ההסתדרות הציונית העולמית
The World Zionist Organization

THE OFFICE OF THE COMPTROLLER

ANNUAL REPORT
for 2013

to

THE ZIONIST GENERAL COUNCIL

XXXVI/5

Jerusalem, February 2015

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Members of the Zionist General Council,

I am honored to submit to the Zionist General Council (XXXVI/5) an Annual Report on the activities of the Office of the Comptroller for the year 2013.

The volume includes reports that were discussed at the Subcommittee for Control 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 the 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, February 2015

Message of the Chairperson of the Subcommittee for Control

The World Zionist Organization

Standing Committee for Budget and Finance

1. *The Comptroller of the National Institutions examines the activities of the World Zionist Organization. Since the 36th Zionist Congress and following the election of the present Chairman of the World Zionist Organization, the Comptroller and his staff have been working to provide the members of the Subcommittee for Control and the World Zionist Organization with reports that include findings and recommendations for discussion and conclusion with the reviewed entities.*

2. *The Subcommittee for Control regards the work of the Comptroller and his staff as an important auxiliary tool for proper management of the various institutions and organizations and emphasizes this stand in its meetings.*
   Also, the Subcommittee, together with the Comptroller and in coordination with the reviewed bodies, follows up on the implementation of the recommendations specified in the Comptroller's reports.

3. *In view of the last two years' experience, I recommended to the Chairman of the World Zionist Organization that it is appropriate to grant an independent status to the Subcommittee for Control of the Standing Committee for Budget and Finance. I was therefore informed that a resolution on the matter will be brought for discussion at the XXXVI/5 Zionist General Council, convening this month. An affirmative decision will constitute recognition of the importance of the work of the Comptroller and its stature in facilitating proper management of the reviewed entities.*

4. *The Subcommittee expresses its appreciation of the thorough on going work of the Comptroller and his staff in conducting the examinations and preparing the reports, while constantly aspiring to improve the activities of the World Zionist Organization.*

5. *I thank the members of the Subcommittee for Control for their cooperation and all those involved in this important endeavor.*

Baruch Levy, Ph.D.

February 2015

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Functions of the Comptroller

and the Control Office

Functions of the Comptroller and the Control Office

The authority of the Comptroller of the Word 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 – Keren Kayemet LeIsrael, Keren Hayesod and other bodies, as defined in Clause 10 of the Statutes, in order to ascertain whether they operate within the desirable legal norms, 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 Reports ins this volume have been debated by the sub-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 2004-2014

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

2013 The *Hagshama* Movements – Use of WZO Allocation

2013 The Zionist Council in Israel

2013 Center for Religious Affairs in the Diaspora

2013 The Human Resources Division

Feb. 2015 The Unit for Morim Shlichin in the Diaspora

Feb. 2015 Habayta – Aliya Promotion Unit

Keren Kayemeth LeIsrael

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

2008 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

2913 Forest Contractors

2013 Short Term *Shlichut*

Feb. 2015 Salaries and Human Resources

Feb. 2015 Investment Management

Keren Hayesod

2006 Missions and International Events Unit

2007 Human Resources and Emissaries Administration

2008 Legacies and Funds

2012 Procurements and Contracts

2012 High Priority Projects

2013 Payment Security

2013 Salaries and Human Resources

Feb. 2015 Cash Management

The Unit for Morim Shlichim in the Diaspora

Response of the Chairman of the Executive

The Unit for Morim Shlichim in the Diaspora

Introduction

The World Zionist Organization ("WZO") Unit for Morim Shlichim in the Diaspora ("Unit" or "Morim Shlichim Unit") recruits, selects and supports morim shlichim who teach in schools abroad.

Morim shlichim serve as "Israeli ambassadors" in these schools, and role models for their students. Shlichim need to be highly conscious of Jewish and Zionist issues, be fluent in current events in Israel, and speak current Hebrew.

Morim shlichim seek to reinforce students' ties to and familiarity with Israeli heritage, expand their knowledge of Hebrew, and connect students with the State of Israel.

Morim shlichim serve in the following positions: school principal, teacher, kindergarten teacher, Hebrew studies coordinator, Rosh Kollel, and Avrech. Shlichut is for a two-year period, with an option to extend the shlichut for a third year. Schools abroad cover all wage, social benefit and insurance costs for the Shlichim.

As of March 30, 2014, there were 167 WZO morim shlichim around the world.

According to Unit data, in 2012, 392 candidates applied to the Unit, of which 59 completed the screening and training process, with 51 morim shlichim ultimately dispatched to schools abroad. According to Unit data, in the 2013-2014 school year, 162 morim shlichim were working abroad.

In 2013, 458 candidates applied, of which 72 completed the screening process and were placed with schools abroad. In the 2014-2015 school year, 178 morim shlichim are expected to be working abroad.

In 2012-2013, nine morim shlichim returned to Israel before the end of their shlichut (sometimes after only one year) due to suitability issues or for personal reasons.

Most morim shlichim were sent to elementary schools from the Orthodox formal education system. Some were sent to conservative schools, and to (non-Jewish) public schools looking to teach Hebrew. Most schools where morim shlichim were sent were in the United States.

The WZO Morim Shlichim Unit was established on November 1, 2011, and reports directly to the Chairman of the Zionist Executive. The Unit employs an executive director and an additional employee supervising the recruitment and screening of shlichim.

The director of Morim Shlichim Unit also serves as director of Religious Affairs in the Diaspora, and further manages the WZO Eliner library.

The Morim Shlichim Unit also comprises a sherut leumi volunteer. According to National-Civic Service Authority instructions, WZO must provide the Volunteer Association the following documents: NPO status certification, proper management certification, and certification of public institution status for donations under section 46A to the Income Tax Ordinance.

Correspondence in this matter indicates that the Legal Department cannot provide the Association with the required documents. The reason being: WZO is an NGO (*malkar)* and not an NPO (*amuta*). However, it was clarified that the Association can be provided with certification of WZO's entitlement under Section 46A to the Income Tax Ordinance.

The Office of the Comptroller found that WZO has not signed an agreement with the Volunteer Association for employing sherut leumi volunteers.

> The director of the Finance Department stated that, following the Office of the Comptroller's comment, he is drafting an agreement with the Volunteer Association, in conjunction with the Legal Department.

The Morim Shlichim Unit employs three freelancers who interview shlichut candidates, conduct an assessment center, and a training course for shlichim.

The Unit also employs an Israeli expat in New York, as a full-time coordinator for morim shlichim in North America (US and Canada). In 2012, the US coordinator's salary was not included in the Unit's budget, but was rather budgeted through the WZO key shlichim budget.

Before the Unit was established, the Jewish Agency was responsible for morim shlichim in the Diaspora. In November 2011, the Jewish Agency had 110 morim shlichim, operating in 80 schools, with a total budget of USD 300,000. Following the Jewish Agency's decision to shut down the program and focus on informal education, WZO assumed responsibility for morim shlichim to formal education institutions in the Diaspora.

In 2012, the Morim Shlichim Unit's budget was USD 495,000. In 2013, its budget totaled USD 1,182,700, and in 2014 – USD 1,029,642.

The Office of the Comptroller examined the Morim Shlichim Unit's operations in 2012 and 2013.

Recruitment and Screening

The Morim Shlichim Unit recruits, screens and supports morim shlichim for schools overseas (mainly in the US).

Actual workflow is as follows:

Teachers contact WZO – applying for a teaching shlichut position abroad. Applications are received following the Unit's advertisement in newspapers, on the WZO website, and in the Teachers Union's Hed Hachinuch magazine. Some applicants contact the Unit after being referred by program participants. Applications are received over the phone, by email, or through the website.

Ads detail requirements for candidates, as follows: the candidate and his/her spouse must be Israeli citizens; continuous residence in Israel for the past five years; full proficiency in Hebrew and a proficiency requirement for the language in the host country; military service or sherut leumi, or exemption from military service and compliance with WZO's screening and training criteria.

WZO's professional requirements vary based on the specific position. Requirements include: several years' experience teaching classes in Israel's education system, teaching certification, academic degree or Rabbinate certification, and knowledge of Judaism and Zionism.

Resume submission – Unit personnel contact applicants and request they send their resumes in Hebrew and English.

Pre-requisite criteria and resume review – Unit personnel verify that candidates meet preliminary criteria and professional requirements, and send candidates structured questionnaires.

Invitation to personal interview, or rejection – Based on the material compiled about each candidate, the Unit director decides whether to invite them for an interview, or to suspend a candidate's application, or reject the application (without explanation).

Personal interview – Candidates are interviewed by a panel of four professionals (freelancers), and a 'Summary of Shlichut Candidate Interview' form is filled out. The director of the Unit decides whether to summon candidates to an assessment center (workshop), or reject the application.

Assessment center – An assessment workshop conducted by a certified psychologist and additional evaluators familiar with shlichut position requirements. The workshop takes eight hours and is held in WZO's offices. In these workshops, candidates are observed, and opinions are drafted and attached to the Unit's structured assessment scorecard. All results are submitted to the head psychologist, who consolidates findings in a general scorecard, prepares a written report, and states whether or not each candidate has successfully passed the assessment center. In some cases, candidates may be asked to provide recommendations or undergo third-party professional and/or psychological evaluation (in March).

Re-evaluation of candidates' files – All material complied on each teaching shlichut candidate is reviewed by another of the Unit's freelancers.

Assigning candidates to schools abroad – The Unit director, in consultation with the professional staff (freelancers), decides which candidate is recommended to each school.

In general, the Unit director is personally familiar with each of the schools (particularly in the US), both from the secular and religious education systems. This familiarity is built by participating in professional conferences for principals, educators, education systems, etc. Occasionally, principals from new schools contact the Unit and request a teaching Shaliach from Israel.

Contract between the school and the candidate – The Unit sends the candidate's resume to the school principal. The principal is the only person authorized to decide whether or not to employ the candidate. The school contacts the candidate (via Skype, or arranging a visit either to Israel or abroad), and sends the candidate the employment contract. The Morim Shlichim Unit is copied on all correspondence. (Contracts are usually of a standard format).

At this point, negotiations are held (be emails, calls, or meetings) between the school and the Unit director (together with the shlichut candidate), based on the Jewish Agency's salary charts. The contract offered to the candidate is then examined to see whether it is reasonable. Next, a decision is made whether or not the candidate will sign the contract offered by the school. It is noted, that WZO is not party to the agreement between the shaliach and the school.

Logistical preparations – Once a candidate has signed an agreement with a school, logistical preparations (obtaining a US visa, and arranging moving services) are made by the Shlichut Dispatch and Service Terms Division in the WZO Zionist Shlichut Unit.

Shlichim course – Right after Passover, prospective shlichim undergo a five-day seminar on teaching Hebrew to English-speakers. They then attend a shlichim course, conducted as a five-day professional training retreat, which also includes a security briefing.

Final review and screening committee – The director of the Zionist Shlichut Unit and the director of the Morim Shlichim Unit decide whether each candidate has successfully completed the screening and training process, and can be referred to the Shlichut Committee.

Shlichut Committee – The committee, chaired by the director of the WZO Human Resources Division, approves the candidate's shlichut.

Agreement between the shaliach and WZO – The candidate signs the shlichut agreement with WZO. The contract constitutes a formal notice to the candidate of his teaching shlichut on behalf of WZO. (Occurs in late July).

Embarking on the shlichut – About three weeks prior to the start of the school year, the shaliach embarks on the shlichut (August).

The Office of the Comptroller found that WZO does not have formal procedures regulating the recruitment, screening and training process for

teaching shlichut candidates. In practice, the whole process is coordinated by the director of the Morim Shlichim Unit.

The Office of the Comptroller recommends that WZO's management establish formal procedures regulating the recruitment, screening and training of morim shlichim. This also includes establishing the responsibilities of the Morim Shlichim Unit, the Shlichut Committee, and additional WZO units involved in the shlichut process, such as: the Zionist Shlichut Unit charged with sending shlichim abroad and their employment terms.

> The director of the Morim Shlichim Unit stated in response that he accepts the Office of the Comptroller's recommendation, and the matter will be submitted to the WZO High Committee for Shlichut.

The Morim Shlichim Unit supports morim shlichim during their stay abroad through visits by the Unit director to the various schools, where he attends the shlichim's lessons. Shlichim also attend a shlichim seminar which takes place abroad.

The Office of the Comptroller believes that the nature of the support provided to morim shlichim during their shlichut should be formalized in a procedure.

> The director of the Morim Shlichim Unit stated in response that he accepts the Office of the Comptroller's recommendation.

As aforesaid, WZO liaises between the teaching shaliach and the schools. However, WZO does not have signed agreements with the schools.

The director of the Morim Shlichim Unit presented the Office of the Comptroller a document with WZO guidelines which is sent to the schools. However, this document does not constitute an agreement, and is not binding in any way on the schools.

The Office of the Comptroller was told that, over the past six months, the Legal Department has been working on a memorandum of understanding between WZO and the schools.

As of the audit date, in July 2014, the Legal Department has not provided the Office of the Comptroller the draft agreement between WZO and the overseas schools.

Data

The following table lists all active shlichim, as of March 30, 2014:

		Position			Country				
Departure Year	**Shlichim**	**Teacher**	**Principal**	**Avrech**	**North America**	**Latin America**	**Europe**	**Australia**	**Schools**
2009	11	11	-	-	3	8	-	-	5
2010	13	13	-	-	8	2	3	-	9
2011	28	25	-	3	20	5	-	3	16
2012	40	40	-	-	31	1	5	3	21
2013	72	68	2	2	56	11	4	1	38
* 2014	3	3	-	-	2	1	-	-	1
Total	**167**	**160**	**2**	**5**	**120**	**28**	**12**	**7**	

* Note: Shlichim usually leave for their shlichut in August. Therefore, in January-February 2014, only a few shlichim embarked on their shlichut.

The above data indicate that in 2012-2013, when the Morim Shlichim Unit operated, there was an increase in the number of teachers who went on shlichut, and an increase in the number of schools receiving shlichim.

The Zionist Shlichut Unit maintains a list of names of morim shlichim (in the Oracle system).

The Office of the Comptroller found that, as of April 30, 2014, the list contains erroneous entries. For example:

Name and Surname	Shlichut Number	Erroneous Entry	Actual Data
M.P.I. (1)	26813	Departed Sept. 2, 2013	Departed Aug. 1, 2012
A.D. (2)	118212	Departed Aug. 1, 2012	Departed Feb. 16, 2014
A.K.	127612	Departure year – 2012	Departed Sept. 1, 2011
M.K.	127712	Departure year – 2012	Departed Sept. 1, 2011
R.V.	80812	Shlichut to New York Treasury	Fuchs Mizrachi School
H.B.	90712	Shlichut to New York Treasury	Montessori School
A.M.	26713	Departed Sept. 2, 2013	Departed Aug. 1, 2012
Y.K.	29913	Departed Sept. 2, 2013	Departed Aug. 1, 2012
S.K.	29813	Departed Sept. 2, 2013	Departed Aug. 1, 2012
D.P.	26413	Active shaliach	Returned in 2014
S.L.	22313	Active shaliach	Returned in 2014
T.R.	43513	Active shaliach	Returned in 2014

(1) Following the Office of the Comptroller's remarks, this entry was corrected during the course of the audit.

(2) In 2012, this individual went on a youth movement shlichut (for Bnei Akiva), on behalf of the Jewish Agency. She was only transferred to a WZO shlichut in 2014.

The Office of the Comptroller recommends that the Zionist Shlichut Unit update erroneous entries in the system.

The director of the Zionist Shlichut unit stated in response that the Shlichut Unit will update these erroneous entries.

The Office of the Comptroller further recommends that the Morim Shlichim Unit implement ongoing control over data entries.

The director of the Morim Shlichim Unit stated in response that he accepts the Office of the Comptroller's recommendation.

Budget

Below are budget and actual expenditure data for the Morim Shlichim Unit in 2012 and 2013 (in USD):

	2012	
	Budget	**Expenditure**
Teachers Unit, General – Budget Division	-	-
Projects and Activities	**29,900**	**23,821**
-Medical insurance	29,900	23,821
Revenues	**(100,000)**	**(23,163)**
-Government ministries	(70,000)	-
-Collected from schools	(30,000)	(23,163)
Head Office, General and Administration	**565,100**	**553,319**
-Security services	175,000	175,000
-Jewish Agency	100,000	100,000
-Shlichim course	5,000	3,668
-Employee salaries	181,000	179,622
-Artists and speakers/shlichim recruitment and screening	25,321	38,930
-Temporary workers	18,300	9,289
-Overtime	1,200	222
-Travel and per diem costs	-	-
-Travel abroad	10,000	9,314
-Office needs	1,500	223
-Company car	17,500	12,000
-Employee car	1,500	1,150
-Parking	3,000	3,000
-IT services	6,600	6,675
-Computer and equipment purchases	-	-
-Joint expenses	13,500	13,476
-Insurance	750	750
-Refreshments and guests	-	-
-Communications	4,829	-
-Miscellaneous	100	-
Shlichim	**-**	**(1) 19,432**
Teachers, Mexico	**-**	**(2) 87,490**
Insurance for reimbursement	**-**	**(3) 22,813**
Representative activities in North America	-	-
Revenues for representative activities in North America	-	-
Total	**495,000**	**683,712**

Notes:

(1) Includes expenses for shlichim salaries, social benefits, medical insurance, travel and flights, visa, and business expenses (for seven shlichim). The item also includes teacher expense reimbursements received from schools for teachers in Paris and Bucharest.

(2) Includes expenses for social benefits, medical insurance, travel and flights, visa, and business expenses. The item also includes teacher expense reimbursements received from schools (for 19 teachers in Mexico).
(3) Reimbursement for insurance payments by WZO for nine teachers in the US, three teachers in Belgium and one teacher in Brazil.

	2013	
	Budget	**Expenditure**
Teachers Unit, General – Budget Division	-	-
Projects and Activities	**452,000**	**252,085**
-Shlichim training in Israel	100,000	669
-Purchasing teaching materials from Eliner library	50,000	-
-Teaching material production	-	-
-Teaching material purchases and production	200,000	205,851
-Activities in North America	10,000	7,249
-Morim shlichim seminar abroad	67,000	38,316
-Various insurances	25,000	-
Revenues	**(30,000)**	**(29,988)**
-Revenues from schools	(30,000)	(29,988)
Head Office – General and Administration	**710,800**	**627,846**
-Security services	175,000	175,000
-Jewish Agency	100,000	101,171
-Shlichim course	-	-
-Sherut Leumi	5,000	7,664
-Participation in costs for coordinator for North America	24,000	24,000
-Placement consultation and support for shlichim	130,100	16,733
-Employee salaries	170,000	201,909
-Artists and speakers/shlichim recruitment and screening	35,000	29,293
-Temporary workers	10,000	9,524
-Overtime	1,000	566
-Travel abroad	8,000	8,525
-Office needs	3,450	3,598
-Company car	17,500	13,179
-Employee car	1,500	1,088
-Parking	3,000	3,000
-IT services	7,000	6,248
-Computer and equipment purchases	-	-
-Joint expenses	13,500	13,500
-Insurance	750	750
-Refreshments and guests	-	-
-Communications	3,000	-
-Miscellaneous	3,000	2,911
-Translations and notarization	10,500	9,187
-Revenues: translations and notarization	(10,500)	-
-Zionist Shlichut Unit	-	-
Shlichim	**-**	**(1) 24,500**
Teachers, Mexico	**19,900**	**(2) 178,188**
Morim shlichim – Insurance for reimbursement	**-**	**39,256**
Total	**1,152,700**	**1,091,887**

Notes:

(1) Includes expenses for shlichim salaries, social benefits, medical insurance, travel and flight costs, visa costs, and business expenses. The item also includes reimbursements from schools for teacher-related expenses.
(2) Includes expenses for social benefits, medical insurance, travel and flight costs, visa costs, and business expenses. The item also includes reimbursements from schools for teacher-related expenses.

Revenues from Government Ministries

The Morim Shlichim Unit's budget for 2012 included inflows of USD 70,000, expected to be received from Government ministries.

The director of the Morim Shlichim Unit stated that this amount was not received.

As of the audit completion date, in July 2014, the Office of the Comptroller was not informed of the reason that the planned revenues from Government ministries in 2012, to the amount of USD 70,000, were not received.

The director of the Morim Shlichim Unit stated that in 2013, the Unit received NIS 3,423,000 from the Ministry for Religious Services.

However, the Office of the Comptroller found that the ERP system recorded income of only NIS 2,722,360. Furthermore, this income is not registered in the Morim Shlichim Unit's budget, but rather in WZO's general budget, under 'Income from Ministry of Religious Services, for morim shlichim'.

The Office of the Comptroller recommends that the director of the Finance Department examine where the remaining income of NIS 700,640, received from the Ministry of Religious Services, has been recorded. The Office of the Comptroller further recommends that the relevant income be registered in the Morim Shlichim Unit's budget.

The Unit director stated that income of USD 743,000 is expected to be received in 2014 from the Ministry or Religious Services, for the Morim Shlichim Unit.

The Office of the Comptroller notes that, as of April 30, 2014, no income was recorded in the ERP system from the Ministry of Religious Services.

The Office of the Comptroller recommends that the director of the Finance Department examine why funds for 2014 have yet to be received from the Ministry of Religious Services.

Revenues from Schools – "Processing Fees"

The WZO only secures work visas for its morim shlichim to schools in the US. In other countries, the schools apply for the visa. Thus, WZO charges US schools processing fees of USD 1,000 for each teacher.

The Office of the Comptroller examined how the decision to charge schools a USD 1,000 processing fee was made, how this amount was determined, and whether or not the fee covers actual costs including emissary recruitment, screening and training costs.

> The director of the Morim Shlichim Unit stated that there is no written documentation of the decision to charge US schools a USD 1,000 fee for securing US work visas.

The director of the Zionist Shlichut Unit, which oversees the visa application process, stated that the Zionist Shlichut Unit charges the Jewish Agency more than USD 1,000 for handling visa applications for Jewish Agency shlichim to the US.

The Office of the Comptroller recommends that the Finance Department formalize in a written document the decision to charge schools a processing fee.

The Office of the Comptroller also recommends re-examining the amount of the fee that WZO charges the schools for securing work visas for its morim shlichim.

The Office of the Comptroller further recommends determining whether processing fees also include emissary recruitment, screening and training costs. It is also recommended to consider charging processing fees for morim shlichim to other, non-US countries.

US schools pay WZO these processing fees by check, submitted personally to the director of the Morim Shlichim Unit, during his visits to the US.

The Office of the Comptroller recommends that the Finance Department formalize the process for collecting payment from the schools to WZO, and that such payments only be made via wire transfer.

> The director of the Finance Department stated in response that he accepts the Office of the Comptroller's recommendation, and will work together with the Morim Shlichim Unit and the Zionist Shlichut Unit to better regulate income from processing fees.

In light of the fact that WZO does not have any formal agreement with the schools, WZO effectively receives funds from a third party without an agreement specifying the amount to be received, or the consideration received by the school.

The Office of the Comptroller recommends that agreements be signed, regulating payments made by US schools to WZO.

The Office of the Comptroller found that the director of the Morim Shlichim Unit only started issuing receipts to US schools in April 2013. Receipts were for visa processing fees, and were issued from a receipts book. As of July 2014, only 14 receipts had been issued.

Upon completion of the audit, in July 2014, the director of the Morim Shlichim Unit submitted the receipts book to the WZO Finance Department.

Such conduct indicates that payment collection from schools, and the issue of corresponding receipts, is not carried out methodically, and that the Finance Department does not exercise control over these payment collection activities.

The Office of the Comptroller recommends that only a Finance Department representative issue receipts, and sign these receipts upon receipt of payment. The original receipt should be submitted to the director of the Morim Shlichim Unit, and forwarded to the schools. The two copies remaining in the receipts book will be used by the Finance Department for recordkeeping and control.

In 2012, a total of 31 morim shlichim were sent to schools in the US, and so this budget item should include revenues of USD 31,000. Actually, a lesser amount of USD 23,162 was recorded.

Examination of the revenues received from schools in the US for emissary processing fees in 2012, indicates the following:

Emissary E.H. – The Office of the Comptroller found that only USD 672 were collected, instead of USD 1,000.

Emissary Y.Y. – The Office of the Comptroller found that USD 2,500 were collected, instead of USD 1,000.

Mahaneh Hillel School – A payment of USD 1,000 is recorded for this school, but it is unclear for which teacher the school paid.

Emissary T. – A payment of USD 1,000 is recorded, but his name does not appear in the list of morim shlichim.

Two emissaries S. – Although these are two emissaries, a payment of only USD 1,000 was recorded, instead of USD 2,000.

Three emissaries H.S.S. – The Office of the Comptroller found errors in the names of these emissaries for whom WZO received payment.

Hillel Torah School – Paid WZO only USD 3,000, even though four morim shlichim are recorded as teaching in this school (two couples).

Emissary T.D. – A check for USD 1,000 was sent by the school, but the payment does not appear in the ERP system.

Emissaries L.M. and P.K. – WZO did not handle their visa application, and so no processing fees were charged.

Processing fees were not paid for six teachers who went on shlichut in 2012.

The Office of the Controller met with the director of the Morim Shlichim Unit to examine these findings. The Unit director stated that the Zionist Shlichut Unit monitors payment collection activities, and so he cannot provide any explanations. The Office of the Comptroller contacted the Zionist Shlichut Unit, which claimed that it does not monitor the collection of processing fees from schools, and that the director of the Morim Shlichim Unit is responsible for such supervision. The latter stated that the Zionist Shlichut Unit only implements budgetary control over the Morim Shlichim Unit.

The Office of the Comptroller recommends that the director of the Finance Department examine the difference between the processing fees that should have been collected from US schools, and actual payments received. The Office of the Comptroller further recommends that the director of the Finance Department examine the reason for the deficit in the 'Revenues from US schools' item in 2012.

In addition, the Office of the Comptroller recommends that the director of the Finance Department appoint a supervisor, on his behalf, to

monitor processing fee collection from schools in the US, and formalize the matter through a written procedure.

The director of the Finance Department stated in response that he accepts the Office of the Comptroller's recommendation and will take action in this matter.

Zero-Support Teachers

'Zero-support teachers' is the name given to morim shlichim who are not WZO employees.

The Office of the Comptroller found two items in the 2012 budget, 'Revenues' and 'Visa', which include NIS-based amounts without a USD equivalent, as follows:

	NIS	USD
Zero-supported teachers – Revenues	(4,030.19)	-
Zero-supported teachers – Visa revenues	(5,671.82)	-

The Office of the Comptroller recommends that the Finance Department examine the mismatch between the NIS-based amount and the lack of a USD amount, and correct the entry accordingly.

Security Services

The Jewish Agency Security Division briefs morim shlichim prior to their shlichut. The Security Division also provides security services to teachers during their shlichut abroad.

The Jewish Agency Security Division charges all parties receiving security services for security-related expenses abroad (security officers and security guards).

A representative from the WZO Finance Department stated that the Jewish Agency and WZO disagree about the amount and nature of these charges.

The representative stated that, as part of the separation between the two organizations, it was agreed that all services rendered by the Jewish Agency to WZO would continue to be rendered after the separation.

The representative stated that the charge of USD 175,000 recorded in the Morim Shlichim Unit's budget for security services provided in 2012 and 2013, was actually a provision, and payment was not actually transferred.

The representative added that, in 2013, WZO transferred an advanced payment of USD 150,000 to the Jewish Agency, out of a total claim of USD 700,000 for security services abroad.

Due to the current dispute, the Jewish Agency and WZO have not signed an agreement regulating payment for security services for shlichim abroad.

The Office of the Comptroller recommends expediting negotiations between WZO and the Jewish Agency concerning payment for overseas security services for shlichim, and formalizing these understandings by way of a written agreement.

Transfer to the Jewish Agency

The WZO Zionist Shlichut Unit handles, among other things, the dispatch and employment terms of Jewish Agency and WZO shlichim, including morim shlichim.

The Jewish Agency covers the Zionist Shlichut Unit's costs, and so the Morim Shlichim Unit transfers the Jewish Agency an annual sum of USD 100,000 for these services.

