

**ההסתדרות הציונית העולמית**

**The World Zionist Organization**

**THE OFFICE OF THE COMPTROLLER**

**ANNUAL REPORT**

**for 2015–2016**

**to**

**THE ZIONIST GENERAL COUNCIL**

**XXXVII/3**

Jerusalem, October 2017

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***Delegates to the Zionist General Council,***

*I am honored to submit to the Zionist General Council XXXVII/3 a Report on the activities of the Office of the Comptroller for the years 2015–2016.*

*The volume includes reports that were discussed at the Zionist General Council Control Committee.*

*According to the Statutes of the Comptroller and the Control Office (18b), the Chairman of the Zionist Executive should prepare a response to the individual reports submitted by the Comptroller. Such a response has not been received for each of the individual reports included in this volume.*

*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 committee and the members of the Committee 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.*

*Steven G. Stav  
Comptroller*

*Jerusalem, October 2017*



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

*The Comptroller of the National Institutions examines the activities of the World Zionist Organization. Since the 37<sup>th</sup> Zionist Congress, the Comptroller and his staff have been working to provide the members of the Control Committee and the World Zionist Organization with reports that include findings and recommendations for discussion and conclusion with the reviewed entities.*

*The Control committee 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 Committee, 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.*

*The Committee 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.*

*I thank the members of the Control Committee for their cooperation.*

*Baruch Levy, Ph.D.*

*October 2017*



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#### The World Zionist Organization

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



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

### **Functions of the Comptroller**

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

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

The control findings, together with the Responses of the Chairman of the Executive, are debated in the Control Committee of the Zionist General Council. The individual reports included in this Report to the Zionist General Council, have been debated in the committee, yet without the Responses to the Chairman of the Executive, that have not been submitted.

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 2007–2017  
Arranged according to the year of publication**

**The World Zionist Organization**

- 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 *Shlichut* at the World Zionist Organization
- 2010 The Zionist Council in Israel
- 2012 The 36<sup>th</sup> 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 *Hagshamah* Movements – Use of WZO Allocation
- 2013 The Zionist Council in Israel
- 2013 Center for Religious Affairs in the Diaspora
- 2013 The Human Resources Division
- Feb. 2015 The Unit for Morim Shlichim in the Diaspora
- Feb. 2015 Habayta – Aliyah Promotion Unit
- Oct. 2015 The Zionist Federation in South Africa
- Oct. 2015 The WZO Office in France

- Oct. 2015 Tarbut LeIsrael Ltd.
- 2017 Procurement and Payment Approval
- 2017 The Zionist Council in Israel
- 2017 37<sup>th</sup> Zionist Congress

**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
- 2013 Forest Contractors
- 2013 Short Term *Shlichut*
- Feb. 2015 Salaries and Human Resources
- Feb. 2015 Investment Management
- Oct. 2015 Budget Building

Oct. 2015 Spokesperson Unit  
Oct. 2015 Joint Programs with Third-Party Organizations  
2017 Information Technology (IT)  
2017 Finance and Economics Division, Payments to Suppliers

**Keren Hayesod**

2006 Missions and International Events Unit  
2007 Human Resources and Emissaries Administration  
2008 Legacies and Funds  
2010 Short Term *Shlichut*  
2012 Procurements and Contracts  
2012 High Priority Projects  
2013 Payment Security  
2013 Salaries and Human Resources  
Feb. 2015 Cash Management  
Oct. 2015 Property Management  
2017 Salaries Human Resources



**World Zionist Organization**  
**Procurement and Payment Approval**



# **World Zionist Organization**

## **Procurement and Payment Approval**

### **1. Objectives**

To examine propriety of the following:

- a. Procedures
- b. Procurement requests and orders
- c. Quotes
- d. Price lists
- e. Suppliers
- f. Approval of bills for payments

### **2. Method and Scope**

The audit was conducted in the World Zionist Organization's offices in 2015. The audit included meetings with relevant persons and data gathering in the World Zionist Organization's headquarters in Jerusalem.

### **3. Background**

3.1 The following organizations are represented in the World Zionist Organizations: the World Zionist Unions, which are branches of the political parties in Israel; the World Zionist Federations; Zionist organizations such as WIZO, Hadassah, Bnai-Brith, Maccabi, the World Sephardi Federation, the World Union of Jewish Students, a delegation from the CIS (former Soviet countries), and others. The three major streams of

Judaism (Orthodox, Reform, Conservative) are also represented in the World Zionist Organization.

The World Zionist Organization's policy is determined by the Zionist Congress which convenes in Jerusalem once every four-five years. The Congress elects the Zionist General Council, which convenes once a year and elects the Zionist Executive, which then carries out those policies set forth by the Zionist Congress and the Zionist General Council.

The Zionist Executive oversees the departments of the World Zionist Organization, comprising the following:

- Diaspora Activities Department
- Activities in Israel and Countering Antisemitism Department
- Center for Religious Affairs in the Diaspora Settlement Division

The departments conduct diverse activities in Israel and abroad, such as: the Herzl Center, the Hagshama Project, the Zionist Archives, cultural projects in Israel, the Tashach Generation Project, the Shabbat Israelit project, the Mitchabrim project, encouraging Aliyah, the Eliner library, Mount Herzl, Ben Ami – Zorim Zionut, the Morim Shlichim Unit, etc.

The World Zionist Organization sets a budget for each department/unit, to finance their activities. The departments carry out their activities, and issue orders to their various suppliers.

### 3.2 The World Zionist Organization's budget for 2014, in NIS:

| <b>Budget No.</b> | <b>Department/Unit</b>                                    | <b>Budget</b> | <b>Utilization</b> | <b>Budget balance</b> |
|-------------------|---|---------------|--------------------|-----------------------|
| 701               | Diaspora Activities                                       | 5,260,731     | 4,846,971          | 413,760               |
| 702               | Activities in Israel                                      | 10,061,128    | 4,456,344          | 5,604,784             |
| 703               | Chairman's office   | 1,073,123     | 1,106,003          | (32,880)              |
| 704               | Deputy chairman's office                                  | 1,170,713     | 1,010,614          | 160,099               |
| 705               | Religious Affairs in the Diaspora                         | 660,264       | 617,895            | 42,369                |
| 706               | Religious Affairs in the Diaspora                         | 664,164       | 498,123            | 166,041               |
| 707               | Religious Affairs – Conservative                          | 664,164       | 362,654            | 301,510               |
| 708               | Encouraging Aliyah  | 675,575       | 542,960            | 132,615               |
| 710               | Eliner library  | 127,621       | 31,022             | 96,599                |
| 713               | Head shlichim   | 1,169,495     | 967,875            | 201,620               |
| 715               | Joint activities with the Ministry for Religious Services | 2,042,250     | 1,165,928          | 876,322               |
| 718               | Ethiopian Jewry memorial and remembrance                  | 0             | 2,373              | (2,373)               |
| 720               | Prime Minister's Office                                   | 905,000       | 0                  | 905,000               |
| 731               | Allocation to Zionist unions                              | 1,175,000     | 1,169,700          | 5,300                 |
| 732               | Allocation to organization activities                     | 360,000       | 257,191            | 102,809               |
| 733               | Sephardi communities                                      | 140,000       | 4,816              | 135,184               |
| 734               | Jewish Federation of South Africa                         | 45,900        | 45,901             | (1)                   |
| 735               | Jewish Federation of Australia                            | 152,235       | 181,735            | (29,500)              |
| 736               | American Section  | 142,000       | 146,724            | (4,724)               |
| 737               | Senior Zionists   | 6,000         | 1,984              | 4,016                 |

| <b>Budget No.</b> | <b>Department/Unit</b>  | <b>Budget</b> | <b>Utilization</b> | <b>Budget balance</b> |
|-------------------|---|---------------|--------------------|-----------------------|
| 738               | Allocation to WJRO  | 6,500         | 0                  | 6,500                 |
| 739               | Allocation for the Maccabiah                                    | 20,000        | 20,667             | (667)                 |
| 801               | Zionist General Council and participation in Board of Governors | 110,000       | 93,614             | 16,386                |
| 802               | Board of Governors and Plenum                                   | 100,000       | 103,681            | (3,681)               |
| 803               | Expanded Executive  | 77,600        | 95,200             | (17,600)              |
| 804               | Mt. Herzl   | 161,263       | 177,539            | (16,276)              |
| 805               | Statutory Institutions Office                                   | 345,170       | 383,311            | (38,141)              |
| 806               | Executive secretary   | 362,740       | 371,681            | (8,941)               |
| 807               | Finance Department  | 613,000       | 649,419            | (36,419)              |
| 808               | Human Resources   | 209,710       | 202,175            | 7,535                 |
| 809               | Participation in the Office of the Comptroller                  | 80,000        | 46,272             | 33,728                |
| 810               | Legal costs   | 130,950       | 165,127            | (34,177)              |
| 811               | New organizational ERP system                                   | 20,000        | 21,015             | (1,015)               |
| 812               | Reporting and control – special projects                        | 110,000       | 115,966            | (5,966)               |
| 813               | Real Estate Development Fund. Kaplan Archives, Herzl            | 97,000        | 95,563             | 1,437                 |
| 814               | Entrance to Mount Herzl   | 85,000        | 84,897             | 103                   |
| 815               | Congress preparations   | 1,000,000     | 183,190            | 816,810               |
| 901               | Contributions to pension and severance funds                    | 581,000       | 710,656            | (129,656)             |
| 902               | Commitments, security, and                                      | (875,260)     | 422,375            | (1,297,635)           |

