. If an environment is created that

fosters honest and real discourse about performance, we will see an immediate improvement.

I would like to take this opportunity to thank the ranger from the Western Galilee Ranger Unit for serving as a nationwide nexus of professional information, KKL's forestry staff for their intense and important efforts in the face of this danger in both routine and emergency periods, and to all the staff conducting the daily activities for this important issue.

I would hereby also like to thank the Office of the Comptroller's staff and the Comptroller of the National Institutions for this important report.

(-) Yaakov Hagoel
Jerusalem, November 2022

Keren Hayesod
Corporate Governance

Keren Hayesod

Corporate Governance

Chapter 1: Background

1. The audit report entitled Keren Hayesod — Corporate Governance was prepared as part of the Office of the Comptroller of the National Institutions' work plan, following Keren Hayesod's registration as a public benefit company ("PBC") in February 2015.
2. A company's classification as a PBC subjects it to additional duties, beyond those imposed on 'ordinary' companies. These duties stem from special provisions applicable to the company's conduct and corporate governance. PBC classification requires increased transparency in the company's operations, and obligates it to file various reports to the regulatory authorities. These reports include: annual reports; financial statements (including annual balance sheets, reports on domestic and foreign donations, and main uses made of donation funds); descriptive report on the company's operations and its officers; and a list of the five highest salaries paid by the company. PBCs must also provide any additional document or information required by the Endowments Registrar in the Ministry of Justice's Companies Authority.
3. Furthermore, under Section 345X1(a) to the Companies Law, the Endowments Registrar may authorize a Ministry of Justice supervisor to oversee compliance with the Companies Law provisions applicable to PBCs.
4. The high standard of conduct required of PBCs is due to the public interest inherent in their operation, as they operate toward the public benefit and in many cases, utilize public funds.
5. Keren Hayesod — United Israel Appeal ("Keren Hayesod" or "the Company") was established in the World Zionist Organization's annual congress in London, 1920, following the Balfour Declaration, to serve as a fundraising organization to support the Zionist movement's activities. The Company was registered in England as a limited liability company whose shares had zero par value, under the name of Keren Hayesod Ltd.

6. In 1956, Israel enacted the Keren Hayesod Law, 1956 (“Keren Hayesod Law”) which allowed the Company to continue its operations in Israel. Under this law, Keren Hayesod was registered that same year as a limited liability company with shares of zero par value, under the name of Keren Hayesod — United Israel Appeal.
7. Keren Hayesod received a permit not to include the suffix ‘Ltd.’ alongside its name under Section 3(3) to the Keren Hayesod Law, which granted Keren Hayesod a license under Section 23(1) to the Companies Ordinance: “From the date of the notice’s publication the Company, including its memorandum and bylaws, will be subject to the provisions applicable to companies registered under the Companies Ordinance and issued a license under Section 23(1) to the Ordinance”.
8. Keren Hayesod has a special status, as reflected in the Keren Hayesod Law and in the treaty between the Israeli government and the World Zionist Organization, and was granted unique exemptions (tax benefits and tax exemptions), formalized in the treaty and in Section 12 to the World Zionist Organization — Jewish Agency for Israel Status Law, 1952.
9. The goal of the audit was mainly to examine Keren Hayesod — United Israel Appeal’s compliance with the Companies Law, 1999 and the regulations enacted thereunder, namely — the Companies Regulations (Compensation for the Chairman of the Board in a Public Benefit Company whose Turnover Exceeds NIS 500 million), 2010 (“the 2010 Companies Regulations”) and the Companies Regulations (Special Provisions for Companies that are National Institutions), 2016 (“the 2016 Companies Regulations”), and with Keren Hayesod’s bylaws.
10. The examined organs include: general meeting (“Board of Trustees”), Board of Directors, Budget and Finance Committee, and Audit Committee.
11. As part of the audit, the Office of the Comptroller met with various Keren Hayesod personnel, including its legal counsel and corporate secretary; received documents from the CFO; and reviewed minutes and relevant documents.
12. The audit focuses mainly on 2014 and 2015, with various updates through November 2018.
13. Examination of relevant documents was completed in February 2016. Subsequently, in May 2016, the Office of the Comptroller submitted a **first draft** of the audit report for Keren Hayesod’s comments.
14. At the end of that same month, on May 24, 2016, the Ministry of Justice

issued the Companies Regulations (Special Provisions for Companies that are National Institutions), 2016.

15. The 2016 Companies Regulations made certain adjustments applicable to the operation of PBCs which are national institutions, namely: Keren Kayemeth LeIsrael (“KKL”), and Keren Hayesod. These adjustments sought to establish a mechanism that would meet the needs of these companies, while upholding the public interest in their operations and in their supervision.
16. Enactment of the 2016 Companies Regulations was shaped by two processes:
 - First — Keren Hayesod’s extensive negotiations with the Ministry of Justice which began in January 2008 following its voluntary application to register as a PBC. However, Keren Hayesod did not complete its document filing for registration, and so in September 2014, the Endowments Registrar announced that he planned to exercise his power under Section 345C(d) to the Companies Law, and register Keren Hayesod in the PBC registry. Ultimately, Keren Hayesod was registered as a PBC on February 26, 2015.
 - Second — The Endowments Registrar exercised his power on September 1, 2014, and registered JNF as a public benefit company, following the Attorney General’s decision declaring JNF a public benefit company.
17. The proposed regulations were brought before the Knesset’s Constitution, Law and Justice Committee for approval on September 10, 2014. However, procedures were delayed following the Knesset’s dissolution and the subsequent elections. The regulations were finally approved once the Constitution, Law and Justice Committee’s legal counsel completed their work, at the end of March 2016.
18. The 2016 Companies Regulations dealt with compensation and expenses paid to the chairman of the board and with exemption from disclosing donor names.
19. The **application date** for the 2016 Companies Regulations was set **retrospectively** to May 1, 2014, which is the date on which the Attorney General determined that JNF is a public benefit company.
20. For this reason, the 2016 Companies Regulations stipulated that the special provisions for PBCs under the Companies Law would not apply to national institutions (KKL and Keren Hayesod) for the period prior to the Attorney General’s decision that **KKL is a public benefit company (May 1, 2014)**. (This description is detailed in the Attorney General’s letter to the members of the Knesset Constitution, Law and Justice Committee dated March 29, 2016).

21. It is further emphasized that Keren Hayesod had two outside legal opinions (from 2007 and 2011) which concluded that Keren Hayesod is subject to the provisions of Amendment 6 to the Companies Law, 2007 (see Section 345A(a) to the Companies Law), and must register as a PBC and operate as a PBC, even if it was not registered as such. However, the 2007 opinion also recommended working with the Ministry of Justice and the Endowments Registrar to clarify their position concerning Keren Hayesod's obligation to register as a PBC, while noting that the law does not leave any room for discretion and does not grant any person authority to exempt a company, which meets the conditions of Section 345A to the Law, from registering as a PBC and from applying the PBC provisions on such company.
22. Support for applying the PBC provisions on a company can also be found in Prof. Yossef Gross's book *The Companies Law*, 5th Edition, 2016 (pp. 194), which states that a company which constitutes a PBC under the criteria prescribed in Section 345A to the Companies Law, will be subject to all the duties of a PBC even if it has not registered as a PBC.
23. However, Keren Hayesod believes that the Companies Authority was of the position that, in light of the Companies Regulations, national institutions shall be considered exempt from complying with the Companies Law's provisions applicable to PBCs in the period prior to registration.
24. A second, updated draft of the audit report, which incorporated Keren Hayesod's written response, was submitted to Keren Hayesod for comments in February 2017. At Keren Hayesod's request, three joint meetings were held in 2017 to provide explanations and clarifications on matters raised in both versions of the report.
25. A third draft of the audit report, which incorporated Keren Hayesod's written response, was submitted to Keren Hayesod for comments in October 2017.
26. A fourth draft of the audit report, which incorporated Keren Hayesod's written response as received in January 2018 and was based on different or new documents attached to said response, was submitted to Keren Hayesod for comments on May 1, 2018. At Keren Hayesod's request, another joint meeting was held in June 2018, in which explanations and clarifications were given on the fourth draft.
27. A fifth draft of the audit report constituted a summary of the findings, some of which were presented in detail in the previous four versions, and incorporated Keren Hayesod's written response as received on July 5, 2018 and based on the documents attached to said response. This draft was submitted to Keren Hayesod on October 17, 2018. At Keren Hayesod's request, a joint meeting was held on November 11, 2018.

28. A sixth, abridged draft of this audit report was sent to Keren Hayesod on February 10, 2019. At Keren Hayesod's request, it was translated and submitted to the Chairman of the Board of Trustees in March 2019, as well as to Keren Hayesod's incoming Chairman of the Board.
29. This audit report constitutes the final report, and is the seventh, abridged version. It integrates responses received, in writing, on April 8, 2019, from Keren Hayesod's Director General and the chair of Keren Hayesod's Audit Committee. Toward the end of 2019 and throughout 2020, discussions were held and correspondence exchanged with the Chairman of Keren Hayesod's Board, as part of the preparation of this final version of the report. This report will be presented to WZO's audit committee (and to Keren Hayesod's Audit Committee, should the Office of the Comptroller be invited to its meeting), and its findings discussed.

Chapter 2 — Keren Hayesod as a Public Benefit Company

2.1 Obligation to include the PBC suffix alongside Keren Hayesod's name.

30. Section 345D(a) to the Companies Law (added in Amendment 6) states, "A public benefit company registered in the registry will include, alongside its name, in all documents signage or publication issued on its behalf, the suffix "Public Benefit Company" or ("PBC)".
31. The Office of the Comptroller found that Keren Hayesod generally does not include the suffix "Public Benefit Company" or "PBC" alongside its name.

Keren Hayesod stated in response that the Ministry of Justice's Companies Registrar had issued Keren Hayesod a certificate of registration as a "Public Benefit Company" which states its name as "Keren Hayesod — United Israel Appeal" (as appears in the Keren Hayesod Law), without including the PBC suffix.

32. The Office of the Comptroller notes that the Companies Law was enacted after the Keren Hayesod Law, and the two laws do not contradict each other. The requirement prescribed by the Companies Law does not change Keren Hayesod's name, but rather constitutes an additional obligation, alongside its name, which is applicable to all companies that are public benefit companies; the law requires the Company to note that fact in all its documents. The Office of the Comptroller believes that a company's registration certificate cannot substitute a binding cogent requirement stipulated by the Companies Law (Section 345D(a)).

33. Section 7 of the 2016 Companies Regulations grants an exemption, among other things, from Section 345D(a) to the Companies Law (i.e. — from including the PBC suffix). However, the exemption is **until May 1, 2014** — **only** (the date on which the 2016 Companies Regulations went into effect).
34. **Thus, the Office of the Comptroller believes that if Keren Hayesod wishes to continue not including the PBC suffix alongside its name — it must apply to the Ministry of Justice, requesting that the Minister of Justice exercise his powers under Section 345AE(1) to the Companies Law, so as not to apply this obligation to Keren Hayesod .**

2.2 Exemption from obligation to publicly disclose donor names

35. In general, in their annual report to the Endowments Registrar, PBCs must detail donations received in Israel and abroad. Furthermore, they must state whether they have or have not received donations from foreign sovereign entities whose value exceeds NIS 20,000, and if they have — they must disclose the donor's identity, the donated amount, the donation's purpose or designation, and the conditions behind the donation.
36. Keren Hayesod receives numerous donations from the Diaspora. Donations are made for the benefit of Israel and the Jewish people. In order to protect these donors from harassment, Keren Hayesod has requested that the Companies Authority exempt it from this obligation, so that such information would not reach the authorities and various parties in those countries where Keren Hayesod's donors reside.
37. The 2016 Companies Regulations state that the names of Keren Hayesod's donors will not be publicly disclosed in its financial statements, unless the donation is from a foreign sovereign entity, in which case Keren Hayesod will be required to disclose its name in the financial statements.

2.3 Obligation to limit the compensation paid to the Chairman of the Board

38. The salary for KEREN HAYESOD's former Chairman (who held the position between October 2010 to April 22, 2018), is based on the Zionist Executive's decision of April 1998, during the tenure of the preceding Chairman. In **October 2010**, when the former Chairman assumed his position, the Board of Trustees (Keren Hayesod's general meeting) approved that his salary match that of his predecessor.

39. Actual compensation/salary paid to the former Chairman of the Board was equal to that of a government minister plus various add-on payments, such as fixed monthly subsistence costs, participation in dental insurance, holiday bonus, sports bonus, convalescence pay, clothing allowance (for senior officers), participation in summer camp fees and tuition. These amounts exceed the NIS 323,150 annual salary (compensation) limit permitted for the chairman of a PBC whose turnover exceeds NIS 500 million, under the 2010 Companies Regulations.
40. The 2010 Companies Regulations and the 2016 Companies Regulations state that the Chairman of the Board will not be entitled to additional consideration whatsoever from the Company in excess of the compensation or the reimbursements prescribed in the regulations. **However, in practice the Chairman of the Board received various additional payments exceeding the compensation prescribed in the regulations.**
41. Furthermore, the second legal opinion that Keren Hayesod received, dated January 30, 2011, explicitly stated that **“The compensation paid to the Chairman of Keren Hayesod’s Board does not comply with the regulations”**.
42. The **2016 Companies Regulations** were published in May 2016. As concerns the limitation of compensation payments to the Chairman, the 2016 Companies Regulations state that Keren Hayesod **may choose between two options: first** — that payment will comply with the compensation arrangement established under the 2010 Companies Regulations (for enterprise-grade companies); i.e. — that annual compensation would not exceed NIS 323,150. **The second option — a maximum annual compensation which does not exceed the annual salary of a government minister, with the general meeting’s approval, and provided the Chairman devotes at least 40 hours a week and is not employed in another job.**

Furthermore, Section 3(c) to the 2016 Companies Regulations states that **“the chairman is not entitled to any other consideration from the national institution other than the compensation or reimbursement prescribed under this Regulation”**.

43. The 2016 Companies Regulations add to the 2010 Companies Regulations, allowing an option for setting a chairman’s compensation

up to the salary of a government minister (see below), **retrospectively from May 2014.**

44. **The Office of the Comptroller notes that, concerning the Chairman's compensation, Keren Hayesod should have complied with the provisions applicable to PBCs, including the 2010 Companies Regulations and the 2016 Companies Regulations.**
45. **From May 1, 2014, onward, the Chairman received excess salary payments, above the limit prescribed under the two options stipulated under the 2016 Regulations.**
46. The guidance to return the excess salary payments is based on Section 345J(c) to the Companies Law, which mandates the return of salary over-payments to officers, **"If an officer or audit committee member has received salary in violation of this Section, including services rendered to the company, they must return to the company what they have received, unless they prove that they were not aware and should not have been aware of a salary limitation during the contract period"**.

Keren Hayesod stated in response that starting October 1, 2017, compensation paid to the Chairman of the Board complies with the 2016 Companies Regulations, and notice to that effect had been given to the Ministry of Justice. Keren Hayesod added that, as part of the arrangement for the Chairman of the Board's resignation in April 2018, the return of excess payments made to the Chairman of the Board was resolved in consultation with the Companies Authority. Keren Hayesod noted that, in its negotiations in the matter with the Ministry of Justice, the full data were presented to the Ministry of Justice.

47. On April 8, 2018, Keren Hayesod presented the Ministry of Justice with its position, as formulated in the Board of Trustees' decision concerning the Chairman's retirement terms, including the return of excess salary payments from June 2016 to September 2017.
48. On April 17, 2018, Keren Hayesod received the Ministry of Justice's following response, **"The decision seems to match our position concerning reasonable interpretation of the current legal situation (in any case, as aforesaid, we do not approve such decisions)"**.
49. The Office of the Comptroller notes that it has not examined the salary calculations which served as the basis for Keren Hayesod's notice to the Ministry of Justice concerning the return of excess salary payments to

the Chairman of the Board, and the salary's reduction and adaptation to comply with the 2016 Companies Regulations.

50. Due to its designation of the payment to the Chairman of the Board as "compensation" and not "salary", Keren Hayesod did not include the Chairman's name among the five highest salaries listed in its annual report to the Endowments Registrar (which is publicly available).

Keren Hayesod stated in response that the Registrar's requirement is to list the five highest-salaried employees, while the Chairman is not a salaried employee, but rather a chosen and appointed Company officer who receives compensation.

51. The Office of the Comptroller notes in response that, conversely, the financial statements did not present the compensation paid to the Chairman as "compensation payments to Board members" under its general and administrative expenses item. In practice, the payment to the Chairman of the Board was presented under the "Salaries" item, under "Salaries and general expenses".
52. **The Office of the Comptroller recommends that, in its general and administrative expenses line item, Keren Hayesod separate employee salary expenses from compensation payments to the Chairman of the Board and compensation to Audit Committee members.**

2.4 Regular annual reporting to the Companies Registrar (and the Endowments Registrar)

53. Section 345X(a) to the Companies Law states, "A public benefit company which must submit an annual report and other reports as prescribed under Sections 140 and 141, shall also submit them to the Endowments Registrar.
54. Sections 140 and 141 to the Companies Law apply to all companies that are non-reporting entities (to the TASE and the Israel Securities Authority). Therefore, these sections apply to Keren Hayesod and it must file the reports prescribed under these sections to both the Companies Registrar and the Endowments Registrar.
55. A print-out from the Companies Registrar as of February 2016, indicates that Keren Hayesod **has not provided the Companies Registrar (or the Endowments Registrar) with an annual report**, as required under Section 141 to the Companies Law, **since 2003 and until 2017**.

Keren Hayesod stated in response that, following the Office of

the Comptroller's comment, it has recently resumed its annual reporting to the Companies Registrar (in April 2017 it filed its annual report for 2016).