The Zionist Shlichut Unit also recruits and selects shlichim for both WZO and the Jewish Agency, through a formal recruitment process.

Thus, the Office of the Comptroller questions why it is necessary for the Morim Shlichim Unit to recruit and select morim shlichim for WZO.

The Office of the Comptroller recommends considering that recruitment and screening of teaching emissary candidates be handled solely by the Zionist Shlichut Unit, which provides this service to both the WZO and Jewish Agency shlichut units.

> The director of the Morim Shlichim Unit stated in response that there is a principle and material difference between the formal and informal education systems, which affects the candidate recruitment, screening and training process.

Shlichim Course

The shlichim course is a crucial part of the screening and training process for teaching emissary candidates.

The course takes place for the duration of five days in a third-party facility, as a professional training retreat. The course is fully-funded through the Unit's budget.

Course-related expenses include payment for field trips, security services, printing graduation certificates, and payment to guest speakers.

A sample examination of invoices indicates that guest speakers receive between NIS 350 and NIS 700 per lecture. In addition, fixed payments are made to a psychologist who participates in the 'assessment center' candidate screening workshop.

WZO has compiled a salary chart regulating payment to guest speakers. However, the Office of the Comptroller found that Morim Shlichim Unit's payments did not match the specified rates.

The Office of the Comptroller further found that the chart regulating payments to guest speakers has not been updated since January 1, 2008.

The Office of the Comptroller recommends that the director of the Finance Department update the rates for guest speakers, and

establish an hourly rate, criteria for reimbursing speakers for travel expenses, payment for time spent, preparatory work, etc.

The Office of the Comptroller also recommends that the director of the Morim Shlichim Unit, who examines invoices, verify that invoices submitted by speakers specify the number of hours for which payment is claimed.

> The director of the Finance Department stated in response that he accepts the Office of the Comptroller's recommendation.

The director of the Morim Shlichim Unit stated that, in 2013, the shlichim course took place in Yad Binyamin.

However, no amount was allocated to the 'Shlichim course' item in the Morim Shlichim Unit's budget, and no expenses were recorded under this item.

The Office of the Comptroller recommends examining where the expenses incurred in connection with the 2013 shlichim course were recorded.

IT Services

LALAN Ltd, the Jewish Agency IT Subsidiary, submitted an invoice of NIS 25,740, for ongoing maintenance services to the Religious Affairs units in 2012.

The Office of the Comptroller found that this payment was charged to the Morim Shlichim Unit's budget instead of the Religious Affairs units' budget.

The Office of the Comptroller recommends that the director of the Finance Department examine why payment to LALAN for ongoing

service to the Religious Affairs units was charged to the Morim Shlichim Unit's budget.

Medical Insurance

Morim shlichim and their families are covered by medical insurance. In most cases, the school obtains this insurance.

WZO, through the Jewish Agency Insurance Division, offers to insure teachers itself. The schools pay for this insurance, along with a monthly processing fee of USD 10 per person, charged by the Insurance Division (for negotiating rates and handling claims).

During the emissary screening process, candidates must fill out a medical questionnaire to examine their medical condition and insurability (in consultation with the Jewish Agency's approved doctor and the insurance company).

At the time of the audit, as of July 7, 2014, a total of 30 morim shlichim were insured through WZO.

The monthly premium for each policyholder sent to a school in the US was USD 514; and for policyholders sent elsewhere in the world – USD 135. Some morim shlichim also elect to insure themselves against personal accidents and third-party claims.

The Jewish Agency has a signed contract with an insurance company, valid September 1, 2012 through August 31, 2015, concerning the Jewish Agency's and WZO's shlichim, including the morim shlichim.

The Office of the Comptroller was told that no unusual claims were filed by morim shlichim in 2012 and 2013.

The Jewish Agency has an Exception Review Committee which reviews exceptional cases. WZO is represented on this committee by the director of the Zionist Shlichut Unit.

WZO's supervisor for shlichim-related budgets monitors the collection of reimbursements from the schools for the morim shlichim' medical insurance. Schools pay by check or bank transfer, with payments sometimes being made in one lump sum, and sometimes through monthly installments.

The Office of the Comptroller was told that some schools are delinquent in their medical insurance payments to WZO for morim shlichim who went on shlichut in 2012 and 2013. A large part of this debt is for medical insurance for morim shlichim to Mexico.

The Office of the Comptroller recommends that the director of the Finance Department intervene in collecting delinquent amounts owed by the schools for medical insurance obtained by WZO for morim shlichim, including in Mexico.

> The director of the Finance Department stated in response that he accepts the Office of the Comptroller's recommendation and that the whole matter of outstanding amounts will be examined, including ways of collecting such funds.

The Office of the Comptroller found that WZO and the schools have not signed agreements regulating payments to WZO for medical insurance and processing fees.

The Office of the Comptroller recommends that the Finance Department formalize, by way of written agreement with the schools, the issue of reimbursement for medical insurance obtained by WZO for morim shlichim and their families.

The Office of the Comptroller was told that receipts are not issued to schools which paid WZO for medical insurance.

The Office of the Comptroller recommends that the director of the Finance Department determine who is responsible for issuing

receipts to schools for processing fees and medical insurance payments for morim shlichim and their families.

Budget Items Shlichim, Teachers in Mexico, and Insurance for Reimbursement

In most cases, schools pay all salary and ancillary costs directly to the teaching emissary.

However, some teachers are employed by WZO, and WZO pays their salaries (including severance pay and convalescence). WZO also pays into their pension fund, and covers their medical and personal accident insurance.

Thus, the Unit's budget includes expenses for 35 morim shlichim. Expenses comprise salaries, social benefits, medical insurance, travel and flight costs, visa related costs, and business expenses.

Schools are expected to reimburse WZO for these costs.

The Office of the Comptroller contacted the director of the Finance Department and the Morim Shlichim Unit, requesting to examine the decision whereby expenses for these teachers are first covered by WZO through the Unit's budget, but the decision could not be found.

The Office of the Comptroller recommends that the director of the Finance Department formalize in writing the authorization to charge these expenses to the Unit's budget, until reimbursement by the schools.

The Office of the Comptroller found that in 2012 and 2013, the budget items 'Shlichim', 'Teachers in Mexico', and 'Insurance for Reimbursement' remained unfunded. However, actual expenses totaled USD 130,000 in 2012, and USD 242,000 in 2013.

For some morim shlichim, no revenues were recorded as having been received from the schools for expenses incurred under the ‘Shlichim’, ‘Teachers in Mexico’, and 'Insurance for Reimbursement' items.

This means that WZO covers these costs for the morim shlichim, instead of the schools.

The Office of the Comptroller recommends that the director of the Finance Department appoint a supervisor to monitor collection of payments from schools in connection with these three items.

The budget item for teachers whose salaries and social benefits are paid through the Morim Shlichim Unit’s budget also includes a revenue item. However, the Office of the Comptroller found that revenues do not always cover expenses. For example: in 2012, expenses for salaries, social benefits, and medical insurance for R.S. sent to a school in Bucharest, amounted to USD 21,688; however, WZO's revenues for this teaching emissary only amounted to USD 14,187.

The Office of the Comptroller recommends examining why the school in Bucharest did not fully reimburse WZO for R.S. expenses.

In 2012, 19 morim shlichim were sent to Mexico. Social benefits (and sometimes medical insurance, visa issuance costs, travel expenses, and business expenses) for these emissaries were paid through the Morim Shlichim Unit’s budget.

The Office of the Comptroller found that for some of these shlichim, no revenues at all were recorded as having been received from the schools, as reimbursement for WZO's expenses. For example:

Teaching Emissary	Expenses	USD
R.C.	Social benefits	3,970
N.D.	Social benefits	994
S.D.	Social benefits	1,023
A.G.	Social benefits	3,475
A.S.	Social benefits	1,449
Y.G.	Social benefits	1,857

The Office of the Comptroller recommends that the director of the Finance Department examine why no revenues were received from the schools as reimbursement for social benefit costs incurred by WZO for morim shlichim to Mexico.

"Mexico Agreement"

The Office of the Controller was told that, in the past, a verbal understanding was reached by the chairman of the Keren Hayesod campaign in Mexico and the Jewish Agency (who used to oversee teaching emissary activities). The informal agreement was that the campaign in Mexico will help fund the morim shlichim's costs.

However, when the chairman of the Mexico campaign completed his tenure, and teaching emissary activities were transferred from the Jewish Agency to WZO, the Mexico campaign stopped its financial support.

Thus, a debt has accrued which has yet to be paid to WZO.

This means that, in the meantime, WZO covers numerous expenses for the morim shlichim in Mexico.

The Office of the Comptroller recommends that WZO's executive organs reach an agreement with the Mexico campaign as soon as possible to settle this debt.

In light of the WZO's deficit due to the Mexico campaign's debt, the Office of the Comptroller recommends that the Zionist Executive establish a clear policy for extending the contracts of morim shlichim in Mexico, and concerning the dispatch of new teachers to Mexico.

The director of the Morim Shlichim Unit stated in response that he accepts the Office of the Comptroller's recommendation.

Teaching Material – Purchases and Production

In 2013, the 'Teaching material – purchases and production' item included an expense of NIS 19,953 for translation of the book *Mapat Shabbat*, by Amos Safrai.

In preparation for translating the book from Hebrew to English, and the associated linguistic editing, an agreement was drafted between the Eliner Library and the translator and his spouse.

The agreement was valid through September 30, 2014, with a total consideration of NIS 84,780, payable in six monthly installments against invoices, which were to be approved by the Eliner Library's representative in WZO.

The Eliner Library's representative in WZO is the director of the Morim Shlichim Unit, who is also responsible for the library (he is a member of the steering committee, the decision making team, and he also approves the Eliner Library's invoices).

The Office of the Comptroller found that the agreement was not actually signed, and yet the translators still received payment for the translation.

The Office of the Comptroller was told that, as of April 2014, the translation had yet to be completed, even though the translators committed to completing the work by September 1, 2013.

Examination of the translator's invoices indicates that these were issued by a law firm in Ra'anana, and state "Fee – monthly payment for translating *Mapat Shabbat*".

It is noted, that the director of the Morim Shlichim Unit approved these invoices with his signature, and instructed that payment be made to the translator.

The Office of the Comptroller recommends that the director of the Finance Department examine why the Eliner Library's expenses were charged to the Morim Shlichim Unit's budget.

The Office of the Comptroller found that the translator was to go on a teaching shlichut, as principal of a school in London, and his case was handled by the Morim Shlichim Unit, which also secured a visa for his family in September 2012.

In practice, the translator and his spouse did not go on shlichut to London.

The Office of the Comptroller recommends that the director of the Finance Department examine how a teaching emissary candidate, whose shlichut was cancelled, and who is certified attorney, was employed as a translator, subsequent to the cancellation of his shlichut, by the director of the Morim Shlichim Unit.

As of the audit completion date, in July 2014, the Office of the Comptroller did not receive a response.

The Office of the Comptroller found that, in 2014, the 'Production of teaching materials' item includes a charge of NIS 300 for printing services, associated with the Religious Affairs unit. This unit is headed by the executive director of the Morim Shlichim Unit.

The Office of the Comptroller recommends that the Finance Department make sure that each unit is debited only with its own expenses.

Contracts

Two former Jewish Agency employees are currently employed by the Morim Shlichim Unit to conduct interview in candidate assessment centers.

Both have signed a 'Notice on Details of Employment Terms for Day Laborers/Guest Speaker' form, which specifies the scope of their employment.

The Office of the Comptroller found that the agreement with these two individuals, signed for a one-year period, expired December 31, 2013.

In January 2014, the Human Resources Division and the director of the Morim Shlichim Unit decided that the Legal Department will prepare a new employment agreement for these two employees, and in the meantime they will continue working as day laborers.

The Office of the Comptroller found that, as of the audit completion date, in July 2014, no employment agreement had been drafted for these two employees.

> The director of the Human Resources Division stated in response that he has contacted the Legal Department once more, and requested that employment agreements be drafted for the two individuals.

Prior to embarking on their shlichut, morim shlichim sign a 'Joint Shlichut Agreement' with WZO. As aforesaid, their actual employer is the school. Thus, they do not have any rights under WZO's labor statute.

The director of the Zionist Shlichut Unit signs the agreements with the shlichim, on behalf of WZO.

The Office of the Comptroller conducted a sample examination of these contracts. The Office of the Comptroller found one contract, with shaliach A.M., who went on shlichut to the 'Yavneh' school in Paris on September 1, 2010 through August 31, 2012. His salary was paid through the Morim Shlichim Unit's budget and associated revenues were recorded.

According to ERP system data, the shaliach will complete his shlichut on August 31, 2015.

The Office of the Comptroller notes that the contract with the teaching emissary had not been extended through 2015.

The Office of the Comptroller recommends that WZO make sure that morim shlichim sign an extension of their contract, prior to completing their shlichut.

WZO employs a coordinator for morim shlichim in North America (employed as an Israeli expat). Her contract states that she is to be employed for one year, ending July 1, 2013, with a gross monthly salary of USD 2,000.

The Office of the Comptroller was told that in January 2014, the Personnel Committee decided to raise her salary to USD 3,000.

As of the audit completion date, in July 2014, the Office of the Comptroller did not receive the minutes of the Personnel Committee meeting which approve the said employee's salary, and no evidence could be found that a new contract had been signed with her.

Shlichut Committee

WZO has a Shlichut Committee, chaired by the director of the Human Resources Division. The committee comprises the director of the Finance Department, the Secretary of the Executive, the Senior Assistant to the Deputy Chairman of the Executive, the director of the Zionist Shlichut Unit, and the Assistant Chairman of the Executive's.

Examination of the Committee's minutes indicates, among other things, that the Committee decides whether to extend morim shlichim's shlichut for a third, or even fourth, year.

As aforesaid, morim shlichim go on shlichut for two years only, with an option to extend their shlichut for a third year.

According to ERP system data, shaliach A.M., who went on shlichut to Paris on September 1, 2010, is due to complete his schlichut after five years, on August 31, 2015.

The Office of the Comptroller recommends that criteria be set for approving an extension of a teaching emissary's shlichut beyond the specified two years. It is further recommended to set a maximum term for morim shlichim' shlichut. The Office of the Comptroller further believes that the Committee's minutes should include an explanation for any decision approving extension of shlichut.

> The director of the Human Resources Division stated in response that he accepts the Office of the Comptroller's recommendation.

When the teaching emissary A.M.'s shlichut to France was extended for a fourth year, it was noted that such extension was subject to "receiving the shaliach's and the school principal's commitment, as common for extending shlichut for a fourth year".

The Office of the Comptroller requested these documents. However, as of the audit completion date, in July 2014, letters of commitment from the shaliach and the school principal had yet to be received.

In certain cases, the Shlichut Committee approved a change in position or in the shlichut location (a transfer to a school in another city).

The Office of the Comptroller believes that the minutes should specify the reasons for approving such change, and include a recommendation which will aid the Committee in making a decision concerning the requested change.

> The director of the Human Resources Division stated in response that he accepts the Office of the Comptroller's recommendation.

The minutes for the Committee's meeting of December 8, 2013, include a decision to terminate the shlichut of three morim shlichim, only four months after they started their shlichut.

The Office of the Comptroller believes the minutes should specify the reasons for terminating the shlichut, and to formalize in writing the review process for drawing conclusions from cases in which it was decided to terminate the shlichut.

> The director of the Human Resources Division stated in response that he accepts the Office of the Comptroller's recommendation.

In addition, Committee minutes should include the names of the Committee members attending the meeting, and assign a serial number to the minutes.

> The director of the Human Resources Division stated in response that he accepts the Office of the Comptroller's recommendation.

Summary

The Office of the Comptroller found that, following the transfer of teaching emissary activities to WZO, the number of teachers who went on shlichut increased, as did the number of schools employing these teachers.

However, the Office of the Comptroller found that WZO does not institute systematic and methodical control over collection of monies due from the schools abroad.

As a result, WZO covers the costs of employing several of the morim shlichim, as well as visa issuance costs for morim shlichim, and medical insurance costs for some of the shlichim and their families.

Since some of the revenues expected to be received from the schools are not budgeted, the Unit does not post a deficit. **However, in practice, a debt has accrued to WZO over the past several years.**

The Office of the Comptroller recommends that the director of the Finance Department thoroughly examine the deficits accrued as a result of outstanding payments from schools abroad.

The Office of the Comptroller further recommends setting in writing the schools' financial liabilities towards WZO, and monitoring the settlement of existing debts and any future debts.

July 2014

Response of the Chairman of the Executive
to the Comptroller's Report on
The Unit for Morim Shlichim in the Diaspora

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

Morim shlichim in the Diaspora are a key component of Zionist activities.

Shlichim are dispatched to strengthen the ties between the State of Israel and Israeli heritage, to increase proficiency in Hebrew, and as noted by the Office of the Comptroller – morim shlichim serve as 'Israeli ambassadors' in the schools and role models for students.

The teacher emissary program established dozens of years ago by WZO has returned to the organization after 15 years of operation by the Jewish Agency. The Office of the Comptroller examined the Unit's activities in its first two years of renewed operations under WZO. The Office of the Comptroller's recommendations will greatly assist the Unit in improving its activities down the road.

Office of the Comptroller data indicate that the number of morim shlichim grew more than 50% in the last two years – 167 shlichim at the start of the year, as compared to 110 shlichim worldwide two years earlier, when the program was transferred from the Jewish Agency.

Today, in the 2014-2015 school year, the number of morim shlichim has risen to 177.

The Office of the Comptroller refers to several key issues in the Unit's operations.

Recruitment and selection

As opposed to many other forms of shlichut, the decision on who will serve as a teacher emissary and where they will be stationed is not made by WZO, but rather by the schools. Schools also decide employment terms with the teachers, and serve as their actual employer.

Under these circumstances, recruitment and selection are of particular importance. The more professional the process, and the better and more qualified the candidates it produces, the more that schools in the Diaspora will approach the Unit or respond favorably to its request to employ Unit-trained morim shlichim.

Office of the Comptroller data indicate that, of hundreds of teachers who applied for the shlichut in 2012-2013, only a few dozen successfully completed the selection process (15%).

In the last two years, special efforts have been made to strengthen morim shlichim's affinity to Zionist content. This is reflected both in shlichim's training, and in the support they receive during their shlichut, where close contact is maintained with shlichim and they participate in regional shlichim conferences.

Unit budget

The Office of the Comptroller reviewed the Unit's budget for 2012-2013. The increase in expenditure in these years was mostly due to efforts to increase contact and support for shlichim during their shlichut. This included providing shlichim with educational material, conducting shlichim seminars abroad, and hiring a coordinator in North America where upwards of 70% of all shlichim are stationed.

It is noted that Government ministries who are familiar with the morim shlichim program recognize its importance and have committed significant funds to increasing activities.

Security Division and the Zionist Shlichut Unit

As the Office of the Comptroller notes, the Jewish Agency recorded a USD 300,000 expense in 2011 for the Morim Shlichim Unit. This expense item did not include all Unit expenses, most notably two material expenses – security, and the Zionist Shlichut Unit.

When the Unit was transferred, we were asked to share in these expenses (funded by the Jewish Agency), and so two significant expense items were added to the Unit's budget – security, and Jewish Agency, to the respective amounts of USD 175,000, and USD 100,000. The Office of the Comptroller recommended considering that all candidate selection and recruitment be handled by the Unit for Zionist Shlichut.

Over the years, even back when the program was operated by the Jewish Agency, this option was considered, and a decision was made that due to the unique nature and structure of this shlichut – which deals with formal education venues, whereas other shlichut programs deal with non-formal education – administration should be kept separate. This was also the decision when the program was transferred back to WZO.

It is emphasized that a significant portion of the administrative support is still provided by the Unit for Zionist Shlichut, and the Unit for Morim Shlichim pays for these services.

Mexico

It has long been established that morim shlichim to Mexico are compensated differently. In the transitional period, there was some uncertainty, which led to the Unit being charged USD 260,000 in 2012-2013. Recently, following discussions with Keren HaYesod and the Jewish community in Mexico, an agreement was reached concerning these expenses, both for previous years and for shlichim starting their shlichut in 2014.

The Office of the Comptroller mentions the need for establishing the shlichut duration and criteria for its extension. This issue will be examined, keeping in mind the special nature of the morim shlichim program, and the fact that the schools serve as the shlichim's employer.

In summary, the audit report was prepared at a time when the Unit has seen significant growth in the number of morim shlichim and teaching venues, and when the Unit is still establishing its workflows. The audit report covered a broad range of issues, mostly related to fiscal-administrative matters. Most of the Office of the Comptroller's recommendations have been accepted and instructions have been issued to take the necessary actions.

We thank the Office of the Comptroller.

(-) A. Duvdevani

Jerusalem, November 2014

Habayta – Aliyah Promotion Unit

Response of the Chairman of the Executive

Habayta – Aliyah Promotion Unit

Introduction

The World Zionist Organization ("WZO") resolved to act decisively to encourage Aliyah to Israel. As the settlement of Israel is one of its key areas of activity, WZO's management decided to encourage klitah of olim within existing settlements.

It is noted that, in the past, the WZO Settlement Division ("Division") oversaw the klitah of hundreds of families within Division settlements.

Thus, in anticipation of 2012, WZO and the Settlement Division signed an agreement to conduct an Aliyah encouragement program to organize klitah of olim. The contract was for one year. In practice, the agreement was extended by a further six months, until June 30, 2013, after which the agreement was extended for a further year until June 30, 2014.

Under this agreement, the Settlement Division was granted a special State budget, of NIS 1.5 million, to finance shlichim who would oversee the klitah of olim, and to carry out various Aliyah-encouraging activities.

The program for encouraging Aliyah was to cover three issues: preparatory work in Israel, activities abroad, and klitah in Israel.

It was determined that the program would be carried out in collaboration and with definite division of responsibilities between the WZO management and the Settlement Division, as follows:

WZO would be responsible for overseeing activities to encourage Aliyah and establish Aliyah groups (garinei Aliyah) or individuals. These activities would be carried out through WZO's infrastructure in the Diaspora.

Klitah in Israel and the necessary preparations would be overseen by the Settlement Division.

In April 2012, WZO established Habayta – The Aliyah Promotion Unit which would put the program to encourage Aliyah into practice. The goal was defined as: promoting Aliyah by promoting public discourse on Aliyah to Israel, improving the personal ties between Jewish communities and Israel, reviving the option of Aliyah among Jews in the Diaspora, and move the whole process forward by developing and promoting diverse projects which would drive candidates to make a decision – and do Aliyah.

The Aliyah Promotion Unit is headquartered in Jerusalem and works together with the other WZO departments and through the regional WZO shlichim and through numerous persons in the field, the Jewish federations, the various Jewish streams, and the movements. Habayta also engages with communities and operatives in synagogues, schools, and universities. It also liaises with the Jewish Agency, the Ministry of Klitah, and local authorities in Israel.

The Unit acts to encourage Aliyah to all destinations in Israel, and not only to settlements.

The Aliyah Promotion Unit employs a full-time director and an additional full-time employee. The Office of the Comptroller was informed that, since the start of 2012 and until the Unit was established, the program was more limited in scope, and was run by supervisors in the WZO Chairman's Office.

Habayta’s budget for 2012 was USD 950,000; for 2013 – USD 685,000; and for 2014 – USD 700,575.

As mentioned, the WZO Settlement Division shares in Habayta's funding, for the costs of klitah in the settlements.

The Office of the Comptroller examined the Aliyah Promotion Unit from the start of its operations in 2012, and in 2013.

The Program for Promoting Aliyah

The agreement between WZO and the Settlement Division includes an appendix detailing the work plan. The work plan specifies that the Settlement Division commits to financing activities aimed at promoting Aliyah, up to a total amount of NIS 890,000. The Settlement Division further commits to funding half the cost of operating shlichim in France and North America, up to a total amount of NIS 610,000. In all, the Settlement Division has committed to up to NIS 1.5 million in funding. The remaining amount is funded through the Aliyah Promotion Unit's budget.

The agreement stipulates that WZO will provide the Settlement Division detailed periodic performance reports on the program's progress. These performance reports detail the funding specified in the agreement, for each activity, as compared to actual expenditure.

From the start of the program and until completion of the audit, in January 2014, WZO has provided the Settlement Division with three performance reports. The last report was for the period of March through June 2013 (see table below in the chapter on periodic performance reports).

Activities for Promoting Aliyah

Habayta works to promote Aliyah in five regions: England (including the Netherlands and Scandinavia), France (and Belgium), South America, Mexico, and North America.

It is noted that the Jewish Agency remains the sole party authorized to handle entitlement to Aliyah, and to organize and coordinate olim's flights to Israel.

The various activities specified in the work plan for promoting Aliyah to settlements, are as follows:

Seminars

The program states that each region will hold 1 – 3 seminars each year, over an extended weekend, for potential Aliyah candidates. Each seminar will include 15-25 families. The assumption is that the current information and the camaraderie forged in these seminars, will encourage undecided candidates to do Aliyah.

The program is expected to subsidize the cost of these seminars up to a pre-determined amount set by the shaliach, and as required under the circumstances. The remaining cost is covered by the participants or through local sources. It was decided that each shaliach will be allocated a total of NIS 40,000, to meet changing requirements.

The Office of the Comptroller found that, according to WZO's performance reports to the Settlement Division, no seminars were actually conducted, except in Mexico.

The Director of the Aliyah Promotion Unit stated in response that during the course of the program, it became clear that conducting the seminars under the planned format would not be possible in all locations, and so most seminars did not actually take place.

A. Aliyah Fairs

The program states that each of the five regions will conduct at least one Aliyah fair a year. In countries where the distance between major cities is greater, additional fairs will be held as necessary. The program will subsidize part of the cost, with remaining funding raised by the shaliach or by the WZO executive from other sources.

The Office of the Comptroller found that, according to WZO's performance reports to the Settlement Division, no Aliyah fairs were held in North America or in South America.

The Director of the Aliyah Promotion Unit stated in response that Aliyah fairs are planned in conjunction with additional parties and according to local needs in each region. In this period, no Aliyah fairs were held in these regions.

B. Promotional and Informative Delegations

The program specifies that, to promote settlement, towns will send their representatives and/or other experts familiar with the issue who can provide well-grounded and convincing answers to people considering Aliyah to settlements. These representatives will be included in the seminars, Aliyah fairs, and in-home seminar conducted during the year. They will be sent for a short one-or two-week trip, which will focus on their above activities.

The Office of the Comptroller found that, according to WZO's performance reports to the Settlement Division, expenditure on promotional and informative delegations in France and Belgium, from the start of the program and until June 2013, was almost double the amount budgeted for the Settlement Division for the entire program.

The Director of the Aliyah Promotion Unit informed the Office of the Comptroller that the informative delegations were extremely successful, and the last two years have seen a significant increase in Aliyah from France. Concerning the Settlement Division's excess budgeting, the Director stated that the Aliyah Promotion Unit will ask the Settlement Division to offset the amount from another budget item (such as seminars), which was not implemented, or from another item which saw significantly lower-than-expected performance.

C. In-home seminars

This is the most intensive ongoing activity to encourage Aliyah to settlements. The program states that WZO shlichim and visiting representatives from the settlements will hold in-home seminars.

The Office f the Comptroller found that, based on WZO's performance report to the Settlement Division, expenses for in-home seminars in England exceeded the pre-determined Settlement Division funding by 50%.

The Director of the Aliyah Promotion Unit stated that in England, activities promoting Aliyah are particularly successful. There is good reason that this region receives a greater portion of the Unit's budget. As concerns the deviation from the Settlement Division's set funding, the Director stated that reconciliation will be made, with the Settlement Division's consent, so that the budget deviation in this item will be offset from other budget items.

The founders of the program for promoting Aliyah believe that the above activities will bring Aliyah back to the center of Zionist discourse in the Diaspora, leading to an increase in olim.

Forecasts predict that each year, two Aliyah groups will settle in Israel, in addition to individual olim.

The Office of the Comptroller found that no assessments are carried out for the program for promoting Aliyah to settlements. Thus, there is no way of knowing how many olim joined the settlements through the program, where they settled, and whether they managed to build a new life in the settlement or left.

The Office of the Comptroller believes that a program with such a significant budget must examine its operations, to draw conclusions and improve.