| <b>Budget No.</b> | <b>Department/Unit</b>                 | <b>Budget</b>     | <b>Utilization</b> | <b>Budget balance</b> |
|-------------------|--|-------------------|--------------------|-----------------------|
|                   | misc.                                  |                   |                    |                       |
| 903               | Interest and finance expenses          | 40,000            | 53,671             | (13,671)              |
| 904               | Currency hedging fund                  | 45,000            | 0                  | 45,000                |
| 905               | Debt repayments                        | 40,000            | 26,108             | 13,892                |
| 906               | Renovation of building on 17 Kaplan    | 100,000           | 0                  | 100,000               |
| 920               | Hagshamah in the Diaspora              | 2,877,000         | 1,906,109          | 970,891               |
| 921               | Hebrew language activities             | 227,453           | 227,636            | (183)                 |
| 930               | Morim Unit                             | 1,029,642         | 865,285            | 164,357               |
| 931               | Mexico Morim – Mexico Agreement        | 0                 | 94,536             | (94,536)              |
| 950               | Shlichim activities – Budgets Division | 16,034,500        | 16,855,443         | (820,943)             |
| 980               | Zionist Shlichut Unit                  | 1,965,500         | 1,765,350          | 200,150               |
|                   | <b>Total</b>                           | <b>52,089,131</b> | <b>43,153,299</b>  | <b>8,935,832</b>      |

### 3.3 Payments

Payments are made strictly by the Finance Department, both in Israel and abroad.

In Israel, the following payment methods are used:

- MASAV e-transfer system – accounts for most payments.
- Checks – only a few payments are made by check, usually to institutions or in reimbursement of per diem costs.

- Credit cards – no payments by credit card.
- Cash – through petty cash accounts.

Abroad, the Jewish Agency treasuries pay for World Zionist Organization expenses. Payments are also made through the World Zionist Organization's overseas offices' bank accounts.

The Finance Department in Israel also pays overseas suppliers directly, or transfers payments directly from Israel to the bank accounts of the representatives and offices abroad, to cover various activities.

Payments from Israel abroad are made through a designated Bank Leumi wire transfer system.

## **Findings and Recommendations**

### **4. Procurement Policy**

#### **Findings**

- 4.1 The organization has not formalized its procurement policies in writing. In practice, the policy is for the departments to carry out procurement themselves, as much as possible, based on their needs and at their own liability. In other words, departmental personnel determine their procurement needs, select suppliers, set prices, place orders, and approve them for payment.
- 4.2 Certain contracts are made pursuant to Tenders Committee decision. The Tenders Committee convenes as necessary and comprises the director of the Finance Department (Committee chair), the legal counsel, and the director of the Human Resources Division.

4.3 The departments make some of their purchases based on agreements signed by the Jewish Agency. These include, for example, car fleet leasing, cell phones, security services, cleaning services, and IT services. The World Zionist Organization also enlists the aid of the Jewish Agency's Communication Division for telecom services (Bezeq, etc.).

Every month, the World Zionist Organization's Finance Department receives reports on the Jewish Agency's charges for these services. Reports can be presented by various breakdowns, as necessary.

4.4 The Finance Department supervises the approval of bills for payment. This entails verifying the accuracy of the charge, verifying that an order was placed for the purchased good/service and that the relevant supervisor has confirmed that the goods/services were received.

**Recommendation:**

**To establish a procurement policy, specifying which individuals are responsible for carrying out procurement, and the Finance Department's responsibilities, including its supervisory duties. The policy should also relate to the organization's reliance on Jewish Agency agreements, and the powers and duties of the Tenders Committee.**

**5. Procedures**

The organization does not have any written procedures and/or guidelines regulating such procurement related matters as:

- Generating procurement requests and issuing orders.
- Quoting hierarchy based on transaction value and procurement authorizations.

- Contracting – under what terms should contracts be signed.
- Defining transaction classes (purchase of consumable/non-consumable goods, purchase of services, regular ongoing purchases, urgent purchases, high-value purchases/tenders).
- Defining supplier classes, including regular suppliers, sole suppliers, authorized supplier database.
- Documenting price quotes.
- Processing and examining purchase orders.
- Supervision and control.

However, it is noted that current practice calls for Department managers to approve procurement invoices for payment. Approvals refer to the following:

- Whether the order was needed.
- Pricing and supplier selection.
- Confirming receipt of goods/services in full and as per the terms, quality and pricing agreed upon with the supplier.

**Recommendation:**

**To establish a formal procurement procedure that will detail the various procurement processes and relevant responsibilities.**

## **6. Authorized Signatories and Permissions**

### **Background**

The authorized signatories in the organization are those persons who were authorized by way of a management resolution to conduct

monetary transactions on the organization's behalf, including approving agreements and commitments.

Findings:

6.1 The Zionist Executive decision from its meeting of December 23, 2013, specified six authorized signatories in the World Zionist Organization.

6.2 The decision established two groups of authorized signatories:

- Group A – the Finance Department director and his assistant.
- Group B – two Finance Department employees (A.D. and Y.M.), and the organization's shlichim salary supervisor (N.R.).

6.3 The decision stated that, for general charges, the signatures of two authorized signatories, where one is from Group A, plus the stamp of the World Zionist Organization, shall bind the organization for all intents and purposes.

6.4 Banking transactions on the organization's behalf shall require the same signatures as for general charges.

Banking transactions of up to NIS 200,000 shall require an additional Finance Department employee (ERP and Projects Coordinator) be added to Group A, and he may carry out transactions together with those employees specified in Group B.

6.5 Permissions for MASAV e-transfer orders, or using e-banking services for Bank Leumi or Bank Hapoalim will

require any two employees from the authorized persons in either group.

- 6.6 The Office of the Comptroller's examination found that confirmations for banking transactions were in compliance with the aforesaid guideline. Propriety was found.

## 7. IT Systems

### General

- 7.1 The organization uses the *Priority* ERP system. The system includes a payment module and a budgeting module.

- 7.2 *Priority* includes an optional procurement module, comprising the following:

- Procurement requirements
- Purchase orders
- Price list/item catalog management
- Interface with budgeting and payment management modules
- Generating reports and statistics for supervision and control purposes

- 7.3 The organization has opted not to use the procurement module, and so procurement is not supported by an automated IT system.

It is noted that the procurement module does not include convenient options for generating administrative reports, managing price lists and comparing prices across suppliers and across identical items from different suppliers.

## **8. Tenders Committee**

- 8.1 The organization is not bound by the Mandatory Tenders Law. Even so, the organization has established a Tenders Committee.
- 8.2 As aforesaid, the Committee comprises: the Finance Department director, who chairs the committee; the legal counsel; and the Personnel and Administration Supervisor.
- 8.3 Upon examination, the Office of the Comptroller found that Tenders Committee meetings are documented in minutes, detailing the key points of the Committee's decisions. The Committee summons additional participants as necessary.
- 8.4 The Tenders Committee discusses quotes and bids and selects the winning supplier for a tender. The Committee also decides to exempt eligible suppliers from tendering.
- 8.5 The Office of the Comptroller was told that the Committee has adopted the relevant provisions from the Jewish Agency's procurement procedure.
- 8.6 The Office of the Comptroller could not find any documentation of this decision, and so the organization does not have any guidance/procedure specifying the Committee's powers or the tendering process. This includes specifying the threshold value requiring a tender, types of tenders (open or closed), validity of decisions, etc.

