

ההסתדרות הציונית העולמית
The World Zionist Organization

THE OFFICE OF THE COMPTROLLER

ANNUAL REPORT
for 2010 and 2011

to

THE ZIONIST GENERAL COUNCIL

XXXVI/3

Jerusalem, June 2012

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Members of the Zionist General Council,

I am honored to submit to the Zionist General Council (XXXVI/3) an Annual Report on the activities of the Office of the Comptroller for the years 2010 and 2011.

The volume includes reports that were discussed at the Subcommittee for the Comptroller's Reports of the Zionist General Council Standing Committee for Budget and Finance. The response of the Chairman of the Zionist Executive to the reports is included.

The Comptroller's recommendations should be thoroughly reviewed by the controlled bodies and implemented thereafter in order to improve ways of management, use of human resources, and funds allocated to them.

I would like to thank Mrs. Hana Melamed, Chairperson of the Control Subcommittee and the members of the Subcommittee for their assistance in pursuing the implementation of my recommendations, as well as the Controlled bodies for their cooperation. Thanks go also to my staff for their thorough work.

*Asaf Sela
Comptroller*

Jerusalem, June 2012

*Message of the Chairperson of the Subcommittee for Control
The World Zionist Organization
Standing Committee for Budget and Finance*

The Comptroller of the National Institutions has been reviewing the activities of the World Zionist Organization for decades. Since the 36th Zionist Congress, and following the election of the Chairman of the Zionist Executive, the Comptroller and his staff have made a great effort to submit to the members of the Subcommittee for Control and to the World Zionist Organization, reports for review so that it will be possible to correct what needs to be improved.

The dedicated work of the Comptroller and his staff in preparing the reports in detail and in caring to implement and improve matters for proper management and empowerment of the World Zionist Organization and its affiliated bodies, should be appreciated.

I would like to thank the members of the Subcommittee and all those involved for their dedicated work.

Hana Melamed

June 2012

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

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, (brought below, 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 Executive, are debated in the Standing Committee for Budget and Finance of the Zionist General Council, which has set up a special sub-committee for this purpose. The conclusions of the latter are discussed and approved at the Standing Committee.

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 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 Prepared by the Office of the Comptroller
of The World Zionist Organization
in the Years 2003-2012**

Arranged according to the year of publication

The World Zionist Organization

- 2005 The 34th Zionist Congress
- 2005 Allocation to the World Zionist Unions
- 2005 The Zionist Federation in France
- 2006 The Department for Zionist Activity
- 2006 The *Hagshamah* Department – Payments to the *Hagshamah* Movements
- 2006 Center for Religious Affairs in the Diaspora
- 2007 Allocations for Reform and Conservative Religious Services
- 2007 The Human Resources Division
- 2008 Herzl Center – Museum and Zionist College
- 2008 The Central Zionist Archive
- 2010 The Finance Department
- 2010 Short Term *Shlichuyot* 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 *Shlichut* – The *Shlichim* Set up

Keren Kayemeth LeIsrael

- 2003 Information Systems Division
- 2005 Water Reservoirs
- 2006 Maintenance Division
- 2006 The Ben Shemesh Land Policy and Land Use Research Institute
- 2007 Land Development Authority, Land Reclamation Projects and Roads
- 2008 Hemnuta Co. Ltd. – The Process of Letting Properties and Handling the Maintenance Costs
- 008 Land Development Authority – Forestry Division, Fire Prevention
- 2008 Land Development Authority – Arrangements with Land Bed Haulage Contractor in the Southern District
- 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

Keren Hayesod

- 2003 Communications and Marketing Division
- 2006 Missions and International Events Unit
- 2007 Human Resources and Emissaries Administration
- 2008 Legacies and Funds
- 2012 Procurements and Contracts
- 2012 High Priority Projects

The 36th Zionist Congress

Response of the Chairman of the Executive

The 36th Zionist Congress

Introduction

The Zionist Congress is the supreme institution of the World Zionist Organization.

According to the World Zionist Organization constitution and regulations, the Congress convenes once every four years at such time and place as determined by the Zionist General Council. Since 1951, the Zionist Congress convenes in Jerusalem.

The Congress is convened by the Zionist Executive. Generally, prior to the Congress, elections are held in Zionist Federations throughout the world. The results of these elections determine the ratio between representatives in the Congress.

Prior to the 36th Zionist Congress, no elections were held as the World Zionist Unions ("Unions") and the Zionist organizations represented in the Congress reached an agreement concerning the constitution of delegates to the Congress, which agreement was approved by the Zionist Court.

The 36th Zionist Congress convened on June 15, 2010, for three days. All sessions were held in the International Convention Center in Jerusalem (*Binyanei Ha'Uma*). The Congress was attended by approximately 1,500 people from various countries. The previous Zionist Congress was held in June 2006.

The audit was carried out in early 2011, and focused on examining the administrative and monetary processes behind the 36th Zionist Congress. This includes the various contracts signed for carrying out the Congress.

The audit was based on meetings with relevant employees in the World Zionist Organization, examination of procedures and processes, examination of the finance and budget management systems, and examination of written materials.

Budget and Expenditure for the Zionist Congress

The 36th Zionist Congress was allotted a budget of USD 1,470,000. Actual expenditure amounted to USD 1,240,307.

The budget can be divided into three main components:

a. Allocations to Organizations and Unions

Allocations to organizations and unions were calculated as per the number of representatives who attended the 35th (previous) Zionist Congress. Each representative was allotted USD 350. The 35th Congress was attended by 726 delegates, leading to a total allocation of USD 254,100.

Upon the Office of the Comptroller's inquiry, it was explained that the amount allocated to each delegate was determined according to the overall budget set for the 36th Zionist Congress.

Allocations to organizations and unions are based on a resolution adopted by the World Zionist Organization in August 2001. According to this resolution, allocations are intended to fund Congress-related activities and preparations, including the holding of elections. From reviewing the relevant document, it seems that allocations are to be made subject to the submittal and approval of work plans.

In practice, unions and organizations are not required to submit work plans. The Office of the Comptroller also noted the matter in the previous report concerning the 34th Zionist Congress, which took place on June 17, 2002.

Furthermore, no elections were held for the 36th Zionist Congress.

The Office of the Comptroller believes that it is necessary to re-consider the 2001 resolution concerning allocations, and the terms and amounts for distribution.

The Office of the Comptroller sampled the registration of allocations amounting to USD 40,000. Propriety was found.

b. Budget for Delegate Participation in the Congress

As aforesaid, the 36th Congress was attended by 1,500 persons, as detailed below (based on data provided by the Director of the Legislative Institutions' Office):

Delegates	–	752
Deputy delegates	–	196
Others (executives, honorary members, observers, and guests	–	<u>552</u>
Total		1,500

The World Zionist Organization funds the participation of Congress delegates by providing partial funding for flight and subsistence expenses.

Flights and subsistence expenses were budgeted at USD 410,400, while actual expenditure amounted to USD 374,097.

Reimbursement for subsistence expenses amounted to USD 250 for foreign delegates or NIS 950 for Israeli delegates. This calculation was based on USD 50 per day, over five days. Reimbursement for flight expenses amounted to USD 430 per delegate.

Upon inquiry, the Office of the Comptroller was told that reimbursement for subsistence expenses was determined according to the overall budget for the 36th Zionist Congress, while flight expense reimbursement was based on one half of the average cost of flight tickets from the various destinations.

The Office of the Comptroller was further told that, as regards the 36th Congress, it was decided that the parties would receive an overall budget for each delegate, to the amount of USD 250. This amount is intended to cover accommodation expenses for the Congress delegates, 259 of whom also participated in the Jewish Agency Assembly.

The Office of the Comptroller notes that the Congress lasted for three days, and the Jewish Agency Assembly lasted for two additional days. Thus, only the 259 delegates who attended both conferences are entitled to reimbursement for subsistence expenses for the entire 5-day period. The other delegates are only entitled for three days' reimbursement.

The Office of the Comptroller recommends paying delegates attending the Congress and the Jewish Agency Assembly subsistence expenses for the number of days actually spent attending these conferences.

The Director of the Finance Division stated that he accepts the Office of the Comptroller's recommendation to reimburse delegates according to the actual number of conference days attended.

The Office of the Comptroller sampled the records for flight and subsistence payments made to the unions and organizations, to the total amount of USD 30,000. Propriety was found.

The above reimbursement pertains solely to delegates of the Zionist Congress. The World Zionist Organization does not fund flights and accommodations for deputy delegates and other participants.

Payments to delegates for flight and subsistence expenses are made by one direct payment to the unions and organizations to which the delegates belong.

Thus, the World Zionist Organization transfers one lump sum for all delegates attending the Congress to the organization dispatching those delegates. This organization then reimburses its delegates as per its best judgment.

The Office of the Comptroller notes that in the past, accounts were settled individually with Congress participants, and reimbursement for flight expenses entailed the delegates submitting their flight tickets. Reimbursement did not exceed 50% of the flight ticket cost.

Upon inquiry, the Office of the Comptroller was told that the policy change concerning the reimbursement for flight expenses streamlines the process for the World Zionist Organization, and allows the various organizations to reimburse the various delegates for their flight expenses according to each delegate's specific economic situation.

- c. Budget for Congress-Related Current Expenses - was set at USD 805,500. Actual expenditure amounted to USD 612,109.

Current expenses mainly consisted of conference hall rentals, meals, wages, printing and translation services, opening and closing ceremonies, etc.

The following table details all expenses incurred in connection with the 36th Zionist Congress. The following data are based on data from the World Zionist Organization's MANCAL 2000 system (in USD):

	Budget	Actual Expenditure
a. Allocations to Organizations and Unions	254,100	254,100
b. Flights and Subsistence for Congress Delegates	410,400	374,097
c. Current Expenses:		
Opening and closing ceremonies	58,000	50,263
Communications	25,000	21,676
Translations and print services	121,000	95,077
Conference hall rentals	197,000	167,928
Office expenses	2,000	1,294
Temporary worker wages	95,000	63,579
IT expenses	31,000	21,076
Press and spokespersonship	11,300	9,441
Security and parking	25,000	9,939
Hotels and meals	60,000	57,835
Transportation and tours	13,000	12,019
Freight	2,500	419
Miscellaneous	78,000	77,697
Zionist Court	16,000	8,696
Unplanned expenses	107,000	51,327
Revenues from participants	<u>(36,300)</u>	<u>(36,156)</u>
Total current expenses	805,500	612,110
Total	1,470,000	1,240,307

The above data indicate that actual expenditure for the Congress was divided as follows:

Approximately 20% – allocations to unions and organizations

Approximately 30% – reimbursement for delegate flight and subsistence expenses

Approximately 50% – current expenses.

Contracting and Current Expenses

In anticipation of the 36th Zionist Congress, in April 2010, the World Zionist Organization received approval from the Ministry of Finance (Customs and VAT Division) whereby Congress-related expenses will be VAT-free pursuant to Section 30(A)(8)(b2)(1) of the Value Added Tax Law.

This exemption is granted for service-related expenses incurred by an international organization organizing an international conference attended by at least 50 tourists.

The approval was granted in general for the Zionist Congress and the meeting of the Zionist General Council.

Pursuant to this approval, the World Zionist Organization must contract a company that organizes international conferences, which is to provide all congress-related services including lecture halls in the International Conference Center. These services include:

1. Simultaneous translation services and recording of panel discussions and lectures included in the Congress and required for foreign participants of the Congress.
2. Use of audio, amplifying, and lighting equipment and systems, audiovisual equipment such as screens, projectors, etc.
3. Use of communications equipment and systems, including telephones and data transmission connections.
4. Print and professional translation services for Congress resolutions and discussions.
5. Congress-related advertising and public relations services and spokesperson services.

6. IT and software services.
7. Advertising services by posting signs and distributing participants' bags, badges etc.
8. Accommodations and meals for Congress participants.
9. Security, ushering and parking services.
10. Transportation for Congress participants.

Following the general approval, a specific approval was issued whereby the World Zionist Organization is to contract "Israel Experience Ltd." ("**Israel Experience**"), which will provide all Congress-related services as detailed above.

This approval explicitly stated that these expenses will be VAT-free.

Based on this approval, the World Zionist Organization signed an agreement with Israel Experience Ltd. prior to the Congress.

This agreement details all the contracting terms in accordance with the VAT Authority's approval.

According to the agreement, the World Zionist Organization is to choose the various suppliers and service providers, and Israel Experience is to sign agreements for the provision of such services. After services are rendered, Israel Experience pays the suppliers the consideration according to their invoices, and submits reports, including the supplier and service provider invoices, to the World Zionist Organization. The World Zionist Organization then reimburses Israel Experience for the amount paid to the suppliers and service providers, excluding VAT.

Israel Experience settles its accounts with the Tax Authority for VAT paid to suppliers and service providers by offsetting this amount from the VAT paid on its revenues.

In consideration for this service, Israel Experience charges the World Zionist Organization a commission of 5% of the overall payment to suppliers and service providers. This payment does not include VAT.

The Office of the Comptroller examined the payments made to Israel Experience Ltd. Propriety and conformity with the agreement were found.

Israel Experience's total expenses to suppliers and service providers amounted to NIS 1,475,708.

The Office of the Comptroller sampled supplier and service provider invoices paid by Israel Experience to the amount of NIS 500,000. Propriety was found and the invoices were found to match Israel Experience's reports.

The Office of the Comptroller examined the details of Congress-related expenses. Propriety was found and the expenses were found to match the agreement and the VAT Authority approval.

The Office of the Comptroller notes that the World Zionist Organization's total expense payments to Israel Experience comprise approximately 63% of the Congress's total current expenses.

The commission paid to the company amounted to NIS 73,785, which accounts for 5% of all expenses as aforesaid.

Payment to Israel Experience amounted to NIS 1,549,493, including commission.

The Office of the Comptroller examined the invoice issued by Israel Experience to the Zionist Organization. Propriety was found.

The Office of the Comptroller notes that the amount for the commission was recognized under the "Miscellaneous expenses" line item.

Amounts paid by Israel Experience were recorded under various budget items as instructed by the relevant supervisor in the World Zionist Organization.

The Office of the Comptroller found that the majority of contracts signed with suppliers and service providers were based on existing framework agreements maintained by the Jewish Agency Logistics Division.

The Office of the Comptroller examined the selection process for the supplier chosen for the production of the Herzl 150-Year Anniversary event which took place on June 16, 2010, in the International Conference Center in Jerusalem.

Four production companies participated in this process, and submitted presentations.

The Tender Committee chose one of the four competitors. Production costs were set at USD 50,000.

The Office of the Comptroller examined the process and the relevant invoices. Propriety was found.

The 'Miscellaneous' line item included expenses for advertisements, Congress participants' bags and Israel Experience's commission.

The Office of the Comptroller recommends breaking down the 'Miscellaneous' line item and presenting material expenses such as Israel Experience's commission and advertising expenses under separate items, so as to allow proper monitoring and control.

The 'Unplanned expenses' line item includes costs for the Zionist Youth Congress which took place alongside the 36th Zionist Congress. Costs for the Youth Congress amounted to approximately USD 50,000.

Production of the event was awarded to a company which had produced a number of events for the Jewish Agency, and which was duly chosen by the Jewish Agency Tender Committee.

An amount of NIS 170,000 was paid to the production company chosen for the event.

The Office of the Comptroller examined the process for contracting the production company, the agreement, and its invoices. Propriety was found.

Participation Fees

As aforesaid., the World Zionist Organization funds part of the Congress delegates' flight and subsistence expenses.

Other Congress participants pay for services such as: registration fees, refreshments and meals, tours, etc. A specific price is determined for each service.

For example: registration fees for deputy delegates and guests amount to NIS 250 per participant. This amount includes registration fees, written materials, a gift, tours, and refreshments. Registration fees excluding tours and refreshments amounted to NIS 100 per participant. Meals were priced at NIS 80 per participant.

All orders for the above services are reported using the relevant forms and are entered into an Excel spreadsheet. These amounts are collected by the organizations and Zionist Unions according to the details for the participants. As of the date of the audit, in January 2011, all amounts for participation fees had been collected.

April 2011

**Response of the Chairman of the Executive
to the Comptroller's Report on
The 36th Zionist Congress**

In accordance with Paragraph 18 b of the Statutes of the Comptroller and the Control Office of the World Zionist Organization, following is my response to the above-referenced Audit Report.

The Zionist Congress is the supreme institution of the World Zionist Organization.

The audit report focused on the administrative and financial processes entailed in holding the last Congress.

Examination of the expenditures for implementing the Congress found that the agreement with the Israel Experience Co. Ltd. which supplied all the services entailed in holding the Congress is proper and that the list of expenditures which were paid is proper and matches the agreement.

The audit recommendation to review again the allocation to the Unions and to the organizations, including the amounts and the conditions for its receipt, is accepted. The Executive will discuss this before determining the budget for the next Congress.

Also accepted is the audit recommendation that payment to Congress delegates for reimbursement of per diem expenses be based on the number of days they actually participated.

(-) A. Duvdevani (Duvdev)

Jerusalem, March 2012

The World Zionist Unions
Use of World Zionist Organization Allocation

Response of the Chairman of the Executive

The World Zionist Unions

Use of World Zionist Organization Allocation

1. Introduction

1.1 As per the work program of the Office of the World Zionist Organization Comptroller, we examined the subject of the allocations to the World Zionist Unions (hereinafter: Unions).

1.2 The audit examined the following areas:

- Work interfaces between the World Zionist Organization Finance Department and the Unions, including current reports of the Unions and their quality.
- Use of the monies by the Unions.
- Follow-up on implementation of the recommendations of a previous audit report.

1.3 The audit was conducted from November 2010 to February 2011, inclusively, at the World Zionist Organization offices in Jerusalem and at the offices of the Unions throughout Israel.

During the audit, meetings were held with the Director-General of the Finance Department at the World Zionist Organization, other employees of the World Zionist Organization and with a number of contact personnel at each of the Unions.

1.4 The goals of the audit:

- a. A review of the existing processes and controls on the subject of the budgeting of the Unions.

- b. Examination of the use made of the allocations by the Unions.
- c. Examination of the current procedures on the subject of the budgeting of the Unions, their enforcement and the extent of their effectiveness, in terms of utilization of the allocations for the purposes for which they were given.

1.5 Main documents used in the audit:

- ◆ The Funding of the Unions Procedure (attached as Appendix A).
- ◆ Reports of the Unions about the use of the allocated funds.
- ◆ Financial statements of the Unions.
- ◆ Trial balances and select cards from the books of accounts of the Unions.
- ◆ Miscellaneous documentation about the activities declared by the Unions.
- ◆ The Unions accounts for 2009 in the books of the World Zionist Organization.
- ◆ A report specifying the number of delegates per Union and the participation in expenses per delegate.
- ◆ Specific documents obtained on request.

1.6 The audit methodology:

- ◆ Reading of the existing procedures and examination as against actual conduct.

- ◆ Holding of meetings and talks with office-holders responsible for the activity on matters audited, at the World Zionist Organization and in each of the Unions.
- ◆ Study and analysis of financial statements, trial balances and cards from the books of the Unions.
- ◆ A look at the designation of the allocations as against the activities of the different Unions.
- ◆ A look at the reasonableness of management and general expenditures, considering the expenditure budget as a whole.
- ◆ Examination of documents and contracts.
- ◆ Summary of the findings.
- ◆ Preparation of the audit report, including the drawing of conclusions and making of recommendations.

2. Unions – general background

2.1 A Zionist Union is defined in Article 3 of the World Zionist Organization Constitution thusly: “A Zionist organization representing certain concepts, in the World Zionist Organization, with branches in at least five countries and represented by one of the factions at the Congress.”

Each year, an amount designated for allocations to the Unions is set aside in the World Zionist Organization budget. The allocations are intended to assist them in carrying out their educational and conceptual activities for realization of the Zionist program.

The share of each Union in the budgetary cake is determined in accordance with the number of its delegates to the Zionist Congress in relation to the total number of delegates at Congress.

2.2 Currently, there are 11 Zionist Unions budgeted by the World Zionist Organization, as follows:

Name of the Union	2008		2009		No. of Union delegates for 2009	Delay in transfer of principal funds
	USD	NIS	USD	NIS		
Artzenu Inc.	143,500	503,255	94,300	379,558	82	No
The World Federation	87,500	306,863	57,500	231,438	50	No
World Beitar (Reg. Ass.)	54,250	203,573	35,650	143,491	31	No
World Union of Meretz-Yachad (Reg. Ass.)	59,500	210,957	39,100	157,378	34	No
Union of Mizrachi and Hapoel Hamizrachi, the World Center (Reg. Ass.)	155,750	587,645	102,350	411,959	89	No
The Association for application and implementation of the principles and resolutions of the World Likud (Reg. Ass.)	71,750	247,896	47,150	189,779	41	No
World Herut (Reg. Ass.)	21,000	78,803	13,800	55,545	12	No
World Center – the Conservative Zionist Movement (Reg. Ass.)	96,250	332,544	63,250	254,581	55	No
Kadima – the Zionist Youth, the World Movement	129,500	454,157	85,100	342,528	74	No
The World Zionist Labour Movement (Reg. Ass.)	101,500	380,879	67,700	272,493	58	No
Shas *	-	-	-	-	20 since 2010	No
Total	920,500	3,306,572	605,900	2,438,750		

* The Union was established in 2010 and started receiving allocations that year.

Notes

1. The income records in the books of the Unions do not necessarily match the records in the World Zionist Organization books, inter alia, because the Unions also have income from the World Zionist Organization in other lines in the budget of the World Zionist Organization and from reimbursement of expenses, not only from allocations.
2. It follows from the above table that the total World Zionist Organization budget for allocations decreased sharply, by 35 percent, in 2009 in relation to 2008.

The representatives of the various Unions, together with the representatives of the Zionist Organizations, make up the World Zionist Congress which convenes once every four years in Jerusalem. At the Zionist Congress, the policy is laid down of the World Zionist Organization on matters on the agenda of the World Zionist Organization.

Financial data

Following are select data from the 2009 Statements of Profit and Loss of the Unions.

2009					
The Union	Mizrachi	Kadima	Reform	World Beiteynu	Merez
Income:					
Allocation	427,500	488,811	638,938	180,000	185,000
Other income	2,368,295	167,657	-	-	-
Total income	2,795,795	656,468	638,938	180,000	185,000
Uses					
Salary	790,261	205,875	308,969	166,344	134,387
Others	1,762,960	389,058	499,858	30,519	61,829
Total expenditure	2,553,221	594,933	808,827	196,863	196,216
Surplus / Deficit	242,574	61,535	-169,889	-16,863	-11,216

2009					
The Union	Labour	Conservative	Likud	Confederation	Herut
Income:					
Allocation	298,200	244,256	150,000	231,531	88,000
Other income	-	4,179	316,415	197	31,102
Total income	298,200	248,435	466,415	231,728	119,102
Uses					
Salary	111,916	134,717	36,575	52,988	10,723
Others	48,347	199,972	363,579	215,748	195,672
Total expenditure	160,263	334,689	400,154	268,736	206,395
Surplus / Deficit	137,937	-86,254	66,261	-37,008	-87,293

From a perusal of the figures in the table, it follows that:

- ◆ Five of the ten Unions, above, are almost totally dependent on income originating from the World Zionist Organization.
- ◆ Salary costs, in some of the Unions, constitute the main expenditure.
- ◆ A number of Unions did not utilize all of the 2009 allocation.

3. Procedures and Operational Interfaces between the World Zionist Organization and the World Zionist Unions

A procedure for funding the Zionist Unions was approved in 2000 at World Zionist Organization institutions, the main points of which are given below:

3.1 Data management

Payment is made to the Unions by the World Zionist Organization Finance Department which collates the annual statements received from the different Unions. The statements reaching the Finance Department for perusal are summarized and retained in the offices of the Department together with other documents and more internal correspondence dealing with the allocations to the Unions.

The audit findings

- ◆ The Office of the Comptroller found that the World Zionist Organization has no orderly list of the Unions containing: names of the representatives of the Union, updated bank account numbers, updated addresses and the dates of the last financial statements of the Unions. The absence of an updated list of data makes a proper implementation of the allocation remittance process, control over the Unions and general application of the procedure difficult because of the slow data retrieval and occasional reliance on data that has not been kept up-to-date.
- ◆ The financial statements of the Unions are not filed in their entirety in the storage drawers in the Finance Department. The Office of the Comptroller came across a financial statement of the Herut Union, which existed in the computerized data base but that was not filed physically in the designated drawers. Retention of the financial statements only in the computerized system is insufficient with the present work methods which rely primarily on written paperwork.

The audit recommendations

- ◆ It is recommended that an orderly data base be formed for each Union and include: the names of the representatives of the Union, the amounts of the allocation remitted, telephone numbers for contacts, the financial statements transfer date by the Union, propriety and integrity of the transfer of the statements and the adoption of sanctions, if any.
- ◆ It is recommended that it be insisted upon that the financial statements reaching the World Zionist Organization be filed correctly close to their arrival in the Finance Department.

3.2 Eligibility for an allocation

A non-profit organization, registered in Israel or abroad, may actually obtain an allocation by bank transfer to its bank account.

Zionist Unions which are eligible for such an allocation may request a joint allocation.

Two to five members, about whom the Union shall have reported in writing to the Finance Department and to the Department for Zionist Activity through those authorized on its behalf, shall serve as the representation of the Union. The said representation shall be exclusively empowered to handle, in the name of the Union, everything to do with the allocation. A statement signed by two of the members of the representation binds the Zionist Union for all intents and purposes.

The audit findings

- ◆ Some Unions receive their allocation jointly, for example: the World Likud serves as a pipeline for the transfer of money to Shas. In the opinion of the Office of the Comptroller, the transfer of funds to a particular body, through another body as a pipeline, is unbecoming and could even result in errors. Furthermore, the control ability of the Likud Union over the expenditures of the Shas Union is unclear, if it exists at all.

The audit recommendations

- ◆ It is recommended that there be a separation between the Unions and that one Union not be used at all as a pipeline for the transfer of funds to another Union.

3.3 Reporting and control

Section 11 of the Funding of the Unions Procedure determines that: “The allocation recipient will convey, through the representation, within six months from the end of the budgetary year, confirmation from an accountant regarding the use made of the allocation.”.

Failure to comply with this condition results in a number of sanctions, which are specified below:

- ◆ Non-submission of the said confirmation on time results in an immediate reduction from the current allocation at half of the amount of the allocation for which the confirmation was not received.

- ◆ Failure to submit the confirmation a year from the end of the budgetary year (in other words: a delay of six months) will result in the current allocation being reduced by a further amount, also of half of the amount of the allocation for which the confirmation was not received.
- ◆ The amounts to be set off, as stated, from the current allocations will constitute a sort of non-refundable fine, even if the said confirmation is submitted at a later date.

Further to the aforesaid, the allocation is conditional on written consent for an audit on behalf of the World Zionist Organization Comptroller and an undertaking to show books for the purpose of the audit. Similarly, the registration documents of the allocation recipient and any other confirmation or document which is required by the World Zionist Organization Finance Department are to be submitted each year prior to payment of the allocation.

The requisite documents and the said undertakings are determined by the Finance Department, in consultation with the Department for Zionist Activity and the Legal Department.

The audit findings

- ◆ In Section 8 of the Funding of the Unions Procedure, it is determined that: “The documents of registration of the allocation recipient, confirmations and other documents as required by the Finance Department shall be submitted to it each year prior to payment of the allocation.”. In addition to what is quoted above, Section 9 of the Procedure emphasizes that the Finance Department, in consultation with the Department for Zionist Activity and the Legal Department, has to lay down a list of such documents. Again, the said documents have to include a specific written undertaking, signed by each Union, as a condition for the receipt of the allocation. Despite what is specified above, there is no such list / circular / procedure specifying the documents that the Unions have to submit in order to obtain the allocation.

- ◆ The World Zionist Organization is inconsistent as regards its requirements for the type and quality of the reports conveyed for its perusal. In practice, submitted to it have been, inter alia, draft reports, unsigned and/or unaudited reports and cash flow and, on the basis of these reports, the allocation was remitted.
- ◆ Section 13 of the Funding of the Unions Procedure determines that the World Zionist Organization will perform auditing activities on the reports of the Unions. In practice, it can be said that, across the board, no audits are performed on the reports of the Unions nor are there any clear directives as to the type of audit to be carried out, its frequency and nature.
- ◆ Cases were found of allocations not being reduced despite late submission of reports, for example: The Israel Beiteynu Union submitted its 2008 financial statements to the World Zionist Organization only in May 2010, eleven months later than the last date set in the Procedure. It may be further noted that this fault is not new and was already mentioned in our 2008 audit report, since when the situation is unchanged.
- ◆ From a perusal of the books of the Unions, it follows that a large number of Unions support various associations financially. A review of the Funding of the Unions Procedure, however, found no reference or stipulation regarding support of those affiliated associations. Example of a stipulation: a declaration of the Union that the reference is to an association whose goals match or complement those of the Union.
- ◆ The sanction of reducing the allocation for the Unions by fifty percent because of late submission of the report (which was set for six months from the end of the year of the allocation) is not implemented in practice in all the cases we looked at and where there were delays. See Section 4, below.

The audit recommendations

- ◆ It is recommended that directives be formulated to arrange the control on everything to do with reports as to the use of the allocation funds. The directives should deal with the following matters:
 1. The registration documents should be defined of allocation recipients, as required for meeting the terms of Section 8 of the Procedure. It is recommended that the following documents be considered: confirmation of proper management, updated report about the representation of the Union and the bank account number for deposits.
 2. It is recommended that a uniform report format be laid down for all the Unions and that it include confirmation of an accountant regarding the uses made of the allocation.
 3. In accordance with what is required in the Procedure, it is recommended that audit dates be determined for the financial statements of the Unions and the subjects to be audited.
 4. It is recommended that the Procedure be improved and that the requisite controls be specified as well as the required documents (including invoices, flyers testifying to activity and so on) for examination of the uses made of the World Zionist Organization allocations.
- ◆ It is recommended that the allocations be reduced of those Unions who are late with submission of the reports on the use of the allocation, as required by the Procedure. At the same time, another sanction should be considered that can be applied.
- ◆ It is recommended that the addition be considered of a stipulation in the Funding of the Unions Procedure that will require that transfer of the allocations to affiliated associations by the Union be conditional on a declaration by the Union that the purposes of the association being supported by the Union are

in keeping with the purpose of the allocation of funds to the Union.

3.4 Use of the allocation monies

The funds allocated to the Zionist Unions are supposed to be used by them for carrying out educational and conceptual activities for realization of the Zionist program. Where the Finance Department, after consultation with the Department for Zionist Activity and with the Legal Department, is of the opinion that the allocation was not used for the said purpose, the director of the Finance Department may demand of the Zionist Union the entire amount of the allocation paid and which did not serve the purpose for the sake of which it was given and/or may set this amount off from another payment due to the Zionist Union from the World Zionist Organization.

The decision, in the event of differences of opinion between the Union and the director of the Finance Department, will be given to a body to be jointly determined by the Chairman of the Executive and the Treasurer.

The audit Recommendations

- ◆ The request for confirmation from an auditor as to the use made of the funds was post factum control. It thus follows that the allocation monies were remitted without any documentation for proof of the performance of the “recognized” activity.
- ◆ Frequently, the reports conveyed by the Unions to the World Zionist Organization do not contain an auditor’s confirmation regarding a match between the uses made of the allocation funds and the uses permitted according to the Procedure. It is important to note that the Procedure requires that a confirmation be shown from an auditor in this matter. For more detail, see Chapter 4, below.

- ◆ The World Zionist Organization has, in recent years, not reduced an allocation or revoked allocations because of the non-submission of reports.
- ◆ The Office of the Comptroller found that some of the Unions make use not matching the “purpose of the allocation” as defined in the Funding of the Unions Procedure, e.g.: use of allocation funds for payment of salaries only, cover of deficits and the creation of surpluses. For more detail, see Chapter 4, below.

The audit recommendations

- ◆ It is recommended that consideration be given to remitting the allocation after proof of performance (even if by sample) rather than in advance.
- ◆ There must be insistence that the different Unions present an authorization from an accountant regarding the uses of the allocation monies.
- ◆ If it is found that proper use was not made of the allocation, the return of the allocation monies to the World Zionist Organization must be demanded unconditionally.

3.5 Payments

As noted above, the share of each Union in the budget cake is determined in accordance with the number of delegates that Union has at the Zionist Congress as a proportion of all the delegates at Congress.

Allocations are paid by transfer to the bank accounts of the said Unions. The transfer is made in equal monthly installments, unless authorized otherwise by the Chairman and Treasurer. The amounts are paid in Sheqels, other than a payment in Dollars when the allocation recipient is located abroad.

The directors of the Department for Zionist Activity and the Finance Department, after consultation with the Office of the Comptroller, may approve the purchase of flight tickets, hotel stays and meals in the framework of pan-institutional conventions. The World Zionist Organization may make purchases for a Zionist Union at its behest. Such a purchase may be made to the balance of the allocation to which the requesting Union is entitled and will be set off from the next payment of the allocation due to that Union.

The audit findings

- ◆ A number of errors were found in the calculations of entitlement to allocation amounts earmarked for the Unions. For example: calculation of the entitlement of the Conservatives Union was made according to 58 delegates multiplied by the amount per delegate. But according to the list of the Unions and their composition that was sent to the Office of the Comptroller for its reference, it follows that calculation of the entitlement of the Conservatives Union should have been done according to 59 delegates rather than as calculated. In addition to the above, from perusal of the calculation of the entitlement of the different Unions to the allocation, it follows that there were a number of mistakes apparently based on clerical errors. For example: the amount of the entitlement of the Labour Union in 2008 was set at USD 66,700 but, in an internal memo listing the amounts remitted to the various Unions, it was found that the amount allocated to the Labor Union was USD 67,700, which is USD 1,000 more than the correct entitlement.
- ◆ Funds were not remitted to the Unions at fixed time intervals or on fixed dates, as determined in the Procedure, but in accordance with the cash flow of the World Zionist Organization. This method of transfer makes cash flow management difficult for the Unions which are dependent on the allocations while, on the other hand, it is unclear what cash flow problem exists at the World Zionist Organization that seemingly leads to a delay in remittances.

- ◆ The World Zionist Organization books sometimes show balances at year end for the credit of the different Unions because of the non-transfer of the allocations. For example: the credit balance of the Mizrachi Union, as shown on its credit-debit card in the World Zionist Organization books, to December 31, 2008, was NIS 26,452.
- ◆ The World Zionist Organization Finance Department does not send an orderly circular to the different Unions detailing the amounts of the allocation and the dates of remittances.
- ◆ The World Zionist Organization does not undertake a periodic check as to the accuracy of the bank account numbers of the different Unions. Such a change would take place only if the Union itself initiated it. It is important to note, not infrequently, that associations comprising the Unions break up and re-associate with a different bank account number such that, without current follow-up, a situation could be created of money not reaching its destination. For example: the association through which the Labour Union was associated broke up in 2006 and, in its stead, a new association was set up with a different bank account. The update of the bank account number was made following a request of the heads of the new association, this being after lengthy legal battles.

The audit recommendations

- ◆ It is recommended that the amount of the eligibility for each Union be calculated by two employees of the Finance Department (one to calculate and the other to check), with verification of the datum for the number of delegates of each Union by a third party. These two employees should sign the internal circular confirming the correctness of the amounts.
- ◆ Insistence on transferring the allocation on known dates and fixed time intervals is recommended.

- ◆ It is recommended that the Union be notified by orderly circular of the following data:
 1. The total amount of the annual allocation.
 2. The remittance dates of the allocation.
 3. The number of delegates taken into account and the amount set per delegate.
 4. The Unions should be notified at the end of each year of the credit balance of the allocation, if any.
 5. Insistence is recommended on paying all the amounts of the allocations for the different Unions on time, so long as the Union has met the conditions, rather than creating a situation in which, at the end of a calendar year, the World Zionist Organization owes considerable amounts of money to the Unions.

- ◆ An examination should be carried out once a year to verify the bank account numbers of the different Unions.

3.6 Per diem payments with respect to the Zionist Congress held in 2010

The World Zionist Organization participated in payments for flights and per diem expenditures of delegates to the Zionist Congress held in 2010. The amounts of the participation are:

USD 250 – reimbursement of per diem expenses for all delegates.

USD 430 – reimbursement for the airfare paid by delegates coming from abroad.

World Zionist Organization support is made by the transfer of the money to the bank account of the Union and the Union's own arrangements with delegates / suppliers or by crediting the account of the Unions in the World Zionist Organization books, such that the payment to delegates / suppliers is made by the World Zionist Organization without intervention of the Union.

Before the Congress is convened, bodies at the main office of the Congress give a briefing to the representatives of the Unions regarding the manner and purpose of the allocations being remitted.

The Office of the Comptroller checked whether the monies received with respect to per diem expenses were indeed expended for per diem payments.

The audit findings

- ◆ The audit found that the various Unions distributed the per diem funds in accordance with their own policy, as formulated by each Union. In a conversation with bodies in the World Zionist Organization Executive, it was explained that the absence of a policy derives from the decision of the World Zionist Organization Executive not to interfere in the distribution of the funds because of the small budget allocated to each Union.
- ◆ Further to what is stated above, the various Unions were not required to show proof of the transfer of the funds to the delegates to any body in the World Zionist Organization.

◆ Following are the audit findings at the different Unions:

Serial	The Union	Response of the Union	Proper / Improper
1	Kadima	Sent documentation	Proper
2	Mercaz Olami	Sent a card index – asked for more time to forward material	The income originating in World Zionist Organization allocations to the Union for the Congress was closed against the expenditures entered in the books – the Office of the Comptroller was not able to ascertain the correctness of these expenditures.
3	Mizrachi	Sent an Excel report listing the delegates who received money, including documentation for a requested sample	Proper. It should be noted that there are no entries in the body of the document although the amount is stated in the margin.
4	Herut	Sent confirmations and documentation	Apart from the absence of one confirmation – proper.
5	Artzenu	Sent an Excel report	Proper
6	Confederation	Asked for time to respond	-
7	The Likud	Sent card indexes from the World Zionist Organization and also expenditure invoices and documentation of two airline tickets.	According to the Union, the costs with respect to the Congress exceeded the income. They sent the World Zionist Organization card index of the Union, evidencing expenditures for hotels but excepting two airline tickets, there is no proof of payment to the delegates for the flights.
8	World Beiteynu	Nothing was received.	-
9	Meretz	The World Zionist Organization paid the hotel stay – we spoke with the Union and they said they would try to forward material but have not yet done so.	-
10	Labour	No response was received.	-

The audit recommendations

- ◆ It is recommended that an orderly policy be formulated regarding the use of the per diem monies and to implement it even if the money remitted is of a relatively smaller amount than in previous years.
- ◆ It is also recommended, where the various Unions are given freedom of action regarding distribution of the money to the delegates, that they be asked to show documentation for the use made of these funds.

4. Use of allocations by the Unions

The Office of the Comptroller examined a number of topics covering all the Unions, as follows:

- ◆ The reasonableness of the salary costs vis-à-vis the expenditures for activities.
- ◆ The existence of Zionist activities in the Unions, in line with the Unions Procedure.
- ◆ The purposes of overseas travel and whether they match the permitted uses of the allocation funds, as specified in the Procedure.
- ◆ Compliance of the Unions with the dates for submission of the reports on the uses and examination of the propriety of the reports.
- ◆ The existence of allocation surpluses which were not used for activities.

The examination included an analysis of the Statements of Profit and Loss of the Unions, including a review of the expenditure cards and an examination of various documents, to the extent possible, testifying to the existence of the activities.

The audit findings

- ◆ Section 2 of the Funding of the Unions Procedure emphasizes that “the purpose of the allocation – is to assist the Unions in carrying out their educational and conceptual activities for realization of the Zionist program.”. Further on, the Procedure determines that, for the purpose of control that the allocation to the Union was indeed used “for realization of the Zionist program”, the Union has to submit confirmation from an accountant at the end of the financial year, confirming that the allocation funds did indeed serve for Zionist purposes. Despite the aforesaid, the Office of the Comptroller found that, to the financial statements of most of the Unions for 2008-2009, no confirmation from an accountant was attached as required above. See further, below, in the following sections: a, b, c, d, f, g, h, i.

- ◆ The Procedure defines the purpose of the allocation in general terms but the Office of the Comptroller came across a number of cases where the money was used totally for salary costs and overseas travel and the Office of the Comptroller does not have the tools to check whether they are in keeping with the requirement of the Section, as quoted above. See further, below, in sections: a, c, d, e, f, j.

The audit recommendations

- ◆ It is recommended that the Unions submit a document signed by an accountant confirming that the uses match the purposes the Section enumerates, as a *sine qua non* for World Zionist Organization support of the Unions.

- ◆ It is recommended that a reference be added in the Procedure regarding the proportion of salary costs and overseas travel that can be recognized as a use for the purpose of the allocation.

Following is a list of the Unions and summary data regarding their activities and budget

a. The World Union of Meretz Yachad

General data	
Head Office of the Union	Tel Aviv
Salaried employees	The Union employs one salaried worker in the position of director-general of the Union.
Countries in which the Union is active	Argentina, France, England, Uruguay, Chile, Brazil, USA, Canada, Holland, Switzerland, Australia and others.
Location of branches in the world	Buenos Aires, New York, Paris, London
Activity of the Union\ association	Various conferences around the world, an internet site, a newspaper which is distributed in Yiddish and in French, home groups, photography exhibition together with local youngsters in Hungary.

Financial data (NIS '000)	2009	2008
Income turnover	185 *	197 *
Salary costs	134	146
Vehicle costs	38	47
Expenditure on activities	2	17
Annual surplus (deficit)	(11)	(33)
Cumulative surplus (deficit)	25	33

* All income originates from the World Zionist Organization

The audit findings

- ◆ From a perusal of the data in the above table, it follows that the budget referred to Zionist activities is negligible. Most of the budget goes for salaries and vehicle costs. We were told that the

activities which are held are mainly volunteering activities or such as are funded by sources of the overseas representatives.

- ◆ The activity shown in 2008, at a cost of NIS 17,000, is for the costs of establishing an internet site.
- ◆ No confirmation from an accountant was found regarding the use of the allocation monies. The absence of an accountant's confirmation and its presentation to the World Zionist Organization Finance Department is contrary to Section 11 of the Funding of the Unions Procedure which emphasizes that "The allocation recipient will convey, through the representation, within six months from the end of the budgetary year, confirmation from an accountant regarding the use made of the allocation."
- ◆ The 2009 financial statements were submitted on July 29, 2010, a month after the final date for submission. We did not see that any sanctions were applied and there is no confirmation of the late submission.

Response of the audited body

The statements were submitted late following receipt of an approval, in writing or orally, from the Finance Department. The reason for the delay is the Zionist Congress which was held that year.

- The nature of the expenditure on salaries in Israel is operation of the branches, creation of work programs and support as a roof organization. It is not a question of salary costs but of providing a budget to the person who coordinates projects and widens the circles of activity.

b. The Mizrachi and Hapoel Hamizrachi Union the World Center
(Reg. Ass.)

General data	
Head Office of the Union	Jerusalem
Salaried employees	7
Countries in which the Union is active	The Union is active in scores of countries around the world.
Location of branches in the world	USA, Canada, South Africa, Switzerland, Austria, Argentina.
Activities of the association / Union	Maintaining an internet site, distribution of weekly portion sheets and updates for overseas as to what is happening in Israel, overseas conferences and on Independence Day and on Jerusalem Day raising funds for those evicted from Gush Qatif, organization of Jewish heritage tours for activists from abroad, support for affiliated associations.

Financial data (NIS '000)	2009	2008
Income turnover	2,796 *	5,329 *
Salary costs	790	943
Vehicle costs	72	83
Expenditure on activities	1,129	993
Annual surplus (deficit)	243	2,582
Cumulative surplus (deficit)	(799)	(1,037)

* Of which NIS 428,000 and NIS 577,000 from the World Zionist Organization allocation, for 2008 and 2009, respectively.