56. **The Office of the Comptroller found that, as of early October 2018, Keren Hayesod had not submitted to the Companies Registrar (or the Endowments Registrar) its annual report for 2017. Furthermore, it had not submitted to the Endowments Registrar a descriptive report, a financial statement, and the list of the five highest salaries for 2017. It is noted that Keren Hayesod was to have filed these reports by June 30, 2018.**

Keren Hayesod stated in response that it was granted an extension by the Registrar to file its financial statements and descriptive reports. The extension was granted as the Board and general meetings in which these documents were approved did not convene in June as in previous years, but rather only in October 2018. The reports were filed on December 26, 2018, due to delays in their signature by the Acting Chairman.

2.5 Reporting interested-party transactions to the Endowments Registrar

57. The Office of the Comptroller also examined **the transfer of funds from Keren Hayesod the World Zionist Organization (“WZO”).**
58. WZO is an interested party in Keren Hayesod through WZO's right to appoint 50% of all trustees. This means that, where WZO is a party to a transaction (e.g. — transfer of allocations, donations, and support for WZO's operations), court approval must be obtained for extraordinary transactions, and in the case on non-extraordinary transactions notice must be sent to the Endowments Registrar (under the section dealing with limitations on PBCs in interested-party transactions). **These requirements are in addition to the necessary approval by the Company's Audit Committee and Board (as required under Section 345L to the Companies Law).**
59. The Office of the Comptroller notes that, in June 2015, the Audit Committee and the Board approved the transfer of USD 50,000 to WZO, as a non-extraordinary transaction with an interested party, for the Halleluja project (worldwide singing contest for Jewish communities), conducted the previous year.
60. Keren Hayesod told the Office of the Comptroller that no notice was sent to the Endowments Registrar, as the transfer was for a project approved and carried out in 2014 (prior to registration as a PBC).

61. The Office of the Comptroller notes that, although the liability was incurred in 2014, approval by both the Audit Committee and the Board was given in June 2015, i.e. — **after** Keren Hayesod **had registered as a PBC, and so the Office of the Comptroller believes that notice should have been sent to the Endowments Registrar, as an interested-party transaction.** Furthermore, here too, Keren Hayesod should have acted as a PBC even prior to its formal registration.
62. After inquiring with Keren Hayesod on this matter, and having clarified the Office of the Controller’s position, WZO and Keren Hayesod signed an agreement on June 20, 2016 where Keren Hayesod undertook to bring the request for support for the Halleluja project (and other projects) before the Audit Committee and the Board for approval in June 2016, and that within seven days of doing so, Keren Hayesod would file notice of the payment with the Endowments Registrar, as notification of an interested-party transaction.

Keren Hayesod stated in response that, in June 2016, the Audit Committee and the Board approved the request for support, and that in August 2016, notice was sent to the Endowments Registrar. The donation was transferred to WZO in January 2017, once WZO submitted all the necessary approvals and reports.

2.6 **KEREN HAYESOD’s website**

63. The Office of the Comptroller found that Keren Hayesod’s website does not mention its registration as a public benefit company.
64. **Since Keren Hayesod registered as a PBC, the Office of the Comptroller recommends that Keren Hayesod website note that it is a public benefit company.**

Keren Hayesod stated in response that it has adopted the Office of the Comptroller’s recommendation, and has updated its website accordingly.

Chapter 3 — Board of Trustees (General Meeting)

3.1 **Introduction**

65. Keren Hayesod’s Board of Trustees serves as its general meeting, with all the powers, rights and duties prescribed by law and Keren Hayesod’s bylaws.
66. Keren Hayesod’s bylaws (Sections 2 and 3A) state that the number

of trustees will be no less than 22 and no more than 32. The World Zionist Organization’s Zionist Executive has the right to appoint half of the total number of trustees (from among the members of the Zionist Executive). The regional campaigns have a right to appoint the other half of the total number of trustees (according to a formula appended to the bylaws).

67. The Chairman of the Board of Trustees is elected from among the campaigns’ trustees. The current chairman was appointed in June 2014.
68. At the time of the audit, the Board of Trustees comprised 12 members from the regional campaigns (see table below). A fourth ‘non-aligned’ member was appointed in June 2017 (see below, in the chapter entitled *Finance and Budget Committee*). The Board of Trustees comprised a further 15 WZO-appointed members. Keren Hayesod stated that, since October 2018, in practice the Board of Trustees comprised 12 campaign-appointed members (with the following differences: 2 Canada, 1 Europe, 3 non-aligned members), and only 9 WZO-appointed members.

3.2 Campaign-appointed trustees

69. The Office of the Comptroller compared the actual number of campaign-appointed representatives as of September 2014, and the formula prescribed in Keren Hayesod’s bylaws. Data were as follows:

| Campaign | Formula in bylaws | Actual representatives |
|--------------------|--------------------------|-------------------------------|
| Australia | 1 | 1 |
| Canada | 2 | 1 |
| France | 1 | - |
| Britain | 2 | 1 |
| Latin America | 2 | 2 |
| South Africa | 1 | 1 |
| Europe | 2 | 2 |
| Women’s Division | 1 | 1 |
| World Dor Hemshech | 1 | - |
| Unaligned members | 3 | 3 (4) |
| Total | 16 | 12 (13) |

70. **The above table indicates that Canada has one representative on the Board of Trustees instead two; France and Dor Hemshech have no representatives; Britain is missing one representative. There are 4 unaligned members instead of the 3 prescribed by the bylaws.**

71. The Office of the Comptroller found that, since September 2014, there has been a mismatch between the actual composition of the campaign-appointed trustees and the formula set in the bylaws.
72. As aforesaid, in June 2017, there were 13 campaign-appointed representatives, and since October 2018 there were 12 campaign-appointed representatives, even though the campaigns may appoint up to 16 representatives.
73. **The Office of the Comptroller recommends that Keren Hayesod work to appoint the missing campaign-appointed representatives, and make sure that their number and composition match the formula from the bylaws.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller's recommendation.

3.3 WZO-appointed trustees

74. According to the bylaws, the Board of Trustees may include up to 16 WZO-appointed members (who are members of the Zionist Executive). In November 2014, WZO had only 15 representatives on the Board of Trustees, and to the best of the Office of the Comptroller's knowledge, there were only 9 WZO-appointed trustees as of October 2018.
75. Following the 37th Zionist Congress, which took place on October 22, 2015, WZO was authorized to appoint new representatives to Keren Hayesod's Board of Trustees.
76. **As of October 2018, WZO had yet to appoint a new representative instead of the one who retired on November 5, 2014, and no trustees had been appointed to replace those who had resigned. Furthermore, the tenure of trustees appointed in the previous congress was not renewed.**

Keren Hayesod stated in response that, under Section 6A.1 to the bylaws, WZO-appointed members serve until the next congress following their appointment, or until WZO replaces them.

77. The Office of the Comptroller believes that the intention behind allowing representatives to continue serving after the following Zionist Congress, was to allow WZO adequate time after the Congress to appoint a replacement or to renew the existing trustee's appointment. This provision was not intended to certify a trustee's tenure, following the Zionist Congress, beyond such reasonable timeframe.

78. Indeed, section 6B to the bylaws states that a trustee can be re-appointed. Thus, we believe that following the Zionist Congress in October 2015, WZO should have re-appointed its representatives to the Board of Trustees.
79. Keren Hayesod’s bylaws, which were updated in October 2014, as part of its PBC registration requirements, include the position of “World Zionist Organization **treasurer**” as a WZO-appointed trustee, even though **this position was cancelled in 2010** (during the 36th Zionist Congress). It is noted that WZO has established a different position — **deputy chairman of the Zionist Executive**.
80. **The Office of the Comptroller recommends that Keren Hayesod consider updating its bylaws accordingly, so as to also cancel the position of ‘WZO treasurer’ which appears in its bylaws and add the position of ‘deputy chairman of the Zionist Executive’ instead of WZO treasurer.**

Keren Hayesod stated in response that the Zionist Executive asked the campaign-appointed representatives to discuss a change to the bylaws. Keren Hayesod is awaiting the results of these discussions and will act accordingly.

3.4 Appointment documents for campaign-appointed trustees

81. Section 4 of KEREN HAYESOD’s bylaws states that each campaign-appointed trustee will be appointed through a document signed by the authorized signatories of the campaign appointing that trustee.
82. The bylaws specify the format for the appointment document, which includes a signed request by the candidate to be appointed as a trustee.
83. The Office of the Comptroller found appointment documents for 11 of the 12 trustees currently serving on behalf of the campaigns (the appointment letter for another trustee, from Holland, is old — dated 1999 — and states that the appointment is for a period of two years).
84. The Office of the Comptroller also found that in four of these 11 appointment documents (three unaligned members and the Women’s Division representative), the document was signed by Keren Hayesod’s World Chairman (who is the Chairman of the Board) and the Chairman of the Board of Trustees, and was not signed by the authorized signatories of the campaign appointing the trustee (from Canada, Italy, and the Women’s Division), as detailed in Sections 4 and 3C to the bylaws.

85. The Office of the Comptroller notes that under Section 3C to the bylaws, the Chairman of the Board of Directors may propose candidates to serve as unaligned members (i.e. — he is not authorized to appoint them and sign their appointment), and these will be brought before the campaign-appointed trustees who will confirm the appointment.
86. In one case, the declaration that the trustee (for the Women’s Division) wishes to serve on Keren Hayesod’s board of trustees could not be found.

The Office of the Comptroller recommends that Keren Hayesod contact the authorized signatories for the Holland campaign and ask that they sign a letter of appointment for the trustee currently serving on the Board of Trustees without a valid appointment document.

Keren Hayesod stated in response that it accepts the Office of the Comptroller’s recommendation and that, consequently, in June 2017, a new letter of appointment was drafted for the Dutch trustee.

87. **The Office of the Comptroller further recommends that Keren Hayesod ontact the authorized signatories for the Canada campaign, the Italy campaign, and the Women’s Division, and request that they sign appointment documents for the aforesaid four trustees, whose appointment documents are invalid as they were not signed by the represented campaigns.**

Keren Hayesod stated in response that the long-standing practice is that, lacking a relevant campaign, appointments for unaligned trustees are signed by Keren Hayesod’s Chairman and the Chairman of the Board of Trustees. The appointment is signed after the campaign-appointed trustees approve the proposed membership. Both have also signed the appointment of the chairman of the Women’s Division, as the ‘Women’s Division’ is not a legal entity with authorized signatories. The appointee is the chairman of the Women’s Division.

88. **The Office of the Comptroller notes that the Office of the Comptroller did not receive any minutes confirming that the campaign-appointed trustees had approved the proposed membership of the three unaligned members (Section 3C of the bylaws).**
89. **In addition, the Office of the Comptroller recommends asking the**

trustee (on behalf of the Women’s Division) to sign a declaration that she wishes to serve on Keren Hayesod’s board of trustees.

Keren Hayesod stated in response that it accepts the Office of the Comptroller’s recommendation, and consequently, in June 2017, the trustee signed such declaration.

90. Following our comment in the previous draft, in the chapter entitled *Finance and Budget Committee*, that one committee member’s membership was improper as he is not a member of the Board of Trustees — in June 2017 Keren Hayesod appointed him as an unaligned member on the Board of Trustees, and included the letter of appointment, signed by the Chairman of the Board of Trustees and the Chairman of the Board.
91. **The Office of the Comptroller notes that no minutes were received attesting that the campaign-appointed trustees approved the proposed membership of the new unaligned trustee (Section 3C of the bylaws).**

3.5 Appointment documents for WZO-appointed trustees

92. Under Section 4 to the bylaws, WZO-appointed trustees are to be appointed through a document signed by the chairman of the Zionist Executive.
93. As aforesaid, the format for the letter of appointment is provided in the bylaws, and includes a signed request by the candidate.
94. **The Office of the Comptroller found appointment documents for only 2 of the 9 WZO-appointed trustees currently serving on the Board of Trustees.**
95. Furthermore, the Office of the Comptroller found that the appointment documents for these two trustees were signed by the secretary of the Zionist Executive and not by the chairman of the Zionist Executive, as required in the bylaws.
96. **The Office of the Comptroller recommends that Keren Hayesod contact the Zionist Executive and ask that it prepare appointment documents for all WZO-appointed trustees. Keren Hayesod should verify that the chairman of the Zionist Executive signs the appointment documents and that trustees sign a declaration that they wish to serve on the Board of Trustees — as per the format provided in Keren Hayesod’s bylaws.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller's recommendation, and has accordingly contacted the Secretary of the Zionist Executive. However, letters of appointment and declarations for WZO-appointed trustees have yet to be received.

3.6 Summons to general meeting

97. Under Section 14 to the bylaws, all general meetings (both annual and extraordinary) will be summoned by **written notice at least 21 days prior to the meeting**, excluding the notice serving date and including the meeting date. Such notice will detail the location, date and time of the meeting, and in case of a **special item on the agenda**, the notice will state the nature of that item and the associated proposed resolutions. Notices will be served to those persons eligible to receive such notices from the Company according to the bylaws.
98. Keren Hayesod's corporate secretary sends summons to campaign-appointed trustees. Summons are also sent to the secretary of the Zionist Executive, requesting that he send the summons to all WZO-appointed trustees.
99. The Office of the Comptroller examined the summons for four Board of Trustee meetings in 2014 and 2015. Findings were as follows:

3.6.1 Extraordinary meeting of June 17, 2014:

100. Summons were sent by the Company's secretary on time and with a detailed the agenda, including a special item: approving the appointment of a new Chairman for the Board of Trustees. Propriety was found.

3.6.2 Annual general meeting of October 23, 2014:

101. Summons were sent by the Company's secretary on time — but without the agenda.
102. The notice concerning the items on the meeting's agenda, including a special item — a decision to change Keren Hayesod's bylaws (in preparation for its registration as a PBC) — was sent to the campaign-appointed trustees **8 days** before the meeting (on October 15, 2014), and was sent to the secretary of the Zionist Executive (for circulation to WZO-appointed trustees) only **3 days** before the meeting — **instead of 21 days prior to the meeting**.

103. The Office of the Comptroller notes that a change in the bylaws is considered **a special item**, as it is not one of the regular matters discussed in an annual general meeting (see also Section 16 to the bylaws). Moreover, under Section 14 to the bylaws, the summons should have detailed the nature of this special item and the relevant resolutions proposed for adoption. Section 68(b) to the Companies Law also stipulates that, as concerns an amendment to bylaws, the proposed wording change should also be circulated. Thus, Keren Hayesod should have notified all trustees concerning the change in the bylaws, and included the proposed resolutions, with the proposed wording changes.
104. The Office of the Comptroller believes that, if it was not possible to postpone the meeting until 21 days after the necessary documents were sent, Keren Hayesod should have followed the second paragraph of Section 14 to the bylaws, and obtained written consent from all the trustees.

Keren Hayesod stated in response that the change in the bylaws was discussed with WZO's representatives and that a WZO representative took part in Keren Hayesod's lengthy negotiations with the Ministry of Justice. According to Keren Hayesod, no trustee contacted Keren Hayesod to complain that they did not have sufficient time to prepare for the meeting, or that they object to the change in the bylaws.

105. **The Office of the Comptroller notes that lack of complaints from the trustees is not a substitute for due process in issuing summons to general meeting and in the time frames prescribed by law.**

3.6.3 Extraordinary meeting of June 16, 2015:

106. Summons were sent by the Company's secretary on time — but without the agenda.
107. Notice of the items on the meeting's agenda, including a special item — approving the appointment of a new chairman for the Finance and Budget Committee was sent later, on May 21, 2015, i.e. — still within the 21 day period prior to the meeting.

3.6.4 **Annual general meeting of October 23, 2015:**

108. Summons were sent by the Company's secretary on time — but without the agenda.
109. Notice of the items on the agenda, including a special item — approving Keren Hayesod's descriptive report as a PBC, prior to its submittal to the Endowments Registrar, was sent to the campaign-appointed trustees **10 days** before the meeting, and was sent to the secretary of the Zionist Executive (for circulation to the WZO-appointed trustees) — only **3 days** before the meeting — **instead of 21 days before the meeting.**

Keren Hayesod stated in response that no trustee contacted Keren Hayesod to complain that they did not have enough time to prepare for the meeting.

110. **The Office of the Comptroller notes that lack of complaints from trustees is no substitute for due process in issuing summons to general meeting and in the time frames prescribed by law.**
111. **The Office of the Comptroller recommends that Keren Hayesod make sure to comply with Section 14 of its bylaws, which states that the nature of a special item on the agenda and the associated proposed decisions must appear in the summons to the meeting and be sent to participants at least 21 days prior to the meeting.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller's recommendation.

112. As aforesaid, the Company secretary sends the summons to the secretary of the Zionist Executive, asking that he circulate the summons to WZO-appointed trustees. The Office of the Comptroller contacted him to examine when he sent the WZO-appointed trustees the summons to the four Board of Trustees' meetings in 2014 and 2015.
113. As of October 2018, the Office of the Comptroller had not received from the secretary of the Zionist Executive the summons that he was supposed to have sent to the WZO-appointed trustees in 2014–2015. **Thus, the Office of the Comptroller cannot determine whether WZO-appointed trustees received the summons to the Board of Trustees' meetings at such time as**

required in the bylaws. Furthermore, Keren Hayesod did not verify that the summons were received by the trustees.

114. **The Office of the Comptroller notes that, under Section 15A of the bylaws, KEREN HAYESOD must send notice for all general meetings ‘to all members in the Company’. Therefore, the Office of the Comptroller believes that sending summons through the WZO Zionist Executive’s secretary does not comply with the bylaws.**
115. The Office of the Comptroller recommends requiring all WZO-appointed trustees to notify Keren Hayesod in writing that their address for serving summons is the Zionist Executive secretary, and that summons sent to the Zionist Executive secretary will be considered as having been sent to the trustee. Alternatively, the Company’s secretary should send summons to trustees personally, as is done for the other trustees.

Keren Hayesod stated in response that it accepts the Office of the Comptroller’s recommendations and has consequently contacted the WZO-appointed trustees and received their written approval to send them summons through the Zionist Executive secretary.