### **Recommendation:**

**To formalize the Tenders Committee's operations under an official procurement procedure.**

## 9. Procurement and Payments

### General

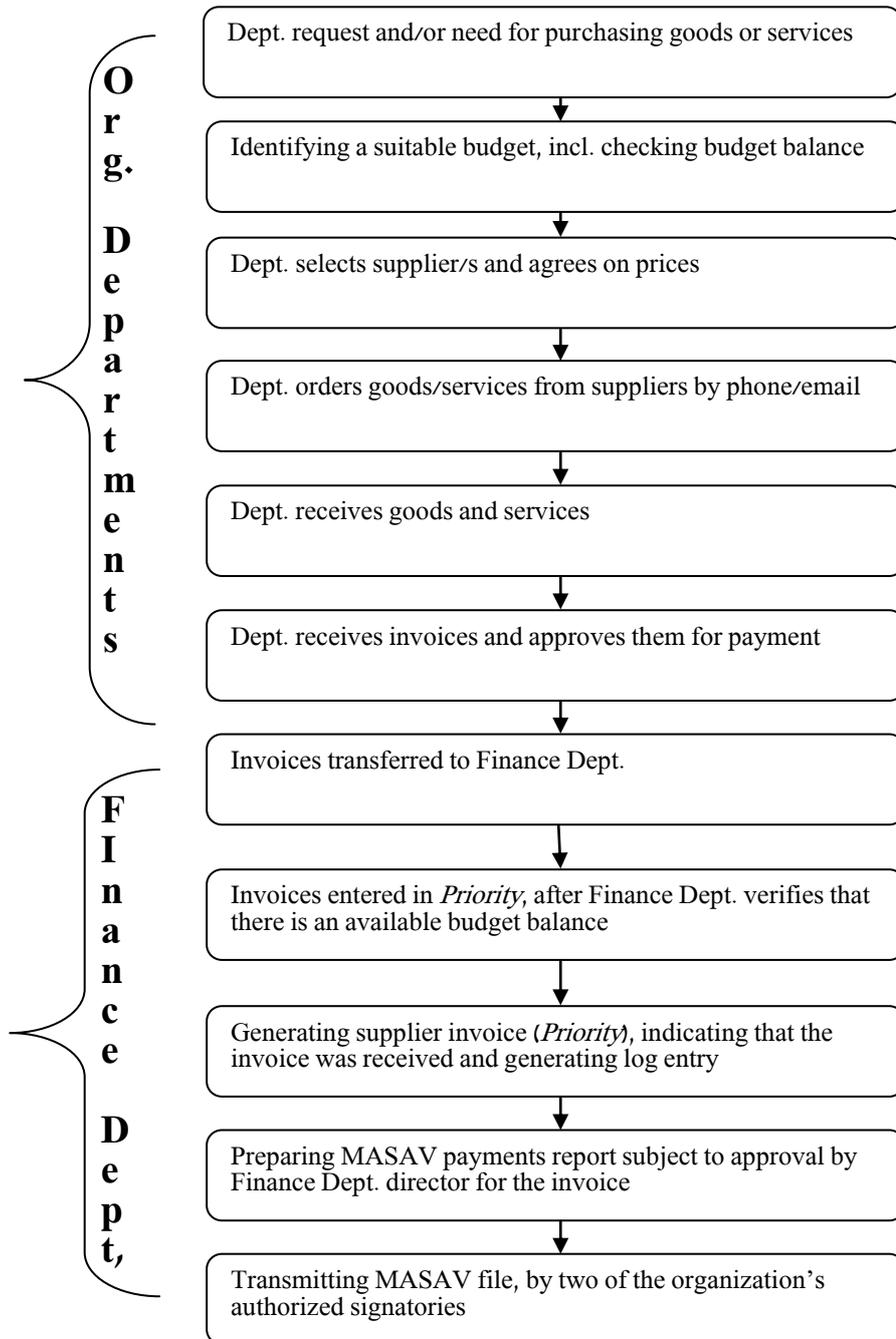
Purchases are made due to organizational needs, or through planned purchase of goods and services by the various units and departments. Service and goods suppliers are then contracted accordingly.

Some goods and services are purchased as part of the organization's ongoing operational needs.

However, some purchases are made as part of the World Zionist Organization's participation in various activities and projects.

The Finance Department's Payments and Administration Unit coordinator handles payments in Israel for these transactions. The Finance Department's ERP and Projects Coordinator handles payments for overseas transactions.

The procurement and payment process for these purchases is as follows:



The procurement flow-chart indicates that:

- 9.1 There is no written guideline or procedure specifying who may place orders for a department and who may approve the order.
- 9.2 There is no permissions hierarchy for placing and approving purchase orders, based on order value. Thus, there is no limit on the value of an order that department personnel may place.
- 9.3 As mentioned, procurement is not supported by any IT module. Consequently, it is not possible to obtain information on the order at the ordering stage. Such information would include: who placed the order, order date, date of receipt of goods/services, final price, description of services or goods ordered, etc.

**Lacking these data, the payment approval process is not necessarily based on methodical documentation of all relevant information, and there is concern that approved charges will not match the agreement with the supplier.**

Furthermore, lacking digital purchase orders, the various departments cannot compare prices: comparison to past order prices, last price for a given supplier, average price, quantities and scope of services ordered over a given time, and additional support data which may aid the organization in deciding prices and selecting suppliers.

- 9.4 As there is no automated system for managing procurement requests or purchase orders, a new supplier is only created in

*Priority* when an invoice arrives at the Finance Department.<sup>1</sup> This means that new suppliers only submit the documents required by law (such as book-keeping certificate and exemption from withholding tax certificate) after supplying the services/goods. So long as the Finance Department does not verify that these documents are in place, the organization has a standing liability and is unable to effect payment.

9.5 Lacking an IT procurement module, no data are available on unsupplied orders ('orders in transit'). It is emphasized that, since there is no automated procurement module, budgets cannot be earmarked for specific orders. Thus, if the balance is checked for a given budget item, the data may not be accurate. Budget updates (for payments in Israel) are only made when processing invoices. Only then can the current budget balance be obtained.

9.6 Agreements are drafted in accordance with Tenders Committee decisions. Once an agreement is drafted, it is submitted to the relevant department. Some copies of agreements are retained by the Finance Department. However, there is no guideline as to who is responsible for verifying that agreements are renewed and that services will continue to be rendered under a valid agreement. Thus, for example, the Office of the Comptroller found that a communications supplier, contracted in September 2011, is still providing the organizations with services, as does "V", who was contracted in March 2012.

9.7 The Finance Department's payment preparations are contingent, as aforesaid, on the department director's approval and on a suitable budget balance. It is noted that the

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<sup>1</sup> The Diaspora Activities Department maintains records of supplier invoices, including their original entry in the IT systems. This is the only department conducting such a process other than the Finance Department.

Finance Department does not receive data such as price quotes, correspondence with suppliers, packing lists, confirmations on full provision of services, and clarifications concerning the need for the purchase. Thus, **supervision and control over prices, supplier selection and complete delivery of services or goods are inadequate.**

- 9.8 Budgetary control as part of the procurement process (which as aforesaid is not carried out) and order approval by authorized personnel (which as aforesaid have not been specified) are fundamental tools for supervision and control over a procurement process.

The Office of the Comptroller believes the lack of such tools constitutes a material flaw in the procurement process.

**Analysis of the organization's procurement process indicates that the organization lacks the fundamental principal of separation of duties between the person placing the order and the person selecting the supplier and prices. Furthermore, there is no separation of duties between the person placing the order, who also selected the supplier and prices, and the person approving the bills for payment in the various departments.**

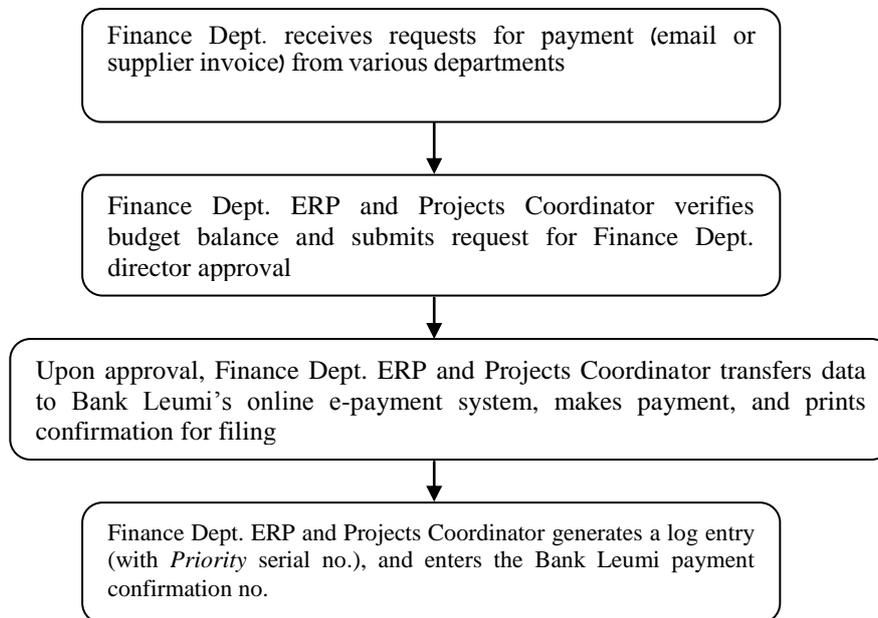
**Thus, the procurement process, including approval of purchase orders for payment, does not comply with common principles of proper conduct.**