The audit findings

- ◆ The accountant's confirmation contained a general reference to the activities of the association with specific details as to the use made of the allocation monies and confirmation that the funds were used for the purpose for which they were given.
- ◆ The 2009 financial statements which were submitted by the Union to the World Zionist Organization were not signed by the accountant – auditor.

Response of the audited body

Following the draft report, the Union presented its signed financial statements for 2009.

c. The World Labour Zionist Movement (Reg. Ass.)

General data	
Head Office of the Union	None
Salaried employees	1
Countries in which the Union is active	USA, Brazil, Argentina, Australia
Location of branches in the world	-
Activities of the association / Union	Conferences in Israel and abroad

Financial data (NIS '000)	2009	2008
Income turnover	298	344 *
Salary costs	112	132
Vehicle costs	-	-
Expenditure on activities	6	-
Annual surplus (deficit)	138	169
Cumulative surplus (deficit)	(113)	(261)

* Of which NIS 335,000 from the World Zionist Organization.

The audit findings

- ◆ The allocation funds were used mainly to cover deficits from previous years.
- ◆ A review of the costs for activities shows that, apparently, no significant Zionist informational activity takes place. Our request to receive documents attesting to an activity was not answered.
- ◆ The 2009 financial statement was submitted to the World Zionist Organization at least three months late. The Office of the Comptroller came to this conclusion because of the fact that the financial statements were signed by the accountant only in September 2010, a date which is three months after the last date for submission of the statements.
- ◆ No confirmation of an accountant was found regarding the use of the allocation funds.

Audit comment:

Because of the upheavals in recent months in the Labour Movement as a whole and in the Union in particular, we have not received the response of the Union to the above findings.

d. Kadima – the Zionist Youth – the World Movement (Reg. Ass.)

General data	
Head Office of the Union	Tel Aviv
Salaried employees	1
Countries in which the Union is active	England, Belarus, Hungary, France, Argentina, Uruguay, Chile and others.
Location of branches in the world	Argentina, France, Belgium, Italy and elsewhere.
Activities of the association / Union	Training in Israel of youth delegations from abroad, conferences, updates and information for overseas members of the Union, Zionist activity in conjunction with overseas youth movements.

Financial data (NIS '000)	2009	2008
Income turnover *	656	879
Salary costs	206	243
Vehicle costs	63	42
Expenditure on activities	181	498
Annual surplus (deficit)	62	(29)
Cumulative surplus (deficit)	80	18

* Of which NIS 489,000 and NIS 581,000 from the World Zionist Organization allocation, for 2008 and 2009, respectively.

The audit findings

- ◆ The 2009 financial statements were submitted to the World Zionist Organization at least two months late, according to the date of the financial statements.
- ◆ The 2009 financial statements which were submitted to the World Zionist Organization are not signed by the accountant – auditor or members of the management of the association of the

Union. At the request of the Office of the Comptroller, signed financial statements were received post factum.

- ◆ The financial statements of the Union did not include confirmation of an accountant regarding the conformity of the uses made of the allocation to the purposes enumerated in the Procedure.

Response of the audited body

The requirement for confirmation of conformity of use of the funds to the amounts received: on the page of the financial statements listing the cost of the activities, it can be seen that the amounts used for activities are larger than the amounts received from the World Zionist Organization for this purpose.

e. Artzenu the World Zionist Federation of Reform and Progressive Judaism (Reg. Ass.)

General data	
Head Office of the Union	No official head office. The office is located in Israel.
Salaried employees	One tenured and 3 temporary employees
Countries in which the Union is active	USA, Canada, Brazil, Argentina, South Africa, Australia, Hungary, Holland, Britain, Germany, Switzerland, Russia and Spain.
Location of branches in the world	There are no branches.
Activities of the association / Union	Artzenu is a roof organization supporting the activities of various organizations, among them World Netzer and local organizations in different countries. Artzenu also arranges seminars for members of Reform congregations both in Israel and overseas.

Financial data (NIS '000)	2009	2008
Income turnover *	639	383
Salary costs	309	248
Vehicle costs	-	-
Expenditure on activities	356	632
Annual surplus (deficit)	(170)	(560)
Cumulative surplus (deficit)	1,826	1,996

* Of which NIS 380,000 and NIS 377,000 from the World Zionist Organization allocation, for 2008 and 2009, respectively.

The audit findings

- ◆ Most of the Union's activity is provision of support for affiliated associations or organizations with an identical agenda. In 2009, the Union supported an association called World Netzer and various local organizations in the world (mainly in the USA) for a total amount of NIS 333,000, while its own Zionist activity, which included overseas travel, come to a total of NIS 25,000.
- ◆ A considerable portion of the Union's activity in 2008 was for the costs of overseas travel, in the amount of NIS 103,000. The Office of the Comptroller received documents with respect to these journeys and their purpose, including invoices - propriety was found.

Response of the audited body

The Artzenu organization was accepted into the World Zionist Organization over 30 years ago, according to the constitution, this being in accordance with its principles.

From time to time, the organization holds educational activity of its own.

We insist that the organization fulfill its vision and its purposes in their entirety and in accordance with the constitution of the World Zionist Organization.

f. **World Beiteynu**

General data	
Head Office of the Union	None
Salaried employees	1
Countries in which the Union is active	USA, Moldova, Uzbekistan, Russia, Israel
Location of branches in the world	None
Activities of the association / Union	Home groups, meetings with lay leaders.

Financial data (NIS '000)	2009	2008
Income turnover	180	353 *
Salary costs	166	163
Vehicle costs	-	-
Expenditure on activities	-	157
Annual surplus (deficit)	(16)	(23)
Cumulative surplus (deficit)	54	70

* Of which NIS 166,000 from the World Zionist Organization allocation, for 2008.

The audit findings

- ◆ In 2008, a considerable part of the expenditures were salary costs and, in 2009, all the expenditures were salary costs.
- ◆ No documents were received evidencing the holding of activity in general and activity recognized according to the Procedure in particular.
- ◆ In 2008, most of the expenditures of the Union which are not salary costs, in the amount of NIS 157,000, are for overseas travel of representatives of the Union for gatherings and

meetings. The travel amount includes a trip by the spokesman of the Union for four days to the Ukraine, at a total cost of NIS 10,059, in addition to which an excess expenditure tax was paid of NIS 5,000. It thus follows that the income tax authorities do not recognize the whole amount as a tax deductible expense.

- ◆ No confirmation of the accountant was submitted regarding the uses made of the allocation monies.
- ◆ The Union did not submit financial statements for 2008-2009 as required but only Form 1215 (report to the tax authorities), without the signature of an accountant.
- ◆ Form 1215 for 2008 was submitted to the World Zionist Organization with a delay of four months. Perusal of the form for 2009 shows that it was submitted two months late.

g. Mercaz Olami (World Conservative Movement) (Reg. Ass.)

General data	
Head Office of the Union	Jerusalem
Salaried employees	The Union has no employees but there are salary costs of an affiliated association which are loaded onto the Union through credit-debit cards.
Countries in which the Union is active	USA, Canada, England, France, Spain, Hungary, Argentina, Chile, Uruguay, Brazil.
Location of branches in the world	
Activities of the association / Union	Holding of conferences and activities about Zionism and the State of Israel, organization of Independence Day celebrations overseas.

Financial data (NIS '000)	2009	2008
Income turnover	248*	339 *
Salary costs	135	49
Vehicle costs	-	-
Expenditure on activities	145	110
Annual surplus (deficit)	(86)	(134)
Cumulative surplus (deficit)	290	376

* Of which NIS 244,000 and NIS 335,000 from the World Zionist Organization allocation, for 2008 and 2009, respectively.

The audit findings

- ◆ The Office of the Comptroller found that no confirmation of an accountant was attached, as required by the Procedure, to the financial reports to the World Zionist Organization about the use of the allocation by the Union.
- ◆ All the Union's activities are held in conjunction with an affiliated association, such that all the expenditures are entered in the books of the affiliated association and are loaded in the books of the Mercaz Olami in accordance with its pro rata share in the cost of the activity and the management.

Response of the audited body

To date, it had not been understood from the Procedure that a special confirmation was required regarding the use made of the allocation monies from the World Zionist Organization (see Section 11 of the Procedure). To date, the Mercaz Olami had viewed the audited annual financial statement which was submitted by the date stated in the Procedure, as compliance with this requirement. In future, we will submit this confirmation in orderly fashion.

The activities of the Union are held in cooperation with an affiliated association – this is done in order to underline the Zionist message reaching conservative congregations abroad and because the two associations share joint offices and there is a division of expenses.

At the same time, not all the activities are carried out this way but there are some activities which are done directly from the Mercaz Olami. At the current time, we are starting a process of changing the situation, particularly and to an even greater extent the activity of the Mercaz Olami vis-à-vis the affiliated association, this being something that will find expression in the next annual financial statement.

h. The Association for Implementation and Performance of the Principles and Resolutions of World Likud (Reg. Ass.)

General data		
Head Office of the Union	Tel Aviv	
Salaried employees	2	
Countries in which the Union is active	USA, Turkey, Canada, Uruguay, England, Poland, Argentina and others.	
Location of branches in the world	USA, Argentina, Uruguay, Poland and elsewhere.	
Activities of the association / Union	Meeting with activities overseas, operation of a website, conferences, Tu Bishvat plantings, organization of study days and tours for groups from Israel and from overseas on various Zionist topics and uniting the democratic activity of the Likud Movement in the World Zionist Organization.	
Financial data (NIS '000)	2009	2008
Income turnover	466 *	436 *
Salary costs	37	32
Vehicle costs	-	-
Expenditure on activities	180 **	148
Annual surplus (deficit)	66	306
Cumulative surplus (deficit)	49	(17)

* Of which NIS 150,000 and NIS 275,000 from the World Zionist Organization allocation, for 2008 and 2009, respectively.

** Only expenditures identified as costs for Likud activities were included, such as: events, study days, volunteers, website. General expenditures, such as: communications, office, management and general, were not included.

The audit findings

- ◆ The 2009 financial statements which were submitted to the World Zionist Organization are not signed by the accountant – auditor or members of the management of the association of the Union.
- ◆ It is to be noted that, only at the stage of the response to this report, the association submitted confirmation of an accountant regarding the uses made of the allocation funds.
- ◆ Response of the audited body
Financial data: In calculating the costs for the activity, costs were not taken into account for computerization (operation of the website and current maintenance), mailing and telephone costs which constitute primary tools in the activity with the various branches and representatives overseas. Nor were the costs calculated for refreshments at the conferences and the study days.

Audit findings: A - financial statements have been submitted in the past duly signed by the accountant – auditor and members of the management of the Union association. Similarly, signed statements were conveyed to the auditing body. B – it was not clear that an accompanying letter was required from the accountant in addition to the statements signed by him.

i. The World Confederation of United Judaism (Reg. Ass.)

General data	
Head Office of the Union	New York
Salaried employees	
Countries in which the Union is active	England, Russia, Germany, Argentina, USA.
Location of branches in the world	–
Activities of the association / Union	Support for Confederation House in Israel, support with small amounts for Zionist activities around the world.

Financial data (NIS '000)	2009	2008
Income turnover **	232	275
Salary costs	53	53
Vehicle costs	-	-
Expenditure on activities	172	173
Annual surplus (deficit)	(37)	4
Cumulative surplus (deficit) *	3,071	3,108

* It can be seen that the Confederation has a cumulative surplus of over NIS 3 million, in relation to an annual activities turnover of only some NIS 200-300,000.

** The entire income is from World Zionist Organization allocations.

The audit findings

- ◆ The Office of the Comptroller found that, in its financial statements to the World Zionist Organization for 2008 and 2009, no confirmation, as required by the Procedure, was attached.
- ◆ The 2009 financial statements which were submitted to the World Zionist Organization are not signed by the accountant – auditor or members of the management of the association of the Union.
- ◆ Because of the fact that the offices of the senior representation of the association are located in the USA, we had difficulty obtaining documentation for the purpose of the audit.

Response of the audited body

The Union will submit a program for multi-year use of the balances, with the Zionist activity being the main component in this program.

The Union presented its signed financial statements to the Office of the Comptroller.

j. Herut The World Movement (Reg. Ass.)

General data	
Head Office of the Union	None formally
Salaried employees	In 2008, there were three employees. Currently the Union has no employees.
Countries in which the Union is active	Sweden, Hungary, USA, Argentina, England, Russia, Turkey.
Location of branches in the world	-
Activities of the association / Union	Israel folklore evenings, activity on campuses in the USA, activities with <i>yordim</i> , aid for the Birthright Project.

Financial data (NIS '000)	2009	2008
Income turnover *	119	79
Salary costs	11	116
Expenditure on activities	104	8
Annual surplus (deficit)	(87)	(137)
Cumulative surplus (deficit)	66	153

* Of which NIS 88,000 and NIS 49,000 from the World Zionist Organization allocation, for 2008 and 2009, respectively.

The audit findings

- ◆ Perusal of the 2008 financial statements of the Union shows that the World Zionist Organization allocations were not referred to Zionist activity but were mainly used for management and general costs and for budgetary surpluses. This would seem to be inconsistent with the purpose of the allocation, as determined in the Procedure. The budget that was referred to activities and which originated in the World Zionist Organization allocations totaled NIS 8,000 out of an allocation of NIS 49,000 that year.

- ◆ Further to the above, the expenditures for activities in 2009 are all for overseas travel. Documentation was received regarding the trips and propriety was found.
- ◆ The association submitted a report on the uses made of the allocations for 2009 only in February 2011, eight months after the last date for submission of the report.

5. Follow-up on implementation of the recommendations of the Comptroller's 2008 audit

In 2008, an audit was carried out in the World Zionist Organization Finance Department. The Office of the Comptroller looked at the subject of the allocations to the Unions from the point of view of the World Zionist Organization.

The main defects which were found were:

- ◆ The Funding of the Unions Procedure is not implemented, including the matter of imposition of sanctions.
- ◆ There is no supervision over the use of the allocation funds by the Unions. The documents and reports submitted are not checked.
- ◆ Financial statements of a number of Unions were not found.
- ◆ There is no insistence on submission of financial statements in time.
- ◆ Analysis of the financial statements of the Unions shows that most of the money is used for management and general costs or is left as a surplus in the Union account.
- ◆ Even when there are costs for activities, the World Zionist Organization Finance Department does not have the tools to check whether they served for the purpose stated in the Procedure.

- ◆ The Unions, with one exception, do not submit an accountant's confirmation about the activities, as required in Section 11 of the Procedure, but only audited financial statements, from which it is not possible to verify the nature of the activities, as stated.
- ◆ According to Section 4 of the Procedure, the allocations are to be remitted to the Unions "in equal monthly installments" and any deviation from this necessitates approval of the Chairman and the Treasurer. In practice, the budget for the first half of the year 2007 was remitted in three payments and the budget for the second half of the year in two payments. Transfer of the budget in 2006 was carried out with different spreads.

The audit findings

Perusal of the defects found in the current audit and which are detailed in Sections 4 and 5 of the present audit report show that the situation has not improved and is, perhaps, even worse than in the previous audit.

The defects found in the previous audit are repeated even more forcefully, even after examination of the situation in the Unions themselves, in some of which it would appear that the use of the allocation funds is inconsistent with the purpose for which they were given.

Regarding the conduct of the Unions vis-à-vis the World Zionist Organization, the situation remains unchanged. The provisions of the Procedure are not being kept, the reports are not being submitted on time and, even when they are submitted, they do not contain the required confirmations and the World Zionist Organization does not exercise any supervision over the matter.

General Comment

The Office of the Comptroller sees fit to note that, in view of the substantive structural change implemented in the World Zionist Organization after the 36th Zionist Congress, the gamut of procedures of the organization should be updated so that they will match the new structure of the departments and the current office-holders.

September 2011

Appendix

Funding of the World Zionist Unions Procedure

Amended Version, March 7, 2004

Definitions

1. In this Procedure –

The Constitution – the Constitution of the World Zionist Organization.

World Zionist Union – as defined in Article 3 of the Constitution.

Congress Faction – as defined in Article 25 a) of the Constitution.

2. Purpose of the allocation – the allocation is intended to help the World Zionist Unions to fulfill their educational and conceptual activities for realization of the Zionist program.

3. A line will be determined in the regular budget and is to be called “Allocation to the Unions”. This budgetary line is to be treated as every other budgetary line for the purposes of the processes of its approval.

Approval of the budget is not tantamount to according any right to a Zionist Union, to a faction in Congress or to any other body.

4. The allocation will be granted in equal monthly installments. A deviation from such equal monthly payment dates requires the approval of the Chairman and the Treasurer.

5. All the amounts according to this Procedure will be determined in Dollars and will be paid in New Sheqels unless the payment is made to the recipient of the allocation overseas, as stated in Clause 8, below. The Dollar rate will be set from time to time by the Finance Department of the World Zionist Organization (hereinafter: the Finance Department).

Eligibility for an allocation

6. (a) The Zionist Unions which are represented at the Congress by delegates who were elected and determined in accordance with Articles 19 and 21 of the Constitution will be eligible for this allocation.

(b) Two or more Zionist Unions may ask to receive a joint allocation, provided that each thereof is entitled to the allocation as stated in sub-clause (a), above.

(c) In order to dispel doubt, the eligibility of a Zionist Union which is represented at the Zionist Congress in part by delegates who were elected or determined as stated in sub-clause (a), above, and partly by delegates participating in the Congress pursuant to Article 26 paragraph 4 and Article 5 paragraph 4 of the Constitution, to the allocation will be by virtue of the delegates who were elected or determined as stated in sub-clause (a) together with the delegates who joined the Zionist Union by joining its faction at the Congress.
7. The amount of the allocation to a Zionist Union will be calculated according to the number of elected Congress delegates together with the Congress delegates who joined the Zionist Union in accordance with what is stated in sub-clause (c), above, who represent it according to the statement of the Department for Zionist Activity.
8. The body or bodies which actually receive the allocation according to the eligibility of the Zionist Union (hereinafter: the Allocation Recipient) shall be a non-profit organization in Israel or abroad. Every Zionist Union and every Allocation Recipient will agree in writing to the audit of the Comptroller of the World Zionist Organization, and will undertake to open its books for this purpose, as a condition for receipt of the allocation according to this Procedure. The documents of registration of the Allocation Recipient, approvals and other documents, as required by the Finance Department, will be submitted to it each year prior to payment of the allocation. The allocation will be remitted to the bank account of that corporation.
9. The Finance Department, in consultation with the Department for Zionist Activity and the Legal Department, will determine the

documents and undertakings which the Zionist Union will sign as a condition for receipt of the allocation in accordance with this Procedure.

10. Each Zionist Union will notify the Finance Department and the Department for Zionist Activity in writing, through those authorized on its behalf, who are its representatives for the purpose of the allocation according to this Procedure (hereinafter: the Representation). The Representation will have at least two members but not more than five. The Representation will be solely empowered to handle, in the name of the Zionist Union, everything to do with this allocation. A notification signed by at least two of the members of the Representation and in accordance with the instructions received from time to time from the Representation, will bind the Zionist Union for all intents and purposes.

Reporting and control procedures

11. The Allocation Recipient will convey, through the Representation, within six months from the end of the budget year, confirmation from an accountant regarding the use made of the allocation.
12. If the Representation does not submit the accountant's confirmation as stated in Clause 11, an amount equal to half the amount of the allocation with respect to which the accountant's confirmation was not received will be immediately deducted from the current allocation. Upon the elapse of a further six months (a year from the end of the budget year), a further amount, also equal to half of the amount of the allocation with respect to which the accountant's confirmation was not received, will be deducted from the allocation. These amounts will be a kind of non-returnable fine, even if the above requirement is fulfilled at a later date.
13. The Comptroller will audit the statements of the Zionist Unions according to Clause 12, above, in a sample way and according to the work program of the Control Office. Nothing stated in this Clause is tantamount to prejudicing the power of the Comptroller according to the Articles of the Office of the Comptroller.

Use of the allocation monies procedures

14. If, according to the accountant's confirmation as stated in Clause 11, above, it seems to the Finance Department, in consultation with the

Department for Zionist Activity and with the Legal Department, that the allocation was not used for the purpose mentioned in Clause 2, above, the director of the Finance Department may demand of the Zionist Union the full amount of the allocation which was paid but was not used for the purpose for which it was given and/or may set off this amount from any payment that is due from the World Zionist Organization to this Zionist Union. In a case of differences of opinion between the Union and the director of the Finance Department, as stated, the matter will be brought for decision of a body to be determined jointly by the Chairman of the Executive and the Treasurer.

Purchases on behalf of the Zionist Union through the World Zionist Organization

15. The directors of the Finance Department and the Department for Zionist Activity, after consultation with the Office of the Comptroller, may approve the purchase of airline tickets and hotel stays and board as part of pan-organizational conferences or events, directly by the World Zionist Organization for a Zionist Union and at its request.
16. Purchases will not be made for a Zionist Union at an amount exceeding the balance of the annual allocation for that Union, and subject to what is stated in Clause 4, above. The amount of the purchase will be set off from the upcoming payment of the allocation due to that Zionist Union.

Transition provisions

1. The provisions of this Procedure, apart from the provisions of Clause 6, above, shall apply to all the allocations of the World Zionist Organization to the Unions, from the date of their approval by the Executive of the World Zionist Organization.
2. The incidence of the provisions of Clause 6 shall start from the first day of the 34th Zionist Congress. Until that date, transition provisions shall apply, as follows:

“Eligibility to the allocation

- (a) Zionist Unions or factions which were represented at the 33rd Zionist Congress by delegates who were elected and determined in

accordance with Articles 19 and 21 of the Constitution shall be eligible for this allocation.

(b) Two or more Zionist Unions or groups of delegates who were represented at the 33rd Zionist Congress by a joint faction may ask to receive a joint allocation, provided that each of the components of the joint faction is entitled to receive an allocation as stated in sub-clause (a), above.

(c) Any group in the joint faction may leave and advise the World Zionist Organization in writing that its share in the allocation should not be paid to the official representation that is to be determined. In order to dispel doubt, in this instance, the pro rata share of the allocation earmarked for the group will not be paid to any body, including the resigning group itself.

(d) In order to dispel doubt, the eligibility of a Zionist Union that is represented at the Zionist Congress partly by delegates who were elected or determined in accordance with what is stated in sub-clause (a), above, and partly by delegates participating in the Congress pursuant to Article 26 paragraph 4 and Article 5 paragraph 4 of the Constitution, to the allocation will be only by virtue of the delegates who were elected or determined as stated in sub-clause (a), above.”

3. Until the 34th Zionist Congress, the distribution of the allocation shall be in accordance with the statement of the director-general of the Department for Zionist Activity of November 24, 1998, unless changes were made therein by resolution of the Executive.

**Response of the Chairman of the Executive
to the Comptroller's Report on
The World Zionist Unions
Use of World Zionist Organization Allocations**

In accordance with Paragraph 18 b of the Statutes of the Comptroller and the Control Office of the World Zionist Organization, following is my response to the above-referenced Audit Report.

Thanks are due to the Comptroller for the comprehensive audit report on the subject of the World Zionist Unions which focused on the use of the monies of the World Zionist Organization allocations.

Upon receipt of the draft audit report, a professional team began to examine the audit findings and recommendations.

Following the audit report, and on the basis of the proposal of the professional team, the Zionist Executive decided on a comprehensive revision of the Allocations to the World Zionist Unions Procedure, according to which use is made of the allocation monies.

In the new procedure, a response is given to all the audit comments and, inter alia, rules have been laid down for the administrative expenditures and restrictions on support of corporations and the size of the reserve that the Union may accrue from the monies of the allocation.

Similarly, because of the special nature of the allocation and the use thereof, the new procedure contains special involvement of the Comptroller in a variety of stages in the process of granting the allocation and reporting on the use made thereof.

(-) A. Duvdevani (Duvdev)

Jerusalem, March 2012

The Building at 17 Kaplan Street, Tel Aviv

Response of the Chairman of the Executive

The Building at 17 Kaplan Street, Tel Aviv

Introduction

In June 2009, the Jewish Agency transferred ownership of the building at 17 Kaplan Street, Tel Aviv (hereinafter: the Property) to the World Zionist Organization.

The Property was transferred without any payment being made and in accordance with the conditions and provisions that were specified in the transfer agreement of June 2009.

The purpose of the Property transfer was to create an income source for the World Zionist Organization, instead of the financial support of the Jewish Agency, in the current general budget of the World Zionist Organization.

The Property is a building of seven stories, basement and parking, most of which serves as offices rented to institutions, companies and various professionals.

The value of the Property at the time of our audit came to some NIS 70 million, in accordance with the valuation of the appraiser. The rental income comes to about USD 1 million per annum.

In October 2011, the occupancy of the building was some 90 percent, with 45 percent of the offices in the building being let to governmental bodies (the Ministry of Defense and the Prime Minister's Office).

The Real Estate Participations Ltd. (hereinafter: REP) manages the rental of the offices in the building and its current maintenance. In return, REP receives a management commission from the World Zionist Organization at the rate of 8 percent of the rental income and maintenance charges which the lessees pay.

Our audit was carried out in the first half of 2011 and related mainly to the years 2010-2011.

The audit was based on meetings with those responsible for the subject at the World Zionist Organization and at REP, and on the examination of processes, procedures, documents and records in the financial system of the World Zionist Organization relating to the subject.

The Office of the Comptroller notes that REP is fully owned by the Jewish Agency. In 2007, an audit was conducted at REP by the Office of the Comptroller. A report on the subject was discussed at a meeting of the Committee for the Comptroller's Reports at the Board of Governors held in June 2008.

Description of the Property

As noted above, the Property is a seven storey building, basement and parking at 15-17 Kaplan Street, Tel Aviv.

The building was put up some 50 years ago according to a 1960 building permit. Its total area is 8,292 sq.m. gross. The basement level is used for storage and offices. The seven floors above the basement are used for offices. The total area for rent in the building and basement come to 7,816 sq.m.

On the roof level, chillers, storerooms and machinery rooms have been installed. Attached to the Property is a two-storey parking building containing 96 parking spaces. In 2008, the building was proclaimed by the Municipality of Tel Aviv as a "building for conservation", i.e., it is forbidden to alter the external appearance of the building.

According to the information at the Land Registry in Tel Aviv, Keren Kayemeth LeIsrael is the owner of the Property and the Jewish Agency is the leaseholder. The lease is capitalized for a period of 49 years, from June 1, 1999, to May 31, 2048.

To the date of our audit in October 2011, the transfer of the Property to the World Zionist Organization had not yet been completed from a legal point of view. To our question, it was explained that, because of the requirement for completion of documents by the Israel Lands Administration, the transfer of the rights in the Property into the name of the World Zionist Organization had not yet been completed.

In the opinion of the Office of the Comptroller, the registration process should have been completed by now, some two and a half years after the date of the transfer of ownership of the building.

According to the appraisal report drawn up at the end of 2010, the Property is estimated to have a value of NIS 71,500,000. The valuation was made at the request of the World Zionist Organization for the purposes of reporting in its financial statements.

As noted above, the building serves as offices which are let to various bodies. 45 percent of the offices are let to the Ministry of Defense and the Prime Minister's Office.

To the date of our audit in October 2011, the occupancy of the offices was some 90 percent of the whole of the area designated for letting in the building (the area of the building being 7,816 sq.m.).

Most of the lessees are long-term and have been renting the offices for a period of over five years.

The parking, as noted above, contains 96 spaces. From the morning hours until the afternoon, the parking is designated only for subscribers, most of whom work in the building. The price of a monthly subscription comes to some NIS 500 per vehicle. From the afternoon, the parking is operated by an outside contractor who lets vehicles in according to a per-hour price-list. The parking spaces are not fixed so as to permit greater flexibility in the use of the parking area.

The Property Transfer Agreement

The agreement between the Jewish Agency and the World Zionist Organization regarding conversion of the financial support for the World Zionist Organization was drawn up in English and signed on June 25, 2009.

As part of this Agreement, the conditions are laid down for transfer of the Property at 17 Kaplan, Tel Aviv, to the possession of the World Zionist Organization.

In accordance with the agreement, the Jewish Agency transferred the Property to the World Zionist Organization without any payment.

According to the agreement, the Jewish Agency paid the requisite amount for Value Added Tax that applied to the transaction as “transactions tax”. The amount, in the sum of NIS 11,385,000 was paid to the Value Added Tax authority on December 31, 2009.

The World Zionist Organization claimed the same amount on the transaction from Value Added Tax as input tax and remitted the amount it received to the Jewish Agency on January 3, 2010.

The Office of the Comptroller looked at the documents and transfers in this matter. Propriety was found.

The sum of NIS 11,385,000 for the Value Added Tax was set according to the estimated value of the Property on the date of its transfer to the World Zionist Organization, at NIS 69,000,000.

Management of the Building

Management of the office lettings and maintenance of the building are carried out REP.

The contractual arrangement between REP and the World Zionist Organization was determined in a management agreement signed on November 19, 2009, with validity from June 25, 2009, for one year. The agreement is automatically renewed each year.

The Office of the Comptroller notes that the agreement was signed four and a half months after its date.

According to the agreement, REP continues to manage rental of the offices in the building and its maintenance, as in the past when the building was owned by the Jewish Agency.

REP is responsible for letting the offices and storerooms, including advertising, marketing, management of the leases in the name of the World Zionist Organization and their renewal, ongoing presence at the building, collection of rent, maintenance charges and so on. REP is responsible for the maintenance of the building, including current maintenance, cleaning, security and current repairs to an amount of up to USD 5,000 a year, for the whole building.

With respect to the costs of renovations in the building exceeding USD 5,000, REP has to obtain prior approval from the World Zionist Organization.

REP provides the World Zionist Organization with monthly financial reports and special reports upon request.

The Office of the Comptroller looked at the agreement. It was found proper apart from the tardiness in signing it, as noted above.

According to the agreement, in return for all its work, REP receives from the World Zionist Organization a fee at the rate of 8% of the rental income

actually paid by the lessees of the units in the building deriving from the lease period following June 24, 2009. REP also receives maintenance charges which the lessees pay. The amount of the maintenance charges comes to some 40 percent of the rent, that is some NIS 625 per room, per month.

Furthermore, REP receives from the World Zionist Organization maintenance charges and municipal taxes with respect to vacant areas designated for letting as well as municipal taxes with respect to technical areas which are not let, such as: electricity rooms on each floor, maintenance and communications rooms in the basement, chillers, elevator room and a machinery room on the roof. REP remits the municipal tax payments to the Municipality of Tel Aviv as required.

It is stated in the agreement that all the costs of current maintenance of the building are at the expense of REP.

REP remits to the World Zionist Organization each month (by the 9th of the month) the rent it collected for the previous month for the offices, storerooms and parking. The amount is remitted directly to the bank account of the World Zionist Organization and is accompanied by a tax invoice. REP's fee is deducted from the amount, as explained above.

The Office of the Comptroller checked invoices and transfers for REP's the management fees to the World Zionist Organization to the tune of some NIS 300,000. Propriety was found.

As noted, REP is owned by the Jewish Agency. In 2007, the Office of the Comptroller audited REP. The audit report was submitted in June 2008. During the present audit, only aspects associated with management of the building were looked at. The Office of the Comptroller formed a good impression from the proper and transparent form of management of REP.

In 2007, the Office of the Comptroller recommended direct connectivity of the financial system with the real estate management system. REP accepted and applied the audit recommendation and there is today a direct link between the financial system and the real estate management system, as required.

The Office of the Comptroller examined the procedures of REP on matters of relevance for management of the building. Propriety was found and REP is being run in accordance with the procedures.

The Office of the Comptroller notes that the World Zionist Organization has no procedures on the matter of management and rental of the building.

The Office of the Comptroller recommends that the World Zionist Organization create procedures at an early opportunity so as to act in an orderly and proper fashion as required.

The Rental Situation and the Agreements with the Lessees

Our audit found that, in October 2011, occupancy of the building was some 90.4 percent, i.e., that the vacant area which was not let at the time of our audit was some 750 sq.m. out of an area of 7,816 sq.m. for rental.

The Office of the Comptroller notes that, in the summer of 2011, the occupancy of the building came to 99 percent. In August, a considerable area became vacant when a substantial tenant left the building because of a dispute over the amount of the rent.

The Office of the Comptroller visited the building in September 2011 and drew up a comparison between the figures obtained from REP and the actual lessees. Ten lessees were checked and the data matched those of REP.

As stated above, REP is responsible for advertising and populating the offices in the building.

REP also draws up a lease agreement and, in the name of the World Zionist Organization, obtains the signature of the lessee.

The lease agreement is uniform for all the lessees apart from the Ministry of Defense and the Prime Minister's Office, for whom a special agreement was prepared as per their requirement.

We examined the lease agreements of six lessees. Propriety was found. All the agreements had been signed on time.

According to the above figures, it follows that a one-room office of gross area 25 sq.m. (net some 12 sq.m.) costs a lessee some NIS 3,000 a month, including rent, maintenance charges and cleaning, municipal taxes and Value Added Tax.

Our audit showed that not all the lessees pay the rent according to an identical tariff. The rent fluctuates as a rule between NIS 50 and NIS 65 per sq.m. The amount depends on the length of the lease period, the location of the office and the area being rented, all being in accordance with negotiations which REP conducts, in the name of the World Zionist Organization, with the lessee.

We were told that each new lessee has to be approved by the World Zionist Organization.

We examined the rent payments of six tenants (a sample) in 2011. Propriety was found, matching the agreements as required.

Each month, REP produces a report on arrears in payments of rent, maintenance, municipal taxes and electricity.

According to the September 30, 2011, arrears report, one lessee who has left owes an amount of NIS 8,200 to REP and to the World Zionist Organization for unpaid rent and maintenance charges. The amount remains after realization of the guarantee which REP had held. Handling of this lessee has been transferred to REP's Legal Department.

Another lessee owes payment for two months in the amount of some NIS 6,300. The debt came about because of the return of cheques of the lessee. REP is dealing with the matter.

The contractor who operates the parking also owes rent for two months in the amount of some NIS 36,000. REP is dealing with the matter. REP is holding guarantees of the contractor in the amount of some NIS 50,000 which have not yet been realized.

From our examination, it follows that the arrears reports are not brought to the attention of the World Zionist Organization.

The Office of the Comptroller recommends that the arrears reports be sent to the World Zionist Organization on an ongoing basis for the purpose of control and follow-up.

The Finance Department advised that the World Zionist Organization, in coordination with REP, checks the matter once every three months.

Finance

In accordance with the request of the World Zionist Organization, audited financial statements have been prepared by the accounting firm of Brightman Almagor Zohar & Associates for the 17 Kaplan Street, Tel Aviv, project for 2009 and 2010. According to the opinion of the accountant, the financial statements properly reflect, in accordance with the accepted rules of accountancy, the state of the assets and liabilities associated with the Property and its income and expenditure for the year ended December 31, 2009 and 2010.

The Office of the Comptroller checked the said financial statements, which reflect the books of the World Zionist Organization, in comparison with the figures appearing in REP's books and found full compatibility between the two financial systems.

The Office of the Comptroller also looked at the entries in the bookkeeping system of the World Zionist Organization as against the parallel entries at REP for 2011. Full compatibility between the two financial systems was found.

Following are figures from the audited financial statements for 2009 and 2010 and from the books of the World Zionist Organization for 2011, in NIS:

	Half of 2009	2010	1-9/2011
Rental income	2,897,372	6,170,926	4,129,164
Current expenditures (maintenance, repairs, etc.)	177,763	653,286	793,818
Management fee (8%)	<u>231,790</u>	<u>493,674</u>	<u>330,333</u>
Net income	2,487,819	5,023,966	3,005,013

As noted, the rent income is remitted to the World Zionist Organization by REP every month. The World Zionist Organization sends to REP a tax invoice according to the amount remitted.

The Office of the Comptroller checked invoices of the World Zionist Organization in the amount of some NIS 800,000 in 2011. Propriety was found.

Current expenditures from January to September 2011 were as follows, in NIS:

<u>Expenditures</u>	
Adjustments and renovations in 2010	(paid in 2011) 292,168
Security	59,904
Maintenance and municipal taxes	124,203
Renovations and adjustments for lessees	107,189
Legal and auditing	4,007
Signs	11,747
Renovations Fund	<u>194,600</u>
Total current expenditures	793,818

The Office of the Comptroller checked the invoices on the sampling method in relation to expenditures for maintenance and adjustments for the lessees, in the amount of some NIS 50,000. Propriety was found.

The expenditures of the Renovations Fund are a provision for renovations that it was decided to carry out in order to preserve part of the income for renovations to be undertaken in the building, such as replacement of elevators and renovations to the building roof.

Each new tenant who comes in is entitled to request that adjustments be made to the premises, constituting slight renovations in the offices, such as paintwork, plaster divides, renewal of doors and windows, and so on. The amount of these expenditures will not exceed NIS 10,000 per office. In return, the lessee commits to a two-year lease.

In 2011, it was decided to renovate the elevators in the building. REP issued a tender and received four proposals. After the Tenders Committee chose a supplier whose proposal was the lowest, REP asked for the approval of the World Zionist Organization for continuation of the process. The approval was given and a start was made on the renovation process, which was due to last for some seven months from the date of the order. In May 2011, an advance payment was made of NIS 97,400, constituting 20 percent of the amount of the contractual arrangement at NIS 487,000.

The Office of the Comptroller checked the invoice of the Elevators Company in the amount of NIS 97,400 dated May 31, 2011. Propriety was found.

At the time of the October 2011 audit, the renovation work had not yet begun. In answer to our question, it was explained that there had been a delay in obtaining the required equipment which was due to arrive the following month.

Examination of the agreement with the Elevators Company shows that no penalty was determined for tardiness in the timetables of the Company.

The Office of the Comptroller recommends that penalties be included in the agreements for failure to meet set timetables.

The Finance Department advised that the renovation of one elevator was completed by January 2012 and renovation work had begun on the second elevator.

January 2012

**Response of the Chairman of the Executive
to the Comptroller's Report on
The Building at 17 Kaplan Street, Tel-Aviv**

In accordance with Paragraph 18 b of the Statutes of the Comptroller and the Control Office of the World Zionist Organization, following is my response to the above-referenced Audit Report.

The building was transferred to the World Zionist Organization based on an agreement with the Jewish Agency, of June 2009.

The World Zionist Organization regards the building as a source of income for financing its activities.

The building is managed by Real Estate Participations Ltd. (a Jewish Agency owned company) that managed the building in the years prior to its transfer to the World Zionist Organization.

The mix of lessees in the building, including government agencies and businesses, seems proper.

The registration of the building with the Land Registrar will be completed with the conclusion of WZO's and the Jewish Agency's deliberations with the Tel-Aviv municipality regarding our claim with respect to the damage caused from including the building in the Buildings and Sites Conservation Program.

I have instructed the Finance Department to implement the Comptroller's recommendations on financial and administrative issues.

(-) A. Duvdevani (Duvdev)

Jerusalem, May 2012

Department for Diaspora Activities

Herzl Museum

Response of the Chairman of the Executive

Department for Diaspora Activities

Herzl Museum

Introduction

The Herzl Museum (hereinafter: the Museum) was established in 1960 on the centenary of the birth of Binyamin Zeev Herzl.

The Museum was established in order to commemorate Herzl's Zionist heritage as a leading thinker in the Jewish world and to document his work and vision.

The Museum was set up by the World Zionist Organization (WZO) in cooperation with the Jerusalem Foundation, Keren Kayemeth LeIsrael, the Ministry of Education and Otzar Hityashvut Hayehudim. The Museum was closed in 1997 for renovations and reopened in 2005.

The Museum is currently operating under the auspices of the Department for Diaspora Activities of the World Zionist Organization.

The following is the Museum's budget and number of visitors:

Year	Budget (net) In US Dollars	Visitors
2009	225,000	65,796
2010	185,000	74,741
2011	165,000	80,000(anticipated)

Our audit was held in the first half of 2011 and related mainly to the years 2010 and 2011.

The audit was based on talks with employees at the Museum and with employees associated with the matter at the World Zionist Organization as well as on an examination of procedures and processes, examination of the financial and budgetary system and a perusal of the written material.

The previous audit at the Museum was made in 2007 and related mainly to the years 2005, 2006 and 2007.

Operation of the Museum

Background

As noted above, the Museum was established in 1960 by the Department for Zionist Activity of the World Zionist Organization.

After operating for 37 years, the Museum was closed in 1997 for renovations to the building and renewal of the exhibits. It was also decided to set up an educational center adjoining the Museum for the holding of workshops, study days and advanced study courses. Renovation of the building and establishment of the educational center (the College) took longer than planned.

In February 2001, a joint meeting was held of representatives of the Ministry of Science and Sport, representatives of the World Zionist Organization and a representative of the Jerusalem Foundation. At this meeting, the cost of the project, at USD 1.8 million, was approved and it was decided that this cost would be divided equally between three bodies: the World Zionist Organization, the Jerusalem Foundation and Ministry of Science and Sport. A target date for opening the Museum was set for June 2002.

At the beginning of 2003, the target date for opening the Museum was updated to June 2004. A meeting was held on May 4, 2003, with the participation of representatives of the World Zionist Organization and of the Jerusalem Foundation. It was clarified at that meeting that the Ministry of

Science and Sport was not complying with its undertaking and, therefore, this budgetary source could not be relied upon.

It was also clarified that the cost for construction of the entire project with all its components was some USD 3 million rather than USD 1.8 million as had been planned. It was decided by all those present to initiate Stage A, full construction without progress in the sphere of production, décor, audio, video and lighting.

In August 2003, with the involvement of the Speaker of the Knesset, an allocation of USD 600,000 was obtained from the Budgets Division of the Ministry of Finance for the Herzl Museum construction project.

During 2003, Otzar Hityashvut Hayehudim contributed USD 220,000 for establishment of the Museum. In the end, the Museum was re-opened on May 19, 2005, which is Herzl Day.

At the time of our audit, June 2011, construction of the College was completed but it had not yet started to operate.

The Operation

The Museum documents and memorializes the Jewish world at the period of Herzl, his work and his vision. The description is conveyed through presentation of his personal story, offered to the spectator chronologically with audio-visual means, a tour, presentation and film about chapters in the life of Herzl.

The tours are held for groups of up to 35 people, coordinated in advance. The tour at the Museum takes about half-an-hour.

The Museum tours are held in seven languages: Hebrew, English, French, Russian, German, Spanish and Amharic.

The Museum's website notes all the particulars about the Museum, its location, how to get there, price-list, opening hours and contact persons.

A visit to the Museum can be combined with a tour of Mt. Herzl, with or without a guide. The guided tours take place by the addition of a guide, at the request of the group, and in accordance with the explanation level required.

The guides are National Service Volunteers or guides from the Museum pool, depending on the requirements of the groups. The cost of the guiding depends on the category of guiding requested. The prices vary between NIS 150 per hour for group guiding by a National Service Volunteer to NIS 250 per hour's guiding for a qualified guide.

The Department for Zionist Activity in the Diaspora decided to prepare a business program for expansion and greater efficiency of the Museum's operations.

To this end, a tender was held and a company chosen for preparation of a business program.

According to the director of the Department, the agreement with the chosen company has been handled by the Legal Department for a number of months and, consequently, it has not been possible to begin working.

The Office of the Comptroller recommends that dealing with the signing of the agreement be speeded up so that it will be possible to implement the decision of the Department.

The director of the Department for Diaspora Activities advised in response that, after completion of our audit, an agreement was signed and the business program prepared.

Manpower

At the time of our audit, at the beginning of 2011, the Museum had four employees of the World Zionist Organization and eight National Service Volunteers, as follows:

- Director of the Museum (being the director of the Department for Diaspora Activities).
- An educational coordinator.
- Person responsible for logistics and placing equipment orders etc. (a worker shared with the Department of Activities in Israel).
- Person responsible for collection of monies and booking visits in the museum.

The eight National Service Volunteers work as guides and fill any function required of them in operation of the Museum, such as answering the telephone, dealing with bookings and so on.