Of particular note is the England region, with its annual budget of USD 200,000 (as compared to a budget of only USD 50,000 for the other regions). The Office of the Comptroller recommends reviewing whether such excessive budgetary emphasis on this region is justified.

The Office of the Comptroller recommends that WZO, together with the Settlement Division, establish measurable criteria for assessing the performance of the program for encouraging Aliyah to the settlements.

In these assessments, the Office of the Comptroller recommends that explanations be given as to why planned activities were not carried out, and conclusions be drawn for next year's work plan.

> The Director of the Aliyah Promotion Unit stated in response that the work plan was drawn as an assessment, before the start of actual operations. In practice, it was necessary to consider the nature of the various communities and their needs, and then plan the required activities. This was the reason for the gaps between the original plan and actual performance (under-utilization of one budget item, and over-spending in another).

Shlichim

Shlichim play a key role in the program for promoting Aliyah. They coordinate Aliyah-promoting activities, identify potential candidates, and establish groups of olim for settlement.

The appendix to the agreement notes that the Aliyah Promotion Unit plans to operate through five shlichim in its operating regions of North America, South America, Central America, France and Belgium, and England (including the Netherlands and Scandinavia).

As aforesaid, some of the budget allocated to the Settlement Division is designated for funding 50% of the shlichim's costs in France and North America.

The Office of the Comptroller notes that these two shlichim only began working in the second half of the program's first year of operation. The shaliach to North America assumed his position on June 12, 2012, while the shaliach to France assumed his position on October 14, 2012. Shlichim are considered as working for WZO and are WZO employees.

In South America (Argentina) WZO has a shaliach working under the Sowing Zionism program. The Aliyah Promotion Unit enlists his aid and participates in covering his salary costs.

In Mexico, the Aliyah Promotion Unit employs the services of a Jewish Agency shaliach.

In England, a local employee (employed as an Israeli expat) has been employed in a full time position since the start of the program in January 2012. This employee serves as a coordinator for Habayta, and coordinates WZO programs for promoting Aliyah in England.

The Office of the Comptroller examined the composition of the shlichim's expenses. Findings were as follows:

The “Participation in rental fees” item for the shaliach in France was budgeted at an annual amount of USD 9,900 in 2012. The Office of the Comptroller found that actual expenditure exceeded the budget, totaling USD 16,761.

It is noted, that rental costs for the three months in which the shaliach was in France in 2012 amounted to only USD 6,882.

The Office of the Comptroller recommends examining why the treasury in France charged an additional USD 9,879 to the "Participation in rental fees" item for the shaliach in France in 2012.

The Finance Department stated in response that the treasury in France erroneously charged this item for brokerage fees of EUR 1,950, and for an advanced payment to the shaliach for covering accommodation-related expenses, to the amount of EUR 1,950. In addition, this item was charged for a guarantee given to the apartment owner, to the amount of EUR 3,740. These three expenses should have been classified under a balance sheet item, and not under the "Participation in rental fees" item. The Finance Department added that, following the Office of the Comptroller's comment, classification of these expenses will be corrected in the ERP system, and the entire

deviation of USD 9,879, will be subtracted from this item, and transferred to a balance sheet item.

The Office of the Comptroller believes that the Director of the Aliyah Promotion Unit should examine budgetary charges and deviations in his unit in real time.

The Finance Department Director stated in response that he has currently instructed the Zionist Shlichut Unit to inform both himself and the Aliyah Promotion Unit, once a month, of any budgetary expense which either potentially or actually exceeds the budget.

The answer received from the treasury in France indicates that the treasury paid the shaliach an advanced payment of EUR 1,950, while the agreement with the shaliach stated that participation in rental fees will only total EUR 1,750 a month.

Furthermore, the treasury paid a realtor brokerage fees of EUR 1,950, while the agreement with the shaliach stated that brokerage fees will be paid against receipts, and to an amount that will not exceed the monthly rent budget (EUR 1,750).

The representative of the treasury in France stated in response that the agreement signed with the shaliach was not sent to the treasury in France. The treasury uses a rental fee table based on an older procedure. According to the treasury representative, based on this table, the shaliach is entitled to monthly rental fees of EUR 2,000. Since actual rental costs totaled EUR 1,950, the treasury paid this amount both as brokerage fees and as an advance to the shaliach.

The Office of the Comptroller notes that the budget for the shaliach's rental fees was only increased to EUR 1,950 in April 2013.

The Office of the Comptroller recommends that the Zionist Shlichut Department forward to the overseas treasuries all shlichut agreements signed with shlichim, and verify that the various treasuries follow these

agreements. The Office of the Comptroller further recommends that the Finance Department verify that the overseas treasuries have a copy of the current procedure, and that this procedure does not conflict with shlichut agreements.

The Office of the Comptroller further recommends that the Finance Department instruct the treasury in France to offset EUR 400 from the shaliach's salary, as follows: EUR 200 against brokerage fees, and EUR 200 for over-payment of the advance.

The "Business expenses" item for the shaliach in France was budgeted at USD 1,380 in 2012. The Office of the Comptroller found that actual expenditure exceeded the budget, totaling USD 4,429.

> The Finance Department stated in response that this deviation was due to expenses for office supplies, business-related travel, participation in a Shabbat Aliyah seminar, and phone costs.

The Office of the Comptroller questions why these additional expenses were not recorded under appropriate budget items (e.g. – travel, preliminary activities and equipment).

In 2013, the cost of employing the shaliach in France was included in the WZO's general budget, under the "Key shlichim" item, and not under the Aliyah Promotion Unit budget, as was the case in 2012.

Costs for the shaliach in North America were budgeted from the start under the WZO's "Key shlichim" item.

In other words, the Aliyah Promotion Unit's budget does not reflect the cost of the shlichim, nor does it reflect the funding received from the Settlement Division for covering half the cost of two shlichim. In practice, shlichim-related costs are classified under WZO's "Key shlichim" item, while income from the Settlement Division is classified under WZO's "General income" item.

The Office of the Comptroller believes that the Aliyah Promotion Unit's budget should reflect the funding received from the Settlement Division.

> The Finance Department Director explained that WZO decided that, to facilitate planning the cost of employing shlichim, the entire budget for key shlichim around the world will be classified under a separate key item. Therefore, the expenses for these two shlichim are not recorded in the Aliyah Promotion Unit's budget.
>
> The Director adds that the Executive and the Finance Committee have decided that all of WZO's budgetary resources, including designated income from external parties (Such as Government ministries) will be classified together under a separate item. Therefore, designated revenues from the Settlement Division are not recorded in the Aliyah Promotion Unit's budget.

Costs for the shaliach to South America are budgeted under the "Key shlichim" item. The agreement with this shaliach ended on July 10, 2014. The shaliach returned to Israel, and no replacement has been dispatched at this time.

Costs for the shaliach in Mexico (Jewish Agency shaliach) are budgeted by the Jewish Agency.

The employee working in England (in an Israeli expat position) assumed her position in January 2012. In January 2013, a new, local employee was recruited in her stead. Costs for this new employee are included in the Aliyah Promotion Unit's budget.

In January 2014, WZO's Shlichim Committee decided to appoint a permanent shaliach in England (instead of the local employee). Thus, the Committee changed the duties of the Jewish Agency's Zionist Youth Movement shaliach in England, and appointed her as the WZO shaliach (as a WZO employee), from January 1, 2014 through March 15, 2015.

The Office of the Comptroller found that, as of the time of completing this audit, in January 2014, a shlichut agreement had yet to be signed with the shlicha in England.

The Finance Department Director stated in response that he accepts the Office of the Comptroller's comment and it will be addressed.

As aforesaid, under the appendix to the agreement, the Settlement Division committed to funding 50% of the cost of operating shlichim in France and North America, up to a total amount of NIS 610,000.

However, according to the periodic reports submitted by WZO to the Settlement Division to date, the Settlement Division's funding for the shlichim has totaled NIS 673,448. In other words, the Settlement Division has exceeded its contractual obligation by NIS 63,448 (see table below).

The Office of the Comptroller recommends that WZO reach an arrangement with the Settlement Division concerning its over-payment for shlichim-related costs.

As part of the audit, the Office of the Comptroller compared actual costs for shlichim, as recorded in WZO's ERP system, and the amount claimed by WZO from the Settlement Division in its periodic reports (in NIS):

	1-11/12		12/12 – 2/13		3-6/13		Total	
	ERP	**Report**	**ERP**	**Report**	**ERP**	**Report**	**ERP**	**Report**
Shaliach to North America	205,242	216,298	155,636	129,890	161,844	81,229	522,722	427,417
Shaliach to France	88,093	46,552	142,990	126,034	147,634	73,445	378,717	246,031
Total	**293,335**	**262,850**	**298,626**	**255,924**	**309,478**	**154,674**	**901,439**	**673,448**

Note: Shaliach-related costs include salary, social benefits, participation in rental fees, medical insurance, business expenses, and representation fees.

The data indicate that in some of its reports, WZO requested funding from the Settlement Division to an amount that does not match their contractual agreement, which specified that the Settlement Division will only cover 50% of shlichut-related costs.

For example: in the period of 1-11/2012, WZO claimed a total of NIS 216,298 from the Settlement Division for the shaliach to North America. Actual costs were lower, totaling only NIS 205,242. In other words, instead of requesting that the Settlement Division cover 50% of the shaliach's costs, WZO requested more than 100% of the actual cost.

In the period of 12/2012-2/2013, WZO claimed a total of NIS 126,034 from the Settlement Division for the shaliach to France, out of a total cost of NIS 142,990. In other words, WZO asked that the Settlement Division cover 88% of the actual cost, and not 50%.

It is noted that in other reports, for example in the period 3-6/2013, WZO requested 50% of the cost for both shlichim, as mandated in the agreement.

Ultimately, in its three reports to the Settlement Division as of the audit completion date, WZO requested a total of NIS 673,448, out of an overall cost of NIS 901,439. Thus, WZO requested 75% of the actual costs, and not 50%. It is noted, that the Settlement Division paid the amount as reported by WZO.

The Office off the Comptroller recommends that the for Aliyah Promotion Unit and the Finance Department to examine why, in its reports, WZO requested that the Settlement Division cover more than 50% of its expenses for the two shlichim.

> The Aliyah Promotion Unit and the Finance Department stated in response that the employee who prepared the reports to the Settlement Division has resigned and so no explanations can be given for the data submitted to the Settlement Division.

The Office of the Comptroller emphasizes that it was not given a satisfactory explanation for the fact that WZO requested funding in excess of the contractually-mandated 50%.

In light of this fact, we recommend that the Director of the Aliyah Promotion Unit carefully examine all future performance reports and sign his approval of them, before forwarding them to the Settlement Division.

The appendix to the agreement between WZO and the Settlement Division states that the cost of operating the shlichim will be based on the salary chart prepared by the inter-ministerial committee (of the Ministry of Foreign Affairs and the Ministry of Finance). This chart is used by the Jewish Agency Shlichut Unit. It was further agreed that shlichim will be employed by WZO based on the shlichut statute common in the organization.

WZO has a shlichut statute issued by the Unit for Zionist Shlichut, prepared in 2009. The Office of the Comptroller was told that this statute is no longer current.

The Office of the Comptroller recommends that WZO examine its shlichut statute and update it as necessary.

> The Finance Department Director stated in response that he accepts the Office of the Comptroller's recommendation.

Under the agreement and the program, the shaliach, among other things, is responsible for establishing **"Aliyah groups for settlement"**.

However, during the course of the program, it was found that the "**Aliyha groups**" method (as opposed to individual olim) was not successful, and the groups were absorbed throughout the country, and not necessarily in those regions where the Settlement Division operates.

It seems that potential olim seek to settle in locations with an abundance of work and education opportunities, and a supporting community with a similar cultural profile. There is no demand for making Aliyah as a group, and olim are not necessarily interested in making Aliyah to **settlement** regions (Judea and Samaria, Negev, and Galilee).

The Office of the Comptroller believes it is necessary to re-examine the method of establishing "Aliyah groups", as it appears not to be successful, and change the shlichim's activities accordingly.

The Office of the Comptroller further recommends examining whether the program's definition as promoting Aliyah to "settlements" is still relevant in light of the fact that settlements do not appeal to olim.

> The Director of the Aliyah Promotion Unit stated in response that the program for promoting Aliyah comprises both group-based Aliyah, and Aliyah by individual olim. The Director stated that, as the Settlement Division had trouble finding suitable target settlements, Aliyah groups for settlement could not be established according to the basic program. However, Aliyah by individuals continued throughout the period. According to the Director, interest in making Aliyah was indeed not expressed in all locations – in Aliyah to settlements.

Budget

The Aliyah Promotion Unit's budget and actual expenditure in 2012 were as follows (data in USD, from the ERP system):

Habayta – Unit for Promoting Aliyah	**2012**	
	Budget	**Actual Expenditure**
Settlement Division Participation in Promoting Aliyah		
Settlement Division participation, Latin America	48,108	48,108
Settlement Division participation, North America	132,715	62,985
Settlement Division participation, France	128,535	-
Settlement Division participation, England	48,108	-
Settlement Division Participation, Central America	48,108	-
Settlement Division participation, general	4,427	-
Total	**410,001**	**111,093**
WZO – Promoting Aliyah		
General activities – Budget Division	177,107	91,600
Promoting Aliyah in France		
Shaliach-salary	20,000	16,627
Social benefits	1,800	2,135
Participation in rental fees	9,900	16,761
Local taxes		
Education – tuition		
Travel – flights	1,600	1,671
Baggage	2,000	-
Medical insurance	720	369
Business expenses	1,380	4,429
Representation fees	900	929
Visa	-	-
Foreign language classes	-	-
Shaliach – Budget Division	40,285	
Total	78,585	42,921

Activities		
Activities	-	-
Preliminary equipment purchases	500	-
Travel and per diem abroad	-	-
Settlement Division participation	(128,585)	-
Total	(128,085)	-
Community adoption		
Community adoption	-	-
Shabbat Shuva – Toulouse	-	-
Shabbat Lech Lecha – Paris – 1	-	-
Shabbat Lech Lecha – Paris – 2	-	-
Shabbat Hanukah – Toulouse	-	-
Total	-	-
Seminars to Promote Group-Based Aliyah		
Seminars	10,000	235
Fairs	17,500	-
In-home seminars	8,250	-
Informative delegations – travel and per diem	8,750	6,039
Miscellaneous	5,000	699
Total	49,500	6,973
Total promoting Aliyah in France	**-**	**49,894**
Promoting Aliyah in England		
Employee		
Salary – Israeli expat	40,000	35,853
Social benefits	4,500	3,971
Local taxes	3,000	1,541
Business expenses	-	-
Employees		
Salary – Israeli expat	-	678
Social benefits		55
Local taxes		
Business expenses	-	-
Total	47,500	42,098
Activities		
Activities	99,000	99,863
Office expenses	7,500	3,368
Expo	30,000	19,746
Marketing and advertising	20,000	13,502
Local employees	-	-
Domestic travel and flights	5,000	3,220
Travel abroad	30,000	16,790

Settlement Division participation	(48,108)	
Total	143,392	156,489
Total for promoting Aliyah in England	**190,892**	**198,587**
Promoting Aliyah in Mexico		
Activities		
Seminars	10,000	4,494
Fairs	17,500	15,242
In-home seminars	8,250	569
Informative delegation – travel and per diem	8,250	4,738
Settlement Division participation	(44,000)	-
Total	**-**	**25,043**
Promoting Aliyah in Brazil		
Continental Aliyah seminar activities	3,500	-
Total promoting Aliyah in Brazil	**3,500**	**-**
Head Office – General and Administration		
Office for Promoting Aliyah – Budget Division	12,000	5,467
Support for Aliyah tours	12,500	-
Salaries	85,000	87,128
Travel and per diem (domestic)	1,000	-
Travel and per diem (overseas)	15,000	18,078
Office supplies	10,000	4,501
Company car	12,000	10,370
Employee car	3,000	3,151
Parking	1,000	1,000
LALAN – IT Services	2,000	-
Communications	5,000	-
Miscellaneous	10,000	8,411
Total administration and organization	**168,500**	**138,106**
Total Program for Promoting Aliyah	**950,000**	**614,323**

The Aliyah Promotion Unit's budget states that the Settlement Division transferred WZO a total of USD 111,093 in 2012. However, the Office of the Comptroller found that, according to WZO's bank account, a total of USD 147,473 were received from the Settlement Division.

The Office of the Comptroller recommends that the Finance Department examine the difference between the revenue from the Settlement Division as recorded in the ERP system, and as appears in WZO's bank account.

The Finance Department stated in response that the “Settlement Division participation in promoting Aliyah" item (USD 111,093) and its sub-items “Settlement Division participation" in France, England and Mexico – are actually not inflows from the Settlement Division. According to the Finance Department, there is a mistake in the ERP system's definition of the nature of these data, which are recorded in the Unit's budget.

The Finance Department explained that, in contrast to ERP system records, these are not amounts received from the Settlement Division for promoting Aliyah, but rather costs charged to the Aliyah Promotion Unit for shlichim-related costs. Costs concern two items not included in the Unit's budget – USD 62,985, charged to the "Key shlichim" item; and USD 48,108 charged to the “Sowing Zionism” item (partial coverage of the key shaliach's salary in South America). Thus, according to the Finance Department, the item should have been titled "Aliyah Promotion Unit participation in costs of key shlichim and representatives" (internal reconciliation between WZO units), and not “Settlement Division participation in promoting Aliyah”, as mistakenly appeared in the ERP system.

Thus, the “Settlement Division participation” sub-items entered for France, England and Mexico, should be deleted from the Aliyah Promotion Unit's budget.

The Finance Department further added that the “General activities” item, to the amount of USD 91,600 also reflects charges for shlichim and representatives, and not as erroneously recorded in the Aliyah Promotion Unit's budget.

In light of the above, the Office of the Comptroller notes that the Unit for Promoting Aliyah's budget, as appears in the ERP system and as presented to the Executive and the Standing Finance Committee, is misleading and does not reflect the actual state of affairs.

The Office of the Comptroller questions how such a significant error concerning the nature of financial data in the Aliyah Promotion Unit's 2012 budget was not found by the Director of the Aliyah Promotion Unit, or by the controls implemented by the Finance Department – until the Office of the Comptroller's inquiry as part of the preparation of this report.

The Aliyah Promotion Unit's budget and actual expenditure in 2013 were as follows (based on ERP system data, as of January 20, 2014, in USD):

Habayta – Unit for Promoting Aliyah	**2013**	
	Budget	**Actual Expenditure**
WZO – Promoting Aliyah		
General activities – Budget Division	-	-
Aliyah-Promoting Activities in Israel		
Support for Aliyah-promoting activities in Israel	49,500	44,380
Marketing and advertising	14,500	19,103
Short-term shlichuiot	10,000	1,738
Revenues from fairs	(-)	(3,736)
Total Aliyah-promotion in Israel	**74,000**	**61,485**
Aliyah Promotion in North America		
Activities		
Seminars	10,800	979
Fairs	10,000	-
In-home seminars	9,000	4,465
Aliyah-promoting activities – Canada	9,000	6,000
Informative delegations – travel and per diem	8,200	4,557
Miscellaneous	3,000	555
Total Aliyah promotion in North America	**50,000**	**16,556**
Aliyah Promotion in France		
Seminars	11,000	130
Fairs	19,000	16,697
In-home seminars	9,000	782
Informative delegations – travel and per diem	19,500	17,704
Miscellaneous	8,500	3,785
Total Aliyah promotion in France	**67,000**	**39,098**

Aliyah Promotion in England		
Employee – salary for Israel expat	600	230
Social benefits	50	(48)
Local taxes	2,000	-
Business expenses	225	522
Employee – salary for Israeli expat –	42,400	24,000
Social benefits	8,950	2,970
Local taxes	2,500	1,608
Business expenses	-	-
Total	56,725	29,282
Activities		
Activities	21,500	3,813
Office expenses	10,000	2,834
Expo	30,000	26,267
Marketing and advertising	52,000	51,155
Guest speakers	5,000	784
Local employees	-	-
Travel and flights – domestic	-	-
Travel abroad	30,000	18,853
Miscellaneous	12,775	4,517
Settlement Division participation	(-)	(-)
Total	161,275	108,223
Total Aliyah promotion in England	**218,000**	**137,505**
Aliyah Promotion in South America		
Seminars	11,000	-
Fairs	19,000	-
In-home seminars	9,000	3,307
Travel abroad	10,070	5,627
Total Aliyah promotion in South America	**49,070**	**8,934**
Aliyah Promotion in Mexico		
Seminars	10,800	10,000
Fairs	1,700	1,700
In-home seminars	2,800	1,300
Informative delegations – travel and per diem	7,500	-
Miscellaneous	-	-
Settlement Division participation	(-)	(-)
Total Aliyah promotion in Mexico	**22,800**	**13,000**
Aliyah Promotion in Brazil		
Continental Aliyah seminar	3,130	3,130
Total Aliyah promotion in Brazil	**3,130**	**3,130**

Office for Promoting Aliyah		
Office for Promoting Aliyah – Budget Division	-	-
Support for Aliyah tours	(-)	(-)
Employee salaries	150,000	170,300
Overtime	500	234
Travel and per diem – domestic	500	118
Travel and per diem – overseas	11,000	12,938
Office supplies	1,000	345
Company car	20,000	20,447
Employee car	6,000	7,614
Parking	3,000	3,000
LALAN – IT Services	3,000	-
Communications	3,500	-
Miscellaneous	2,500	1,595
Total – Office for Promoting Aliyah	201,000	216,591
Total – Project for Promoting Aliyah	**685,000**	**496,299**

The Aliyah Promotion Unit's budget for 2013 did not include revenues from the Settlement Division.

> The Finance Department stated that the reason was that WZO decided to change its accounting policies, so that the Settlement Division's participation will be recorded as one sum, classified under WZO's general revenues item, and not in the Aliyah Promotion Unit's budget.

The Office of the Comptroller questions why the Finance Department did not remove from the Aliyah Promotion Unit's 2013 budget the items "Settlement Division participation" for activities in England and Mexico.

The Office of the Comptroller notes that, following the change in accounting policy, the Settlement Division's funding, to the amount of NIS 1.5 million, comes in addition to the Unit's budget, and not as a part of said budget.

The Aliyah Promotion Unit's budget for 2013 did not include funding for various items, such as: Revenues from fairs in Israel; a miscellaneous item

for operations in Mexico; domestic travel and flights; business expenses in England; and support for Aliyah tours in Israel.

The Office of the Comptroller recommends that the Finance Department remove these items from the budget if they are no longer relevant.

The 2013 budget includes a “Local employees” item, in addition to existing items for Israeli expat employees.

The Office of the Comptroller recommends that the Finance department remove the "Local employees" item for England.

The Aliyah Promotion Unit's budget for 2014 totals USD 700,575.

The Office of the Comptroller found that, as of the audit’s completion in January 2014, no funding has been allocated to the various items in the 2014 budget.

The Office off the Comptroller recommends that WZO's Finance Department examine why the Aliyah Promotion Unit's budget items for 2014, do not include any data.

Periodic Performance Report

As aforesaid, WZO’s agreement with the Settlement Division states that the Settlement Division’s funding, to the amount of NIS 1.5 million, for receiving olim in the settlements, will be utilized as follows:

- NIS 610,000 for covering half the costs of the shlichim to France and North America.

- NIS 890,000 for funding Aliyah-promoting activities in five regions around the world, including: seminars; Aliyah fairs; promotional and informative delegations; and in-home seminars.

The Settlement Division's funding was contingent on WZO submitting detailed, written performance reports to the Settlement Division in 2012. These reports are required to specify activities carried out in the preceding month. The agreement states that reports will be approved by the Settlement Division, prior to reimbursement by the Division.

The Office of the Comptroller notes that the bulk of the program's activities were delayed, and only started in the second half of 2012. Thus, WZO submitted only one report to the Settlement Division in 2012.

Since activities began late in the year, WZO's agreement with the Settlement Division, which was originally signed for one year, was extended until June 30, 2013.

WZO's performance report to the Settlement Division details activities carried out in each region (e.g. – Aliyah fair, in-home seminars, lectures); the time and place of each activity; the target audience (families with children, youths and students, professionals and businessmen); and the type of expense (advertising, refreshments, etc.).

Performance reports also state the cost of each activity, and the Aliyah Promotion Unit includes any relevant receipts.

Furthermore, the performance report lists the amount that WZO requests from the Settlement Division as participation in the cost of operating two shlichim, in France and in North America.

Expenses for promoting Aliyah to the settlements, as detailed in WZO's funding-related reports to the Settlement Division, were as follows (in NIS):

	Budget	First Report 1-11/12	Second Report 12/12-2/13	Third Report 3-6/13	Total
Shlichim	**610,000**	**262,850**	**255,924**	**154,674**	**673,448**
Shaliach to North America					
Salary	580,530	181,215	128,693	81,229	391,137
One-time expenses	45,617	35,083	1,197		36,280
Total	626,147	216,298	129,890	81,229	427,417
Shaliach to France					
Salary	563,880	42,382	125,406	73,445	241,233
One-time expenses	31,250	4,170	628		4,798
Total	595,130	46,552	126,034	73,445	246,031
Total costs for shlichim	1,221,277	262,850	255,924	154,674	673,448
Activities	**890,000**	**286,635**	**44,506**	**74,278**	**405,419**
Mexico					
Seminars	40,000				
Aliyah fair	70,000	63,735			63,735
In-home seminars	33,000	22,526			22,526
Informative delegation	35,000	7,267	24,195		31,462
Total	178,000	93,528	24,195		117,723
England					
Seminars	40,000				
Aliyah fairs	70,000	70,000	995		70,995
In-home seminars	33,000	28,322	572	21,211	50,105
Informative delegations	35,000	35,000		6,255	41,255
Total	178,000	133,322	1,567	27,466	162,355
France + Belgium					
Seminars	40,000				
Aliyah fair	70,000			2,295	2,295
In-home seminars	33,000			2,279	2,279
Informative delegations	35,000	20,038	12,839	31,653	64,530
Total	178,000	20,038	12,839	36,227	69,104
North America					
Seminars	40,000				
Aliyah fairs	70,000				
In-home seminars	33,000			10,585	10,585
Informative delegations	35,000	4,747	5,905		10,652
Total	178,000	4,747	5,905	10,585	21,237
South America					
Seminars	44,000				
Aliyah fairs	70,000				
In-home seminars	33,000				
Informative delegations	35,000	35,000			35,000
Total	178,000	35,000			35,000
Total costs for activities	890,000	286,635	44,506	74,278	405,419
Total costs – shlichim + activities	**1,500,000**	**549,485**	**300,430**	**228,952**	**1,078,867**

First Performance Report

The first performance report, for NIS 549,485, was submitted to the Settlement Division on December 12, 2012. The report covered activities in 2012, and was signed by the director of WZO's Finance Department. The Settlement Division approved payment on December 26, and payment was transferred to the WZO bank account on December 27, 2012.

The Office of the Comptroller notes that, in effect, the first performance report detailed expenses amounting to NIS 629,219. However, the overseas treasuries did not provide the Unit with receipts for expenses amounting to NIS 79,734, as follows: NIS 39,696 for Aliyah fairs in England; NIS 17,918 for informative delegations in England; and NIS 22,120 for informative delegations in South America. Thus, the Settlement Division only covered NIS 549,485. The remaining balance was funded through the Aliyah Promotion Unit's budget.

In effect, a large part of the program for promoting Aliyah's expenses are incurred overseas by the local treasury. The Unit for Promoting Aliyah is charged based on monthly reports submitted by the overseas treasuries (Latin America, New York, Paris, and London).

The Office of the Comptroller recommends instructing the Director of the Aliyah Promotion Unit to examine and personally sign all expenses charged to his Unit by the overseas treasuries.

The Office of the Comptroller found that the Aliyah Promotion does not systematically or regularly monitor supporting documents (receipts) received from the overseas treasuries for expenses charged to the Unit's budget.

Thus, no receipts were sent to Jerusalem for many of the expenses charged to the Aliyah Promotion Unit's budget, and WZO cannot claim these amounts from the Settlement Division.