116. Section 10 to the bylaws states that, each year, the Company will hold one annual general meeting, in addition to any other meetings that year. In the summons to that meeting, the Company will note that it is an **annual general meeting**.
117. Upon examining the summons, the Office of the Comptroller found that, despite the bylaw provision, the **summons** did not state whether the meeting was to be an annual general meeting.
118. **The Office of the Comptroller recommends that, in its summons, Keren Hayesod make sure to note when the Board of Trustees is convening as an ‘annual general meeting’ as dictated in the bylaws.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller’s recommendation.

3.7 **Proxy authorization**

119. In a sample of proxy authorizations submitted for examination, the Office of the Comptroller found that one of the trustees had granted a proxy letter, whose format differed from that specified in Section 20

to the bylaws. The trustee added a sentence stating that the act was performed **“without accepting any personal liability on my part for so doing”**.

120. **The Office of the Comptroller notes that this sentence does not appear in the proxy format specified in the bylaws, and the legal significance of this addition is unclear.**
121. **The Office of the Comptroller believes that the format received from the trustee should have been reviewed to make sure that it matches that set in the bylaws. The Office of the Comptroller recommends that, henceforth, Keren Hayesod verify that proxies received from trustees match the format set in the bylaws.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller’s recommendation.

122. **The Office of the Comptroller further recommends that Keren Hayesod change its bylaws so the proxy authorization format start with the word “I” before filling in the name of the trustee filling in the form.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller’s recommendation to include the word “I”, and will suggest this amendment in the Zionist Executive’s discussions with the campaigns’ representatives concerning material changes to Keren Hayesod’s bylaws.

123. Section 20C to the bylaws states that proxy letters must be submitted to Keren Hayesod at least 24 hours before the meeting, or rendered void.

The Office of the Comptroller asked the Company’s secretary to check when the examined proxy forms were received. The Office of the Comptroller found that they were sent in by fax or scanned directly to the computer, several days before the meeting. Propriety was found.

124. Following Keren Hayesod’s registration as a PBC, a change was required to Section 20C of the bylaws, so that proxy letters would note the items on the agenda, and voting options (for/against/abstain). The proxy form was changed accordingly.
125. The Office of the Comptroller examined 9 proxy forms using the new format, received from the Company’s secretary. Findings were as follows:

126. Upon examining the proxy forms submitted in 2015, the Office of the Comptroller found that all trustees failed to appoint a substitute proxy in case the appointed proxy was absent.
127. **The Office of the Comptroller recommends that Keren Hayesod explain to trustees filling in the proxy forms that, if they do not appoint a substitute proxy in case of the appointed proxy's absence, they must personally delete the option for appointing a substitute proxy, so that no name can be entered.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller's recommendation.

128. **As a default**, all proxy forms filled out in 2015, specified the **chairman of the Board of Trustees'** name as receiving the right to vote on behalf of the trustee absent from the meeting.
129. **In other words, the chairman of the Board of Trustees is the sole person to receive proxy authorization to vote on behalf of any other trustee.**
130. The Company secretary stated in response that she wrote the chairman of the Board of Trustees' name on the proxy forms as the default option, as she believed that he was sure to attend the meetings. Thus, the proxy authorization could be exercised if necessary.

Keren Hayesod stated in response that this is legitimate and facilitates the organization's function.

131. **The Office of the Comptroller believes that Keren Hayesod deciding who will serve as proxy by default — is improper.**
132. It stands to reason that a campaign-appointed trustee, who is absent from a meeting, would prefer to authorize another trustee from that same campaign, or from another campaign, instead of the chairman of the Board of Trustees. Furthermore, if a WZO-appointed trustee is absent from a meeting, he may prefer to authorize another WZO-appointed trustee, instead of the chairman of the Board of Trustees (who is always a campaign-appointed trustee).
133. Furthermore, the Office of the Comptroller notes that Section 20C to the bylaws allows a trustee to personally choose (from among the trustees) the trustee who will vote on their behalf as proxy.
134. **The Office of the Comptroller recommends that Keren Hayesod consider not being involved in the completion of the proxy form,**

leaving the matter to each trustee's discretion, and to allow trustees to resolve the matter of proxy authorization with the other trustees.

Keren Hayesod stated in response that it accepts the Office of the Comptroller's recommendation.

3.8 Tenure on the Board of Trustees

135. According to Section 6A.2 to Keren Hayesod's bylaws, **campaign-appointed trustees** will serve for a **period of two years**, starting on the date of their appointment, but will hold their position until a new trustee is appointed in their stead by the same campaign.
136. **The Office of the Comptroller found that the appointment forms for campaign-appointed trustees do not note that the appointment is valid for the two-year period specified in the bylaws.**
137. The Office of the Comptroller found that most campaign-appointed trustees were appointed in February 2010 or June 2010, and held their position at least until the end of the audit in February 2016.

In other words, they serve for more than the two years allotted in the bylaws.

138. The Office of the Comptroller notes that Section 6B to the bylaws allow trustees to be re-appointed, however, the Office of the Comptroller did not find that Keren Hayesod re-appointed them.

Keren Hayesod stated in response that the bylaw provision allows continuation of a trustee's tenure, because of the problems associated with finding people overseas who are willing to be involved and active in Keren Hayesod's international work, which entails considerable expenses and significant knowledge.

139. The Office of the Comptroller believes that the option for trustees to serve more than two years was intended to allow reasonable time at the end of the two year period to either appoint another trustee or renew the existing trustee's appointment. However, the provision does not allow the extension of a trustee's tenure, after the two-years, without reappointment.
140. **The Office of the Comptroller recommends that Keren Hayesod make sure to comply with the bylaw stipulation that campaign-appointed trustees serve for two years. The Office of the Comptroller further recommends that the fact be noted on their appointment letter. If**

Keren Hayesod **wishes to renew the appointments — they should be renewed, as detailed in Section 6B to the bylaws.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller’s recommendation.

141. In the case of WZO-appointed trustees, under Section 6A1 to the bylaws, WZO-appointed trustees will serve from the date of their appointment and until the subsequent Zionist Congress, but will hold their position until WZO appoints a new trustee in their stead. As aforesaid, trustees may be re-appointed.

3.9 **Termination of Trustee Tenures**

142. Under Section 7 to Keren Hayesod’s bylaws, trustees will cease serving as a member and trustee in the Company in each of the following cases:
- If they notify the Company of the termination of their membership.
 - For Zionist Executive-appointed trustees — when they are dismissed by the Executive.
 - For campaign-appointed trustees or unaligned member trustees — when they are dismissed by a resolution of the campaign-appointed trustees appointed directly by the campaigns.
143. Section 7 to the bylaws also stipulates that trustees will stop serving as such on the day on which the Company **receives their notice** or the **notice of their dismissal**, as applicable.
144. Elsewhere, in Section 8A (concerning the termination of a trustee’s tenure, their replacement or dismissal), the bylaws state that even in the case of dismissal — a document signed by the chairman of the Zionist Executive and a document signed by the chairman of the World Board of Trustees or in his absence, signed by the World Chairman of Keren Hayesod — shall be considered decisive proof to that effect.
145. Thus, the Office of the Comptroller believes that there should be **written notice** by the trustee or the chairman of the Zionist Executive/chairman of the Board of Trustees (as applicable) concerning the termination of tenure, replacement or dismissal of a trustee.
146. The Office of the Comptroller examined whether four of the trustees (for WZO, Sweden, Canada, and France) resigned or were dismissed, and reviewed the relevant notices.
147. The WZO-appointed trustee who resigned, notified the chairman of

the Zionist Executive in writing of his resignation as a member of the Zionist Executive on November 5, 2014.

148. **The Company's secretary informed the Office of the Comptroller that Keren Hayesod did not have any notice concerning the termination of tenure of all four of the aforesaid trustees.**
149. Following the Office of the Comptroller's inquiry, the Company's secretary contacted the trustee from Sweden and received retrospective notice (in February 2016) that she resigned in June 2015.
150. **The Office of the Comptroller recommends that Keren Hayesod consider adding to its bylaws a requirement that the appointing organization (Zionist Executive or regional campaign) provide Keren Hayesod written notice on the termination of a trustee's tenure on the Board of Trustees, even if the trustee resigns, and not only on a trustee's dismissal. This will provide written documentation of the termination of tenure in those cases where a trustee resigns without notifying Keren Hayesod in writing.**

Keren Hayesod stated in response that it does not believe it is necessary to change the bylaws in this matter. A member resigning from Zionist Executive, for example, will be dismissed from their membership in Keren Hayesod by the Zionist Executive. The Company's secretary will henceforth request the relevant documents, when learning of such incidents.

151. **The Office of the Comptroller notes that Keren Hayesod's response does not cover cases where a trustee resigns without notifying Keren Hayesod. As a result, Keren Hayesod's members registry will not be up to date. As such, as aforesaid, the Office of the Comptroller believes that WZO and the campaigns should provide Keren Hayesod with written reports on trustees who have resigned without notifying Keren Hayesod.**

3.10 Appointment of auditing accountants

152. In January 2012, Keren Hayesod signed an agreement with Somekh-Chaikin (KPMG) CPAs, to audit the 2011 financial statements. The firm has since served as Keren Hayesod's auditor.
153. According to the Board of Trustees' minutes from June 2011, **it was decided that 4 trustees** (two campaign-appointed and two WZO-appointed) **would approve the appointment** of the auditing accountant **by conference call**.

154. Section 57(3) to the Companies Law states that a company's decision on appointing its auditing accountant, the terms of their employment and termination of employment will be made **in general meeting**. Furthermore, Section 58(a) to the Companies Law expressly states that a company may not stipulate against the provisions of Section 57.
155. Thus, the Office of the Comptroller believes that **authority to appoint an auditing accountant may not be delegated**, as it is the sole responsibility of the entire general meeting, as a corporate organ, when it convenes.
156. The Office of the Comptroller found that there are no minutes of the conference call, if it took place, concerning the decision to appoint the auditing accountant.
157. **In fact, there are no minutes documenting a decision by a duly convened and quorum-compliant general meeting, adopted by a majority of the members present, concerning the appointment of the auditing accountant and the terms of his employment.**
158. Section 21 to the bylaws states that any decision made without general meeting will be valid when proven by a document **signed by all members** in the Company.
159. The Office of the Comptroller could not find a decision signed by all the trustees concerning the appointment of Keren Hayesod's auditing accountant.
160. **Thus, the auditing accountant's appointment was not made according to the procedure required under the Companies Law and the bylaws, as detailed above.**

Keren Hayesod stated in response that it is now neither practical nor reasonable to retrospectively amend alleged flaws, after the financial statements have been audited and approved by Keren Hayesod's authorized organs.

Under Section 154(b) to the Companies Law, "An auditing accountant will be appointed in each annual meeting and will serve in their position until the end of the following annual meeting; however, a general meeting may, if suitable provisions have been included in the bylaws, appoint an auditing accountant to serve for a longer period, which will not exceed the end of the third annual meeting following that in which it was appointed".

161. **The Office of the Comptroller found that Keren Hayesod's bylaws**

do not provide for extending an auditing accountant’s tenure beyond one year. Thus, the auditing accountant’s appointment is valid for one year only.

Keren Hayesod stated in response that, indeed, in each annual general meeting, the general meeting approves the auditing accountant’s appointment.

162. **The Office of the Comptroller notes that in the annual general meeting which took place in October 2015, no auditing accountant was appointed. It was appointed later, in the meeting that took place in February 2016.**

163. The signature dates on the letters of engagement with the auditing accountant for auditing Keren Hayesod’s financial statements, were as follows:

| Audit of financial statements for | Auditor’s appointment by the AGM | Signature date on letter of engagement |
|--|---|---|
| 2011 | June 2011 | Jan. 16, 2012 |
| 2012 | October 2012 | Apr. 2, 2013 |
| 2013 + 2014 semi-annual report | November 2013 | Dec. 3, 2013 |
| 2014 + semi-annual report for 2015 | October 2014 | Dec. 4, 2014 |
| 2015 + semi-annual report for 2016 | February 2016 | Mar. 1, 2016 |
| 2016 + semi-annual report for 2017 | April 2017 | Jan. 21, 2017 |
| 2017 + semi-annual report for 2018 | October 2017 (extraordinary meeting) | Jan. 22, 2018 |

164. Keren Hayesod explained that the general meeting is held during the fiscal year, usually in October, and appoints the auditing accountant for that fiscal year. Furthermore, in 2013, Keren Hayesod decided to also prepare and present a semi-annual review for 2014, even though it is not legally required to do so. As a result, the (reviewed) semi-annual report is prepared by the same accounting firm that prepared the annual report for the preceding year. Thus, the auditor’s appointment is for the past year and the next six months.

165. It is emphasized that the auditing accountant’s appointment, by the general meeting, is required only for auditing and expressing an opinion concerning the annual financial statements. Thus, the reviewed semi-annual reports are relegated to management and the Board, and do not concern the general meeting.

166. In February 2016, the Board of Trustees decided to extend the auditing accountant's appointment to prepare the annual report for 2015 and the semi-annual review for 2016. In this decision, the Board of Trustees **authorized management** to determine the compensation due for the auditing services.
167. **The Office of the Comptroller notes that this decision is improper, as according to Section 165A and Section 345H(e)(6c) to the Companies Law, the general meeting can only authorize the Board of Directors in this matter.**
- Keren Hayesod stated in its response that although the Board of Trustees authorized management to conduct negotiations, it instructed that the payment would be based on the pre-existing compensation.
168. **The Office of the Comptroller notes that in itself, conducting negotiations indicates a possible change in fees. Authority in this matter, as aforesaid, can only be delegated to the Board of Directors.**
169. On January 21, 2017, a letter of engagement was signed with the auditing accountant for auditing the 2016 financial statements and reviewing the semi-annual report for 2017.
170. The Office of the Comptroller found that Keren Hayesod signed the letter of engagement with the auditing accountant (in January 2017) before its official appointment by the Board of Trustees (April 2017).
171. **The Office of the Comptroller recommends that, in the future, Keren Hayesod make sure that auditing accountants appointments are approved by the Board of Trustees before signing their letter of engagement.**
172. In the (extraordinary) general meeting of October 26, 2017, an auditing accountant from Somekh-Chaikin was appointed to audit the financial statements for 2017 and the semi-annual report for 2018.
173. The letter of engagement with Somekh-Chaikin for this task was signed on January 22, 2018.

3.11 Approval of financial statements

174. Section 171(c) to the Companies Law states, "Financial statements will be approved by the board of directors, signed on its behalf, and brought before the annual general meeting". Furthermore, Section 92(a) (5) to the chapter governing the board of directors' powers states that

the board, “Is responsible for the financial statements’ preparation and approval, as detailed in Section 171”.

175. In addition to the Companies Law’s requirement (under Section 171(c) and Section 92(a)(5)) that the board approve the financial statements with its signature, as a PBC, Keren Hayesod is also required to approve its annual financial statements in general meeting in accordance with Section 345X(c) to the Companies Law and Regulation 45A to the Company’s bylaws.
176. Section 45A to the Company’s bylaws states that financial statements will “Be submitted to the Company’s Auditing Committee and for approval by the general meeting”.
177. **Thus, the Office of the Comptroller recommends that Keren Hayesod add to Section 45A of its bylaws the statutory requirement that financial statements be approved by the Board of Directors (and not only by the general meeting).**
178. **The Office of the Comptroller found that the financial statements for 2014 were approved by the Board of Directors (in June 2015), but were not also approved by the general meeting (even though highlights from the financial statements were presented to the Board of Trustees in its meeting of October 2015).**
179. **Furthermore, the Office of the Comptroller could not find if and when the general meeting approved the annual financial statements for 2015.**
180. Following on the recommendations of the Audit Committee, the Budget and Finance Committee, and the Board of Directors, the annual financial statements for 2016 were approved in the annual general meeting of June 23, 2017. The auditing accountant participated in this meeting.
181. Section 168(b) to the Companies Law requires the Board of Directors to notify the auditing accountant of the time and place where the general meeting will convene. The decision whether to participate in the general meeting is given to the auditing accountant.
182. **The Office of the Comptroller found that the summons sent by the Company’s secretary prior to the Board of Trustees’ meetings in which the financial statements were discussed, did not include the auditing accountant’s name among those summoned to the Board of Trustees’ meetings of October 2014 and October 2015.**

Keren Hayesod stated in response that the auditing accountant

was invited by Keren Hayesod's CFO, but could not attend the meetings. However, in the future, Keren Hayesod will make sure that the auditing accountant is summoned directly by the Company's secretary.

3.12 The Executive

183. In addition to Keren Hayesod's statutory organs, it has an Executive comprised of leadership members representing the donors and regional campaigns. Members of the Executive are appointed by the Chairman of the Board of Trustees and Keren Hayesod's World Chairman (Chairman of the Board of Directors). The Office of the Comptroller was told that the Executive's role is to consult on campaign-related matters.
184. **Since the Executive is neither a statutory nor operational organ, it does not have authority to make decisions and issue instructions. Therefore, the Office of the Comptroller recommends that Keren Hayesod formally regulate the Executive's operations as a strictly advisory forum, and consider adapting the forum's name to its actual functions.**

Keren Hayesod stated in response that it will study the matter and consider whether changes in this matter are necessary.

Chapter 4: Board of Directors

4.1 The Board of Directors' Composition

185. The Board of Directors is responsible for implementing and carrying out Keren Hayesod's policies.
186. Section 25(a) to the bylaws states that the **Zionist Executive** has the right to appoint 50% of the total number of directors, and the **campaign-appointed trustees** have the right to appoint 50% of the total number of directors.
187. The World Chairman of Keren Hayesod is the Chairman of the Board. The former Chairman of the Board (who, as aforesaid, resigned on April 22, 2018) served from October 2010, and was elected for another term in October 2015. Under Section 28E to Keren Hayesod's bylaws, the chairman of the Zionist Executive has replaced the chairman who resigned, until Keren Hayesod elected a new Chairman of the Board on November 18, 2018.