#### **Recommendations**

- a. **To specify those persons who may place and approve purchase orders, subject to the permissions hierarchy and according to the order value.**
- b. **To examine the possibility of using a procurement module, including a computerized ordering system.**

- c. **To examine the possibility of integrating the procurement module in budget management activities.**
- d. **To enter new suppliers in *Priority* prior to placing an order and receiving an invoice.**
- e. **To specify who is responsible for maintaining agreement continuity.**

The following flow-chart details the payment process for overseas suppliers:



The above work-flow indicates:

- 9.9 No supplier files are maintained, and supervision and control over the procurement process and over accurate payment mainly consists of checking the budget balance and the Finance Department director's approval. Bank account reconciliation, which is done after payments are made based

on confirmations and log entries in *Priority*, serve as another control over the process.

The Office of the Comptroller was told that supplier files are not used for these payments because of the limited number of suppliers and the fact that payments are not made regularly every month to the same suppliers.

## 10. Sample Payments and Purchases

The following is a sample examination of payments and purchases from 2014:

|  | Amount     |                        | Comments  | Finance Dept. director approval | Quote |
|--|------------|------------------------|---|---------------------------------|-------|
| <b>Activities in Israel and Antisemitism</b> | USD 10,000 | Budapest Israel Center | Dept.'s participation in memorial wall, as agreed with other departments in the organization. Approved by the director of the Israel Activities Dept. | ✓                               | N/A   |
| <b>Chairman's Office</b>                     | NIS 3,500  | Heichal Shlomo         | For rules and customs board. Classified as sole supplier.   | ✓                               | No    |
| <b>Religious Affairs</b>                     | USD 500    | Helsinki Community     | Participation in Purim activities, approved by dept. director.  | ✓                               | N/A   |
| <b>Religious Affairs</b>                     | EUR 1,100  | Local Community        | Leadership seminar in Gottenburg  | ✓                               | N/A   |
| <b>Chairman's Office</b>                     | NIS 11,977 | H.J.                   | Editing services. Approved by senior advisor to chairman.   | ✓                               | None  |

|                                 | Amount     |                          | Comments   | Finance Dept. director approval | Quote |
|---------------------------------|------------|--------------------------|--|---------------------------------|-------|
| <b>Diaspora Activities</b>      | NIS 10,425 | A.K                      | Torah books. Classified as sole supplier.  | ✓                               | None  |
| <b>Religious Affairs</b>        | NIS 22,125 | M.V                      | Book printing. Approved by director of Spiritual Services Dept.  | ✓                               | None  |
| <b>Chairman's Office</b>        | NIS 25,000 | M. charity               | Support of Mirkam charity program pursuant to Chairman's decision.   | ✓                               | N/A   |
| <b>Religious Affairs</b>        | NIS 6,000  | B.E.                     | To Eliner Library for preparing titles. Approved by Spiritual Services Dept. director.   |                                 | None  |
| <b>Chairman's Office</b>        | NIS 17,110 | Communi-cations Supplier | Publicity and advertising, under a 2011 agreement, no valid agreement was found.   |                                 | N/A   |
| <b>Deputy Chairman's Office</b> | NIS 16,520 | h&h                      | Preparing materials for Deputy Chairman's visit abroad.  | ✓                               | None  |
| <b>Deputy Chairman's Office</b> | NIS 29,146 | Belgium House            | Refreshments for teachers' conference. Refreshments and lunch for Shorashim conference in July 2014. Approved by senior aide to the Deputy Chairman. |                                 | None  |
| <b>Deputy Chairman's Office</b> | NIS 51,920 | S.S.                     | Building a website for the teachers' conference. Approved by senior aide to the Deputy Chairman.   | ✓                               | None  |
| <b>Activities in Israel and</b> | NIS 12,320 | M.S.                     | TASHACH Generation Project. Under an   | ✓                               | N/A   |

|                            | Amount    |                    | Comments   | Finance Dept. director approval | Quote              |
|----------------------------|-----------|--------------------|--|---------------------------------|--------------------|
| <b>Antisemitism</b>        |           |                    | agreement and approved by the Activities in Israel Dept. director.         |                                 |                    |
| <b>Diaspora Activities</b> | NIS 4,170 | Computer Equipment | Under a Jewish Agency agreement and approved by department representative. | ✓                               | One quote attached |
| <b>Diaspora Activities</b> | NIS 6,422 | Y.L.               | Content development for plays. Classified as sole supplier.                |                                 | None               |

- 10.1 The sample indicates that no price quotes were retained, except in cases where an agreement was signed or where the order was made through the Jewish Agency.
- 10.2 The sample examination found several payments in which the Finance Department director's approval was not documented.
- 10.3 In cases where the service was found to have been provided by a sole supplier, this was decided by the department placing the order and no documentation could be found of any formal process, including defining the criteria for classification as a sole supplier.
- 10.4 **The examination – key data from which are presented in the above table – indicates that the organization does not implement reasonable and generally accepted procurement processes.**

10.5 The Office of the Comptroller examined reports for payments made between January and July 2015. The examination found the following suppliers who provide the organization with services without any agreement and/or without a valid agreement:

| Supplier and service      | Amount (NIS)         | No. of charges |
|---------------------------|----------------------|----------------|
| (graphic design)          | 158,892              | 13             |
| (refreshments for events) | 92,915               | 11             |
| (production services)     | 163,313              | 8              |
| Minimarket                | 32,354               | 19             |
| (book printing)           | <sup>2</sup> 119,003 | 3              |

**The data indicate that WZO contracts suppliers for goods and services without any generally accepted contracting processes, or any adequate control and supervision measures.**

10.6 In addition to the sample examinations detailed in above Section 10, the Office of the Comptroller examined another sample of payments abroad, or budget re-allocations (which do not require a procurement process) made in 2014 for the following:

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<sup>2</sup> In the period: 2013 through July 2015, this supplier was paid a total of NIS 347,668.

| <b>Recipient</b>                      | <b>Amount paid</b> | <b>Description</b>                                | <b>Approvals</b>   |
|---------------------------------------|--------------------|---|--|
| <b>England Treasury</b>               | \$2,900            | Hebrew Language Week, against submitted receipts. | Approved by director of Finance Dept. and Diaspora Activities Dept.  |
| <b>Metro-West Community</b>           | \$10,000           | Partnership with community                        | Approved subject to agreement and approved by Finance Dept. director.  |
| <b>KKL-JNF France</b>                 | EUR 5,000          | Funding for conference                            | Approved by senior aide to Chairman, director of Israel Activities and Antisemitism Dept., and Finance Dept. director. |
| <b>Jewish Federation in Australia</b> | \$4,800            | Funding for activities                            | As budgeted and approved by Diaspora Activities Dept. and Finance Dept. director.                                      |
| <b>World Beytenu</b>                  | NIS 43,050         | Unions  | Pursuant to allocation agreement for unions.   |
| <b>WIZO</b>                           | NIS 60,000         | Organizations budget                              | From designated budget for 2014.   |

- Data indicate that these payments were approved by the Finance Department director and a representative from the relevant department, pursuant to budget decisions.
- These payments were duly made by authorized signatories. Propriety was found.

**Recommendation:**

- a. **To examine the selection process for those suppliers detailed in Sections 10.4 and 10.5, including the price of the goods/services, available alternatives, and the need to sign agreements for these services.**
- b. **To examine and verify the accuracy of charges prior to paying suppliers, and particularly that goods/services have been received in full. Such examination should be made by someone other than the person who selected the supplier and agreed on the price.**

Response of the Finance Department Director:

WZO is working to formulate a procurement and payment approval procedure.

December 2015



# **37<sup>th</sup> Zionist Congress**



# 37<sup>th</sup> Zionist Congress

## General

**Purpose** – The goal of this audit is to examine the conduct behind the 37<sup>th</sup> Zionist Congress, which convened in Jerusalem on October 20, 2015.

**Method** – The examination focused on reviewing the administrative and fiscal aspects of the Congress, based on meetings with relevant personnel, examining procedures, work-flows, agreements and records in the World Zionist Organization (“WZO”) ERP system.