The salary costs in 2009 came to USD 219,855 while, in 2010, actual expenditures declined to USD 150,702 mainly because of a cut back in the position of director of the Museum. The budget was set at some USD 150,000 for salaries and accompanying expenditures in 2011.

In the years 2010 and 2011, the director of the Department for Diaspora Activities has been serving as the director of the Museum. Her Salary is not contained in the above budgetary line.

In 2010, the function was added of educational coordinator dealing with all the subjects associated with educational programs and the various projects.

The National Service Volunteers come under the aegis of two associations: the Association for Volunteering (six girls) and Bat Ami (two).

In 2009, the actual costs for the National Service Volunteers came to USD 30,524. In 2010, the figure rose to USD 44,466. In 2011, a sum of USD 40,000 was budgeted for these costs.

The average cost per National Service Volunteer comes to some USD 5,000 a year. The monthly cost varies between NIS 1,300 and NIS 2,300.

The World Zionist Organization is the signatory on agreements with the associations which refer the National Service girls. The examination of the Office of the Comptroller found that the agreement with the Bat Ami Association (Alumah) for social involvement and Jewish identity was signed on December 7, 2010, valid as of September 1, 2010, through August 31, 2011. In other words, the agreement was signed post factum by some three months.

The Office of the Comptroller recommends that agreements be signed before the date on which the engagements start.

The contractual arrangements with the Association for Volunteering continue automatically according to what is specified in the agreement with it, and there is no need for the agreement to be renewed each year.

The Volunteers undergo two weeks of training before the start of their work at the Museum. The training is intended primarily to give information for their function as guides of groups visiting the Museum and Mount Herzl.

Visitors to the Museum

Visits to the Museum are intended for the public at large of all ages, such as: youth, soldiers, students, adults, new *olim* and tourists.

The visit conveys to the public at large a unique experience and educational enrichment.

Visits to the Museum should be coordinated in advance since they take place in groups of up to 35 people, at regular hours. The tours, as noted, are held in seven languages.

The tour lasts about 30 minutes for each group. Visitors may contact the Museum office and book a place for a tour that suits them through the website or by telephone.

Over the years, there has been an increase in the number of visitors to the Museum and the cross-section of the visiting public has expanded.

As mentioned above, In 2009, 65,796 people visited the Museum, in 2010, 74,741 and, in 2011, 80,000 visitors are expected.

Following is the distribution of visitors at the Museum in 2010 and 2011 (until April 2011) according to different population cross-sections:

Visitors	2010	2011 (January to April)
Individuals in Hebrew	7,773	1,120
Individuals in English	6,457	1,832
Groups of tourists in English	12,046	1,846
Groups in Russian	803	103
School children	5,916	7,913
Students of the From Vision to Realization Project	16,326	8,261
Groups in Hebrew, including students	13,784	1,632
Soldiers	5,030	1,468
Groups in Spanish	4,255	1,209
Groups in French	1,313	152
Groups in Amharic	14	81
Groups in German	1,024	232
Total	74,741	25,849

From the above data, it follows that there is a growth trend in the number of visitors to the Museum, this being mainly thanks to the development of projects, workshops and tours at the Museum which also include tours of Mount Herzl and lectures on Zionist topics.

It was explained to the Office of the Comptroller that projects are being developed mainly for soldiers and school pupils as part of their studies in civics and the history of Zionism.

In 2010, a new educational coordinator took up her position and she is working to increase the number of projects and to expand the programs at the Museum and on Mount Herzl.

As noted above, it was explained to the Office of the Comptroller that the Department intends to activate a company for expansion of a business program in order to increase the population of visitors to the Museum and to Mount Herzl.

Our audit showed that a visit to the Herzl Museum is not included in the operating program of Masa or of Birthright.

In response to our question, it was explained that, in the near future, the Department plans on contacting Masa and Birthright to promote the subject of visits to the Herzl Museum and to have them included in these programs.

The Director-General of Masa explained to the Office of the Comptroller that the participants themselves choose the sites they wish to visit which is why the Herzl Museum is not necessarily included in these programs.

The Office of the Comptroller recommends working for inclusion of the visit to the Museum and tours of Mount Herzl in Masa and Birthright and in other programs associated with the Jewish Agency.

The director of the Department for Zionist Activity advised in response that the Department had contacted Masa and Birthright and their reply was that the decision regarding a visit to the Herzl Museum was at the discretion of the program operators and that the main factor for non-inclusion of the visit is budgetary.

Budget and Finance

The budget of the Museum is contained in the budget of the Department for Diaspora Activities of the World Zionist Organization.

Following are figures for the budget and actual expenditure in Dollars, updated to May 12, 2011, as the Department for Diaspora Activities advised.

	2009		2010		2011	
	Budget	Actual	Budget	Actual	Budget	Actual to May 12, 2011
Expenditures						
Security	123,000	120,819	112,000	111,891	105,000	27,708
Maintenance	53,000	49,691	80,894	80,287**	90,000	6,577
Salary and accompanying	229,500	216,855	150,900	150,702	150,000	50,000
National Service Volunteers	33,000	30,524	44,000	44,466	40,000	11,971
Educational material	17,700	16,952	60,875	42,051	40,000	9,881
Office and sundries	3,000	2,853	4,500	4,804	20,000	4,372
Temporary workers and lecturers	15,800	14,300	20,300	20,287	25,000	7,270
Electricity and insurance	26,500	24,867	29,500	27,250	29,500	6,545
Marketing and advertising	12,000	12,828	12,000	12,042	15,000	2,385
Total expenditures	513,500	489,689	514,969	493,780	514,500	126,709
Total revenues*	288,000	248,301	329,779	334,032	350,000	106,047
Net	225,500	241,388	185,190	159,748	164,500	20,662
Number of visitors		65,796		74,741		25,849

* Not including income from debtors for 2011 vouchers at NIS 220,476.

** Including the cost of the projectors at some USD 20,000, entered subsequently in the fixed assets line.

The above table shows that there was no substantive change in 2009, 2010 and 2011 in the expenditures budget of the Museum or in the actual expenditures of the Museum. At the same time, there was a gradual increase in the total revenues, both in the budget and actual. The increase in revenues occurred as the result of growth in the number of visitors which stemmed from expansion of the variety of programs.

Expenditures

As noted, there was a decline in the salary and accompanying costs of the Museum staff in 2010 as against 2009, this being after the departure of the director of the Museum. As stated above, the director of the Department for Diaspora Activities also serves as the director of the Museum and her salary is not included in the above budget of the Museum.

There was an increase in the costs of maintenance of some NIS 30,000 in 2010 as against 2009 and of NIS 10,000 in 2011 as against 2010, this being mainly because of the purchase (replacement) of six projectors at the Museum. Two were replaced in 2010 and another four were replaced in April 2011.

The August 2010 purchase was made after submission of a price estimate by the company which also provides the service for maintenance service of the projectors.

In answer to our question as to why no tender had been held for examination of additional estimates, it was explained that the projectors had gone wrong suddenly and there was an urgent need to buy new ones.

We checked the invoice in the amount of NIS 70,876 of August 2010 for replacement of two projectors. It was found to be proper and matched the price estimate approved by the Department.

With respect to the purchase of four projectors in April 2011, a tender was held and three estimates were looked at from three different companies, including the maintenance company. Initially, a company was selected but, subsequently, did not meet the timetable for supply of the four projectors and so the Department decided to turn to the maintenance company again and, in the end, the latter supplied the projectors as required and even gave a discount on the price.

We examined the tender documents and the selection process. Propriety was found.

We examined the price estimate and the invoice of April 2011 in the amount of NIS 56,768. Propriety was found.

The Office of the Comptroller notes that, for two projectors purchased in August 2010, the Museum paid an amount of NIS 70,876 while, for the four projectors purchased in April 2011, the Museum paid NIS 56,768, i.e., a significantly lower amount per projector.

The Office of the Comptroller notes that the cost of all the projectors was correctly entered in the fixed assets line of the Museum.

The Office of the Comptroller examined invoices for annual maintenance service of the projectors by the same company at NIS 92,641. Propriety was found and it matches the service agreement.

Apart from subject of the projectors, the maintenance expenditures contain costs of service for elevators and air conditioners at the Museum.

The Office of the Comptroller checked the agreement for service of the elevators that was made for the Museum in the framework of the Jewish Agency which is valid to the end of October 2011. Propriety was found.

There was a significant rise in the costs for educational material in 2010 as against 2009 and then a decline in the 2011 budget.

The increase in these costs derives mainly from a change in Museum policy as regards enlarging programs and varying the materials that the Museum develops and offers to the visiting public.

In order to construct the new programs and enlarge the variety of the projects, the Museum entered into an agreement with a company operating in this subject and conducts study days and training for the National Service Volunteers who are engaged at the Museum.

The Office of the Comptroller examined the agreement with the company and its invoices in the amount of some NIS 36,000, which were signed and approved by the Department. Propriety was found.

In May 2011, an agreement was signed with a company that was selected to brand and design various pamphlets, advertisements, development of the website of the Museum, etc. The company was chosen out of three estimates submitted to the Department for Diaspora Activities.

The Office of the Comptroller examined the agreement signed with the company. Propriety was found.

The temporary employees line contains mainly lecturers and guides whom the Museum invites for giving tours and lectures to various groups.

The Office of the Comptroller looked into the subject and found that the rates for guides and lecturers had been set according to their level of professionalism and years in the profession.

The Office of the Comptroller examined an invoice for NIS 4,060 for two two-day seminars. Propriety was found.

The insurance costs include insurance for art work, building, contents and third party at the company which works with the Jewish Agency. The insurance costs have not changed substantially over the years.

Petty Cash

Since the beginning of February 2011, the educational coordinator has kept a small petty cash fund of NIS 1,000.

The purpose is costs for refreshments, visits to sites and study days for the guides.

On May 1, 2011, the Office of the Comptroller checked the receipts in the petty cash fund amounting to NIS 729 while, with respect to the cash, it was explained to us that the coordinator keeps the money in cash in her home.

The Office of the Comptroller notes that, in accordance with the petty cash fund procedure, the cash money, invoices and receipts are to be kept in the office in a locked box or safe. The coordinator should be instructed to act in accordance with the procedure.

Similarly, according to the procedures of the Jewish Agency Finance Department, the petty cash fund should be checked once every three months.

The Office of the Comptroller notes that the World Zionist Organization does not have procedures of its own and it “adopts” the Jewish Agency procedures in practice.

The Office of the Comptroller recommends that the World Zionist Organization act for formulation of a collection of procedures to arrange the gamut of its activities, while adopting relevant procedures of the Jewish Agency and writing additional procedures, as required.

Income

The management of the Museum has determined a price-list for entry to the Museum, as customary for museums similar in nature to the Herzl Museum. The price-list was last updated in December 2010. The prices vary from NIS 6 for a soldier to NIS 25 for a regular visitor.

Rules were also set for eligibility for free entry, e.g., employees of the Jewish Agency and the World Zionist Organization, employees of Keren Kayemeth LeIsrael, Keren Hayesod, the Jerusalem Foundation, tour guides, journalists, companion of a disabled person in a wheel chair and members of the Organization of Museums. The free entry for all the above visitors is conditional on presentation of an appropriate certificate.

The cash department at the Museum is part of the bookings and tickets system operating at other museums in the country and is adjusted for the requirements of the Museum.

The said system makes reservations for groups and individuals according to the date and hour of the visit.

Payment for the visit to the Museum can be made in cash, cheque or voucher (undertaking to pay in the future).

At the time of payment, the cash department issues a receipt which constitutes an entry ticket to the Museum. A guard checks the tickets at the entrance to the Museum.

The bookings and tickets system is not linked to the financial system of the World Zionist Organization such that all the financial records are made separately on the basis of reports to the Finance Department.

In the opinion of the Office of the Comptroller, the tickets system should be directly linked to the financial system for making of entries, reports and control.

The vouchers which the Museum receives for groups visiting the Museum constitute an undertaking for payment of the entry charges.

The terms for collection of the debts for the vouchers are EOM + 90 days, that is to say, payment can be made three months after the date of the undertaking (entry to the Museum).

In the opinion of the Office of the Comptroller, no other organization allows a waiting period of three months for payment. The payment should be significantly earlier.

Our audit found that the person in charge of managing the cash department does the follow-up on the collection of the vouchers manually. She checks the charges in a file where the vouchers are kept and acts for collection of the debts with letters and telephone calls to the debtors.

The bookings system produces a report listing the debtors. The Office of the Comptroller checked the compatibility between this report and the documents. Propriety was found.

The Office of the Comptroller recommends planning the bookings and tickets system to send reminders every three months for the collection of debts rather than rely on a manual check.

We were told that, to the date of our audit, June 30, 2011, the amount not yet paid to the Museum for the vouchers came to NIS 162,286. The amount consists of NIS 14,595 for vouchers not yet paid from April 2011, NIS 63,550 from May 2011 and NIS 84,141 from June 2011. We were also told that all the vouchers from January to March 2011 had been paid in full by the date of our audit.

From the above data, it follows that 9 percent of all debtors had not yet paid their debt to the Museum, these being the April 2011 debtors.

The Office of the Comptroller randomly checked the payment dates to the tune of NIS 15,000 from January 2011 to June 2011. Propriety was found.

Debts from 2010 that had not been paid were transferred for legal handling.

To the date of our audit in May 2011, debts of NIS 4,280 of a Vacation and Tourism and Company were legally handled.

At the conclusion of each day's activity, the cashier issues a cash department closure report (Report Z). The report lists all the receipts of that day's activity, by means of payment, i.e., cash, credit or voucher.

Also listed are the types and amounts of the credit. Cumulative figures for total visitors and total receipts are also listed in the report, this being from the start of the system's operations in June 2006.

The cash and cheques are kept in a safe near the cash department. The cash and cheques are deposited at the bank in an account of the World Zionist Organization and all the paper work is forwarded to the Finance Department of the World Zionist Organization for entry in the financial system and for control purposes.

The Office of the Comptroller looked at the process from receipt of the payments in the cash department to the entry in the financial system over three days: April 29, 2011, May 4, 2011, and May 6, 2011. Propriety was found.

The Office of the Comptroller made a count of the cash on the above days. Propriety was found.

The Office of the Comptroller notes that no cash count is done as required by the procedures of the Finance Department.

The Office of the Comptroller recommends that a cash count be made every three months, as required by the procedures.

Conclusion

In the opinion of the Office of the Comptroller, the conduct of the Herzl Museum in the sphere of administration, bookings and finance is proper, under the direction and supervision of the Department for Diaspora Activities and the Finance Department of the World Zionist Organization.

The Office of the Comptroller notes that, since the earlier audit in 2007, there has been a positive development both in terms of the number of visitors to the Museum and in the increase in, and variety of, projects which the Museum offers to various categories of visitor.

At the same time, attention should be paid to the audit recommendations regarding arranging the procedures of the World Zionist Organization, dealing with the signing of agreements on time, inclusion of Museum visits in programs associated with the Jewish Agency such as Masa and Birthright, the direct connection of the cash system with the bookkeeping system, payment dates and cash counts as required by the procedures.

August 2011

**Response of the Chairman of the Executive
to the Comptroller's Report on
Department for Diaspora Activities
Herzl Museum**

In accordance with Paragraph 18 b of the Statutes of the Comptroller and the Control Office of the World Zionist Organization, following is my response to the above-referenced Audit Report.

The Zionist Executive views Herzl Museum and the Visitors' Center adjoining it as a focal point for commemorating the State Visionary and for inculcation of his heritage.

The audit report points to a rising trend in the number of visitors, deriving from development of workshops and lectures on Zionist topics and projects made suitable primarily for soldiers and school children, and an effort will be made to enlarge the numbers of visitors, including action for inclusion of the Museum in the activity program of Masa and of Birthright, as the Comptroller recommended.

The audit recommendations on financial matters were taken into account upon construction of the new financial system.

The audit recommendation that the Zionist Organization act for formulation of a file of procedures for arrangement of its overall activity, while adopting relevant procedures of the Jewish Agency and writing up additional procedures as required, is accepted and we have already started on its implementation.

(-) A. Duvdevani (Duvdev)

Jerusalem, March 2012

The Unit for Zionist *Shlichut*
The *Shlichim* Setup

Response of the Chairman of the Executive

The Unit for Zionist *Shlichut*

The *Shlichim* Setup

1. Introduction

1.1 In accordance with the work program of the Office of the Comptroller, we audited the Unit for Zionist *Shlichut* (hereinafter: the Unit) regarding the handling of the *shlichim* setup of the Jewish Agency for Israel (hereinafter: the Jewish Agency), which is operated by the World Zionist Organization .

The audit included examination of work processes in the following fields:

- Recruitment of *shlichim* and determination of their remuneration.
- Current payments to the *shlichim* in the period of their employment.
- Cash flow and proper documentation.

1.2 The audit was conducted from May 2009 to September 2009, at the offices of the Jewish Agency in Jerusalem.

In the course of the audit, meetings were held with the director of the Unit, the salary accountant, the budget officer of the Unit, the officer responsible for sending the *shlichim* abroad and the terms of the *shlichut*, staff of the Pension & Salary Division and of the Finance Department and other employees, as we deemed necessary.

1.3 The goals of the audit

- a. Review of the processes and existing controls regarding recruitment of *shlichim*, salary payments and other matters which were examined according to the audit plan.

- b. Checking the existence of proper internal audit procedures and looking at the efficacy of the procedures and existing processes.
- c. Locating weak points in the processes and the control and making recommendations for improvements.

1.4 Main documents used for the audit

- 1. The Unit's procedures.
- 2. Tables for wages and accompanying payments.
- 3. Documents and information existing in the computerized system.
- 4. Minutes and various documents of the different committees (*Shlichut* Committee, Terms of Service Committee and so on).
- 5. *Shlichim* files, including salary slips.
- 6. Bookkeeping data, including cards and supporting documents.
- 7. Specific documents obtained upon request.

1.5 The work methodology

- 8. Reading of the current procedures on matters examined and a look at actual conduct.
- 9. Holding of meetings with office-holders who are responsible for the fields examined and various staff, as we saw fit.
- 10. Examination of the decisions of the different committees, including proper documentation.

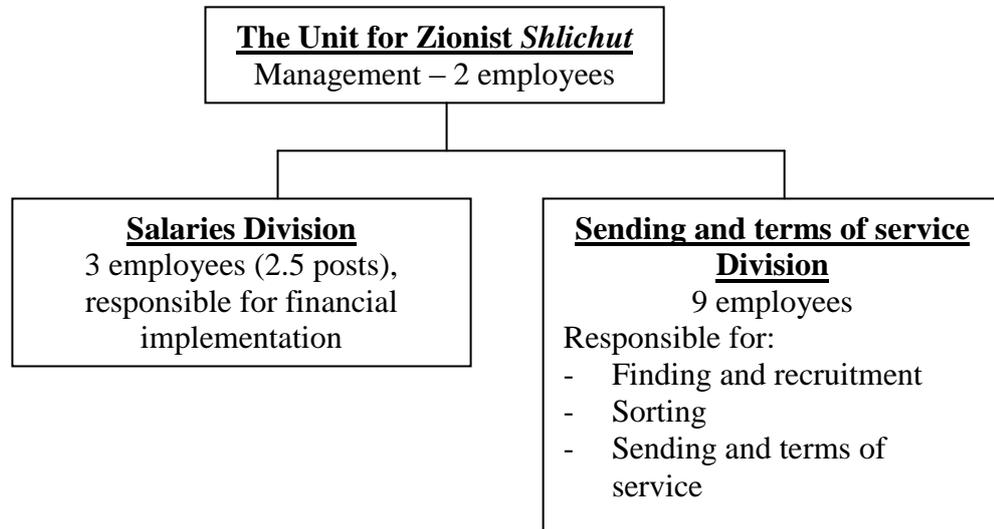
11. Review of the Unit's information system, including current conduct and production of a "*shlichut* card" for the *shlichim* sampled, salary slips and other data.
12. A look at the logistic conduct regarding the files of the *shlichim*, from the stage of first candidacy to completion of the *shlichut*.
13. Examination of the terms of employment of the *shaliach* and the making of current payments.
14. Sample look at files of *shlichim*.
15. A look at documentation and contracts.
16. Summary of findings.
17. Preparation of audit report, including drawing of conclusions and making of recommendations.

2. The *Shlichim* setup – background

2.1 The Unit for Zionist *Shlichut* started to operate on January 1, 2003, according to an agreement signed between the Jewish Agency and the World Zionist Organization. The purpose of the agreement was to arrange the subject of the *shlichim* and their employment, including: finding, recruiting, sorting and sending abroad *shlichim*, dealing with terms of service and the making of salary and accompanying payments to all World Zionist Organization *shlichim*. The Unit comes under the Finance Department of the World Zionist Organization.

As a part of the agreement, a number of office-holders were transferred from the Jewish Agency to the Unit in order to deal with the *shlichim*.

The organizational structure of the Unit is as follows:



2.2 The *shlichim* setup contains some 200 permanent World Zionist Organization *shlichim* and some 50 Israeli local employees who are mainly the spouses of the *shlichim* – this is common primarily in the Commonwealth of Independent States (hereinafter: CIS). The Israeli local employees are engaged as teachers by the hour, security personnel, secretaries and so on.

There are also “supported *shlichim*” who are not World Zionist Organization employees. These *shlichim* are employees of overseas bodies (for example: schools).

2.3 The terms of employment of the *shlichim* are determined in accordance with the decisions of the Inter-Ministerial Committee, comprising representatives of the Ministry of Finance and the Ministry of Foreign Affairs. The decisions of the Committee are implemented across the board at government ministries, including the salary base used for determining the salary of each *Shaliach*.

2.4 The *shlichim* are sent out mainly by two departments of the Jewish Agency: Education and *Aliyah*:

- **Education *shaliach***: represents the Jewish Agency Education Department and is responsible for running the educational programs in the place of the *shlichut*. This activity includes *ulpanim* for the study of the Hebrew language and Jewish tradition, frameworks for informal education amongst children, youth and university students, joint educational projects with the community as well as short- and long-term experiential programs in Israel.
- ***Aliyah shaliach***: is in charge of running the regional *aliyah* office and his main function is to encourage *aliyah* and to help *olim* en route to Israel.

2.5 The main functions of the *shlichim* are:

- **Community *shaliach***: The community *shaliach* is, as a rule, located in the local or regional Jewish federation and sometimes at the Jewish community center. The location is designed to enable the *shaliach* to meet with as many community bodies as possible that are working at the place of the *shlichut*. The purpose of the *shlichut* is to deepen the Jewish and multi-dimensional significance of Israel and the bond of the next generation of the Jewish People to the people and its homeland.
- **Movement *shaliach***: A *shaliach* of one of the world-wide Zionist youth movements (Bnei Akiva, Habonim Dror, Maccabi and so on). A movement *shaliach* is responsible for the activity of the movement, mostly combining educational and organizational responsibility.

Other functions are:

- Representative of the Education / *Aliyah* Department in a country with a large number of *shlichim*.
- Regional director.

- Multi-purpose *shaliach*.
- Treasurer.
- Regional departmental representative.
- Mission head.

2.6 Financial activity takes place overseas through the various treasuries which serve as the financial arm of the Jewish Agency in the country of the *shlichut* and are responsible, inter alia, for the financial care of the *shaliach* (payment of salaries, reimbursement of expenses, booking of flights, and so on), from the beginning to end of the *shlichut*.

There are a number of treasuries, amongst them:

- ◆ New York Treasury.
 - ◆ France Treasury.
 - ◆ London Treasury.
 - ◆ Latin American Treasury, comprising two missions, in Brazil and in Argentina.
 - ◆ Kiev Treasury.
 - ◆ Moscow Treasury.
- } coordinates activities in the Commonwealth of Independent States

A “rest of the world” treasury operates in Jerusalem and handles countries which do not have a treasury of their own, amongst them: South Africa, New Zealand, Southern Caucasus and Asia (belongs to the Commonwealth of Independent States) and so on.

2.7 The Unit is assisted by the following computerized systems:

- a. **The *Shelach* System:** a personnel system that, inter alia, enables management of the *shlichim* data, including the updating of the

shlichut particulars (e.g., budgetary basket, grade, persons accompanying the *shaliach*) for each *shaliach*, the decisions of committees and any other datum of relevance for the *shlichut*. The data are input by the staff of the Unit.

Queries can also be fielded by the system, such as: the overall cost of the *shlichim*, the cost for each department and so on.

Support for the system is provided by the Lalan (Bureau for Data Processing) Company which is a subsidiary of the Jewish Agency dealing with computerization. Lalan developed the *Shelach* system, which is also used at the Jewish Agency for the handling of short-term *shlichim*. The Jewish Agency is in the midst of a process for transferring the handling of *shlichim* to its ERP system.

- b. **The *Hilan* System:** This is a salaries system through which the World Zionist Organization makes the calculation of the *shlichim* salaries, including all the various accompanying payments (such as participation in rent, tuition for the *shlichim's* children and the like).

Reports can be produced by the system in various cross-sections, inter alia, by treasury / country. On the basis of these reports, the World Zionist Organization remits to the treasuries funds for payments to the *shlichim*.

It may be noted that the Jewish Agency works with a salary system of the Malam Company and there is no connection between the systems. In the past, the World Zionist Organization looked into the possibility of working with the Malam system and found it not adequately suited to all the needs.

- c. **The *Mankal 2000* System:** The World Zionist Organization bookkeeping system in which all the expenditures are entered in accordance with the lines of the World Zionist Organization budget, usually sorted by department and by country.

The Office of the Comptroller looked at the mode of support of the computerized systems for the processes associated with the *shlichim* setup, including inputting of the particulars of the *shaliach*, the making of the salary calculations, the performance of controls and so on. Also examined was the subject of licenses in the various systems (the functionality of the *Shelach* system was not checked).

The audit findings:

- ◆ There is no interface between the systems. The particulars of the *shaliach* and the *shlichut* data, including changes made in the course of the *shlichut*, are not automatically updated between the *Shelach* and *Hilan* systems. The data have, therefore, to be typed in twice manually. This situation runs the risk of errors (we found at least two inconsistencies between the systems in the check of the files), including discrepancies between the *shaliach* particulars and the payments he receives. See also the findings in Chapter 4 of this report.

Response of the World Zionist Organization

Introduction of an interface between the *Shelach* system and the salary system is part of the current work program in the organization. After implementation of the HR module in the ERP system, information flow processes and inter-system interfaces will be looked into. It may be noted that requests were made to the Lalan Company to carry out developments in this direction but there was a decision at the Jewish Agency to halt developments in the *Shelach* system because of the anticipated transition to the HR module in the ERP system.

- ◆ The licenses scale in the *Hilan* system is incomplete, such that the employee handling the subject of the budget requires a permit just to perform simulations but the license she has does actually enable her to update data constituting a basis for calculation of salaries and current payments made to the

shaliach. Similarly, when a worker with a license leaves his station with the *Hilan* software running, it is possible to continue updating figures in the software for an hour, until it times out through lack of activity. We consider this time period too long.

Conclusions and recommendations:

- ◆ It is recommended that an interface be set up among the information systems and that a reconciliation be made so that the particulars of the *shaliach*, the *shlichut* data and every current update be entered only once in the *Shelach* system and be updated from there through the interface to the *Hilan* system. This would save superfluous work, avoid errors and close loopholes.
- ◆ It is recommended that a reconciliation be carried out in the *Hilan* system so that the license for the employee who deals with the budget be for simulations only rather than for updating of data of active *shlichim*. It is also recommended that there be a significant shortening of the time out period when the program is left running.

3. Procedures

There are a number of procedure files at the World Zionist Organization, subdivided into spheres, as detailed below:

3.1 Procedures in the Finance Department

The World Zionist Organization Finance Department, to which the Unit is subject, issued a booklet of procedures detailing the bodies responsible for making the payments and the controls involved.

There are two files of procedures: procedures dealing with *shlichim* in the Commonwealth of Independent States and procedures dealing with *shlichim* in the rest of the world.

The main procedures are:

- a. **“Shaliach reporting at overseas treasury” procedure** – specifies the rules and mode of handling the treasury has to take, in the first stages of absorption of the *shaliach* and his family in the country of *shlichut*.
- b. **“Payment of hotel accommodation costs for the *shaliach* at the start of the *shlichut*” procedure** – specifies the rules according to which the *shaliach* is entitled to participation in the costs of his stay at a hotel upon arrival in the country of *shlichut*, for periods of 30, 60 and 90 days, including the mode of payment by the treasury.
- c. **“Payment of housing allowance as participation in rent in the country of *shlichut*” procedure** – specifies the rules according to which the treasury arranges payment of participation in rent for the *shaliach*, while relating to a number of subjects, amongst them: updating the *shaliach* as to his rights, approval for making the payments subject to documentation, mode of payment, updating of the housing allowance and so on.
- d. **“Payment of participation in tuition costs for children of the *shaliach* accompanying him” procedure** - specifies the rules according to which participation is paid in the tuition costs of the children of the *shaliach* who are accompanying him in the country of the *shlichut*, while relating to the following subjects: approval of the application by the treasury, the making of the payment to the educational institution, pre-compulsory kindergarten, studies for receipt of an Israeli matriculation certificate and so on.
- e. **“Payment of flight costs of the *shaliach* and his family for a home visit” procedure** – specifies the rules of entitlement to a home visit, application approval, reserving flight tickets and so on.

- f. **“Payment of representation allowance for a *shaliach* abroad” procedure** – specifies the rules for reimbursement of expenses with respect to representation allowance for *shlichim* and the mode of reporting to the treasury and to the Unit for Zionist *Shlichut*, while relating to the following: eligibility for a reimbursement according to function, documentation which has to be shown, one-time increments, reports, accounting, and so on.

- g. **“Advance payments on account of salary for a *shaliach* in the Commonwealth of Independent States” procedure** – specifies the rules according to which payment of an advance is arranged for *shlichim* to the Commonwealth of Independent States. The procedure specifies the terms of entitlement, the mode of approval of entitlement to the advance and the mode of realization of the advance by the *shaliach*.

It may be noted that *shlichim* to other countries can obtain approval for an advance on account of salary to the amount of one month’s salary while for *shlichim* in the Commonwealth of Independent States there is no restriction.

3.2 Procedures of the Unit for Zionist *Shlichut*

The Unit for Zionist *Shlichut* distributed “*Shlichut* Regulations”, bringing together all the rights of the *shlichim*, including: salary, social rights, housing, education, insurance, vacations and so on.

The *shlichim* in the Commonwealth of Independent States have a separate set of regulations.

The Unit for Zionist *Shlichut* also produced a file of procedures regarding finding, recruiting, sorting, sending and training of the *shlichim*, containing, inter alia, procedures on the following subjects:

- a. Threshold requirements for submitting candidacy for a long-term *shlichut*.
- b. Finding and recruiting candidates.
- c. Employment aptitude test.
- d. Selection and placement of the *shaliach*.
- e. Evaluation of the *shlichim*.
- f. Training of the *shlichim*.

The Office of the Comptroller examined the relevance of the procedures and the current actions of the Unit in relation to the provisions of the procedures, including with respect to the making of the various payments to the *shlichim*.

The audit findings:

- ◆ There is no procedure dealing with the subject of the various components of the *shaliach*'s salary, including the frequency at which the salary is updated (grades, changes in basic percentages and so on), checking and approving bodies, updating of the data in the computerized system and so on. Nor is there any reference to the process of approving grade promotions, dates of grade upgrades, documents to be included with the request for promotion and so on.
- ◆ Payment of social rights to the *shlichim* (provident fund, pension fund) is not anchored in a procedure, such that **there are currently 70 payments to different insurance agents for some 200 *shlichim*** (in previous years, the number of payments came to 140). This imposes a work load on the system and makes the performance of proper control and correct ascription of the payments to the beneficiaries difficult.

Response of the World Zionist Organization

The subject of the payment of social rights is specified in the *shlichut* contract and in the *shlichut* regulations.

- ◆ There is no procedure dealing with the rights of the *shlichim* to a further study fund. It may be noted that it is stated in the minutes of the committee for terms of service of July 9, 2008, that a *shaliach* whose salary, according to the contract, comes to USD 6,000 gross a month will be entitled to a further study fund in accordance with the request of the department sending him out, such that the terms of eligibility are insufficiently clear.

- ◆ In the “Payment of tuition for an accompanying child” procedure, a maximum amount for World Zionist Organization participation in the tuition fee is not set. In the *Shlichut* Regulations, Chapter 7, Section 29, it is determined that the ceiling will be fixed from time to time in procedures, in accordance with the decision of the *shlichut* committee. It is determined in the said procedure that the participation ceiling will be set by the committee for terms of service but our audit found that the matter is not brought for discussion at the committee for terms of service but is approved by the director of the Unit, seemingly exclusively so. It should be noted that the reference is to high costs, sometimes in amounts of USD 10,000-20,000 per annum per child.

Response of the World Zionist Organization

With respect to payment to an existing school, the procedure is clear. Approval for attendance at a non-Jewish school requires a letter of explanation on the part of the head of the region who is to check the situation. If there is a positive recommendation, the request for payment is approved, in the knowledge that there is no choice but to send the child to an international school. This is prominent in the Commonwealth of Independent States while in the West there is today just one case.

Comment of the Office of the Comptroller

The audit finding does not relate to the absence of a procedure but to the non-existence of a practical ceiling and to the non-holding of a discussion in an appropriate forum for approval of participatory amounts of exceptional size.

- ◆ The “Payment of representation allowance to the *shaliach*” procedure specifies the amount of the representation allowance to be paid to the holders of certain positions but does not state the amount to be paid to the director of the region. The audit showed there to be two cases of directors of a region receiving a representation allowance, namely:
 - The director of the France region -Euro1,200 (a month)
 - The director of the Argentina region – 17 percent of the basic salary (a month).

As noted, these amounts are not defined in the procedure and it may be noted that they were not approved in a designated committee.

Response of the World Zionist Organization

The representation allowance for the directors of the regions in question were approved at the Supreme *Shlichut* Committee.

Comment of the Office of the Comptroller

The amounts were approved according to documents from 2004 which were shown to us and do not match the actual payments today, which are higher.

- ◆ The differences between *shlichim* in the Commonwealth of Independent States and *shlichim* in the other countries are in just four items, namely: home visits, advance payments on account of salary, clothing allowance and baggage allowance.

Nevertheless, as noted, there is a duplicate set of procedures, one relating to all *shlichim* and the other to Commonwealth of Independent States *shlichim*, such that most of the procedures are completely identical, this being superfluous.

- ◆ The date of the last update of the procedures varies from August 2003 to September 2008. This is despite the fact that some subjects are to be updated at least once a year, e.g., the interest rate on a loan (last updated in September 2007), payment of costs for moving apartments (last updated in November 2004), participation in the tuition costs of a *shaliach*'s child (last updated in April 2006) and so on.

Conclusions and recommendations:

- ◆ It is recommended that a procedure be written on the subject of determination of the salary and its components, salary updating, grade promotion, the powers of the office-holders in the matter and so on.
- ◆ It is recommended that a procedure be laid down on the matter of the entitlement of the *shlichim* to social rights, including the choice of the provident funds / pension funds. It is recommended that a decision be taken about a more convenient method of work with a smaller number of intermediaries so that easier and more effective current control can be exercised.
- ◆ It is recommended that a procedure be determined containing clear and egalitarian criteria regarding the rights of *shlichim* to a further study fund.
- ◆ The procedure on participation in tuition costs should be updated and a maximum amount should be determined for World Zionist Organization participation in the tuition costs for children of *shlichim*, with reference to the country of service (as is indeed the case in the rent item), the age group of the student, the

number of children learning and so on. The application should also be checked and approved at the Committee for Terms of Service, as determined in the procedure.

- ◆ The procedure on representation allowance should be updated so that it will contain a reference to the echelon of directors of regions and approval of the allowance at the relevant committee.
- ◆ It is recommended that the *shlichim* procedures in Commonwealth of Independent States countries be combined with those for *shlichim* in other countries into one file, with the differences being emphasized in the relevant sections.
- ◆ It is recommended that the procedures be reviewed and updates carried out where necessary, including the salary tables, the approved expenses amounts, interest rates and so on.

4. Recruitment of *shlichim* and determination of their salaries

4.1 The *shaliach* recruitment process

The World Zionist Organization recruits *shlichim* in accordance with requirements coming from “the field”, for example: requirements from the Zionist youth movements (such as: Bnei Akiva, Habonim Dror, Hashomer Hatzair, the Scouts), requirements from local communities and also from the Aliyah Department and the Education Department of the Jewish Agency, subject to there being an approved budget.

In the first stage, threshold requirements are determined for the relevant *shlichut* position and it is advertised in the media in accordance with the target communities.

As part of the sorting process, the would-be *shaliach* undergoes various aptitude tests, including a language test (writing, speech and

comprehension of the written word). At the end of the sorting stages, a “summarizing committee” convenes and approves the candidacy of the *shaliach*, including the type of *shlichut*: community, movement, education, *aliyah* and so on.

After the *shaliach* passes the sorting stages, the World Zionist Organization offers a number of candidates who fulfill the requirements to the movement / community, while specifying the *shlichut* costs for each candidate. The movement / community chooses the *shaliach* meeting its requirements, after which the *shlichut* committee approves the *shlichut* as a whole, with the salary and accompanying payments. After the committee’s approval, dealing with the sending of the *shaliach* is passed to a senior officer responsible for sending and terms of service in the Unit for Zionist *Shlichut*.

4.2 The salary and accompanying payments of the *shaliach*

- a. Salary base – there are specific tables for each country, determined by the Inter-Ministerial Committee, specifying the basic salary, which is a function of the *shlichut* location, the family status, grade, number of children and so on.
- b. Participation in rent – there is a table for participation ceilings in the rent for each city. The number of those accompanying the *shaliach* impacts the amount of the participation.
- c. Participation in tuition costs – there are two levels of participation:
 - Children aged 3-4 years, according to the procedure the ceiling for participation is USD 600 per month per child.
 - Children aged 5-18 years, there is no ceiling and the participation is apparently full (in practice, the *shlichut* budget is

constructed according to average tuition of USD 1,200 per month per child).

There are, furthermore, regular accompanying expenditure lines, such as: social conditions (13.5 percent of the average salary in the Israel economy, some USD 300 a month) and miscellaneous expenditures, such as: learning a foreign language, visas, health insurance, translation of documents (about USD 120 a month), agency fees, flights and baggage.

4.3 Sending out the *shaliach*

The person in charge inputs the *shlichut* particulars into the *Shelach* system. The main data are: personal particulars, grade, accompanying payments for the *shaliach*, ages of the children, funding percentages between the Jewish Agency and the movement / community and so on. Subsequently, the *shaliach* signs the employment contract and the official deals with the whole of the administrative side of the start of the *shaliach*'s work, including: work visas, medical certificates, medical insurance and shipping of personal baggage.

4.4 Exceptional approvals

Exceptional approvals are granted by the Terms of Service Committee which is competent to approve exceptional conditions beyond what is determined in the procedures, for example: deviation from the rent ceiling of up to 10 percent and other deviations.

The Office of the Comptroller examined the approval for engagement of the *shaliach* and the terms of his employment from the following points of view:

- **Approval of the candidacy of the *shaliach* by the relevant committees.**

- **A correspondence between the particulars of the contract and the data in the system, including a correspondence of the figures with the salary tables and relevant accompanying expenditures to the date of *shlichut* approval.**
- **A sample examination of 22 *shlichim* files, including documentation of the *shlichut* approval process and the terms of the employment.**

The audit findings:

- ◆ The Terms of Service Committee can approve deviations from the rent ceilings of up to 10 percent from the ceiling set for the specific country / city. At the same time, in a much more substantive line – participation in tuition fees, it is competent to set the ceiling although in practice this does not happen as the matter is approved by the director of the Unit, as stated. Thus, for deviations of hundreds of dollars a year in the rent line, the Terms of Service Committee is to be convened while for payment of much more significant amounts, the approval of the director of the Unit is sufficient.
- ◆ The decisions of the committee are not filed in the *shlichut* file but feature, in principle, in the *Shelach* system and are printed out by the person in charge of sending the *shlichim* abroad. From these print-outs, it cannot be known who attended the committee, who signed and approved the minute. Some of the minutes checked were unsigned. Others had a scanned signature and it was not clear whether the chairman in whose name they were signed approved the minute in the end.

Response of the World Zionist Organization

The sub-committee minutes are filed in the candidate's file and most of the notifications sent to the *shaliach* are filed. The minutes are also filed in series with an employee of the Unit.

Comment of the Office of the Comptroller

In practice, with a sampling of over 20 files during the audit, we came across difficulties, a not inconsiderable number of times, in tracing the minutes, mainly those that were signed.

- ◆ On the subject of participation in rent, only the first lease is received at the offices of the salary accountant, so that, if there are changes in the rent of the *shaliach* (new lease, different apartment and so on), the salary division does not know about them unless the *shaliach* demands an increment and then he sees to sending an up-to-date lease. If the change is downwards, the salary division is, as a rule, not aware of it. For example: the *shaliach* H.M. did not send a lease for the period February 8, 2008, to September 15, 2009, and receives the participation according to the old lease. A situation is possible where the cost of the new lease is less while the *shaliach* continues to receive an over-payment since he has no interest in sending the new lease.
- ◆ A look at the minutes approving the *shlichut* showed cases where the *shlichut* was approved in a forum not matching the definition laid down in the procedures, as follows:
 - In seven instances, it was found that the decision of the "concluding committee" was passed by less than the five office-holders determined in the procedures.
 - In three instances, the approval of some of the office-holders on the "concluding committee" was given by telephone.
- ◆ In one case, the decision of the *shlichut* committee did not correspond with the actual *shlichut*, without any later documentation as to circumstances of the change. The reference is to a *shlichut* where the original position was for a Spanish-speaking country but the *shaliach* was actually sent to Belgium.

- ◆ There were three cases where the grade of the *shlichut* and/or salary actually paid did not correspond with the table of grades for the positions in the *shlichut* and/or decisions of the committee. This was without any documentation or explanations as to the deviation. Post factum, it was clarified to us that the reference was to *shlichim* for whom the salary was limited to USD 6,000 although, according to their grade their salary should have been higher but we saw no documentation in the file.

Audit recommendations:

- ◆ There should be insistence that the Terms of Service Committee formally approve the participation in the tuition fees for the children of the *shlichim*. It is recommended that a specific discussion of the Committee be convened for this matter, that the amounts of the participation in the tuition costs of all the children of the *shlichim* be presented correct to date, that they be approved to the extent possible and that rules be determined for bringing the matter up subsequently for the committee's consideration.
- ◆ It is recommended that all the minutes of the deliberations of the committees be filed in a separate file, with insistence on all the minutes being signed by those competent to do so. Moreover, there should be an index (list of contents) for each file with the minute numbers and subject discussed. It is also recommended that the relevant decisions of the committee with respect to each *shaliach* be filed in his personal file.
- ◆ It is recommended that there be orderly follow-up on the leases of the *shlichim*, while insisting and checking from time to time that the lease on file is up-to-date. A note should be made on the lease that a check was done that the reimbursement to the *shaliach* did indeed match the lease data, with a note as to the date of the check.
- ◆ The decisions of the “summarizing committee” should be obtained and filed according to the procedures.

- ◆ There should be insistence on full documentation in the file of the circumstances that led to a change in the terms of the *shlichut* as determined at the *shlichut* committee (including the *shlichut* destination, position and so on).
- ◆ There should be insistence that the *shlichut* file contain a document from which it can be understood how the *shlichut* grade was set, with a comparison with the table of grades. Where there is a deviation from the table, the deviation approval should be properly documented and it should be ascertained that it was made in accordance with the rules.

5. Monthly salary and current payments

Calculation of the monthly salary and current payments is done by the accountant of the Salary Division of the Unit for Zionist *Shlichut* (hereinafter: the Salaries Accountant) in the *Hilan* system. The salary is paid to the *shaliach* at his request into his bank account in Israel or to a bank account in the country where he is serving. The payment can be split between an account in Israel and an account overseas.