Prior to preparing the periodic report for the Settlement Division, the Aliyah Promotion Unit tries asking all the overseas treasuries to submit the receipts. As a result, the funding request from the Settlement Division is delayed, or funding falls short of actual expenses.

The director of the Settlement Division's Society and Klitah Division is the go-between for the WZO Aliyah Promotion Unit, which carries out Aliyah-promoting activities, and the Settlement Division's accounting unit, which approves the funding.

The Office of the Comptroller was told that, in many cases, performance reports submitted to the Settlement Division are incomplete (lack data or documents). For example: the first performance report includes an appended report detailing activities in England from June to November 2012. The report was submitted without the Aliyah Promotion Unit's logo, is undated, not numbered, and not signed by the person submitting the report. In addition, the report was not prepared in MS Excel, and so numerical data do not always match the final amount. Activity descriptions also lack vital information. For example: in-home seminar on Aliyah to settlements – describes a in-home seminar with 20 graduates of the Bnei Akiva movement, held in the movement shaliach's home. However, the description does not mention the shaliach's name, when the seminar took place, and does not include a receipt for GBP 128.5 for refreshments.

In another case, the Unit for Promoting Aliyah sent the Settlement Division a report on Aliyah-promoting activities in Mexico, carried out as part of the Israel Week held in December 2012. However, the Aliyah Promotion Unit stated that "this is a preliminary report and we are awaiting additional receipts." As aforesaid, the Settlement Division was asked to fund the activity even though the performance report only included part of the receipts. As a result, the Settlement Division had to scrutinize the material received from the Aliyah Promotion Unit to check which of the reported activities was missing receipts.

The Settlement Division informed the Office of the Comptroller that the improper reports submitted by the Aliyah Promotion Unit prevent it from

forming a true and complete picture of activities carried out by WZO, and prevent the Settlement Division from approving such performance reports for funding the program for promoting Aliyah's expenses, as required by the agreement between the two bodies.

> The Director of the Aliyah Promotion Unit stated in response that an effort was later made to submit clearer reports.

In some cases, for various reasons, different activities took place than those that were planned and specified in the agreement. However, the Settlement Division was not notified of this change in advance, nor was it given any explanations after the fact. As a result, it is difficult for the Settlement Division to approve performance reports and cover expenses.

The Office of the Comptroller was also told that the Settlement Division sometimes has difficulty associating receipts to specific activities, which also undermines approval of the performance reports.

The Office of the Comptroller recommends that the Director of the Aliyah Promotion Unit examine and personally sign performance reports, prior to their submittal to the Settlement Division. Reports must be clear and detailed, and include all relevant receipts to facilitate full transparency.

The Office of the Comptroller recommends that when activities are not carried out, or when different activities are carried out than originally planned, the Aliyah Promotion Unit notify the Settlement Division in advance, and explain the reason for such changes.

Second Performance Report

The second performance report, covering an amount of NIS 300,430, from December 2012 to February 2013, was submitted on April 10, 2013. This report was approved by the Settlement Division on May 20, 2013. Payment was transferred to the WZO bank account on June 19, 2013.

From the start of the project through February 2013, the Settlement Division transferred a total of NIS 849,915 to WZO, from its total commitment of NIS 1.5 million.

Thus, in the extension to the agreement, signed April 11, 2013, the Settlement Division undertook to pay the remaining NIS 650,085 for the period of July 1, 2013 through June 30, 2014.

The extension to the agreement specified new dates for submitting performance reports to the Settlement Division. It was determined that a periodic report would be submitted on August 8, 2013, an annual report for 2013 would be submitted by April 10, 2014, and a summary report would be submitted on June 30, 2014.

Third Performance Report

The third performance report, covering NIS 228,952 was submitted on August 7, 2013, and referred to the period from March through June 2013. On October 14, 2013, the Settlement Division transferred payment to the WZO bank account.

The Office of the Comptroller compared data from the Aliyah Promotion Unit's budget (in the WZO ERP system) with the data reported by WZO to the Settlement Division (in the periodic performance reports).

The Office of the Comptroller found that data do not always match. For example:

In-home seminars in Mexico – According to the Aliyah Promotion Unit's budget, expenses for in-home seminars in 2012 totaled USD 569. However, the Unit's report to the Settlement Division stated that expenses totaled NIS 22,526.

The Office of the Comptroller recommends that the Finance Department examine why WZO claimed reimbursement from the

Settlement Division which greatly exceeded its actual expenses for in-home seminars.

> The director of the Finance Department stated in response that the difference is due to an error by the treasurer in Mexico in properly classifying expenses when entering them in the ERP system. The director of the Finance Department stated that the sum of NIS 22,526 claimed for in-home seminars is backed by receipts attached to the performance report.
>
> The director of the Finance Department added that following the Office of the Comptroller's comment, the Aliyah Promotion Unit and the Finance Department will implement regular reviews and examinations of reports from received from overseas treasuries, to verify that data match both the proper budget items and the performance reports submitted to third parties.

Informative delegations to South America – According to the performance reports, informative delegations to South America only took place in 2012, and totaled NIS 35,000. However, the Aliyah Promotion Unit's budget for 2012 does not include a budgetary item for South America.

The Office of the Comptroller recommends that the Finance Department examine why WZO claimed funding from the Settlement Division for an informative delegation to South America, when no such expense item appears in the Unit's budget.

> The Finance Department stated in response that expenses for informative delegations to South America were classified under the Aliyah Promotion Unit's "Travel abroad" budget item.

In light of the Finance Department's reply, the Office of the Comptroller examined the informative delegation to South America's expenses, recorded

in the Unit's budget, and found a mismatch between ERP data and the data reported by WZO to the Settlement Division.

For example: in the ERP system, expenses for one of the delegations are listed as follows: flight – NIS 8,253; per diem – NIS 2,091; total cost – NIS 10,344.

However, WZO reported other amounts to the Settlement Division: flight – NIS 7,807; per diem – NIS 9,395; total cost – NIS 17,202.

In other words, not only is there a mismatch between data in the ERP system and data reported to the Settlement Division, but in this case WZO's report to the Settlement Division claimed funding well above actual costs.

The Office of the Comptroller's examination found that the flight and per diem expense data for additional delegations to South America in 2012 also included mismatches between amounts recorded in the ERP system and amounts reported to the Settlement Division.

> The Aliyah Promotion Unit and the Finance Department stated in response that there are indeed mismatches. As aforesaid, the employee who prepared the reports to the Settlement Division has resigned and so no explanation can be given for these differences.

The Office of the Comptroller emphasizes that it did not receive a satisfactory explanation as to the mismatch between amounts recorded in the WZO ERP system and amounts as reported to the Settlement Division.

Examination of the data in the periodic performance report submitted thus far to the Settlement Division since the start of the program indicates that, in certain items, the Settlement Division's funding exceeded the contractually-obligated amount.

	Agreed Funding (NIS)	Actual Funding (NIS)
Shlichim	610,000	673,448
England – informative delegations	35,000	41,255
France and Belgium – informative delegations	35,000	64,530

The Office of the Comptroller recommends that WZO's Finance Department reach an agreement with the Settlement Division on how to reconcile the Settlement Division's over-funding of these items.

The Aliyah Promotion Unit's budget for 2012 and 2013 includes additional items for employees and Aliyah-promoting activities in England, which do not appear in the performance reports submitted to the Settlement Division. For example: local employee costs, office expenses, marketing and advertising, domestic flights and travel costs.

The Office of the Comptroller recommends making sure that expense classes appearing in the Aliyah Promotion Unit's budget match those in its performance reports, as concerns activities and employees in England.

> The Finance Department stated in response that these items are funded through the core budget, and so they do not appear in the reports submitted to the Settlement Division.

The 'Promoting Aliyah from England' item includes a major sub-item entitled 'Activities' (budgeted at USD 99,000 in 2012), and sub-items 'Activities' and 'Miscellaneous' in 2013, totaling USD 34,275. It is unclear what types of expenses these items refer to.

The Office of the Comptroller recommends detailing the types of expenses included under the 'Activities' and 'Miscellaneous' items to guarantee complete transparency and enable control.

The Settlement Division notified the Aliyah Promotion Unit that, due to the transition to the new ERP system 'Merkava', the system will be offline from December 20, 2012 until March 2013. Thus, the Settlement Division suggested that the Unit submit its fourth performance report, for July to November 2013, as soon as possible, so that the Settlement Division might provide WZO with the funding claimed in this report.

Expenses for July to November 2013, totaled NIS 249,128. However, since the Aliyah Promotion Unit has not yet asked the overseas treasuries to submit receipts for their expenses, which were charged to the Unit's budget, the fourth performance report was not submitted to the Settlement Division. As a result, the Settlement Division's payment will be delayed by a further three months at the least, until March 2014, when the Merkava system will come online.

The Office of the Comptroller recommends that the Aliyah Promotion Unit make sure to methodically and continuously receive relevant receipts from the overseas treasuries, so as to allow the Settlement Division to provide ongoing funding for all expenses as specified in the agreement.

The Office of the Comptroller examined the utilization of both the Aliyah Promotion Unit's budget and that of the Settlement Division. The Office of the Comptroller found that both budgets were only partially utilized. As aforesaid, the Unit was established in 2012, and the program was initiated with some delay. Furthermore, the shaliach to North America embarked on his shlichut in June 2012, while the shaliach to France only embarked on his shlichut in October 2012.

Furthermore, there is an inherent and significant difference between regions in terms of population profile, attitudes towards Aliyah to settlements, and

the types of activities most suitable and effective for each region. In addition, WZO's organizational infrastructure differs between regions.

As a result, planned activities did not always take place, or were held in a very limited format. Thus, various budget items were not fully utilized.

The Office of the Comptroller believes that, in the new agreement for 2014, it is necessary to find a way in which, on the one hand, the program will be defined in more flexible terms to adapt activities to the varying conditions in each region. On the other hand, in order to enable the Settlement Division to approve performance reports and fund the shlichim and activities as required by the agreement, the Settlement Division should be provided with a short-term work plan, along with explanations concerning challenges in carrying out planned activities and alternative activities that the Unit would like to carry out instead. The Office of the Comptroller believes that regular reports to the Settlement Division of all changes to the plan, coupled with complete, detailed, and clear periodic reports, are crucial to enabling the Settlement Division to cover expenses.

The Director of the Aliyah Promotion Unit stated in response that he accepts the Office of the Comptroller's recommendation.

2014 Agreement

Since the start of the program in 2012, and until June 2013, the Settlement Division transferred a total of NIS 1,078,867 to WZO. This leaves a balance outstanding of NIS 421,133.

In December 2013, WZO and the Settlement Division signed a new agreement. This agreement states that the Settlement Division was granted a special budget from the Government to promote Aliyah to the settlements, and the budget is to be used to send shlichim abroad, cover local employees, and to conduct various activities to receive Aliyah in the settlements. The contract is for one year, from January 1, and through December 31, 2014.

Funding was set at NIS 2.5 million. WZO will also be provided the remaining balance from the previous agreement, for a total of NIS 2,921,133.

The new agreement states that funding will be provided based on detailed quarterly reports submitted by WZO to the Settlement Division, detailing, in writing, all Aliyah-promoting activities carried out by the program. The agreement specifies that the performance report claiming payment from the Settlement Division will be audited by WZO's accountants.

Under this agreement, WZO is required to submit, at the start of every quarter, a detailed quarterly forecast plan, for approval by the director of the Settlement Division's Society and Klitah Division.

The Office of the Comptroller was told that the quarterly plan which WZO submitted to the Settlement Division, did not specify the names of the shlichim or their related expenses. The plan also did not detail the planned activities for each region in the first quarter of 2014. The plan was general in nature, and did not present activities in the required level of detail.

The Office of the Comptroller recommends that the Aliyah Promotion Unit and the Settlement Division agree on the level of detail required in the quarterly plan, so as to avoid delays in approving performance reports and in transferring funding.

The Director of the Aliyah Promotion Unit stated in response that he later submitted a more detailed and current work plan to the Settlement Division.

The agreement states that amounts may not be transferred among budgetary items in the work plan (which was appended to the agreement), without prior written consent from the director of the Society and Klitah Division and the Settlement Division comptroller.

The Office of the Comptroller found that the appendices to the 2014 agreement, concerning confidentiality clauses and provisions in lieu of guarantees, have been signed by the parties without any details having been

filled out. The agreement also includes an appendix containing the work plan and the require funding – but these documents are out of date (dated December 2, 2013).

The Office of the Comptroller recommends that the WZO Finance Department fill out the appendices as required, and submit them to the Settlement Division.

The Office of the Comptroller requested the updated 2014 work plan (i.e. – the updated appendix to the 2014 agreement) from the Aliyah Promotion Unit. The appendix describes the work plan and details the funding required from the Settlement Division:

Shlichim and local employees – Funding required from the Settlement Division – NIS 1.15 million.

Region	Annual Cost	Settlement Division Funding
USA	500,000	415,000
France	465,000	415,000
South America	240,000	150,000
England (local employee)	170,000	170,000
Total	**1,375,000**	**1,150,000**

Notes:

1. Shaliach costs include: salary, taxes and social benefits, rent, and personal expenses as dictated by the Shlichut Statute.
2. In South America, shaliach costs are for six months only, as the shaliach is due to complete his tenure in June 2014.

The work plan states that shlichim are responsible for establishing ties with a range of organizations and movements in the local community, and working with them to promote Aliyah. Shlichim must be pro-active organizers, and take an active part in numerous events and conferences.

Aliyah-promoting activities – Costs, and funding request from the Settlement Division – NIS 1.35 million.

Region	Seminars, conferences, in-home seminars and events	Fairs	Scouting and pre-Aliyah activities
North America	110,000	40,000	30,000
Latin America	125,000	55,000	20,000
England and Northern Europe	325,000	110,000	70,000
France and Belgium	125,000	150,000	30,000
Israel	115,000	45,000	-
Total	**800,000**	**400,000**	**150,000**

The Unit for Promoting Aliyah stated that these activities include advertising in various media outlets, promotional activities, production of marketing collateral, travel, flights, meals and refreshments, accommodations, speaker invitation and per diem costs, venue and equipment rental, transportation and shipping.

The Aliyah Promotion Unit further stated that budget allocation was made according to the nature and level of activities in each country. However, changing circumstances may require changes and adjustments during the year, which will be made in full consultation between WZO and the Settlement Division's accounting personnel.

The Office of the Comptroller recommends that, following the change in definitions of activity categories (including in Israel), the Aliyah Promotion Unit's 2014 budget should include identical items (including shlichim and local employees). This will allow accurate record-keeping and control, and will enable WZO's ERP system to match the performance reports submitted to the Settlement Division.

Upon speaking with the Director of the Aliyah Promotion Unit, the Office of the Comptroller found that extensive activities are currently being carried out to promote Aliyah in Migdal Ha'Emek. However, the director of the Society and Klitah Division in the Settlement Division stated that the Settlement Division will not approve performance reports representing expenses incurred in promoting Aliyah to Migdal Ha’Emek, as Migdal Ha’Emek is a city. The director explained that, under the Settlement Division's funding, it is only permitted to fund activities promoting Aliyah to regional councils (funding activities in cities requires a Government resolution and larger budgets).

The Office of the Comptroller recommends that WZO and the Settlement Division work out, as soon as possible, the issue of funding Aliyah-promoting activities in cities, to avoid a position where the Settlement Division will not be able to approve performance reports, and thus will not cover their underlying expenses.

The Settlement Division stated that, in the two years that the program has been running, those involved have found that there is no demand in kibbutzim to receive olim, as the kibbutzim have been privatized, do not have vacant apartments as they did in the past, and there is significant demand from ‘returning families’ to move back to the kibbutz. Small communities are also opposed to the associated demographic change. In effect, the Settlement Division is unable to obtain commitments from any town to receive olim arriving through the program for promoting Aliyah.

In light of the above, the Office of the Comptroller believes that the stated objective of the program for promoting Aliyah in the settlements should be re-examined.

July 2014

Response of the Chairman of the Executive

to the Comptroller's Report on

***Habayta* – Unit for Promoting Aliyah**

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

The State of Israel is the home of the Jewish Nation, and Aliyah is the life blood of the Zionist Movement. The World Zionist Organization Constitution establishes Aliyah and integration in Israeli society as one of the cornerstones of Zionism.

In light of various changes in the National Institutions, and in view of changes in the focus of the Jewish Agency's activities, brought about by the strategic plan which began to form towards the end of the previous decade, the Zionist Congress which convened in Jerusalem in June 2010 resolved that Aliyah will be a key focal point in WZO's activities. Another resolution passed in the last Congress was to re-invigorate the formation of Aliyah groups in the Diaspora.

These factors led to the establishment of the Unit for Promoting Aliyah.

The Office of the Comptroller examined the Unit's activities in its first two years of operation, in 2012-2013.

Conducting the audit at this stage, when the Unit's work plans and operations are still being formed, aids the Unit in establishing proper workflows down the road.

The Office of the Comptroller refers to gaps between work plans formulated upon the Unit's formation, and actual performance. Thus, for example, seminars and Aliyah fair activities were more modest in scope than originally planned. Conversely, informative missions and marketing, and home-seminar activities increased significantly.

Indeed, in the audited period, following preliminary reviews by the Unit, seminar and Aliyah fair activities were toned back in some countries, while informative missions, marketing and home-seminar activities were increased. This change was driven by positive response for these activities. The Unit drew the necessary conclusions and adapted its operations to actual circumstances and the changing needs of each region. Again – according to actual circumstances and needs.

The report notes flaws in administrative-finance activities, mostly related to the recognition and documentation of account reconciliations with the Settlement Division, and tracking of expenses around the world through "overseas treasuries" (Jewish Agency units).

For various reasons, including the Jewish Agency's charges for operating "overseas treasuries" in their current format, the Finance Department is preparing a comprehensive change in the way funds are managed abroad. As part of this change, and in light of the Office of the Comptroller's comments and recommendations, the Finance Unit will work to establish a formal, different workflow which, among other things, will guarantee that finances and financial records will be readily available and transparent to the operational units as well.

The bulk of the flaws concerning budget-finance interaction with the Division, have been rectified. The reports submitted to the Settlement Division's accounting department for the first half of the present year (January – June 2014), were approved in full and payment has been received accordingly.

The Office of the Comptroller refers to "Aliyah groups to settlements", noting that these activities are unsuccessful, with Olim preferring to live in locations offering a range of employment and educational opportunities and a supportive community, and not necessarily in locations falling under the Settlement Division's jurisdiction. It is emphasized that the joint activities of Aliyah groups offer numerous advantages as a 'support group', both when preparing for Aliyah, and during the klitah period in Israel, and this is necessitated by real-world condition.

In this regard, it is noted that Government decisions passed more than ten years ago expanded the Division's activities to include urban and rural townships in the Negev and Galilee. Furthermore, a decision made about one year ago concerning a strategic plan to promote and strengthen settlements stated that “the Settlement Division will provide settlement groups and persons establishing settlement groups in the urban setting administrative, planning and actual-physical assistance, including solutions for temporary and permanent housing, infrastructure works, installing movable structures, renovating public structures, renovating and developing structures for settlement group activities, and carrying out economic and entrepreneurial projects.”

In any case, the Unit regularly reviews the feasibility of its work plans, and adjusts them based on their effectiveness.

In closing, I must mention the national project for promoting Aliyah from all countries, established by the Government (the Ministry for Aliyah and Klitah), which involves the Jewish Agency, Keren HaYesod, and the World Zionist Organization.

Following a recent Government decision, the Jewish Agency and the World Zionist Organization (in equal parts) established a community interest company. The new company will promote Aliyah from all countries, as instructed by a steering committee headed by the Ministry for Aliyah and Klitah.

The Government has allocated significant budget resources for this goal, starting from the present fiscal year. Keren HaYesod and the Jewish Federations in North America are also expected to raise additional funds.

(-) A. Duvdevani

Jerusalem, November 2014

Keren Kayemeth LeIsrael, KKL-JNF

Salaries and Human Resources

Response of the Chairman of the Executive

Keren Kayemeth LeIsrael, KKL-JNF
Salaries and Human Resources

1. Introduction

1.1 According to the Office of the Comptroller's work plan, the Office of the Comptroller examined the salary calculation, payment method and employee recruitment processes at Keren Kayemeth LeIsrael, KKL-JNF ("**KKL**").

1.2 The audit included examination of workflows in the following fields:

- Salary and ancillary payments to employees, according to salary agreements.
- Work attendance reporting at the headquarters and in the field.
- Tender-based employee recruitment.

1.3 The audit was carried out in KKL's headquarters in Jerusalem, in the Gilat Region in the south of the country, and in the Central Region in Eshtaol, in the period of December 2013 through April 2013.

During the audit, the Office of the Comptroller met with the Acting CEO of KKL, Director of the Salary Department, Director of Human Resources, Director of Recruitment and Retirement, Director of Organization and Methods, the Attendance Reporting Supervisor at KKL's headquarters, administrators in the Central and South regions, and additional employees, as deemed necessary.

The audited period comprises 2011 and 2012.

1.4 Objectives:

a. Reviewing salary-related workflows and payment, and controls thereon.

b. Reviewing employee recruitment processes for new positions, including by internal tenders.

c. Examining compliance with adequate internal control procedures and examining the efficacy of existing procedures and processes.

d. Identifying weaknesses in workflows and controls, and recommending improvements.

1.5 Key documents used in the audit:

- Collective salary agreements to which KKL is subject.
- Salary and human resources procedures in KKL.
- Paychecks.
- Attendance reports from the attendance reporting system.
- Manual attendance reports for employees not clocking in.
- Various reports from the salary system, using various segmentations.
- Salary tables.
- Tender files for various positions.
- Various documents from employee files, such as: individual employment agreements, correspondence concerning employment terms, etc.

- Data on loans to employees.
- Specific documents obtained upon request.

1.6 Methods:

- Examining several salary agreements and comparing them with salary data.
- Examining existing procedures and comparing with actual performance.
- Meeting with various persons supervising the audited activities and with additional employees as deemed necessary.
- Reviewing the organizational structure in the Salary Department and Human Resources Division, including responsibilities for workflows.
- Reviewing permissions in the work attendance and salary system, including permissions to create an employee in the system, report attendance, and update salary data.
- Obtaining and analyzing reports and data from the salary system.
- Examining attendance reports and reconciling them with salary payments.
- Sample examination of paychecks.
- Reviewing payment processes for overtime, car expenses, and per-diem costs.
- Examining shift assignments and payments for firefighting duty.

- Examining employee loan compliance with the relevant procedures.
- Reviewing employee tender files for 2011 and 2012.
- Reviewing a sample of employee personal files and verifying inclusion of adequate supporting documents for the employee's recruitment and salary terms.
- Drafting an audit report, including recommendations.

2. Background

A. Introduction:

KKL was established in 1901, by resolution of the Fifth Zionist Congress in Basel.

KKL's headquarters are located in Jerusalem. KKL's operations in Israel are divided into three geographical regions – North, Center, and South, and each region is divided into secondary districts.

KKL's workforce was significantly downsized in the last two decades. In the early 1990s, KKL had approximately 4,000 employees, whereas today it has approximately 900, after signing an agreement in the past few years regulating the status of about 250 in-field workers which were adopted as standard employees, in two rounds.

As of current, KKL's workforce is distributed as follows:

HQ/Region	Employees
HQ	350
South	176
North	178
Center	198
Total	**902**

b. Salary costs:

Salary costs for 2011-2012 were as follows (NIS thousands):

Employee group	2011		2012	
	Employees	Salary costs	Employees	Salary costs
Standard employees	882	220,751	899	253,944
Field employees*	876	15,217	914	19,150
Freelancers **	328	3,219	304	4,184
Total		**239,187**		**277,278**

(*) Temporary or seasonal employees. The stated number of employees refers to all persons employed over an entire year. On average, there were 275 paychecks per month in 2012. The number of employees represents short-term employments of up to 9 months, mainly during the summer months.

(**) Freelancers are contracted by the Education and Youth Division, usually for a few days each month as necessary, for example: guides.

The table indicates that standard employee costs grew 15% in 2012. A significant part of this increase is attributable to the rank granted to employees at the start of the year, at a cost ranging from 8%-16%, depending on the employee's rank.

Breakdown of key salary components for standard employees in 2012:

Item	**Cost** (NIS thousands)
Base salary, gross	122,840
Overtime	28,000
Company car	10,950
Car usage value	8,360
Per diem	10,210
Holiday bonuses	8,570
Clothing and convalescence	6,440
Other components	10,894
Total, gross	**206,264**
Ancillary costs	47,680
Total cost for standard employees	**253,944**

c. Salary Department:

KKL's Salary Department comprises four employees, and oversees payroll for active employees, pension payments, salaries for shlichim abroad, and payment to freelancers.

Responsibilities are divided among the Department employees as follows:

- Department director.
  Salary and accounts manager, responsible for permanent employees' salary calculations, bonuses, redemption of vacation days, and entering data into the salary management system.

- Salary accountant for pensioners (mostly budgetary pensions) including social benefits payments, customer service for pensioners, retirement bonuses, etc. The accountant also handles payments via Masav (automated banking clearing house), annual 101 forms, and other matters.

- A salary accountant responsible, inter alia, for shlichim abroad, including tax-related issues.

d. Human resources:

The Human Resources Division includes five departments:

1. Recruitment and Retirement Department – This department recruits new employees, oversees employee rights-related issues, handles temporary personnel hired through manpower agencies (negotiating the terms of these agreements), and employee retirement. The department comprises 3 employees.

2. Welfare Department – This department provides assistance to employees experiencing difficulties, such as: medical, personal, family, or financial crises. The department also handles work relations and other matters. The department comprises 2 employees.

3. Employee Care Department – Regularly handles standard employee rights-related matters, including: rank, salary updates, one-time payments, social benefits, attendance reports, social security claims, etc.

4. Training Department – This department provides courses and training for employees, completion of academic studies, etc. The department comprises 3 employees.

5. Field Workers Department – This department handles all matters related to field employees. The department comprises 3 employees.

Organization and Methods Department – This department is not a part of the Human Resources Division, and reports directly to the division director. The department handles, inter alia, organizational development, drafting and updating procedures, setting job descriptions, and organizational consulting. The department comprises 4 employees.

e. Attendance and salary management system:

KKL uses a HILAN Ltd. ("Hilan") salary management system, coupled with Synel timelogs (attendance management hardware is provided by Synel, while software is provided by HILAN). The system is automatically linked with the salary management system. Attendance data are entered into the attendance management system by the reporting supervisor (see below), and monthly summaries are carried out once a month, where data is processed and payroll is generated using the HILAN system.

The Office of the Comptroller examined employee permissions in the attendance and payroll management system.

Findings

The Office of the Comptroller's request to receive the full list of permissions in the salary and attendance management system was not met. However, the answer given to the Office of the Comptroller in person is that human resource personnel can update salary data in the salary management system, while some salary department employees can update attendance data. Furthermore, the Office of the Comptroller found that human resource personnel regularly update salary data in certain items (e.g. – salaries for some of the new employees and overtime). The Office of the Comptroller emphasizes that this is in violation of basic principles of separation of responsibilities, whereby human resource personnel should not be granted permission to access human resource data. These principles are designed to prevent errors and/or inappropriate actions in salary processing and payments, and are standard practice in organizations significantly smaller than KKL.

Recommendation

The Office of the Comptroller recommends instituting a clear separation of responsibilities, whereby human resource personnel will only be granted access to human resource data, including the attendance management system. They will not be granted access to update salary data. Conversely, Salary Department personnel should not have access to the attendance management system.

Management's Response

In general, Management accepts the Office of the Comptroller's recommendation and has instructed that preparations be made to separate access permissions immediately upon receipt of this audit report. Prior to the final report being drafted, the Director General instructed that the salary unit be transferred from the Human

Resources and Administration Division to the Finance and Economics Division.

Furthermore, Management is working to formalize the distribution of authorities between persons handling employee files and employment terms, and the person responsible for employee attendance reporting.

3. Collective Agreements Applicable to KKL

A collective agreement is an agreement between a workers' union and an employer or an employers' union, that has been submitted for registration (mandatory pre-requisite) with the Employment Relations Department in the Ministry of Economy and Trade, and covers the following matters: employee recruitment or termination, employment terms, labor relations, the rights and duties of the parties to the agreement, etc.