**Time and Scope** – The audit took place at the start of 2016, and pertained to the 37<sup>th</sup> Congress.

**Cooperation** – During the audit, we received the full cooperation of the relevant personnel.

## Background

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

According to the World Zionist Organization’s constitution and the regulations for its implementation (Article 13), the Congress convenes once every four years at a time and place specified by the Zionist General Council. Since 1951, the Zionist Congress convenes in Jerusalem. The Zionist General Council convenes once a year.

Three years ago, the Zionist General Council decided that the Zionist Congress will convene once every five years.

The Zionist Executive summons the Congress, and the Office of Statutory Institutions is charged with its organization.

Before the Congress convenes, Zionist Federations around the world are supposed to hold elections. Seats in Congress are allocated based on the results of these elections.

Before the 37<sup>th</sup> Zionist Congress, elections were held in only five countries: the United States, the Ukraine, Belgium, Peru, and Denmark. No elections were held in other countries as the Zionist World Unions and the Zionist organizations reached an agreement on the allocation of seats. The Zionist Court approved the allocation based on these agreements.

The 37<sup>th</sup> Zionist Congress convened on October 20, 2015, for three days. All meetings took place in the International Convention Center in Jerusalem (Binyanei HaUma). The Congress was attended by 1,600 people from various countries. The previous Zionist Congress was held in June 2010, and attended by 1,500 people.

As aforesaid, the audit was conducted at the start of 2016. The audit focused on examining administrative and fiscal aspects of the 37<sup>th</sup> Zionist Congress, including relevant contracts.

The audit was based on meetings with relevant WZO personnel, examining procedures and work-flows, examining records in fiscal and budget-management IT systems, and review of written material.

The previous audit was conducted at the start of 2011, and focused on the 36<sup>th</sup> Zionist Congress, held in June 2010. The report was submitted to the 36<sup>th</sup> Zionist Council on June 3, 2012.

## Congress Budget and Expenditure

In 2015, the budget for the 37<sup>th</sup> Zionist Congress comprised three main parts. Amounts were as follows (in USD):

|   | <b>%</b>   | <b>Budget</b>    | <b>%</b>   | <b>Expenditure</b> | <b>% Utilization</b> |
|---|------------|------------------|------------|--------------------|----------------------|
| Allocations to organizations and unions                     | 42         | 1,050,000        | 6.6        | 70,000             | 6.7                  |
| Participation in per-diem and travel expenses for delegates | 16         | 400,000          | 24.7       | 261,204            | 65.3                 |
| Current expenses for Congress                               | 42         | 1,050,000        | 68.7       | 728,199            | 69.4                 |
| <b>Total</b>  | <b>100</b> | <b>2,500,000</b> | <b>100</b> | <b>1,059,403</b>   | <b>42.4</b>          |

The above data indicate that actual expenditure was less than planned, utilizing only 42.4% of the designated budget.

Budget items and expenditure, as per the above components, were as follows:

### A. Allocations to organizations and unions

Allocations to organizations and unions are determined based on a resolution adopted by the World Zionist Organization in 2001. Under this resolution, allocations are made to fund activities and preparations for the Congress, including pre-Congress elections. The document discussing this matter states that allocations will be made after presenting and approving relevant work-plans. The Office of the Comptroller was told that organizations receiving allocations must report on the actual utilization of the funds.

In 2014, WZO allocated USD 1 million to fund preparations for the 37<sup>th</sup> Zionist Congress.

**The Office of the Comptroller found that, in practice, unions and organizations neither present work-plans, nor submit reports on the utilization of funds received for pre-Congress preparations.**

**The Office of the Comptroller noted this fact in its previous reports on the 35<sup>th</sup> and 36<sup>th</sup> congresses.**

The Finance Department stated in response that some of the unions and organizations reported on the utilization of funds.

As aforesaid, in practice, elections were held in only five countries prior to the 37<sup>th</sup> Congress: the United States, the Ukraine, Peru, Belgium, and Denmark. Other countries did not hold elections, but rather reached understandings on the allocation of seats. These understandings were then approved by the Zionist Court.

**The Office of the Comptroller believes that the 2001 resolution concerning the granting of allocations, conditions and amounts for allocation should either be followed or re-examined.**

In 2014, a total of USD 183,189 was allocated to the unions as an advance to cover preparations for the 37<sup>th</sup> Congress. The Office of the Comptroller was told that advances were calculated as 25% of the total USD 800,000 allocated to unions, determined by the allocation of seats in the prior, 36<sup>th</sup> Congress. Thus, the advance should have totaled USD 200,000.

In practice, as aforesaid, a total of USD 183,189 was allocated in 2014 to ten unions as an advance, based on their number of delegates in the previous 36<sup>th</sup> Zionist Congress.

The Office of the Comptroller was told that there were actually 11 unions. One did not receive an advance as it had not provided WZO with the necessary documents.

The Office of the Comptroller examined the calculation behind the advances to the ten unions in 2014. Propriety was found.

**The Office of the Comptroller believes the difference between the budget of USD 1 million earmarked for the Congress, and actual expenditure in 2014, is unreasonable and unclear. The Office of the Comptroller recommends greater accuracy be maintained when budgeting, so as to match actual expenditure as closely as possible.**

The Finance Department accepts the Office of the Comptroller's recommendation.

In 2015, the budget for preparing the elections, democratic processes, and re-focusing on Zionism in the Federations, unions and organizations was set at USD 1,050,000. This amount accounts for 42% of the Congress budget.

As aforesaid, elections were held in only five countries, with only minimal utilization of the above budget. By March 2016, only one union had reported on its activities for re-focusing on Zionism and received USD 70,000 in addition to the advance transferred in 2014.

**The Office of the Comptroller believes budgeting for the above items should be done more accurately in light of such under-performance, to maintain the budget's efficacy as a managerial tool.**

The Office of the Comptroller further notes that WZO did not set a time limit for submitting budget performance reports for Congress preparations by the unions and organizations. Thus, unions and organizations can report whenever they wish.

The Office of the Comptroller was told that, since the unions have not reported on their utilization of the said advances, WZO is considering to demand the return of amounts distributed in 2014, or to offset such amounts from WZO's current allocations to the unions.

**The Office of the Comptroller recommends that WZO set a deadline for the organizations and unions to report on Zionist re-focusing activities and pre-Congress elections. If such reports are not submitted in time, WZO must demand the return of the advance or offset it from allocations, as aforesaid.**

The Finance Department accepts the Office of the Comptroller's recommendation and stated that relevant notices have been sent to the unions and organizations.

**B. Participation in delegate travel and per-diem costs**

Participants in the 36<sup>th</sup> and 37<sup>th</sup> Congress, as presented to the Office of the Comptroller:

|  | <u>36<sup>th</sup></u> | <u>37<sup>th</sup></u> |
|--|------------------------|------------------------|
| Delegates                              | 752                    | 740                    |
| Executive                              | 25                     | 25                     |
| Guests, observers and deputy delegates | <u>723</u>             | <u>880</u>             |
| <b>Total</b>                           | <b>1,500</b>           | <b>1,645</b>           |

WZO covers participation costs for Congress delegates by partially funding their travel and per-diem costs.

The travel and per-diem budget was set at USD 400,000, or 16% of the total budget. Actual expenditure totaled USD 261,204, as of March 2, 2016.

Per-diem costs are reimbursed at USD 150 for foreign delegates, and NIS 570 for Israeli delegates. This amount is calculated at USD 50 a day, over three days. Flight tickets are reimbursed up to 50% of actual ticket cost, based on each delegate's home country. A table is maintained specifying reimbursement rates by delegate countries.

**The Office of the Comptroller notes that, in the past, delegates received five days of per-diem costs, also covering participation in the Jewish Agency Assembly. Following the Office of the Comptroller's recommendation in its report for the 36<sup>th</sup> Zionist Congress, WZO reduced expense coverage to three days.**

The Office of the Comptroller sampled 11% of per-diem and travel payments to unions and organizations, accounting for USD 30,000 out of the total USD 261,204. Propriety was found.

The above reimbursements are for Zionist Congress delegates only. WZO does not share in the travel and per-diem costs of deputy delegates or other participants.

In most cases, WZO transfers its share of delegate travel and per-diem costs directly to the relevant unions and organizations.

In other words, WZO transfers one lump sum for all delegates participating in the Congress to their respective organization, and that organization reimburses its delegates as it deems fit.

WZO only reimburses delegates directly when it does not maintain ongoing ties with the organizations that they represent.

The Office of the Comptroller notes that, in the past, reimbursement was made directly to all Congress participants. Reimbursement did not exceed 50% of the flight ticket cost.