The salary calculation is done automatically in the *Hilan* system, in accordance with data in the tables fed into the system. The salary components in the slip are as follows:

1. **Monthly salary** – which takes into account the basic salary, the grade of the *shaliach*, family status (a married *shaliach* has an increment of 8 percent of the base) and the number of accompanying persons (for every child to the age of 18 years, there is an increment of 4.8 percent of the base). If the *shaliach* is an employee of the Jewish Agency, the calculation also includes his seniority (years of previous work) at 0.32 percent increment per year on the base, and grade differentials (5 percent of the base).

2. **Increment for troublesome countries** - in accordance with the country of the *shlichut*, there being countries where there is a political difficulty and special (security) difficulty and others where there is only a political difficulty.
3. **Participation in rent** - in accordance with the city of residence and the number of accompanying persons. Where there is approval for deviating from the participation ceiling, the Salaries Accountant inputs the amount approved manually.
4. **“Excess” salaries** - according to the tax regulations, a higher tax rate is deducted from the *shaliach* for a salary above USD 6,000 a month. Following this, and so that the *shaliach* will receive the salary determined in the contract with him, he receives USD 6,000 as a regular salary and a “surpluses” component.

There are in addition payments in other lines, as follows:

- **Participation in tuition fees** – after the *shaliach* finds an educational institution for his children, the relevant treasury (depending on the country of *shlichut*) approves the tuition demand and sends it for approval of the Terms of Service Committee at the Jewish Agency. Following the committee’s approval, the World Zionist Organization Salaries Accountant remits the money to the treasury which pays the educational institution directly.
- **Loans and advances** - in accordance with the “Advance payments on account of salary” procedure, an advance may be approved for a *shaliach* on account of his salary to the amount of a monthly salary, although in the Commonwealth of Independent States there is no restriction on the amount of the advance payment. The Salaries Accountant receives from the *shaliach* / treasury a request for an advance / loan and takes the following actions:

- Examines the repayment ability of the *shaliach*, in accordance with the remaining period of the *shlichut* and the net salary of the *shaliach*.
- Following approval of the advance payment, inputs the amount approved and the number of payments into the salaries system.
- Another employee from the department issues a cheque, updates the bookkeeping and sends the cheque for the round of signatures.

In addition, there are other types of payment, most of them one-off in nature, such as:

- Home visits.
- Real Estate Agency fees with respect to rental of the apartment.
- Overnight costs at a hotel prior to finding an apartment to rent.
- Sending personal baggage.

The Unit keeps two files for every *shaliach*, at two different sites: At the offices of the Unit at Kiryat Moriah, a file is kept containing the documentation regarding the process of choosing the *shaliach*, decisions taken, a contract with the *shaliach* and so on.

- At the salaries division, which is located in the World Zionist Organization offices in the National Institutions Building, a file is kept containing primarily data associated with salary payments, including documents about the approved salary, salary slips, contracts and other documents of relevance for the payments.

The Office of the Comptroller looked at the salaries and accompanying payments to the *shlichim*, including the mode of payment, documentation according to which the payment was made, proper documentation, entries in the books, correspondence with tables and so on. The examination was done, inter alia, also for the files of the 22 *shlichim* in our sample.

The audit findings:

- ◆ The control system for payments of salary and accompanying to the *shlichim* is weak. Most of the salary data, including the salary tables, are input by the staff of the salaries division and are checked by the director of the division, without any control on the part of another body outside the division. The payments to the *shlichim* are made by the Salaries Accountant according to approvals and/or instructions by the overseas treasuries, generally without detailed documentation and, when the later is available, it cannot be checked. Two examples follow:
 - Leases are approved by the local treasurer and are not checked again by the salaries division.
 - The New York Treasury approves the “Expenditure report” including accompanying payments to a number of *shlichim* for a particular month and sends a payment demand for the whole amount, without the salaries division or anyone on its behalf checking the nature of the expenditures and/or checking the documentation.

Furthermore, at three treasuries (New York, Russia, the Ukraine), the treasurer is a *shaliach* and, therefore, approves his own expenditures as well as those of the other *shlichim* in the region, in most cases without any other check being undertaken. It may be noted that the treasurer is also empowered to approve accompanying expenditure, such as leases (including changes that have taken place during the *shlichut*), agency fees, tuition fees and other accompanying payments.

Response of the World Zionist Organization

Most of the salary data are input into the salaries system by two employees of the division and are checked by the director of the division, partly in a sample and partly in full.

There is a monthly control package containing: input checks, check of exceptions – comparison with previous net payment, specific check of each slip, current bookkeeping reconciliations.

Control over the payments is done by the person approving the payment and the director of the Unit, who approves the salary payments through a clearing house; the deputy director-general approves the transactions entered in the books which are not payments; an official from the Jewish Agency Finance Department undertakes a sample check of charges in the Jewish Agency books.

There is room for consideration of an outside check or some other check which the Office of the Comptroller will propose.

For the purpose of the examples cited:

The responsibility to examine leases is imposed on the local treasury and it contains proof of actual payment.

The professional team at each overseas treasury performs an audit process on the expenditure report submitted by it.

Comments of the Office of the Comptroller

We are of the opinion that the control in the matter of payments is weak and that the level of separation of functions is not proper. Payments on an overall scale of tens of millions of Sheqels a year are made without reasonable examination of the documents submitted and sometimes no

detailed documents at all are submitted. The reliance on the overseas treasuries is insufficient since there is a dependency between the treasury and the identity of the payment recipient (in the extreme case where the treasurer is himself a *shaliach*) and, therefore, the separation of functions is not proper.

We join the recommendation of the Unit to look into having an external examination of the subject.

- ◆ There are no ongoing communications between the salaries division in Israel and the overseas treasuries. A situation could arise where a *shaliach* receives a loan from the treasury responsible for the country where he is serving his *shlichut* or will have a debt to the treasury for other reasons and the salaries division in Israel has not been informed.

The salary of the *shaliach* is paid on a current basis without the debt being set off, to the completion of the *shlichut*, when the debt could turn into a bad debt.

Response of the World Zionist Organization

Where the salary is paid by the salaries division, the loans are approved and administered by the salaries division in the salaries system.

Comments of the Office of the Comptroller

The response does not relate to the matter of ongoing communications between the salaries division and the overseas treasuries. The subject of the loan is just an example.

- ◆ The “rest of the world” treasury, which is located in the building of the National Institutions in Jerusalem, handles countries which do not have a treasury of their own. The treasury obtains documents from the *shlichim* abroad in various languages (for example:

Turkish, Uzbek) and pays the expenditures to the *shlichim* on the basis of these documents without obtaining and/or documenting the translation of the document. Sometimes, a sentence in Hebrew is written on the document by the *shaliach* himself and the payment is made on the basis of this sentence.

- ◆ There is no procedure guiding the *shlichim* as to which documents they have to present in order to have their expenditures, including the representation allowance, repaid. For example: a receipt for payment of Real Estate agency fees (we saw a hand-written document with unclear date and in Turkish), confirmation of tuition fees paid to the school and so on.

Response of the World Zionist Organization

There is an instruction in the “Payment of Real Estate agency fees” procedure for a receipt to be shown. Receipts are recorded in the language of the country of the *shlichut*.

Comments of the Office of the Comptroller

The document in Turkish that we saw for payment of Real Estate agency fees does not constitute a receipt but a hand-written document in a foreign language without a translation and there is no possibility to check it. As for the other documents in a foreign language, there is no practical possibility of checking them properly (apart from documents submitted in English with respect to which there is no problem), without a clear translation by a neutral party and this is a loophole for payments to be made without proper examination.

- ◆ There is no control over days worked, vacations and sick leave. The Salaries Accountant relies on reports of the various treasuries without being able to exercise any control as to the propriety of the reports. Similarly, data about utilization of vacation days and sick leave are not to be found in the salary slip.

Response of the World Zionist Organization

Following Amendment 24 of the Protection of Salary Law, directives were issued to the treasuries regarding the sending of reports for presentation in the salary slips. This matter is in the process of being implemented.

- ◆ The files of the *shlichim* are not ordered. Each *shaliach* has two files, one in the salaries division and the other in the Unit for Zionist *Shlichut*. There is no list of documents to be included in each of the files. At each site, the person in charge puts in the file there those documents he considers to be relevant. Thus, there are cases of material being filed twice and cases of a certain document missing in the files at all. There was also a case of a lease belonging to one *shaliach* being in the file of another *shaliach*.
- ◆ There is a large backlog in the filing of the material such that there is hardly any material in the file with respect to *shlichim* who went out in the past year. We found that the backlog in the filing sometimes stretches to three years.
- ◆ Receipts received as documentation for payment of a representation allowance are not checked. We note that sometimes the receipts are for purchases in a supermarket and the ability to check them is limited. Similarly, the *shaliach* does not report about the events with respect to which he submitted receipts for payment of a representation allowance, contrary to what is stated in Section 3.6 of the “Payment of representation allowance” procedure.
- ◆ The Federation in Australia makes the accompanying payments to the local *shlichim* (taxes, pension) independently and demands a reimbursement from the World Zionist Organization through details received in Excel spreadsheets. No reply was forthcoming as to how examination of these spreadsheets takes place, including checking actual payment of the expenses by the Federation.

- ◆ A case was found of an error in the first salary slip, dated September 2007, for one *shaliach*. Apparently, the *shaliach* was paid less than the amount due to him and this was discovered only in this audit.
- ◆ When the *shaliach* is sent overseas, he is entitled to funding of overnight costs at a hotel in the country of the *shlichut* for up to 30 days, beyond which approval is required of the Terms of Service Committee. Enquiries we undertook with respect to four cases where the *shaliach* stayed at a hotel for longer periods (up to two and a half months), approval of the committee was found with respect to just one case.

The recommendations of the Office of the Comptroller:

- ◆ It is recommended that a procedure be written determining directives for performing additional control in each salary payment step, from the stage of inputting the salary data (including the salary tables) in the *Hilan* system and ending with the approval for the accompanying payments and examination of the documentation, with respect to payment orders arriving from the overseas treasuries.
- ◆ Where the treasurer is a *shaliach*, his powers should be determined on an individual basis and he should not be permitted to approve his own expenditures.
- ◆ It is recommended that a current reporting system be set up between the salaries division in Israel and the overseas treasuries on matters to be determined in advance (for example: the *shaliach*'s debt to the treasury), so that all the information about the *shlichim* will flow "in real time".
- ◆ The "rest of the world" treasury should insist on making payments after checking the documentation submitted to it, with the documents being translated (where necessary) only by a neutral body (and not by the *shaliach* himself) and the translation and the approval process should be filed along with the document.

- ◆ It is recommended that guide lines be set regarding the nature of the documentation the *shaliach* has to send in for receipt of expenditure reimbursements. It is recommended that the documents to be decided upon shall be admissible for the tax authorities also but, if this not be possible, the *shlichim* should be instructed to attach to the document with respect to which they are asking for reimbursement, a document of authentication from a neutral third party, confirming the request.
- ◆ Control and follow-up should be exercised over the utilization of vacation days and sick leave of all the *shlichim* and the matter should be properly documented in the salary slips.
- ◆ A check list should be determined with respect to the documents that should appear in the files of the *shlichim* and the file should have a number of dividers according to this list. It can be decided that some of the documents should be filed in the Unit and others in the salaries division, as necessary. In view of the geographical spread of the Unit, it is recommended that consideration be given to electronic filing, according to the check list to be determined, and subject to a cost – benefit examination.
- ◆ An effort should be concentrated on making up the backlog in the filing of the material, as soon as possible.
- ◆ It is recommended that the provisions of the “Payment of representation allowance” procedure be carefully followed and that the *shaliach* be required to report on the events with respect to which he asks for a representation allowance. It is recommended that the detailing required in the reports be determined on an individual basis, including the receipts to be submitted, while relating to situations where the receipt also contains purchases for private needs.
- ◆ It is recommended that further control be exercised regarding the details obtained from the Federation in Australia about the payment

of accompanying expenses, with the demand that substantiating documents be submitted.

- ◆ It is recommended that an individual examination be conducted with respect to **every** first salary slip of a *shaliach* and it be ascertained that the salary for the first month of his employment was paid according to the rules and pro rata from the first day of his work in the month.
- ◆ Approval should be obtained from the Terms of Service Committee where such is required according to the procedures in general and in the case of a stay at a hotel (at the beginning of the *shlichut*) beyond 30 days in particular, and the approval should be filed in the *shaliach*'s file.

6. Cash flow and bookkeeping entries

The World Zionist Organization *shlichut* budget is kept in the bookkeeping system according to budgetary lines, such that, as a rule, the main budgetary line is determined according to the department on whose behalf the *shaliach* is sent abroad.

The funds earmarked for performance of the *shlichim* budget are kept in separate bank accounts and are paid by the World Zionist Organization to the *shlichim* shortly after being remitted to the World Zionist Organization by the Jewish Agency, in accordance with the payment dates.

The main *shlichim* budget is earmarked for payment of salaries and accompanying to the *shlichim*.

The process of preparation of the salaries for the *shlichim* starts as a rule on the 17th of each month, with respect to the salary for that month. Subsequently, the slips are checked, including reasonableness tests (for example: a check of the total salary cost in relation to the previous

month, with an analysis of the differences) and sample checks (basic salary of the *shaliach* as against the salary tables input in the salaries system).

Following implementation of the checks, the net salary payment report for all treasuries separately is run and, accordingly, a request is conveyed by email to the Jewish Agency incomes division for the necessary amount to be remitted. Around the 24th – 25th of each month, the amount is transferred to the World Zionist Organization's foreign currency accounts and, subsequently, transfers are made to the overseas treasuries which pay the salary to the *shlichim*.

For *shlichim* in countries which do not come under the purview of one of the overseas treasuries, the World Zionist Organization remits the salary payment directly to the *shaliach*. When there are *shlichim* who have requested to receive part of the salary through a bank account in Israel, the transfer is effected through the Sheqel account of the World Zionist Organization.

Payments of deductions (income tax, National Insurance, provident funds and so on) are made by the 15th of each month with respect to the previous month.

The demand is sent by email to the Jewish Agency incomes division, according to data of the salary cost reports and the Jewish Agency remits the money to the Sheqel account of the World Zionist Organization. Subsequently, the World Zionist Organization issues cheques for the salary institutions (the reference is to some 160 transactions each month).

After payment of the salary and deductions, the said bank accounts of the World Zionist Organization should be zeroed. Sometimes, a negligible credit balance remains.

Overall reckoning between the Jewish Agency and the World Zionist Organization is done through the Deputy Director-General of the World Zionist Organization Finance Department each quarter.

The bank accounts are run by the Salaries Accountant, who is among the authorized signatories of the World Zionist Organization.

Accounting with overseas bodies which participate in the salary costs of the *shaliach*

Twice a year, accounts are sent to communities in the United States and to the Federations in other countries which participate in funding the costs of the *shlichim*. The accounts contain details of all the costs there were in practice in the relevant period, according to the bookkeeping system. The share of the participation of the overseas body is also calculated, while setting off the payments the body made directly there to the *shaliach* (for example: payments for education) and previous debts.

The local treasury is responsible for collection from the participating body.

The accountings are kept in Excel files, with current reconciliations being made to the Jewish Agency books and to the World Zionist Organization books.

In cases where the participating body does not comply with its commitments, sanctions against it are adopted, including bringing the *shaliach* home and/or not extending the *shlichut* period.

The Office of the Comptroller examined the controls undertaken at the World Zionist Organization as to the financial conduct and the entries in the books.

The audit findings:

- ◆ Financial transfers in Israel (some 160 transactions a month) and overseas are carried out through transfer documents which are sent to the bank by fax or through cheques to the institutions but not through magnetic media. This manual system is convoluted and exposed to human errors.
- ◆ The system for making entries in the bookkeeping is not “friendly”, such that it is not possible to produce a report showing the costs separately for each *shaliach*. This is because there are instances where the budgetary line is per department / country of *shlichut* and it contains a number of *shlichim*. Hence, in order to trace the total actual costs with respect to any *shaliach*, much manual work has to be carried out, including an analysis of the reports sent from the overseas treasuries and which contain costs of a number of *shlichim*, in a number of lines. On this matter, we note that a simple transaction of producing expenditure cards for certain *shlichim* for a one year period took a large amount of time and was most convoluted.

Response of the World Zionist Organization

The records and reporting of the costs of the *shlichim* in the salaries system and also in the bookkeeping is done according to the *shlichut* number, which constitutes an “identity code” for the *shaliach*. Detailing of the costs is according to sort codes characterizing the expenditure category.

The above characterization of the structure of the accounting and financial transactions, both in the salary system and in the bookkeeping system enables the users to analyze the salary costs according to its various components per *shaliach* or per expenditure category and serves as a prime tool for budgetary control and accounting vis-à-vis communities and participants in the *shlichut* map.

- ◆ The World Zionist Organization's ability to trace documentation for the accompanying payments remitted to the *shlichim*, such as: rent, tuition, Real Estate agency fees, communications and so on, is limited and sometimes impossible since, in most cases, the paper work is apparently kept in the treasuries throughout the world. We note that, out of 12 files of *shlichim* for which the Office of the Comptroller requested documentation, a reply was received with respect to two files and then only partially.
- ◆ The bookkeeping department does not keep a debit-credit account for each *shaliach*, although the accounting with the *shaliach* is often of great significance, for example: where an advance payment was made to the *shaliach*, the salary payments are divided among a number of bank accounts, the *shaliach* receives a number of types of payment, some of them not through the salary slip, and so on.

Response of the World Zionist Organization

Where an advance payment is made to a *shaliach*, a debit-credit account is opened for management of the advance, in an interface with the salaries system.

Most of the activity which is conducted on the salary slip is not interfaced to the debit-credit account in the books, this being primarily for reasons of protection of privacy.

The audit findings:

- ◆ It is recommended that banking transactions be carried out on magnetic media, through concentrated files or through a clearing house.
- ◆ It is recommended that the method of entering the expenditures of the *shlichim* in the bookkeeping be reconsidered and that the possibility be looked into of carrying out reconciliations in the bookkeeping system so that reports can be produced according to the current requirements of the users.

- ◆ It is recommended that it be approved that expenditures be entered in the bookkeeping only after examination of the documentation submitted by the overseas treasuries. The examination should be made, at least of a sample, and the sample should be enlarged the more problematic findings come to light.
- ◆ It is recommended that the opening of a credit/debit account be considered for each *shaliach* in the bookkeeping system, primarily for the purpose of managing the financial activity that takes place off the salary slip.

June 2010

**Response of the Chairman of the Executive
to the Comptroller's Report on
The Unit for Zionist *Shlichut* – The *Shlichim* Setup**

In accordance with Paragraph 18 b of the Statutes of the Comptroller and the Control Office of the World Zionist Organization, following is my response to the above-reference Audit Report.

The Unit for Zionist *Shlichut* deals with finding, recruiting, sorting, sending and handling the terms of service, performance of payments for salaries and accompanying for the *shlichim* of the World Zionist Organization, this being in accordance with an agreement between the Jewish Agency and the World Zionist Organization.

The audit recommendations are accepted and a start has already been made on their implementation.

I have instructed the Finance Department to implement all the audit recommendations.

Since the activity of the Unit for Zionist *Shlichut* is carried out according to an agreement with the Jewish Agency, implementation of the recommendations will be done in coordination with the Jewish Agency.

(-) A. Duvdevani (Duvdev)

Jerusalem, January 2011

Keren Kayemeth LeIsrael

Voluntary Retirement in 2009

Keren Kayemeth LeIsrael

Voluntary Retirement in 2009

1. Introduction

- 1.1 In accordance with the World Zionist Organization's Office of the Comptroller's work plan, we examined voluntary retirement by *Keren Kayemeth LeIsrael* ("KKL-JNF") employees in January 2009.

The Office of the Comptroller examined the following:

- Preparations and the decision making process behind the retirement program.
- Retirement program implementation.
- Preparations for the post-retirement program phase.

- 1.2 The audit was conducted in KKL-JNF's offices in Jerusalem and at the "Pas HaYerek" site in Kiryat Bialik, during the months of September through December 2010.

The audit included meetings with the director of the Human Resources Division, the director of the Field Workers Department, the director of the Placement Department, the director of the Finance Division, district and division directors, director of the Organization and Methods Department, director of the Accounting Department, and meetings with additional KKL-JNF employees, as needed.

1.3 Objectives:

- a. To examine the process and timelines behind the retirement program.
- b. To examine the propriety of the retirement program as implemented
- c. To draw conclusions for any possible future voluntary retirement programs.
- d. To examine compliance with proper internal control procedures and to examine the effectiveness of existing procedures and processes.
- e. To identify process and control weaknesses and recommend improvements.

1.4 The main documents used during the audit:

- ◆ Minutes from board of directors, finance committee, and organizational committee meetings.
- ◆ Audited financial statements for 2008 and draft statements for 2009.
- ◆ The list of retirees and the employee roster as of December 2008 and July 2009.
- ◆ Retirement agreements offering various retirement tracks.
- ◆ Detailed calculations of retirement costs for employees wishing to retire.
- ◆ Strategic report compiled by Shaldor.
- ◆ Presentations prepared by the Consulting Company, concerning retirement and ancillary agreements.

- ◆ A sample of employee files for employees retiring under the present program.
- ◆ Trial balances and accounting records.
- ◆ Specific documents, as requested.

1.5 Method:

- ◆ Reading the various minutes behind retirement-related decisions.
- ◆ Studying the various retirement tracks.
- ◆ Meeting with relevant managers who actually managed the retirement process.
- ◆ Sampling employees' files so as to examine actual retirement terms and compare them with the approved tracks.
- ◆ Cost-benefit analysis - Analyzing the financial savings yielded by retirement as compared to retirement costs, including ancillary costs.
- ◆ Examining whether action was taken to retain the professional and unique knowledge held by retiring individuals.
- ◆ Examining KKL-JNF's preparations for the post-retirement period, mainly as regards implementation of the organizational re-structuring initiative and staffing of newly-vacated management positions.
- ◆ Examining KKL-JNF's books, including supplier records, so as to identify changes in KKL-JNF's overall costs following the retirement program.

- ◆ Meeting with directors of those divisions where retirement was significant, so as to understand how they handled this change.
- ◆ Consolidation of findings.
- ◆ Preparing the audit report, including drawing conclusions and submitting recommendations.

2. Background

Introduction

Keren Kayemeth LeIsrael was founded in 1901, following a resolution passed in the Fifth Zionist Congress in Basel.

On November 23, 1953, the Israeli Knesset passed the Keren Kayemeth LeIsrael Law, 5714-1953. Among other things, this law prescribed the mechanism for transforming KKL-JNF from a foreign company into a locally-registered Israeli company.

KKJ-JNF is a company with a share capital of no nominal value. Its shares are held by the members of its General Assembly who are the members of the Zionist General Council.

Changes in KKL-JNF's Workforce

For more than a decade, KKL-JNF has been downsizing its workforce. In the early 1990s, KKL-JNF's workforce consisted of approximately 4,000 or more employees, while today, the company employs approximately 950, of which about two thirds hold standard positions ("**Standard Employees**") and one third are manual laborers ("**Field Workers**").

This drastic reduction in workforce was achieved mainly through voluntary retirement initiatives. 1999 saw the retirement of about 600 employees; about 300 more retired in 2002-2003; and a further 240

employees retired in 2004, as part of voluntary retirement programs which took place in those years.

The 2009 voluntary retirement program, examined herein, involved the retirement of about 150 Standard Employees and about 100 Field Workers.

The following table provides general data received from the Human Resources Division, concerning the composition of KKL-JNF's workforce in the last two decades:

Employee Roster	Standard Employees	Field Workers
1991	1,191	1,609
1992	1,124	2,197
1993	1,261	4,656
1994	1,302	4,067
1995	1,326	2,492
1996	1,300	1,875
1997	1,291	1,518
1998	1,327	1,469
1999	1,101	524
2000	1,103	536
2001	1,074	505
2002	1,031	486
2003	982	389
2004	819	372
2005	778	373
2006	754	363
2007	792	433
2008	793	367
2009	648	372

Processes preceding the decision, in 2007-2008

In these years, KKL-JNF's management believed that the global economic crisis and its own financial situation require that costs be

cut, so as to reduce KKL-JNF's fixed costs. This would allow KKL-JNF to maintain its current budget of NIS 650 million.

Prior to deciding on the retirement initiative, KKL-JNF conducted studies, as follows:

- ◆ Business analysis and assessment - A study that focused mainly on defining existing jobs under the existing organizational structure. **This study was completed and not approved by the board of directors.**
- ◆ Formulation of a strategic plan - KKL-JNF's board of directors decided to contract the Shaldor Company (hereinafter: "Shaldor") to draft a strategic plan for the organization. The plan includes: objectives and goal-setting; examining KKL-JNF's financial integrity in light of its future goals; drawing conclusions and submitting forward-looking recommendations.
- ◆ Defining a target organizational structure - This work was carried out as part of Shaldor's strategic report, **which proposed a certain organizational structure that has yet to be approved.**
- ◆ "New Generation" agreement - Formulating new employment terms for new KKL-JNF employees. These terms would not include the unique salary benefits previously common among KKL-JNF staff. The "new generation" agreement was formulated by the Consulting Company in 2008, was presented in October 2009, **and has yet to be approved.**

Shaldor's strategic report:

In February 2008, KKL-JNF's board of directors decided that it was necessary to formulate a strategic plan, to obtain an independent consultant report, and to plan KKL-JNF's operations for the coming decade in accordance with the recommendations of the strategic report. Towards the end of 2008, the strategic plan was presented to KKL-JNF's board of directors, which formally approved the report and plan in December 2008.

The strategic report raises the following issues:

1. An expected decrease in KKL-JNF's revenues in the coming years.
2. Low effectiveness and decreasing donations.
3. The report emphasized that the increase in KKL-JNF's fixed costs would lead to a situation where, in a few years, KKL-JNF would not be able to undertake forestation initiatives, which constitute a key part in its operations.
4. KKL-JNF would start running a deficit in 2014, which would thereafter continue to grow.
5. The number of support functions in KKL-JNF is significantly higher than common. For example: the ratio of communications and public relations employees is 30 employees per NIS 100 million in turnover, while other government offices maintain a ratio of between 3 to 13 employees per NIS 100 million in turnover.
6. The report specified that increasing salary costs are becoming a burden which must be reduced through employee retirement.
7. Shaldor estimated that KKL-JNF had several hundred employees whose retirement would not be detrimental to the organization, and would not necessitate the recruitment of replacement personnel. This is reflected, among other things, in the minutes of the finance committee's meeting of September 2008:

KKL-JNF representative: "This means that you have an assumption, ... that we have hidden unemployment where the organization could do without a significant number of employees?"

Shaldor representative: "Why do you have reservations about the term assumption, I mean we checked and we know."

The voluntary retirement plan was implemented in early 2009, as part of KKL-JNF's adoption of the strategic plan.

From reviewing the organization committee's minutes, it seems that KKL-JNF management's representatives negotiated retirement-related issues with the trade union, while the Consulting Company negotiated with the trade union concerning the "new generation" agreement.

Financial data

The following table **details salary expenses** as presented in KKL-JNF's income statements for the period 2008-2009:

Item	For the year ended December 31		
	Reported Nis Thousands		
	2008	2009	2010
	Audited	Audited	Audited
Land development and forestation projects – production	<u>106,952</u>	97,868	106,896
Land development and forestation projects – administration	48,860	40,975	38,953
Land assets	7,777	7,499	6,985
Education	12,375	10,964	10,303
Public relations	6,342	5,624	5,545
General and administrative	45,500	43,137	46,087
Fundraising	<u>11,979</u>	<u>11,997</u>	<u>11,861</u>
	<u>132,833</u>	<u>120,196</u>	119,734
Total current salary payments	<u>239,785</u>	(***)218,064	<u>226,630</u>
Payments to Pensioners	<u>89,509</u>	<u>111,964</u>	<u>115,221</u>
Total salary payments including pensions	<u>329,294</u>	<u>330,033</u>	<u>341,851</u>
Total voluntary retirements costs (**)	<u>148,681</u>	<u>64,237</u>	-

Below is a comparison with previous retirement plans:

Year	1999	2002	2004	2009
Cost in NIS millions	(*) 70	(*) 10.1	(**) 160	(**) 213
Retirees	604	97	240	240

(*) Excluding actuarial costs.

(**) Includes actuarial costs included in the financial statements.

(***) Including salaries of employees who retired, at NIS 19.3 million and salary increments to those who stayed at NIS 11.2 million.

Data analysis and comparison

1. Salary expenses for 2009 totaled about NIS 330 million (without the costs of the voluntary retirement program), compared to NIS 329.3 million in 2008. Not counting the current salary payments to those who retired and the salary increments paid to those who stayed on at the total of NIS 30.5 million in 2009, shows that the saving due to the voluntary retirement program amount to about NIS 30.

The executive aimed at achieving NIS 30-35 million savings in 2009, therefore, in this respect, the voluntary retirement program met its target.

2. In comparison to the 2004 retirement program it transpires that the average cost of the program per employee was NIS 0.67 in 2004 and NIS 0.89 in 2009, meaning an increase of about 33%. It should be noted that the cumulative rise in the cost of living in this period amounts to about 14%.

KKL-JNF Response

- a. The voluntary retirement program allowed KKL to direct additional resources to productive activity, lowered the future expected salary costs, and allows to implement an alternative program for hiring employees at lower costs.

b. From 2004 to 2009 the average salary of a KKL employee rose in about 37%. Therefore an increase in the cost of retirement of 33%, between 2004 and 2009, is reasonable.

c. The employees retired within a few months with out prolonged negotiations and legal deliberations that could entail heavy legal expenses and salary payments until the date of actual retirement.

3. Decision Making

3.1. The circumstances necessitating the program

The decision to initiate a voluntary retirement program was the result of several circumstances, primarily as follows:

1. A feeling that the organization is "running fat", with superfluous employees who constitute an unnecessary budgetary burden.
2. An expected NIS 30 million increase in salary costs in 2009 following employee promotions.
3. A desire to maintain a fixed budget, leading to increased salary expenses "gnawing" at the financing for KKL-JNF's core operations.
4. Shaldor's strategic report, as detailed above.
5. Economic uncertainty following the global economic crisis.

3.2. Timelines in the retirement program decision making process

Drafting of the 2009 budget:

While work was being carried out on Shaldor's strategic report, KKL-JNF's finance committee decided to start preparations for submitting the 2009 budget. It was decided that the budget for that year would take into account Shaldor's recommendations as would be expressed in their final report.

While drafting the budget, it became apparent that there was a budgetary shortage of about NIS 30-40 million due to salary increases. This deficit, in conjunction with the recommendations being formulated by Shaldor in their report, led to an understanding that covering this deficit requires the retirement of at least 125 Standard Employees and about 100 Field Workers.

The finance committee emphasized that the retirement initiative would have to be limited in time and that the program would be offered for a limited time of about one month from January 1, 2009, through January 31, 2009. It was further decided that if response to the program was insufficient and KKL-JNF would not reach the agreed retirement targets, the organization would exercise Section 7B to the salary statute, which allows KKL-JNF to force the retirement of those employees who have reached an age where they have accrued the maximum pension benefit.

Approval of the retirement program:

Towards the end of 2008, the retirement program began to take shape, offering several tracks. Furthermore, meetings were held with representatives of the employees' union so as to formulate a consensual retirement program.

In its meeting of December 14, 2008, the organization committee approved the retirement program according to the Consulting Company's recommendations. The decisions, as presented in the minutes of the meeting, were as follows:

- "1. Attached is the presentation prepared by the Consulting Company concerning "Voluntary Retirement". The presentation was adopted as a committee decision.
2. The positions held by persons retiring under this program, are canceled.
3. Retirement will not be permitted for employees whose cost of retirement is less than 35% of the cost of their continued

employment. Management will have right of refusal in this matter.

4. In 2009, 125 Standard Employees will have to retire from KKL-JNF, through voluntary retirement or otherwise."

Shaldor report recommendations:

Shaldor's presentation, adopted as aforesaid, presented several necessary streamlining initiatives, as follows:

1. A streamlining initiative during 2009/2010 aimed at minimizing KKL-JNF's fixed costs by about NIS 50-55 million, based on a mix of voluntary employee retirement, reduction of administration work areas, and downsizing the vehicle fleet, the number of standard positions, budgets, etc.
2. A streamlining initiative during 2009/2010 among Field Workers, targeting annual savings of about NIS 20-25 million, based on voluntary employee retirement and outsourcing. The initiative was also to include consolidation of personnel (transferring the remaining Field Employees to the Standard Employee pool).
3. Targeted recruitment of new employees based on the "new generation" agreement.
4. Prevention of job chaining and applying the maximum rank principle.
5. Reducing the present salary cost growth rate and matching it with the rate common in the public sector (3% per annum).

"New Generation" collective agreement

The request that a strategic report be formulated coincided with the drafting of the "new generation" collective agreement. The strategic report was prepared in 2008 by Shaldor, and presented and approved in December 2008. Concurrently, the new generation agreement was

formulated by the Consulting Company in 2008 and 2009, presented in October 2009, and signed in January 2010. Apparently, these are two separate and independent processes.

3.3. **Field Employees**

The Field Employee chapter in the Shaldor report, states that a significant part of KKL-JNF's forestation operations should be outsourced. The main problem with Field Employees is their diminishing output as employee age increases, due to the strenuous nature of the work. Over the years, common practice in KKL-JNF dictated that older Field Employees were diverted to desk jobs. Therefore, in light of the expected budgetary deficit, it was decided that retirement should be encouraged among Field Employees as well. Shaldor recommended that most of the work be outsourced. Only a small percent of Field Employees were to be retained as Standard Employees, while all other Field Employees would be let go.

Prior to the retirement program, KKL-JNF employed approximately 400 Field Workers. Today, the organization employs a similar number of persons. Retirees were replaced by temporary workers recruited for a 9 month period. These temporary workers were then dismissed, and replaced by other temporary workers recruited for a 9 month period, and so on.

The strategic report also included recommendations for organizational re-structuring, which led to a new organizational structure being formulated for KKL-JNF after the voluntary retirement program. See more on this point below.

The Office of the Comptroller examined the decision making process, prior to actual implementation of the retirement program.

The Office of the Comptroller's Findings

- ◆ In the board of directors' meeting of December 3, 2008, the board approved the strategic plan submitted by Shaldor, "as is". The decision was phrased as follows:

"2. The board of directors approved the strategic plan, as presented by Shaldor and as presented in this meeting by Mr. Ishay Shechter."

The Office of the Comptroller notes that, despite the aforesaid, the plan was not adopted in full, as regards the organizational restructuring and as regards additional parts pertaining to streamlining initiatives. This is problematic as the plan was approved as one piece, on all that this entails. Partial implementation is not conducive to the plan's goals and, consequently, those of the organizations.

Response of the Human Resources and Administration Division Director

It is emphasized that Shaldor did not examine a target organizational structure but only provided a general outline for the number of employees from an overall strategic prospective, without proper administrative groundwork laying the foundations for an approved vision from which principle goals and a target structure can be derived.

- ◆ The employees' retirement was implemented within a short period of time. The plan was presented and approved on December 14, 2008, announced in early January 2009, and ended on January 31, 2009. In January, 108 Standard Employees and 63 Field Workers retired. Additional employees retired at a later date. The prescribed timeline did not allow for replacement training, supporting an orderly transfer of responsibilities from retirees to their replacements, particularly in vital organizational positions.

Response of the Human Resources and Administration Division
Director

The rapid implementation of the retirement program is not in itself enough to conclude that things were done hastily and without proper preparation. On the contrary - the retirement program was based on close counseling for retirees, informative seminars, and executive participation. Additional work was also carried out on the proposed organizational structure which should have served as the basis for tendering and staffing activities.

- ◆ Prior to, during, and even after implementing the retirement program, KKL-JNF made no coordinated preparations for the day after the program's implementation, even without any organizational re-structuring. Such preparations should have included, at the very least, the following: defining essential functions performed by retiring personnel and appointing temporary replacements; transferring employees left without a department to other positions; orderly recruitment of outsourced personnel while obtaining the necessary approval; minimizing office space and saving on overhead costs; methodical decision making concerning each vehicle returned by retiring employees; etc.

Response of the Human Resources and Administration Division
Director

As regards a voluntary retirement program, it is exaggerated to say that a methodical decision should be made concerning each vehicle returned by retiring employees. KKL-JNF discussed the issue of vehicles returned by retiring employees, and decided to retain a few of them, about 17-20 essential vehicles out of 62 vehicles returned by retiring personnel.

- ◆ In practice, personnel were replaced without official approval by management. The Human Resources Division explicitly stated that all positions are temporary and that there is no guarantee that jobs would be kept in the future. The Office of the Comptroller

believes that, for the past two years, a new reality has been set which will be difficult to change in the future.

- ◆ Data provided to the Office of the Comptroller concerning KKL-JNF's workforce indicate that the number of Field Workers actually increased following the voluntary retirement program, due to the recruitment of temporary workers instead of those who retired. Such recruitment goes against Shaldor's recommendation to outsource services instead of recruiting employees. In practice, as of the audit report date, efforts are underway to grant some of the Field Workers "standard-equivalent" status. On the other hand, the workforce was not downsized and the replacement of employees every nine months is improper in that it does not allow for proper workflow and leads to unnecessary wasting of resources on large-scale employee recruitments and dismissals.
- ◆ As of the audit report date, no new employees have been recruited under the new generation agreement. Shaldor's recommendation in the matter was as follows: "Targeted recruitment of new employees based on the new generation agreement". In practice, although apparently such a targeted need exists (more on this below), no new employees have been recruited.

The Office of the Comptroller's Recommendations

- ◆ That methodical preparations be made for handling the implications of the retirement program, regardless of the fact that a new organizational structure has yet to be approved. Formal approval must be obtained for outsourcing services, replacing essential employees, and utilizing vehicles.
- ◆ To map key positions that have been vacated and temporarily filled, and to initiate an orderly internal tendering process so that these positions may be staffed by suitable personnel.

- ◆ To implement Shaldor's recommendation for outsourcing field work, instead of recruiting and dismissing employees every nine months as is currently the case.

4. The Retirement Program

The retirement agreement was signed with the employees' union on January 1, 2009. At noon of that same day, all KKL-JNF employees received an email detailing the retirement process and the tracks being offered.

In launching the retirement initiative, KKL-JNF's management and the Human Resources and Administration Division held informative seminars in the north and south of the country, and in Jerusalem.

Management offered employees two counseling options:

- ◆ The "overt" track - Employees wishing to retire could contact the Human Resources Division and agree on the terms of their retirement pursuant to the signed agreement.
- ◆ The "covert" track - Employees wishing to check their options for retirement could contact a consultancy company hired by KKL-JNF and specializing in employee pension and compensation. Employees could then receive professional counseling from this company, and if they decided to retire, they could then contact the Human Resources Division for further action.

Retirement Tracks

Retirement tracks were proposed by the Consulting Company, examined by KKL-JNF's finance committee, and subsequently approved.

Several early retirement options were made available to Standard Employees and Field Workers.

Track highlights:

Standard Employees

a. Increased compensation retirement track:

Entitlement:

Employees with cumulative pension / executive insurance or employees with budgetary pension.

Retirement terms:

- Compensation between 100% and 400% plus a severance bonus of 1-7 months' salary, based on the employee's seniority.
- An addition of three rank ratings to the employee's salary, but not exceeding the maximum prescribed by the general salary rank scale (i.e. - no salary ranks would be granted in excess of those agreed upon under the collective agreements).
- Release of funds deposited by both employees and the employer from provident and study funds.
- Redemption of vacation days.

b. Budgetary pension retirement track - early retirement:

Entitlement:

1. Employees with budgetary pensions.
2. Employees aged 48 to 63 years and employees working with mechanical engineering equipment aged 45 to 63.
3. Employees employed by KKL-JNF for at least 15 years.

Retirement terms:

- An addition of three rank ratings for each employee, but not exceeding the general salary rank scale. Employees reaching the maximum rank rating would receive an additional 1.5% on their pension for each half rank not granted, up to a maximum pension rate of 70%.
 - Monthly pension rate exceeding the rate accrued by the employee under the employment statute and ranging from 44% to 70%, according to the employee's seniority.
 - A bonus for employees under 60 years of age, amounting to one half of their salary for compensation purposes for each year's employment with KKL-JNF up to a maximum of 30 years, according to the weighted scope of their position over their entire employment period. Furthermore, these persons would also be granted a severance bonus of three months of their salary for pension purposes.
 - Employees aged 60 or over would be granted severance bonuses of seven months' salary calculated according to their salary for pension purposes.
 - Release of funds deposited by both employee and employer from provident and study funds.
 - Redemption of vacation days.
- c. Budgetary pension retirement track - early retirement for employees aged 64-67:

Entitlement:

1. Employees with budgetary pensions.

2. Employees aged 64 through 67.
3. Employees with at least 15 years' employment with KKL-JNF.

Retirement terms:

- An addition of two rank ratings for each employee, up to the maximum general salary ranking scale.
- An addition of 0.2% pension for each full year's employment plus another 0.5% to the pension rate accrued by each employee, up to a maximum of 70% pension.
- Release of funds deposited by both employee and employer from provident and study funds.
- Redemption of vacation days.

d. Early retirement for cumulative pensions track:

Entitlement:

1. Employees with cumulative pension funds (old scheme).
2. Employees aged 55 through 63.
3. Employees with at least 10 years' employment with KKL-JNF.

Retirement terms:

- Fixed monthly stipend (up to occurrence of the event entitling the employee or his next of kin to pension from the cumulative pension fund) based on the employee's present salary for pension purposes, as per the pension rate accrued by the pension fund plus 10%.

- KKL-JNF will continue making deposits to the employee's pension fund, covering both the employer's and the employee's share (currently: 13.5% employer and 7% employee), based on the salary for pension purposes.
- Severance bonus of 6 months' salary calculated according to their salary for pension purposes.
- Redemption of personal and sick days, as prescribed for budgetary pension employees.

Field Workers

a. Early retirement with increased compensation track:

Entitlement:

Field workers with at least one year's seniority.

Retirement terms:

- Increased compensation according to full years of seniority, ranging from 100% to 400%.
- Seniority-based severance bonus, ranging from three to six monthly salaries.
- Release of the employee's and the employer's deposits to insurance/pension funds.

b. Retirement track for field workers aged 64 and over:

Entitlement:

Field workers aged 64 and over who are not from the Palestinian Territories.

Retirement terms:

- Monthly payment equal to the employee's last salary for pension purposes, until the statutory retirement age.
- KKL-JNF will continue its provisions to maintain the employee's pension rights.
- Payment of all compensation due to the employee from KKL-JNF for his employment term.

c. Additional retirement track for field workers aged 64 and over:

Entitlement:

Field employees aged 64 and over.

Retirement terms:

- One-time bonus equal to the last salary for pension purposes multiplied by the number of working months until the employee turns 67.
- Payment of all compensation due to the employee from KKL-JNF for his employment term.

The retirement agreement clarifies that the improved retirement terms are valid from January 1, 2009 through January 31, 2009, and employees wishing to volunteer for retirement should sign the agreement within the allotted period of time. After the aforesaid date, KKL-JNF's management may exercise Section 7B to the salary statute, whereby it may retire employees who have attained their maximum pension terms, even if those employees do not wish to retire. In such cases, retirement shall be under inferior terms, so as to impel employees to retire under the program.

As an exception to the aforesaid date, it was decided that Southern District employees shall be given a two weeks' extension, due to

security tensions in that region (the "*Oferet Yetzuka*" campaign in Gaza).

Actual retirement occurred mostly in February 2009, with a smaller number of employees retiring in March of that year.

The Office of the Comptroller examined the propriety of the retirement process and its actual implementation in a sample comprised of 25 retirees from the Standard Employee group (approximately 17%), and 15 retirees from the Field Workers group (15%).