188. According to Section 24A to the bylaws, the number of Board members will be **at least 8** and will always be an **even number**.
189. According to Keren Hayesod's records, since November 3, 2013, the Board of Directors comprised only 7 members.
190. At the end of the document review process (February 2016), the Board of Directors was comprised as follows:

4 campaign-appointed directors:

Chairman of the Board of Trustees, chairman of the Finance and Budget Committee, and two additional directors.

3 WZO-appointed directors:

Keren Hayesod's World Chairman (who has resigned in the meantime), Chairman of the Zionist Executive, and WZO's Deputy Chairman.

191. **The Office of the Comptroller notes that, for more than two years, the actual number of Board of Directors members did not match the bylaw requirement.**
192. **The Office of the Comptroller recommends that Keren Hayesod work with the Zionist Executive as soon as possible to appoint a WZO-appointed director, so that the number of Board of Directors members be at least 8 members, as specified in Section 24A to the bylaws.**

Keren Hayesod stated in response that, in March 2016, WZO appointed a new director (starting February 2016).

4.2 **Director appointments**

193. Under Section 25B to the bylaws, WZO will appoint directors through a document **signed** by the chairman of the Zionist Executive. The bylaws further state that campaign-appointed directors will be appointed through a document **signed** by the campaign-appointed trustees.
194. The Office of the Comptroller was provided a letter signed by the chairman of the Zionist Executive and sent to the Company's secretary on October 4, 2010, specifying the names of 4 WZO representatives who will serve as directors in Keren Hayesod.
195. **The Office of the Comptroller did not receive from Keren Hayesod any signed documents for the campaign-appointed directors.**

4.3 Termination of a director's tenure

196. Under Section 27A to the bylaws, a director will vacate their position when they resign by written notice to the Company, are dismissed by the appointing entity, or ceases to be a member.
197. Furthermore, under Section 27A to the bylaws, a document signed by the chairman of the Zionist Executive or the chairman of the Board of Trustees terminating a director's tenure, will serve as decisive proof to that effect.
198. A WZO-appointed director resigned her membership in the Zionist Executive in November 2013, and has not attended Board of Directors meetings since 2014.
199. The Company secretary stated that Keren Hayesod did not receive any written notice (from the director or from the chairman of the Zionist Executive) concerning that director's resignation from Keren Hayesod's Board of Directors.
200. The Office of the Comptroller contacted WZO, and found that the director sent a letter on November 3, 2013 to the secretary of the Zionist Executive, notifying of her resignation from the Executive.
201. **The Office of the Comptroller believes that Keren Hayesod should have asked WZO for the necessary documents concerning the director's resignation, near the time of her resignation. Alternatively, Keren Hayesod should have instructed WZO to notify Keren Hayesod of receiving said resignation letters.**

Keren Hayesod stated in response that Keren Hayesod's management was not aware of the Zionist Executive-appointed director's resignation, and so could not have asked for the necessary document in real-time.

202. **The Office of the Comptroller believes that as the director stopped participating in Board of Directors meetings at the end of 2013, Keren Hayesod could have been expected to inquire as to the circumstances behind the director's absence from the Board of Directors meetings. Upon a director's resignation, Keren Hayesod should make sure to obtain written notice to that effect, as per the Company's bylaws.**
203. **The Office of the Comptroller recommends that Keren Hayesod make sure to verify receipt of written notice concerning resignation from the Board of Directors, as per the bylaws.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller's recommendation.

4.4 **Board of Directors meetings**

4.4.1 **Attendance in Board of Directors meetings**

204. The board members may convene as necessary for their work, without limitation as to the number of meetings.
205. Section 32B to the bylaws states that the **quorum** for all board of directors meetings will be an **even number** of directors, **as shall be determined by the general meeting** where 50% of them will be campaign-appointed directors and 50% will be WZO-appointed directors, **provided that there are at least 4 directors** (emphasis added).
206. In 2014, there were two Board of Directors meetings, and in 2015 there were three meetings. The Office of the Comptroller examined the minutes to determine director attendance in the said meetings. Findings were as follows:

Board of Directors meeting of June 17, 2014

207. The minutes for the meeting state that 3 WZO-appointed directors (of which 1 substitute director) and 4 campaign-appointed directors attended the meeting.
208. The Office of the Comptroller notes that this meeting was, in fact, attended by an outgoing campaign-appointed director and a new director (who is also the elected chairman of the Board of Trustees), so in fact, 6 directors attended the meeting, and not 7.
209. **The Office of the Comptroller believes that the minutes should have mentioned which of the two directors had voting rights in the meeting.**

Board of Directors meeting of October 23, 2014

210. The minutes for the meeting state that 4 WZO-appointed directors (of which one substitute director) and 3 campaign-appointed directors attended the meeting.
211. **The Office of the Comptroller found that the chairman of the Zionist Executive appointed the secretary of the Zionist Executive as substitute director in his stead. However, the chairman of the Executive ultimately attended the meeting**

and so the substitute director should not be included in the quorum.

212. The Office of the Comptroller notes that the Board of Directors meeting was actually attended by 3 WZO-appointed directors and 3 campaign-appointed directors, for a total of 6 and not 7 directors.
213. **The Office of the Comptroller recommends that Keren Hayesod make sure to keep accurate minutes concerning Board of Directors meeting participants. The Office of the Comptroller further recommends that minutes note the director who appointed a substitute director for a meeting.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller's recommendation.

214. **The Office of the Comptroller further recommends Keren Hayesod to remove the two words "proxy" and "vote" in the substitute director appointment form, as under Sections 237 and 238 to the Companies Law, a substitute director is not a proxy: a substitute director is a director for all intents and purposes and so is not a proxy and his responsibilities are not limited solely to voting. Furthermore, appointing a substitute director does not negate the substituted director's responsibilities.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller's recommendation.

4.4.2 **Documentation of decision-making in Board of Directors' meeting minutes**

215. Section 37 to the bylaws states that Keren Hayesod must "maintain adequate minutes...listing the names of those present and **the content of the proceedings** (emphasis added) and which will include the decisions concerning all items discussed".
216. Thus, the Office of the Comptroller believes that all minutes should voice the positions of those directors who voted against a decision, specifying both their reasons and their votes. When a decision is made unanimously, the Office of the Comptroller found that the minutes reflect that fact. **Thus, the position of a director who did not support a given decision should also be reflected in the minutes.**

217. The minutes for the Board of Directors commonly use a fixed format, “**The proposed decision was supported and approved unanimously by the Board**”, when recording unanimous decisions.

218. However, the minutes for the meeting of October 23, 2015 include **two decisions** for which the minutes **do not state if they were approved unanimously or by majority vote**:

First decision — The Audit Committee examined Keren Hayesod’s (first) annual report as a PBC, submitted to the Ministry of Justice. The Committee’s recommendation was submitted for Board of Directors approval.

219. The Board of Directors’ minutes state, “The Board members approved the report being submitted to the Ministry of Justice”.

220. **In other words, there is no reference to the number of votes supporting the decision, and so it is unknown whether the decision was approved unanimously or by majority vote.**

221. Second decision — The Board of Directors approved the World Chairman’s recommendation to grant a bonus of an extra month’s salary to former Keren Hayesod’s Director General (who retired in November 2019), in appreciation for the previous year’s strong results. The Board of Directors’ minutes state, “The Board agrees to grant the aforesaid bonus”.

222. **Thus, here too, there is no reference to the number of votes supporting the decision, and so it is unknown whether the decision was approved unanimously or by majority vote.**

Keren Hayesod stated in response that neither the law nor the bylaws require stating the number of votes in favor of a decision. Any decision is approved by majority vote as required by law and the bylaws, if so required. Keren Hayesod added that the Board of Directors’ proceedings and discussions are accurately reflected in the minutes. Moreover, a director who believes his views were not reflected in the minutes may comment on that in the subsequent Board of Directors meeting where the Board members approve the minutes.

223. The Office of the Comptroller notes that, under Section 32D to the bylaws, questions in Board of Directors’ meetings will be resolved by a majority vote of those present. Furthermore, if the

minutes do not specify that a decision was made unanimously or by majority vote, the minutes do not comply with Section 37 to the bylaws requiring that adequate minutes be maintained, stating, among other things, the **contents of the proceedings**. As aforesaid, the Office of the Comptroller believes that all minutes should reflect the positions of those directors who voted against a decision, their reasons and the manner in which they voted.

224. Awarding a bonus to an officer is not a routine matter. The minutes note that the only bonus previously awarded by Keren Hayesod was in 2011, with the Board of Directors' approval.
225. The Office of the Comptroller notes that, this time, the decision concerning the bonus was approved by the Board of Directors, after KEREN HAYESOD's status had changed and it was already registered as a PBC, without having previously been brought before the Audit Committee for approval.
226. **Thus, the Office of the Comptroller notes that, in this case, the proposed decision to award the former Director General a bonus, needed to have been brought before the Audit Committee for approval before being brought before the Board of Directors, as a "transaction with a non-director officer", as detailed below.**
227. Section 345L(a)(5) to the Companies Law states that Section 272(a) will apply to PBCs; Section 272(a) states that **a transaction meeting the provisions of Section 270(2) requires approval by the audit committee followed by the board of directors' approval**. Section 270(2) to the Companies Law refers to a company's contract with an officer who is not a director, concerning the terms of their tenure and employment. Section 1 to the Companies Law defines an officer's "terms of tenure and employment" as including any benefit or other payment granted through such tenure or employment.

According to Section 280(a) to the Companies Law which also applies to PBCs, transactions with officers not approved in accordance with the Law, shall be void.

Keren Hayesod stated in response that the Audit Committee retrospectively ratified the decision to pay the Director General a bonus, in its meeting of April 27, 2017.

Chapter 5: Budget and Finance Committee

5.1 Committee composition

228. According to Section 35A to the bylaws, the Company will have a standing Finance and Budget Committee, comprising in equal parts WZO-appointed members and campaign-appointed members.
229. Under Section 35B to the bylaws, the committee will comprise no less than four and no more than eight members.
230. As of June 2015, Keren Hayesod's Finance and Budget Committee comprised 8 members: 4 for WZO and 4 for the campaigns.

5.2 Appointment letters

231. Under Section 35A to the bylaws, **WZO-appointed** committee members will be appointed by the chairman of the Zionist Executive from among the WZO-appointed trustees; the **campaign-appointed** committee members will be appointed by Keren Hayesod's World Chairman and the chairman of the Board of Trustees, from among the campaign-appointed trustees or the campaigns' representatives. In this case, the World Chairman, who is **appointed by WZO**, takes part in appointing representatives **for the campaigns**.
232. In its examination, the Office of the Comptroller asked to see the appointment letters for the committee members. The Company secretary stated that only the committee chairman has an appointment letter, dated November 2015.
233. **The Office of the Comptroller recommends issuing appointment letters for the Finance and Budget Committee members, and arranging appointment letters for the Committee's current members.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller's recommendation.

234. The Office of the Comptroller found that one member of the Finance and Budget Committee **does not serve as a campaign-appointed trustee**. Therefore, the Office of the Controller asked to see documentation of his appointment **as a campaign representative** — as allowed under Section 35A to the bylaws.
235. The Company's secretary stated that Keren Hayesod did not have any documentation of the said member's appointment to the Finance and Budget Committee, as a campaign representative.

236. **The Office of the Comptroller recommends that Keren Hayesod check the propriety of that member's membership in the Finance and Budget Committee, as he is not a member of the Board of Trustees, and no documentation could be found for his appointment as a campaign representative.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller's recommendation, and in June 2017 the said member was appointed to the Board of Trustees as an unaligned member.

237. The Office of the Comptroller notes that the appointment letter for the said member was signed by the chairman of the Board of Directors and the chairman of the Board of Trustees, even though Section 4 to the bylaws states that campaign-appointed trustees will be appointed by a document signed by the authorized signatories of the campaign appointing the trustee. Furthermore, as aforesaid, no minutes were presented showing that the campaign-appointed trustees approved the proposed membership, as required under Section 3C to the bylaws.

Keren Hayesod stated in response that, since these trustees are not aligned with any specific campaign, no campaign can sign their appointment letters. Thus, it is customary for these letters to be signed by the World Chairman and the Chairman of the Board of Trustees. Keren Hayesod added that it is in negotiations with the Zionist Executive to change its bylaws to match this long-standing practice for appointing unaligned Board members.

238. Under Section 35D to the bylaws, **a campaign-appointed Committee member will serve for a period of two years**, while WZO-appointed members will serve until the Zionist Congress following their appointment. Committee members may be reappointed.
239. The notice for the Committee chairman's appointment does not state that the appointment is for a period of two years.
240. **The Office of the Comptroller recommends that KEREN HAYESOD note in its appointment letter for campaign-appointed Finance and Budget Committee members, that the appointment is for a two year period.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller's recommendation.

241. According to data received from the Company's secretary, campaign-

appointed Finance and Budget Committee members have been serving on the Committee for many long years: one has been serving since November 1997, another (unaligned member) has been serving since 1998, and a third since 1997 — **thus, all three have been serving far longer than the two year period.**

242. The Company's secretary stated that Keren Hayesod does not have any documentation of their re-appointment to the Finance and Budget Committee.
243. **The Office of the Comptroller recommends that Keren Hayesod comply with its bylaws and make sure to limit the campaign-appointed Finance and Budget Committee members' term to only two years. If it is decided to extend a Committee member's term, they must be re-appointed.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller's recommendation.

5.3 Quorum in Finance and Budget Committee meetings

244. Under Section 35E to the bylaws, the requisite quorum for any Finance and Budget Committee meeting will be half of its members and **must include the chairman of the Committee (or a substitute member acting on his behalf, authorized by him in writing to chair that meeting)**, and at least one other campaign-appointed Committee member and one other WZO-appointed Committee member.
245. According to the minutes for the Committee meeting of June 17, 2014, the chairman of the Committee did not attend the meeting. KEREN HAYESOD's World Chairman (the former Chairman of the Board) chaired that meeting.
246. The Company's secretary stated that there is no written notice that the (former) World Chairman was authorized by the Committee chairman to chair that meeting. According to the secretary, authorization was given verbally to her.
247. However, Section 36 to the bylaws states that any decision made in good faith by a Board of Directors committee will be valid even if a flaw is subsequently found in the appointment of any of the directors.
248. Upon revieweing the Finance and Budget Committee's minutes from 2014 and 2015, the Office of the Comptroller found that the minutes were not signed by the chairman of the meeting.

249. **The Office of the Comptroller recommends that the chairman of the Finance and Budget Committee sign the meeting minutes. The importance of signing the minutes is reflected in Section 108 (b) to the Companies Law and Section 37 to the Company's bylaws, concerning the Board of Directors and its committees. These passages state that signed minutes constitute prima facie and sufficient evidence to their contents.**

Keren Hayesod stated in response that it will make sure to have the chairman of the meeting sign the minutes.

Chapter 6: Audit Committee

6.1 Committee composition

250. In June 2011 (prior to Keren Hayesod's registration as a PBC), the Board of Trustees appointed an audit committee comprising 3 members: a CPA chairing the Committee, a retired judge, and a former Keren Hayesod Chairman.
251. The decision stated that two additional members would be added to the Audit Committee, who would be selected jointly by Keren Hayesod's World Chairman (Chairman of the Board), the chairman of the Board of Trustees, and the chairman of the Zionist Executive.
252. The Office of the Comptroller found that the Audit Committee chairman only presented to the Board of Trustees (Keren Hayesod's general meeting) the two new members who joined the Audit Committee in October 2014.
253. **The Office of the Comptroller believes that a period of three and a half years between a decision and its implementation — is unreasonable.**

Keren Hayesod stated in response that the two new members were presented in the annual general meeting immediately upon receiving the recommendation from the chairman of the Zionist Executive and Keren Hayesod's World Chairman. Keren Hayesod's management is not responsible for the appointment, the Board of Trustees is. The appointment process required agreement between WZO and the campaigns' representative — something that is outside Keren Hayesod's management's control.

254. The Office of the Comptroller found that the October 2014 minutes **do**

not state that the Board of Trustees **decided to appoint** the two new members to the Audit Committee, or approved their appointment.

255. The Office of the Comptroller believes that since Section 38B to the bylaws states that the Board of Trustees will appoint an audit committee, the Board of Trustees should have decided to appoint the two new members to the Audit Committee, and note such action in the minutes **as a decision**.

Keren Hayesod stated in response that Keren Hayesod's annual meeting of October 26, 2017 ratified the two additional members' membership in the Audit Committee, retrospectively to their original appointment date.

256. **The Office of the Comptroller recommends that Keren Hayesod apply a practice of issuing appointment letters for Audit Committee members.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller's recommendation.

As a PBC, Keren Hayesod is required to appoint an audit committee, internal auditor, and auditing accountant to audit the annual financial statements.

257. In January 2015, as part of Keren Hayesod's registration as a PBC, the five Audit Committee members signed a declaration concerning their willingness to serve as the first audit committee members of a PBC.
258. The Companies Law (in those sections applicable to PBCs) does not provide for a minimal number of audit committee members in PBCs. One of the Committee members asked to end their term on the Audit Committee in March 2015. It was only two years later, in March 2017, that a new member was appointed to the Audit Committee instead of the one who resigned.

6.2 Audit Committee's functions

259. Section 345H(e) to the Companies Law established an audit committee's functions as follows:
- a. To examine proper conduct by the company and its institutions, including alignment of its operations with its goals;
 - b. To examine effective and efficient attainment of company targets;
 - c. To monitor the performance of board of directors and board of trustee decisions.

- d. To point out flaws in the company's management, including by consulting with the company's internal auditor or its auditing accountant, and suggest ways that the board of directors may remedy such flaws;
- e. To examine the company's finances, ledgers and salary payments, including utilization of its funds in pursuing its goals;
- f. To examine the actions of company officers;
- g. To decide whether to approve interested-party transactions requiring audit committee approval as detailed in the Companies Law, and actions and transactions requiring audit committee approval under the Companies Law.
- h. To recommend an internal auditor for appointment by the board of directors.
- i. To examine internal controls and the internal auditor's performance and whether he has the resources and tools necessary to perform his duties, to examine the internal auditor's work plan prior to its submittal to the board of directors for approval, and to propose changes to such work plan;
- j. To examine the scope of the auditing accountant's work and his fee, and to make a recommendation to the organ determining his fee;
- k. To examine any other matter related to the company's operations and to present its conclusions to the board of directors and the annual general meeting.
- l. To establish guidelines for handling employee complaints concerning flaws in the company's management and concerning the protections given to employees making such complaints.