Upon inquiry, the Office of the Comptroller was told that this policy change, where reimbursement for travel and per-diem costs is made to the unions and organizations, is more efficient for WZO, and allows the various organizations to distribute the funds based on the delegates' financial needs.

### Current Congress expenses

In 2015, the current expenses budget was set at USD 1,050,000, or 42% of the budget total. Actual expenditure totaled USD 728,199 (as of March 2016).

Current expenses mainly comprise conference venue rentals, meals, wages, printing and translation, opening and closing galas, etc.

The following table details all current expenses for the 36<sup>th</sup> and 37<sup>th</sup> Zionist Congress. Data are based on WZO ERP system data as of March 2, 2016 (in USD):

|                                      | 36 <sup>th</sup> Congress |             | 37 <sup>th</sup> Congress |             |
|--------------------------------------|---------------------------|-------------|---------------------------|-------------|
|                                      | Budget                    | Expenditure | Budget                    | Expenditure |
| Opening and closing galas and events | 58,000                    | 50,263      | 211,400                   | 134,524     |
| Landline and wireless communication  | 25,000                    | 21,676      | 30,000                    | —           |
| Translation and print                | 121,000                   | 95,077      | 162,000                   | 160,231     |
| Venue and office rental              | 197,000                   | 167,928     | 240,000                   | 184,768     |
| Office expenses                      | 2,000                     | 1,294       | 2,000                     | 764         |
| Wages and ancillary expenses         | 95,000                    | 63,579      | 172,800                   | 113,583     |
| IT                                   | 31,000                    | 21,076      | 50,000                    | 39,148      |
| Press and promotion                  | 11,300                    | 9,441       | 15,000                    | —           |
| Security and parking                 | 25,000                    | 9,939       | 25,000                    | 7,589       |
| Hotels and meals                     | 60,000                    | 57,835      | 75,000                    | 65,314      |
| Transportation and tours             | 13,000                    | 12,019      | 15,000                    | 14,099      |

|                               | 36 <sup>th</sup> Congress |                 | 37 <sup>th</sup> Congress |                 |
|-------------------------------|---------------------------|-----------------|---------------------------|-----------------|
|                               | Budget                    | Expenditure     | Budget                    | Expenditure     |
| Moving                        | 2,500                     | 419             | 2,000                     | —               |
| Miscellaneous                 | 78,000                    | 77,697          | 55,000                    | 37,733          |
| Zionist Court                 | 16,000                    | 8,696           | 15,000                    | 8,798           |
| Unexpected costs              | 107,000                   | 51,327          | 10,000                    | 1,299           |
| Revenues from participants    | <u>(36,300)</u>           | <u>(36,156)</u> | <u>(30,200)</u>           | <u>(39,651)</u> |
| <b>Total current expenses</b> | <b>805,500</b>            | <b>612,110</b>  | <b>1,050,000</b>          | <b>728,199</b>  |

The above data indicate that the budget for the 37<sup>th</sup> Congress grew by USD 244,500, or 30%, over the budget for the 36<sup>th</sup> Congress.

Expenditure grew by USD 116,089, or 19%.

In the 36<sup>th</sup> Congress, actual expenditure totaled USD 612,110, or 76% of the set budget.

In the 37<sup>th</sup> Congress, actual expenditure totaled USD 728,199, or 70% of the set budget.

The Office of the Comptroller notes that, across all items, the budget exceeded actual expenditure in both the 36<sup>th</sup> and 37<sup>th</sup> Congress.

**The Office of the Comptroller recommends setting an accurate budget, since it has exceeded actual expenditure in each Congress. Budgeting is an important managerial and fiscal tool, and must be used accurately to be useful and effective.**

The Finance Department stated that it agrees with the Office of the Comptroller's recommendation.

It is unclear why budget items “Landline and wireless communications”, budgeted at USD 30,000; “Press and promotion”, budgeted at USD 15,000; and “Moving”, budgeted at USD 2,000; were completely unutilized in 2015.

## **Contracts and Current Expenses**

On February 24, 2014, WZO received approval from the Finance Ministry (Customs and VAT Division), whereby expenses for the 37<sup>th</sup> Zionist Congress would be exempt from VAT under Section 30(a)(8)(b2)(1) to the Value Added Tax Law.

This exemption applied to expenses incurred for services rendered to an international organization for conducting an international conference attended by at least 50 tourists.

The approval was given for the Congress and for the meeting of the Zionist Council. The approval is re-issued for each congress, and is valid for that congress only.

**The Office of the Comptroller believes an inquiry should be made with the VAT authorities concerning the possibility of obtaining a permanent approval for all congresses and meetings of the Zionist Council. A permanent approval would save WZO and the VAT authorities time and money.**

The Finance Department stated that it accepts the Office of the Comptroller’s recommendation and would look into the matter.

According to the said approval, WZO must contract an event and conference production company to provide all services connected with the congress, including rooms in the International Convention Center, and including:

- 1) Simultaneous translation and recording of discussions and lectures, required for foreign residents participating in the Congress.
- 2) Use of audio, amplification, and lighting equipment and systems, and audio-visual equipment such as screens, projectors, etc.
- 3) Use of communications equipment, including phones and data transmission lines.
- 4) Printing and professional translation of Congress resolutions and discussions.
- 5) Press advertising, promotional and publicity services for the Congress.
- 6) IT and software services.
- 7) Advertising services for distributing collateral to participants, tags, signage, etc.
- 8) Hosting and meals for Congress participants.
- 9) Security, ushering, and parking management services.
- 10) Transportation services for Congress participants.

In addition to the general approval, a specific approval is also given for WZO to contract a conference production company (hereinafter: **the company**) to provide all Congress-related services as detailed above.

The Office of the Comptroller notes that WZO selected the company following its selection as supplier and service provider for the Jewish Agency's Board of Governors.

This approval specifically states that the above services shall be subject to 0% VAT.

Based on this approval, WZO signed an agreement with the company on April 20, 2015, in preparation for the 37<sup>th</sup> Congress.

The agreement specifies all the terms of the agreement pursuant to the VAT authorities' approval.

Under the agreement, WZO selects the various suppliers and service providers, and the company signs the relevant service contracts following WZO's approval. Once services have been rendered, the company pays suppliers consideration against their invoices, and provides WZO with corresponding reports, including supplier and service provider invoices. WZO then reimburses the company for the amounts paid to the suppliers and service providers, excluding VAT.

The company works with the tax authorities to settle the VAT it paid to the suppliers and service providers, by offsetting these amounts from the VAT due on its revenues.

In consideration for these services, the company charges WZO a 7% commission on all payments to suppliers and service providers. The amount excludes VAT.

The Office of the Comptroller examined the agreement with and payments to the company, to a total amount of NIS 2,083,422. The amount includes a commission of NIS 136,298. Propriety was found and conduct complied with the contract.

The Office of the Comptroller examined invoices submitted by the company to WZO, with a total value of NIS 2,083,422. All company invoices included a list of expenses and all relevant invoices from suppliers and service providers.

The amounts paid by the company to suppliers and service providers were classified to different budget items, as instructed by the relevant WZO supervisor.

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

The Company's commission was included in the various expense items, i.e. – each amount in the above table includes a 7% commission paid to the company for its services, under the agreement.

The Office of the Comptroller notes that, as concerns the previous 36<sup>th</sup> Congress, the commission was presented under the "Miscellaneous" line item. The Office of the Comptroller recommended the commission be presented in a separate, specific line item. The recommendation was not implemented.

**The Office of the Comptroller again recommends the commission be presented in a separate line item, and not with the other Congress-related expenses.**

The Finance Department stated in response that WZO will consider the Office of the Comptroller's recommendation.

The Office of the Comptroller notes that all current expenses were made by the company, except for expenses connected to the Zionist Court, to the amount of USD 8,798. These constituted legal expenses paid for reviewing union and organization cases prior to the Congress. The Office of the Comptroller examined an invoice to the amount of NIS 20,475, dated October 6, 2015, for said service. Propriety was found.

## **Congress Funding**

Funding for the 37<sup>th</sup> Congress was received entirely from KKL-JNF. The funding and its terms were based on WZO's agreement with KKL-JNF from June 22, 2012, covering the period from January 1, 2012 through December 31, 2015.

**The Office of the Comptroller notes that the agreement was signed retrospectively, with a six-month delay.**

The sections relevant for the Congress' funding are sections 3 and 4 to the agreement, as follows:

- 3) "In order to assist WZO with holding the 37<sup>th</sup> Zionist Congress and its preparation, KKL-JNF will provide additional amounts as detailed below ("Support for Congress")

**3.1** A total of USD 1,000,000 (one million US dollars) for conducting the 37<sup>th</sup> Zionist Congress, including expenses for conference halls, delegate per-diem and travel expenses, transportation, translation, security, and opening and closing galas. This amount will be paid in 2015 in four equal quarterly instalments, along with the annual support payments as aforesaid.