The Office of the Comptroller's Findings

- ◆ The proposed retirement tracks were presented to KKL-JNF's board of directors and its organizational committee, who were asked to approve them. The Office of the Comptroller was told that the proposal was formulated together with the employees' union, and it was therefore possible to immediately implement it without legal proceedings.
- ◆ Under the program, management did not prevent the retirement of essential employees. Thus, essential employees who retired under the program, are still being employed through external consultancy firms, and in other cases, the tasks performed by those essential employees are currently not being carried out, to the detriment of the organization.
- ◆ Upon reviewing the minutes of the finance committee's meeting of March 12, 2009, the Office of the Comptroller found that one of the statutory retirees at the end of 2008 was granted significantly improved terms under the voluntary retirement program. Our request to examine statutory retiree files was refused.

- ◆ One employee turned 63 in November 2008. This employee received compensation of 400% under the increased compensation track, despite having passed the age of 63 and despite the terms of the track expressly stating that: "Employees with at least 15 years of seniority and who are under 63 years of age, shall be entitled to increased compensation of 400%...". Under the terms of this track, the employee was entitled to a maximum of 300% compensation.
- ◆ In one of the Office of the Comptroller's meetings, we were told that another employee who was on KKL-JNF's employee roster in July 2009, later retired and was granted the terms provided under the voluntary retirement program. Our request to receive this employee's file was refused.
- ◆ Upon examining the Field Workers sample, the Office of the Comptroller found one case where an employee, H.G, was ill for several months prior to his voluntary retirement under the program. His employment with KKL-JNF ended in November 2008. However, the employee was granted improved retirement terms and increased compensation of 200%. These terms were offered following recommendations provided by various persons and on KKL-JNF's own initiative. However, no formal approval was granted by KKL-JNF's management to deviate from the terms of the program.
- ◆ As part of the retirement program, employees received advanced payments, with final reconciliation being carried out at a later date. The Office of the Comptroller found one case where a Field Employee received an advance of NIS 20,000, despite actually being entitled to about half this amount. KKL-JNF is currently negotiating with this employee for return of the excess amount.

Response of the Human Resources and Administration Division

This is true. KKL-JNF paid an advance of NIS 20,000 instead of NIS 2,000. Upon final account reconciliation, this error was discovered and ultimately rectified, with the employee returning the funds transferred in error. Presently, the employee still needs to return NIS 16,000. Return of the funds is to be carried out gradually in light of the employee's financial difficulties following the termination of his employment with KKL-JNF.

5. Financial Implications of the Retirement Program

One of the main considerations behind the retirement initiative was a desire to reduce KKL-JNF's fixed costs.

Salary expenses are the single largest component in KKL-JNF's fixed costs, and so the organization decided to pursue a voluntary retirement program.

In order to guarantee the cost-effectiveness of this initiative, the organizational committee decided that:

- "Retirement would not be approved for employees whose retirement cost is less than 35% of the cost of their continued employment. Management shall have a right of refusal in this matter."
- "The positions held by those persons retiring under the program, are cancelled."

Thus:

- a. Employees are not to be included in the voluntary retirement program unless it is guaranteed that the savings achieved through their retirement are greater than 35% of the cost of their continued employment.

- b. Employees are not to be re-hired. Meaning, the retirees' positions in the company were cancelled.
- c. Employees are not to be re-hired, except under the new generation agreement.
- d. Management has a right to veto an employee's retirement, if such retirement does not result in savings of at least 35%.

The decision to implement the voluntary retirement program was made on the basic logic whereby the cost of the one-time payment to retiring employees plus the early pension costs until the retirees reach the statutory retirement age, is less than the cost of their continued employment.

Management's savings target for 2009 was NIS 30-35 million.

Also, based on data submitted by KKL-JNF's consultants, the cost of continuing to employ those who retired would have been NIS 422 million while the cost of their retirement totaled NIS 213 million. Thus their retirement saved NIS 209 million, in the long range.

The Office of the Comptroller examined the implementation of the committee's decisions concerning the cost savings of the retirement program, as well as other financial implications.

Findings were as follows:

- ◆ The basic assumption that retirement of KKL-JNF employees would lead to absolute savings, so that no replacements would be necessary and ongoing work in the organization would not be affected **cannot be true**, especially in light of the fact that until the program's implementation, the identities of the retiring employees was not clear. In quite a few cases, it was claimed that operations were adversely affected (more on this point below), while in other cases KKL-JNF was forced to find

alternative solutions for some of the retirees, and these costs were not taken into account in the cost-benefit decisions. For example, in the finance division, 14 employees retired, which forced KKL-JNF to outsource work and the expenses paid to the accounting firm (who provided these services) increased significantly from NIS 865,000 in 2008 to NIS 1.548 million in 2009. This increase (about NIS 0.5 million) was mainly attributable to hiring help for the finance division, while NIS 78,000 of this increase was due to "voluntary retirement costs" (as stated in the accounting records).

- ◆ Among Field Workers, the total number of personnel did not change, and actually increased following the retirement initiative. This was caused by KKL-JNF hiring temporary workers to replace those workers who had retired under the program. In fact, KKL-JNF ultimately hired more workers than had retired. KKL-JNF is currently reviewing the status of its Field Workers force.

- ◆ Implementation of the savings calculation for each employee, so as to guarantee that all retirements save at least 35% of the continued employment costs, is unclear. The Human Resources Division stated that they did not carry out such calculations, while one of the Consulting Company's files showed that a calculation was carried out for all retirees in general. The calculation showed that in 10 cases, retirement did not meet the 35% cost-savings requirement. Thus, these retirements violated the committee's unequivocal decision that employees whose retirement does not save the organization at least 35% cannot be included in the retirement program, and that management may refuse such retirements. Nevertheless, as mentioned above, the total savings incurred from the retirement of the employees, taking into account the relevant actuarial costs, show a general saving of about 49%.

- ◆ The retirees left behind about 60 vehicles, of which about 40 were returned to the leasing companies, while about 20 were transferred to other employees. Therefore, the savings potential was not fully-leveraged in this regard. Moreover, the company is still covering vehicle costs for employees who received these vehicles, as though they do not have a company car. **In addition** to these vehicle cost payments, KKL-JNF is funding the vehicle left by the retiree **and** covers the grossed up value for the employee who received the company car. Therefore, not only does KKL-JNF not achieve any savings, but actually increases costs. It is noted that the above has been going on for more than two years.
- ◆ The Office of the Comptroller found cases where KKL-JNF employees retired and continue to be indirectly employed through an external service provider. For example, N.A. who served as statutory coordinator, retired from KKL-JNF and continued working through an external planning firm at a cost of NIS 177,000 in 2009 (in 2008, KKL-JNF did not employ this company's services). This means that N.A. receives both early pension and wages for her work through another employer. In another instance: H.F, who retired from KKL-JNF, continues working through an external provider.

The Office of the Comptroller's Recommendations:

- ◆ That a decision be made as soon as possible concerning the use of vehicles. Double payments to those employees who received vehicles left behind by retirees must stop immediately.
- ◆ To re-examine the organizational needs created by the retirement program, and to approve employment of sub-contractors in specific cases after examining alternatives and receiving appropriate management approval.

6. Results of the Retirement Program

In all, about 140 Standard Employees and 100 Field Workers retired through the program.

The following table details Standard Employee retirements, by division:

Division/District	Staff before retirement	Staff after retirement	Retirees	% decrease in division staff
Education and Youth	44	39	5	11
Land	30	24	6	20
Communications	27	23	4	15
Himnuta	2	2	0	0
KKL-JNF Management	41	37	4	10
Fundraising	50	47	3	6
Finance Division	41	27	14	34
Human Resources	100	90	10	10
LDA (Land Development Administration)	63	38	25	40
Southern District	100	94	6	6
Central District	148	113	35	24
Northern District	135	105	30	22
Total	781	639	142	18

The data indicate that some parts of the organization were significantly affected by the retirement program, primarily the Land Development Administration, the Central District, Northern District, and the Finance Division. On the other hand, other parts of the organization saw only minimal retirement, for example - the Fundraising Division, the Education Division and the Southern District.

The Office of the Comptroller examined KKL-JNF's handling of the implications of the retirement program. These examinations included meetings with several executives, from units where retirement was high and/or significant.

The Office of the Comptroller's findings:

- ◆ KKL-JNF does not implement formal knowledge retention processes, both in its routine operations, when employees reach the statutory retirement age, or as part of the voluntary retirement program. Employees with unique knowledge and/or in unique positions, do not document their work or functions (excluding one exception which we encountered). When employees retire without training a replacement, the loss of their knowledge damages the organization. For examples, see below. It is noted that the following information was provided by division/district directors with whom the Office of the Comptroller met.

- ◆ Results of the retirement program in the Central District
 - 35 out of 148 employees retired (about 24%).

 - Some of those retiring who held essential and unique positions, retired without training their replacements and without their knowledge being retained. These include: the director of the Planning and Entrepreneurship Department, a statutory planner, the director of the Implementation Department, and wood production engineer.

 - Some of the essential retiring personnel were re-hired through outsourcing.

 - In the central coastal region, the entire executive suite retired en mass (district director, three regional directors).

- In addition to his own position, the deputy district director also fills in for three employees who retired under the program.
 - Eight secretaries retired and the district was forced to outsource its secretary services.
 - Several fire truck drivers retired, which increased workloads on the weekend shift.
- ◆ Results of the retirement program in the Northern District
- 30 out of 135 employees retired (about 22%).
 - No replacement has of yet been appointed for the Mapping and Forestry System Supervisor.
 - KKL-JNF is forced to outsource engineering, technical drawing and planning services previously performed by retirees.
 - Personnel reduction has led to problems being handled "on the fly", which has adversely affected service levels.
- ◆ Results of the retirement program in the Finance Division
- 14 out of 41 employees have retired (about 34%).
 - Two division directors have retired, as well as two department directors, the overseas department director, and six bookkeepers.
 - Work was significantly affected and elementary tasks are not being completed, such as: entry of credit card revenue records.

- According to the division director, control processes were significantly affected. Lacking these controls, the division director stated that in one instance he found a major error which led to double payment of USD 1 million.
 - The division is forced to outsource services to external accounting firms, at extremely significant cost. However, the division director and another senior employee in the division reported delays in ongoing work in the division, and it would seem that the division is still not functioning properly.
- ◆ Results of the retirement program in the Land Development Administration
- 25 out of 63 employees have retired (about 40%).
 - Some employees who held essential and unique positions retired without training their replacements and without their knowledge being retained. These include two entomologists (the only two in the LDA), an ecologist and another ecology-related employee (the only ones), the director of the Planning and Strategy Department.
 - According to the director of the Land Development Administration, one section in the Forest Interface Department "disappeared" without any replacement.
 - Some retirees are employed on an hourly basis.
 - The Forestry and Development Department director now fills three additional functions previously filled by retirees.
 - The Land Development Administration director stated that the Planning Division was severely affected. The division director, the architect and a technical operator retired, in

addition to those architects who retired from the geographical districts.

- According to the Land Development Administration director, long-term preparedness was severely damaged. No studies are being carried out and long-term activities are being put on hold. Only essential operations are maintained.

◆ Results of the retirement program in the Education Division

- 5 out of 44 employees retired (about 11%).
- Four additional employees have left KKL-JNF in the past few years.
- According to the division director, the Overseas Department director has retired, leading to the loss of vital information. The Division has managed to maintain only the English-language programs.
- The division director fills in for three senior officers, two of which retired under the program and the last of whom re-located abroad.
- According to the division director, training coordinators in field centers have retired or left and have been replaced by freelancers.

The Office of the Comptroller's recommendations:

- ◆ The Office of the Comptroller recommends formulating a knowledge retention procedure, which is to be implemented as soon as possible, as part of routine operations and not necessarily in connection with any specific retirement program. The Central District signage coordinator can be used as an example - prior to her retirement, she prepared a training

manual for her signage functions, and it seems that this manual may be used by her colleagues and other personnel for many years to come.

- ◆ The Office of the Comptroller recommends mapping the entire organization, including the divisions which were adversely affected by the retirement program, and finding specific solutions for each unit, including approving the use of outsourced services, tendering, employee mobilization, and in certain cases even recruitment of new employees.

7. Organizational Structure

Shaldor's strategic report of 2008 includes recommendations concerning an organizational re-structuring. Following the partial adoption of these recommendations and in light of the voluntary retirement program instituted in early 2009, KKL-JNF's management decided to formulate a new organizational structure.

The organizational structure is intended to suit the existing number of employees, while aiming to maximize administrative control and eliminating non-essential departments and positions.

Towards the second quarter of 2009, a team was established, comprised of several division directors and headed by the Human Resources and Administration Division Director. This team was charged with submitting recommendations for the organizational re-structuring.

However, after two months of work, KKL-JNF's management decided to take the lead in formulating the new organizational structure. Following on this decision, discussions were held by the closed executive forum.

In September 2009, management decided on an organizational re-structuring, as follows:

1. Consolidating the three geographical districts into two.
2. Administrative streamlining at the district and LDA levels.
3. Reducing the number of divisions and divisional downsizing.
4. Outsourcing services where economically advisable.
5. Consolidating functions performing similar tasks.

The proposed structure was approved by the organizational committee, except for three points which were left for the Director General's decision.

In her first few months in office, the Director General conducted preparatory work on the proposed organizational re-structuring, and after formulating her recommendations, in October 2009, including resolving the above three points, the Director General submitted the proposed organizational structure for approval by KKL-JNF's executive.

In practice, to this day, more than a year later, KKL-JNF has not approved a new organizational structure.

The Office of the Comptroller's findings:

- ◆ The strategic plan and the Shaldor report are inseparable. The report stated that a retirement plan and an organizational restructuring should be carried out in 2009/2010. These initiatives should, at the very least, have been integrated. Alternatively, first the organizational re-structuring was to be implemented, and then the retirement program, but not vice-versa as was eventually the case. Had an organizational structure been approved prior to the

retirement program, the remaining personnel could have been adapted to this structure, and new employees could have been recruited as necessary. Furthermore, KKL-JNF should have prevented the retirement of employees who were designated as essential under the new organizational structure. In practice, implementation led to the present situation, where two years after the retirement of 240 employees no organizational structure has been approved, some units are operating under a cloud of uncertainty and do not function properly (as detailed in the previous chapter), and some executives have to fill in for employees who have retired, and are straining under the workload.

- ◆ Functions previously filled by retirees are currently being carried out by other employees. Despite the Human Resource Division's notice that there is no obligation to keep these employees after approval of the new organizational structure, it is reasonable to assume that even if it be decided to replace them after two or more years, the organization will find the replacement difficult. This is true even if these employees are not fulfilling their functions properly.
- ◆ The lack of an organizational structure impedes the staffing of positions which seem critical, as there is no certainty that the position will remain under the new structure, when the latter is formalized.
- ◆ Among Field Workers, there are currently about 170 temporary workers who must be dismissed every nine months so as to avoid formal employment relations. It is then necessary to recruit new employees instead of those who were dismissed, and to re-train them. This method of operation is improper. It is noted that there are nine cases where temporary workers recruited after the retirement program were not dismissed, and they thus became formal employees with a "temporary" status, and so started accruing seniority and benefits. Therefore, under the present circumstances, the retirement program did not yield any benefits, and was, in fact, counter-beneficial.

Response of the Human Resources and Administration Division

The average monthly number of temporary Field Workers ranges from 130 to 140, who are employed for specific needs and a specific period of time in essential projects. In the past, and prior to the voluntary retirement of 101 regular Field Employees, KKL-JNF was occasionally required to hire temporary Field Workers in essential projects such as tree-planting initiatives in the Negev aimed at preventing trespassing. As regards temporary workers, the 2009 collective agreement states that employees remain under temporary status for up to 5 years before becoming regular employees, and may be terminated at any time in that period.

- ◆ Due to a lack of an accepted organizational structure, KKL-JNF does not maintain an orderly tendering process, including internal tendering, nor is there an orderly process for matching employees with the specific requirements of the vacant positions. In practice, a new reality is being established, which will be difficult to change in the future.
- ◆ The lack of an organizational structure does not allow important reforms to be carried out in KKL-JNF, as recommended by Shaldor. These reforms include downsizing the employee roster and the divisional structure, as well as a general reduction of costs. Employees who were left with nothing to do were re-assigned to other divisions, regardless of their position and without any choice. This leads to unnecessary costs, in addition to preventing the realization of significant cost-savings offered by the reforms.

Response of the Human Resources and Administration Division
Director

The voluntary retirement program increased the work load on the remaining employees, and certainly did not lead to unemployment or lack of work.

- ◆ Another problem caused by the lack of an organizational structure pertains to the employment of freelancers on KKL-JNF's projects, such as those employed in the Education Division. The cessation of employee recruitment and tendering activities is liable to lead to the creation of formal employment relations between KKL-JNF and freelancers who are employed in the same function for an extended period of time. These formal employment relations would lead to increased financial costs.

Response of the Human Resources and Administration Division Director

Tenders have been issued for positions in the geographical districts which will clearly continue to exist under any future organizational structure. These tenders have been issued and suitable candidates have been selected through internal tenders.

Response of KKL-JNF's management

The organizational deployment following the voluntary retirement process took longer than planned, yet it is reasonable to assume that in the next two months (Spring 2012), based on an updated organizational structure and the issuing of tenders, and based on positioning tenured employees, the organizational deployment will be optimally completed.

The Office of the Comptroller's Recommendations

- ◆ The Office of the Comptroller recommends that KKL-JNF act quickly to approve an organizational structure so as to facilitate formal and orderly staffing of the relevant positions, while issuing the appropriate tenders.
- ◆ The Office of the Comptroller recommends that a strategic decision be made concerning Field Employees, and that the practice of replacing temporary workers every nine months be stopped.

- ◆ The Office of the Comptroller recommends that tenders be issued for finding suitable candidates for each position, and to allow those persons holding the positions to participate in these tenders.

- ◆ The Office of the Comptroller recommends mapping those cases where KKL-JNF enlists the aid of freelance service providers in carrying out the functions of employees who retired under the program. The Office of the Comptroller recommends that tenders be issued for these positions, or that the freelancers' work be legally regulated so as to prevent the creation of formal employment relations.

August 2011 (updated, April 2012)

Keren Kayemeth LeIsrael

The Education & Youth Division

Keren Kayemeth LeIsrael

The Education & Youth Division

1. Introduction

1.1 In accordance with the work program of the Office of the Comptroller of the World Zionist Organization, we examined the activity of the Education and Youth Division (hereinafter: the Division) at Keren Kayemeth LeIsrael which is responsible for the formulation of educational programs on the subject of Ecological Zionism and imparting them to youth in Israel and the Diaspora.

Our audit included examination of work processes in the following areas:

- Operation of field centers.
- Employment of tour guides and counseling coordinators.
- Contractual arrangements with suppliers (NIS 12 million a year).
- Collection of income.

1.2 The audit was conducted at the offices of the Division at Keren Kayemeth LeIsrael and at the field centers during the months of March – July 2011.

During the audit, meetings were held with the director of the Division, its accountant, the pedagogic officer, the collection staff, the field center directors, the counseling coordinators as well as with other employees in the Division and in the Finance Division, to the extent we saw fit.

1.3 The audit purposes:

- a. Review of the processes and the current controls on the subjects of: operation of field centers, contractual arrangements with

suppliers, collection from customers and payment for activities. In all these matters, the financial aspect and the entries in the books were also examined.

- b. Examination of the existence of proper internal control procedures and a look at the degree of efficacy of the current procedures and processes.
- c. Finding weak points in the procedures and the control and providing recommendations for improvements.

1.4 Main documents used for the audit:

- ◆ The various directives and procedures of the Division.
- ◆ Keren Kayemeth LeIsrael procedure regarding contractual arrangements with suppliers.
- ◆ Reports of budget versus actual expenditure for 2010 and the first half of 2011.
- ◆ Reports of outing files for 2010.
- ◆ 2010 work plans.
- ◆ Cards from the bookkeeping unit.
- ◆ References and documents associated with the contractual arrangements with suppliers.
- ◆ Labor contracts drawn up with freelance counseling coordinators.
- ◆ Contractual agreement between Keren Kayemeth LeIsrael and its customers.
- ◆ Sample of salary slips of counselors.
- ◆ Excel report regarding stocks at field centers.
- ◆ Specific documents which were obtained upon request.

1.5 Methodology of the examination:

- ◆ Reading of the existing procedures (to the extent relevant to the subjects reviewed), reading of internal directives and examination vis-à-vis actual practice.
- ◆ Holding of meetings and conversations with the office-holders responsible for the activity in the spheres examined and with additional employees, to the extent we saw fit.
- ◆ Visits to three field centers, with study of the operation of the center and examination of the documentation held there.
- ◆ Review of the information systems supporting the subjects examined, including cross-referencing data between the systems.
- ◆ A look at the work conditions and duration of the work of freelancers.
- ◆ A look at the data in the designated orders system used by the Division, primarily with respect to planning and booking with suppliers for an event.
- ◆ Examination of the proceedings for contractual arrangements with suppliers, including compliance with Keren Kayemeth LeIsrael procedures regarding obtaining an exemption from a tender, price estimates and so on.
- ◆ Examination of the management and implementation of the budget.
- ◆ A look at the proceedings for collection of the income, including examining the existence of controls regarding the integrity of the debt collection.
- ◆ Performance of samplings.

- ◆ Summary of the findings.
- ◆ Drafting of an audit report, including the drawing of conclusions and making of recommendations.

2. **General Background**

Keren Kayemeth LeIsrael was founded in 1901 by resolution of the Fifth Zionist Congress in Basle. In the first decade of its existence, the status of Keren Kayemeth LeIsrael was based on its being an organization whose purpose was the purchase of lands in the Land of Israel in the name of and on behalf of the Jewish People.

On November 23, 1953, the Keren Kayemeth LeIsrael Law, 5714 – 1953, was passed in the Israeli Knesset and, inter alia, arranged the mechanism for turning Keren Kayemeth LeIsrael from a foreign company into a local company, registered in Israel.

Keren Kayemeth LeIsrael is a company whose share capital has no stated value. Its shares are held by the members of its General Assembly who are the members of the Zionist General Council.

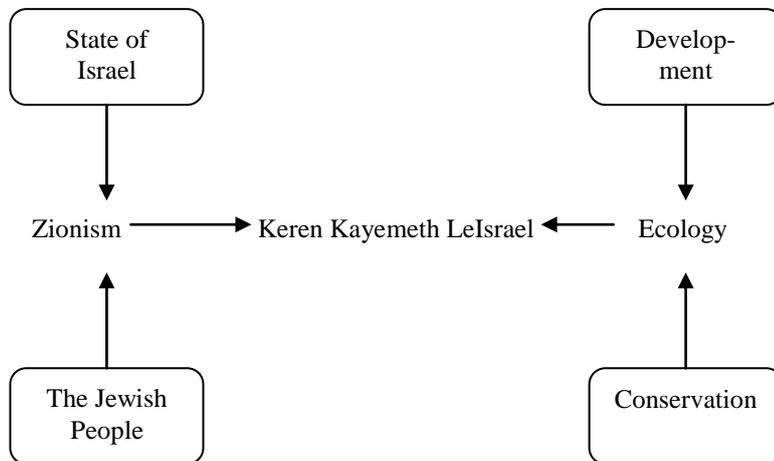
In 1961, a convention was signed between the State of Israel and Keren Kayemeth LeIsrael in which it was resolved, inter alia, that: "Keren Kayemeth LeIsrael shall continue to operate, as an independent agency of the World Zionist Organization, among the Jewish public in Israel and the Diaspora, raising funds for the redemption of land from desolation and conducting informational and Zionist-Israel educational activities.". Keren Kayemeth LeIsrael began, in accordance with this Convention, to engage in Zionist education. The mandate given to Keren Kayemeth LeIsrael is performance of activities in the sphere of informal education whose target populations are children from kindergarten age to youth in junior high schools and soldiers.

The head office of the Division is situated at the Keren Kayemeth LeIsrael offices in Givat Shaul in Jerusalem where there are some 40 employees.

Ecological Zionism

As noted above, over the years Keren Kayemeth LeIsrael has engaged in Zionist education with an emphasis on redemption of the land. Some 20 years ago, it was decided at Keren Kayemeth LeIsrael to start educational programs with an emphasis on ecological Zionism. The difference between the approaches is mainly in relation to reclamation and development of the land: while the initial educational programs placed an emphasis on making the desert flourish and developing the area without reference to any possible harm to nature, ecological Zionism emphasizes environmental development with preservation of the values of nature and encouragement for the natural systems.

Ecological Zionism is based on a balance between four segments:



"Significant Moments"

The Division for Education at Keren Kayemeth LeIsrael has developed some 400 study programs, based on a unique educational model of

creating significant moments amongst the participants – a combination of thought, emotion and action. This educational model utilizes opportunities and short time spans to put across study contents through empirical learning.

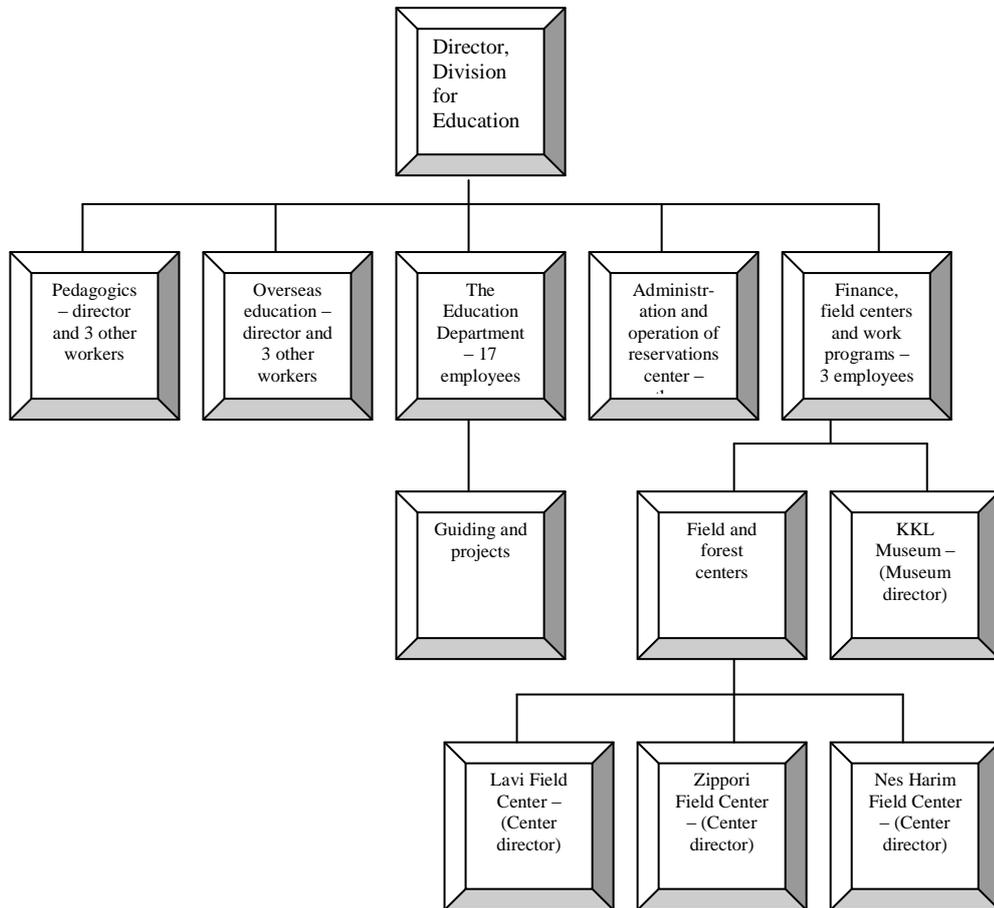
In addition to the above, Keren Kayemeth LeIsrael also operates an educational mobile unit which travels around the country.

Education abroad

The Division for Education at Keren Kayemeth LeIsrael also engages in education with Jewish communities world-wide, through a number of activities, which are listed below:

1. **Overseas activity held overseas** – This educational activity is based on *shlichim* from Israel who journey for an overseas *shlichut* for the purpose of joint educational work with communities and Jewish schools. The Division for Education currently has four *shlichim* in the world: Canada, Europe and two in Australia, and Keren Kayemeth LeIsrael is also training teaching staff in Argentina and France to convey Keren Kayemeth LeIsrael programs in their communities.
2. **Overseas activity held in Israel** – Conveying the educational programs of Keren Kayemeth LeIsrael to organized groups from abroad visiting Israel. The activity is sometimes combined with an overnight and a stay at the field centers as well as performance of "Piece of Homeland" (Nof Moledet) activity, the essence of which is development and planting in a defined plot of land by the group.
3. **Programs for teachers from abroad** - Keren Kayemeth LeIsrael brings teachers from overseas to Israel for further study in its educational programs, so that they will convey Keren Kayemeth LeIsrael contents upon their return to their homelands.

Structure of the Division:



The 2010 budget of the Division is as follows:

Serial Number	Line	Budget (NIS millions)
1.	The department for activities in Israel Including the Herzl program)	5.2
2.	Overseas department including salaries of <i>shlichim</i>	4.8
3.	Department for field and forest centers	5.3
4.	Salary for tenured employees including leasing costs	10.8
5.	Office expenditures	1.4

The audit findings:

- ◆ The standard for the Division for Education is 44 employees but there are currently only 36. The difference in the personnel count is mainly in the positions of counseling coordinators which in practice have been staffed for almost two years by counseling coordinators (actual counselors) with the status of freelancers. The counselors are dismissed after working for nine months and re-employed after a three-month vacation. Employment of temporary workers in the manner described requires constant dealing with the re-staffing of these positions. The employment as freelancers would also seem not to attain its purpose. More on this below.

The audit recommendation:

- ◆ It is recommended that staffing of the counseling coordinator positions with tenured personnel of the Division for Education be speeded up so as to create a stable work environment.

3. Employment of freelancers and counselors

Counseling coordinators

Following the employee retirement scheme that was undertaken at the beginning of 2009, there was an urgent need to fill vital positions that had been vacated. For the purpose of filling these positions, a number of counseling coordinators, who had worked as counselors in the past, were taken on with the status of freelancer. Their employment was in accordance with provisions obtained from the Keren Kayemeth LeIsrael Human Resources Division.

Counseling coordinators with freelance status are usually employed on a part-time basis and, as noted, after nine months' employment, they are dismissed and return to work after a three month hiatus.

Counselors

The Division for Education at Keren Kayemeth LeIsrael has a pool of some 350 counselors who are employed on a per day basis for the different counseling and touring days throughout the country.

When the Division for Education reserves a counseling day, the counselor signs a uniform employment contract. The signature of the counselor is added on-line.

Payments are made through salary slips or a tax invoice which the counselor submits.

On average, the number of counselors who receive a salary slip is some 85 a month while, in high seasons, the average approaches 100 employees a month.

Performance of the counseling

The counselors are booked for a variety of activities, such as: guiding tours at field centers, putting across educational activities, planting with groups, "Piece of Homeland" (Nof Moledet) activity and so on.

The Division sends the counselor a separate contract for each session he carries out, even if he does ten sessions a month. The contract is sent to the counselor by email.

Confirmation of sessions process for payment purposes

Towards the end of each month, the sessions carried out in the area where the center operates are approved for payment. Confirmation of the sessions is done through the designated computer system run in the Education Division. The employee in charge of compiling the confirmations goes through all the confirmations sent by the directors of the centers, checking two main parameters:

- That no contemporaneous sessions and activities were approved.
- That the rates charged are in accordance with the approved tariffs.

The approved list is forwarded to the director of the Education Division for signature and then to the Human Resources Division for the payment to be made.

Employee – employer relationships between Keren Kayemeth LeIsrael and salaried counselors

As noted above, the Keren Kayemeth LeIsrael Education Division employs hundreds of people who, as understood by Keren Kayemeth LeIsrael, have a status defined as freelancer rather than tenured employees. Determination of the status of an employee and the discussion on the question of whether the mode of his employment constitutes a basis for creation of employee – employer relationships has

been heard at great length in the labor tribunals and there are currently a number of interwoven checks, according to which it can be determined whether the form of employment of an employee constitutes a basis for the existence of employee – employer relationships.

It is important to note that the status of the employee is not fixed according to the description agreed upon by the parties or that is given by one of them, but according to the empirical circumstances of the case.

Following are the main criteria, with the assistance of which it is customary to determine the existence of employee – employer relationships:

- a. **Test of integration within the organization** – the dominant component for determination of the existence of employee – employer relationships is the "test of integration within the plant".

The positive aspect – A condition for integration is that the person undertaking the work constitutes a part of the ordinary organizational setup of the organization and is not, therefore, an "outside body".

The negative aspect – that the person in question does not have a business of his own which serves the organization as an outside body. There is no uniform mark of recognition for "a business of his own" in all spheres of activity and it all depends, first and foremost, on the nature of the business.

- b. **Test of ancillary tools for performance of the work** – Whether the organization makes equipment and/or ancillary tools available for the performer of the work to assist him in fulfilling his tasks or the performer of the work brings them at his expense.

c. The personal connection test:

1. This is a negative test according to which, in the absence of a personal connection, a person will not be considered to be an employee but the very existence of a personal connection does not necessarily result in the conclusion that the relationships between the parties are employee – employer relationships.
2. The right to transfer performance of a job to another person rather than perform it personally or the obligation to find a "substitute" for performance of the job negate the existence of employee – employer relationships. An employee does not have the right to have another employee fill in for him without the agreement of the employer. In contradistinction, marginal assistance from another person to perform a job does not rule out employee – employer relationships.

d. Form of payment of the wage:

1. As a rule, employee – employer relationships are the outcome of an agreement containing an obligation of payment to the person providing the service.
2. In contradistinction, the basis for calculating the salary (time unit, product unit, part of the fruits of the labor, part of the profits) by a salary slip or against a tax invoice neither serve nor determine on the question of the existence or non-existence of employee – employer relationships.

e. Deduction of income tax at source and payments with respect to social benefits:

Deduction of income tax at source for a person or payments to income tax, Value Added Tax and National Insurance as a self-employed person can serve as a basis for the status of a person as an

employee or as owner of his own business but they are not tantamount to determining or negating his status unequivocally.

f. Duration of the employment:

The longer the duration of the employment so will the inclination be to recognize the employed person as an employee.

g. The dependency test:

The dependency of the parties on each other, including the obligation of the employee to work and the obligation of the employer to provide work constitute an important test for determination of the status of the service provider.

The Office of the Comptroller looked at the various aspects with the employment of the freelancers, such as: duration of the employment, mode of payment of the salary, the existence of social provisions, the existence of employee – employer relationships, dismissals and so on. For the purpose of the examination, the Office of the Comptroller sampled twenty-two salary slips of the counselors for the months of June and July 2011. This sample constitutes some 13% of all the payments made to the counselors with respect to these months.

The audit findings:

- ◆ The counseling coordinators at the field centers who work part-time are employed without a signature on employment contracts and without legal arrangement of their status. Such a form of employment without a contractual arrangement could give rise to legal issues as to whether the coordinator is an employee with security of tenure at Keren Kayemeth LeIsrael, as specified above, in apparent contradistinction with the way Keren Kayemeth LeIsrael views the status of the coordinators.

- ◆ A large part of the employees with freelance status are paid through salary slips, something that actually blurs the differences between a salaried employee of Keren Kayemeth LeIsrael and an employee with the status of freelancer. Moreover: when payment is made through a salary slip, the recipient of the payment is apparently entitled to all the social benefits according to the law, including the Compulsory Pension Law.

- ◆ From an examination of a sample of salary slips, a picture emerges according to which the counselors at Keren Kayemeth LeIsrael are employed as regular employees for all intents and purposes and not with the status of freelancers, contrary to the way Keren Kayemeth LeIsrael views matters. The form of the employment points to "tenured status" which could have a far-reaching future legal ramification both in the case of claims of the freelancers for equalization of conditions to employees of tenured status and for retroactive payments with respect to social benefits that have not been paid. Following are some data that we saw on the salary slips which point, prima facie, to the counselors being employed as regular employees:
 1. 14 employees were found whose employment seniority, as noted on the salary slip, varies between 13 months to eight years and five months.
 2. Keren Kayemeth LeIsrael deducts from the salary slips of the counselors union dues in favor of the General Federation of Labor, (Histadrut) something that is not also clear-cut with respect to regular salaried employees and certainly not with respect to freelancers.
 3. There were three cases where monies were set aside for a pension fund according to the full accepted provision rate (5% + 13.3%). For example, for coordinator S.H., ID 58363417, monies were paid into a pension fund. Provisions of this sort seemingly constitute evidence that the employees were engaged

in practice with tenured status. Likewise, the seniority shown on the salary slips of the three employees varied between 2.16 years and 8.42 years, which strengthens the above argument.

- ◆ Examination of the sample shows that, apart from the said three instances, Keren Kayemeth LeIsrael does not make payments to a pension fund for counselors with a seniority of over six months, as the law requires. In view of the nature of the employment, as explained above, the failure to pay into a pension fund exposes Keren Kayemeth LeIsrael to future claims for payment of a pension according to law, retroactively from the beginning of 2008.
- ◆ The Education Division has no orderly directives in writing regarding the nature of the confirmation of performance of the sessions and the proceeding for authorization of the payment to the counselor. The lack of orderly directives could lead to a number of mishaps in the process of approving the session and the payment for it, as specified below:
 1. Confirmation of performance of a double activity for a counselor at the same time. Two examples follow:
 - a) On June 13, 2011, two activities were authorized for the counselor bearing ID certificate 302885660 by the director of the field center: 1 – an administrative activity; 2 – group counseling. The nature of these activities is ongoing and for a considerable part of the work hours.
 - b) Overlap of a work hour with respect to an activity of the counselor bearing ID 36968121 on June 5, 2011. One activity was from 08:00 – 16:00 while the other began at 15:00. These overlapping activities were approved and paid.

Response of the Education Division

The directives are clear, rigid and inflexible. The directives are in writing in the User Manual of the new reservations program.

The reservations program is being run in and duplications are, therefore, possible but originate in good faith. The performance authorizations for counseling which are approved by the field center undergo very meticulous supervision and control and we are glad to report that, with the stabilization of the software and the current work process and also warning letters to the directors of the centers on the subject, the phenomenon has completely vanished.

The two instances specified above regarding the performance of parallel activities originate with counselors who did not turn up for a session either because of forgetfulness or for medical reasons and the counseling coordinators agreed to fill in for them.

2. There are no orderly directives for the field center directors regarding the last date for approval of sessions. There are, consequently, cases of sessions held at the end of the month not being approved in time and the payment for them being delayed to the ensuing month. For example, a counselor, bearer of ID 302885660 did a session on June 27, 2011, and payment for this session was delayed to the July salary which was paid in the month of August. Such a situation could lead to legal claims about holding wages back.

Response of the Education Division

Regarding the last date for confirmation of the performance of sessions, the field school directors have received an unequivocal directive (backed up in emails) to confirm sessions not later than the end of the work week in which the session took place, i.e., each Thursday. The phenomena mentioned in this section no longer occur.

3. The lack of orderly directives in writing could create a real problem in the process of session confirmation and making of the payment on time, for example, a departure on vacation of the person responsible for these confirmations and on whose experience the process is based.

Response of the Education Division

In the absence of the person responsible for the confirmations for the salary of the counselors, the director of the department in charge will replace her.

The audit recommendations:

- ◆ It is recommended that the employment of the counseling coordinators be arranged in personal contracts; this will clarify the status of the coordinators and will obviate possible legal claims in the future.

Response of the Education Division

The subject has been raised at work meetings with a lawyer from the Legal Department and her response is that the staff union objects to it and that this issue is in the stages of ongoing discussions.

- ◆ It is recommended that a legal opinion be obtained regarding the matters listed below:
 1. Whether employment through salary slips can testify about the permanent status of the employee.
 2. Whether deduction of union dues from the counselors is legal and does not give rise to questions regarding the status of the counselor.
 3. Whether full provision to pension funds for the counselors points to the existence of employee – employer relationships like a regular salaried employee and whether that has any ramifications for the status of the counselor in the organization.
 4. The making of compulsory provisions for pension, for counselors employed more than six months, should be checked.

- ◆ It is recommended that directives regarding the employment of, and payments to, counselors be committed to writing and specify, inter alia: the categories of possible activations for a counselor in overlapping time spans, the last date for confirmation of sessions that have taken place during the month and, mainly, the process of session confirmation, from the moment it was performed until payment for it is made.

Main points in the Response of the Keren Kayemeth LeIsrael Director-General – Employment of Freelancers and Counselors

1. The description is factually correct and we recognize the problem.
2. An employment procedure and work contract have been drawn up and we have already started to work according thereto.
3. After the date of the audit, new software was activated that, inter alia, warns of double payment or of an error.
4. The recommendations with respect to the need for arrangement of the status of the counselors and the payment of the normal provisions are subject to legal advice.

4. Contractual arrangements with suppliers

The volume and variety of the activities of the Education Division necessitate that the Division work with outside suppliers on significant scales. The methods of contractual arrangements vis-à-vis the suppliers are anchored in the "Contractual arrangements rules" procedure and in the directive of the Director-General of April 2010.

Following are the main topics specified in the Contractual arrangements rules:

1. Keren Kayemeth LeIsrael shall not contract for a transaction in merchandise or the purchase of services other than by tender.

2. A supreme tenders committee shall be set up and shall determine procedures to the extent required in the Contractual arrangements rules and shall supervise the work of the regional committees.
3. The authority to grant an exemption from a tender shall be accorded to the Exemptions Committee.
4. Contractual arrangements of an amount lower than NIS 25,000 do not require a tender but approval of the director of a region / division.
5. Contractual arrangements of an amount between NIS 250,000 and NIS 400,000 require a closed tender rather than an open tender.

Following are the main points in the April 2010 directive of the Director-General:

An exemption from tender will be given if a number of conditions, as follows, exist:

1. The contractual arrangement does not exceed an amount of NIS 25,000.
2. Examination of a number of price estimates.
3. Approval of the director of the Division.
4. Summarized report in writing to the Tenders Committee.

The Education Division is in ongoing contact with some 80 suppliers from whom it purchases goods, services of drawing up programs, transportation, maintenance services and so on. The total annual budget is **some NIS 12 million.**

Stages of the contractual arrangement:

- ◆ The basis for the contractual arrangement is the need of a specific unit which requires the purchase of a service or goods.
- ◆ The accountant of the Division and the director of the requesting unit characterize the requested goods / service.
- ◆ In accordance with the amount of the anticipated cost, it will be determined whether the arrangement will be made through a tender or a route that is exempt from tender.
- ◆ Examination of a number of price estimates where there is an exemption from tender or launching of a public tender and selection of the winner.
- ◆ Contractual arrangements with the winning supplier.

The Office of the Comptroller reviewed eight contractual arrangements of the Education Division with different suppliers to the tune of NIS 600,000 and looked to see whether the contractual arrangements process matched the contractual arrangements rules procedure and the Director-General's directives.

The audit findings:

- ◆ Contrary to the contractual arrangements rules and the accompanying directives, which require that a contractual arrangement of an amount of less than NIS 25,000 be accompanied by a number of price estimates, we were not shown any additional price estimates apart from that of the supplier who did the work, in contractual arrangements carried out with suppliers A and B.

Response of the Education Division

1. Supplier A: jobs of an artistic nature are exempt from a tender because of their uniqueness.

2. Supplier B: This site is unique and the only one in the vicinity in question and was found by the professional bodies in the Division to be suitable and fit for hosting the participants from overseas both in terms of its quality, nature of the service and reliability and of the existence of insurances and authorizations as required.
- ◆ Contrary to the directive of the Director-General, which requires that a contractual arrangement of less than NIS 25,000 be accompanied by an approval of the director of the Division and a report to the tenders committee, we were not shown any documents confirming that these steps were taken with respect to suppliers A and B.
 - ◆ We did find that two price estimates regarding signs at field centers were addressed to another supplier of Keren Kayemeth LeIsrael – Supplier C. The Office of the Comptroller is of the opinion that requesting a price estimate from a supplier through another supplier of the Division is improper, and that, inter alia, it does not permit a proper process of negotiations and a situation could be created of a clash of interests to the detriment of the Education Division.