KKL is party to a significant number of collective agreements, including the following:

- Collective Agreement 08/2011 – Salary Terms and Employee Participation in Damage and Losses.

- Collective Agreement 01/2011 – An agreement regulating salary additions for 2009-2012, additional participation in daycare payments, and increased employer contributions to benefits.

- Collective Agreement 01/2010 – Labor relations and salary costs in KKL. The agreement regulates, inter alia, the following matters: recruitment of new employees, employee rank, overtime, continuing education, tax value of benefits, etc.

- Collective Agreement 05/2009 – The agreement regulates payments to employees who missed work due to Operation Cast Lead. The agreement specifies conditions for applicability, entitlement to payment as usual, manner of effecting payments to employees, timing of payments, and the towns included in the compensation map.

- Collective Agreement 08/2007 – An agreement regulating insurance for KKL employees.

- Collective Agreement 09/2006 – Dispute resolution: Final resolution of disputes discussed in agreements signed in 2002 and 2004, including withdrawal of a pending legal action, organizational restructuring coupled with employee rank updates, overtime and benefits such as cell phone, clothing, and employment of employees' children.

- Collective Agreement 07/2004 – Implementation of a restructuring plan in KKL, due to its financial position, and implementing a voluntary retirement plan and downsizing KKL's workforce.

- Collective Agreement 07/2002 – The agreement includes understandings concerning service and retirement terms, including: rank additions, transition to accrual-based pensions, workforce downsizing, and service terms.

- Special Collective Agreement 08/2008, guaranteeing pensions for KKL employees.

Pension Contributions

In the past, KKL utilized budgetary pensions, i.e. – pensions paid from the current budget of the organization in which the entitled pensioner worked. In budgetary pensions contributions toward guaranteeing pension payments are only made by the employer, whereas in accrual-based pensions, contributions are made by both employer and employee.

The collective agreements from 1995 and 2002 indicate a change in the status of new employees, recruited from April 1, 1995 onwards.

In practice, the transition to accrual-based pensions was gradual, and from 1998, all new employees were employed with accrual-based pensions.

The issue of pensions payments to employees entitled to either a budgetary pension or accrual-based pension, is regulated by the collective agreement from August 2008, which guarantees pension payments to KKL employees.

4. Work Attendance Reporting

All headquarter employees in KKL, excluding those ranked 'Director General' and 'Division Directors or Equivalent' or higher, are required to clock in using the attendance management system, at the start and end of every work day.

Administrative employees in the regional districts also clock in, except for employees working in the field, who fill out a form manually. All other district employees are, in effect, regarded as field employees, and report using the manual form. Thus, in practice, most KKL employees report their work attendance manually.

The manual form also serves to report per diem expenses, and includes the location where work was carried out each day, the number of hours worked, travel details, per diem costs, etc.

Each department/unit/region has a reporting supervisor, who collects the manual forms and/or corrections to automated reports generated in the system.

In all, KKL has 26 reporting supervisors.

At the start of each month, reporting supervisors generate employee attendance reports in each reporting center, and submit these reports to the employees for verification and supplementation. Employees correct the reports as necessary, for example: sick days, vacation, continuing education, etc. Employees then sign the reports and submit them to their direct superior for signature.

Amended reports are returned to the reporting supervisor for entry into the computer system.

At the same time, the supervisor receives manual reports from field workers, signed as aforesaid, for entry into the system.

Monthly summaries are carried out around the 20th of each month, and monthly salaries are paid at the start of each month, so that reporting updates for a given month are reflected in the subsequent payroll (e.g. – attendance data for March are reflected in April salaries, paid on May 1).

When the attendance management system is closed, the national reporting supervisor in KKL notifies HILAN to transfer the attendance data to the salary management system.

The Office of the Comptroller examined the attendance reporting process, while reviewing workflow controls, separation of duties, attendance reporting adequacy, and reconciliation with paychecks.

The Office of the Comptroller examined a sample of 45 attendance reports in the South region, the Center region and in the headquarters.

The Office of the Comptroller also examined the utilization of vacation days reported in attendance reports, as compared with paychecks – Propriety was found.

Findings

- KKL's national attendance reporting supervisor enters attendance data for various employees, including senior executives, and corrects attendance reports from the regional reporting centers as necessary. In updating attendance data in the computer system, each reporting center also updates per diem expense data included in the manual attendance reports – overtime, mileage quota, shifts, etc. These updates are of significant monetary value, as detailed in Section 2 above concerning the salary components. The Office of the Comptroller notes that each month a summary attendance analysis report is generated to locate any unusual entries. However, the Office of the Comptroller could not find any evidence that these analysis reports are actually used, and in any case such reports are no substitute for a formal system of control over the numerous manual entries.

- A significant part of the manual reports are unreasonable, such that employees report a regular and/or rounded-off clock-in time and a regular and/or rounded-off clock-out time over an entire month, and sometimes even over several consecutive months, without deviation.

It is noted, that in this context, the Office of the Comptroller reviewed dozens of attendance reports, in addition to the aforesaid sample, so as to better understand the extent of this practice. It is emphasized that in most cases, reporting also materially affects the overtime component, so that the Office of the Comptroller found that employees regularly work for 12 hours or more on a daily basis (see below as well).

Several examples:

Employee No.	Reporting Month	Clock-In Time	Clock-Out time
10013	03/2012	05:00	19:00
10013	08/2012	05:00	19:00
10013	10/2011	05:00	19:00
3175	10/2011	05:30	18:30
2846	10/2011	06:00	18:00
2846	03/2012	06:00	18:00
1635	11/2012	06:00	18:00
3445	10/2011	06:30	15:30
3021	11/2011	06:00	18:00
2251	10/2011	06:00	18:00
3208	10/2011	06:00	18:00

- Examination of attendance reports and comparison with the corresponding paychecks yielded two cases of erroneous excessive payment, as follows:

    a. Employee No. 2956 missed work for 3 days in March 2012, due to security-related issues. These days were not deducted from her paycheck for that month, but she <u>also</u> received additional payment for security-related issues in the form of payment for 3 work days. The employee was also reimbursed for mileage expenses for a full month's work.

In this regard, the Office of the Comptroller asked to examine whether this was an organization-wide issue, and examination of attendance records for several other employees during Operation Pillar of Defense did not yield such redundancies.

b. Employee No. 2846 reported 15 work days in August 2012, but received payment for 16 work days, including per diem costs, standard work hours, and overtime, along with all ancillary effects.

Response of the Division Director

a. This was a software bug which has been fixed.

b. According to the automated attendance report, the employee worked 16 days.

Response of the Office of the Comptroller

According to the attendance document signed by the employee and his supervisor, subsequently entered into the attendance management system – only 15 days were reported, and it seems that an error was made typing in the entry. The cause of the discrepancy cannot be established, which only underscores the problem of the lack of controls, as aforesaid.

- The reporting supervisors in the regional districts and in the headquarters, who enter attendance report data into the HILAN system, also enter their own work hours, and sometimes attendance data for their direct managers, as instructed by the latter. The managers then sign these attendance reports. This process is carried

out without any control by an independent party, in violation of the fundamental separation of duties principle.

Recommendations

- Ongoing controls should be implemented, and the plausibility of attendance and per diem data should be examined prior to transmission to the salary management system. The Office of the Comptroller recommends defining regular control reports in the system, at the organizational level and at the departmental level, and to set a fixed number of employees that will be sampled each month.

- The Office of the Comptroller recommends setting written guidelines concerning adequacy and accuracy in attendance reporting, to distribute these guidelines to all regions, and to enforce them. Reporting regular and rounded-off hours should not be possible.

- The Office of the Comptroller recommends to reclaim the excessive payments made in the above two cases.

- The Office of the Comptroller recommends that attendance corrections for the reporting supervisors and their direct managers be carried out or supervised by an independent party from the headquarters or from another region.

Response of the Division Director

a. The Office of the Comptroller's recommendation to increase control over employee attendance reporting is accepted.

b. In that instance where a software bug was identified, the excess payment was deducted from that employee's salary.

c. The Office of the Comptroller's recommendation that managers' attendance updates not be carried out by their subordinates, and that employees not update their own reports – is accepted. Instructions along these lines will be issued to all reporting units, so that wherever a subordinate is required to approve attendance updates for his supervisor and for himself, the update will be carried out by another reporting unit.

5. Monthly Salaries – Preparation and Processing

After transferring the data from the attendance management system to the salary management system, HILAN's system calculates monthly salary data, based on three main sources:

a. Existing salary data for each employee, including one-time components paid in a given month.

b. Ongoing updates made in the system by human resources personnel (e.g. – seniority updates, overtime quota, mileage quota).

c. Ongoing updates made by Salary Department personnel, following instructions from the Human Resources Division, including the Division Director.

Once salary data has been processed in the HILAN system, the system generates an "audit report", including a comparison of monthly salary costs for each employee, against the average salary from the past 12 months. Data are reviewed manually by the Salary Department, and if anything unusual is found, or any item which exceeds the average salary by 10% – the issue is investigated in depth.

The Salary Department director also examines the data entered into the system by Department personnel.

Additions and deductions to salaries

In the current month, the Salary Department receives updates concerning one-time salary additions, such as: clothing, convalescence, holiday bonuses, participation in tuition costs, rank promotions, changes in company car status, reimbursement for expenses, etc. The Department also receives updates concerning salary deductions following decisions by a committee overseeing shortfalls/damages or other deductions. Additions are entered into the salary management system following instructions from the relevant person. All instructions to perform such salary additions are filed in a monthly binder. It is noted, that dozens of individual instructions are received each month.

Following these updates and examinations, an order is issued to HILAN to finalize the salary file and issue paychecks. At the same time, a file is generated for Masav, overseen by both the Salary Department and the Finance Division. Then, the two files are compared and if they are identical, salaries are paid by KKL's authorized signatories.

The Office of the Comptroller examined the controls implemented in the salary calculation process.

The Office of the Comptroller also examined approximately 50 different monthly paychecks for employees from various departments, inter alia, as concerns base salary, work attendance and overtime, days off, other salary components, per diem costs, etc. Aside from the aforesaid concerning attendance reporting, no errors were found in the data underlying the reports.

Findings

- The Office of the Comptroller believes that current controls are insufficient when dealing with an average of 1,200 monthly paychecks, excluding pensioners. Furthermore, controls are usually based on visual inspection, and are not documented. The lack of sufficient controls in the salary calculation process, coupled with the lack of controls in the attendance and per diem cost reporting process, constitute a significant weakness which can lead to errors and over-payment.

- Some updates made by Human Resources personnel (e.g. – company car, security-related payments) which influence salary payments are not examined by the Salary Department, which sometimes is not even aware of these updates. Thus, there are no controls compensating for the non-separation of responsibilities built in to the salary calculation process.

Recommendations

- The Office of the Comptroller recommends setting a number of built-in, systematic controls, which will be implemented on a monthly basis as an integral part of the salary calculation process, both at the organizational level and at the individual employee level (e.g. – new employees, new updates entered during the month, one-time components, etc.). Controls should be documented in writing and statistics concerning errors should be reviewed.

  Response of the Division Director

  As concerns documentation of controls, we hereby note that documentation is kept, but is insufficient, and we have increased documentation upon receiving the recommendation made herein.

Management's Response

In November 2013, following the Director General's instructions, a third-party consultant was contracted, to obtain a proposal for formulating and implementing formal controls in KKL's data processing and Salary Department activities.

6. Salary Components and Social Benefits

6.1 Overtime

Overtime is a significant item in the salary budget. As aforesaid, in 2012, this item totaled NIS 28 million.

The collective agreement signed September 14, 2006, provides two arrangements for overtime, as follows:

a. Payment of overtime for heavy equipment operators, on a seasonal and monthly basis, as follows:
   - April through November – 100 hours of overtime.
   - December through February – 80 hours of overtime.
   - March – 90 hours of overtime.

b. Payment of overtime to all other employees: the monthly overtime quota for employees was specified in the collective agreement, and is determined according to each employee's position in the organization. The quota is monthly, and stated as a 12-month multiple. KKL's management has the authority to approve overtime exceeding the overall annual quota.

Quotas include the following:

Position	Monthly Overtime Quota
District directors	64
Division directors	60
Regional directors	48
Foremen	62
Engineers	30 – 40

Work and Rest Hours

In the Work and Rest Hours Law of 1951, the guidelines for overtime employment for all employees (published in Official Gazette 1977 on January 6, 1974, pp. 553) state that "this permit permits all workers in the country to be employed for 4 additional hours a day, but no more than 12 additional hours a week". Under certain circumstances, a permit may be obtained for up to 15 hours of overtime a week.

The Office of the Comptroller examined the utilization of overtime quotas and their statutory compliance.

Findings

- The Office of the Comptroller's examination indicates that even though quotas have been specified for each employee and each position, some employees exceed their overtime quotas and are paid accordingly. The Office of the Comptroller did not see written approvals increasing these quotas, either in the Human Resources Division or in the Salary Department. The lack of supervision, control and limitation in this matter may lead to unnecessary overtime and deviations from the set budgets.

A few examples:

Employee No.	Position	Overtime Quota	Examined Month	Actual Overtime
2834	Contractual engineer	30 – 40	10/2011	50
2833	Contractual engineer	30 – 40	09/2012	83
3098	Foreman	62	11/2011	67

- In the sample of work hour reports examined by the Office of the Comptroller, numerous cases were found where employees worked more than 12 hours a day and/or 15 additional hours a week. For example: in March 2012, employee number 10013 reported 14 hours of work each day, amounting to 25 additional hours a week. The data indicate that KKL violates the Work and Rest Hours Law, and that such violations are systematic and not exceptional or singular instances.

  Response of the Division Director

  The above employee operates heavy equipment, and for these employees, commuting hours are included in their overtime hours. Heavy equipment operators are required to drive many hours back and forth, which significantly increases overtime hours. It should be noted that employees do not actually work more than 9 or 10 hours a day.

  Every now and then, we issue a circular reviewing the provisions of the Law, and another circular was recently issued on this matter.

- The 2011 collective agreement stipulates that work on Fridays, holiday evenings, *chol hamoed*, and collective vacations, will not be counted toward an employee's approved overtime quota, even though employees are paid 125%-200% of the normal rate for these hours (similar to the rate paid for regular overtime). It was further stipulated that Management will determine which employees may work on these days. In practice, the agreement has led to some employees logging 200 hours of overtime. Furthermore, the agreement does not specify that **Saturdays and holidays** will not be counted toward the overtime quota but, in practice, KKL does not count them as part of the quota.

  Below are a number of key examples from September 2013:

Employee No.	Total Hours of Overtime	Of Which Off-Quota
3374	208.7	177.5
3421	193.2	177.0
3205	189.7	166.5
3362	175.2	140.5
3232	174.7	135.5
3203	167.7	173.5
3293	166.7	140.5
3326	164.8	136.5
2719	161.4	124.0

  Notes

  a. Employee number 3421 worked all through the week of Rosh Hashanah, from Sunday, September 1, up to and including Saturday, September 7, during which time on Wednesday through Saturday (Rosh Hashanah and Shabbat), he worked from 7:00-20:00. He then continued working as normal the following week.

b. Employee number 3374 worked continuously every day from September 1 through September 19, working between 10.5 and 22 hours each day. Thus, on September 12, he worked 12 hours; on September 13, he worked 18 hours; and on September 14, he worked 22 hours.

c. It is unclear whether such attendance reports can be approved. Employees should be physically present in their workplace during their work hours, and it is unclear whether this is indeed implemented and verified.

Recommendations

- The Office of the Comptroller recommends examining the utilization of employee overtime quotas and adjusting the quotas to meet KKL's current needs. Quotas should not be exceeded, except in extremely exceptional cases, and then approval should be duly documented.

- The Office of the Comptroller recommends that KKL verify that employees not work more than 12 hours a day and/or 15 additional hours a week. If there is a special and singular need to deviate from these requirements, a permit should be obtained from the Ministry of Economics and Trade, as required by Law.

- The Office of the Comptroller recommends formulating clearly-defined needs for work on Fridays, holiday evenings, and *chol hamoed*, and to set overtime quotas for these days.

- The Office of the Comptroller recommends to examine and approve in writing exceptional attendance reports, including continuous work during rest days, and to verify that employees were indeed present at the work place.

- The Office of the Comptroller recommends including work hours on Saturdays and holidays as part of the ordinary overtime quota.

6.2 Company car

Company car is the second largest budget item in KKL's salary costs, amounting to NIS 11 million in 2012. Car usage value for tax purposes added another NIS 8.5 million in that same year.

KKL employees who do not receive a company car are entitled to participation in vehicle costs and to reimbursement for travel expenses, according to their individual employment terms. An employee's mobility level is determined according to the collective agreement and the payment for the fixed component is included in the employee's paycheck but is not taken into account for tax purposes.

As for the variable component, employees are required to fill out a monthly mileage report for their personal car, to sign that report, and submit it to their direct supervisor for signature. The report is submitted to the attendance reporting supervisor, who reports the mileage data along with the attendance data.

The Office of the Comptroller examined the employee travel report submittal process, including examination as part of the paychecks sampled as aforesaid, compared these reports against per diem cost reports, which also include travel data.

Findings

- Examination of employee travel reports for their private vehicles found five cases where employees requested and/or received reimbursement for travel costs exceeding the actual costs, as follows:

Employee No.	Reporting Month	Requested Reimbursement	Actual Mileage
2280	11/2012	2,020 km	1,144 km
2280	12/2012	2,020 km	1,092 km
2187	10/2011	640 km	464 km
3156	08/2012	1,400 km	830 km
2956	Starting 03/13	124 km/day (w/ approval)	84 km/day

- Examination of these reports found that some employees submit monthly reports detailing their actual daily mileage consumption over the entire month, while others claim their approved monthly mileage quota, without detailing their actual mileage consumption. It is noted that KKL's letter updating employees of their approved mileage quota states that payment will be made against a detailed description of mileage consumption using the monthly reports.

  This problem is exacerbated when employees miss work for various reasons, but fill out travel reports claiming full reimbursement for mileage, as though they drove their vehicle to work every day for the whole month. See the following cases:

Employee No	Reporting Month	Monthly Mileage	Claimed Reimbursement	Work Days
2577	10/2011	1,500	Full month	9 of 20
2956	10/2011	1,700	Full month	18 of 20
2956	11/2011	1,700	Full month	15 of 19
2956	04/2012	1,700	Full month	17 of 20
2956	09/2012	1,700	Full month	15 of 22

Recommendation

- The Office of the Comptroller recommends making sure that employees are reimbursed for actual miles driven and not paid automatically according to their approved quota. Needless to say, this applies to days away from work, for which employees should not be reimbursed for travel expenses.

  Response of the Division Director
  The Office of the Comptroller's recommendation is accepted in principle, but its implementation would be difficult due to current practice and opposition by the worker's union.

6.3 Firefighting duty

In order to fight forest and meadow fires, KKL maintains a firefighting force of 22 firefighting trucks and 30 observation towers, deployed across the country and manned by lookouts, communications systems, emergency response teams, etc. KKL also takes part in airborne firefighting operations. KKL's firefighting trucks have a clear advantage over the Fire and Rescue Service's trucks due to their relatively small size and their 4x4 all-terrain capabilities.

The firefighting force is operated by KKL's three regions – North, Center, and South.

Each district in these regions is expected to maintain one person on firefighting duty, so that in case of emergency, one person will be available to provide rapid response with a firefighting truck. Each person on firefighting duty must be examined and approved by a KKL-certified doctor. Firefighting shifts require that employees be physically present in the workplace, including on weekends, holidays and special vacations, and employees receive special compensation for these shifts.

The Office of the Comptroller examined whether firefighting duties are assigned fairly and impartially.

Findings

- Examination of the shift schedule for the Menashe and Sharon region in July and November 2012, indicates that shifts are assigned to a small number of employees, and sometimes only one or two employees share the entire monthly shift quota. Furthermore, it seems that physical presence in the workplace is not verified, as it is not reasonable that an employee will be assigned shifts for 29 out of 31 days in a month, as detailed below:

Driver in Ara	Days in 07/2012	Days in 11/2012	Driver in Megido	Days in 07/2012	Days in 11/2012	Driver in Horashim	Days in 07/2012	Days in 11/2012
N'	31	30	H'	29	30	A'	23	23
Z'	4	4	A'	2	-	S'	8	7

- Examination o the shift schedule for August 2012 in the North-Western Negev region indicates that shifts are divided among a small number of employees, who share the entire monthly quota, as detailed below:

	Lookout				Firefighter		
	Amatzia	Rohama	Be'eri	Heletz	Ibim	Plugot (*)	Plugot
On duty	M'	N'	Y'	K'	T'	S'	T'
Days	26 מ-31	22 מ-31	29 מ-31	26 מ-30	27 מ-31	21 מ-31	15 מ-31

(*) In Plugot, shifts are done in pairs.

Response of the Division Director

The uneven assignment of shifts is attributable to a gap between the needs of the various regions and employees' willingness to take shifts on the weekends. In other words, quite a number of

employees refuse to take shifts, for either personal or religious reasons, and so other employees have to do more shifts.

Management's Response

In November 2013, the KKL Development Authority director met with all regional and district directors to discuss this matter and formal, uniform guidelines will be issued to all regions in the next few days, so that duty shifts will be divided as equally as possible among all qualified employees.

- Shift assignment data, including actual firefighting calls, appear in the monthly per diem costs report which employees send to the reporting supervisor every month and which serves as the basis for payments, as aforesaid. In one region, the signature of the regional firefighting supervisor is required for days on which employees claim payment for actual calls. This procedure was implemented following past incidents involving false reporting. In the South region, no such approval is required.

Recommendations

- The Office of the Comptroller recommends increasing the number of employees on the shift roster, so that shifts may be assigned effectively. This will reduce the workload on those employees currently manning the shifts, reduce dependency on a limited number of employees, and reduce employee burnout. The Office of the Comptroller further recommends enforcing the requirement that employees be physically present during their shifts.

- The Office of the Comptroller recommends that guidelines be issued to all regions, stating that payment for actual firefighting calls will only be made subject to signed approval by the regional supervisor alongside the relevant days on the per diem costs report.

Response of the Division Director

This directive is routinely handed down to regional directors and every now and then the directive is re-sent to the reporting centers.

6.4 Accrual of Vacation Days

Employees are entitled to an annual paid leave as provided by the Annual Leave Law of 1951 ("Annual Leave Law"), unless their employment agreement states otherwise. In KKL, employees are entitled to leave according to rank and seniority.

It is noted, that this is one of KKL's major liability items, which amounted to NIS 20 million as of December 31, 2011.

Section 5.4.2 to KKL Procedure 4.02.02 states that up to 2 annual leave quotas may be accrued, so that the maximum number of days that can be accrued totals 54 days for high-seniority employees. Section 6.2 to the Procedure states that failure to utilize leave days will result in the expiration of surplus days.

The collective agreement from September 2006 states that accrual of more than 60 days' leave is prohibited.

The Office of the Comptroller examined leave accrual by KKL employees, as compared to the applicable procedures.

Findings

- A review of the leave balances report for 2011 and 2012, concerning accrual of vacation days by KKL employees, found the following:

Year	Employees with positive accrual balance exceeding the maximum quota	Employees with negative accrual balance
2011	223	104
2012	462	6

The data indicate that a significant part of KKL's workforce exceeded the maximum quota, and in 2012 their numbers more than doubled as compared to 2011. On the other hand, the number of employees with negative balances decreased significantly, as compared to 2011.

The Office of the Comptroller found that in 2012, excessive balances carried forward from 2011 were not annulled. However, in 2013, all balances were properly offset.

The Office of the Comptroller notes that failure to conduct regular offsets may expose KKL to legal action from employees claiming payment of their entire vacation day balance upon retirement.

Recommendation

- The Office of the Comptroller recommends that KKL follow procedure and not allow accruals in excess of the maximum quota and, of course, not allow payment of redeemed vacation days upon retirement or at some other time, in excess of the maximum quota.

6.5 Loans to Employees

KKL offers employees two kinds of loans, of varying amounts, as follows:

a. Institutional loan – A loan bearing interest at the rate set by Yahav Bank for Government Employees. Each year, employees are eligible for loans according to the specified criteria.

b. Interest-free loan of NIS 8,000 – The loan is repayable in a maximum of twenty installments.

Institutional loans extended by KKL totaled NIS 5.5 million in 2012, comprising 240 individual loans (on average NIS 23,000 per loan).

Loans are approved by a committee, comprised of the Finance and Economics Division Director (chairperson), a representative from the Human Resources and Administration Division, two worker union representatives, and the Insurance and Loans Department Director.

KKL has formulated a procedure for extending institutional loans to employees, which was last updated in May 2011. Section 5 to the Procedure states that: "Employees may submit applications (including applications for consolidation of loans) no more than once a year, except in cases of medical problems backed by relevant documents and exceptional cases and when buying an apartment once every 5 years".

Section 8 to the Loans Procedure further states that the loan term depends on the amount of the loan, as follows:

Loan Amount	**Maximum No. of Payments**
Under 14,000	24
14,001-22,000	36
22,001-36,000	48
Over 36,000	60

Section 7 to the Procedure states that the sum of all loans approved in a given month may not exceed the sum of all repayments received each month through deductions from employee paychecks. Thus, in one sitting, the committee may not approve more than six consolidation requests and up to 2 requests to stay repayment for up to three months.

The Procedure also states that deviation from the above will only be possible in cases of medical problems and subject to required approvals.

The Office of the Comptroller examined whether loans extensions to employees comply with the Procedure.

Findings

- The Office of the Comptroller's examination found that for 17 employees of the 240 employee loans granted in 2012, 2 loans were granted within a 12 month period, in violation of the Procedure and without approval for such deviation. Thus, for example, employee number 3023 received a loan of NIS 15,000 in August 2011, and in January 2012 the employee applied to the Loans Committee, which approved another loan of NIS 30,000.

  Another example: Employee number 2201 was granted a loan of NIS 30,000 in April 2012, and in October 2012 the same employee applied for another loan of NIS 60,000, which was subsequently approved.

- The Office of the Comptroller found that there is no enforcement of the repayment brackets specified in the Loans Procedure. For example, employee number 2529 was granted a loan of NIS 30,000 repayable in 60 installments even though the Procedure states that the maximum permissible number of payments for such a loan is 48.

- There is a systematic lack of enforcement of the directive that loans be granted according to loan repayments deducted from employee salaries in a given month, as detailed in the following table (NIS, in 2012):

Month	Distributable Balance	Loans Granted	Difference
February	703,724	765,000	61,276
March	392,842	501,000	108,158
May	539,251	572,000	32,749
June	388,708	442,000	53,292
September	681,909	793,000	111,091
November	367,091	455,000	87,909

Recommendations

- The Office of the Comptroller recommends following procedure in granting loans, and not approve two loans to the same employee in one year; repay loans as per the specified number of installments; and not issue new loans in any given month in excess of the repayments received during that month.

  Management's Response

  The recommendation whereby procedure should be followed in granting loans to employees – is accepted. The Finance and Economics Division Director chairs the Loans Committee and has been implementing this section since his first day with KKL.

7. Tenders for Recruiting Employees

KKL recruits employees through internal and public tenders, except in cases where agreements have been reached with the workers' union to appoint a certain candidate for a vacant position – in which case even the internal tendering process is waived.

Usually, when a position becomes available in KKL, an internal tender is conducted, which allows KKL employees to propose themselves for a position other than their current positions or for a more interesting position than their current position, so as to move ahead in the organization. If no candidate is found for a given position from among KKL's workforce, a public tender is issued to locate a suitable candidate.

Public tenders are announced in two newspapers, and sometimes KKL contacts personnel placement companies directly. Resumes sent to KKL are examined by the Recruitment and Retirement Department Director (who coordinates applications for the vacant position) or by the Human Resources Director. Candidates meeting the tender and professional requirements are invited to appear before the Tenders Committee.

In 2008-2009, KKL formulated a 2nd generation employment agreement, which was presented to Management in October 2009, and was signed in January 2010. This agreement sets conditions for recruiting new employees from this date onwards, and requires that new employees be contracted under different terms than existing employees.