Keren Hayesod stated in response that the functions listed in Section 345H(e) to the Companies Law are the minimum requirement — functions with the committee is obligated to perform. It does not prevent the committee from performing other audit-related or audit-assisting duties. There is nothing to prevent a committee from performing these functions, unless they are assigned to another competent organ by law.

260. The Office of the Comptroller notes in response that the section prescribing the committee's responsibility "To examine any other matter related to the Company's operations" is a generalized item, and should not be construed as license to perform the duties of other

Company organs. In practice, the Office of the Comptroller found that the Audit Committee overstepped its authority when, for example, it independently decided that specifically Deloitte would perform the risk survey (January 2012) and provide internal auditing services for Keren Hayesod (in 2013) (see below, Section 6.4.1 and Section 6.4.2).

6.3 Audit Committee's involvement in the selection of the auditing accountant

261. In September 2011, the Audit Committee convened to form a recommendation for choosing an auditing firm for Keren Hayesod's financial statements (prior to approval by the Board of Trustees). As aforesaid, this firm has since served as Keren Hayesod's auditing accountant.

262. The Committee members reviewed a table comparing price quotes and additional information concerning 4 bidders, and sequentially interviewed the bidders. The minutes state that a discussion was held as well as internal consultation with the professional staff, and "following such consultation, the Committee recommends KPMG". **The Committee asked the professional team to negotiate the fee with the representative partner from Somekh-Chaikin KPMG.**

Keren Hayesod stated in response that interviews were conducted after Keren Hayesod's professional staff, who also serve on the Administration Committee, screened the bidders and conducted preliminary interviews.

263. It is noted that the Audit Committee is not involved in the auditing accountant's appointment. This appointment must be made by the general meeting, according to Section 154(b) to the Companies Law. According to the Companies Law, the Audit Committee's recommendations concerning the auditing accountant are limited to reviewing the scope of the auditing accountant's work and his fees, and the Audit Committee does not need to submit a recommendation to the general meeting in order for the auditing accountant to be chosen and appointed.

Keren Hayesod stated in response that the law does not prescribe a finite list of functions, but rather lists the mandatory duties. As the National Institutions Comptroller notes, the Audit Committee's recommendation of an auditing accountant is indeed not required. However, the law does not prohibit the expansion of the Audit Committee's functions, such as the making of such recommendations.

264. The aforesaid Audit Committee minutes state that the Committee decided that the selected auditing accountant will be “completely independent **and their obligation will be towards the Audit Committee and the organs above it**”.
265. The Office of the Comptroller notes that Section 160(a) to the Companies law also requires the auditing accountant to be independent, and so has no obligation towards any Company organ, except to conduct his work professionally and independently. Furthermore, according to Regulation 2 of the Accountants Regulations, 1973, “an accountant will be independent of an audited organization, directly or indirectly, and will maintain such independence in its professional work”.

Keren Hayesod stated in response that the auditing accountant must report to the Audit Committee (among others), and of course his professional work is not under the Audit Committee’s supervision. That was the Committee’s intention.

266. The Office of the Comptroller notes that the auditing accountant does not have to report to any Company organ, including the Audit Committee, and emphasizes that the purpose of the auditing accountant’s audit is to present an independent professional opinion on Keren Hayesod ‘s financial statements, and to determine whether they fairly present the Company’s financial position.

Keren Hayesod stated in response that, since by law and according to the bylaws, the Audit Committee approves and recommends that the Board of Directors approve the financial statements, it obviously requires that a review of the financial statements be presented the auditing accountant. Needless to say, it may ask questions and receive clarifications concerning these statements from the auditing accountant.

267. The Office of the Comptroller notes in response that it is unclear from where Keren Hayesod ‘s Audit Committee draws its alleged powers to approve the financial statements. Furthermore, the Office of the Comptroller’s above comment referred to the auditing accountant’s obligations. The Office of the Comptroller explained that, in contrast to the Audit Committee’s statement, the auditing accountant has no obligation to the Audit Committee or to the

corporate organs above it, and that financial statements should be approved by the Board of Directors, and not the Audit Committee. Clearly, there is nothing to prevent the Audit Committee from discussing the financial statements. However, this should not be construed as approval of the financial statements by the Audit Committee, or as giving rise to any obligation or dependence by the auditing accountant toward the Audit Committee.

6.4 **Executive decisions by the Audit Committee in the selection of a third party provider for internal auditing services**

268. The Audit Committee's minutes indicate that **the Committee decided which third party provider would conduct a risk survey and internal audit** for KEREN HAYESOD, as follows:

6.4.1 **Selecting an accounting firm to conduct a risk survey**

269. In January 2012, the Audit Committee chose a third party accounting firm to conduct a **“risk survey”** concerning the Company's risks and mitigation thereof. The survey mapped those risks to help in developing a long-term audit plan and control procedures.

270. The minutes state, “The Committee chairman reminds those present that the purpose of the meeting is to interview bidders for the role of surveyor and risk officer, **and to choose one of them**. All the bids were circulated ahead of time to those present along with the comparative table”.

271. And so, **the Audit Committee members themselves interviewed** representatives from four accounting firms competing for the role. **The minutes state, “Decision: To appoint Deloitte as Keren Hayesod's risk consultants for conducting the risk survey”.**

Keren Hayesod stated in response that the interviews were conducted after the candidates were interviewed by Keren Hayesod's professional staff, who also reviewed the bids.

272. In October 2012, Deloitte completed the risk survey and submitted a preliminary outline for an audit plan. Management, together with the internal auditor, was instructed to prepare a detailed plan to identify risk exposures. The internal auditor's audit plan was to cover these exposures.

Keren Hayesod stated in response that the minutes for the Audit Committee meeting of October 23, 2012 state, “The

Audit Committee is satisfied with the process to date, and wishes that Management hire an accounting firm (Deloitte or other) which, together with the internal auditor, will prepare for the Audit Committee a detailed long-term audit plan, which Management and the auditor will present to the Audit Committee”. As the internal auditor was absent from this meeting, the Audit Committee instructed management to forward the information to the internal auditor.

273. The bids that Keren Hayesod requested from several accounting firms on September 5, 2011, were for a comprehensive risk survey and for internal auditing services for Keren Hayesod.

6.4.2 Selecting an accounting firm to provide internal auditing services

274. In 2013, the Audit Committee also chose a third party accounting firm to perform “**internal auditing services**” for Keren Hayesod. Again, the Audit Committee itself chose Deloitte, this time **to provide internal auditing services** for Keren Hayesod in Israel and abroad, in addition to the internal auditor. The minutes state, “**The Audit Committee decides that Management will contract Deloitte**, due to their experience in preparing risk surveys and internal audit works, to support the Audit Committee and the internal auditor in the audit plan, its performance, and in the presentation of final reports to the Committee and/or management. The chairman of the Audit Committee did not take part in this decision. The legal counsel and CFO are responsible for contracting”.

Keren Hayesod stated in response that the Audit Committee’s roles include providing adequate resources for the internal auditor to perform his duties, as indicated in the Law and in Keren Hayesod’s bylaws

275. The Office of the Comptroller does not argue that the Audit Committee’s roles under Section 345H(e)(6b) to the Companies Law include “To examine... whether (**the internal auditor**) has the necessary resources and tools to carry out his duties”.

Keren Hayesod added in its response that, according to legal counsel received in the matter, an audit committee member has a right (like a director) to employ (at the company’s expense) professional consultants to perform his duties, if such expense was approved by the board of directors (**under Section 266 to the Companies Law**). The internal

auditor requires significant help in carrying out his duties, and the Audit Committee made sure that Keren Hayesod's management would provide all the assistance necessary. The Board of Directors approved the budget. The contract was signed according to Keren Hayesod's procedures and proper conduct principles, whereby audited organs cannot reasonably choose their auditors.

276. The Office of the Comptroller notes that **Section 266(a)** to the Companies Law states that **in performing his duties**, a director (under special circumstances) may receive professional consultation at the company's expense, if such expense was approved by the company's board of directors or the court. Thus, this section only applies to cases where an audit committee member requires professional consultation — **personally, and under special circumstances**, and as an isolated incident, **and not when dealing with a contract to support the entire audit committee, in a regular and continuing manner.**
277. Furthermore, and as aforesaid, the Audit Committee's duties (Section 345H(e)(6b) to the Companies Law) include examining whether the internal auditor, **and not the Audit Committee**, has the necessary resources and tools to perform his duties. Thus, one could have expected the internal auditor (and not the Audit Committee) would select the professional parties whose services he required in carrying out his duties.
278. Moreover, it is improper that the Audit Committee will select the service provider to **provide internal auditing services** for Keren Hayesod in Israel and abroad, **in addition to the internal auditor**, as this selection process should also be under the review of the internal auditor, who reports to the Audit Committee.
279. Between 2014 and the first half of 2016, the partner from Deloitte conducted internal auditing activities for Keren Hayesod in Israel and abroad, in addition to Keren Hayesod's regular internal auditor. (It is noted that the partner from Deloitte has served as Keren Hayesod's internal auditor since 2017 (since the internal auditor's departure in April 2016), and is expected to hold this position until the end of 2020, following the Audit Committee's recommendation).
280. **The above data indicate that the Audit Committee itself chose**

Deloitte to conduct the risk survey (2012) and to provide internal auditing services (2013).

281. **The Office of the Comptroller notes that the Audit Committee is not a tenders committee, and it is neither its job nor in its power (see Section 345H(E) to the Companies Law) to appoint one accounting firm or another to conduct a risk survey or to provide auditing services.**

Keren Hayesod stated in response that, when it first convened, the Audit Committee found numerous gaps in Keren Hayesod's internal audit and risk management operations. Thus, out of a desire to meet the standards required of public benefit companies, it deemed that significant efforts would also be required to improve internal auditing and control. Although the Audit Committee does not function as a tenders or administration committee, but in view of the extensive professional experience accumulated by the Committee members, it is only natural that the Committee would help identify and select the third party supplier, in exactly the same way that it must recommend an internal auditor to the Board of Directors.

282. The Office of the Comptroller notes in response that the law requires the Board of Directors to appoint an internal auditor with the Audit Committee's consent (Section 345I(a)). However, choosing the exact third party auditing accountant to perform a risk survey and provide auditing services is outside the scope of the Audit Committee's duties. Furthermore, as already mentioned, the 'general item' in the list of the Audit Committee's functions should not be construed as license to perform the duties of other Company organs.

283. **The Audit Committee's functions include to review, examine, suggest, recommend, and then present its conclusions to the authorized decision makers, including the Board of Directors or general meeting (Section 345H(e) to the Companies Law), who will order a proper tendering process.**

Keren Hayesod stated in response that the Audit Committee members, who have the same rights as the Board of Directors' members, worked together with Keren Hayesod's senior staff to interview various firms to provide auditing services. Keren Hayesod's management does not see any

problem with the Audit Committee contributing to this process, especially not when this is done in full cooperation with the entire professional staff who are the decision-makers in Keren Hayesod's Administration Committee.

284. The Office of the Comptroller notes in response that our position appears in the above items as concerns Section 266(a) to the Companies Law and the fact that the Audit Committee itself selected Deloitte. In practice, the Committee dictated to the internal auditor who will provide the auditing services, which were extensive in scope. The Office of the Comptroller emphasizes that companies are obligated to maintain the internal auditor's independence, and must not dictate who will serve as his supporting consultants.
285. Keren Hayesod is exempt from the Mandatory Tendering Law. However, it does have an internal procedure (*Procurement and Contracting Procedure No. 10.02*, dated September 2, 2013) for supplier selection and contracting (e.g. — through the Senior Administration Committee).
286. On November 7, 2014, the Senior Administration Committee decided to choose Dagan Audit and Control Ltd., headed by Mr. Yaron Dagan, CPA, to provide internal auditing services.
287. The Senior Administration Committee's minutes note that Keren Hayesod contacted 3 small firms specializing in auditing large organizations, and after meeting with their representatives and speaking with their references, the CFO, together with Keren Hayesod's controller, decided to recommend Yaron Dagan's firm.
288. **It is thus unclear why, in the selection of Deloitte as the third party provider for internal auditing services, Keren Hayesod's CFO, controller, and legal counsel did not voice their reservations when the Audit Committee itself chose the service provider. The Office of the Comptroller wonders why, here too, Keren Hayesod did not operate through the Senior Administration Committee in selecting an accounting firm to conduct a risk survey and provide internal auditing services, as per the Company's procedures (*Procurement and Contracting Procedure No. 10.02*, dated September 2, 2013).**

Keren Hayesod stated in response that choosing an accounting firm for conducting a risk survey and providing internal auditing services through the Senior Administration

Committee, without the Audit Committee's supervision and involvement, would have undermined the audit provider's independence. As aforesaid, the Audit Committee has expansive powers and its members have the same rights and duties as Company directors. Under Section 266 to the Companies Law, as aforesaid — the Audit Committee may appoint consultants necessary to perform its duties. The contract with Yaron Dagan was due to other needs, different from those behind the contract with Deloitte, and so the two cases are not comparable.

6.5 Agreements for auditing services

The Office of the Comptroller asked to examine Keren Hayesod's agreements with the two accounting firms providing outsourced internal auditing services.

Keren Hayesod stated in response that Keren Hayesod's management has already previously objected to including agreements and contracting in an audit report focusing on corporate governance. However, the National Institutions Comptroller chose to ignore this comment in light of the nature of the services provided through these agreements. In any case, since the Audit Committee did not have any bearing on these agreements, there is no room to include the matter in a chapter focusing on the Audit Committee.

289. The Office of the Comptroller notes that the auditor — and not the audited organization — decides whether to audit a given subject, and where it is to be presented in the audit report.

6.5.1 Dagan Audit Ltd.

290. Mr. Yaron Dagan, CPA, provided Keren Hayesod with outsourced auditing services, from December 2014 to August 2015, focusing on business development (projects).

291. The Office of the Comptroller found that **no agreement was signed** between Keren Hayesod and Dagan Audit. Therefore, it is not possible to examine the number of hours allocated for the audit. In practice, he was paid NIS 30,000 for preparing one audit report.

Keren Hayesod stated in response that it followed the bid attached to the Senior Administration Committee's minutes. The report was planned for 150 hours. Actual performance exceeded that amount by 82 hours, with only 50 additional

hours ultimately approved for payment, as the number of hours worked was higher than anticipated.

292. **The Office of the Comptroller recommends that Keren Hayesod make sure that all contracts and payments to third parties be based on signed agreements and not on bids submitted to Keren Hayesod.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller's recommendation

6.5.2 **Deloitte**

293. The Office of the Comptroller found that Keren Hayesod signed an agreement with Deloitte in September 2012, while its representative presented the Audit Committee with partial risk survey findings in June 2012, i.e. — three months before the contract was signed.

294. **The Office of the Comptroller recommends that Keren Hayesod check why Deloitte began conducting the risk survey before a contract was signed.**

Keren Hayesod stated in response that the work began according to the bid that was submitted and approved. The agreement was signed later on, but before payment was made for the work. The risk in this case was borne by Deloitte.

295. **The Office of the Comptroller emphasizes that under proper conduct principles, contracts should be signed before services are received, and so the Office of the Comptroller recommends that Keren Hayesod adhere to that in the future.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller's recommendation.

296. Section 9 to the agreement with Deloitte states, "It is hereby clarified and agreed that the consultant's liability under this agreement will not apply except in cases of gross negligence and/or intentional action and will in any case not exceed the amount which the consultant was entitled to receive for its services under this agreement".

297. The Office of the Comptroller wonders why Keren Hayesod agreed to this contractual provision. The Office of the Comptroller

believes this provision is problematic: Why shouldn't Deloitte bear liability except in cases of "**gross negligence**" or **only upon intentional action**? Why is the amount limited to the payment amount? And what is the amount? (since payment was on an hourly basis). The Office of the Comptroller believes that Deloitte bears professional liability and is also insured — and so it should be liable for any negligence, and not just gross negligence.

Keren Hayesod stated in response that these terms are common for such agreements or services and the final phrasing is subject to commercial negotiation. These are reasonable administrative decisions following negotiations that are within Keren Hayesod's management's authority. In this context, it is further noted that negotiations always entail mutual concessions and agreements.

298. Section 10 to the agreement with Deloitte states that work products are for *Keren Hayesod* only **and will not be disclosed to any third party**, except with Deloitte's prior (written) consent. Otherwise, **Deloitte will be entitled to full indemnification from Keren Hayesod.**

299. **The Office of the Comptroller believes this section of the agreement is unreasonable, as Deloitte conducts the examination for Keren Hayesod and has no ownership of the findings.**

Keren Hayesod stated in response that this is a standard clause found in all agreements with the major accounting firms. Furthermore, these are reasonable administrative decisions following negotiations that are within Keren Hayesod's management's authority. In this context, it is further noted that negotiations always entail mutual concessions and agreements.

300. The agreement with Deloitte (Section 10 quoted above) is unclear: who constitutes a 'third party'? What is Keren Hayesod permitted to disclose? What cannot be handed over? What does this restriction mean when Keren Hayesod is a PBC? It is also unclear why Keren Hayesod agrees to indemnify Deloitte to an unlimited amount? Why not up to the limit of Deloitte's fee?

Keren Hayesod stated in response that 'third party' is any party that is not part of the agreement. Keren Hayesod may disclose any of its own information, as dictated

by law and at its discretion, but it cannot hand over the products of Deloitte's work without its approval — unless required by a competent authority making a lawful demand. Keren Hayesod added that Keren Hayesod's PBC status is irrelevant in this case. In any case, and as aforesaid, this is a standard clause found in all the major accounting firms' agreements. Furthermore, these are reasonable administrative decisions following negotiations under Keren Hayesod's management's authority.