Response of the Education Division

As part of the contractual arrangement with Supplier C for the development and design of study programs, the task was imposed upon them to develop the said program. During the development, the supplier also dealt with a review of the categories of existing signs in the market place and their suitability for the educational program and the messages which the Education Division wishes to convey. The price estimates which were forwarded to the Division were handled in accordance with the rules for contractual arrangements in force at Keren Kayemeth LeIsrael. As to the fact that the name of Supplier C features on the price estimate, this is not tantamount to evidencing anything apart from the fact that, during the review, Supplier C asked a suitable supplier to send a price estimate to the Education Division.

- ◆ A contractual arrangement with Supplier C was performed through an authorization of the exemptions committee and is conditional on the existence of the following:
 1. The arrangement is limited in amount to up to NIS 200,000.
 2. The arrangement being exempted is with respect to development of educational programs only.
 3. Each program is to be approved by an educational steering committee and also by the director of the Finance Division at Keren Kayemeth LeIsrael.

Contrary to these conditions, it follows from perusal of the supplier's card that, between April 2009 (the date on which approval of the exemptions committee was given) to the end of 2010, the aggregate amount of the contractual arrangements carried out with this supplier was some NIS 500,000, of which NIS 190,000 were expended in the last quarter of 2010. Furthermore, we were not shown the requisite approval of the director of the Finance Division or of the educational steering committee, as the exemptions committee had stipulated.

Response of the Education Division

The framework arrangement with Supplier C is NIS 200,000, not including Value Added Tax, i.e., NIS 400,000 not including Value Added Tax for the relevant two years.

- ◆ The approval of the exemptions committee mentioned above did reach the accountant of the Division as an email message, without any attached minutes or grounds explaining the reason for the exemption given for the purpose of this contractual arrangement. The absence of grounds does not allow for a process of control to check the circumstances and, consequently, does not allow lessons to be drawn for the future, should a further request come up to the exemptions committee.

Response of the Education Division

The Education and Youth Division has no control over the conduct, records and minutes of the exemptions committee.

From all the above, it follows that the process of contractual arrangements with suppliers in the Education Division is not proper, does not follow the procedures of Keren Kayemeth LeIsrael itself and that there are no ongoing controls over performance of the contractual arrangements according to the procedures, and this is something that exposes Keren Kayemeth LeIsrael to loopholes in the current work processes.

The audit recommendations:

- ◆ It is recommended that a thorough order be made in everything to do with the process of contractual arrangements, with meticulousness as to complying with the directives, including granting an exemption from tender according to the rules in effect in the public sector, obtaining price estimates from a number of suppliers, entering into the arrangements through Keren Kayemeth LeIsrael employees rather than through external "agents" and documentation in writing of the work processes.
- ◆ It is recommended that these work processes be checked to see whether these loopholes exist in all the units / divisions of Keren Kayemeth LeIsrael or whether this is a phenomenon unique to the Education Division.

Response of the Director-General of Keren Kayemeth LeIsrael-Contractual Arrangements with Suppliers

1. The comments about the contractual arrangement process with suppliers are accepted.
2. At the present time, updating of the Contractual arrangements rules has been completed and a study day will be held on the subject for all units.

3. No loopholes were found in the process in the other units of Keren Kayemeth LeIsrael.

5. Field centers

The field and forest centers of Keren Kayemeth LeIsrael are effective educational tools used to create "significant moments" for those populations the Education Division addresses. The centers are located in Keren Kayemeth LeIsrael forests and are used as a base for tours and study and tourist activities.

A Keren Kayemeth LeIsrael customer visiting the field centers receives sleeping arrangements combined with activities and guiding on topics of Zionism and settlements. As a rule, overnights at the field centers are accompanied by night-time activities, such as: night-time field training, quizzes, and so on.

Keren Kayemeth LeIsrael operates three field centers throughout the country:

Nes Harim Situated in the Jerusalem Hills, near Moshav Nes Harim.

Zippori Situated close to Moshav Zippori and the Zippori National Park. The vicinity is forested and includes Nachal Zipori and the Zippori Springs.

Lavi Situated in the Lower Galilee, near the Golani Junction.

Operational data of the field centers

	Lavi	Nes Harim	Zippori	Total
Staff	1 permanent + 2 part time freelancers	3 permanent + 1 part time freelancer	2 permanent + 1 part time freelancer	10
Tents	40	-	28	68
Beds in tents	320	-	224	544
Huts	7 for staff, of which one is for the camp staff	45	6	58
Number of beds in huts	35	267	24	326
Overnight places on sortie	600	450	200	1,250
Classrooms and lecture halls	Hall + 4 classrooms	Classrooms are planned in transportable buildings	5 classrooms	10

The field centers are the largest operator of the counselors and the counseling coordinators are engaged there – for greater detail see Chapter 3, above.

The audit findings:

- ◆ There are no written procedures dealing with the current operations of the field centers, including:
 1. Directives regarding the arrival and departure of groups, such as: definition of the body responsible for obtaining the signature of the customers on the proper state of the rooms / tents upon arrival, definition of the identity of the body responsible for the evacuation vehicle and procedures for its activation, definition of the body responsible for cleaning the area when the group leaves, the identity of the contact persons working vis-à-vis the groups on a current basis, and so on.

2. Work directives vis-à-vis resellers, such as: definition of timetables for approval of the holding of an activity, responsibility of the field center for obtaining the signature of the customer for approving the holding of an activity.
 3. Directives regarding the actions required in emergency situations, such as: fire, terrorist attack and so on.
 4. No tag list was found listing the basic technical equipment that there should be at every field center, for example: beds, chairs, tents, aids and so on.
 5. No directives were found detailing the types of counseling and their mix at the field centers.
- ◆ The Office of the Comptroller reviewed the work program of the Education Division and found that the reference to the field centers was only in the sub-sections and they are mentioned in contexts of contacts with educational institutions. The Office of the Comptroller is of the opinion that there is extensive room in the annual work program for relating to the field centers mainly regarding occupancy goals in a budgetary year, thoughts about expanding the customer population and development of the field center infrastructures, including possibilities for week-end accommodations.
 - ◆ It follows from a review of the Excel report detailing the occupancy figures at the field centers and the available equipment that the Nes Harim Field Center does not have, as of the time of writing, any classrooms and lecture halls. The lack of classrooms limits the hosting possibilities at the field center and does not allow for group activities in a lit and closed venue. In a conversation we held with the director of the center, it was clarified that construction of the class-rooms is in progress and, within a few months, the classrooms will be useable.
 - ◆ The Nes Harim Field Center has no netting shades and, following the considerable pruning of trees in the areas designated for sorties there is currently no shaded area in the small sortie section. Because

of the impossibility of holding an activity in a shady spot in this area, it has been closed for activities for a number of months. From talks we held with key personnel in the Division, it appears that the anticipated loss of income could come to some NIS 80,000 in the coming months.

The audit recommendations:

- ◆ It is recommended that work procedures be written that will arrange the current work with the clientele and the various divisions of Keren Kayemeth LeIsrael with detailed reference to the subjects noted above.
- ◆ It is recommended that there be a more extensive reference to the field centers in the annual work program of the Division and that more extensive activity be considered for all matters to do with the field centers, such as: undertaking annual work to increase occupancy rates, reaching more extensive target populations and so on .
- ◆ It is recommended that the addition of the classrooms at the Nes Harim Field Center be completed as soon as possible to permit a wider variety of services at the venue.
- ◆ It is recommended that netting shades or some other construction solution be added at the Nes Harim Field Center so that activities will be possible in the shade in the small sortie area.

Response of the Director-General of Keren Kayemeth LeIsrael - Field Centers

At the present time, the placement is being completed at the Nes Harim Field and Forest Center of four classrooms, a hall that also serves as a synagogue and two service buildings, with completion of infrastructure development.

A pilot project offering accommodation to a private clientele at weekends at Nes Harim is also taking place and earning success.

When the work is completed at the Nes Harim Field Center and lessons drawn from the pilot project, the management will lay down policy regarding activities at weekends. A notification will be issued to the general public in accordance with the decisions taken.

6. Utilization of budget and collection

6.1 Budget

Towards the end of the budgetary year, the accountant of the Education Division summarizes and processes all the budgetary requirements of the Division for the coming year and submits the requested budget for approval of the Education Committee at Keren Kayemeth LeIsrael. After approval of the Education Committee, the budget is sent for the approval of the Finance Committee.

Following are 2010 budget data of the Education Division versus actual amounts spent:

Number	Line	Budget NIS millions	Actual
1.	Department for activities in Israel (including Herzl Program)	5.2	4.9
2.	Overseas Department including salaries of <i>shlichim</i>	4.8	3.4
3.	Department for Field and Forest Centers	5.3	4.3
4.	Salaries of tenured staff including leasing costs	10.8	10.7
5.	Office expenditures	1.4	24.4
<u>Total budget</u>		<u>27.5</u>	<u>24.4</u>
<u>Income</u>		<u>3.7</u>	<u>5.4</u>

The Education Division has its own income which is returned for the use of the Division in order to increase its activities.

The Office of the Comptroller reviewed the report of budget versus actual figures for 2010 and the first half of 2011 and looked at the mode of utilization of the budget and the presence of budgetary deviations.

The audit findings:

- ◆ The 2011 budget of the Division was approved only in August 2011 and, prior to approval of the budget, the Division functioned in accordance with the annual budget of the previous year, linearly divided into 12. The absence of an approved budget from the beginning of the year makes current work difficult, mainly in the seasonal lines since, with respect to each project whose main expenditures are at the beginning of the year, a special request has to be submitted for the transfer of the full budget. For example: for a budget for tree-planting on Tu Bishvat, the Education Division submitted a special request for the transfer of the whole budget already at the beginning of the year, since the plantings are at the beginning of the budgetary year. It is to be noted that, according to the accountant's office, the request was approved but nothing was entered and this line currently shows a deviation of some NIS 135,000.

- ◆ The Office of the Comptroller found that the salary costs for tenured staff for the first five months of 2011 were charged to one budgetary line in which there is a significant budgetary deviation. It is important to note that there is another budgetary line with respect to the salaries of tenured staff of which hardly any use is made. The division was supposed to have been between the budget of administrative employees and the budget for activities staff, but, as noted, this does not happen.

The audit recommendations:

- ◆ It is recommended that a budget be approved in an orderly way prior to the beginning of the budgetary year so that there can be a

stable work environment and it will be possible to operate programs and expedite them without procedural delays.

- ◆ It is recommended that utilization of the budget be meticulously and correctly shown during the year also, even when there is no approved full budgetary framework, so that it will be possible to obtain an exact picture of budget utilization, enabling proper budgetary control.
- ◆ It is recommended that it be reconsidered whether two different salary lines are essential and whether this form of presentation is an artificial division of the budget.

6.2 Collection

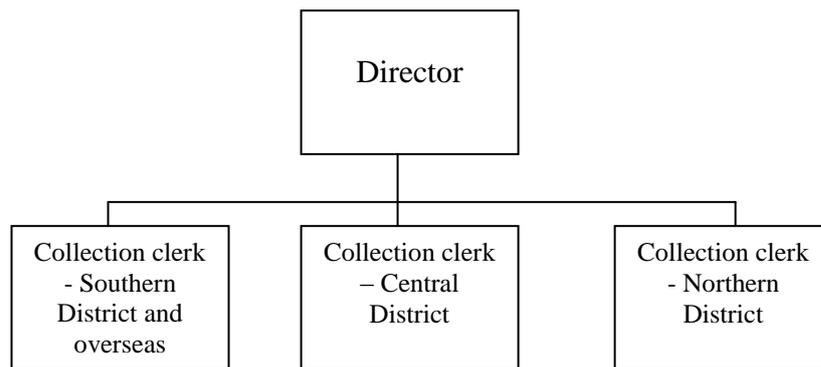
As stated above, the scale of the income of the Education Division at Keren Kayemeth LeIsrael is some NIS 4-5 million, which is credited to the budget of the Division.

The Education Division has a number of income sources, as specified below:

1. Income from activities at the field centers.
2. Income from the sale of stamps and emblems of Keren Kayemeth LeIsrael.
3. Income from educational activities - for example: a mobile education unit which comes to educational centers.
4. Income from guiding – allocation of a counselor for educational activities and trips.
5. Income from overseas groups - for example: activities of "Piece of Homeland" and "Experience in Green".

6. Income from participants in further study programs for teachers – the courses deal mainly with the subject of ecological Zionism.
7. Income from the sale of Keren Kayemeth LeIsrael educational kits.
8. Income from the Keren Kayemeth LeIsrael Museum – from groups visiting the Keren Kayemeth LeIsrael Museum.
9. Income with respect to participation in tenders which the Education Division publishes.

Structure of the Collection Department



- The Southern District collection clerk sits in the offices of the Education Division in Jerusalem
- The Central District collection clerk sits in Tel Aviv.
- The Northern District collection clerk sits at Pas Hayarak in Kiryat Bialik.

Handling the collection

Collection originating with an activity – for every activity there is a contractual document between the parties which is a standard contract kept in the Education Division. Upon completion of the

activity, the collection clerk receives an email notification from the reseller in which the following are detailed: nature of the activity, components of the charge, name of the customer and the amount to be charged. In accordance with the particulars in the notification, the collection clerk issues the customer with a pro forma invoice, follows up on its implementation and, the moment payment is received from the customer, she credits him.

If the customer pays by bank transfer, the collection clerk is unable to credit the customer. In such a case, the crediting of the customer in the financial system is done by the Finance Department. At the end of the transaction, the collection clerk ascribes the crediting of the customer to the invoice which was issued.

Other collection actions – Collections from tenders or from the sale of study material which do not go through the resellers but are done by the collection clerks themselves.

Collection controls and debtors:

- The resellers in the Districts check every now and again that an invoice has been issued for each activity.
- The collection clerks check ageing reports on an ongoing basis to ensure that all invoices issued have indeed been paid.
- Once every now and again the collection director and the marketing director check the ageing reports to review problems in the collection process and, mainly, for location of customers who have not paid their debt for a long period.

In addition to the above, in accordance with the directives of the Division, a customer who does not arrange his debt over a long period will receive no further service.

The Office of the Comptroller sampled 20 activities and checked, inter alia, whether an invoice was issued, collection made and the payment deposited in the bank for these activities.

The audit findings:

◆ The control process:

1. The Education Division has no written procedure regarding the collection process in the Division. As specified above, a variety of collection actions are taken in the Division in various ways. The lack of an orderly procedure results in a lack of uniformity amongst those dealing with the different bodies handling the subject, for example: different time spans for the timing of the control over issue of the invoice.

Response of the Education Division

The collection personnel are experienced and familiar with the work of collection and its procedures.

2. In addition to the aforesaid, the lack of an orderly procedure defining the spheres of responsibility and defined time spans, a deviation from which necessitates attention, could result in instances of falling between two stools and, hence, inefficient collection, particularly in view of the fact that the collection centers are geographically distant and are located at three different sites. For example, Activity 1262 undertaken in March 2011, and for which an invoice was issued only in May. Examination of the Office of the Comptroller at the end of October found that payment had not yet been received for this activity nor was it being properly handled.

Response of the Education Division

The delay in sending the account was because of the Pesach vacation, immediately at the end of which an account was sent to the customer.

3. No additional control is performed to check the correctness of the calculation of the amount of the charge that is sent to the customer by the reseller and, therefore, a probability exists for calculation errors, for example: Activity 1262 the

charge for which included, inter alia, payment for two nights for six adults in huts. The requested price should have been $40*6*2 = \text{NIS } 480$ as against the actual charge of only NIS 240.

4. The control carried out by the director of the collections department and the director of the marketing department for checking the integrity of the collection process is not comprehensive and sufficient inasmuch as the starting point of their control is the **ageing report** and they examine whether the charge which the collection department issued to the customer was indeed paid. This control, however, **does not check** whether an invoice was issued as required for every activity, i.e., there is no "closure" between the total of the activities carried out, the total charges issued and the total payment received.
 5. From the aforesaid, it follows that the control process which checks that an invoice was issued for every activity is performed only by the reseller without a further check, and this constitutes a significant weak point in the collection process.
 6. The reservations system cannot output concentrated information as to the total forecast income with respect to activities undertaken and the total actual collection with respect to charges issued.
- ◆ The Division has a problem with separation of functions, and the clerk who issues the invoice also collects the monies and then deposits them in the bank.
 - ◆ In the sample examination, the defects enumerated below were found:
 - Following are a number of activities carried out by the Southern District for which the Office of the Comptroller did not manage to trace the invoices issued. These activities are

"suspect" as activities for which no collection process was done at all or was done very late, namely:

1. The stay of a customer "Youth Club" from July 7 to July 22, 2010. The Office of the Comptroller found the amount of the advance payment which was received but not the invoice with respect to that activity and it is altogether unclear whether any return was received. In the framework of the response, we were given an account issued in the Word program rather than as a regular account from the financial system. Production of an account in such a form does not allow for a follow-up on the collection and it is unacceptable to work in parallel programs.
2. Haruzim program carried out on June 3, 2010, for a customer called The Agricultural Farm.
3. Maof Project done on January 16, 2011, for a customer called "Achvat Achim". In the framework of the response, we were told that the account had been issued in May, i.e., with a delay of some four months from the activity date.

It should be stated that the process of tracing the invoices was with the cooperation of the collection clerk who deals with the matter on an ongoing basis. The work of tracing the invoices is convoluted, slow and, as stated, we did not find some of them. The main reason for these problems is the fact that no numbering of the activity, as featured in the logistic system, is input on the invoice in the financial system. Furthermore, the collections clerk has no contact with the logistic system and, therefore, she has no possibility for seeing the particulars of the activity with respect to which she makes the collection, and this is improper.

- In the sample that was taken in the Central District, a number of activities were found that were carried out with charge and with respect to which there are no documents confirming that these activities are without charge, for example:

Activity 2218 – Begin Prize Keren Kayemeth LeIsrael Quiz – no charge was made.

Activity 1758 – activity on a volunteer basis for an institution for autistics – no charge was made.

- ◆ Receipts and invoices associated with the Southern District were filed without details or a note of the invoice numbers on the folders, which is something that made it difficult to trace issued invoices.
- ◆ The financial system and the reservations system are not connected and, for that reason, the collection department initiates the collection only after physical receipt of the report on the stay from the resellers or after receipt of an emailed report from the resellers with particulars of the activity. A manual report in such a system can result in errors in the collection, such as: charges not due to a customer, delays in the collection and lack of proper control.

Response of the Education Division

For the past five months, intensive work has been carried out by the Information Systems and Computers Division and the Education and Youth Division with all the relevant professional bodies in the two units in order to integrate between the two systems.

- ◆ The directive of the Division is that no further activity is to be carried out for a customer who owes money for a long time. This directive is unenforceable since the resellers do not, at any given moment, see the picture of the debt situation of customers and continue contracting with those debtor customers to market additional activities to them.

Response of the Education Division

It is an inalienable fact that we stop working with debtor schools and customers and even, where necessary, refer the handling of the debt collection to the Legal Department.

- ◆ Where the payment is remitted to the main office, there is no synchronization in the system between receipt of the money at the Keren Kayemeth LeIsrael Head Office and the Education Division. For example: the Beitar Movement sent a payment to the Keren Kayemeth LeIsrael Head Office with respect to an activity carried out by the Education Division but its account where the debt is was not credited in the system and the credit was made in a different, new, card. The customer thus features twice in the books of Keren Kayemeth LeIsrael, once with a credit balance and a second time with a debt balance.
- ◆ There is no clear policy in connection with the payment of advances for activities. For example: we saw instances where an advance was collected from a customer who is not considered problematic while from other customers, including some with debts, an advance was not always collected.
- ◆ Confirmation of the holding of an activity, including details of the participants, is made out in the presence of the person in charge of the trip on behalf of the customer, but he is not required to sign the confirmation.

In summary, there are substantive defects in the collection process which, on the one hand, does not allow it to be known whether each activity has been "closed" and payment made for it and deposited in the bank while, on the other hand, there is a problem of separation of functions, such that the body issuing the invoice is the same body which receives the money from the customer and deposits it in the bank. In our opinion, a combination of these defects results in a significant loophole in the process which could lead to embezzlement of funds.

The audit recommendations:

- ◆ It is recommended that orderly collection procedures be committed to writing and their distribution among all the relevant collection bodies be ensured. The procedures will deal with the collection process, such as: the form of the payment, the invoice production process, control over the dates of the payment as well as with work interfaces amongst the resellers, the sites at which the activity takes place and the work of the collection clerks.
- ◆ Insistence is recommended on a proper separation of functions in the collection process and that a distinction be made between the body authorized to enter transactions in the computerized system and the body which collects the monies and deposits them in the bank.
- ◆ It is recommended that controls be instituted as to the integrity of the invoices and receipt of the payments at a consistent monthly frequency in all the districts rather than at a varying frequency, as is the case currently in the Southern District. Expansion of the controls will mean that activities which have been held will not fall between the stools and the collection processes for them will continue on an orderly basis until payment of the debt, such that a situation will not be created where a long time elapses between the holding of the activity and collection of the payment.
- ◆ It is recommended that the collection clerk perform an additional control process to that of the reseller as to the correctness of the charge sent to the customer.
- ◆ It is recommended that the control of the directors of the collection and marketing divisions also contain control over the integrity of the invoice issue for all the activities held.
- ◆ It is recommended that a check be carried out with respect to those activities for which the Office of the Comptroller did not find invoices to ascertain whether a start has been made on the

collection process and invoices have been issued to the customers.

- ◆ It is recommended that the authorization not to charge the customer for a particular activity be in writing and be filed accordingly.
- ◆ It is recommended that the currently produced invoices also record the activity number originating in the logistics system, with this addition enabling a faster ascription of an activity to the invoice issued with respect thereto.
- ◆ It is recommended that the range of invoices in a file be noted on the folder spine.
- ◆ It is recommended that different possibilities of reporting between the resellers and the collection clerks be looked into, apart from the current unnumbered email notifications over which there is no control.
- ◆ It is recommended that once a week a debt statement for all the customers be produced and conveyed to the resellers. This should be done until implementation of interfaces between the logistics system and the financial system – see below.
- ◆ It is recommended that a clarification be made with the Education Division for every payment reaching the Head Office directly and that the appropriate account be credited in the books.
- ◆ It is recommended that a policy be laid down in writing that will deal with the subject of collection of advances from customers in accordance with parameters of the type of activity and the nature of the customer.
- ◆ It is recommended that the trip director on behalf of the customer sign in his own hand on an activity summary form, this being to

ensure that the particulars stated on the form are confirmed and agreed by both parties.

Response of the Director-General of Keren Kayemeth LeIsrael – Budget Management and Collection

1. In the coming period, the reservations software will be synchronized with the financial system.
2. Regarding separation of functions in the collection system – a professional team has been appointed to formulate a solution to the problem.
3. The recommendations of the Comptroller are accepted and a solution for some of them will be found as part of the synchronization of the systems, as stated above.

7. Information Systems

The financial system

The Education Division at Keren Kayemeth LeIsrael makes extensive use of the financial system, including for management of customer cards, recording income and charging expenditure.

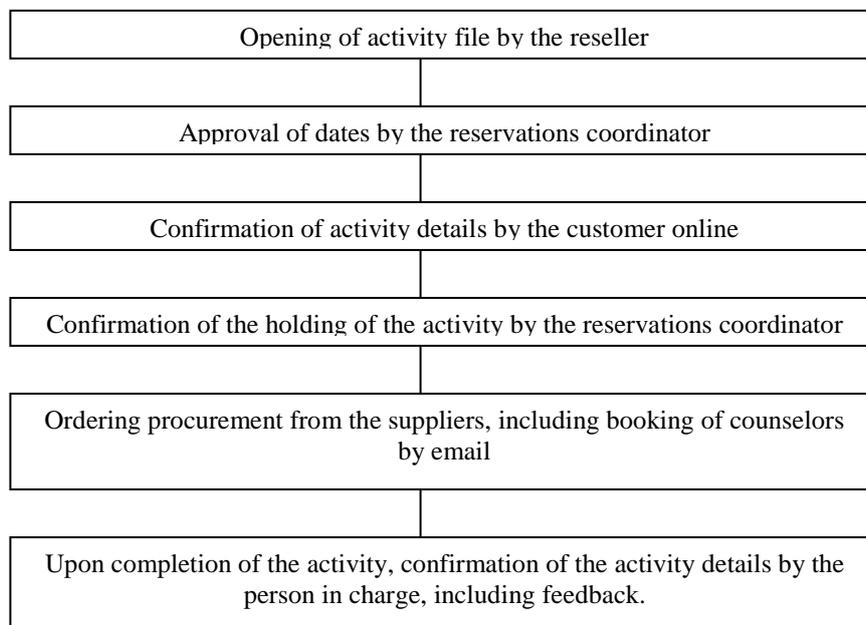
The logistic system

In the past year, the Education Division has upgraded the information systems it uses in its current work. As part of the systems upgrade, a computerized system was built – the reservations system – for handling the subjects enumerated below:

1. Management of the reservation of the service by the customer.
2. Construction of the requested activity through coordination of available dates with the field centers, suppliers and counselors.

3. Sending of reservations for a planned activity to the customer, containing: dates of the activity, proposed price and confirmation of the customer for the above by return mail.
4. Management of an updated list of counselors, divided in accordance with approved areas of counseling.
5. Feedback from customers following the activity which was held.

Stages of an activity in the reservations system:



The audit findings:

- ◆ There is no interface between the financial system and the reservations system, which makes current work harder and causes, inter alia, a disconnect between the logistic activity and the financial activity and mainly the issue of invoices and collection of the payment, the lack of synchronization between the system results in

loopholes and risks in the process, as specified at length in the previous chapter.

- ◆ The reservations system does not permit production of management reports, for example: a report on the number of overnights in different cross-sections, including one field center or all of them jointly.
- ◆ The reservations system does not permit the export of data and reports to the Excel program, which makes it difficult to undertake analyses and data control.
- ◆ The reservations system does not permit production of reports on exceptions, detailing, for example, those counselors for whom payment has been postponed to the ensuing month.

The audit recommendations:

- ◆ It is recommended that an interface be established between the financial system and the logistics system such that there will be a link between the activities recorded in the logistics system and the invoice production and payment collection with respect to them through the financial system.
- ◆ It is recommended that the categories of management reports in various cross-sections be expanded in the reservations system, with characterization of the reports required for holding an activity and current control.
- ◆ It is recommended that an adjustment be made in the system so as to permit the export of data and reports to the Excel program.
- ◆ It is recommended that a collection of exceptional reports be defined in the system, among them: a report regarding the list of counselors for whom payment has been postponed to the next month.

Response of the Director-General of Keren Kayemeth LeIsrael – Information Systems

At the present time (March 2012), an interface is being implemented for the reservations system with the financial software in many cross-sections, including occupancy percentages at the field centers.

8. Keren Kayemeth LeIsrael Museum

The Keren Kayemeth LeIsrael Educational Center and Museum was established in 1988 and it displays the story of the redemption of the land in the Land of Israel by Keren Kayemeth LeIsrael. The Museum has study rooms, a library and convention hall where audio-visual presentations on the subject of the history of the redemption of the land by Keren Kayemeth LeIsrael are screened.

Since its establishment, some 300,000 people have visited the Museum, 9,000 of them in the last year.

The main target populations of the Museum are groups of school children soldiers and retirees.

A visit to the Keren Kayemeth LeIsrael Museum entails a symbolic payment, varying from NIS 15 per visit, including audio-visual presentations, to NIS 20 per visit, with activations.

The Museum is located in the heart of Tel Aviv, in Zvi Hermann Schapira Street, and the building in which it is housed also contains other offices of the Education Division and of other divisions of Keren Kayemeth LeIsrael.

The payment process at the Museum:

- The director of the Museum reports on the number of visitors.
- The payment received is deposited at the bank.

- The director of the Museum reports to the collection department for identification of the payment so that the latter will issue an invoice and make the appropriate bookkeeping entries.

The audit findings:

- ◆ The Museum is operated by the director of the Museum alone; he does the marketing, maintenance, guiding and collects the payment for visits. Operation of the Museum by one person does not enable maximum potential visits to the Museum because of the limited time of the director of the Museum, particularly when relating to the multiplicity of his functions.

As a consequence of this, if the director of the Museum is absent for whatever reason (vacation, sickness), the Museum remains closed and, taking a long-term view, when he leaves his position, there will be no-one to operate the Museum and it will in effect be closed.

- ◆ From a visit we made there, it follows that the Museum is "resting on its laurels" and, apart from actions to maintain what there is, no significant renovation programs are being undertaken there. The exterior of the Museum does not broadcast that the reference is to a museum containing exhibits that can inculcate knowledge and heritage to visitors and hence the flow of visitors is apparently thinner. Further to what is stated above, it follows that the small budget of the Museum (NIS 10,000 a year) barely enables the modest task of preserving what there is.
- ◆ The Office of the Comptroller did not find that any control process is undertaken by the Education Division in relation to the Museum and which looks at: marketing of the Museum, activity programs, utilization of the budget and collection of income. In effect, the Museum appears to be a sort of "alien entity" in the Education Division in particular and in Keren Kayemeth LeIsrael in general. For example: a collection department of the Education Division of

Keren Kayemeth LeIsrael is situated on the floor above the Museum but it does not deal with the collection for the Museum.

- ◆ From the data given to the Office of the Comptroller, it follows that the annual income of the Museum is only a few hundred Sheqels, despite the fact that the number of visitors to the Keren Kayemeth LeIsrael Museum last year was some 9,000. In other words, there is no correlation between the number of visitors and the income from the Museum. In practice, most of the visitors are granted an exemption from payment of the entry charge, without any control or supervision.
- ◆ There is no fitting separation of functions as regards collection of the income at the Museum since all the activity is carried out by one person.

The audit recommendations:

- ◆ For optimal operation of the Keren Kayemeth LeIsrael Museum, it is recommended that a number of actions be taken, as follows:
 1. The Education Division redefine in an orderly way what the purpose of the Museum is and how it is integrating the Museum within the other activities of the Division.
 2. In light of the renewed goals of the Keren Kayemeth LeIsrael Museum, the Education Division formulate work programs to handle the promotion and development of the Keren Kayemeth LeIsrael Museum in the light of the defined goals.
 3. It is recommended that the work program be supported by a designated development budget.
 4. It is recommended that written procedures be drafted and deal with:

- ◆ In the current operation of the Museum – visiting hours, maintenance, personnel standards and so on.
 - ◆ The process of collecting income, separation of functions, means of payment, exemption from entry charges and so on.
5. It is recommended that the marketing department of the Central District, which, as noted, is situated one floor above the Museum, should also engage in marketing of the Museum and it is recommended that the collection department of the Central District be the one to deal with collection of the monies with respect to the visit to the Museum.

Response of the Director-General of Keren Kayemeth LeIsrael – Information Systems

The Office of the Comptroller accurately depicts what is happening at the Museum. The management has halted all development pending preparation of a master plan.

There is total agreement with the audit recommendations.

March 2012

Keren Hayesod
Procurements and Contracts

Response of the Chairman of the Executive

Keren Hayesod

Procurements and Contracts

1. Introduction

1.1 In accordance with the work program of the Office of the Comptroller of the World Zionist Organization, we examined the subject of procurements and contracts at Keren Hayesod – the United Israel Appeal (hereinafter: Keren Hayesod).

1.2 Our audit included examination of the work processes in the following areas:

- Procurements and contracts with suppliers and service providers.
- Implementation of payments.
- Management of the procurement budget.

1.3 The audit was conducted from March 2010 to June 2010, inclusively, at the Keren Hayesod offices in Jerusalem.

During the audit, meetings were held with the Deputy Director-General for Finance, his deputy, the director of procurements, bookkeepers, buyers and with other staff members as we saw fit.

1.4 The audit goals were:

- a. Review of the processes and existing controls in the matter of procurements and contractual arrangements, payments and management of the budget, including the aspect of the records in the bookkeeping system.

- b. Checking the existence of proper internal audit procedures and looking at the degree of efficiency of the existing procedures and processes.
- c. Location of weak points in the processes and control and providing recommendations for improvements.

1.5 The main documents used for the audit were:

- ◆ The procurement procedures.
- ◆ Reports of budget versus actual expenditure.
- ◆ Bookkeeping reports and cards in various cross-sections.
- ◆ Minutes of meetings of administrative committees on procurement matters.
- ◆ Agreements with suppliers.
- ◆ Price estimates and correspondence.
- ◆ Suppliers' invoices, including documentation about charges.
- ◆ Reports on debt aging for suppliers.
- ◆ Reports of deviations.
- ◆ Specific documents which were received on request.

1.6 The audit methodology:

- ◆ Reading of the existing procedures and checking them against actual conduct.

- ◆ Holding of meetings and conversations with office-holders responsible for activities on the matters examined and with other staff members as we saw fit.
- ◆ Review of the organizational structure at Keren Hayesod, including spheres of responsibility in the work processes.
- ◆ Review of the information system at Keren Hayesod and examination of the extent of its suitability to the nature of the procurement activity.
- ◆ Receipt of reports and figures from the computerized system and their analysis, including reports of debt aging to suppliers, budget as against actual expenditure reports, trial balances and relevant bookkeeping cards.
- ◆ Examination of documentary support and contracts.
- ◆ Examination of a sample of contractual arrangements for 2009 – 2010 and checking the existence of all the documents presented during the contract approval process.
- ◆ Examination of price estimates and reading of minutes of administrative committees on the subject of procurements.
- ◆ Analysis of the procurement budget in comparison with the actual implementation.
- ◆ Examination of the topic of the payments, including the form of the payment, the authorized signatories and a proper separation of roles.
- ◆ Summary of the findings.
- ◆ Preparation of the audit report, including the drawing of conclusions and the making of recommendations.

2. Keren Hayesod – General Background

Keren Hayesod – the United Israel Appeal is one of four National Institutions (the World Zionist Organization, the Jewish Agency, Keren Kayemeth LeIsrael and Keren Hayesod) and its offices are situated in the building of the National Institutions in Jerusalem.

Keren Hayesod was established in 1920 as a company whose main purposes are to act for realization of the idea of establishing a Jewish national home in the Land of Israel, as formulated in the Balfour Declaration, inter alia, through obtaining donations, loans, gifts, legacies and investing the money so that it can be used for establishment of the Jewish community in the Land of Israel.

Keren Hayesod operates in forty-five countries, through fifty-seven offices divided into four regions: Europe, Eastern Europe, Latin America, English-speaking countries. Some of the most prominent offices are: UIA - United Israel Appeal, CJA – Canadian Jewish Appeal, AUJF - Appel Unifié Juif de France (United Jewish Appeal of France).

Keren Hayesod is held in equal shares by the World Zionist Organization (50 percent) and by the overseas campaigns (50 percent). The main revenues of Keren Hayesod are remitted to the Jewish Agency and between a half and a third are used for current activity while the rest are earmarked contributions.

The Jerusalem office of Keren Hayesod employs a staff of 77.

Thousands of activists, most of them volunteers, are involved in Keren Hayesod work throughout the world. Keren Hayesod has some 30 *shlichim* overseas who run the large offices.

Finance and Logistics

In accordance with the organizational structure, the Chief Financial Officer (CFO) is responsible for the Finance Division that includes the following units:

- The Finance Unit: including accounts, bookkeeping, income management, handling payments and budget management.
- The Logistic Unit: handles the subject of procurements and contractual arrangements, maintenance, current operations, equipment and stores.
- The Computer Unit – deals with the applications, hardware and communications.

The Procurements and Logistic Unit

The Unit handles procurements and maintenance for the Head Office of Keren Hayesod in Jerusalem. The unit has a director of procurement who brings together the procurement activity and works with a number of buyers, with one belonging to the Logistic Unit and the others being subordinate to other units at Keren Hayesod. The buyers are responsible for obtaining price estimates, placing orders, obtaining confirmation that the product or service was received and the invoice input in the books.

The director of procurements is responsible for contractual arrangements with suppliers, conducting negotiations, preparation of specifications for price estimate requests, approval of orders and supervision over implementation of the procurement procedure.

Keren Hayesod makes all the purchases for its missions throughout the world but these purchases are not from the procurement budget.

The Computer System

Keren Hayesod has an ERP system of the Priority Company which has a logistic module and a financial module, with the combination of a number of interfaces between them. The system supports the procurement process from start to finish, including:

- Procurement orders: are issued by the system and exist in it.
- Agreements with suppliers: the price-list is typed into the system and the agreement is scanned and filed.
- Handling of the procurement budget, including setting aside a budget and following up on actual expenditure.
- Electronic signatures.
- Input of invoices.
- Filing of minutes of administrative committees.
- Making of payments.

The audit findings:

- ◆ The computerized system does not have specific licenses for those permitted to issue a procurement order. According to the procedure, there is a limited number of employees who can issue procurement orders but, in practice, this option is open to all the employees who are not licensed for it, at draft level, including the staff of the Finance Division. Thus, the follow-up on performance of the orders is problematic.
- ◆ The procedure determines that there must be an order for every expenditure. During our audit, we found that the system does not warn when an invoice is input without an order having been

previously drawn up. This was corrected in the course of the audit and nowadays only the chief bookkeeper may approve the inputting of an invoice without an order. At the same time, the follow-up on invoices paid without an order is problematic as a structured report cannot be produced from the system with respect to invoices paid without orders. Rather, raw data which the system produces have to be processed in order to know what the picture is. This reality makes the follow-up and handling of deviatory cases difficult.

- ◆ According to the procurement procedure, purchases can be made up to NIS 2,500 without the prior control of the Logistic Unit. A review of suppliers' cards for 2009 found a number of suppliers with whom a number of consecutive contractual arrangements were made of smaller amounts and, in addition, two cases were found where an **obvious split** (see below) was made. A risk can be seen of splitting up invoices / purchases but the computerized system does not support control of this sort, does not warn of cases where a number of consecutive purchases were made from one supplier of low amounts and reports cannot be produced from it through which control of this sort could be undertaken.

Control Recommendations:

- ◆ It is recommended that the possibility for inputting procurement orders in the computerized system be restricted to licensed employees and that this option be blocked for the staff of the bookkeeping department.

Keren Hayesod's Response:

The recommendation is partially accepted. Orders are approved only by authorized employees and the draft order is presently used in place of a purchase request, for those not authorized to input orders.

- ◆ It is recommended that warnings be defined in the computerized system for when an invoice is input without an order and of certain amounts necessitating approval (electronic signature) by a more senior office-holder. It is recommended that a designated report be defined of invoices input without an order, thus enabling a current and more convenient follow-up on these cases.

- ◆ It is recommended that warnings be defined in the system for cases of consecutive orders being placed or invoices input of amounts lower than NIS 2,500 and that it be possible to produce follow-up reports in this matter, such that where there is a suspicion of splitting, the system will automatically raise the approval echelon to the next level (above NIS 2,500 to NIS 10,000) and even to one higher.

Keren Hayesod's Response:

The recommendation is accepted. The possibility of developing a warning in the system for such cases will be looked into.

3. Procedures

Until 2009, the procurement subject was divided into four spheres and, accordingly, there were four procedures:

- A procedure for production of video films

- A procedure for production of written publicity material.

- A procedure dealing with tributes, presents and gifts.

- A procedure for the purchase of goods and services.

At the beginning of 2007, it was decided at Keren Hayesod to draw up a new and uniform procedure for all the spheres and, accordingly, after a number of versions and updates, a new procurement procedure was approved on March 12, 2009.

The new procedure gives expression to a change of perception in the matter of procurements as a whole, arranges the matter of procurements in a clear and detailed fashion and enables more orderly and “smoother” work.

The procedure was formulated by the CFO and the director of procurements (a new function which had not existed previously), together with the directors of the other units, was approved by the Executive and distributed to the staff.

The procedure specifies the process of contractual arrangements for the procurement of goods and services, from the stage of procurement requirement to that of receipt of the goods / services from the supplier. The procedure deals, inter alia, with the following topics:

- a. The mode of referral to suppliers for receipt of procurement offers.
- b. Framework agreements with suppliers and the maximum period for contractual arrangements with them.
- c. Powers and financial spheres of activity in the absence of framework agreements.
- d. Function and spheres of responsibility of: a unit buyer, a regular administrative committee and a supreme administrative committee.
- e. The mode for conducting negotiations and pricing with the suppliers.
- f. The process of placing a procurement order.

- g. Control over the processes and stages in the procurement order, including the budgetary aspect and reporting on deviations.

The procedure also specifies the number of price estimates that are to be obtained before making a procurement and determines the licenses hierarchy in the process, as specified below:

Expenditure (NIS before VAT)	Number of price estimates for comparison	Body approving the contractual arrangement with the supplier	Body competent to place a procurement order with an approved supplier
To 2,500	At least two	Unit buyer and unit director	Unit buyer and unit director
2,501-10,000	At least three	Unit buyer and unit director or a deputy director-general	Unit buyer and procurement director
10,001 – 40,000	At least three	Small administrative committee	Procurement director and authorized signatory B
40,001 or more	At least three	Supreme administrative committee	Procurement director and authorized signatory A

The Office of the Comptroller reviewed the provisions of the procedure, looked at the mode of its adoption in the units and whether there were other topics connected to the sphere of procurement which are not covered in the written procedure.

The audit findings:

- ◆ The procedure determines that the head bookkeeper, the CFO and his deputy shall be members of the procedure committees. In practice, the CFO and the director of budget and contracts are authorized signatories A, and the chief bookkeeper is signatory B. Therefore they are licensed to deal with other stages of the process, which is problematic from the point of view of a proper separation of functions, for example:

- a. The director of budget and contracts is qualified to cancel a block on a budgetary line that is overspent, thus making it possible to place an order that goes over the budget. The director sits on the procurement committee, after which he is able to approve the order and, at the stage of inputting the invoice, he is authorized to approve the input and, subsequently, he will sign off on the payment as an authorized signatory A (which is what happens in most cases).
 - b. The chief bookkeeper sits on the small procurement committee (up to NIS 40,000) and subsequently approves the order, will approve the inputting of the invoice and will sign off on the payment as an authorized signatory B (as happens in most cases).
- ◆ There is no procedure on the subject of the approval and implementation of payments, including the mode of invoice checking and approval, bodies which are competent to approve invoices, handling of an improper invoice, mode of making the payment, method of payment, date of payment and so on.
 - ◆ There is no procedure on the subject of budget management in general and reference to elements of procurement in particular, for example: management of and follow-up on the procurement budget, allocation of a budget, approval of deviations, licensing hierarchy.
 - ◆ According to the procedure, purchases up to NIS 2,500 can be made without involving the Logistic Unit and the Finance Division (to the stage of making the actual payment). In our opinion, this figure is too high and constitutes an opening for splitting orders and invoices, as has actually happened.
 - ◆ The procedure was introduced at the various units of Keren Hayesod slowly and from an examination of documents of 2009 purchases it can be discerned that it was not properly applied in the Communications and Marketing Unit (one with heavy expenditures),

in the line of gifts and tributes and for the purchase of consulting services. At the same time, it may be noted that there has been an improvement in the matter in 2010.

- ◆ Section 11 of the procedure determines that, during the negotiations and pricing with the suppliers, all the bidders should be given an equal opportunity to update their price estimate. In practice, there is no control and supervision mechanism over application of this clause and it would seem, from a number of cases we examined, that the request to update a price estimate is made only to the supplier with whom they want to work (when his first proposal was not the cheapest).

Audit recommendations:

- ◆ The division of powers between the various office-holders in the procurement process should be re-examined and a proper separation of functions created, for example the authority to approve a deviation from the budget or to release a block should not be in the hands of the person who signs off on the payment.

Keren Hayesod's Response:

There are only four employees in the expenditures unit. Two of them are not authorized signatories and therefore the recommendation, although understood, is inapplicable. In addition, the fact that each order is signed by at least two office holders significantly reduces the exposure stated.