Procedure 02.03.05 concerning, inter alia, processing of candidates and summoning to interviews, establishes the composition of the Tenders Committee, as follows:

- Human Resources and Administration Unit Director – permanent chairperson.

- Human Resources Division Director – member.
- Representative from the national workers' union secretariat – permanent member.
- Director of the unit in which the candidate will be placed – member.
- The direct supervisor for the tendered position – member.
- Any other person, at the Tenders Committee Chairperson's discretion.

The Tenders Committee examines employees who have submitted their candidacy, and announces the chosen employee. Candidates not accepted for the position are notified that another candidate has been chosen.

This process is not usually accompanied by external testing of candidates.

According to Human Resources Division data, in 2011 and 2012, a total of 26 recruitment tenders were held, of which four were for new employees who started work on January 1, 2011, and 22 were internal tenders for existing KKL employees who changed position.

If temporary or substitute workers are needed, these are recruited through placement agencies for periods of up to nine months.

The Office of the Comptroller compared the list of employees who, based on Human Resources Division data, were recruited via tenders and started work on January 1, 2011, to the start of work dates recorded in the salary management system. The Office of the Comptroller further examined nine tender files, and examined the process and the documentation of considerations leading up to the Committee's decision.

Findings

- According to the salary management system, in 2011 and 2012, KKL recruited 32 new employees, of which only one is included in the list of tenders conducted in this period according to Human Resources Division data. In other words, 31 employees were recruited without a tender. Of these 31 employees, only five received salaries of less than NIS 10,000 a month.

  Response of the Division Director
  Of the 31 employees recruited without a tender in 2011-2012, some were placement agency workers whose 9-month employment period ended, the need for their employment was for a short and pre-determined time, and so their employment continued on a contractual basis. The other employees were recruited by KKL based on temporary requirements.

- Salary terms for newly-recruited employees, whether or not they were recruited by a tendering process, were set according to personal assessments by Human Resource Division directors concerning the suitable salary for each position, without any market research on generally accepted salaries for holders of similar positions in comparable organizations. It is emphasized that in January 2010, KKL signed a 2nd generation employment agreement, and to this day no employee has been recruited according to the terms of this agreement. This, despite resolutions passed in KKL's organs in 2009, whereby new employees will only be recruited under the 2nd generation agreement. According to the Recruitment and Retirement Department Director, high-quality candidates cannot be recruited at the terms stipulated in that agreement, and so all new employees were recruited under individual agreements, and their salaries were set according to personal assessments concerning the suitable salary for each position.

- In 3 of the examined tenders, some of which were for senior positions such as: director of the Information, Forest Management and Geographical Information System Department, or director of the Human Resource Division, there was only one candidate for the position, who was accepted without examination or review by any professional third-party who could assess the candidate's suitability for the senior position. On the other hand, for a non-senior position – welfare worker – candidates were sent for assessment testing.

  Response of the Division Director

  The welfare worker was recruited through a public tender to which over 100 candidates applied. After initial screening and interviews by the Tenders Committee, a need arose to conduct professional suitability assessments as a decision-supporting tool.

  The other employees referred to are internal employees who are well-known in the organization. In any case, we do not always send candidates for assessment, which is only carried out when additional data is required to identify the most qualified candidate.

- Decision-making criteria are not documented in minutes or through other documents, and minutes usually include only laconic reference that a certain candidate has been selected to fill a position.

- Tender files are not uniform in the contents. For example, the Office of the Comptroller received a tender file for a welfare worker containing only one document which summarized the Tenders Committee's decision and mentions the fact that the candidate successfully passed professional assessment tests. The results of these tests were not included in the file.

- As concerns recruitment of new employees, no clear criteria have been set to establish their salaries. For example: no comparison is made with generally accepted salaries for similar positions, and salaries are ultimately determined according to the personal assumptions of Human Resources directors on the suitable salary for a given position.

Recommendations

- The Office of the Comptroller recommends examining all cases where new employees were recruited without tender, since 2011, and verifying that their employment complies with the collective agreements to which KKL is party (e.g. – fiduciary positions).

- The Office of the Comptroller recommends examining the feasibility of the 2nd generation employment agreement, and to have the Board of Directors approve specific conditions and powers allowing deviation from the said agreement, if any. If, in certain cases, the Board of Directors approves a different salary-setting framework than as determined in the 2nd generation agreement, a professional examination should be conducted and documented concerning generally accepted salaries for holders of similar positions.

- The Office of the Comptroller recommends updating the employee recruitment procedure and setting, among other things, clear, uniform and equal criteria for recruitment, salary-setting, documenting the considerations and reasons behind selection of a given candidate for a position, trial period, etc.

- The Office of the Comptroller recommends that tenders files be manage in an orderly and uniform manner, and include all documents used in deciding on the most suitable candidate, including: admissions tests, interview, candidate ranking based on

uniform criteria, etc. The minutes should include detailed documentation of the Tenders Committee members' considerations in making their decision.

Response of the Human Resources Division

Pursuant to KKL's Director General's decision, an improved proposal was formulated for a uniform salary structure for new employees based on their position, responsibilities and job requirements. At the same time, a document was drafted which formalizes the "2nd Generation" terms, which will make it unnecessary to submit this issue to arbitration before Judge (Ret.) Steve Adler.

8. Employee Files

Employee files should include all information concerning an employee's salary terms, salary updates, and social benefits over the years, feedback on employee performance, disciplinary data, medical documents, professional certification, etc.

Form 101

According to the Income Tax and Employers' Tax Regulations (Deductions from Salaries and Wages and Tax Payments), 1993, all employees, upon starting work and at the start of each subsequent year, must fill out and sign Form 101.

It is emphasized, that both employee and employer are responsible for making sure that the form is duly filled-out in each tax year.

The Office of the Comptroller reviewed ten employee files and examined files where 101 forms from 2012 are kept.

Findings

- The files do not include a divider-based labels list, detailing the documents which must be filed. There is also a lack of consistency in filing documents, and it seems that filing is incomplete. Thus, for example: in most files containing a letter to employees concerning the right to participation in vehicle expenses, no documents were found supporting the fact that the employees had a car, such as auto insurance or valid vehicle license.

- A review of the three binders where employee 101 forms are filed found filing to be inconsistent. Furthermore, to find the form for a specific employee, one needs to search through all the binders. The Office of the Comptroller also found 5 forms which are missing the employee's signature, and 2 forms in which Section E – Details of Other Income, is incomplete.

Recommendations

- The Office of the Comptroller recommends that KKL prepare a regular and uniform check list, detailing which documents need to be filed in employee's personal files, and to make sure that relevant documents are presented to support an employee's entitlement to various social benefits.

- Form 101 forms should be filed annually in order (by employee number of in alphabetical order), all details should be filled out (particularly Section E), and the form should be signed as necessary.

Response of the Division Director

We are currently making preparations to transition to a computerized filing system, which will resolve the need for using dividers for each employee.

9. Procedures

Work procedures are an organization's internal constitution, which defines the manner in which workflows should be carried out and regulates all organizational processes, including separation of duties and powers, internal controls and supervision which must be implemented to comply with statutory requirements and organizational policies.

KKL's Organization and Methods Department is responsible for drafting and updating KKL's procedures.

Findings

- KKL has an old procedures file, with some procedures dating back to 1996, such as: Employee Recruitment Procedure, Annual Leave, Attendance Reporting, Participation in Vehicle Costs, etc. Collective agreements signed over the years, as well as statutory changes, necessitate that procedures be updated and adapted to current needs. There are also fields where no procedures have been established, such as: employee permissions to update attendance and salary data, salary data processing and controls, attendance reports, travel abroad, etc.

Recommendations

- The Office of the Comptroller recommends that work be carried out to formulate updated work procedures for workflows in KKL,

concerning employee recruitment, attendance reporting, salary payments, controls, employee access permissions, salary updates, and all other issues as may be deemed necessary.

Response of the Division Director

The recommendation is accepted in principle, but it should be noted that, in recent years, current procedures have been drafted for a broad range of organizational processes, but have not yet been published due to administrative challenges.

Management's Response

KKL's new Director General has made procedure drafting and updating a top priority. In addition to activities carried out in this field, numerous material changes have previously been made to everyday workflows, which will be reflected in the new procedures.

January 2014

Response of the Chairman of the Executive

to the Comptroller's Report on

Keren Kayemeth LeIsrael

Salaries and Human Resources

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

This audit by the National Institutions Comptroller focused on salary and human resource-related issues in KKL.

KKL employs over 900 standard employees, about 900 temporary/seasonal workers, and about 300 freelancers who mainly assist the Education and Youth Division. Annual salary costs total NIS 280 million. In light of these HR and salary volumes, management of these operations is of particular importance.

The Office of the Comptroller notes that in 2011-2012, salary costs for standard employees grew 15% (NIS 33 million).

The Office of the Comptroller referred to HR and salary-related authorizations and stated that, contrary to the fundamental separation of duties principles, HR personnel were authorized to use the payroll system, and payroll employees were authorized to enter work hours in HR-related systems.

KKL's management accepted the recommendation that clear separation of duties be implemented, and the Salary Unit was accordingly transferred from the Human Resources Division to the Finance and Economics Division.

The Office of the Comptroller examined the controls implemented over payroll preparation and found these to be lacking in scope and

documentation. This creates a significant weakness which is liable to lead to errors and over-payment.

KKL's management stated that, at the end of the previous year, a consultant was hired to establish a formal control process.

The Office of the Comptroller notes the significant value of company car costs, amounting to NIS 20 million, of which NIS 8.5 million were tax value costs.

The Office of the Comptroller found payments for private vehicle usage, made to employees who requested and/or received reimbursement for travel costs which did not match actual expenses, as well as “automatic” payment according to pre-approved quota. The Office of the Comptroller recommended that employees be reimbursed according to actual expenses.

KKL's response indicates difficulty in implementing the recommendation due to "current practice and opposition from the workers’ union". KKL’s management will study the matter in depth considering all relevant aspects.

Referring to personal leave quota, the Office of the Comptroller notes that this was one of KKL's most significant liability items, amounting to NIS 20 million at the end of 2011.

The Office of the Comptroller examined the tendering process for recruiting new employees and found that, of the 32 employees who joined the organization in 2011-2012, 31 were hired without a tender. Furthermore, their salaries were based on the ‘gut feelings’ of HR managers, without conducting market surveys of benchmark salary levels for similar positions. This does not meet KKL's decision that new employees will only be hired based on the 2nd generation employment agreement.

The response given by KKL's Recruitment and Retirement Director, whereby "high quality personnel cannot be recruited under the terms of the 2nd generation employment agreement, and so each new

employee was hired under a personal employment agreement and their salary was based on assessments as to what constitutes adequate compensation for the position" is problematic and presents a challenge to KKL's management and Board of Directors.

We thank the Office of the Comptroller.

(-) A. Duvdevani

Jerusalem, May 2014

Keren Kayemeth LeIsrael

Finance and Economy Division

Investment Management

Keren Kayemeth LeIsrael

Finance and Economy Division

Investment Management

1. Introduction

1.1 In accordance with the work schedule of the Office of the Comptroller, we examined the management of the investments of Keren Kayemeth LeIsrael (hereinafter: KKL).

1.2 Our audit contained an examination of the following work processes:

- The decision taking process by the investments committee and implementation of its directives.
- Management of the long-term investment portfolio (hereinafter: the Managed Portfolio).
- Own management of funds by KKL (hereinafter: the Nostro Portfolio).
- The existence of mechanisms for control and supervision.
- Examination of the work of the external investment consultant at KKL (the External Consultant).

1.3 The audit was carried out at the head office of KKL in Jerusalem between July and November 2013.

During the audit, meetings were held with: the director of the Finance and Economics Division, the director of the Accounting and Finance Division, the director of the Treasury Department, information technology and bookkeeping staff, the external

investment consultant of KKL and his staff and with other employees as we saw fit.

The period examined was 2012 and 2013.

1.4 The audit goals were:

a. Review of the decision taking process at the investments committee and implementation of the directives.

b. Examination of the work processes vis-à-vis the investment houses.

c. Examination of the mode of management of the investments in the Nostro Portfolio.

d. Examination of the existence of proper internal control procedures and the extent of the effectiveness of the current procedures.

e. Locating weak points in the processes and control and making recommendations for their improvement.

1.5 The main documents used for the audit were:

- Audited KKL financial statements.

- Minutes of meetings of the Investments Committee and resolution summaries.

- The investment policy and official work procedures for activity vis-à-vis the investment houses.

- Position papers of the External Consultant regarding investment policy.

- Monthly and fortnightly reports of the External Consultant.
- Opinions on various matters given by the External Consultant from time to time.
- Financial data from the KKL books, including: bank balances, deposits, foreign currency, transactions in the investment portfolios and so on.
- Print outs from the Prime and Danel systems.
- Index cards of commissions and management fees.
- Contractual agreements with the investment houses.
- Specific documents obtained upon request.

1.6 The audit methodology:

- Reading the current policy and procedures and examination vis-à-vis actual conduct.
- Reading of minutes from meetings of the Investments Committee.
- Review of decision taking processes at KKL.
- Holding of meetings with the office-holders in charge of the activities examined and with other employees as we saw fit.
- Review of current work processes vis-à-vis the portfolio managers at the investment houses and checking their compliance with the KKL directives.

- Review of the work processes carried out by the bodies managing the Nostro Portfolio and checking their compliance with the KKL directives.

- Review of the work of the External Consultant, including the contract documents with him.

- Examination of the periodic reports from the External Consultant of KKL regarding performance of the Managed Portfolios and the compliance of the portfolio managers with KKL directives.

- The manner in which deviations of the investment houses are handled.

- Preparation of an audit report, including the making of recommendations.

2. General Background

a. Introduction

Keren Kayemeth LeIsrael was founded in 1901, by resolution of the Fifth Zionist Congress in Basel. Since then, KKL has acted for realization of the founding purposes of the organization: the purchase of lands in the Land of Israel, reclamation of the land and its settlement. KKL also works on development of water sources, agricultural research and development, rehabilitation of forests, investment in settlement and in peripheral areas, ecological tourism and also community contacts and environmental education.

b. Finance and Economics Division:

The Finance and Economics Division is responsible for management of the budgets and accounts of KKL. The activity spheres are planning, follow-up and control of the budget, financial accounting,

implementation of payments, management and recording of funds and bequests.

The Finance and Economics Division is directed by the director of the Division, under whom is the Finance and Accounts Division, containing three departments:

- Treasury
- Bookkeeping
- Suppliers

Following is the composition of the cash and cash equivalent balances, according to the audited financial statements:

Item	To 31.12.2011 (NIS '000)	To 31.12.2012 (NIS '000)	To 31.12.2013 (NIS '000)
Cash at banks (NIS and FC)	108,582	59,546	117,643
Deposits at banks (NIS and FC)	867,801	982,176	383,084
Total cash (less earmarked amounts)	972,989	1,039,408	497,298
Negotiable securities *	2,377,864	2,615,379	1,351,860
Designated**	-	-	2,234,083
Total	**3,350,853**	**3,654,787**	**4,083,241**

* KKL investments in securities are deposited with bank accounts in the name of KKL and are managed by portfolio managers.

** In April 2013, the KKL Finance Committee approved the designation of an amount of NIS 2.2 billion, including a designation made in the past, for assuring the pension funds of KKL employees and retirees. The said decision was subject to an agreement with the Employees Organization for removal of the floating lien which had been recorded on the lands of Hemnutah to assure the pension funds of KKL employees and retirees. No positive response was obtained from the Employees Organization.

c. Investments Committee

The KKL Investments Committee is the organ empowered to make decisions regarding investment management. All members of the Committee are members of the Board of Directors as well as of the Board of Directors Finance Committee. Members of the Committee are: KKL Chairman, KKL Co-Chairman, chair of the Finance Committee and two other members. Also participating in meetings of the Committee are the relevant bodies dealing with the investment management from the staff of the Finance Division, including the External Consultant and his staff.

The Committee administers in practice the total investment of KKL and deals, inter alia, with the following issues: laying down policy, approval of policy changes, management of existing investment channels, embarking on new investment channels, determination of maximum amounts to be invested, the investment mix, specific restrictions and the like.

From time to time and as necessary, the Committee updates the official policy and this policy binds the investment houses managing the portfolios.

d. The External Consultant

An external financial consultant, owner of a company for financial advice, investments and raising of capital, is employed at KKL.

By virtue of his expertise, the External Consultant participates in meetings of the Investments Committee and advises the Committee on a current basis. The consultant, or someone on his behalf, also takes part in internal discussions at KKL and meetings with the portfolio managers.

The main activity of the consultant is as follows:

- Analysis of the performance of the portfolio managers.

- Current follow-up on compliance with the directives of the Investments Committee.

- Production of bi-monthly reports summarizing the state of the investments and the results of the activity of the investment houses.

- Examination of new investment channels and formulation of position papers on the subject.

- Market research including: review of financial trends in the international and local markets, reviews for the capital market and the foreign currency market.

- The consultant is also engaged on the preparation of reports and various research items at the request of the Committee and on the giving of opinions as to the need for a change in the investment policy.

e. The Current Work:

The Investments Committee meets on average once in two months (2013). The agenda of the Committee is set in accordance with the recommendations of the professional echelon, headed by the director of the KKL Finance and Economics Division, and with the approval of the chairman of the Investments Committee and/or according to requests of the Investments Committee. Updates and the sharing of information between the financial staff and the External Consultant is reciprocal, as is also the preparations for meetings of the Investments Committee, participation at the meetings, review of trends in the world and local markets (growth rates, returns on financial instruments, inflation rates, changes in foreign currency

rates, capital market indices and the like) and the providing of assessments as to trends to be anticipated in the future.

f. Information systems:

Prime System

The Prime System is run at the KKL Finance and Economics Division for the purpose of management, command and control over the financial assets of the organization. The System enables and performs, inter alia, the following actions:

- Financial management of the negotiable / non-negotiable investments.

- Automatic link to all the banks for the purpose of retrieving data and reconciling balances.

- Issue of a variety of accounting reports.

- Follow-up on performances of the portfolio managers while making various cross-sections and comparisons.

Danel System

The Danel System is a common system currently used by many financial bodies. Its purpose is to assist with the overall and comprehensive management of financial assets and security portfolios, with attention to the tax laws in the matter of securities and the various regulatory requirements, including of the Ministry of Finance, Income Tax, and the Ministry of Finance's Controller over Capital Market, Insurance and Savings and so on.

The use of the Danel System is a threshold requirement for investment houses managing portfolios for KKL.

3. Investment Policy

General

In recent years, KKL has changed its approach to the mode of investment of the monies held by it. In contradistinction to the past, when the funds were invested mainly in foreign currency deposits at overseas banks, in recent years, with the significant growth in the size of the cash balances, KKL has gone over to other investment channels, most of them in Israeli currency.

The main investment channels are:

1. Long-term investment portfolios managed at a number of investment houses and according to a policy laid down by KKL with respect to the nature of the portfolios. Following is the make-up of the investment portfolios, as of September 30, 2013:

Investment channel	**Percentage of portfolio**
Sheqel bonds	40.5
Index linked	36.4
Tel Aviv 100 shares	10.6
Overseas shares	9.6
Deposits and current accounts	2.1
Other shares	0.6
Foreign currency linked	0.2
Total	**100.0**

2. Current accounts and deposits managed by KKL in the short term. Following is a listing as of September 30, 2013:

Item	Amount (NIS '000)
Current accounts	140
Deposits	93
Securities*	116
Foreign currency	47
Interim total	**396**
Deposits – Australia**	63
Total	**459**

* Securities in trust funds
** Earmarked contributions.

3. There are also monies on a relatively small scale which are held in funds as a liquid investment in securities and according to principles laid down by KKL.

   Following are figures for the scale and mix of the investments for 2011 – 2013 (in NIS millions):

Type of investment	31.12.2011	31.12.2012	30.9.2013
The "Managed Portfolio" at investment houses	2,517	2,708	3,406
Funds	74	79	10
Current accounts and deposits independently managed by KKL	920	1,087	459
Total	**3,511**	**3,874**	**3,875**

   The KKL investment policy is defined as being solid and relatively conservative.

   Three of the basic threshold conditions for portfolio management at the investment houses are:

1. The investment house manages assets in excess of NIS 500 million.

2. The size of the KKL monies being managed by the investment house shall constitute not more than 10 percent of the total funds which the investment house manages.

3. The size of the portfolio managed by a single investment house shall not exceed 15 percent of the total investment portfolio of KKL.

Following are figures for the returns * achieved in the KKL portfolio from 2011 to September 2013:

Portfolio Type	2011	2012	30.9.2013
Managed Portfolio	(0.22%-)	7.6%	4.3%
Funds	(0.23%-)	6.72%	4.51%
Independently managed current accounts and deposits	2.68%	2.44%	1.16%
Total	**0.53%**	**6.02%**	**3.67%**

* Nominal returns from beginning of the year / period.

Note

The investment mix in the portfolio is some 20-22 percent shares with the remainder in low risk investment channels – local currency, foreign currency, index linked and bonds.

Directives for the portfolio managers

The Investments Committee publishes a sheet of directives for the portfolio managers about the investment policy. The directives are by way of a general framework according to which the portfolio managers operate, to the best of their professional consideration.

The directives contain, inter alia:

- Definition of the portfolio content and size.

- The investment channels which may be included in the portfolio, including: bank deposits, sheqel debentures and foreign debentures (at certain ratings), trust funds and so on.

- Investment channels which are not to be included in the portfolio, including: various options, future contracts and foreign currency options.

- Segmentation of the portfolio content in different channels according to maximums and minimums (in percentages).

- Rules for the spread of the investments.

- Specific directives (for example, investment in gas and oil shares up to 5% of the portfolio).

Substantive resolutions passed in 2013

During 2013, the Committee passed a number of resolutions, the main ones of which updated / changed the policy. Following are the main resolutions:

- April 2013: Transfer of NIS 500 million from the Nostro Portfolio to the Managed Portfolio.

- May 2013: Deviation of the "A" Investment House from the basic policy and increasing the size of the portfolio managed by it to 17 percent of the total portfolio (contrary to the 15 percent ceiling applying to the other investment houses).

- June 2013: A resolution regarding creation of a portfolio managed on a short Average Life Span, realization of foreign currency

holdings in excess of the foreign currency liabilities of KKL and dividing the balance of the monies in the Nostro Portfolio into three investment channels:

- Monies in foreign currency.

- Sheqel current accounts and deposits.

- A portfolio managed on a short Average Life Span.

- August 2013: Resolution regarding contractual arrangements with two investment houses for management of a short Average Life Span portfolio of up to NIS 90 million each.

The Office of the Comptroller examined the decision taking process by the Investments Committee, the method of work of the Committee and actual implementation of its resolutions.

The audit findings:

a. Response time for dealing with exceptional circumstances

One of the three basic rules set in the policy is the rule according to which the size of the portfolio being managed by a single investment house shall not exceed 15 percent of the total KKL investment portfolio.

Examination of the state of the investments from the end of 2012 and from the beginning of 2013 shows that three investment houses deviated from the said rule. The size of the portfolio administered by the three: "D" "M" and "A" Investment houses was of 15.25 percent, 16.64 percent and 16 percent, respectively, of the total KKL portfolio.

Subsequently, changes were made and only the "A" portfolio remained at over 15 percent, but the decision about the deviation was made by the Committee only in May 2013.

Response of the Finance and Economics Division

When the new director of the Finance and Economics Division took up his position in March 2013, the directive was renewed for the professional staff and also for the investment houses that it was prohibited to deviate from the investment policy without obtaining an explicit authorization from the Investment Committee.

With respect to the above comments, the reference is to passive deviations, i.e., not deriving from the addition of funds to the said investment houses but from a positive return obtained from the holdings permitted in accordance with the investment policy which was immediately amended while minimizing the harm to the portfolio. It was also clarified that a different decision of the Investments Committee would have resulted in punishment for the investment house which obtained the good returns.

b. Low frequency of Committee meetings

We read the minutes of the Investments Committee from which it follows that, in 2012, the Committee only met twice, in August and in December. We note that the Committee's not meeting in 2012 had practical consequences. For example: the process of portfolio manager selection was postponed from the end of 2011 to the beginning of 2013 (and see below).

It may be noted that the frequency of Committee meetings improved in 2013 but there appears to have been no regular schedule for meetings of the Committee during the year. In our opinion, such is essential in view of the amounts of the money being managed and the rapid pace of changes in the capital market.

c. Recommendations of the portfolio managers

The Office of the Comptroller perused the September 25, 2013, document regarding the opinion of the External Consultant to recommendations from the portfolio managers. These recommendations included, inter alia, a change in the investment policy mix (for example: increasing the investments in shares), investments in other overseas indexes, revocation of the 3 percent limit on real estate bonds (in which item there are many exceptions – see below) and so on. These recommendations, some of which were welcomed positively by the consultant, did not come up for discussion at all at the Investments Committee despite the fact that they concerned substantive matters. In our opinion, the subject should have been discussed in the forum of the Investments Committee.

The audit recommendations:

- It is recommended that the Committee convenor or other representative from the Finance Division maintain an ongoing follow-up on implementation of Committee decisions and the manner in which deviations are handled. The representative will report to members of the Committee about any exceptional event or delay in implementation of the decisions.

- It is recommended that the Committee convene at a regular frequency and on pre-scheduled dates so that there be no large gap between one discussion and the next. Extraordinary discussions should be held whenever necessary, including by telephone.

- It is recommended that the recommendations of the portfolio managers be discussed at the Investments Committee, particularly if they are acceptable to the External Consultant.

Response of the director of the Finance and Economics Division
The recommendations are accepted and are being implemented.

4. Conduct vis-à-vis the Investment Houses

Initial contractual arrangement

For the purpose of contracting with an investment house, KKL formulated a position paper presenting its threshold requirements which the investment house would have to meet as well as a number of economic criteria.

The position paper specifies the information which the investment house has to show for examining its suitability, among them:

- The existence of a current reporting framework (Danel system).
- The existence of professional insurance.
- A list of a number of clients with managed assets, each exceeding NIS 50 million.
- The experience of the investment house and the experience of the designated portfolio manager.
- Details of net returns achieved in the previous five years.
- Providers of references.
- Independent research capability.
- Amount of the management fee.

Periodic sorting

Periodically (on an average of every two years), KKL examines the performances of the portfolio managers at the different investment houses, primarily according to the size of the return obtained during the period.

The two investment houses with the lowest return are removed from KKL portfolio management and the funds are transferred to other investment houses.

The purposes of the sorting are:

One – An incentive for the portfolio managers to work on obtaining the best return for KKL, in the knowledge that the return they achieve is important for continued cooperation with them.

Two – The experience on the basis of past performances shows that new investment houses joining KKL activity achieve a level of return in the upper half of all investment houses and it is, therefore, worthwhile refreshing the composition of the investment houses periodically.

The 2013 sorting of the investment houses

In February 2013, an investment house sorting process was done, following a similar process in 2010 and 2007.

In order to select new portfolio managers, KKL asked for proposals from 15 investment houses, 12 of which responded. Three of the new investment houses which had been recommended by the External Consultant were gauged after a detailed testing process carried out by him, according to a number of parameters, including:

- Data on returns for the previous five years for two portfolios with characteristics similar to the KKL portfolio.
- Sharpe Index.
- Size of the amounts managed.
- The number of large portfolios (over NIS 50 million).
- Three references.
- Personal presentation at the Investments Committee.

The investment houses selected are:

- Investment Houses "B" and "C" which replaced Investment House "D".

- Investment House "E" replaced Investment House "F".

The Office of the Comptroller examined the contractual arrangements with the investment houses and the investment house sorting process, while looking at the timetable, the recommendations of the External Consultant and the decisions of the Investments Committee.

The audit findings:

a. Delay in carrying out the sorting process

The last sorting process was initiated in November 2011 but concluded only in February 2013. This, we were told, was because of an inability to convene the Investments Committee.

b. Change of a decision regarding replacement of an investment house

It was recommended to replace the Investment Houses "D" and "G" which were at the bottom of the ranking. The recommendation was passed in 2011 and, at the August 14, 2012, meeting of the Investments Committee, the investments consultant held this opinion.