301. Section 13 to the Deloitte agreement states that the contract is **for one year**. However, the section stating the start date for rendering the services was left empty in the agreement.

302. **The Office of the Comptroller recommends that Keren Hayesod make sure to properly complete all details of the agreement prior to signature.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller's recommendation.

303. The Office of the Comptroller found that, a year later, a new agreement **was not signed** with Deloitte, and the existing agreement was not extended, **even though Keren Hayesdo continued receiving auditing services from Deloitte.**

304. In 2014, Keren Hayesod paid Deloitte NIS 107,700 for auditing services. In 2015, Keren Hayesod paid Deloitte NIS 225,591 for auditing services.

Such conduct does not comply with the Procurement and Contracting Procedure (No. 10.02, dated September 2, 2013), which states that, for expenses of NIS 40,001 or higher, at least three quotes must be considered, and the organ **authorized to approve** the contract is the **Senior Administration Committee.**

305. In September 2015, an agreement was signed with Deloitte, entitled "Addition to the Agreement of September 2012".

306. **The Office of the Comptroller could not find who made the decision to extend the agreement for more than one year. The Office of the Comptroller could not find who held the discussion to decide whether to replace Deloitte or continue its contract.**

Keren Hayesod stated in response to the above sections concerning the contract with Deloitte that these sections are outside the goals and scope of the audit concerning corporate governance.

307. **The Office of the Comptroller notes in response that, although the report does not focus on supplier contracts, the Office of the Comptroller deems it fit to note that Keren Hayesod did not comply with its Procurement and Contracting Procedure in its contract with Deloitte, as the Audit Committee instructed Keren Hayesod’s management as detailed in Chapter 6.4.2.**

Keren Hayesod stated in response that, although the Audit Committee recommended Deloitte to provide the services, but it does not involve itself in administrative proceedings, and this section should be stricken from the chapter dealing with the Audit Committee.

308. The Office of the Comptroller notes in response that the Audit Committee single-handedly decided (and not recommended, as Keren Hayesod argues) to hire Deloitte to perform the risk survey and provide internal auditing services, as detailed in Chapter 6.4.2.

6.6 Support for the Audit Committee

309. In the budget proposal for 2016, Deloitte was also budgeted for ‘Support for the Audit Committee’, as an additional work with a scope of 100 hours.
310. **It is not clear what is meant by ‘Support for the Audit Committee’, or why it requires additional budget.**

Keren Hayesod stated in response that this includes additional tasks issued by the Audit Committee under its authority, such as maturity models. The Audit Committee has authority by law to consider the resources required to perform its functions.

311. The Office of the Comptroller notes that under Section 345H(e)(6b), the Audit Committee must consider, among other things, whether the necessary resources are **available to the internal auditor and not whether the necessary resources are available to the Audit Committee**, as ‘required to perform its functions’ according to KEREN HAYESOD’s response.

Keren Hayesod added that support for the Audit Committee

is intended to help the Audit Committee, and not the internal auditor as specified by the Comptroller of National Institutions. Furthermore, support for the Audit Committee was fully coordinated with Keren Hayesod's internal auditor at the time. Keren Hayesod's management, Board of Directors, and Board of Trustees, who approved the budget and received regular reports on its implementation, are very satisfied with the products of Deloitte's work and with the Audit Committee's performance. The Audit Committee requires consultants or auditing service providers to support its work, and there is nothing wrong with this task or with delegation of additional tasks, provided that they were approved according to the Company's procedures and do not conflict with or undermine the independence required for auditing works. These tasks can include a review of various reports received by the Committee.

312. **The Office of the Comptroller does not share Keren Hayesod's view** that *'the Audit Committee requires consultants or auditing service providers to support its work and there is nothing wrong with this task or with the delegation of additional tasks'* (to Deloitte), **in addition** to the work conducted by the internal auditor.

Keren Hayesod stated in response that the Audit Committee does not accept the National Institutions Comptroller's conclusions. The Audit Committee, and Keren Hayesod's management, notes the option to appoint consultants is intentionally included in the law. The National Institutions Comptroller's conclusions are based on the Comptroller's interpretation of the law, which is not the only interpretation possible, and which Keren Hayesod's management rejects.

313. The Office of the Comptroller notes in response that our position has already been made clear in Chapter 6.4.2 to the report, as concerns Section 266(a) to the Companies Law. This section of the law refers to special cases which allow a board member to receive professional advice. However, even then the matter requires approval by either the board or a court of law, neither of which occurred in Keren Hayesod's case.

6.7 **Executive decisions by the Audit Committee concerning management of auditing works and the internal auditor**

314. The minutes indicate that the **Audit Committee specifies which matters will be examined by Deloitte**. For example:

315. The Office of the Comptroller found that, in its meeting of September 2014, the Audit Committee decided that “In 2015, Deloitte’s team will perform 70% of the audit reports abroad, and the internal auditor will perform 30%”.

Keren Hayesod stated in response that, starting 2013, the scope of internal auditing grew, according to Keren Hayesod’s needs, and no longer matched the scope of the internal auditor’s work — and certainly not for a single person — and so the Audit Committee, within its authority, decided how to split the work.

316. **The Office of the Comptroller notes that it is not the Audit Committee’s job to split auditing works between Keren Hayesod’s appointed internal auditor and various service providers (in this case, Deloitte). For example:**

In January 2015, **the Audit Committee decided that Deloitte would examine how Keren Hayesod could handle its procedures** concerning programs, non-profits, and projects funded by Keren Hayesod.

Furthermore, at the start of 2015, **the Audit Committee decided that Deloitte would review the grant award process** implemented by Keren Hayesod’s management.

Keren Hayesod stated in response this is a sensitive matter that the Audit Committee believes, following management’s recommendation, that the internal auditor did not have the expertise, know-how or experience to perform himself.

317. The Office of the Comptroller notes in response that Keren Hayesod’s answer does not clarify why the internal auditor could not perform these two examinations himself. **The general impression is that the Audit Committee, if it believed the internal auditor was not fulfilling his duties, instead of working to support or replace him, handed the auditing works over to Deloitte.**

Keren Hayesod stated in response that Keren Hayesod’s internal auditor in the relevant period was a veteran employee in the organization, with extensive credentials, knowledge and experience, who was appointed to the position when Keren Hayesod was not statutorily bound to appoint an internal auditor or audit committee. The

auditor worked part time and focused on auditing some of the overseas campaigns. These resources did not meet all of Keren Hayesod's new needs, including the need to audit management's grant awarding process. In any case, this was a reasonable managerial decision by Keren Hayesod. Keren Hayesod's chairman, together with the Audit Committee, asked Deloitte to conduct the said examinations, which as aforesaid required expertise and sensitivity that the internal auditor at the time did not have.

318. The Office of the Comptroller notes that if expertise was required, another solution could have been found **together with the internal auditor**, such as providing the internal auditor with additional professional staff or service providers, **who would work under his supervision.**

Keren Hayesod stated in response that, due to the international nature of Keren Hayesod's audited organization, Keren Hayesod's management believed, and continues to believe, that a third party provider was required who was familiar with international standards and methods. Generally, third party providers of this quality will always be more efficient, economically and administratively, than employing additional staff through the Company's roster. It is noted that the division of work between the internal auditor and the third party provider was made in full cooperation between them.

319. The Office of the Comptroller notes in response that the Office of the Comptroller did not recommend that additional staff be hired, but rather noted that responsibility lies with the internal auditor, and not with the Audit Committee. In practice, the third party provider was single-handedly selected by the Audit Committee, and instructions on how the provider was to perform his work were given directly by the Audit Committee and not by the internal auditor.
320. In September, 2015, Deloitte offered the Committee to prepare another risk survey, different and more limited than the one prepared in 2012. **The Audit Committee accepted Deloitte's offer, and decided that Deloitte would conduct the risk survey in 2016**, from which a future work plan would be derived.

Keren Hayesod stated in response that the Audit Committee

was within its authority in requesting a risk survey that would be used to draft the audit plan — in light of the fact that the previous long-term audit plan, derived from the previous risk survey, had ended.

321. **The Office of the Comptroller notes that its comment did not refer to the performance of the risk survey in itself, but in the re-selection of Deloitte not through the process prescribed in the Procurement and Contracting Procedure (no. 10.02, dated September 2, 2013).**

322. **The Office of the Comptroller found that, in September 2015, the Audit Committee decided to add 40 hours for Deloitte to prepare a follow-up report on Board of Directors decisions.**

Keren Hayesod stated in response that the internal auditor at the time was asked to perform the follow-up on the Board of Directors' decisions, which is one of the Audit Committee's functions — but claimed that he could not perform this work. Follow-up on Board of Directors decisions is one of the Audit Committee's statutory roles.

323. **The Office of the Comptroller notes that our comment does not refer to the follow-up on Board of Directors decisions, but to Deloitte's selection, again, not through the process specified by the Procurement and Contracting Procedure (no. 10.02, dated September 2, 2013).**

324. **It is noted that Section 52D to Keren Hayesod's bylaws states that, lacking any decision as to which officer will be the internal auditor's organizational superior, the chairman of the Board of Directors will be the internal auditor's organizational superior. Furthermore, the Board of Directors has other important roles in interacting with the Audit Committee, as the organ that approves the internal auditor's appointment with the Audit Committee's consent, and the audit plan that the internal auditor submits to the Board of Directors, after the Audit Committee reviews the plan and proposes changes prior to its submittal to the Board of Directors for approval (see Sections 345I(a9), 345H(e)(6b) and 345I(b) to the Companies Law).**

325. **The Audit Committee could be expected to bring its recommendations before the Board of Directors for approval, instead of making executive decisions itself.**

326. **The Office of the Comptroller recommends that Keren Hayesod refresh the Audit Committee members on the Committee’s roles, as defined in Section 345H(e) and 345I(b) to the Companies Law.**

Keren Hayesod stated in response that Section 345H(e) to the Companies Law includes a long list of roles for an audit committee, which enlists the aid of the internal auditor in carrying out these roles. Keren Hayesod has already stated above that it, together with the Board of Directors and the Board of Trustees, welcomes the Audit Committee’s level of involvement in Keren Hayesod’s internal auditing activities, and is supported in this position by expert advisors, as detailed above. Keren Hayesod has undergone a prolonged and profound change in its internal auditing, with the Audit Committee’s help and guidance. The Audit Committee does not make decisions concerning Company policy — but only about auditing matters. Its job is to identify flaws in the Company’s conduct in consultation with the auditor — and Keren Hayesod does not see any flaw in the expansive interpretation of that job. It is not in the Company’s interest to hinder the Audit Committee, and it is unfortunate that the Comptroller of the National Institutions believes differently. In any case, Keren Hayesod wonders why the Comptroller of the National Institutions is seeking to limit the Audit Committee’s involvement and influence, and does not accept the recommendation.

327. **The Office of the Comptroller notes that it believes, without prejudice to the crucial role played by the audit committee in a PBC, that Keren Hayesod’s position leads to the Audit Committee overreaching its roles and powers as prescribed by law. The Office of the Comptroller believes this overreach to be at the expense of reducing the Board of Directors’ roles. Thus, it reduces the Board of Directors involvement in planning the internal auditing plan, and in approving the audit plan and changes thereto.**

Keren Hayesod stated in response that it has provided a legal opinion supporting its position, which is that the Audit Committee did not overreach its powers and duties, and certainly not at the Board of Directors’ expense. The list of audit committee functions is not an exhaustive inventory

limiting the audit committee — but rather a minimum requirement outlining what an audit committee must do. The law does not forbid the Audit Committee from assuming additional functions, so long as this does not detract from the powers granted to other corporate organs. Furthermore, Keren Hayesod has already previously mentioned that both the Board of Directors and Board of Trustees have expressed their satisfaction with the Audit Committee’s performance, on several occasions. Keren Hayesod also notes that since the Audit Committee’s appointment, Keren Hayesod’s Board of Directors is involved as required by law — both in receiving audit-related reports, and in approving the audit work plan. Ultimately, the Board of Directors leverages the Audit Committee’s professional experience through recommendations prior to approving the annual audit plan.

328. The Office of the Comptroller notes in response that our position has been made clear in Chapter 6, sub-section 6.8, and in sub-section 7.2.

6.8 **Presenting Audit Committee recommendations**

329. Section 345H(e)(8) to the Companies Law and Section 38B(d)(7) to KEREN HAYESOD’s bylaws state that the Audit Committee’s job is **to present its conclusions to the Board of Directors and the annual meeting.**
330. **The Office of the Comptroller found that in 2014 and 2015, the Audit Committee did not present its conclusions to the Board of Directors, but only to the annual meeting.**

Keren Hayesod stated in response that the Audit Committee’s conclusions were presented in the general meeting of October 2014 and in June 2015 before the Board of Directors and the Board of Trustees together. Board of Directors members also attend the Board of Trustee meetings, and preferred not to hear the reports twice.

331. **The Office of the Comptroller notes that there is no documentation of Audit Committee conclusions being presented separately to the Board of Directors, and so the matter is not referenced in the minutes of the Board of Directors meetings, as an independent organ, separate from the general meeting, as mandated.**

Keren Hayesod stated in response that the minutes explicitly name all persons present — both from the Board of Trustees and from the Board of Directors.

332. The Office of the Comptroller notes in response that the Board of Directors' decisions are binding, when the corporate organ convenes as the Board of Directors. Thus, it is not enough that Board of Directors members be exposed to reports outside meetings of the Board of Directors, convened as a separate Company organ.
333. Section 345H(e)(6d) to the Companies Law (Amendment 25, 2014) states that an audit committee's roles include, among other things, to "prescribe arrangements for handling complaints by company employees concerning flaws in the company's management and concerning the protection afforded to employees who make such complaints".
334. The Office of the Comptroller found that Keren Hayesod does not have any document regulating the handling of whistleblower complaints and their protection.
335. **The Office of the Comptroller recommends that Keren Hayesod make sure to fulfill the Audit Committee's role and to prepare a whistleblower procedure to regulate the handling of complaints by KEREN HAYESOD employees of flaws in the Company's management and concerning the protections afforded to these employees, as required under Section 345H(e)(6d) to the Companies Law.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller's recommendation, and has subsequently prepared a policy document for protections afforded to whistleblowers. The document was approved in the Board of Directors meeting of February 23, 2017.

6.9 Summons to Audit Committee meetings

336. Section 345H(f)6 to the Companies Law states, "The audit committee will send notice of its meetings and the items on the agenda to the company's auditing accountant and the company's internal auditor and these may participate in audit committee meetings". This provision also appears in Keren Hayesod's bylaws, under Section 38B(c).
337. Upon examination, the Office of the Comptroller found that summons for Audit Committee meetings were not always sent to Keren Hayesod's

auditing accountants. It is noted that the internal auditor is both invited and participates in meetings.

338. **The Office of the Comptroller recommends that Kerem Hayesod comply with the Companies Law and Keren Hayesod's bylaws, and henceforth summon the auditing accountant to all Audit Committee meetings.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller's recommendation.

6.10 **Audit Committee's operating procedures**

339. Immediately after its establishment, in its meeting of August 2011, the Audit Committee decided that the legal counsel, who coordinates the Committee's functions, will prepare draft operating procedures for the Committee.
340. In practice, no document was drafted regulating the Audit Committee's operations and its operating procedures.

Keren Hayesod stated in response that it attaches the Internal Audit Code, approved by the Audit Committee on October 9, 2013.

341. The Office of the Comptroller notes that the auditing bylaws to which Keren Hayesod refers in its response pertains the **internal auditor's** work, and not to the **Audit Committee's operations**.
342. **The Office of the Comptroller thus recommends that Keren Hayesod prepare a draft Audit Committee procedure, which would refer, among other things, to the number of Committee members, their skills, selection and appointment process, tenure, the Committee's work-flows and responsibilities, and its decision-making process and associated documentation requirements.**

Keren Hayesod stated in response that it does not accept the recommendation. The law regulates the Audit Committee's functions, their selection and appointment, and specifies that the Audit Committee's responsibilities, rights and duties are identical to those of the Board of Directors' members. The general meeting may determine, from time to time, the number of Audit Committee members (lacking any decision by the Minister of Justice requiring a minimum number of such members), as well as their qualifications, *and tenure term*.

343. **The Office of the Comptroller notes that, since the general meeting did not express an opinion concerning the number of Audit Committee members, their qualifications, or tenure term, Keren Hayesod should adopt a procedure to regulate such matters.**

Chapter 7 — Internal Auditor

7.1 Appointment

344. In April 2000, Keren Hayesod's (former) internal auditor was selected by Keren Hayesod's chairman and Director General. The internal auditor served in that role, at 50% of a full-time position for 16 years, until April 30, 2016.
345. The employment agreement states that the auditor will report to the chairman of the Board of Directors.
346. **The Office of the Comptroller could not find a letter of appointment or a written decision to extend the internal auditor's tenure, after his appointment in 2000 for a one-year trial period.**
347. Prior to Keren Hayesod's registration as a PBC, the bylaws were updated in October 2014. Section 52A was updated to state that the Board of Directors would appoint an internal auditor in accordance with the Audit Committee's recommendation. The bylaws specify that his tenure will be limited to three years (unless the Board of Directors decides otherwise), but can be extended (subject to Audit Committee recommendation).