- ◆ A procedure should be written on the subject of making payments, with reference to all the elements associated with this, among them: signing authorizations, approval of invoices, terms of payment, form of payment, handling of exceptions and the like.

Keren Hayesod's Response:

The recommendation is accepted.

- ◆ A procedure should be written on the subject of preparing a budget, including a budget approval process, follow-up on budget performance at the level of the unit and at the level of the whole organization, and there should also be reference to the subject of procurement in general and to work with the various units in particular. It is also recommended that the procedure contain specific licenses regarding change of a budgetary line and the opening of blocks in the computerized system.

Keren Hayesod's Response:

The recommendation is accepted.

- ◆ It is recommended that consideration be given to reducing the minimum amount at which procurements may be made without the involvement of the Logistic Unit.

Keren Hayesod's Response:

Implementing the recommendation requires increase in personnel in the procurement unit and will burden the flow of processes in the various units. The recommendation will be looked into in a year, after the efficiency of the unit buyers is reviewed and possible failures detected.

- ◆ Introduction of the procedure so far in the different units should be checked and the full application of the instructions of the procedure should be assured at places where this has not yet been done.

Keren Hayesod's Response:

The recommendation is accepted and has been implemented in the course of the audit process.

- ◆ When negotiating after receipt of the initial proposals, repeat requests should be addressed to all the suppliers who are taking part in the procurement process, the requests should be documented and there should be insistence in the Logistic Unit on full documentation of the repeat requests when examining the proposals.

Keren Hayesod's Response:

The recommendation is accepted.

4. Contractual arrangements with suppliers

A buyer is defined for each unit at Keren Hayesod and is directly subordinate to the director of the unit or to a larger unit and the contractual arrangement takes place through requests of the buyers to suppliers, in accordance with the requirements of the units or through a request of the Logistic Unit through a tender-like process.

The initial contact with a new supplier is created, as a rule, by the buyer who serves as the first (and probably main) block against the entry of the supplier to the system.

In the process of choosing suppliers, primarily the following two parameters are checked:

- a. The quality of the product or the service – the supplier brings samples, recommendations and statutory documents.
- b. The price – a number of price estimates are examined in parallel, in accordance with the procedure and subject to exceptional cases.

Some of the arrangements with suppliers are made through framework agreements. The procurement director handles these cases.

Contractual arrangement with a supplier without a framework agreement

The buyers of the various units coordinate the requirements and request price estimates while insisting that the specification with respect to them is uniform for all the suppliers and they summarize the proposal figures received in a procurement minute. Approval of the procurement minute is according to the amounts featuring in the procedure.

Approval for adding the supplier to the system is given by the Finance Division.

Contractual arrangement through a tender-like process

With complex projects or long-term contractual arrangements, a tender-like process is held at Keren Hayesod. This is expressed with an initiated request of suppliers through an “Order form” which details the threshold terms for participation in the tender. The bidder is required to sign this order form and the contract which is attached to it.

In addition, the order form has two appendixes:

- a. A uniform specification for a price estimate.
- b. A detailed description of the level of service or product required.
- c. A contract to be signed by the bidding supplier.

The director of the procurement unit summarizes the proposal figures and sends them to the supreme or regular administrative committee, in accordance with the amount of the expected procurement over the year. The committee has the authority to select the appropriate bidder, in accordance with the criteria of price and quality.

After a contract is signed with the supplier, it is scanned into the computerized system and a copy of it is retained in the Keren Hayesod Legal Department and in the procurement system. Data about the prices and validity of the agreement are typed into the system, enabling orders to the supplier to be produced according to the input prices, to the end of the agreement period. It may be noted that the contract does not bind Keren Hayesod to make all its purchases from the same supplier in the relevant sphere and, for purchases of substantial amounts, additional price estimates are sought.

The framework agreement is signed as a rule for a period of one year and is extendable for a cumulative period of up to five years. Keren Hayesod prefers to work with suppliers through framework agreements, this being from cost / benefit considerations.

The procurement director is responsible for reviewing the items which are not purchased through framework agreements, comparing the current framework agreements with other framework agreements (the Accountant-General at the Ministry of Finance, the Jewish Agency and other bodies) and recommending to the supreme administrative committee if contracting through any framework agreement is to be preferred.

The Office of the Comptroller looked at the process of choosing suppliers and contracting with them, including receipt of price estimates, the mode of supplier choice, proper documentation of the process, the existence of contracts and the support of the computerized system.

The audit findings:

- ◆ Procurements are carried out at Keren Hayesod through 15 buyers empowered for the purpose. One buyer, who also coordinates the subject, is an employee of the Logistic Unit and handles procurements at 11 units / offices. Four other buyers deal with procurements for the missions and 10 buyers handle procurements at the other units, as a secondary occupation. It is totally unreasonable that, in an organization employing a staff of 77 and whose procurement budget is some USD 6 million a year, there should be 15 buyers (some 20% of the employee total). It follows that too many employees have the authority to place orders and even make procurements of small amounts without the control of the Finance Division.
- ◆ The procurement process that takes place at Keren Hayesod is not documented in orderly fashion. In a considerable portion of the

cases, the referrals to the suppliers and receipt of the price estimates is done by email, the price estimates are not always printed up and filed. Where a sole supplier is chosen or a supplier whose estimate was not the lowest, there is not always documentation as to the circumstances.

- ◆ There are a number of procurement spheres in which, in general terms, the suppliers are chosen without receipt of price estimates. The reference is mainly to: consulting services, gifts and tributes and graphics, as follows:
 - a. Consulting services – there would seem to be no insistence of receipt of price estimates in this sphere, for example: when purchasing graphic consulting services (see below), strategic consulting services, legal consulting services and the like. It may be noted that, in 2009, the budget in the organizational consultancy line was overspent at the rate of some 100 percent.
 - b. Gifts and tributes to donors – the total expenditure in this line in 2009 came to NIS 260,000. A number of cases were found where the purchases were made without receipt of price estimates, procurement minutes and committee decisions – see Section 5.4 of the Report for particulars.
- ◆ When the administrative committee convenes, the particulars of the price estimates for the requested purchase are put before it in writing, but the figures of the budgetary line, including expenditures to date and the amount set aside, are not always shown to it. We were told that the matter had been checked and approved before the material was sent to the committee and the existence of a budgetary source for the purchase actually constitutes a threshold condition, but the check is not itself properly documented.
- ◆ As for the overseas travel line, the bookkeeper is involved in the process in a way that is contrary to a proper separation of functions. This is expressed in that she inputs the order (technically, she can

also set it up), receives the invoice for payment (the invoice is approved by an authorized signatory A from the Finance Division) and makes the payment.

The audit recommendations:

- ◆ It is recommended that the number of buyers be reduced to the essential minimum, with a reasonable match between the number of buyers and the number of employees at Keren Hayesod. It is also recommended that the buyers be subordinate to the Logistic Unit rather than to directors of other units.

Keren Hayesod's Response:

The recommendation is accepted, not including the subordination of the buyers to the Logistics Unit, since all the buyers are involved in procurement activities in addition to other tasks. The issue will also be looked at from the point of view of Human Resources and the Organizational Structure.

- ◆ It is recommended that the material detailing the process and the circumstances with respect to each arrangement with a supplier be documented in writing and in orderly fashion, including cases of a sole supplier or of one whose bid was not the lowest.

Keren Hayesod's Response:

The recommendation is accepted.

- ◆ Care should be taken to work only according to the procedure with regard to consulting services, gifts and tributes and graphic consulting services and obtain price estimates as required. It is recommended that problematic units or procurement lines be handled on an individual basis.
- ◆ It is recommended that a mandatory field be added to the forms for discussions in the administrative committee, with the balance of the budget of the line through which the committee is being asked to

approve the purchase, including any budgetary allocations that have not yet been paid out.

Response of the Keren Hayesod's CFO:

The recommendation is accepted.

- ◆ It is recommended that the division of labor be replanned as regards booking overseas travel so that there will be a clear separation between the party placing the order and the party which pays.

Keren Hayesod's Response:

The recommendation is accepted.

5. The process of placing procurement orders

A purchase can be initiated by any employee at Keren Hayesod. The initiator is usually the one who obtains the price estimates and transfers the material to the relevant buyer.

The buyer completes the procurement forms and sends the material for approval according to the following hierarchy:

- Up to NIS 2,500 – approval of the Logistic Unit / Finance Division for the order is not required.
- NIS 2,500 – NIS 10,000 – approval by the procurement director.
- NIS 10,001 – NIS 40,000 – approval of the regular administrative committee.
- Over NIS 40,001 – approval of the supreme administrative committee.

The approvals are made electronically in the computerized system, such that each office-holder sees in the system the orders or other actions awaiting his approval.

After obtaining the approval, a computerized request to the supplier is produced by the system. It may be noted, in this matter, that in the past year as the new procedure came into effect, all the suppliers received a notification that no payment will be made for a product or service supplied without a computerized order. This notification, together with other improvements in the process, has resulted in a considerable rise in the number of procurement orders and, on the other hand, a reduction in the number of purchases made without an order.

As the order is put into the system, the buyer selects the budgetary line in which the expenditure will be entered. The budgetary line is divided into a number of sub-lines to which the ascription is made at the ordering stage.

Should there be no budget in the line or if the budgetary balance is insufficient, the system will not permit the order to be produced. In such a situation, the buyer turns to the CFO who is licensed to allow or not allow the deviation and to determine where the funding is to come from.

The Office of the Comptroller examined a sample of 80 invoices from 2009 and 2010 from all expenditure lines.

Following are details of a number of significant lines:

5.1 Printing and graphics services

Orders in this line are for graphics work, including consultancy and accompaniment as well as printing services. The reference is often to special high-cost projects. The buyer receives the request from the party in the relevant unit, sees about obtaining price estimates,

the request is then discussed in an administrative committee (subject to the amount) and the order is issued for the supplier chosen.

The audit findings:

- ◆ The procurement is supposed to take place only through the buyer of the unit. Cases were found during the audit of employees contacting the supplier after the order was placed asking to increase the quantity ordered without written approval, this being something which obviates implementation of the procurement process in a number of aspects:
 - Increasing the quantity can push the order amount to a higher threshold, without appropriate approval.
 - A loop-hole exists enabling Keren Hayesod to be charged with expenditures, without orderly approval.
- ◆ Keren Hayesod contracted on two different occasions with an arts curator, that also specializes in the sphere of graphics, in a way that substantially deviated from the provisions of the procedure, as follows:
 - a. In a contractual arrangement, according to an agreement of January 2009, to the tune of NIS 210,000 for production of a volume of posters, a pro forma invoice was submitted on July 1, 2009, in an amount of NIS 100,000 with respect to “completion of account”; it was approved with the signature of the Deputy Director-General and payment was made in August 2009. This was contrary to the agreement with the supplier and despite the fact that the work was not actually completed until the beginning of 2010. Perusal of additional documents indicates that this contractual arrangement was not carried out according to the procedures, from its inception (price estimates were not requested, budgetary approval was not obtained, the Logistic Unit was not involved and the

contract was signed in long delay). It should also be noted that according to the contract, the last payment should have been made only following completion of the work.

b. A proposal was raised at the January 2010 administrative committee to contract with the curator again in connection with the design of foreign languages for a book of posters. Its initial price estimate was three times that of the lowest estimate, received from another recommended graphic artist but, after negotiations were conducted with the curator (and apparently only with him), he agreed to reduce his estimate by some 35 percent, such that it was still double that of the lowest estimate. During the discussion at the administrative committee, failures during the previous arrangement with him, that had been not according to the procedures, were raised, and it was decided to accept the lowest estimate. After application of pressure, a further meeting of the administrative committee was convened at which the decision was not changed and, subsequently, the Keren Hayesod Director-General approved the contractual arrangement with the curator in the amount of NIS 70,000, without any logical grounds, while the estimate that had been approved at the January 2010 administrative committee was NIS 44,000. In our opinion, conduct of this sort is unreasonable and could make the procedure meaningless.

Despite the aforesaid, another contractual arrangement was made with the same supplier in April 2010 to the tune of NIS 60,000 for an exhibition of posters at Ben Gurion Airport. Its proposal was, again, the only one but, in this case, it was explicitly recorded in the minutes that the committee approves an exemption from obtaining additional price estimates since the supplier was himself the curator of the exhibition.

- ◆ Upon examining five further cases in the printing and graphics line, three were found where the payments to suppliers were

made without an order having been made out as required. In purchasing services of this sort, where the quantity is spread out over some time, great importance is to be attributed to making out an order so that there can be some control over the aggregate quantities ordered, including halting further orders when the order quota has been filled.

The audit recommendations:

- ◆ Care must be exercised to ensure that increases to an order be made only according to the procedure, including an increase necessitating a new round of approvals.

Keren Hayesod's Response:

The recommendation is accepted.

- ◆ The course of events in the above three contractual arrangements with the curator should be studied and lessons learned for the future and, if necessary, the procedure should be updated. It may be emphasized that whenever a contractual arrangement is made in deviation from the provisions of the procedure, the circumstances that led to that must be documented in detail.

Keren Hayesod's Response:

The recommendation is accepted.

- ◆ Orders should be placed with all the print and graphics suppliers and the progress in utilization of the quantities should be watched.

Keren Hayesod's Response:

The recommendation is accepted.

5.2 Writing and translation services

Keren Hayesod orders writing and translation services from a number of suppliers (translators), but it does not work with the large translation companies. The prices for the translations are determined according to a general price-list of the Israel Translators Association.

The services are provided at Keren Hayesod on a current basis through price-lists. An order of this sort is usually issued when the type of service is current and where the frequency of use and the quantities are not known in advance. A framework order is issued periodically with a fixed price and a “basket” of quantities that can be used throughout the period. Whenever an invoice is submitted, the balance of the order is updated accordingly. There are also special projects for which the service is given separately.

The audit findings:

- ◆ The services received for special projects are normally done without an order. In a sampling of nine invoices for writing and translation of 2009 and 2010, three cases were found of an invoice having been paid without an order and outside the order framework, namely:
 - Two invoices for writing services dated July 2009 and October 2010 in the amounts of NIS 5,613 and NIS 3,834, respectively of one supplier.
 - An invoice for a translation into German of January 2009 in the amount of NIS 16,619.

The audit recommendation:

- ◆ A specific order should be made out for any special service given beyond the framework order, and the order should be increased as required.

Keren Hayesod's Response:

The recommendation is accepted.

5.3 Gifts and tributes

This is a line in which most of the purchases are for small amounts from a large variety of suppliers. The gifts and tributes are bought for donors and various bodies in Israel and overseas to an aggregate amount, in recent years, of some NIS 250,000 a year.

The initiative for incurring expenditures from this line can come from five different units at Keren Hayesod.

The audit findings:

- ◆ Examination of the purchases made from this line showed that, as a rule, there is no insistence on the provisions of the procedure, as follows:
 - Cases where found of purchases being made without an order.
 - One case was found of a purchase being approved post factum.
 - One case was found where the invoice amount did not match the order.

- ◆ This is a line where most of the purchases are, as a rule, of small amounts which makes it difficult to exercise control over split orders. There are suppliers for whom a single purchase amount was around NIS 500 on average but the annual expenditure was over NIS 10,000 which, according to the procedure, requires approval of the administrative committee. In these cases, no framework order was made with these suppliers and it appears that no price estimates were obtained and we saw no procurement minutes. This happens because most of the expenditures from this line do not pass through additional control since most of the invoices are for amounts of less than NIS 2,500.
- ◆ The audit found cases where an order placed with a certain supplier was sub-divided after the demand was not approved in the administrative committee. The reference is to six invoices dated May 30, 2008. The invoice numbers are consecutive and all were issued for bookmarks, for between NIS 1,000 and NIS 2,500 per invoice.

Recommendations and conclusions:

- ◆ It is recommended that a meeting be held of all the employees who make purchases from this line and that provisions of the procedure be explained to them and they be instructed to observe them carefully. The meeting should be documented in writing.

Keren Hayesod's Response:

The recommendation is accepted.

- ◆ A framework order should be prepared for all the suppliers with whom orders are placed on a regular basis over the years and the purchase should be approved at the administrative committee.

Keren Hayesod's Response:

The recommendation is accepted and is in the process of implementation.

- ◆ It is recommended that control be exercised with respect to invoices with a consecutive serial number and which are close from the point of view of the date and such payments should not be approved prior to a comprehensive clarification as to the circumstances.

Keren Hayesod's Response:

The recommendation is accepted although it is difficult to detect this kind of deviation from the procedure.

5.4 Current consulting

Keren Hayesod contracts with a variety of consultants in various spheres, amongst them: a strategic consultant, an organizational consultant, other professional consulting services, attorneys, accountants and so on.

The provisions of the procedure apply to the contractual arrangements in this line, as in any other line.

The audit findings:

- ◆ Generally-speaking there seems to be no insistence on carrying out the provisions of the procedure for the contractual arrangements in this line. Examination of the purchases made in 2009 found four cases out of 12 invoices of consultants (attorneys and a strategic consultant) where no price estimates had been obtained, no orders issued and no agreement signed. In three other cases, no agreement had been signed.

The audit recommendations:

- ◆ The provisions of the procedure should be followed punctiliously, as with every other line, and a special directive should be sent around to the employees.

Keren Hayesod's Response:

The Recommendation is accepted with respect to consulting services. Regarding legal advice – Keren Hayesod engages legal advisors on the basis of an agreed tariff. The implementation of the procedure for engaging legal advisors is accepted yet it is likely that in many cases there will be a need to grant exemption from obtaining quotations from competing legal firms since Keren Hayesod engages the services of three of the leading and largest firms in Israel.

5.5 Transportation services

Keren Hayesod works with three transport companies and a number of private drivers, according to the price-list of the Union of Taxi Drivers. The unit buyers place the journey order at the demand of the unit, such that the order form contains the date, destination and purpose of the journey. Changes are sometimes necessary during the journey (additional waiting time for a customer and so on) which result in a discrepancy between the quantity featuring in the order and that in the invoice. In such a case, the buyer asks for an explanation as to the nature of the change, obtains the signature of the person responsible and updates the system accordingly.

Where a journey is ordered outside regular work hours, the directive is that, with the arrival of the buyer at work, she prepares a proper order.

The audit findings:

- ◆ The Office of the Comptroller sampled 15 different cases of invoices with respect to transport services from 2009 and 2010 and found five invoices without a proper order having been made out (even post factum). It may be noted that a considerable part of the payments with respect to transport services are below the minimum level at which approval from the Finance Division is required (NIS 2,500) and, in cases where the service is given without any order at all, the loop-hole is very big.
- ◆ The powers to order a journey outside work hours are unclear and, in effect, any employee who knows the supplier may call and order a journey, without obtaining approval of the competent party.

The audit recommendations:

- ◆ An order must be completed in writing for every journey according to the procedure and must be attached to every invoice. In an exceptional case, the circumstances should be documented in writing and attached to the invoice that has been paid.

Keren Hayesod's Response:

The recommendation is accepted. Nevertheless, the possibility of improving the process of ordering taxi services is being considered in a way that will shorten and simplify it.

- ◆ An order for a journey outside regular work hours must be approved by a competent party, such that the suppliers will receive telephone approval from this party only. The approving party must ensure that the buyer indeed completes the order when she comes to work.

Keren Hayesod's Response:

In view of the small financial scope of journeys outside regular work hours, we are of the opinion that it is plausible to allow the order of taxi service without additional approval. The order of taxi service and payment thereof are checked post factum.

6. Input and approval of invoices and the making of the payments

The buyers receive the invoices and are responsible for ensuring that the product or service was indeed provided, and then they input them into the system. As part of the invoice inputting, there is a check in the system that the quantities and prices in the order (which is inbuilt in the system) match the invoice data and then, after being input, the invoice is approved with the signature of the party that placed the order and is forwarded to the bookkeeping department for payment. As a rule, the buyer signs the invoice and, for amounts from NIS 2,000, the director of the unit also signs the invoice.

If the invoice amount does not match the order, a clarification is held regarding the nature of the discrepancy and, as part of the invoice inputting in the system, the quantity in the relevant line is increased or an additional line is added containing the difference.

There is currently an intention not to allow the quantity in a certain line to be increased beyond a certain percentage that will be determined and of “forcing” the employee to record each deviation in a separate line so that it will stand out at the audit stage. This will be achieved through an automatic block.

Discrepancies can derive from two main causes:

- An incorrect assessment at the ordering stage as to the quantity needed. This happens mainly with video productions and complex activities which are difficult to quantify in advance.
- A change in the quantity after implementation of the order.

When there is a difference between the amount featuring in the order and the amount featuring on the invoice, the procurement director undertakes a clarification and the matter is finally approved after being checked out, often in cooperation with office-holders who are members of the administrative committee.

In the Finance Division, control is exercised over the invoices and their approval for payment is made according to the following scale:

Amount		Approval
To NIS 1,500	-	Approved by the bookkeeping unit without further control
NIS 1,500 – 40,000	-	Requires approval of authorized signatory B (*)
NIS 40,000 and up	-	Requires approval of authorized signatory A (**)

(*) Usually the chief bookkeeper.

(**) Usually the director of budget and contracts.

When a problem arises in one of the stages enumerated above, the head bookkeeper does not approve the invoice for payment pending clarification of the matter with the relevant parties (the supplier, the buyer and the procurement director).

The usual terms of payment at Keren Hayesod are EOM + 30 days and there is a fixed policy regarding dates of payment. Most of the payments to the suppliers are made at the end of the month but, in exceptional cases, also on the fifth of the ensuing month (together with the payments to the staff) and on the fifteenth of the month (together with the payments to the salary institutions).

The payments are made by bank transfers through the central clearing house.

The system does not allow a payment to be made to a supplier who does not have an authorization about tax deduction at source and confirmation of the keeping of books. The information regarding the

authorizations is updated in the computerized system directly from the Shaam site (of the Tax Authority).

Authorized signatories

According to the booklet of authorized signatories, Keren Hayesod has two groups of authorized signatories:

- Group A, consisting of the Chairman, the Director-General, the CFO and his deputy.
- Group B, consisting of the chief bookkeeper and the director of the Revenues Department.

For Keren Hayesod to be charged, two signatures are required of two Group A authorized signatories or one signature from a Group A authorized signatory together with a signature of an authorized signatory from Group B.

The main payments are actually signed by the head bookkeeper (authorized signatory B) and the deputy of the CFO (authorized signatory A).

The audit findings:

- ◆ As part of the audit report on the ageing of debts to suppliers for 2009 and 2010, three suppliers were found with respect to which the payment had not yet been made, as follows:

Supplier	Days of arrears	Amount in NIS	Particulars	Note
A	131	55,234	Debt with respect to 3 invoices	1
B	100	130,701	With respect to production of a film	2
C	100	879	Debt with respect to 3 invoices	3

Notes

1. Supplier A – payments to a manpower company which have not yet been made because of a dispute with the supplier over the amount of the payment

in three different cases, this pointing to a problem in the contracting process with the supplier.

2. Supplier B – a charge for a film which was ordered but the amount of the invoice substantially deviated from the amount of the order.
 3. Supplier C – invoices for gifts for donors which were sent to the bookkeeping department very late.
- ◆ As part of the audit on the ageing of invoices, three invoices were found “gathering dust” from the same supplier dated September 2008 that had not yet been entered into the books nor paid. Upon examination, it turned out that the reference was to one order for the Women’s Section which had been sub-divided into three consecutive invoices so that the approval process would not have to involve the Finance Division. More seriously, the reason for the invoices not having been entered nor paid is that the party which placed the order has not signed them nor confirmed receipt of the merchandise. Following additional clarifications which we conducted into the matter, we were shown an email from the party which placed the order “admitting” that he had asked the supplier to put on the invoice an item other than that actually received and, therefore, there is no signature of an approving party on the invoice. An investigative report on this matter, ordered in the wake of a demand of the Chairman of the Finance Committee, was recently drawn up and submitted.
 - ◆ With certain catalogue numbers, when the amount of the invoice deviates by up to 10 percent from the amount of the order, the buyer approves the invoice for payment without approval of an additional party. It may be noted that there is no such directive in the procedure and, it is possible, prima facie, that in cases where the deviation pushes the total amount to a higher approval level, requiring the approval of an administrative committee, therefore the approval by the buyer is improper.
 - ◆ During our audit, three payments to artists were found, each for NIS 1,500, without any approval at all on the invoice. The reference is to payments which were reported on Keren Hayesod letter-heads

(on the pattern of a “self invoice”) since the artists are not registered for the purposes of VAT.

- ◆ Dividing the signature authorizations into Group A and Group B is almost meaningless, apart from the fact that Keren Hayesod cannot be charged through two Group B signatures. There is actually no difference in the license level between an authorized signatory A and an authorized signatory B, which is unreasonable and unacceptable in a body with an activity turnover of some USD 150 million a year.

The audit recommendations:

- ◆ It is recommended that lessons be drawn with respect to the cases where invoices were held back so that mishaps of this nature do not occur again. As to the production of the film (the case where the invoice was tens of thousands of Sheqels over the amount of the order), it is recommended that, at the stage of the administrative committee decision, the contractual arrangement be limited to a certain amount so that this will be clear to the party making the order.

Keren Hayesod's Response:

The recommendation is accepted. It should be noted that verification of differences with suppliers occurs every once in a while and can not be totally avoided.

- ◆ It is recommended that the invoice of the book marks supplier not be held back so long as there is no doubt regarding the product received and its cost, and that this be documented in a clear way, attached to the invoice. It is recommended that action be taken in accordance with the recommendations of the investigative audit.

Keren Hayesod's Response:

The investigative audit found that the supplier received the payment after he produced 'credit invoices' and new invoices with the right item which had been supplied. The investigative audit also found that the administration

committee was approached after the order had been almost entirely carried out and most of the items had been ready for delivery, meaning that the administration committee was approached post factum.

- ◆ Buyers should not be able to approve invoices at amounts exceeding that of the order without the involvement and examination of the procurement director, before the invoice is sent for payment.

Keren Hayesod's Response:

The recommendation is accepted.

- ◆ Payments of every sort must be approved, including those where the documentary support is not “regular”, such as the case of the payments to the artists.

Keren Hayesod's Response:

The recommendation is accepted.

- ◆ It is recommended that a grading of amounts be set for the signature authorizations such that two authorized signatories of Group A will have more powers in terms of the amount and nature of the charge than one authorized signatory of Group A with one authorized signatory of Group B. It is recommended that consideration be given to granting two authorized signatories of Group B jointly powers at a lower level.

Keren Hayesod's Response:

The recommendation is accepted.

7. Management of the procurement budget

The total annual budget of Keren Hayesod is some USD 18 million, about one-third of which is procurement budget.

The responsibility for construction, management and current follow-up of the budget is imposed upon the deputy of the CFO.

The budget construction process is:

1. Each unit prepares its budget according to the experience of the past and its goals for the coming year.
2. The director of budget and contracts together with the director of planning and control compile the budgets of the departments and build the general budget.
3. The total budget is sent for the approved of the Finance Committee and, subsequently, of the Board of Directors.

In recent years, there has been a trend for cutting the budget.

The 2009 budget was some USD 18 million and the actual expenditure is given below:

Region / Unit	Amount of the budget	Actual expenditure	Balance of the budget
English-speaking countries Region	2,074,000	1,849,350	224,650
Europe Region	2,926,000	2,797,647	128,353
Latin America Region	2,870,000	2,611,308	258,692
East Region	841,000	725,671	115,329
Services for overseas offices	3,874,500	3,600,558	273,942
Administration and general	5,519,500	5,844,407	(324,907)
Participation of overseas offices	(445,500)	(222,793)	(222,707)
Development budget	325,000	91,082	233,918
Total	17,984,500	17,297,230	687,270

It can be deduced from the above analysis that most of the regions were within the framework of the budget this year, at the overall regional level, excepting the lines of administration and general and participation of overseas offices (income). The other lines are under-utilized, most

prominently that of the development budget where the utilization rate is only 28 percent.

In the participation of overseas offices line, the source of the income is participation in the costs of *shlichim*. The low utilization rate (some 50 percent) stems from the fact that the office in France has not been paying for some years now and, therefore, Keren Hayesod has stopped charging it.

Deviations from the budget

Periodically, the buyers produce a report from the system with the purpose of checking the balance of the budget of the unit and of working accordingly.

If there is a deviation from the budget, the system will not allow an order to be implemented. In such a case, the director of budget and contracts is empowered to “release” the block and so “open” the budgetary line.

The audit findings:

- ◆ From the 2009 budgetary expenditure figures, it follows that the main line “administration and general” is overspent. From a lower resolution examination, it follows that the deviation is in a number of sub-lines of the main line, in which procurements are carried out on a current basis amongst them: legal advice, consulting services and logistics.

Keren Hayesod's Response:

The deviation evolves mostly from items on which Keren Hayesod has little control such as legal expenses, actuarial debt, etc. It should be noted that the 'reserve' line was not utilized at all and that on an annual basis the total utilization of Keren Hayesod's budget is 98%.

- ◆ Keren Hayesod has no written procedure on the formulation and management of its budget including instruction as to the modus operandi to be adopted when a deviation from the budget is discovered. In practice, the director of budget and contracts has the authority to open a budgetary line and so cancel a block, without further supervision and reporting to the Executive. The solution is, as a rule, local, such that an attempt is made to transfer lines within the unit.
- ◆ The buyers exercise current budgetary control but there is no actual insistence on budgetary transfers between lines such that, in practice, at the end of the year a deviation is formed in a large number of sub-lines in the budget book, although there is no deviation at the level of the total Keren Hayesod budget.

The audit recommendations:

- ◆ It is recommended that the cross-the-board deviation in the main line of “administration and general” be examined and, if necessary, that the budget be updated accordingly in the course of the year.

Keren Hayesod's Response:

The recommendation is accepted.

- ◆ It is recommended that limitations be imposed in the matter of opening a budgetary block in the system and that a start be made first of all with the possibility of budgetary changes within the sub-lines of the main line, while obtaining approval from a competent party and the inputting of the updated budget to the system. It is recommended that a procedure be written that will arrange the matter or that it be referenced at length in the procedure to be written on the subject of management of the budget.

Keren Hayesod's Response:

The recommendation is accepted.

- ◆ It is recommended that clear directives be determined in the procedure regarding performing a budgetary follow-up during the year and that there be insistence on making internal transfers between lines only with the approval of competent parties to be determined in the procedure.

Keren Hayesod's Response:

The recommendation is accepted.

October 2010

**Response of the Chairman of the Executive
to the Comptroller's Report on
Keren Hayesod
Procurement and Contracts**

In accordance with Paragraph 18 b of the Statutes of the Comptroller and the Control Office of the World Zionist Organization, following is my response to the above Report.

Keren Hayesod's Director General informed that the report was discussed at Keren Hayesod and that most of the Comptroller's recommendations have been accepted and he is in the process of implementing them.

(-) A. Duvdevani (Duvdev)

Jerusalem, January 2011

Keren Hayesod
High Priority Projects

Response of the Chairman of the Executive

Keren Hayesod

High Priority Projects

Summary

In 2008, the Keren Hayesod Executive decided to create a new category for the raising of earmarked funds: High Priority Projects. It, therefore, chose a number of projects that seemed to it to be attractive that would be able to leverage and cultivate contacts with the donors and that would match the main agenda of Keren Hayesod and the Jewish Agency: reinforcement of weaker groups in the population and of peripheral areas.

It may be noted that the earmarked contributions include projects from the core budget of the Jewish Agency (projectization) and physical projects (construction and/or equipment of buildings).

The Projects Division is responsible for the “sale” of the projects to the donors through offices of the *Magbit* overseas: preparation of detailed information about the project, follow-up on implementation and use of the funds, reports to the donor about progress with the project, handling the signs and project dedication ceremony.

In 2010, the actual expenditure of the Projects Division budget was USD 448,825. The (net) income of the High Priority Projects was USD 3,023,220 and the amount of the overhead the donors were charged for the projects was USD 297,998.

In the first half of 2011, expenditure in the Projects Division budget was USD 241,370. The (net) income of the High Priority Projects was USD 549,420 and the amount of the overhead was USD 88,272.

1. Projectization

- (a) The Office of the Comptroller was told that there is a difficulty with raising funds for projectization because the donors are losing interest

in the “traditional” issues with which the Jewish Agency engages. In other cases, the donors are interested in contributing to the project but the Jewish Agency has allocated to Keren Hayesod to raise a small amount out of the project budget because of financial commitments from a previous year, income from wills and so on.

- (b) The Office of the Comptroller recommends that ways be looked into for donor recognition for educational projects (in the building in which the activity is held or at the buildings of the National Institutions) in order to respond to their request for putting up a plaque, even though the size of the contribution is less than USD 100,000 a year.

2. Physical projects

The Office of the Comptroller recommends that a follow-up policy be formulated on maintenance and use of buildings in physical projects which ended years ago in order to ascertain that the designated activity continues to take place in the building and that it is proper conditions.

3. High Priority Projects

- (a) The Office of the Comptroller recommends checking the reason for the difference between the amount of the 2010 income recorded in the Projects Division at USD 2,857,488 and the amount recorded in the Finance Division at USD 3,023,220. It may be noted that the entry in the Projects Division is gross (including an overhead at 15% and including 42 percent of the Net@ and Ethiopian National Project which are being transferred from the Projectization to the Jewish Agency).
- (b) The Office of the Comptroller recommends that consideration be given to the preparation of a folder in which will be concentrated the data on the undertakings of the donors alongside the income figures of the projects in order to obtain a picture of the overall situation and up-to-date status at any point in time.

- (c) The Office of the Comptroller recommends insisting on debiting the project budget with the costs of the feasibility test of the project proposal. Furthermore, we recommend that it be determined which budget should be debited when a project is not actioned. (In the past, the budget of the Construction Division of the Jewish Agency, which carried out the test, used to be debited but currently the budget of the Projects Division is charged for the test which is performed by Amigour.)
- (d) The Office of the Comptroller recommends that the criteria for payment of expenditures belonging to a project be defined and also who is competent to approve the debit from the budget of the Projects Division.
- (e) The Office of the Comptroller recommends insisting on making contractual arrangements with suppliers, amongst them the Amigour Company, the Cisco Company and the Tapuach Association, in good time.
- (f) The Office of the Comptroller recommends insistence on obtaining a full, written report from the Ayalim Association in accordance with the requirement in the contract and that reference be made to the reservations the Association presents in its reports.
- (g) The Office of the Comptroller recommends that the manner in which documents dealing with projects are saved be arranged efficiently and accessibly so that it will be possible to locate and use them.
- (h) The Office of the Comptroller recommends that a policy be determined regarding the use of balances accumulated in projects that have ended.
- (i) The Office of the Comptroller recommends that the project handling procedure be updated and that it specify the manner of handling and supervision over the projects (approval of the project, follow-up on the implementation and on-site visits, financial checks, current reports to the donor and Head Office bodies, plaques and the project dedication ceremony) as well as the reciprocal relationships with the

liaison officers in the regions and the *Magbit shlichim* overseas. We further recommend that the manner of control and/or supervision undertaken by the Amigour Company in the framework of the projects, and also the reporting to Keren Hayesod about handling of the project, be defined in a procedure.

This summary does not contain all the findings specified in the Report and does not provide all the details featured in it. To obtain this information, the full report should be consulted.

Introduction

Keren Hayesod offers projects to donors for earmarked fundraising through (total or partial) funding of the projects, thereby making the donors into active participants in the work of Keren Hayesod and the Jewish Agency.

The Projects Division of Keren Hayesod is responsible for the sale of the “product” (the project) to the donors, through the overseas offices of the Keren Hayesod *Magbiyot*.

Keren Hayesod has a number of project categories:

- a. Projects from the core budget of the Jewish Agency (hereinafter: Projectization).
- b. Physical projects (construction and/or equipment of public buildings).
- c. High Priority Projects, formulated by the Keren Hayesod Executive.

There are also projects for third parties where the role of Keren Hayesod is only to remit the funds donated from the donors to outside bodies. This is a service provided for Keren Hayesod donors to retain them in its donor pool.

The order of priorities for raising earmarked contributions, beyond the raising of “free money” is, first of all, for the Projectization, to meet the annual financial commitment of Keren Hayesod to the Jewish Agency.

In 2008, the Keren Hayesod Executive decided on a new fundraising category for earmarked contributions: High Priority Projects. The reference is to projects that are no longer part of the Projectization or exist on a limited scale. It also chose new projects it considered to be attractive and that could leverage and cultivate the contacts with the donors and that would match the main agenda of Keren Hayesod and the Jewish Agency: reinforcement of weaker groups in the population and of peripheral areas.

The projects were marketed to donors with a potential for increasing their annual contribution, donors with potential for assigning earmarked contributions and to new donors.

In 2008, the new category contained the projects: Net@, renovation of bomb shelters, Ayalim, Etgarim, Lev Ha-Ir and educational playgrounds.

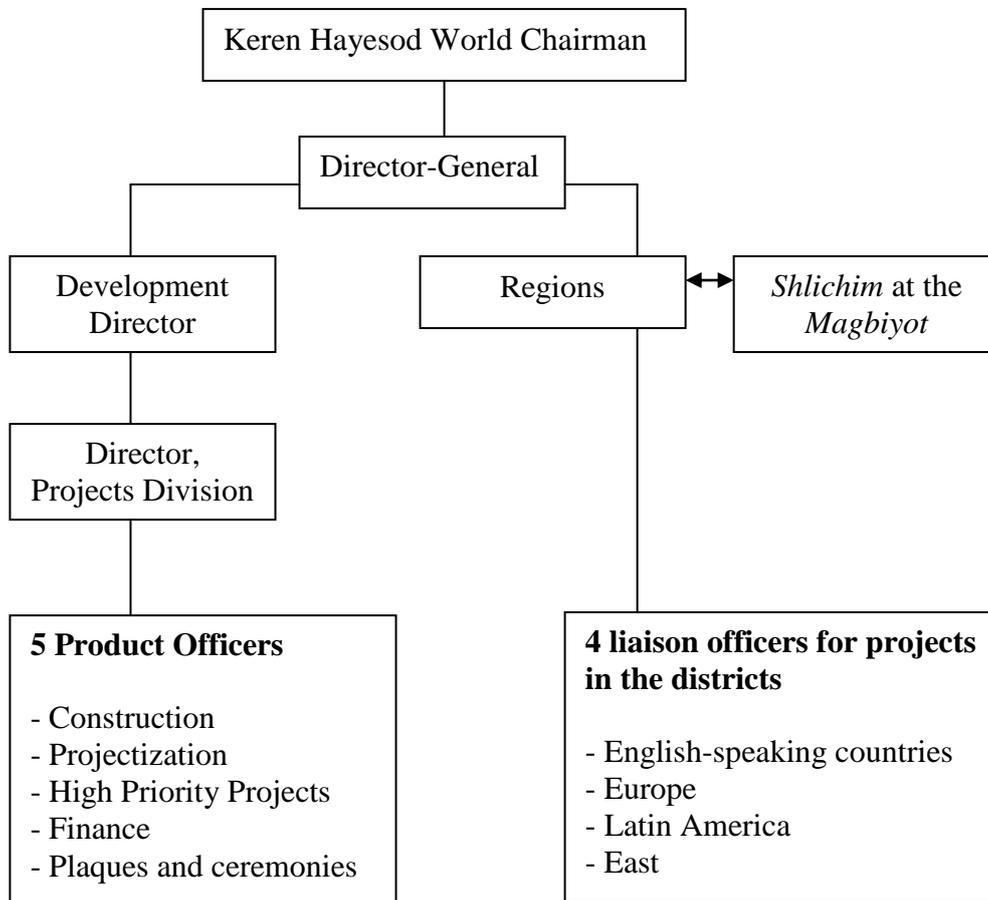
The Office of the Comptroller examined the High Priority Projects in 2010 and the first half of 2011.

The Keren Hayesod Projects Division offers a detailed information service enabling a potential donor to have a complete, accurate and attractive picture of the situation with respect to the project being offered.

Similarly, the Division conducts a follow-up on implementation of the project and use of the budget with reports on an ongoing basis to the donor, until completion of the project. Upon its conclusion, the Division deals with preparation of the plaque and the project dedication ceremony.

The Projects Division comprises a director and five employees who deal with different areas: Projectization, construction, High Priority Projects, finance, plaques and ceremonies (hereinafter: Product Officers). One of employees was engaged part time but, since March 2011, full time. Another employee is also subject to the Unit for Resource Development and Public Affairs of the Jewish Agency which pays half of his salary. The Division is subject to the director of Development, which comes under the Director-General of Keren Hayesod.

Following is the structure of the Projects Division with its interfaces to the regional units of Keren Hayesod, through the liaison officers in the regions.



The Project Handling Process

a. The project proposal

The *shaliach* at the overseas Keren Hayesod *Magbit* holds meetings with the donors while, at the same time, asking the Projects Division to submit project proposals to him, in accordance with his impression of the wishes of the donor.

The Product Officer in the Projects Division (in accordance with the type of project), in consultation with the director of the Division, draws up

proposals for projects. The proposal is based on the holding of a feasibility study of the project (for physical projects), an examination vis-à-vis the beneficiary, clarifications of financial and legal issues and, in certain cases, also the drawing up of an agreement with the donor and of an agreement with the beneficiary.

After the clarification, the *shaliach* at the *Magbit* fills in an “Application form for a project proposal”, which is checked by the regional officer and the director of the region at the Jerusalem Head Office. (Projects costing more than USD 500,000 are sent for the approval of the director of Development prior to being presented to the donors.)

The “Application form for a project proposal” contains general information about the donor, his areas of interest (for example: general topics, strengthening of Israeli society, *aliyah* / rescue and absorption, Jewish Zionist education, a physical project and so on), the destination population (children and youth, elderly, women, new *olim*, co-existence and so on), the geographical location of the proposed project (Jerusalem, periphery, a specific city, the Commonwealth of Independent States, a local community) and the amount of the contribution.

In addition, the projects recommended for the donor, which projects he has funded in the past, special requests / directives of the donor and the mode of reporting and the method of donor appreciation in which he is interested, are recorded.

b. Acceptance of the project proposal

The *shaliach* at the *Magbit* informs the Projects Division and the Region which proposal the donor has chosen and then a “Notification of project adoption form” is drawn up. The form is sent for the signature of the regional officer, the Product Officer, the director of the Region and the director of the Projects Division. The Division inputs the particulars of the project into the Priority computer system and notifies the Finance Division and the Legal Bureau by email.

For physical projects, the Product Officer in the Projects Division holds a “Commencement of process” meeting with the participation of the director of the Projects Division, staff from the Finance Division and the Legal Bureau. Representatives of the beneficiary and of the Amigour Company also participate.

The Product Officer sends to the Region a document which the Legal Bureau prepares: “Donor Agreement” so that the *shaliach* at the *Magbit* can obtain the signature of the donor.

The Office of the Comptroller notes that, in the first half of 2011, the Legal Bureau drew up a new version of the “Donor Agreement”.

Until 2011, it was customary to obtain the signature of the donors only when the contribution was for a physical project. The director of the Projects Division told us that the custom is currently being expanded to projects in the Projectization context and for High Priority Projects.

The Office of the Comptroller was informed that the donor sometimes does not consent to sign the agreement with Keren Hayesod.

Keren Hayesod explained that it does not insist on obtaining the signature of the donor on the agreement. It noted that, in certain countries, a prohibition applies to the donor to sign an agreement. In other countries, because of the legal standing of the *Magbit*, the signature of the donor cannot be obtained. We were also told that the risk in realization of the project actually applies to the beneficiary rather than to Keren Hayesod. It may be noted that the undertaking vis-à-vis the donor is anchored in the agreement with the beneficiary.

With a physical project (construction or equipment), the Product Officer in the Projects Division receives from the Legal Bureau a “Beneficiary Agreement” on which he obtains the signature of the beneficiary.

In the first half of 2011, the Legal Bureau drew up two new and uniform texts of a “beneficiary agreement”: one for a physical construction project and another for an equipment program.