In a document which the consultant sent on November 18, 2012, he changed his recommendation and wrote that, in view of the improvement in the performances of the Investment House "G", it should not be removed from the portfolio management but only that the amount of the monies it was managing should be reduced.

It is not clear to the Office of the Comptroller why an investment house which was reviewed over a period of some two years and obtained the lowest return out of 13 investment houses should continue to manage the portfolio in view of improvements in performance in a short time of some three months since the previous recommendation of the consultant to replace it. On the other hand, if the percentage returns it obtained were particularly successful in such a short period, it is not clear to the Office of the Comptroller why the size of the funds it manages were to be reduced.

Response of the director of the Finance and Economics Division
A further review is due at the beginning of 2015, and the 2013 2014 period will be examined according to predetermined parameters.

c. Selection of new investment houses

The investment houses which were ranked in the first four places were: "B" (graded first), "C", "H" (later removed following a merger with "I" and "J".

At the August 2012 meeting of the Investments Committee, the Consultant recommended adding the Investment House "E", which had not responded to KKL's call in this or the previous round.

The reason for the change was explained in that the reference was to a reputable investment house which had not responded to the present call because of the size of the portfolio offered to it and because of the low management fees proposed by KKL but now, with receipt of a portfolio of larger financial scope, it was prepared to manage it for KKL. The Committee accepted the recommendation of the Consultant.

From a clarification which the Office of the Comptroller conducted, it follows that the Investment House "E" was not examined using the same test indicators by which the other investment houses, four of which were chosen, as noted, were examined but only according to

the threshold requirements of all investment houses. It was also unclear whether it attended the Investments Committee for a personal presentation, as the other candidates.

We mention that the tests conducted for the investment houses which did not respond to KKL's first call were more specific and deeper in addition to the threshold requirements which constituted an "entrance ticket" for the actual competition.

Thus, it is unclear as to why the Investment House "E" should have preference over the "J" Investment House which reached the fourth position amongst the investment houses, taking into account all the test indicators specified above.

d. The parameters for examination of the portfolio managers

The Office of the Comptroller conduced an examination of the recommendations of the Consultant which showed that the indicator according to which the investment houses were selected was the cumulative rate of return during the period looked at, with Sharpe Index weighting of the return per risk units.

In the opinion of the Office of the Comptroller, it is not reasonable to rank the portfolio managers only according to the parameter of the return without taking other data into account, for example: the degree of compliance or non-compliance of the portfolio manager with KKL directives and the number of deviations from these directives.

The Office of the Comptroller reviewed the monthly reports of the Consultant for January to September 2013 and found that some investment houses deviated a number of times from the directives. See Chapter 5.3, Finding C.

e. Non-existence of a procedure for an orderly end to contractual arrangements.

An examination by the Office of the Comptroller found that, to date, the KKL has no orderly procedure in writing which specifies the parameters for checking on the investment houses and for ending a contractual arrangement. The process in effect currently is an oral examination in which the sole parameter examined is the rate of return, as noted.

The audit recommendations

- The Office of the Comptroller recommends drawing up an orderly procedure in writing, encompassing the process for sorting and the selection methodology of the new portfolio managers, including reasonable timetables. It is also recommended that a follow-up mechanism be set up for implementation and application of the process at times to be determined by the Committee, while upholding the directives of the Committee and the procedures.

  Response of the director of the Finance and Economics Division

  Accepts the recommendation. A directive has been issued for the writing of an orderly procedure on the subject.

- It is recommended that a clear time frame be set for measuring for the purpose of determining the parameters for sifting the portfolio managers, that there be no deviation therefrom and that the decision not be altered.

  Response of the director of the Finance and Economics Division
  The procedure – as stated in the previous recommendation – will contain reference to the issues of time frame and parameters.

- It would be fitting for all of the new investment houses to be examined according to the same criteria. A portfolio manager should

not be allowed to start unless he has been examined according to all the criteria and indicators by which the other portfolio managers were examined.

Response of the director of the Finance and Economics Division
A "refreshing" of the portfolios is expected at the beginning of 2015. The investment houses will be examined according to identical parameters and an investment house which does not meet the criteria will not be selected.

- The Office of the Comptroller recommends that, when sifting the current portfolio managers, additional parameters also be examined, such as: extent of compliance with the directives of the Investments Committee and the scale of the deviations which the portfolio manager made in the period reviewed.

  Response of the director of the Finance and Economics Division
  Accepts the recommendation.

5. Controls

5.1 Current controls

Bank commissions

At the end of each month, the investment houses send a monthly report, produced by the Danel System they have, incorporating all the actions taken in the portfolio, including transactions, balances and distribution by security, to the KKL Bookkeeping Department.

At the same time, the figures are transferred from the bank accounts by the interface to the Prime System used by KKL and there the same transactions are analyzed, as is the state of the balances.

By the nature of things, many transactions take place each month as part of the activity in the portfolios and a large number of different commissions are derived therefrom.

The purpose of the examination is to ascertain whether the commissions (mainly for buying and selling) are charged in accordance with the agreements with the banks. Where there are differences, they usually originate in the Prime System which is sometimes inadequately updated as to the correct rate of the commission to which the bank is entitled.

Inventory of securities

As noted, data are conveyed each month from the banks to the Prime System. At the same time, the investment houses transfer the state of the balances and the actions taken as part of the activity in the portfolio managed by them and a cross-check is done for each investment house to ascertain the reconciliation between the Prime data obtained via the interface from the banks and the data of the investment houses produced by the Danel System. Where there is no reconciliation, an examination is undertaken in greater depth of the transactions. Reasons for non-reconciliation can be: changes in the value of the security, changes in the name of the security, a distribution of dividends (difference between date of declaration and date of receipt), changes in the foreign currency exchange rate, and the like.

Once the balances are reconciled, the figures are forwarded to the KKL financial system, Finansit, and a bank reconciliation is carried out.

Cash controls and current credit deposit

Current and current credit deposit accounts are not kept nowadays in the Prime System but in an account in the books as part of the "regular" bookkeeping. Reconciliations are carried out at the end of the year.

5.2 **Periodic controls**

Follow-up reports

According to KKL instructions, the investment houses are required to make current reports as specified below:

- A biweekly report containing: composition of the investments portfolio, summary of holdings and a report on returns.

- A monthly report on the portfolio return, composition of the investments, details of transactions made in the account. The monthly report will contain details about the Average Life Span of each type of bond contained in the investments portfolio and also the rating of the bonds according to the rating companies.

- A quarterly review about the factors which impacted the return of the portfolio during the period and which could impact it in the future.

Periodic work meetings

The director of the Finance and Economics Division holds meetings each quarter with all the investment houses for the purpose of tightening efficiency and the cooperation between them (this being according to a new policy introduced last year). Periodic meetings are also held between the portfolio managers of the investment houses and representatives of the External Consultant.

5.3 **Controls applied by the External Consultant**

Following are details of the main controls which the External Consultant and his representatives apply:

- Analysis of the data received from the investment houses, checking the correctness and examining the returns.

- Checking whether the investment house is complying with KKL policy, specifically regarding the mix of the investments and specific restrictions determined in the policy.

- Analysis of deviations and exceptions and requests for correction. (*)

- Reports to KKL on performance and the deviatory data.

- Work meetings with the portfolio managers at the investment houses.

(*) It should be noted that, in a clarification with the staff of the External Consultant who handle the KKL portfolio, we were told that the main deviations in the activity of the portfolio managers are with respect to a rise in the values of the securities (which impacts the ratio of the securities in the total portfolio) and that the scope of the deviations this year was minor.

The Office of the Comptroller checked the effectiveness of the current controls adopted for the purpose of the follow-up and supervision over the investment houses and for the purpose of the follow-up and supervision over the bank commissions and the application of the results of the control.

The audit findings:

a. Manual corrections

Our audit showed that, when a cross-check is made between the Prime System and the manual reports produced in the Danel System by the investment houses, there are many discrepancies and manual corrections are required and are implemented by keying them in the Prime System. This situation constitutes an opening for mistakes and errors and, in our opinion, with data on

this scale, a computerized cross-check should be made between the two groups and the correction made automatically.

b. Setting the rate for bank commissions

Our audit found that no comprehensive market survey had been carried out regarding the bank commissions in force for management of investment portfolios on these scales. It follows from this that it is possible that optimal negotiations were not conducted as to the amount of the commissions, with a comparison with costs acceptable in the market.

It was further found that the final decision as to the size of the commissions set with the banks was taken by the party which had conducted the negotiations but it was not checked by a more senior body.

c. Supervision over implementation of the Committee's directives

In the opinion of the Office of the Comptroller, enforcement is not undertaken at KKL on an adequate level so that the investment houses will amend defects as soon as possible or will not deviate, *ab initio*, from the policy. Supervision over the nature of the portfolio and dealing with deviations is done almost exclusively by the External Consultant, for example: the directives of the Committee determine the rank of the rating permitting investment in a bond and the only body supervising the matter is the External Consultant.

From the monthly reports of the External Consultant for **January – September 2013** it follows that there were 28 deviations, although some of them were within the time frame **granted** to the portfolio managers to adopt the new directives given following the policy change from the end of June 2013.

The audit showed, nevertheless, that there were frequent deviations:

Deviation item	**Number of occurrences**
Real estate bonds component up to 3%	12
Average Life Span of linked, Sheqel denominated, government bonds at fixed interest	6
Shares of the permitted indexes only	4

There are also some investment houses which deviate more than the others:

Investment House	**Number of deviations**	**Notes**
K	9	1
H	4	2
C	3	3

Notes:

1. The highest number of deviations, some in repetitive items.
2. A deviation for three consecutive months in the same item – real estate bonds.
3. All the deviations were in the same item – real estate bonds.

The Office of the Comptroller was told that the deviations were because of the policy change and were minor but, from a clarification conducted by the Office of the Comptroller, it follows that no examination was undertaken by KKL as to whether any damage actually resulted from the deviation. The financial scope of the deviation was not checked and KKL did not initiate any clarification vis-à-vis the portfolio managers. The body which examined the deviations and reported on them was the External Consultant.

d. Multiplicity of accounts

The investment houses are currently managing the portfolios in 16 accounts for 11 investment houses. It is unclear why some investment houses have one account and others have two, something which makes the audit work more difficult and causes errors in the process.

The audit recommendations:

- It is recommended that a cross-check be carried out between the Prime data and the Danel data by computerized means.

  Response of the director of the Finance and Economics Division
  The recommendation is accepted. The subject will be examined, including the feasibility of adding the interface (cost – benefit).

- It is recommended that a comprehensive market survey be carried out regarding the commissions at banks for similar scales of activity and that renewed negotiations be conducted with the banks, to the extent necessary.

  Response of the director of the Finance and Economics Division
  A directive has been issued for all the commissions which KKL pays to banks to be examined.

- The Office of the Comptroller recommends that the follow-up and control vis-à-vis the portfolio managers not be carried out exclusively by the External Consultant. It is recommended that an employee of KKL perform current control vis-à-vis the portfolio managers regarding the handling of deviations, meeting timetables and complying with policy.

  Response of the Finance Division
  In accordance with the response of the director of the Accounting Division, following a period of training of a new employee

responsible for the bookkeeping and reconciliation of the Prime System, an additional internal follow-up be carried out through the Prime System on the directives of the Investments Committee.

The directives, as noted, will be updated for the Prime System. Periodically, a control report will be produced and conveyed for the perusal of the director of the Finance Division.

- It is recommended that the accounts of investment houses operating in the framework of more than one account be combined.

6. Management of the Nostro Portfolio

Background

Most of the monies due to KKL are funds received from the Israel Lands Administration (hereinafter: the ILA). A small part of the income originates in contributions, mainly from abroad. The cash flow received from the ILA is not stable but varies from month to month without it being possible to anticipate in advance the amounts that will be received in a particular month, if at all.

In this situation, the cash flow is irregular and, so as not to be caught in a state of a shortage of resources for current activities which would necessitate the breaking of long-term deposits, it was decided at KKL to place amounts in short-term deposits for the sake of liquidity.

Policy change

Following the decline in interest rates in recent years, the Investments Committee, at its April 2013 meeting, resolved to reduce the funds independently managed at KKL by an amount of some NIS 500 million which were transferred to the Managed Portfolio and distributed among

a number of investment houses. The purpose of this step is to obtain a higher return through the activity of the investment houses.

At the May 2013 meeting of the Investments Committee, the question was discussed as to how to manage the balance of the funds, in the amount of some NIS 537 million. After a number of alternatives were presented to it, the Committee resolved as follows:

Funds managed by investment houses in the short term (*):	NIS 280 million
Funds independently managed by KKL :	NIS 225 million
Annual liabilities in foreign currency (**):	NIS 32 million
Total:	NIS 537 million

(*) At the same meeting, the Committee discussed ways for management of the amount not designated for self-management, in the sum of NIS 280 million.

The External Consultant proposed two alternatives and, in the end, a decision was made for management of the funds through two investment houses specializing in the management of short-term portfolios, to be selected by tender. The investments will be made in accordance with the policy KKL defines and be subject to audit.

(**) Funds held in foreign currency for payment of annuities and salaries of KKL *shlichim* overseas.

Surpluses

The Office of the Comptroller was told that, according to the planned policy, should surpluses accrue in excess of the amount invested in Sheqel deposits (i.e., in excess of NIS 225 million), the funds would be transferred to the investment houses in a short-term Average Life Span portfolio. Should the total surpluses exceed the amount designated for the investment houses in the short term (up to NIS 270 million), the

matter will be brought before the Investments Committee which will decide on the designation of the funds and the manner of their investment.

The short Average Life Span portfolio

a. Managed Portfolio policy

KKL formulated the short-term investments portfolio policy as follows:

"The investments portfolio will be managed with attention to the short-term needs and will be managed with the purpose of obtaining a preferential return over the bank deposits, with low volatility and maintenance of low risk levels, on the one hand, and a high liquidity level, on the other hand (in relation to a portfolio managed for the long term).

The investment portfolio will be managed according to a uniform policy directive to be defined from time to time by the Investments Committee of the KKL Board of Directors. The investment policy is characterized as very solid and conservative and the amount of the funds to be managed will be up to a sum of NIS 90 million each.

b. The tender process

In accordance with the May 2013 decision of the Investments Committee, a request was made for proposals from six investment houses specializing in management of a short-term Sheqel portfolio without shares.

The investment houses to which the request was addressed were chosen according to the Dan and Bradstreet rating of the end of May 2013 of the leading investment houses for 2013.

The request was addressed to three investment houses which already manage an investment portfolio for KKL ("L", "M", and "A") and to three portfolio managers who are not currently managing a portfolio for KKL ("J", "N" and "Q"). At the same time, the criteria and methodology for the choice were formulated.

In mid-August, the rating of weighted results for the six investment houses which had reached the final stage of the tender were sent to members of the Investments Committee, with a note to the effect that the selection results would be completed by the date of the next discussion at the end of August.

c. The tender results

In the tender which took place, the following three investment houses achieved the best results: "J" (first place), "A" and "L". It was decided at the August meeting to change the previous decision, and to select two investment houses, rather than three, and that each one would manage a portfolio in an amount of up to NIS 90 million. It was decided to choose the Investment Houses "J" and "L" (the Committee decided not to select the Investment House "A" which had come in second because the "A" was already managing a relatively large long-term portfolio and the Committee does not make a distinction for the purpose of amounts managed between a long-term Managed Portfolio and a short-term Managed Portfolio). It was also recommended to the Board of Directors that designated bank accounts be opened for implementation of the process.

Management of cash and deposits

The total monies managed independently by KKL, as of September 2013, came to some NIS 459 million, according to the following break-down (in NIS thousands):

Item	Total
Current account	140,135
Deposits	93,095
Securities	115,783
Foreign Currency	46,586
Interim total	395,599
Australian deposits (*)	61,158
Total	**456,757**

(*) Contributions earmarked for projects. KKL is the owner and authorized signatory of the account but the funds are released only with the approval of the donors.

The Office of the Comptroller examined the stages of implementation of the decisions regarding management of the nostro portfolio.

The audit findings were:

a. Delay in implementation of the Committee's decision regarding the investment houses in the short term

According to the resolution of the Investments Committee of May, the nostro portfolio should have been divided into three components: the money managed at the investment houses for the short term, funds managed by KKL and foreign currency funds.

Examination of the investments to the end of September shows that this had not yet been put into effect.

The audit found that it was decided to delay the step since funds had not been remitted from the ILA for some time and therefore, for reasons of conservativeness, it was decided not to put the step into effect in its original pattern and to reduce the selection to two investment houses rather than three, for a total amount of NIS 180 million instead of the original NIS 270 million. This decision was taken in August and had not been put into effect by the date of this Report. The delay in implementation of the first decision from May seems to us unreasonable.

b. Controls – failure to keep a current flow report

Our audit found that there is currently no monthly or weekly cash flow report showing the income (from the ILA and from contributions) as against current expenditures. An examination of balances is made twice a month for the purpose of checking suppliers' payments and employees' salaries.

Cash flow management and supervision of it are important tools for maximization of the potential in investment of those surpluses in income-producing investment channels and, alternatively, early discovery of a negative balance or of deviatory expenditures in a particular account, leading to more rapid action for analysis of deviations and actions for their prevention.

Response of the director of the Finance and Economics Division
A directive was issued by me back in 2013 to keep a cash flow on a current basis in order to improve the financial conduct of the organization. At the same time and additionally, the acquisition is being looked into of designated software.

c. Funds held in foreign currency

According to the May decisions of the Committee, the total funds held in foreign currency should be some NIS 30 million (or some USD 8 million) for the sake of annuity payments overseas and for payment of the salaries of KKL *shlichim* serving overseas.

Our audit found that, as of October 18, 2013, the Sheqel value of the foreign currency balances came to some NIS 40 million. Furthermore, the decision had not been implemented in full and a risk exists of erosion in the currency rates. It is not clear to the Office of the Comptroller why no check up has been made at KKL regarding better alternatives, such as: hedging transactions.

d. Policy regarding management of current accounts and deposits at banks

Our audit showed that KKL has no orderly policy regarding the management of current and deposit accounts. The general policy in effect is spreading of risks and, therefore, the funds are spread between six different banks although most of the activity is at Bank "A".

- It is not clear to the Office of the Comptroller whether there is any real need to spread the funds between six different banks.

- It is not clear which is the deciding body and according to which criteria such and such a sum of money is invested in a particular bank and in what investment channel.

- There is no orderly plan regarding the investment channels for surpluses which accrue in the future.

The audit recommendations:

♦ It is recommended that an orderly discussion take place at KKL and that procedures be laid down regarding management of the nostro portfolio, including reference to the following subjects:

- Management of a monthly cash flow for the sake of follow-up after the state of the cash and the deposits.

- Policy regarding handling of surpluses accruing in deposits and current accounts and determination of criteria for dealing with them.

- Implementation of the decisions of the Management and of the Investments Committee within a reasonable time and maintenance of follow-up regarding them.

- Reference to the need for a number of bank accounts which are kept currently.

- Reduction in the foreign currency funds currently being held and examination of hedging transactions.

  Response of the director of the Finance and Economics Division
  The recommendation is accepted and the subject has been discussed at the Investments Committee. Likewise, in accordance with the decision of the Investments Committee, it was decided at the end of 2013, to open two portfolios managed on a short Average Life Span without shares in order to bring a preferential return to the bank deposits. At the beginning of 2014, the two portfolio managers commenced work.

7. Contractual Arrangements and Management Fees

Contractual Arrangement with the External Consultant

General background

The external investments consultant has been working for KKL for over a decade. The consultant owns a company that has been operating for 25 years in the field of economic and business, financial and strategic consultancy. The company has subsidiaries which work in the fields of technology, project accompaniment for construction and promotion of projects in the sphere of energy.

The current activity

As noted above in Chapter 2, the current work of the External Consultant in both economic and financial consultancy and in follow-up and control after the performance of the portfolio managers in the Managed Portfolio. The consultant also deals with looking into topics which are on the agenda and conducting research at the behest of KKL.

The team handling the KKL portfolio at the consultant's firm consists of three employees.

Each month, the consultant files a work program including a fixed bank of hours for the current month with respect to the current work (reports, participation at meetings and so on) and, in addition, details of the examinations, special research planned for the period and the number of additional hours being requested for them. Prior approval is required for the additional hours of work.

The number of current monthly hours fluctuates between 140 and 160 and the fee of the External Consultant is set at USD 125 per hour, less a 15% discount.

The Office of the Comptroller looked at the contractual process with the External Consultant, including approval of the accounts for the services provided.

The audit findings:

a. Absence of any contractual agreement

The Office of the Comptroller asked for the contractual agreement with the External Consultant but was told that the documents of the contractual arrangement were not to be found, either with KKL or with the External Consultant. After completion of the audit, KKL provided a document dated June 2009 which the consultant had sent with a contractual proposal, containing the content of the contractual arrangement, the period of the contractual arrangement (it is written that it is not restricted in time) and the fee. This document is not signed by the KKL Management, as required, and it cannot constitute a replacement for an orderly contractual agreement.

The contractual arrangement has been going on in this way for some years, which is not in line with what is acceptable in public bodies.

Response of the director of the Finance and Economics Division
In light of the period of the contractual arrangement, a directive has been issued for bringing forward the publication of a tender and, in the near future, a market survey will be promoted.

b. The number of work hours and fees

Our audit found that KKL has no objective indication as to the work hours required on the part of the consultant and members of his staff for handling the portfolio. Hence, it is unclear to the Office of the Comptroller which parameter is used as a basis for determination of the minimum hours per month for the External Consultant nor is it clear how overtime hours are approved for him.

Response of the director of the Finance and Economics Division
The relevant professional team in the Finance Division is in constant and continuous touch with the investments consultant. The consultant attaches a list of hours to the invoice. The lists of hours is checked each month.

c. Reasonableness of the fee

Our audit found that the reasonableness of the consultant's fee has not been previously checked against the tariff acceptable in the market. In other words, no market survey was conducted to check the consultancy rates paid to the External Consultant, with a comparison to bodies of a similar size.

It was explained that a market survey was to be conducted in the coming period on matters associated with the work of the External Consultant.

The audit recommendations:

- It is recommended that an orderly contractual agreement be drawn up with the External Consultant and a reasonable timetable set for

implementation of a process of requesting proposals from a number of consultants so as to examine the reasonableness of the contract terms.

- It is recommended, as a prior stage to renewal of the contractual arrangement, that the number of hours required of the consultant to fulfill his functions, both those in the framework of his current work and those he requires for a special purpose, be assessed objectively.

Response of the director of the Finance and Economics Division
A document exist which defines and specifies the work of the consultant. After completion of the tender and selection of a new consultant, an agreement will be signed between the parties and will include the above specifications.

Management fees for the investment houses

Last year, when a new director of the Finance Division took up his post, the Finance Division acted for a significant reduction of the management fees paid by it to the investment houses. The reference is to negotiations which were conducted vis-à-vis all the investment houses. In some instances, the management fee was reduced by some 50 percent.

The Office of the Comptroller received the calculation according to which the savings expected in 2013 with respect to reduction of the management fees would be about NIS 1 million and, in 2014, was expected to come to NIS 1.9 million.

The audit found that agreement about this commission had been achieved with all the investment houses, with the exception of Investment House "E", the commission paid to which is 18 percent more than to the other investment houses and the Office of the Comptroller was told that this case will be considered at the Investments Committee.

The Office of the Comptroller looked at the processes adopted by KKL for checking the reasonableness of the management fees and approval of the accounts which the investment houses submit.

The audit findings:

a. Market survey to determine the management fee amount

Our audit found that, together with the reduction made in the management fees which average of 0.06 percent, no comprehensive market survey was undertaken at KKL in order to know the amount of acceptable management fees in comparison with a portfolio of similar size.

The amount of the commissions was determined while exchanging opinions with colleagues, and also confirmation of their reasonableness on the part of the External Consultant. In the opinion of the Office of the Comptroller, these steps are inadequate and an in-depth market survey should have been conducted and an additional professional opinion obtained. The relative success in reduction of the management fees at such considerable rates can only strengthen this position.

b. Checking payment demands

Our audit showed that no current monthly check is carried out at KKL as to the correctness of the amounts which KKL is required to pay as management fees. The payment demands are sent without explanations for the purpose of the calculation and there is no way to check them. It was indeed clarified to the Office of the Comptroller that the demands are paid without prior check.

c. Mode of management fee calculation

The Office of the Comptroller received a new agreement signed with one of the investment houses, in which it is stated in Clause 9.1 that: "The management fees will be calculated according to the value of

the investments portfolio in all its components on the last day of each month".

A clarification which the Office of the Comptroller undertook shows that some of the investment houses calculate the size of the management fee according to the value of the investments portfolio on an average of the daily balances, arguing that such is derived from the nature of their information systems.

In the opinion of the Office of the Comptroller, there should be a uniform method for calculation of the management fees so as to create a possibility of an audit path with respect to the mode of payment calculation.

d. Investment House "E"

The Office of the Comptroller reviewed the minutes and decisions of the Investments Committee for 2013. This examination found that the issue of the amount of the management fees paid to Investment House "E" had not been discussed in the Committee since the Investment House was added in February. Considering that "E" manages a portfolio of some NIS 230 million, were the management fees paid to it to be the same as to the other investment houses, KKL would have an annual saving of some NIS 50,000.

The audit recommendations:

- It is recommended that a comprehensive market survey be conducted regarding the acceptable amount of the management fee.

  Response of the Finance and Economics Division
  The matter was looked into at the beginning of 2013 and it was found that the management fees which KKL pays to the portfolio managers was not at the level of blatantly unreasonable. At the same time, when the new director of the Finance and Economics Division took up his post, the opportunity was used and,

following various examinations of the costs of management fees on the one hand, and stubborn negotiations, on the other hand, KKL succeeded in significantly reducing the management fees paid to the investment houses. Furthermore, in the light of the Comptroller's recommendation, a market survey will be carried out.

- The Office of the Comptroller recommends that the investment houses be required to send details for the mode of calculation of the payment demands sent by them. Prior to payment of the demand, a comprehensive check should be undertaken to ascertain that the management fee charge is according to the agreement.

  Response of the director of the Finance and Economics Division
  The recommendation is accepted and is already being applied.

- The Office of the Comptroller recommends determination of a uniform and agreed mechanism for management fee calculations.

  Response of the director of the Finance and Economics Division
  The recommendation is accepted and a directive has been issued for its implementation.

- It is recommended that a discussion be held at the Investments Committee regarding the management fees of the Investment House "E".

  Response of the director of the Finance and Economics Division
  A discussion of the matter has taken place at the Investments Committee.

August 2014

Keren Hayesod

Cash Management

Response of the Chairman of the Executive

Keren Hayesod

Cash Management

1. Introduction

1.1 Pursuant to the Office of the Comptroller's work plan, we have examined Keren Hayesod – United Israel Appeal's ("Keren Hayesod") cash management activities.

1.2 The audit included examination of the following:

a) Cash flow from the campaigns to Keren Hayesod.

b) Management of cash balances.

c) Transfers of funds to third parties.

1.3 The audit was conducted in Keren Hayesod's offices in Jerusalem, in May through October 2013.

During the audit, the Office of the Comptroller met with the CFO, the revenue director, the financial reporting officer, campaign revenue supervisors, and additional persons as necessary.

1.4 The goals of the audit:

a) To examine cash inflows to Keren Hayesod and proper book-keeping.

b) To examine the approval and performance of fund transfers, and compliance with their designated use.

c) Maintenance of adequate cash flows to meet Keren Hayesod's needs, including exposure to currency risk.

d) To examine maintenance of adequate internal controls and to examine the efficacy of existing procedures.

e) To identify weaknesses in processes and controls, and recommend improvements.

1.5 The main documents reviewed in the audit:

- Bank documents and statements.
- Trial balance sheets and account statements.
- A sample of campaign account statements.
- Exposure statements.
- List of third party beneficiaries and their status.
- Certification and account reconciliation with campaigns and the Jewish Agency.
- Third party contracts.
- Work flows and procedures presented by Keren Hayesod.
- Specific documents received upon request.

1.6 Method:

- Examining procedures and comparing with actual performance.
- Holding meetings and discussions with persons overseeing the audited activities, and with additional persons as necessary.