**3.2** A total of USD 1,000,000 (one million US dollars) for holding the democratic processes preceding the Congress. This amount will be paid in four equal instalments, on July 15, 2014, October 15, 2014, January 15, 2015, and April 15, 2015.

WZO will submit a report approved by a KKL-JNF appointed accountant, on all expenses related to the Support for Congress.

**If actual expenditure for Support of Congress be less than USD 2 million, the remainder will be returned to KKL-JNF no later than 30 days from the end of the Congress.**

- 4) In addition to the annual support and the Support for Congress, KKL-JNF will transfer to WZO a sum of USD 1,000,000 (one million US dollars), for activities reviewing, promoting and empowering the Zionist ideal ("Support for Zionist Activities"). The amount for Support for Zionist Activities will be paid in four equal instalments: on July 15, 2014, October 15, 2014, January 5, 2015, and April 15, 2015. Of this amount, WZO commits to transferring:

**4.1** A total of USD 200,000 to the Zionist organizations. In this context, each organization represented in WZO will receive an equal allocation. For the avoidance of doubt, this amount will be transferred to the organizations in addition to the organizations' base annual budget.

**4.2** A total of USD 800,000 for the Zionist unions represented in WZO. Each union will receive its share based on the ratio between the number of that union's delegates and the total number of union delegates. For the avoidance of doubt, this amount will be transferred in addition to the unions' base annual budget.

The Office of the Comptroller found that KKL-JNF complied with the terms of the agreement, and transferred WZO the funds accordingly.

The Office of the Comptroller notes that amounts intended to fund the Congress, which KKL-JNF transfers to WZO, are deposited in WZO's general current bank account.

**The Office of the Comptroller recommends depositing amounts earmarked for funding the Congress in a separate bank account, as mandated by proper fiscal management.**

The Office of the Comptroller notes that the budget for the 37<sup>th</sup> Congress was built according to the sums specified in the agreement.

According to Section 3.2 to the agreement, WZO must report to KKL-JNF on all Congress-related expenses.

Upon inquiry, the Office of the Comptroller was told that WZO has yet to submit such a report to KKL-JNF, but plans to do so.

The Office of the Comptroller notes that the agreement does not specify a reporting deadline, and so WZO has not yet violated the agreement.

That same section (3.2) specifies that WZO must return to KKL-JNF, within 30 days from the end of the Congress, the difference between actual Congress expenses and the USD 2 million budget.

**The Office of the Comptroller notes that WZO has not yet complied with the above and has not returned any amount to KKL-JNF as of the audit date, in March 2016.**

According to Section 4 of the agreement, WZO should have transferred USD 1 million to unions and organizations for reviewing, encouraging, and empowering the Zionist idea. However, in practice and as detailed above, only USD 183,189 were transferred to unions as an advance.

Upon inquiry, the Office of the Comptroller was told that WZO decided to transfer a 25% advance to the unions, as detailed above. All unions received their share, except one which did not comply with the agreement. The remaining amounts were not transferred to the organizations or the unions as they did not submit the necessary applications, plans or budgets for the said reviews.

**The Office of the Comptroller believes there was room in the agreement between WZO and KKL-JNF to stipulate that distribution of funds to unions and organizations would be contingent on submission of plans and budgets for conducting activities for reviewing, encouraging, and empowering the Zionist idea.**

### **Staffing After the 37<sup>th</sup> Congress**

After the 37<sup>th</sup> Congress, on October 22, 2015, WZO hired 19 new employees in various positions, as follows:

| <b>Position</b>     | <b>No. of Employees</b> | <b>Employment Agreement Type</b> |
|---------------------|-------------------------|----------------------------------|
| Department head     | 3                       | Knesset member agreement         |
| Department director | 6                       | Executive agreement              |

| <b>Position</b>           | <b>No. of Employees</b> | <b>Employment Agreement Type</b> |
|---------------------------|-------------------------|----------------------------------|
| Office manager            | 3                       | Individual agreement             |
| Driver                    | 2                       | Individual agreement             |
| Assistant department head | 2                       | Individual agreement             |
| Project manager           | 1                       | Collective agreement             |
| HR manager                | 1                       | Individual agreement             |
| Herzl Center director     | 1                       | Collective agreement             |
| <b>Total</b>              | <b>19</b>               |                                  |

The Office of the Comptroller found that, of the 19 employees recruited by WZO after the 37<sup>th</sup> Congress: 13 were recruited to in-confidence positions, 3 (department heads) were chosen and approved by the Zionist Executive, and the other 3 were recruited under regular procedures.

### **Confidential employees**

The definition for an in-confidence position is based on the Jewish Agency procedure *Internal Advertisement of Vacant Positions*, dated September 1, 2005, number 02.02.11.01.3, section 4.1 – *Cases for Staffing Positions through Internal Advertisement*. The procedure is based on the national Public Service Statute.

According to the above procedure, vacancies for the following positions are exempt from internal advertisement, with some positions constituting in-confidence positions:

- A. Legal counsel
- B. Advisor to the chairman or member of the Executive – provided their duties are set in agreement with the workers' union and they are employed through an individual agreement for the term of the

member of the Executive or chairman whom they advise. If the member of the Executive or chairman leaves the institution, the advisor's services will be terminated.

- C. Driver for the chairman or a member of the Executive – provided they are employed through an individual agreement for the term of that member of Executive or that chairman's service.
- D. Secretary or office manager to the chairman or a member of the Executive – provided this applies to one employee and provided they are employed through an individual agreement for the term of that member of the Executive or that chairman's service.
- E. Personal aide to the chairman or member of the Executive or Director General – provided they are employed through an individual agreement for the term of service of the person whom they aid.

The Office of the Comptroller notes that in-confidence positions are characterized by the following:

- The employee is chosen by the department head.
- The employee ends their service when the department head ends their service.
- Employees do not receive overtime.

The Office of the Comptroller examined the employment agreements for all employees recruited to in-confidence positions.

The agreements include the above employment terms and were duly signed and valid.

The salary specified in the agreement matched the amounts set in WZO's salary table, based on each employee's position.

The Office of the Comptroller found that in two cases, employees started working before signing their employment agreements, with a difference of 10 days in one case, and 21 days in the other.

**The Office of the Comptroller recommends making sure that agreements are signed before employees start working.**

The Human Resources Director stated in response that the agreements with these two employees were signed with delay as it was necessary to decide on the type of agreement that would be signed.

The Office of the Comptroller notes that the Human Resources Unit does not maintain a record of the employment agreement with WZO's Director General as mandated.

The Human Resources Director stated in response that the employment agreement for WZO's Director General was in her possession and was filed in the Director General's personal file in the Human Resources Unit.

**The Office of the Comptroller recommends making sure that all employment agreements for WZO employees be kept together in the Human Resources Unit.**

July 2016



## **Zionist Council in Israel**



# Zionist Council in Israel

## **1. Introduction**

1.1. In accordance with the World Zionist Organization (“WZO”) Office of the Comptroller work plan, the Office of the Comptroller examined the operations of the Zionist Council in Israel (“Zionist Council” or “Council”), including the operations of those organizations carrying out the Council’s vision: the ‘Ossim Zionut’ charity (“OZ”), and the Zionist Council for Israel charity (“Zionist Council Charity”, and for the sake of convenience both organizations shall be termed “the Charities”).

1.2. The audit examined the following:

- Examining the statutory status of the Council’s and the Charities’ management, including their interaction.
- Examining corporate governance in the Charities and implementation of Council directives.
- Examining budget management in the Council and Charities.
- Examining proper management of the Council and Charities.
- Examining procurement work-flows in the Charities.

1.3. The audit took place in March-May 2016, at the Council’s offices in Jerusalem.

The audit included meetings and discussions with the Council chairman, Council director general, WZO’s finance director, KKL-JNF’s finance director, the Charities’ employees, and additional employees as deemed necessary.

The audit examined the period of 2014-2015.

1.4. Objectives:

- A. To examine the Charities' implementation of Zionist activities, and alignment with the work plans set by the Council's management.
- B. To examine decision making processes and actual decision implementation.
- C. To examine the Charities' budgetary conduct and utilization of Council funds.
- D. To identify weaknesses in current work flows and controls, and recommend improvements.