Both texts of the agreement for the physical project contain a reference to the contribution, to performance of management and control over the project, the financing of the project, undertaking of the beneficiary, accountability for damages and insurance, taxes and other expenditures, donor recognition, plaques and ceremonies. The text for a construction project has a reference to land rights and to operation of the project after its completion, and there is also a bank guarantee of the beneficiary.

The copies of the “beneficiary agreement” and of the “donor agreement” are forwarded for approval and signature of the Keren Hayesod Finance Division.

We were told that there is no “beneficiary agreement” for projects in the Projectization framework because, in these cases, the beneficiary is the Jewish Agency.

Our audit found that the documents about the handling of the project are not collated together (the project proposal, the project adoption form, approvals of the Region, agreement with the donor, agreement with the beneficiary and so on). Furthermore, some of the correspondence between the officers and the departments is kept in different computer files and some is conducted and retained in the email box.

The Office of the Comptroller recommends that the mode of retention of the documents of the project be arranged in an efficient and accessible way so that it will be possible to locate and use them.

The Director-General of Keren Hayesod advised in response that he accepts the audit recommendation.

c. Implementation of the project

The Projects Division follows up on implementation of the project, including on site visits.

For physical projects, the Division receives financial and engineering reports (with pictures from the site) from the Amigour Company (a subsidiary of the Jewish Agency).

The involvement of Amigour depends on the body implementing the project: where the beneficiary itself undertakes the construction work (for example: establishment of a new wing in a hospital), the Projects Division, through Amigour, only performs the financial auditing of the invoices and the engineering stages.

In these cases, Amigour receives a commission of 1.8 percent of the project cost.

On the other hand, in projects where Amigour does the construction itself (some 20 percent of the physical projects) it manages all stages of the construction work, including activation of contractors, arrangement of permits vis-à-vis the authorities and also dealing with the financial and legal aspects of the project.

In these cases, Amigour receives a commission of 3.6 percent of the project cost.

In physical projects, Amigour undertakes, for Keren Hayesod and at its behest, a feasibility study before the project is offered to a donor. The intention is a preliminary examination with respect to implementation of the project in accordance with the proposal of the beneficiary.

The feasibility study includes clarifications as to, for example: the beneficiary's rights to the land, the plans applying to the land and construction rights, permits, licenses and approvals as required by law for establishment of the project, the project plan and lists of quantities (if any),

the cost of project establishment, sources of project funding, timetable for establishment of the project and any other or additional matter impacting in a practical way on the possibility for implementation of the project in accordance with the proposal of the beneficiary or other matters which Keren Hayesod asks Amigour to check out.

The findings of the feasibility study are specified in a report which Amigour submits. Keren Hayesod considers all the implications and ramifications prior to the decision as to whether to offer the project to a donor. We were told that Keren Hayesod will not offer a project to a donor if there is no building permit for it.

The Projects Division handles the collection of the contribution from the donor, in accordance with the agreement with him, through the regional officer who works with the *shaliach* of the *Magbit* overseas. During the implementation of the project, the Projects Division notifies the Finance Division when to remit the contributed funds (directly to the beneficiary or to the Amigour Company in accordance with reports which the Division receives from Amigour).

The product officer in the Projects Division sends the report on the project progress to the regional officer.

In general, for physical projects, the construction liaison in the Projects Division sends a report to the donor once every month or two, in accordance with the progress with the construction work and the reports from the Amigour Company, and she attaches photographs from the site. In High Priority Projects and Projectization, a uniform and general annual report is forwarded to the donors of the project, and photographs are sometimes attached. For example: in the Etgarim project, Net@, Ayalim and the Ethiopian National Project. In certain cases, the donor asks for, and receives a more detailed report three times a year.

We were told that, for playground projects, it is not customary to send the donor a general annual report but a one-time report upon completion of the project.

With the “Renovation and upgrading of shelters” project, the donor receives a one-time report upon completion of the project. With the “Lone immigrant soldiers” project, the donor receives a personal, individual report, sometimes with an attached thank-you letter and photograph from the soldier.

During our audit, the problem came up of donors who are interested, 7 – 10 years after completion of the project, to know what its condition is (usually following a visit to Israel of the donor). It sometimes turns out that the building is being used for other activities without the knowledge of Keren Hayesod and the Jewish Agency and sometimes that the building is being neglected (as the result of leaks, cracks, subsidence of the floor and so on).

The Office of the Comptroller recommends that Keren Hayesod formulate a policy regarding following up and reporting on the state of the buildings and the use being made of them in physical projects that were completed years back.

The Director-General of Keren Hayesod advised in response that the audit recommendation has been accepted. Commencing August 2011, the system was amended and systematic handling started regarding reviewing and reporting with respect to old projects. This is being done by the officer for ceremonies and plaques in the Projects Division.

d. Project completion

Upon completion of the process, the Projects Division finishes the handling of the project from a bookkeeping point of view and deals with the holding of the project dedication ceremony and the plaque, in coordination with the donor and with the beneficiary (as to the type of plaque and the text, the venue for the ceremony and so on).

As a rule, the modest ceremony is paid for by the beneficiary. In certain instances, the ceremony is paid for by the donor or by Keren Hayesod out of

the regional budget. On the other hand, the project plaque is pre-priced within the project budget.

In the course of the audit, we were told that there is a difficulty in offering donors projects in the Projectization framework because the Jewish Agency stipulates that the right to set up a plaque in the name of the donor is only in cases where the amount of the contribution is USD 100,000 or more.

The *shlichim* report that there are donors who are also interested in plaques (for example: in the “Youth Futures” project) where the contribution is only USD 10,000. Actually, some of them contribute USD 10,000 every year for a number of years but are not entitled to have a plaque at the project.

The liaison officers in the region told us that this restriction makes it difficult to raise contributions for Projectization. Sometimes, Keren Hayesod suggests to a donor a combination where part of the contribution is referred to a physical matter (such as renovations) to be accompanied by a plaque, with the balance being for an educational program. (Renovations are not part of the core budget.)

The Office of the Comptroller recommends that Keren Hayesod look at ways to recognize donors who give to educational projects, either at the site of the project activity or at the buildings of the National Institutions.

The Director-General of Keren Hayesod advised in response that currently, following intensive discussions with the Jewish Agency on the matter, there has been an improvement and there is greater cooperation in granting the possibility of placing a plaque at its facilities. Agreement was also attained regarding construction of two general dedicatory walls at Jewish Agency facilities.

The Project Types

a. Projectization

These are projects from the core budget of the Jewish Agency. Keren Hayesod markets them to donors and the income with respect thereto constitutes a part of the annual financial amount which Keren Hayesod undertakes to remit to the Jewish Agency.

These projects are offered to Keren Hayesod donors in coordination with the Jewish Agency Finance Division to prevent duplications in raising funds for the same project.

According to the figures of the Projects Division, there were, in 2010, 20 projects with respect to which donor pledges came to USD 8,887,665 and the amount of the receipts came to USD 6,702,310.

Following are examples of projects in the Projectization context: Youth Futures, absorption centers, Amigour, Youth Aliyah villages – Nitzana, Hadassah Neurim, Ramat Hadassah, Kiryat Yearim, ENP (Ethiopian National Project), Masa, Net@, the Student Administration, *aliyah* from Ethiopia, flights of *olim*, streams in Judaism and others.

During the audit, we were told by the liaisons in the regions that it was difficult to raise money for Projectization because the donors are losing interest in the “traditional” subjects with which the Jewish Agency deals. In several cases, the donors were specifically interested in giving to a project but the Jewish Agency allocated to Keren Hayesod to raise a small amount out of the project budget (because of commitments from a previous year, income from wills and so on).

b. Physical projects

These are projects dealing with the construction and/or equipping of public buildings and are carried out by Amigour or by the beneficiary itself. Some are Jewish Agency projects which are not from its core budget.

Until 2009, the physical projects were handled in coordination with the Construction Division of the Jewish Agency. Following liquidation of the Division, Keren Hayesod works directly with Amigour, which is a subsidiary company of the Jewish Agency.

According to the figures of the Projects Division, there were 45 projects in 2010 with donor pledges coming to USD 31,588,297 and receipts were USD 21,005,977.

Following are examples of physical projects: construction work at hospitals (eating disorders clinic, nursing ward, operating theater, children's hospitalization center), renovation of community centers, construction of synagogues, purchase of equipment for children's projects, building of sport facilities, renovation of classrooms, purchase of equipment for youth villages and so on.

c. High Priority Projects

As noted, these are projects that were formulated by the Keren Hayesod Executive in 2008 in order to provide a response to demands from donors who are not interested in the project topics proposed by the Jewish Agency. Similarly, by pooling the contributions for certain spheres or for one beneficiary, it became possible to raise a significant amount for the project.

The *shlichim* at Keren Hayesod overseas offices offer these projects to the donors only after it has previously been suggested to them that they fund projects in the Projectization framework (which are, as noted, at the top of the list of priorities of Keren Hayesod in fundraising).

According to the figures of the Projects Division, there were seven projects in 2010 with respect to which the donors' pledges came to USD 3,046,779 and receipts were USD 2,857,488.

As of June 30, 2011, the pledges for High Priority Projects in 2011 came to USD 1,234,085.

The projects which are included in the High Priority Projects are: Ayalim, Net@, educational playgrounds, Etgarim, renovation and upgrading of shelters, lone immigrant soldiers and the Ethiopian National Project (ENP).

In 2011, the new project was started: "Halamish" (see below for details) while, at the same time, the marketing of the educational playgrounds and shelter renovation projects was terminated.

The amounts of the pledges and actual receipts of the three project categories for 2010 which were presented above were advised to us by the Projects Division, correct to December 31, 2010.

The figures for the pledges and receipts are gross, that is to say, they include an overhead at the rate of 15 percent which Keren Hayesod charges out of the amount of the contribution.

The Projects Division advised us that it indeed summarizes the figures for the amounts of the donors' pledges for each project but these figures do not constitute evidence as to an entry in the financial system.

The figures for the amounts of donor pledges for each project are, therefore, not entered in the computerized system of Keren Hayesod but in a separate file that exists only in the Projects Division.

The Director-General of Keren Hayesod advised in response that nowadays the figures for the pledge amount of the donors for the projects are recorded in the computer financial system of Keren Hayesod.

Description of High Priority Projects

The High Priority Projects were formulated, as noted, by the Keren Hayesod Executive. The projects engage in matters of education and culture with the purpose of strengthening the periphery and weaker groups in the population. Once a year, a discussion is held on this subject with the directors of the

regions at Keren Hayesod in the annual meeting of the *shlichim* from the overseas offices. The *shlichim* present the topics of interest to the donors beyond those existing in the Projectization framework.

The Net@ and the Ethiopian National Project are still partially funded from the core budget of the Jewish Agency. The two projects are also funded in the framework of the High Priority Projects since Keren Hayesod saw fit to continue expanding them as they are still attractive for raising contributions and so new donors can be brought in through them.

Following is a description of the projects from the “project cards” which Keren Hayesod prepared for potential donors:

Ayalim

The giving of grants for study and accommodation (of a symbolic amount) at 12 students’ villages in the periphery in exchange for 500 hours per year of afternoon volunteer work in development townships in the Negev and Galilee.

The students engage in social activities with youth, children, the elderly, new *olim* and distress population groups. For example: renovation of homes, cleaning of shelters, holding seminars, assistance in preparation of home work, guidance with art classes, dance, drama, English, organic gardening and nutrition.

The purpose of the project is to bring to the periphery a quality population and, through reinforcement and enrichment of the local population, the students will constitute agents for change in the community.

In the 2009-10 academic year, some 600 students took part in the Ayalim project. The cost of the activity at the students’ village of Ayalim is USD 120,000 a year.

According to the figures of the Projects Division, in mid-2011, the amount pledged for the project in 2011 was USD 35,200.

Net@

This is a learning and enrichment program for youth in distress in order to bridge the social and technological gap in the periphery. Graduates of the program receive a computer technician's certificate from the Cisco System Company.

The program lasts for three years and is held in the afternoons. It includes courses on the subjects of: computerized system, leadership skills, social proficiencies and social values (excellence, democracy and commitment to the community). The students also volunteer in activities on behalf of the community. The graduates have good chances for integration in select IDF units and hi-tech companies.

Net@ is a joint Keren Hayesod and Jewish Agency program, together with the Cisco Company and the Tapuach Association and had 1,300 graduates between 2003 and 2010.

The cost of opening a class for the Net@ project is USD 54,000 a year. The cost of a student grant is USD 5,000 over three years or USD 1,700 a year.

In practice, 42 percent of every contribution to the Net@ project is transferred for funding the project in the Projectization framework. A further 43 percent are entered as part of the High Priority Projects at Keren Hayesod and are remitted to the company operating the project. The remaining 15 percent are an overhead recorded at Keren Hayesod as free money.

According to the figures of the Projects Division, the amount of the pledges for the project in mid-2011 for 2011 was USD 236,285.

Educational Playgrounds

Keren Hayesod is recruiting communities and donors from all over the world for building 60 educational playgrounds for children in the periphery and in Jerusalem. The project was set up on the occasion of the 60th

Anniversary of the State of Israel. The year was declared by the government as the “Year of the Child”.

The company which constructs the educational playgrounds is located in the periphery and employs new *olim*. The construction of the educational playgrounds is of a quality standard and high level safety and is carried out under the supervision of experts and with the use of environmental friendly materials, produced in Israel.

The educational playgrounds, of some 300 sq.m. in size, contain 25 activity stops which assist with physical, mental and health development of the children, including their motor coordination, physical fitness, cognitive enrichment and social proficiency.

The cost for establishment of an educational playground is USD 100,000.

According to the figures of the Projects Division, in mid-2011, pledges for the project for 2011 were USD 300,000.

Etgarim

This is a project for learning computers for bridging technological and social gaps of vulnerable groups in the population: children at risk, youth in confrontation zones in the north and south of the country, children with chronic illnesses who are hospitalized, shell-shocked soldiers, new *olim* from Ethiopia, elderly people and Holocaust survivors.

The Israeli company, Compedia, has developed computer software for interactive learning which enables a user to develop his or her abilities and skills. In addition to learning basic computer skills and creative thinking, the project provides tools for searching for creative solutions for their needs for them to have control over their lives. A skilled instructor is attached to each participant and supports him in the framework of the project.

The Compedia Company provides the software, the instructors, the trainers and the technical support. The project also receives governmental support.

The cost for funding a computer study group in the Etgarim project is USD 8,000.

The Etgarim project used to be a part of the core budget of the Jewish Agency. Keren Hayesod decided to continue with it and so integrated it into the High Priority Projects framework.

According to the figures of the Projects Division, in mid-2011, pledges for the project for 2011 were USD 223,000.

Renovation and Upgrading of Public Bomb Shelters

The project for renovation and upgrading of public bomb shelters in the northern settlements and the settlements in the Gaza Surround is for protecting the lives of the citizens.

Keren Hayesod responded to the appeal of the Government of Israel to assist in the funding of a national project for renovation and upgrading of some 4,500 public bomb shelters, commencing in 2007 as a lesson from the Second Lebanon War. The upgrade was carried out in accordance with reasonable conditions suitable for a long-term stay in times of emergency.

The work program for upgrading the bomb shelters includes: installation of a suitable electricity system and emergency lighting, infrastructure for water and sewerage pipes, sealing against leaks of water and flooding, reinforcement of foundations and walls, repair of doors, windows, toilets and sinks, painting of the shelter, installation of a place for heating up food and upgrading of the ventilation system.

The cost of renovating and upgrading three public bomb shelters is USD 45,000 (depending on size and condition).

As noted, in 2011, the fundraising for the public bomb shelter renovations and upgrading project ended.

Lone Immigrant Soldiers

In 2010, Keren Hayesod began raising money for the Lone Immigrant Soldiers project. The reference is to Jewish youngsters from all over the world, most of whom are not Hebrew-speaking, who have no family in Israel and no supportive social system. They left their families to serve in the Israel Defense Forces and start a new life in Israel.

As Lone Immigrant Soldiers prior to discharge, they cope with challenges such as: accommodation, studies, employment, subsistence and so on – all without any immediate family to support them.

As part of the aid for Lone Immigrant Soldiers facing discharge, Keren Hayesod helps with a grant for: employment aptitude tests, personal training, financial advice, financial support, a pre-discharge preparatory course, a voucher for the purchase of electrical appliances and a one-time grant. The cost for funding support for a single soldier is USD 3,000.

Keren Hayesod combined the Lone Immigrant Soldiers project with the Knafaim program of the Jewish Agency. The latter program, for integration into civilian society in Israel, supports some 700 lone immigrant soldiers who are discharged from the Israel Defense Forces each year. It assists them before and immediately after their discharge. The reference is to a five-day preparatory course prior to discharge and deals with contents of relevance at this critical stage: employment, education and acquisition of personal and inter-personal proficiencies. The support includes lectures, group activity, advice and individual guidance for each soldier (such as: aptitude testing, personal qualify-cations, assistance in making decisions and constructing a personal program).

According to the figures of the Projects Division, in mid-2011, pledges for the project for 2011 were USD 72,100.

The Ethiopian National Project

Israel has some 120,000 *olim* from Ethiopia (half of them under the age of 18). Although about a third of them were born in Israel, the acclimatization problems of the parents (to the state, language, culture and the new way of life) have negatively impacted the younger generation.

Despite the aid of the Jewish Agency and of the Government of Israel, most of them live in communities in the periphery and have low incomes. The children suffer from a large cultural and educational gap. Most of them drop out from school and the number of juvenile delinquents among them is larger than the percentage they constitute of the total population.

The Ethiopian National Project is a joint project of the Ethiopian community, the Government of Israel, local authorities and Keren Hayesod. The reference is to four weekly hours of activity, including English language and mathematic studies in small groups, employment workshops and reinforcement classes to bridge the gaps for high school students. About 76 percent take the matriculation examinations. There are also preparatory classes for entrance examinations to post-secondary institutions.

The cost of the educational activities per child for a year is USD 1,150. The cost of the aid for 43 Ethiopian children is USD 50,000 a year.

42 percent of each contribution is remitted for funding the project in the Projectization framework. A further 43 percent are recorded at Keren Hayesod for the project in the High Priority Projects framework. The remaining 15 percent are overhead and are entered at Keren Hayesod as free money. It may be noted that the Director-General of Keren Hayesod is the member of the board of directors of the subsidiary company which operates the Ethiopian National Project. For every dollar received from a donor, the Government of Israel gives an additional dollar to the project.

According to the figures of the Projects Division, in mid-2011, pledges for the project for 2011 were USD 316,800.

Halamish

This is a project for training Orthodox men for the job market through engineering studies.

Over the last 30 years, the percentage of ultra-Orthodox men who are not gainfully employed has grown from 21 percent to 65 percent. In the ultra-Orthodox sector, young men who focus on Torah studies do not learn English, mathematics or science which are vital subjects for continuing with higher studies. 60 percent of the community are below the poverty line.

In 2007, Ethan Wertheimer, an Israeli industrialist and philanthropist, initiated the Halamish project to bridge the academic and socio-economic gap in the ultra-Orthodox community.

The project is designated for those aged 23 and above and includes intensive preparatory studies in the subjects of English, mathematics, physics and computers. As a consequence of this, they attain high grades, above the average, in the university entrance examinations.

There are currently over 110 ultra-Orthodox men studying at Ben-Gurion University, the Technion and Hadassah College for Practical Engineering and Technology.

The participants in the Halamish project receive a full subsistence allowance for the five years of the program as well as a laptop computer and personal instruction. Graduates of the program integrate into the labor market as technicians and computer engineers.

The cost for subsidizing 30 students for one academic year is USD 50,000.

According to the figures of the Projects Division, in mid-2011, pledges for the project for 2011 were USD 50,000.

Income for High Priority Projects

Following are the financial data of the Finance Division for the income for the projects and the transfers to the beneficiaries of the High Priority Projects (in US Dollars):

2 0 0 9				
High Priority Projects	Opening balance	Net income	Transfers to beneficiary	Closing balance
Net@	32,765	417,658	552,547	167,654
Renovation and upgrading of shelters	-619,684	947,071	1,057,174	-509,581
Educational playgrounds	-441,157	788,190	531,095	-698,252
Ayalim	225,740	855,193	777,322	147,869
Etgarim	-35,288	760,341	579,883	-215,746
Ethiopian National Project	-	73,181	64,786	-8,395
Total	-837,624	3,841,634	3,562,807	-1,116,451

2 0 1 0				
High Priority Projects	Opening balance	Net income	Transfers to beneficiary	Closing balance
Net@	167,654	1,036,119	574,745	-293,720
Renovation and upgrading of shelters	-509,581	117,267	343,369	-283,479
Educational playgrounds	-698,252	536,880	764,483	-470,649
Ayalim	147,869	1,036,529	902,695	14,035
Etgarim	-215,746	269,564	452,366	-32,944
Lone Immigrant Soldiers	-	10,388	10,388	-
Ethiopian National Project	-8,395	16,473	599	-24,269
Total	-1,116,451	3,023,220	3,048,645	-1,091,026

January – June 30, 2011				
High Priority Projects	Opening balance	Net income	Transfers to beneficiary	Closing balance
Net@	-293,720	43,159	140,777	-196,102
Renovation and upgrading of shelters	-283,479	18,522	193,433	-108,568
Educational playgrounds	-470,649	14,803	220,203	-265,249
Ayalim	14,035	249,840	478,364	242,559
Etgarim	-32,944	165,190	174,955	-23,179
Lone Immigrant Soldiers	-	55,477	55,477	-
Ethiopian National Project	-24,269	2,429	10,666	-16,032
Total	-1,091,026	549,420	1,273,875	-366,571

The Keren Hayesod accountant advised us that, because of the importance of the Net@ and Ayalim projects, Keren Hayesod undertakes, by resolution of the Executive, to remit in advance at the beginning of the each year USD 550,000 to the Net@ project for the opening of classes at the four centers in the country and also undertakes to remit NIS 3 million at the beginning of each year for the Ayalim project. The income is raised by Keren Hayesod from donors who have pledged to contribute to the project and/or from other sources. Thus, the closing balance in the project card of Ayalim and of Net@ is sometimes in deficit at year's end. On the other hand, in other projects, all the funds donated are as a rule remitted to the beneficiary and so the closing balance in the project card at year's end is in credit.

As noted, the amounts of the undertaking for each project that are entered in the Projects Division contain an overhead at the rate of 15 percent which Keren Hayesod collects from the donor as part of the amount of the contribution for the project. On the other hand, in the computer financial system of Keren Hayesod, the net amount of the income, which is 85 percent of the amount received for the project, is recorded.

In 2008, following the sharp fall of the dollar, the Director-General and the former director of the Finance Division decided that Keren Hayesod would no longer charge an overhead in the educational playgrounds project. Since the marketing material had already been sent out, Keren Hayesod chose to alter the price published and to carry the project out without an overhead.

We were advised that, until 2010, all the overhead amounts in the High Priority Projects were entered jointly, in a separate file, without there being any possibility for identification and ascription between the overhead amount and the project from which the overhead had been collected. In 2009, the amount of the overhead came to USD 506,861. In 2010, the amount of the overhead came to USD 297,998 and, from January to June 30, 2011, the amount of the overhead accrued from the High Priority Projects was USD 88,272.

In the course of our audit, we asked to receive the income figures for the High Priority Projects in 2010.

The audit showed there to be a significant discrepancy between the amount of the income recorded in the Projects Division at USD 2,857,488 and the amount of the income recorded in the Finance Division at USD 3,023,220. It is to be noted that the figures in the Projects Division were translated from the original currency to dollars and exchange rate differences should be taken into account.

At the same time, since the amounts entered in the Projects Division are gross, i.e., include 15 percent overhead, and also Projectization components existing in the Net@ and Ethiopian National Projects (at 42 percent of the contribution), the discrepancy between the two sources is even more surprising, with the income amount entered in the Projects Division being lower than the figure recorded in the Finance Division.

The Office of the Comptroller recommends the reasons be examined for the discrepancy between the income shown in the Projects Division and that recorded in the Finance Division. We also recommend that consideration be given to preparation of all the financial data of High

Priority Projects in a separate file, amongst them the amounts of the pledges for the project, so as to obtain an overall picture of the situation of each project and the project status at any given point in time.

The Director-General of Keren Hayesod advised in response that the audit recommendation has been accepted: currently all the data are fed into the computerized financial system of Keren Hayesod and the problem has been resolved.

Budget and Actual Expenditure of the Projects Division

Following are the lines of the budget and actual expenditure of the Projects Division as advised to us by the director of the Budget and Contracts Division of Keren Hayesod (in US Dollars):

Lines	2009		2010		30.6.2011	
	Budget	Actual	Budget	Actual	Budget	Actual
Current operations	10,000	27,126	23,000	37,964	20,000	11,828
Salary ⁽¹⁾	365,000	397,658	334,000	354,670	386,000	198,284
Vehicle maintenance ⁽²⁾	34,000	28,260	43,000	30,982	43,000	19,900
Owned cars ⁽³⁾	30,000	33,695	18,000	20,837	18,000	8,449
Manpower companies	-	-	-	-	-	-
Telephones and couriers ⁽⁴⁾	6,000	4,129	5,000	4,372	5,000	2,909
Total	445,000	490,868	423,000	448,825	472,000	241,370

Note: The figures are to July 17, 2011.

- (1) Including salaries, overtime, per diem, provisions, etc.
- (2) Including insurance and vehicle licenses for employees and vehicle / mobility / kilometer increment.
- (3) Including operational leasing, fuel, parking fees, washes and Road 6 charges for the director of the Projects Division.
- (4) Including office telephone, mobile phone, employees' telephones and rapid mail consignments.

The current operations line contains expenditure for (full or partial) tour days of employees of the Division in order to visit the projects: follow-up on project implementation, familiarization with new projects, participation in events of the beneficiary in order to obtain additional information and so on. Since only the director of the Projects Division has a company car and there is no service vehicle in the Division, we were told that the product officers may order transportation by taxi from a list of suppliers that is fed into the computerized system.

The transportation is carried out by four taxi companies. From the Logistic Division we were told that there is no agreement with the taxi companies. In practice, the payment to the drivers of the taxis is made on the basis of the price-list of the Ministry of Transport, with a set-off of a 10 percent discount.

The Office of the Comptroller recommends that Keren Hayesod draw up an agreement with the taxi companies after examining price estimates or holding a tender.

The Director-General of Keren Hayesod advised in response that the audit recommendation has been accepted. Keren Hayesod has adopted the price-list of the Ministry of Transport and obtained the signature of the taxi companies on it.

The Logistic and Procurement Department of Keren Hayesod purchased fancy podium and roll-up signs. Out of 18 items, only two fancy roll-up signs were purchased for the Projects Division and charged out of the budget of the Division.

We found that an invoice, dated February 28, 2011, for NIS 4,176 was approved for payment by the Logistic and Procurement Department. At the same time, no approval was found of the director of the Projects Division for the share of the Division in payment of the invoice.

The Office of the Comptroller is of the opinion that the director of the Division should approve the invoice to ascertain that it is proper and that the goods were indeed received. We recommend, therefore, that

the Projects Division insist on checking the concentrated invoices out of which the budget of the Projects Division is also charged.

The Director-General of Keren Hayesod advised in response that the audit recommendation has been accepted and that, from now on, the Finance Division will ascertain that the director of the Projects Division shall check and approve the invoices before the budget is charged.

The Logistic Department told us that there is no agreement between Keren Hayesod and the company from which the signs were purchased and that, prior to each order, the Department obtains price estimates from a number of suppliers and makes the purchase from the cheapest. The Office of the Comptroller checked and found that three price estimates had been submitted for the roll-up signs and that the cheapest estimate had been accepted.

On May 12, 2010, an invoice was received in the amount of NIS 1,740 for the hire, shipment and setting up of a shading net. The invoice was approved by the director of the Division. We were told that the rental was made for a ceremony at which an educational playground was dedicated in Hadera.

The Office of the Comptroller is of the opinion that purchase of the shading net for the ceremony should have been part of the cost of the actual project in Hadera or from the general balance of the educational playgrounds project rather than from the budget of the Projects Division of Keren Hayesod.

The director of the Projects Division told us that the budget of the general balance of the educational playgrounds project could have been charged.

The Director-General of Keren Hayesod advised in response that the audit recommendation is accepted and will be implemented in the future.

In May 2009 and in August 2010, two cameras were purchased for NIS 700 each. The Office of the Comptroller was told that the cameras were kept on

a permanent basis by two officers in the Projects Division and were used for documenting the follow-up on progress of the projects.

The Office of the Comptroller recommends that the signature of the employees be obtained on a document confirming that the cameras are in their possession and that they have to be returned to the Projects Division upon completion of their function.

The Director-General of Keren Hayesod advised in response that the audit recommendation is accepted. In future, the employees will be asked to sign for receipt of the property.

The director of the Projects Division told us that she sometimes contacts the Amigour Company with a request to perform a feasibility study of suggestions for projects.

On November 14, 2010, the budget of the Projects Division was charged NIS 72,992 for advice, planning and design of projects.

The documentary support for charging the budget was a list of 24 projects at Keren Hayesod with respect to which feasibility studies were made and the cost of which came to NIS 87,992.

The tariff for a feasibility study is put together on the basis of the number of work hours which the engineer and other professionals at Amigour will have to invest (as necessary) for examination of the project. If Amigour has to engage outside experts for the examination (such as a land drill) - Keren Hayesod will pay for the cost of the outside expert.

The Office of the Comptroller notes that the amount of the invoice charged was not checked against the feasibility study tariffs appearing in the draft agreement with Amigour because the agreement was not yet signed.

There was a hand-written note on the list to the effect that it had been approved by the director of the Budget and Contracts Department of Keren Hayesod.

The Office of the Comptroller notes that it is not clear for which of the projects in the list the budget of the Projects Division was charged.

Furthermore, there is no signature of the director of the Projects Division approving the payment from the budget of the Division, nor even the signature of the director of the Budget and Contracts Department.

The director of the Projects Division told us that, as a rule, in instances where the project is actioned the cost of the feasibility study of the project proposal should be out of the budget of the project itself.

The Office of the Comptroller recommends that the Projects Division examine which of the proposed projects in the list were charged to the budget of the Division and that the budgets of the projects actioned be charged.

The Director-General of Keren Hayesod advised in response that the audit recommendation is accepted.

We also recommend that Keren Hayesod determine which budget should be charged for the cost of a feasibility study of project proposals where the project is not carried out. (It may be noted that, in the past, these costs were charged as part of the budget of the Construction Division at the Jewish Agency which made these studies then, instead of the Amigour Company as today.)

On January 30, 2009, an invoice was received for NIS 1,732.50, for the order of a plaque for an apartment renovation project as part of the Ayalim project in Acre. The invoice was approved by the plaques officer in the Projects Division and also by the director of the Division.

From the correspondence about the invoice, it follows that the charge should have been made from the project budget but it later turned out that there was no budget balance in the project. In practice, the invoice was paid from the budget of the Projects Division, with the approval of the director of the Division.

The Office of the Comptroller recommends that Keren Hayesod define the criteria for payment of costs belonging to projects out of the budget of the Projects Division and also that it determine who is competent to approve the charge from the budget of the Projects Division.

The Director-General of Keren Hayesod advised in response that charging costs of a project to the budget of the Division is a rare occurrence and is done only with the approval of the director of the Division.

In December 2009, the budget of the Projects Division was debited by an amount of NIS 59,648 and also by NIS 8,155, with respect to receipt of accountancy services. The invoices were approved by the former director of finance.

The director of the Projects Division told the Office of the Comptroller that the finance director hired one of the large accountancy firms for an audit of the Ayalim Association because the reports which the Association submitted to Keren Hayesod were improper. There was also a suspicion that the Ayalim Association was not being run properly and that it was in danger of collapse.

The Office of the Comptroller notes that, also in this instance, the invoice was not approved by the director of the Projects Division even though the payment was made from the budget of the Projects Division.

The Office of the Comptroller is of the opinion that any charge to the budget of the Projects Division also has to be with the approval of the director of the Division. We also recommend that consideration be given as to whether an audit of this sort should, in the future, be charged from the budget of the Projects Division.

The Director-General of Keren Hayesod advised in response that the audit recommendation is accepted. No charge will be made from the budget of the Division other than with the approval of the director of the Division. The subject will also be dealt with in the context of preparation of a budget procedure in the course of 2012.

Contractual Arrangements

As noted, in the past the Construction Division of the Jewish Agency was the body which assisted Keren Hayesod to deal with and follow up on physical projects. With liquidation of the unit in January 2009, all the handling of physical projects was done with a subsidiary company of the Jewish Agency, Amigour.

Our audit showed that to date no agreement has been signed between Keren Hayesod and the Amigour Company sorting the contractual arrangements between them.

The Office of the Comptroller notes that, in practice, the Projects Division works with the Amigour Company for construction of the project and/or supervision over the construction work. For example: the pricing of the project, feasibility study, checking the town building scheme and statutory authorizations. Amigour reports to Keren Hayesod on its actions and charges a commission in accordance with its involvement in the project.

The Office of the Comptroller recommends that Keren Hayesod arrange at the earliest opportunity for a contractual agreement to be signed with the Amigour Company.

The Director-General of Keren Hayesod advised in response that the audit recommendation is accepted and that the matter is in an advanced stage between Keren Hayesod and the Amigour Company.

In High Priority Projects, the beneficiary is usually an association or organization with which a framework agreement is supposed to be signed.

Our audit found that, until 2010, there was no signed agreement with the Ayalim Association which operates the Ayalim project. The agreement was signed on July 14, 2010.

Following the audit of an accountant on behalf of Keren Hayesod, which checked the propriety of the Association, an appendix was added to the contract constituting a basic condition of the agreement, in which the

Ayalim Association undertakes to adopt all the measures determined regarding its financial – administrative conduct.

For example: the appointment of an external accountant – auditor, management of books of accounts in accordance with the accepted accountancy rules, establishment and internalization of rules in various matters (such as tenders and designation of budgets), establishment of institutions in the association (such as management committee, finance committee, audit committee or internal auditor), employment of a full-time treasurer and also an undertaking to operate on a balanced basis only. The Ayalim Association also undertook to conduct itself vis-à-vis Keren Hayesod with full transparency and to send to it reports at its request.

In the appendix to the agreement, it is determined: “Not later than December 31, 2010, and thereafter every 60 days, the beneficiary will submit to Keren Hayesod a detailed report in relation to the implementation status of each of the above points, and will specify the anticipated completion of the as-yet uncompleted points, including a timetable for performance with milestones for checking the performance. A breach of any item from what is specified above in this appendix will constitute a fundamental breach of the agreement.”

The Office of the Comptroller was given two status reports which the Ayalim Association submitted to Keren Hayesod regarding the administrative management of the Association: one was dated October 25, 2010, and the other June 30, 2011. We were told that there is no insistence on receiving the reports since meetings are held with the Association on a current basis, once every month or two, at which Keren Hayesod is updated as to the undertakings of the Association noted in the appendix to the agreement.

Following is the implementation status of the administrative management of the Ayalim Association to mid-July 2011, as advised to us by the treasurer of Keren Hayesod:

- Because of the tax audit being carried out at the association, it was agreed with Keren Hayesod that replacement of the external accountant – auditor would be postponed from the end of 2010 to the end of 2011.
- The association is keeping its books of accounts in accordance with the accepted rules of accountancy in Israel.
- In 2011, tenders on construction matters were made by the Settlement Division and in accordance with the rules of the Accountant-General. There is, consequently, greater control.
- Regarding the requirement that projects for construction should be built only after prior coordination with the local authority, it appears that the association does not always wait prior to receipt of the authorizations. Nevertheless, there has been an improvement in arrangement of land rights and payment of capitalization charges to the Israel Lands Administration.
- The Association is working on the basis of a balanced budget. Regarding the requirement that contributions be included in the budget of the beneficiary only if the signature of the undertaking body is obtained – the Association replied that the 2012 budget was in preparatory stages according to an income assessment at a high level of probability of the Association management and that it was not possible to accept written undertakings from the various bodies.
- The Association appointed an internal auditor, who is an accountant, at the beginning of 2011. His first report was due for publication in July – August 2011.
- Keren Hayesod is not requiring the appointment of an additional full-time treasurer so long as the present director of finance is serving in his position at the Association.
- The partnership agreement between the Ayalim Association and the construction company which it owns was cancelled in February 2010. As noted, since then the tenders have been made through the Settlement Division.

The Office of the Comptroller is of the opinion that Keren Hayesod should insist of demanding that the Ayalim Association submit written reports, in accordance with the requirement in the appendix to the contract. Furthermore, we recommend that Keren Hayesod insist that the report relate to all the subjects required in the appendix to the agreement (amongst them, the establishment of institutions at the Association). We also recommend that the Keren Hayesod Executive relate to the reservations the Association presented on various matters in the above report.

The Director-General of Keren Hayesod advised in response that most of the recommendations of the audit report on the Ayalim Association have been carried out. With respect to some of the recommendations of the report, Keren Hayesod decided to waive them according to its right as the report customer. The matter of the reservations is also on the agenda. He added that from time to time follow-up meetings are held with the Executive of the Ayalim Association and a written summary issued.

As noted, Keren Hayesod responded affirmatively to the request of the Ethiopian National Project Association to aid it in paying for its activity through fundraising. Keren Hayesod agreed to recognize the Association as a High Priority Project and to raise earmarked contributions to fund its activity.

Our audit showed that the framework agreement between Keren Hayesod and the Ethiopian National Project Association was signed only on April 7, 2011.

The Net@ project is, as stated, a computerization project in cooperation with the Cisco System Company and the Tapuach Association for promotion of the information era in Israel. Keren Hayesod and the Jewish Agency signed a contractual arrangement agreement with them in September 2003.

In Clause 5, it is determined that the agreement is for a period commencing on the date when the agreement was signed and ending on July 30, 2006.

Our audit found that Keren Hayesod and the Jewish Agency have still not signed an extension agreement or renewal of the agreement with the Cisco Company and with the Tapuach Association which operates the Net@ project. Similarly, the existing agreement does not reflect the contractual arrangement as of today.

The Office of the Comptroller recommends that Keren Hayesod and the Jewish Agency arrange at an early opportunity for the signing of the agreement with the companies operating the Net@ project.

The Director-General of Keren Hayesod advised in response that he accepts the audit recommendation.

Procedure for Dealing with Projects

There is a very old procedure at Keren Hayesod, which was updated in June 1995, called: "Procedure for dealing with special projects", which deals with the handling of projects.

Our audit found that the procedure is old, not updated and does not reflect the process of dealing with projects as it actually takes place and as depicted in the flow chart which the Projects Division prepared.

The Office of the Comptroller recommends that the Keren Hayesod Executive formulate a new procedure which will specify the manner of handling and supervising of the projects and the reciprocal relationships between the Projects Division and the regions and with the *shlichim* at the overseas offices.

Furthermore, we recommend that the mode of work of the Projects Division regarding implementation, follow-up and control over the projects be specified in the procedure. For example: the project approval process, follow-up on the project implementation stages and occasional visits to the site, checking the reconciliation of the expenditures with the budget and the detailed planning of the project at any given time, existence of current reporting to head office bodies and to the donor (in accordance with the donor's requirement) and

attendance at the project dedication ceremony and putting up of the project plaque.

The Director-General of Keren Hayesod advised in response that he accepts the audit recommendation and that a procedure will be prepared accordingly.

As noted, in 2009 Keren Hayesod expanded the contractual arrangement with the Jewish Agency subsidiary company, Amigour, regarding construction of physical projects (after liquidation of the Jewish Agency Construction Division).

The Office of the Comptroller recommends that the procedure to be drafted arrange the handling and coordination with the Amigour Company, including the mode of control and supervision of Amigour over the physical projects as well as reporting to Keren Hayesod.

The Director-General of Keren Hayesod advised in response that the audit recommendation has been accepted and that these matters are being arranged in the draft agreement that will be signed with Amigour.

Keren Hayesod usually charged the donor an overhead, at varying rates, beyond the cost of the project. In 2008, the overhead was at a rate of 20 percent and, since 2009, has been 15 percent. In projects where the amount of the contribution is over a million dollars, the usual rate of the overhead is only 10 percent. As noted, in certain cases, the Executive resolves not to charge any overhead for a project (for example: the educational playgrounds project). The Office of the Comptroller was told that entering overheads in Projectization began only during 2009.

The Office of the Comptroller was told that there is sometimes a partial utilization of the funds donated for a project. In the educational playgrounds project and the renovation and upgrading of shelters project, Keren Hayesod does not advise the donor of this but usually accrues the balances and uses them as follows:

Keren Hayesod used balances accrued in the educational playgrounds project to pay for plaques or for funding the donor recognition ceremony (where the local authority has difficulty paying for the ceremony). The director of the Division even suggested that the balances be used for maintenance of the educational playgrounds in cases where the local authority does not see to proper maintenance or for the purpose of additional shading (that was not planned in the basic model).

Keren Hayesod used balances accrued in the renovation and upgrading of shelters project for the renovation of additional shelters.

The Office of the Comptroller recommends that the policy for using balances accrued in the projects be arranged in the procedure to be drafted and that it be defined who has the authority to determine the use of these monies.

The Director-General of Keren Hayesod advised in response that he accepts the audit recommendation.

January 2012

**Response of the Chairman of the Executive
to the Comptroller's Report on
Keren Hayesod
High Priority Projects**

In accordance with Paragraph 18 b of the Statutes of the Comptroller and the Control Office of the World Zionist Organization, following is my response to the above-referenced Audit Report.

Keren Hayesod examines, from time to time, the development of new tools for fund raising and recruiting donors. In this framework, it was decided, about four years ago, to create a new category for fund raising – High Priority Projects (HPP).

The comprehensive audit was conducted several years following the commencement of the activity, when its cumulative scope allowed the audit to examine the processes and their results and to give recommendations at the stage in which work processes for raising these funds are being developed.

The audit examined the marketing of the projects, beginning with the contact with the potential donors, implementation and use of the budget through the dedication ceremony.

With respect to the Comptroller's findings and recommendations, the Director General of Keren Hayesod informed that most of the recommendations have been accepted and he is acting to implement them.

The Director General of also informed that Keren Hayesod is preparing for a comprehensive process of updating and completing its procedures.

(-) A. Duvdevani (Duvdev)

Jerusalem, March 2012

**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.

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.

The Finance Committee:	The Standing Budget and Finance Committee elected by the Zionist General Council.
The Subcommittee for Control ²	A Subcommittee established by the Finance Committee to discuss and deal with the Comptroller's findings.
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

² Amended by the Presidium Resolution of June 11, 1991.

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.
- Vacancy of office
- 4. (a) The office of the Comptroller and his Deputy shall become vacant in any of the following circumstances:
 - 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.
 - (b) The Comptroller may resign by tendering a letter of resignation to the Chairman of the General Council.
- Independence of the
Comptroller
- 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).
- Special Status
- 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).
 - 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.

Restrictions

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;
- (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.
- (c) Neither the Comptroller nor his Deputy shall take up employment with a controlled body within three years of leaving office.

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.

Submission of
Statements and
Balances by
Controlled Bodies

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.

- Cooperation on the part of the Controlled Body
- (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.
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.
- (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.

F. Results of the Examination

- Submission of Examination Findings
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.
- (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 Complaints⁵

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

³ Amended by the Presidium Resolution of June 11, 1991

⁴ Amended by the Presidium Resolution of June 11, 1991

⁵ Amended by a Resolution passed by the Zionist General Council at its Session on February 21, 1974.

shortcomings revealed in the course of the said investigation.

- (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. Reports⁶

- 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 Finance Committee, the Chairman of the Subcommittee for Control, 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 Finance Committee and of the Subcommittee not later than two months from the receipt of the Report (Executive's Response).

⁶ 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.

- (c) The Subcommittee for the Control or the Finance 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.
- (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 Finance 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 Sub-Committee or the 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.

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| 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 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.