- Examining financial transaction approval processes by the various Keren Hayesod organs, including as concerns currency hedges.
- Obtaining and analyzing reports and data from the ERP system.
- Sample examination of incoming payments and proper documentation thereof.
- Sample examination of outgoing payments to third parties.
- Examining hedging transactions used to reduce exposure to currency risk.
- Reviewing work flows with the campaigns and the Jewish Agency.
- Reconciling accounts with the campaigns and the Jewish Agency.
- Consolidating the findings.
- Preparing the audit report, including conclusions and recommendations.

2. Background

A. Keren Hayesod

Keren Hayesod – United Israel Appeal is one of the four national institutions (the World Zionist Organization, the Jewish Agency, KKL-JNF, and Keren Hayesod), and its offices are located in the National Institutions Building in Jerusalem.

Keren Hayesod was incorporated in 1920. Its main goals are to promote the establishment of a national Jewish homeland in Israel, as specified in the Balfour Declaration, among other things by receiving donations, loans, gifts, and estates. These funds are invested in developing Jewish settlement in Israel.

Keren Hayesod is held in equal parts by the World Zionist Organization (50%), and the campaigns (50%).

B. Campaign Funds

Keren Hayesod currently operates 60 campaigns (fundraising organizations) in more than 45 countries around the world, including Women's Divisions and Young Leadership campaigns. Campaigns are divided into four regions: Europe, Latin America, English-Speaking Countries, and the Far East. Across the world, thousands of people are involved in Keren Hayesod's activities, mostly on a volunteer basis.

The campaigns are legally incorporated in each country, and so they constitute independent entities operating according to local laws to support the goals of Keren Hayesod in Jerusalem.

Keren Hayesod representatives, its local leadership and volunteers, are the driving force behind fundraising activities in each country.

C. Revenues

Keren Hayesod's annual revenues total USD 150 million, and are mainly divided into the following two categories:

a) Funds without a specific designation, to the amount of USD 75 million a year. These funds can be used freely by Keren Hayesod for its various projects and operational needs. The

bulk of Keren Hayesod's non-designated revenues, USD 40 million a year, are transferred to the Jewish Agency for its ongoing activities. The amounts transferred to the Jewish Agency each year are determined in advance according to Keren Hayesod's fundraising projections for the year.

Keren Hayesod's annual current expense budget totals USD 20 million.

b) The second part comprises designated funds, to the amount of USD 40-50 million a year, which are received as donations for specific projects or third parties.

D. Cash Balances

Keren Hayesod's cash and short-term deposit balances for 2011-2012 were as follows (USD thousands):

Item	31.12.11	31.12.12
Cash and cash equivalents	18,175	* 61,430
Short-term deposits	53,263	58,561
Total	71,438	119,991

* Including foreign-currency deposits of USD 50 million, managed under an endowment fund, and invested in 2013.

E. Revenue Department

The Revenue Department comprises the revenue director and three other persons, who supervise five regions divided by geographic/other demographics (English-Speaking Countries, Latin America, Europe, Far East). Each region includes several campaigns.

The Revenue Department is responsible for:

- Ongoing management of donations received by Keren Hayesod from campaigns and other parties.
- Proper book-keeping, according to each donation's classification.
- Ongoing management of cash balances in general, and of designated donations in particular.
- Bank account management, including opening and closing accounts.
- Fund transfers to third parties in accordance with each donor's instructions.

Findings

- Keren Hayesod does not have any written policies for investing its cash balances, its investment portfolio structure, risk diversification, etc. Furthermore, there is no formal organ, such as an investment committee, providing guidelines on how funds are to be invested. Current practice is similar to past practice, with some of the funds invested in deposits, while others are left in the current account. There is no document specifying the organization's policy in this matter.

- According to the financial statements for 2011 and 2012, un-invested cash and cash equivalents amounted to USD 18 million and USD 11 million (excluding the amount classified as endowment), respectively. A further amount of USD 53-58 million is invested in various deposits. This state of affairs, where a cumulative amount of USD 70 million is either not invested at all, or invested in extremely low-yield channels, without any formal review by Keren Hayesod's various organs, is unreasonable.

Recommendations

- The Office of the Comptroller recommends that an investment committee, or other similar organ, be appointed. The committee will enlist the aid of professional consultants and will issue instructions concerning the manner in which funds are to be invested. The Office of the Comptroller recommends that the committee convene on a quarterly basis, or at the very least on a semi-annual basis, review the current status and returns on investments, and instruct on further actions.

  Response of the Revenue Director
  Keren Hayesod applies a conservative policy, whereby funds are not to be invested on the capital market, but only in bank deposits.

- The Office of the Comptroller recommends maintaining liquidity according to Keren Hayesod's current budget and for a limited time only, such as for three months. Any additional funds should be invested in short/long-term investments, as determined by the investment committee, as aforesaid.

Response of the Revenue Director

The cash and cash equivalents balances mentioned by the Office of the Comptroller include funds received in the final two days of the year, which had not yet been invested. In addition, liquid balances are used for ongoing operational needs, both through Keren Hayesod's budget and through transfers to beneficiaries.

Response of the CFO

Keren Hayesod applies a conservative policy, and we believe that this conservative policy should not be changed, considering Keren Hayesod is financed solely by donations.

3. Inflows to Keren Hayesod

Payments from the campaigns, received primarily through bank transfers and occasionally by secure diplomatic mail, are divided into two main classes:

a) Non-designated funds, for which the donor has not set a specific project or purpose, and which are freely available for use by Keren Hayesod. Annually, these funds total USD 75 million.

In practice, these funds have three main uses:

- Keren Hayesod's own budget.
- Funding for the Jewish Agency, with amounts set in advance at the start of the year, regardless of actual donations received during the year (but according to projections).

- According to Keren Hayesod’s management decision, non-restricted revenues from estates, which are not required for meeting Keren Hayesod’s liabilities, are designated to the endowment fund.

b) The second class constitutes designated funds, whose donors have set specific projects or beneficiaries for their use. These funds total USD 60-70 million a year. It is noted, that Keren Hayesod invests the bulk of its resources in projects taking place in Israel, and not abroad.

It is emphasized that, for years, the percentage of designated donations has been increasing, at the expense of non-designated funds.

Cash and checks

Sometimes, actual cash and checks are received at Keren Hayesod’s offices, in the following ways:

- Incidental donors at Keren Hayesod's offices, including groups of donors from abroad, who leave cash or checks at Keren Hayesod's offices.

- Checks received directly at Keren Hayesod’s offices, without the campaigns' involvement, or checks from the campaigns delivered via diplomatic mail.

- Cash or check donations received from a shaliach or other person acting on Keren Hayesod’s behalf to collect donations abroad.

The Office of the Comptroller examined the incoming payment processing activities, and related book-keeping.

Findings

- There are no clear guidelines on how to handle cash donations, funds received at Keren Hayesod's offices, or how to collect payments from various persons operating abroad. The organization is subject to risk from the handling of these funds, both due to lack of supervision over the immediate issue of receipts and through the timing in which these funds are deposited in the bank and accounting mismatches. There is also no clear indication of the supervision over persons travelling abroad with receipt books, which do not go through the accounting software.

Recommendations

- The Office of the Comptroller recommends that clear guidelines be established concerning the processing of cash donations; that a list of persons authorized to process these donations be formulated; to make sure that receipts are issued and funds deposited in the bank immediately upon receipt; and that the supervision over persons receiving donations on Keren Hayesod's behalf be increased. These measures will reduce Keren Hayesod's exposure to risks arising from these activities.

Response of the Revenue Director

Cash donations in Israel are negligible, both in number and in value. Furthermore, cash donations received by Keren Hayesod *shlichim* are virtually non-existent as they are processed almost exclusively through the campaigns.

As concerns receipts – Keren Hayesod receipts are rarely, if ever, used. In September 2013, Keren Hayesod's CFO issued

guidelines, both to campaigns and to representatives abroad, concerning invoicing and petty-cash management, and control thereof.

4. Currency Hedges

Keren Hayesod hedges against currency exchange rate fluctuations in two ways:

a) Hedges on bank deposits, for the currency in which these funds will be used in the future, mostly as part of the current budget.

b) Hedges on donations, so long as they are kept in Keren Hayesod's accounts, until use as instructed by the donors.

Current Budget

As Keren Hayesod maintains a mainly NIS-based budget, every year it hedges its budget using forward transactions, as follows:

- The annual NIS-based expenditure is calculated on a monthly basis.

- A decision is made concerning the portion of the budget that requires hedging (in recent years – 50%).

- At the start of the year, quotes are obtained from the two banks with which the organization works, and separate hedges are made for each month with the bank that offered the best bid for that particular month.

Donations

Some donors do not transfer the amount to which they committed in one lump sum, but rather in staggered installments.

Furthermore, in some cases, a donor transfers the entire amount in one lump sum, but does not specify the designated beneficiary upon transferring the donation. Instead, the donor specifies the beneficiary at a later time.

In the ensuing interval, the value of the donation may become impaired.

Keren Hayesod's policy in these cases is as follows:

- For transfers to third parties, the donation is transferred to the third party in the same currency as which it was received. Thus, currency risk is transferred to the beneficiary.

- In any case, Keren Hayesod requires beneficiaries to sign a waiver of liability.

- Sometimes, Keren Hayesod asks donors to transfer donations in the project's functional currency.

- If there is currency risk from the specified project using a different currency than the donation currency, Keren Hayesod tries to ask donors to transfer the funds in one lump sum, and then converts it to the project's currency.

- If all the above fail, Keren Hayesod conducts hedges on the donation currency and the project currency, at such amounts and times as the donations are expected to be received.

Exposure Statements

Once a month, Keren Hayesod prepares exposure statements, which include the following data:

- Overall bank balances, by account currency.

- Asset and liability balances, by utilization currency.

- Calculation of assets net of liabilities, for each currency, which presents exposure in each currency as of the statement date.

After reviewing the exposure statements, the revenue director issues instructions to conduct currency conversion transactions to minimize risk.

The Office of the Comptroller examined the measures used by Keren Hayesod to hedge against currency risk, and examined the decision making process in these matters and the time of implementation of these decisions.

Findings

- Keren Hayesod's NIS-based budget totals USD 12.3 million per annum. The last decision for 2013 was to hedge 50% of this amount through monthly hedges. The Office of the Comptroller did not find evidence for a formal review of this matter, no consideration of pros and cons, and no review of experience from previous years. In practice, to date, it seems that, for 2013, the actual exchange rate was significantly lower than the rate used in the hedging transactions, and had a decision been made to hedge 100% of the budget, Keren Hayesod would have benefited from significant savings.

Response of the CFO

Predicting changes in the foreign currency market is difficult. Here, too, Keren Hayesod applies a conservative policy by hedging 50% of the at-risk amount. Keren Hayesod has employed this policy for several years. When submitting the budget to the Budget Committee for approval, the chairman of the committee and the CFO discuss the matter and propose the policy for the budgetary year being approved to the Finance Committee. Keren Hayesod's management does not believe that this conservative policy should be changed.

- Analysis of the exposure statements for December 2012 and June 2013 indicates that some balances are kept in the wrong currency for significant periods of time. This is due to the fact that, when funds are received, the currency in which the funds are to be kept is not immediately checked. Thus, Keren Hayesod is liable to incur finance expenses over a period of days, and sometimes even weeks, from currency fluctuations. Examples:

  - On June 5, 2013, an amount of AUD 1.6 million was received, the bulk of which was non-designated and needed to be held in USD as per Keren Hayesod guidelines. In practice, it wasn't until June 19 that a total of USD 850,000 were converted even though almost the entire amount needed to be converted into USD, and the conversion should have been made on the same day that the money was received.

  - On June 20, a total of HKD 2 million were received, of which HKD 1,789,500 were available for conversion, but were only converted on July 3.

  - Conversion of CHF 0.5 million in June was delayed for several weeks.

- The Office of the Comptroller's examination found delays in the recognition of liabilities for designated donations in the proper currency and with the proper assignment, so that, in practice, there is a mismatch between the currency in which incoming funds are kept, and the specific obligation concerning the use of these funds. In these cases, the exposure statements are inaccurate.

- The Office of the Comptroller found one case in which Keren Hayesod was to transfer funds to a third party, in one lump sum or in installments, but no designated account was opened in the books in order to earmark the funds.

  Response of the Revenue Director
  This was a relatively rare case in which a non-USD donation was received, and the donor asked to delay the donation.

Recommendations

- The Office of the Comptroller recommends that the hedging policy for the current budget be reviewed and discussed at least once every six months; that conclusions be drawn from previous years' experience; and that decisions be explained. Keren Hayesod should consider obtaining professional opinions in these matters, so as to better understand foreign currency fluctuations, including projections for the coming year/period, and to facilitate informed decision-making, backed by written explanations.

- Whenever funds are received in a currency other than USD, which is the default currency, Keren Hayesod should, as part of its ongoing activities, check the designated use of the funds and the currency in which they are to be kept, and not wait until the end of the month.

- The Office of the Comptroller recommends that Keren Hayesod make sure to immediately record the counter-obligation in the relevant currency, against funds kept in the bank in that currency.

- The Office of the Comptroller recommends that designated accounts be opened in the books whenever Keren Hayesod receives funds that are designated to be transferred to third parties. This will allow better control of these funds, and facilitate supervision.

5. Classification of Donations

Most of the money is received from the campaigns via bank transfer, sometimes with prior notice before the funds are transferred, and sometimes without prior notice.

In most cases, funds are received with instructions concerning their designated use, but occasionally instructions are received only after the funds are transferred or even at a later date following inquiry with the donor.

Information concerning the designated use is received through several channels:

- The Priority network (if the campaign is connected to the network).
- Through the online Market-Gate platform.
- By fax.
- By email.

In order for a donation to be designated to a specific beneficiary (project), explicit instructions must be received from the donor. If a

donation’s designated use is unclear, the regional supervisor for the region from which the donation was received contacts the regional managers, and tries to clarify the donation's designated use. So long as the matter has not been clarified, the donation is temporarily recorded as ‘Pre-designated income’.

Furthermore, if the originating campaign of a donation is unknown, the donation is recorded under the ‘Individual donors’ account.

It is noted that Keren Hayesod checks the designation of all amounts received, and does not assume that funds are non-designated if no specific information was received about their designated use. Funds are only classified as ‘non-designated’ based on explicit instructions from the campaign or donor.

Funds are transferred to the relevant supervisor according to each campaign's geographic location. The supervisor informs the campaign that the funds have been received, checks their designated use, and documents this information.

Each supervisor maintains an Excel spreadsheet for each campaign, which details the donations received, the date on which they were received, and their designation or non-designation. Information is periodically cross-checked with the campaigns, usually via email.

Campaigns issue receipts to donors after receiving confirmation from Keren Hayesod that the donation was classified correctly according to the specified designation.

The Office of the Comptroller examined the documentation process for designated donations, according to the instructions received from the campaign or donor. This examination was performed by sampling 25 cases from the 4 largest campaigns,

with a total value of USD 23 million. The examined parameters included the following:

- **Receipt of notification from the bank that funds had been transferred.**
- **Documenting the campaign's instructions for the distribution of the funds, and actual implementation of these instructions.**
- **Documenting the notification from the bank that funds had been transferred to a third party beneficiary.**
- **Proper book-keeping.**

The examination found that, in all cases, funds had been recorded and/or transferred according to the campaign's instructions, and if there was any uncertainty, the funds remained in an interim account and were not automatically classified as 'non-designated' funds.

6. Bank Accounts Management

6.1 Keren Hayesod-Controlled Accounts

Keren Hayesod maintains numerous bank accounts in Israel and abroad (with 6-7 banks). Some accounts see only minimal activity, while others are completely inactive.

In Israel, there are four NIS-based bank accounts, and twenty eight additional accounts are maintained in various foreign currencies (ten of these are USD accounts).

Keren Hayesod carries out a significant part of its operations through accounts with Bank Leumi, but also works through Bank Hapoalim and Israel Discount Bank (mainly for hedging transactions).

Account Reconciliation

Bank accounts in Israel are reconciled daily. Overseas accounts are reconciled on a monthly basis. However, it is noted that notification is received from these banks on all incoming payments.

The Office of the Comptroller examined Keren Hayesod's policies for opening and maintaining bank accounts.

Findings

- The number of bank accounts maintained by Keren Hayesod seems excessive. The need to maintain so many bank accounts is unclear, and it does not seem like this matter was formally reviewed. Currently, Keren Hayesod does not have any formal policy for managing its bank accounts: opening accounts, closing accounts, consolidating accounts, and periodic reviews. The profusion of bank accounts makes it difficult to monitor and supervise movements, and is a weakness vulnerable to human error and manipulation.

- The only practice currently employed in Keren Hayesod, is that any opening of new accounts requires prior approval by the Board of Directors. However, rarely is initiative taken to close an account. New accounts overseas are occasionally opened as necessary, for example: if a donor wishes to deposit a donation in a particular country in a specific, special-purpose bank account. However, when the need no longer exists, such accounts are not closed in a timely fashion.

- The issue of signatory rights in currency conversion transactions is not clearly regulated. On the one hand, it is not excluded in Keren Hayesod's signatory rights protocol, which requires two signatures for every transaction. On the other hand, some currency conversions are ordered over the phone, by the relevant supervisor.

Recommendation

- The Office of the Comptroller recommends that a clear policy be formulated for managing bank accounts, including opening and closing of accounts, account consolidation, re-examination of the need to maintain accounts, and bank fee management. Specific attention should be given to existing bank accounts with an unusual usage profile, such as:
    - Dormant and/or inactive accounts (opened in recent years).
    - Accounts that have stood without a balance for extended periods of time.
    - Legacy accounts.
    - Accounts with a round-figure balance.
    - Accounts with a consistently negligible balance.

Response of the CFO

Keren Hayesod's policy is to maintain only such accounts as are required for its operations. In light Keren Hayesod lengthy history, there are donors with whom Keren Hayesod no longer has any direct contact. However, there are certain bank accounts that these donors are familiar with and to which they transfer donations. Therefore, despite the low transaction volume in these accounts, they are still necessary.

- The Office of the Comptroller recommends that the authorized signatory protocol be updated to include specific reference to internal transactions in Keren Hayesod's bank accounts in general, and to currency conversions in particular.

Response of the Revenue Director

Keren Hayesod is currently drafting a 'Treasury Operations Procedure', which will specify work procedures for the Treasury and the CFO. Among other things, the procedure deals with the opening and closing of bank accounts, control thereof, and with the issue of authorized signatories.

The Office of the Comptroller's Comment

We have read the procedure and find it lacking. For example: the procedure mentions that the CFO will consider closing dormant/inactive accounts, but there is no reference to who will monitor these accounts or to how unusual-profile accounts, as detailed above, will be managed.

6.2 Funds held in deposit by the Jewish Agency

Keren Hayesod makes regular transfers to the Jewish Agency with an annual value of USD 42 million, as aforesaid. Furthermore, Keren Hayesod occasionally transfers funds to the Jewish Agency with a cumulative annual value of several million dollars, in order to assist with its current cash flows. The Jewish Agency uses these funds for its operating needs, and they are effectively maintained in deposit by the Jewish Agency on behalf of Keren Hayesod.

This deposit bears annual interest at a variable rate of 0.5%, as agreed by the parties, and is recognized in the parties' books periodically.

These are effectively current account transactions, where money is received and issued from Keren Hayesod to the Jewish Agency.

Once every three months or so, finance personnel from Keren Hayesod and the Jewish Agency reconcile the current account statements, verify that interest was duly accrued and recognized, and once a year the Jewish Agency confirms the account balance.

The Office of the Comptroller examined this matter, including implementation of the parties' agreement, interest accrual, and regular account reconciliation.

Findings

- There is no formal document that sets down the account/deposit terms agreed upon by the parties, including the applicable interest rate, transfer volumes and frequency, ongoing reconciliations and use of the funds by the Jewish Agency. Thus, for example, the Office of the Comptroller received contradictory data concerning the interest rate, and it is not clear if the interest rate is periodically compared with alternatives offered by the bank, other than a general statement that the interest is ‘identical to the bank rate'.

Recommendation

- In light of the high value of these transfers, the parties should prepare a detailed document, which formalizes the management of funds held by the Jewish Agency in deposit for Keren Hayesod. The document should include reference to the following:
    - Deposit frequency and value.
    - The interest rate, including any changes dictated by changing market terms.

- Deposit duration.
- Frequency of account reconciliations by Keren Hayesod and the Jewish Agency.

7. Transfers to Third Parties

Keren Hayesod transfers funds to third parties ("Beneficiary"), as instructed by the donors. These transfers account for a significant portion of all activities, and are valued at USD 60-70 million a year.

As a precondition for transferring the funds, Beneficiaries are required to comply with various statutory requirements, such as holding a proper management certificate. Supervisors must verify compliance prior to transferring funds to Beneficiaries.

Once a Beneficiary has been found to comply with all requirements (including: bank account details, original voided check, tax certificates, letter of commitment, articles of association and NPO certificate, proper management certificate), funds are transferred according to the donor's instructions. Transfers are authorized with the supervisor's and the Revenue Director's signatures. It is noted that funds are sometimes transferred in the donation currency, and sometimes in the project currency.

In principle, funds are not transferred to projects which have not started operations. However, projects do not begin operations before all designated fund have actually been received, except in exceptional cases requiring the Director General's approval.

It is noted that some projects are supervised by Keren Hayesod, but the vast majority (90%) of projects are supervised by third parties.

The Office of the Comptroller received the list of transfers made between January and May 2013. Of these, the proper management certificate was checked for 260 organizations which received funds to a total amount of USD 48 million. Furthermore, 12 cases were examined for the following:

- **Receipt of the donation and its proper classification according to the donor's instructions.**
- **Documentation of the donation's designated use.**
- **Examination of the Beneficiary and its compliance with proper management rules.**
- **Proper procedure for fund transfers by authorized signatories.**

Findings

- Keren Hayesod examines Beneficiaries prior to transferring funds based on a file kept by the Revenue Department, which includes information on the organizations, valid statutory certificates, valid proper management certificate, etc. The Office of the Comptroller received this file, along with a detail of transfers to third parties made between January and May 2013, to a total amount of USD 48 million to 262 organizations.

Examination of all organizations receiving USD 10,000 or more found the following:

Status	Organizations	Value (USD)	% of sample
Compliant	99	11,762,686	24
Exempt	19	3,146,000	7
Non-Compliant	144	33,800,000	69
Total	**262**	**48,708,686**	**100**

- Thus, of 262 organizations which received funds in the above period, 144 organizations, receiving a total of USD 33.8 million, did not have a valid proper management certificate according to the file, or did not appear in the file.

- Of 144 organizations who were allegedly non-compliant, the Office of the Comptroller examined 39 organizations which received transfers of USD 100,000 or more, and cross-referenced their information with data from the NPO Registrar. 26 of these organizations were found to have a valid proper management certificate. Thus, Keren Hayesod's file, which serves as the basis for its transfers to third parties, is not up-to-date.

Response of the Revenue Director

The said file serves as the basis for a preliminary examination only, with subsequent examinations using the NPO Registrar website.

The Office of the Comptroller's Comment

As the said file is irrelevant, and since even in cases where the file indicates that an organization has a valid certificate, it is

still checked with the NPO Registrar website – there is no need to use this file.

- The amount transferred to the remaining 13 organizations, which were found not to have a valid proper management certificate, totaled USD 21 million, of which USD 17.5 million went to projects related to the International Fellowship of Christians and Jews.

Response of the Revenue Director

The organizations receiving donations but not holding a valid proper management certificate are organizations operating abroad.

Response of the CFO

Donors are entitled to transfer donations to organizations not holding a valid proper management certificate. If a donor certifies this in writing, after the matter was brought to his attention, we are bound to make the transfer.

The Office of the Comptroller's Comment

The Office of the Comptroller believes that there should not be any difference between examining the propriety of an organization operating in Israel, and examination of an organization operating abroad. These organizations should also be required to submit the relevant regulatory certificates, and in any case transfers should not be made without any examination of the beneficiary organization.

Recommendations

- The Office of the Comptroller recommends that the examination be carried out using the NPO Registrar website only, without using the file which, in any case, is not current.

- If no valid proper management certificate can be found, funds should not be transferred to the organization, except following a specific decision by the donor and the CFO, backed by written explanations.

Response of the Revenue Director

The lack of a proper management certificate does not negate the transfer of a donation. In general, the International Fellowship of Christians and Jews, as well as any other donor, can decide to transfer a donation even if a Beneficiary does not have a valid proper management certificate at that time. Such transfers are only made after confirmation with the donor.

8. Keren Hayesod-Campaign Work Flow

Keren Hayesod works with 60 campaigns around the world, operated by paid employees and volunteers alike. In practice, campaigns are not uniform in profile, so that their bargaining power and independence from Keren Hayesod varies. This is reflected, among other things, in the collaboration and the flow of information between Keren Hayesod and the campaigns, and in decision on the designated use of donations.

In some countries, Keren Hayesod has a representative who is a key figure in the campaigns. In other countries, campaigns operate with complete independence.

Naturally, this leads to inherent challenges in Keren Hayesod's ability to supervise and monitor the campaigns' activities.

The Office of the Comptroller reviewed procedures for working with the campaigns, and work flows with the regional supervisors.

Findings

- The Office of the Comptroller found that there is no clear policy governing ongoing work with the campaigns, including the frequency of reconciliations and cross-checks with campaign representatives. Thus, for example, while one supervisor reconciles accounts with the campaigns on a monthly basis, another only does annually. It is emphasized that the greater the frequency of these reconciliations, the lower the risk of errors.

- Keren Hayseod holds a periodic meeting, in which it monitors the campaigns' activities. Instructions are then issued to the campaigns, though these instructions are not fully-binding due to Keren Hayesod's dependence on the campaigns, and there is no certainty that they will be fully complied with.

Recommendations

- The Office of the Comptroller recommends that a clear policy be established concerning ongoing work with the campaigns, including regular work flows between supervisors.

Response of the Revenue Director

The 'Treasury Operations Procedure', which is currently being drafted, covers bank reconciliations (daily/monthly), and will consolidate all supervisor activities under one uniform procedure.

Response of the Chairman of the Executive
to the Comptroller's Report on
Cash Management in Keren Hayesod

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

Keren Hayesod was founded in 1920 as a fundraising arm of the Zionist movement. Today, Keren Hayesod operates in over 45 countries worldwide.

The audit report reviews Keren Hayesod's cash management practices. The Office of the Comptroller found that there is no formal decision making process for investing funds.

Keren Hayesod will, in the near future, consider establishing an investment committee, which will recommend investment and risk management policies.

Keren Hayesod hedges against currency risk. The Office of the Comptroller notes that no records were found documenting a formal review process for these hedges.

Keren Hayesod's Finance Committee will discuss currency hedges, as part of its budget-formulation discussions.

The Office of the Comptroller refers to Keren Hayesod funds held in deposit by the Jewish Agency (in addition to the current budget), and recommends that, considering the substantial value of these amounts, the parties sign a detailed document regulating the manner and terms in which this account/deposit is managed – duration, interest rate, etc.

Keren Hayesod accepts the Office of the Comptroller's recommendations, and will act to implement it as soon as possible.

The Office of the Comptroller indicates that money transfers to third parties constitute a significant amount of all operations (USD 60-70 million, annually). The Office of the Comptroller's findings indicate that funds are also transferred to NGOs which have not been issued with proper management certification.

Keren Hayesod will examine legal and other aspects related to the transfer of funds to organizations in Israel and abroad which do not hold proper management certification.

We thank the Office of the Comptroller.

(-) A. Duvdevani

Jerusalem, May 2014

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 General Council at its next session. Details of the Deputy Comptroller's authority shall be

[2] Amended by the Presidium Resolution of June 11, 1991.

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 sub-section (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.

(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.

Cooperation on the part of the Controlled Body

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 Complaints[5]

17. (a) The Comptroller may inform a body or person subject to his control of the results of the investigation of a complaint which has been investigated by him, as laid down in Section 12, above, and he may add his opinion and/or recommendations regarding the steps which should, in his view, be taken to resolve the individual complaint and/or to rectify various shortcomings revealed in the course of the said investigation.

(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.

[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.

(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. Reports[6]

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).

(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

[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.

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.

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.