7.2 Work plan

348. Section 151 to the Companies Law and Section 52E to the bylaws state that the internal auditor's duties include examining the propriety of the Company's actions in terms of statutory compliance and proper business conduct.
349. Section 345I(b) to the Companies Law states that "The internal auditor will submit to the board of directors for approval an annual or periodic work plan, after review by the audit committee (...) and the board of directors will approve it with such changes as it deems necessary".
350. **Examination of the Board of Directors' minutes for 2015 found that the internal auditor did not submit to the Board of Directors an annual or periodic work plan, and so the Board of Directors did not approve it.**

351. **The internal audit work plan for 2016 was reviewed by the Audit Committee in its meeting of September 10, 2015. The work plan was not brought before the Board of Directors for approval.**
352. **In its meeting of September 30, 2014, the Audit Committee decided that the CFO (and not the internal auditor) must present KEREN HAYESOD's internal audit work plan for 2015 to the Audit Committee. (The internal audit work plan for 2014 was also prepared in a similar manner). It is emphasized that the CFO is an audited position, and it is not his job to prepare or present the internal audit work plan.**
353. The law assigns this job to the internal auditor, according to Sections 345I(b) and 345H(e)(6b) to the Companies Law, which state that the **internal auditor** will submit for the board of directors' approval a proposed annual or periodic work plan after it has been reviewed by the audit committee. The committee may suggest changes to the internal auditor's plan, while the board of directors approves the internal auditor's plan with such changes as it deems fit.
354. **The Office of the Comptroller recommends that Keren Hayesod's internal auditor bring the annual work plan before the Board of Directors for approval, as required under Section 345I(b) to the Companies Law.**
- Keren Hayesod stated in response that the recommendation is accepted, and the audit plans for 2017 and 2018 were duly presented to the Board of Directors for approval.
355. Section 52(e) to the bylaws, updated in October 2014 prior to Keren Hayesod's registration as a PBC, states: "The internal audit plan that the auditor will prepare **will be submitted to the Audit Committee for approval** however the Board of Directors may decide that the plan will be submitted to the Board of Directors for approval".
356. In other words, **Section 52(e) to Keren Hayesod's bylaws seems to contradict** Section 345I(b) to the **Companies Law**, which states that the plan will be submitted **to the board of directors for approval**.
357. **Therefore, the Office of the Comptroller recommends that Keren Hayesod amend Section 52(e) to its bylaws, in accordance with Section 345I(b) to the Companies Law, and state in its bylaws that the organ authorized to approve the annual work plan is the Board of Directors, and not the Audit Committee.**

Keren Hayesod stated in response that the entire section in Keren Hayesod's bylaws concerning the internal auditor was formulated in consultation with the Ministry of Justice, and approved by the latter prior to its agreement to register Keren Hayesod as a PBC. Keren Hayesod will consider changing the section as part of the negotiations between the Zionist Executive and campaign members concerning changes to Keren Hayesod's bylaws.

358. **The minutes** for the Audit Committee meeting of January 2013 state that the internal auditor notes to the Committee that he **“is not examining the head office units, but only the campaigns, at the Company’s management’s request”** (emphasis added).
359. The Office of the comptroller believes it was improper for management to prevent the internal auditor from auditing Keren Hayesod's headquarters units in Israel, and to limit him to only auditing the overseas campaigns.

Keren Hayesod stated in response that, although the internal auditor at the time made such claim, the statement is unfounded and incorrect. Keren Hayesod's management never asked the internal auditor to avoid auditing the head office, and never restricted him in his audits.

360. The Office of the Comptroller notes that its comment concerning the internal auditor being prevented from auditing Keren Hayesod's headquarters is based on a quotation from the Audit Committee's minutes from January 2013.

7.3 **Internal Audit Code**

361. Keren Hayesod has an internal document entitled **Internal Audit Code**, which regulates the internal auditor's duties and methods.
362. The Office of the Comptroller notes that the Internal Audit Code does not specify that the internal auditor must also submit a written report on his findings to the Director General, even though such report is required under Section 152 to the Companies Law and Section 52G to the bylaws.
363. **The Office of the Comptroller recommends that Keren Hayesod add to the Internal Audit Code a provision that the internal auditor must also submit a written report on his findings to the Director General. Thus, the relevant requirements will be consolidated in one document.**

364. The Office of the Comptroller found that the Internal Audit Code does not refer to the auditor's appointment or tenure period.
365. **The Office of the Comptroller recommends that Keren Hayesod the Internal Audit Code according to the changes made in Keren Hayesod's bylaws in October 2014, concerning the internal auditor's appointment and the limitation of his term.**

Concerning the two recommendations above, Keren Hayesod stated in response that it does not believe it necessary to repeat the statutory and/or bylaw requirements in the Audit Code.

366. The Internal Audit Code does not specify when it was prepared and on what date it went into effect. It also does not state who is responsible for updating the document.
367. **The Office of the Comptroller recommends that Keren Hayesod state the missing information in the Internal Audit Code.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller's recommendation.

7.4 **Internal auditor's status**

368. KEREN HAYESOD's (former) internal auditor held the position for 16 years in a row, at 50% of a full time position.
369. Between 2012 and the first half of 2016, Deloitte served as an outside provider for Keren Hayesod's internal auditing works, in addition to the internal auditor. Deloitte previously served as Keren Hayesod's outside auditing accountant for 5 years, until 2011.
370. In 2012, Deloitte conducted a risk survey, after which it was charged with examining a range of issues as part of its internal auditing duties.
371. In 2015, Deloitte also started serving as a "consultant to the Audit Committee".
372. The Audit Committee's minutes of September 30, 2014, note that the Audit Committee decided that in 2015, Deloitte would prepare 70% of the audit reports on campaigns, and the internal auditor would prepare only 30%.
373. The Office of the Comptroller wishes to note that outsourcing is intended to help the internal auditor in auditing professional matters in the organization. However, in practice, the internal auditor did not participate in choosing the firm that would assist him.

374. Moreover, the Office of the Comptroller found that Deloitte and Dagan Audit Ltd. submitted their audit reports **directly** to the Audit Committee, and not to the internal auditor who is **entrusted with auditing works, and on whose behalf** they are supposed to be performing the audits.

Keren Hayesod stated in response that, in practice and to the best of Keren Hayesod's management's knowledge and living memory in the organization, meetings were held with the internal auditor on each report. Only following these meetings, were the reports submitted, like all other materials to the Audit Committee through the Audit Committee coordinator.

375. The Office of the Comptroller notes that documentation showing that outsourced audit reports are submitted directly to the Audit Committee is found for example in the minutes for the Audit Committee meeting of June 4, 2015, whereby Yaron Dagan personally presents his outsourced audit report on project development.

376. **The Office of the Comptroller is of the impression that the process that began in 2012, with Deloitte's entry into Keren Hayesod's auditing operations as an outside provider, significantly undermined the status of Keren Hayesod's internal auditor.**

Keren Hayesod stated in response that the internal auditor's status has not been undermined. Keren Hayesod's auditing needs grew significantly, so he could not meet all the needs and required significant support.

377. **The Office of the Comptroller believes that another solution could have been found, in consultation with the internal auditor, such as supporting the internal auditor with professional staff or an outside service provider who would be under his supervision.**

378. In effect, Deloitte, which should have assisted the internal auditor, gained status and power at the internal auditor's expense. **In practice, Keren Hayesod split the internal auditor's roles and responsibilities.**

Keren Hayesod stated in response that Keren Hayesod did not split the internal auditor's roles and responsibilities. As aforesaid, in light of the time that he devoted to Keren Hayesod and his experience, and in light of the significant growth in auditing needs, he could not adequately meet Keren Hayesod's auditing needs. The main concern for the Audit Committee and management was to meet Keren Hayesod's auditing needs, and these were met by the internal auditor with support from outsourced services.

379. It is emphasized that, under Section 345I(a) to the Companies Law and Section 52A to Keren Hayesod's bylaws, the internal auditor has a unique status in PBCs. **It is the internal auditor who bears personal liability for internal auditing works, and not the outsourced consultants.**

380. **The Office of the Comptroller recommends that findings from outside consultants be submitted to the internal auditor. The outside consultant will amend their report according to the internal auditor's comments, and the internal auditor should be the one to present the person who actually prepared the report and/or the key findings to the Audit Committee, which findings were prepared on his behalf, and under his responsibility.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller's recommendation.

381. **The Office of the Comptroller further recommends that Keren Hayesod's auditor be involved in selecting the outside consultants.**

Keren Haysod stated in response that it accepts the Office of the Comptroller's recommendation.

382. **The Office of the Comptroller recommends that Keren Hayesod's auditor be the one to determine which matters will be examined through outsourced services, and that he be involved in determining the focus and scope of the outsourced works. In this matter, it is noted that, under Section 345I(b), the internal auditor is responsible for submitting the work plan.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller's recommendation.

383. **In summary, the Office of the Comptroller recommends that the Chairman of the Board of Directors, as the internal auditor's superior, strengthen the internal auditor's status and be more significantly involved in the internal auditor's work and in Keren Hayesod's internal auditing activities.**

Keren Hayesod stated in response that it accepts the Office of the Comptroller's recommendation.

384. Immediately after the end of the document review process (February 2016), the Office of the Comptroller was told that the internal auditor resigned in April 2016, and that on June 27, 2016, the Board of Directors decided, following the Audit Committee's recommendation,

to appoint the Deloitte partner as Keren Hayesod’s internal auditor”, until December 31, 2017. The Board of Directors further asked the Committee to recommend an internal auditor for appointment in 2018.

385. Documents attached to Keren Hayesod’s response from January 2018 indicate that, in the Board of Directors meeting of June 23, 2017, a decision was made that the Deloitte partner would continue to serve as Keren Hayesod’s internal auditor until December 31, 2020. In other words — for three more years.
386. The Office of the Comptroller did not examine the process for the Deloitte partner’s selection and appointment as Keren Hayesod’s internal auditor in 2017. The Office of the Comptroller also did not examine the Deloitte partner’s selection and appointment process for the role of internal auditor for three additional years, until 2020.
387. It is noted that the Office of the Comptroller is not commenting on the quality of services provided to Keren Hayesod by various suppliers, including Deloitte, or the qualifications of the people mentioned in this audit report. The Office of the Comptroller examined the procedural aspects behind the contracts, the appointment methods, and the decision-making process in Keren Hayesod, mainly — but not exclusively — as concerns corporate governance.

Chapter 8 — Summary of Key Findings

1. The following summary of findings does not include all the reported findings, nor does it provide all the details presented in the report. That information can be found in the detailed report. As aforesaid, the examination pertained mostly to the years 2014 and 2015, with various updates though April 2018. Examination of documents ended in February 2016.

| Section | Findings |
|--------------|--|
| | General |
| 21–22, 60 | In certain matters, Keren Hayesod did not operate as a PBC prior to its formal registration as a PBC in February 2015, despite the Companies Law’s provisions in this matter and two legal opinions that recommended it do so, as it effectively meets the definition for a PBC. |
| | Keren Hayesod as a PBC |
| 30–34 | Keren Hayesod does not include the suffix ‘PBC’ alongside its name, despite its duties under the Companies Law and the 2016 Companies Regulations. |

| Section | Findings |
|----------------|---|
| 38–49 | The annual compensation paid to the former Chairman of the Board of Directors since his appointment exceeded the maximum amount payable under the 2010 Companies Regulations, even after enactment of the Companies Regulations for PBCs that are National Institutions, 2016. |
| 46, 44–49 | Keren Hayesod stated that it had reduced the compensation paid to the Chairman of the Board, starting October 1, 2017. The Office of the Comptroller did not examine the salary calculations underlying this statement concerning the pay reduction or their compliance with the restrictions set forth in the 2016 Regulations. |
| 46–49 | Keren Hayesod stated, and is of the opinion, that the return of excess salary payments to the Chairman of the Board has been resolved and settled in consultation with the Companies Authority. The Office of the Comptroller did not examine the calculations behind the return of said excess salary payments, or their compliance with the 2016 Regulations. |
| 46–49 | Salary reduction calculations, ‘retirement bonus’ payments, and return of excess salary payments to the Chairman of the Board (from June 2016 to September 2017) were made as part of the arrangement for the Chairman of the Board’s resignation and were submitted to the Companies Authority on April 8, 2018. The Chairman of the Board resigned on April 22, 2018. |
| 50–51 | The report submitted to the Endowments Registrar did not include the Chairman of the Board of Directors’ name among the five highest salaries paid by the Company, although his pay exceeded that of the people listed in the report. |
| 53–56 | Despite the provisions of the Companies Law, Keren Hayesod has not submitted an annual report to the Companies Registrar since 2003. Following the Office of the Comptroller’s comment Keren Hayesod resumed its annual financial statement filings in April 2017. |
| 57–62 | Notice of an interested party transaction carried out in 2014, was only submitted to the Endowments Registrar in August 2016. |
| 63–64 | Keren Hayesod’s website does not mention its registration as a “public benefit company”. |
| | Board of Trustees |
| 69–73 | There is a shortage of campaign-appointed trustees. The Board of Trustees’ current composition does not match the formula prescribed in the bylaws. |
| 74–78 | WZO has yet to appoint new representatives following the Zionist Congress of October 2015. |

| Section | Findings |
|---------------------|--|
| 81–97 | The appointment documents for several trustees were improperly prepared. Furthermore, appointment documents are missing for most WZO-appointed trustees. |
| 100–119 | Keren Hayesod does not make sure to issue summons to meetings as prescribed in the bylaws. |
| 130–136 | The proxy voting forms for trustees absent from the meetings, pre-specify the Chairman of the Board of Trustees as the default proxy. |
| 139–142 | Campaign-appointed trustees serve for more than the two year period set in the bylaws. |
| 145–150 | There is no written documentation of the termination of trustees' tenure. |
| 154–162, 169–174 | The auditing accountant's appointment and fees were not set according to the process required under the Companies Law and the bylaws. |
| 177–182 | The financial statements for 2014 were approved by the Board of Directors, but were not also approved by the general meeting. The Office of the Comptroller could not confirm if and when the general meeting approved the financial statements for 2015. |
| 186–187 | Since the Executive is not a statutory or operational organ, its operation should be formalized as a strictly advisory forum, and Keren Hayesod should consider changing its name to match its functions. |
| | Board of Directors |
| 191–194 | For upward of two years, the number of Board members did not match the bylaw requirement. |
| 196–198 | There is no written documentation of campaign-appointed directors. |
| 201–206 | There is no written documentation of the termination of a WZO-appointed director's tenure. |
| 218–226 | For two decisions made in the October 2015 meeting, the minutes do not reflect the contents of the proceedings. The minutes do not specify if the decisions were made unanimously or by majority vote, nor do they express the positions of the directors who did not support the adopted decisions. |
| 227–230 | In awarding the former Director General a bonus (a transaction with an officer), the decision was not first submitted for Audit Committee approval. |
| | Budget and Finance Committee |
| 237–240 | The membership of one Committee member is improper as he is not a member of the Board of Trustees and there is no documentation of his appointment as a campaign representative. |
| 241–246 | Campaign-appointed Committee members serve for more than the two year period set in the bylaws. |

| Section | Findings |
|----------------|---|
| 247–250 | There was no written notice authorizing the former Chairman of the Board to chair the meeting of June 2014. |
| | Audit Committee |
| 253–256 | The decision to expand the Committee took three and a half years to implement. |
| 255–258 | The addition of the two new members was not recorded as a decision in the Board of Trustees’ minutes. |
| 264–270 | The Audit Committee took part in selecting the auditing accountant, thus overstepping its authority. |
| 271–287 | The Audit Committee itself decided that Deloitte would conduct a “risk survey” and provide internal auditing services for KEREN HAYESOD. These decisions are outside the Audit Committee’s powers and are not part of its functions. |
| 288–291 | Keren Hayesod’s professional staff did not utilize the “Senior Administration Committee” in selecting Deloitte, and did not object to the Audit Committee making decisions that overstep its authority. |
| 294–296 | Dagan Audit Ltd. provided outsourced auditing services without a signed agreement. |
| 297–299 | Deloitte presented partial findings from its “risk survey” before an agreement was signed. |
| 307–310 | The agreement with Deloitte was not extended after a year, even though work with the firm continued. The Office of the Comptroller could not find who decided to continue the contract with Deloitte. |
| 311 | The contract with Deloitte was not made according to the Procurement and Contracting Procedure. |
| 313–317 | It is unclear for what purpose Deloitte was granted an additional budget for 100 hours to “support the Audit Committee”. |
| 318–332 | The Audit Committee oversteps its roles and powers and makes executive decisions concerning the focus of the examinations, work allocation and budget additions to outside providers, without any change occurring in the internal auditor’s work plan and without it being brought before the Board of Directors for approval, as required by law. |
| 318–320 | The Audit Committee overstepped its authority and decided that Deloitte would perform 70% of the audits reports abroad and the internal auditor would perform only 30%. |
| 320–325 | The Audit Committee overstepped its authority and decided what matters Deloitte would examine, including: procedures concerning budgeted projects and non-profits; review of management’s grants award process; additional risk survey. |

| Section | Findings |
|-----------------|---|
| 326–327 | The Audit Committee overstepped its authority and decided to add 40 hours for Deloitte to follow-up on Board of Directors decisions. |
| 330–332 | The Audit Committee overreaching its powers and duties undermines the Board of Directors’ involvement in auditing activities. |
| 333–336 | The Audit Committee did not present its conclusions to the Board of Directors. |
| 337–339 | The Audit Committee did not fulfill its statutory duty of setting guidelines for handling whistleblower complaints and whistleblower protections. |
| 340–342 | The Audit Committee does not make sure to summon the auditing accountant to its meetings, as required by law. |
| 343–347 | The Audit Committee’s decision to prepare draft operating procedures for the Committee was not implemented. |
| | Internal auditor |
| 348–350 | No appointment letter/written decision was found to extend the (former) internal auditor’s tenure after the one-year trial period, in 2000 and until the end of his tenure in 2016. |
| 353–358 | The former internal auditor did not submit a work plan for Board of Directors’ approval after review by the Audit Committee, as required by law. |
| 353, 359–361 | Section 52(e) to Keren Hayesod’s bylaws contradict Section 345I(b) to the Companies Law for approving the internal auditing plan, since power to approve the plan is given to the Board of Directors and not the Audit Committee. |
| 362–364 | The former internal auditor told the Audit Committee that management asked that he not examine the headquarters units, but only the overseas campaigns. |
| 372–387 | The Office of the Comptroller is of the opinion that since Deloitte entered Keren Hayesod as an outside service provider, in addition to the internal auditor, the former internal auditor’s status has been significantly undermined. Keren Hayesod effectively split the internal auditor’s roles and responsibilities. |
| 388–391 | The Deloitte partner who provided outsourced internal auditing services in 2014 through 2016 — was appointed as Keren Hayesod’s internal auditor in 2016. A year later, her appointment was extended for another three years, until December 31, 2020. |

August 2020

**Response of the Chairman of the Zionist Executive
to the Comptroller's Report on
Keren Hayesod (PBC) — Corporate Governance**

In accordance with Section 18B to the Statutes for the Comptroller and the Control Office of the World Zionist Organization, which requires the Chairman of the Zionist Executive to submit his response to the Comptroller's reports, the following is my response to the report on Keren Hayesod (PBC) — Corporate Governance.

This thorough report covers a period of many years, on which extensive deliberations took place between the Comptroller and UIA's management. As part of this process, gaps were noted in the various draft versions of the report, for which clarifications were provided. In some instances, findings were presented which were corrected accordingly during the course of the audit itself.

I cannot ignore the undertones echoing in those sections where the Comptroller's powers were seemingly called into question. There is no room for such statements. The Office of the Comptroller operates by virtue of the Constitution, which refers to both the Comptroller and his powers.

As concerns the audit itself and the various issues discussed, it is clear that substantial work is being done despite organizational challenges, and the audit as an illuminating tool clearly helps UIA's staff in the performance of their duties, to strengthen the Zionist endeavor and the Jewish people, as set forth by the Congress.

The aforesaid notwithstanding, it is clarified that the Chairman of the Executive places great emphasis on the audit's findings and will work together with UIA's dedicated staff to correct those flaws specified in the report.

On behalf of the World Zionist Organization, I thank you.

(-) Yaakov Hagoel
Jerusalem, November 2021

**Statutes of the Comptroller
and of the Control Office
The World Zionist Organization**

Statutes of the Comptroller and of the Control Office The World Zionist Organization

Adopted by the Zionist General Council at its Session in March 1963, in accordance with Resolution 95 passed by the Zionist General Council at its Session in May–June, 1962, with reference to Section 60, paragraph 8 of the Constitution of the World Zionist Organization. Including the amendments in accordance with the Resolution passed by the Zionist General Council at its Sessions in January 1967, February 21, 1974, July 14, 1976, and June 29, 1986, and further amended as resolved by the Presidium of the Zionist General Council on June 11, 1991.¹

A. Definitions

In these Statutes:

- The Constitution: The Constitution of the World Zionist Organization as adopted by the Zionist General Council at its Session of December 1959 – January 1960 in accordance with the decision of the 24th Congress, as amended.
- The Congress: The Zionist Congress.
- The General Council: The Zionist General Council.
- The Presidium: The Presidium of the Zionist General Council.
- The Executive: The Executive of the World Zionist Organization.
- The National Funds: Keren Hayesod – United Israel Appeal and the Jewish National Fund.
- The Comptroller: The Comptroller of the World Zionist Organization.
- The Control Comm.² The Control Committee elected by the Zionist General Council to discuss and deal with the Comptroller’s findings.

1 The Zionist General Council authorized the Presidium, in June 1990, to amend the Statutes in line with Resolution 37 of ZGC of June 1989, and as may be necessary to clarify the procedures concerning the Comptroller’s reports.

2 Amended with indirect amendments resulting from the approval of the Statutes of the Control Committee by the Zionist Presidium on February 19, 2017. The Presidium was authorized by the Zionist General Council to formulate the Statutes of the Control Committee and the indirect amendments in the Statutes of the Comptroller and the Control Office.

Controlled Body: A body within the meaning of Section 10 of these Statutes.
Central Zionist Institution: An institution within the meaning of Article 46 of the Constitution.

B. Status of the Comptroller and his Deputy

- Election of the Comptroller 1. The Comptroller shall be elected by the Congress for the purpose of conducting the control in the World Zionist Organization (in accordance with Article 14 (e) of the Constitution).
- Term of Office 2. The term of office of the Comptroller shall be from the day of his election until the end of the next regular Congress. Should the office of the Comptroller become vacant during the period between one Congress and the next, the General Council shall elect a new Comptroller, and in the meantime, the Deputy shall fulfill the duties of the Comptroller. If there is no Deputy Comptroller, the Presidium shall appoint an Acting Comptroller, but the Comptroller shall continue to serve until the Acting Comptroller assumes office.
- Deputy Comptroller 3. (a) Should it be decided to establish such a post, the Deputy comptroller shall be elected by the Congress or the General Council, after hearing the opinion of the Comptroller. The Presidium may, in urgent cases, appoint a Deputy, such election being subject to the approval of the General Council at its next session. Details of the Deputy Comptroller's authority shall be determined by the body which elects him (in accordance with Article 60, Section 3, of the Constitution).
- (b) The tenure of office of the Deputy shall be from the day of his election until the end of the next regular Congress, or a shorter term to be decided upon by the body which elects him.

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| Vacancy of office | <p>4. (a) The office of the Comptroller and his Deputy shall become vacant in any of the following circumstances:</p> <ul style="list-style-type: none"> i. upon the expiration of his term of office; ii. upon his resignation; iii. upon his dismissal from office by a two-thirds majority vote of the General Council; iv. upon his death. <p>(b) The Comptroller may resign by tendering a letter of resignation to the Chairman of the General Council.</p> |
| Independence of the Comptroller | <p>5. The Comptroller shall not, in the fulfillment of his duties, be subservient to any body, and shall be responsible solely to the Congress and to the General Council (in accordance with Article 60, Section 6 of the Constitution).</p> |
| Special Status | <p>6. The Comptroller shall participate in an advisory capacity in the Congress, the General Council, and their committees, including the Finance Committee (in accordance with Article 32, Section 3 of the Constitution).</p> <p>7. The status of the Comptroller shall be equal to that of a Member of the Executive, and his salary shall be in accordance with that status, and the status of the Deputy Comptroller shall be equal to the status of a Deputy Member of the Executive.</p> |
| Restrictions | <p>8. (a) Neither the Comptroller nor his Deputy shall serve on the executive of a controlled body; nor shall they hold any other paid office;</p> <p>(b) Neither the Comptroller nor his Deputy shall during their period of office purchase, lease, or acquire by gift any movable or immovable property belonging to any controlled body, nor shall they receive from such bodies any concessions, grants, or favors, except for land or a loan for the purpose of settlement or housing.</p> <p>(c) Neither the Comptroller nor his Deputy shall take up employment with a controlled body within three years of leaving office.</p> |

- Secrecy
9. The Comptroller and his Deputy shall be bound to observe secrecy of all information, documents, or reports to which they have access in the course of their work.

C. Scope of Control

- Controlled Bodies
10. The following are the bodies subject to control by the Comptroller:
- (a) All departments, enterprises, and institutions of the World Zionist Organization, both in Israel and in the Diaspora.
 - (b) The National Funds and every other fund of the World Zionist Organization, including their departments, enterprises, and institutions, both in Israel and in the Diaspora.
 - (c) Every company, enterprise, fund or other body in whose capital or budget the World Zionist Organization and/or the National Funds, together or separately, participate to an extent of 50 percent or more, or in which they have at least 50 percent of the voting rights.
 - (d) Every company, enterprise, fund or other body in whose capital or budget the World Zionist Organization and/or the Funds mentioned in subsection (b), together or separately, participate to an extent of less than 50 percent, provided that the right of examination was a prior condition agreed upon with such bodies. The extent of such control shall be determined by agreement between the Executive and the Comptroller.
 - (e) Every body subsidized by the World Zionist Organization, or other body, the examination of which is imposed upon the Comptroller by decision of the Congress, the General Council, the Finance Committee, or the Executive. The extent of such control shall be determined by agreement between the Executive and the Comptroller.

D. Functions of the Control

Details of
Control

11. The Comptroller shall examine the administration of the controlled bodies, the condition and administration of their finances, their accounts, and their property, with respect to their legality, order, efficiency, economy, and integrity, and shall examine:
 - (a) Whether the controlled body functions in accordance with the Constitution and the directions of the Central Zionist Bodies;
 - (b) Whether the expenditure of the examined bodies was made within the scope of their budgets, as approved by the competent institutions, and for the purposes for which they were intended;
 - (c) Whether the procedures of the controlled body regarding receipts and payments is satisfactory;
 - (d) Whether the methods of safeguarding monies and property and the state of cash and supplies are satisfactory, and whether the accounts and balance sheets are accurate and prepared at the proper time;
 - (e) Whether the controlled bodies operate economically and efficiently in all aspects of their work, while adhering to legal and moral principles;
 - (f) Whether the auditing of accounts, if conducted by an auditor, is done at the proper time, and whether the controlled body complies with the auditor's directives.

Investigating
Complaints

12. The Comptroller shall investigate complaints submitted to him by the public against any body or person subject to his control, as set forth in Section 10 above.

E. Control Procedure

Submission
of Budgets
by Controlled
Bodies

13. A controlled body shall be obligated to submit its detailed budget to the Comptroller immediately upon its approval by the competent institutions, to inform the Comptroller of any changes in the budget, and to submit to him all documents pertaining to it.

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| Submission of Statements and Balances by Controlled Bodies | <p>14. (a) Every controlled body shall be obligated to submit to the Comptroller an interim report on its income and expenditures for each fiscal year no later than four months after the end of such year, and six months after the end of the year, but not later than nine months, a balance sheet showing assets and liabilities as at the end of the fiscal year.</p> <p>(b) Every controlled body shall submit to the Comptroller a report and opinion presented to it by an auditor and a copy of its remarks on such report or opinion.</p> |
| Cooperation on the part of the Controlled Body | <p>15. (a) The controlled body shall be obligated to render its full assistance to the Comptroller and to his staff in the performance of their tasks, and to allow them unlimited access to all books, files, accounts, documents, ledgers, card indices, and all other material belonging to the controlled body. The controlled body shall similarly be required to submit all information, documents, explanations, and other materials required by the Comptroller or his staff for the purposes of the examination.</p> <p>(b) Any body or person against whom a complaint is investigated, as stated in Section 12 above, shall furnish the Comptroller, at his request, with all the sources of information noted above within a reasonable period of time or within a period of time determined by the Comptroller, according to the circumstances.</p> |

F. Results of the Examination

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| Submission of Examination Findings | <p>16. (a) Should the examination reveal any shortcomings in the work or activities of any controlled body, the Comptroller shall inform the controlled body thereof in writing and require rectification of such shortcomings within a reasonable time.</p> |
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- (b) If the matter is intended for inclusion in a Report under Chapter G, the Comptroller shall present a summary of the examination to the head of the controlled body in order to receive explanations and clarifications regarding the findings of the examination, and if he should deem it necessary, he shall submit a copy thereof to the Chairman of the Executive or to the Treasurer, as appropriate.

The Comptroller may set a final date by which such explanations and comments are to be given.³

- (c) If the examination reveals any deviation from or disregard of the directions of the competent institutions of the World Zionist Organization, or a breach of the law or of integrity on the part of a controlled body, the Comptroller shall bring his findings to the notice of the head of such controlled body for appropriate action and shall notify the Chairman of the Executive and the Legal Counsel.⁴
- (d) The Comptroller may submit a summary of the examination to a body controlled in accordance with Section 10 (e) in order to receive necessary explanations, with a copy to the body that requested the examination.

Results of
Investigation of
Complaints

- 17. (a) The Comptroller may inform a body or person subject to his control of the results of the investigation of a complaint which has been investigated by him, as laid down in Section 12, above, and he may add his opinion and/or recommendations regarding the steps which should, in his view, be taken to resolve the individual complaint and/or to rectify various shortcomings revealed in the course of the said investigation.

3 Amended by the Presidium Resolution of June 11, 1991.

4 Amended by a Resolution passed by the Zionist General Council at its Session on February 21, 1974.

- (b) The Comptroller may at any time ask the said body or person to inform him of their position and of the steps which have been or will be taken in the matter which was the subject of the complaint. A controlled body shall answer the Comptroller within a reasonable period of time or within a period of time determined by the Comptroller, according to the circumstances.
- (c) At the conclusion and/or during the course of the investigation, the Comptroller shall furnish the complainant with a pertinent reply which shall, in the Comptroller's opinion, be an appropriate and satisfactory. reply under the circumstances.

G. Reports⁵

The Separate Reports

- 18. (a) Upon completion of an examination of a body subject to his control under section 10, of a specific subject, the Comptroller may submit a separate Report on the said body or subject. The Report shall be submitted to the Chairman of the Contrtol Committee, the Chairman of the Executive, the Treasurer, and the Head of the Controlled body.
- (b) The Chairman of the Executive shall make his comments on the Report and forward them to the Chairman of the Control Committee not later than two months from the receipt of the Report (Executive's Response).
- (c) The Control Committee shall discuss the Report within two months of the receipt of the Executive's Response. Should there be no Executive's Response within the period set in subsection b), the Committee may discuss the Report without a Response. Representatives of the Executive, as determined by the Committee, shall be invited to attend the Committee's meeting which is to deal with a Comptroller's Report.

⁵ This Chapter, which lays down the procedures for the submission, publication and handling of the Comptroller's Reports was amended by Resolution of the Zionist General Council on June 29, 1986, and further amended by Resolution of the Presidium of June 11, 1991.

- (d) The Separate Reports, or their main points, as the Comptroller may decide, shall be included in the Comptroller's subsequent Annual Report to be prepared and submitted under Section 19.
- (e) Upon completion of its discussion of a Separate Report, the Committee shall draw up its summaries and conclusions, including its requests for correction of deficiencies, and shall communicate them to the Chairman of the Executive, to the Head of the Controlled body and to the Comptroller.
- (f) The Chairman of the Zionist General Council will receive a copy of each Separate Report, of the Executive's Response thereto and of the Committee's Conclusions.
- (g) If necessary, the Comptroller may make an interim report to the Control Committee.

The Annual Report

19. The Comptroller shall prepare once a year an Annual Report. The timing of the Report shall be such that it be submitted to the Chairman of the Zionist General Council and its members one month before the Council's regular annual Session.

The Comptroller's Annual Report shall comprise:

- (a) A general summary of his activities and the activities of his Office during the year;
- (b) A list of the bodies and their main units controlled during the period of the report;
- (c) A list of the separate Reports submitted by the Comptroller according to Section 18;
- (d) The separate Reports themselves or their main points as the Comptroller's may deem appropriate. If a Separate Report is included in the Annual Report, the Executive's Response shall also be appended. If the Separate Report had been discussed in the Committee, the Committee's conclusions shall be included in the Comptroller's Annual Report.

- (e) After consultation with the Chairman of the Control Committee, the Comptroller may include in the Annual Report a separate Report not yet disposed of by the Committee, whereupon:
 - (1) The Committee's Conclusions, once they are determined, shall be distributed to the members of the Zionist General Council.
 - (2) In the following Annual Report these Conclusions shall be presented, along with a precis of the Report, and, if possible, with a brief follow up on the relevant points.
- (f) Concurrently with the submission of the Annual Report to members of the Zionist General Council, the Comptroller may release the Report for publication.
- (g) Should the Comptroller believe, upon consultation with the Chairman of the Executive and the Chairman of the Committee, that publication of a certain subject or of certain details included in the Report, may be detrimental to the World Zionist movement, or to its activities in some countries, he may exclude such a subject or such details from the published Report. The Chairman of the Zionist General Council together with the Chairman of the Committee may decide – on the recommendation of the Comptroller, of the Executive or at their own discretion, that certain parts of the Committee's conclusions should be excluded from the published Report.
- (h) The Comptroller may make public a Separate Report prior to the time that the next Annual Report is prepared and published, if he believes it necessary and after consultation with the Chairman of the Committee and the Chairman of the Zionist General Council.

Discussion by Zionist General Council 20. The Presidium of the Zionist General Council may determine whether and how the Comptroller's Annual Report shall be discussed by the Council.

In any event, the agenda of the Council shall include an oral report of the Chairman of the Finance Committee or of the Sub-committee for Control on control activities, and – if necessary – a report of the Chairman of the Executive on steps taken to rectify deficiencies.

Report to the Zionist Congress 21. Close to the convention of the Zionist Congress the Comptroller shall prepare a comprehensive report referring to the period since the previous Congress. The provision of sections 19–20 above shall apply *mutatis mutandis*.

H. The Control Office

22. The Comptroller is the head of the Control Office, through which he shall carry out his duties under these Statutes.

23. The rights and duties of the employees of the Jewish Agency – World Zionist Organization will be applicable to the Director-General and the staff of the Control Office. They shall, however, be appointed, employed, and dismissed by the Comptroller in line with the labor agreement governing employees of the Jewish Agency – World Zionist Organization, and shall be subject solely to the Comptroller or any person designated by him.

24. The restrictions noted in Section 8 above shall apply to all employees of the Control Office concerned directly with control. As to the restriction contained in Section 8 (c), the period of prohibition prescribed in this section for employees of the Control Office shall be two years or less, as decided by the Comptroller.

The restrictions set forth in Section 9 shall apply to all employees of the Control Office.

25. The budget of the Control Office shall be a special budget determined on the proposal of the Comptroller, by the institution that approves the budget of the World Zionist Organization in the current year, without connection to other expenditure budgets. Such budget shall be spent in accordance with the Comptroller's instructions.
26. The Comptroller shall submit a financial statement at the end of each year for the approval of the Finance Committee.

I. Miscellaneous

27. Should the General Council not decide to establish a Permanent Budget and Finance Committee, the provisions of these Statutes that refer to such committee shall apply, mutatis mutandis, to the General Council itself or to such institution as the General Council shall charge with the carrying out of its functions in budgetary and financial matters.
28. Upon the approval of these Statutes, the Statutes of the Control Office as adopted by the 24th Congress shall become null and void. Decisions of the Central Zionist Institutions regarding the Comptroller and the Control Office, apart from the provisions of the Constitution, shall likewise become null and void.