1.5. Key documents used in the audit:

- ◆ Minutes of the Zionist Council's management from 2014-2015.
- ◆ Fiscal data from WZO's books concerning the Zionist Council's budget.
- ◆ Minutes and written resolutions from the various committees in the Charities.
- ◆ The Charities' financial statements for 2013-2014.
- ◆ The Charities' trial balance sheets for 2014-2015.
- ◆ The Charities' operating procedures and procurement procedures.
- ◆ The Charities' work plans for 2014-2015.
- ◆ The budget for the preparatory program for the 2014-2015 and 2015-2016 school years.
- ◆ Budget vs. performance reports for 2015.

- ◆ The Zionist Council's by-laws.
- ◆ The Charities' constituent documents, including their current by-laws.
- ◆ Signed contracts with the Zionist Quiz producer.
- ◆ Data on Zionist Quiz participants.
- ◆ A sample of reference documents, invoices, price quotes and agreements for expenses recorded in the Charities' books.
- ◆ Specific documents received on demand.

1.6. Methods:

- ◆ Reviewing existing procedures and comparing them with actual work-flows.
- ◆ Conducting meetings and discussions with personnel supervising examined operations, and additional employees as deemed necessary.
- ◆ Examining the Charities' legal status relative the Zionist Council, and the binding force of Council resolutions on the Charities.
- ◆ Examining the Charities' constituent documents, including alignment between the Charities' activities and goals.
- ◆ Reviewing resolutions adopted by the Charities' various committees, including minute-keeping in these committees.
- ◆ Reviewing flaws identified in the previous audit, and examining the correction of these flaws.
- ◆ Reviewing expenditure records and examining whether such expenses are reasonable.

- ◆ Examining a sample of expenses recorded in the Charities' books, including examining procurement work-flows, whether there are documents supporting these expenses and whether additional quotes were obtained, and agreements with service providers.
- ◆ Examining budget/performance comparison reports for 2015, including implementation of controls and resolution of budget deviations.
- ◆ Consolidating findings.
- ◆ Drafting the audit report, including conclusions and recommendations.

## **2. Executive Summary**

### **A. Zionist Council and Charities – Headquarters**

The Council's management should consider whether to continue using the offices located in the Zionist Archives building and try to locate cheaper alternatives in office buildings which would not restrict the Council's operations.

### **B. Zionist Council – Management**

1. WZO should work to appoint an active management, to assure the Council's continued proper operation.
2. The Council's management should comply with its by-laws and convene at least four times a year.
3. The Zionist Council management's secretary should make sure that minutes from management meetings are duly signed and approved.

4. In each meeting, the Zionist Council's management should track performance of prior resolutions and request occasional updates.
5. The Charities' management should present annual work plans to the Council's management, and discuss and approve such plans. Furthermore, at the end of each year, management should submit a summary and conclusions report.
6. The by-law requiring that members of management be appointed for three years should be changed, so that members of management are appointed for four years, or until another management is elected following a Zionist Congress.
7. The Zionist Council's by-laws should be amended to include the Council's operative goals, as these appear in the subordinate Charities' by-laws.

### **C. The Council and its Subordinate Charities**

1. Section 3 of the Charities' by-laws should be amended to read "as per the Council's instructions" instead of "as per the Council's goals", since the Council's by-laws do not specify any goals.
2. The section allowing amendment of the Charities' by-laws should be changed to be subject to approval by the Zionist Council's management, and not only approval by the general meeting.

### **D. Zionist Council in Israel – Subordinate Charities**

#### Zionist Council in Israel, registered charity

1. The charity should prepare long-term plans for implementing those goals specified in its by-laws. Alternately, since the by-laws of the OZ charity list the same goals, the by-laws should be changed so that the organization's goals align with its actual operations.

2. At the start of each year, a formal work plan should be prepared for the charity, which should include those goals and activities that the charity wishes to carry out during the year, along with detailed cost data. Such work plans should also specify metrics for assessing performance of these goals and should be formally approved by the executive committee, before the start of each year.
3. Negotiations with the kibbutz where the pre-military *mechina* program is located should be concluded, so that an agreement may be signed to regulate operations, thus avoiding unnecessary exposure and the program's possible eviction.
4. The organization should examine other options offered by the kibbutz for renting buildings for use by the *mechina* program, to reduce the cost of renting buildings from WZO.

#### Ossim Zionut – OZ charity

1. The charity should work to recruit additional members, so as to grow its member roster from 14 to the 25 members required by the general meeting minutes.
2. The charity should change its by-laws to only include those operations in which it engages and for which it is funded by WZO and KKL-JNF. Alternately, the charity should work to pursue all the goals specified in its by-laws.
3. The charity should prepare a budget proposal detailing salary expenses, rental expenses, and other material items, and present previous-year performance data at that same level of detail. Furthermore, the charity should calculate its foreign-currency budget proposal using the average exchange rate for the period in which the proposed budget is prepared.

4. In its budget proposal, the charity should present all revenues expected to be received that year from all budgetary sources (including KKL-JNF), without including doubtful debts.
5. In its books, the charity should record professional volunteer hours received from its numerous volunteers as a cash-equivalent donation.
6. The Council should establish a system for implementing supervision and control over the Quiz event, from contestant selection and through to declaring the final winner.
7. The Council should avoid over-payment to the Quiz producer and make sure payments match the signed agreements. If additional services are required, agreements should be updated accordingly.

**E. The Council's budget management**

1. The Council should sign a detailed agreement with WZO, specifying the scope of its annual support and payment transfer dates, so that the Council can properly plan its operations. The agreement with KKL-JNF should also be updated, so as to require KKL-JNF to transfer budgets on time.
2. The Council should prepare a budget/performance report at least once every quarter, and bring it before management for discussion. The Council should also submit ongoing budget reports to WZO.
3. The Charities' budget proposals, submitted to the general meeting for approval, should be documented, as well as the discussion of these budget proposals. All relevant materials should be attached to the approved minutes.

## **F. Procurement and payments**

1. The Council's procurement procedure should be amended and applied on all the Council's and Charities' activities, without excluding 'Monetary payments for realizing the charity's goals'. The procurement procedure can be amended to include an orderly system for approving exceptional cases.
2. The procurement procedure should be changed to include a new quote hierarchy for services, requiring two or more quotes be obtained for any contract above an annual value of NIS 10,000.
3. The organization should sign agreements with all service providers. A standard format should be drafted by the legal counsels, and applied to all contracts with the necessary changes. Any format changes should be submitted to legal counsel for review.
4. The charity should make sure to follow the procurement procedure and obtain written quotes, as required by the procedure. Quotes should be documented and filed together with the final agreement in the supplier file.
5. The charity should make sure to follow the procurement procedure and obtain quotes before deciding to contract a supplier and before signing an agreement.
6. The charity should make sure to document the service provider selection process through minutes, including circumstances, reasons behind the decision, and any professional opinions obtained.
7. The charity should make sure to also receive quotes for follow-up contracts with the same supplier, as required under the procurement procedure.

8. The charity should document and detail the reasons and circumstances that led to the selection of a supplier who did not submit the lowest bid.
9. The charity should reach written understandings with the Jewish Agency and WZO concerning the possibility of using their framework agreements with suppliers. These understandings should specify when the Council may use such framework agreements, maximum scope of expenses, etc.

#### **Response of the Zionist Executive Secretary (Dec. 4, 2016)**

**“Zionist Council management** – An administrative committee established many months ago has resolved to recommend the 16 members chosen by management. The matter was on the agenda for the management meeting convened three months ago, but at a committee member’s request, the discussion was postponed.

In another discussion held by the administrative committee last Thursday, the matter of selecting the 25 additional members came up. Are “the remaining 25 selected by the chairman of the Zionist Council...” or “...after which the chairman of the Council’s management and the Director of the Department for Zionist Activities in Israel should select the 25 additional members”; or maybe these 25 members are also selected by management or at least their selection must be approved by management. The matter will be examined, among other things, in light of the minutes of the Executive’s discussions concerning the Zionist Council towards the end of the 35<sup>th</sup> Congress, and bearing in mind the manner in which the appointment was carried out at the start of the 36<sup>th</sup> Congress.

In any case, the matter will be discussed at the next Executive meeting. The Executive will also review the appointment period as recommended in the draft report.

**Concerning the budget** – The Executive supports a large number of parties, including unions, organizations, religious streams, Zionist

Federations, etc. The Executive has avoided signing agreements with supported organizations. Obviously, justifications can be made either way and policy concerning the Zionist Council may have broader implications.

In the Executive meeting that took place in early September, the chairman of the Executive announced that in one of the upcoming Executive meetings, the Council's leadership will present its operations and budget.

Concerning Section E(2), I assume that the recommendation to submit quarterly budget reports to the Executive for discussion, does not refer to the Zionist Executive but to the Council's management.

The report's findings concerning the Charities warrant serious examination.

The main issue is the ties between these Charities and the World Zionist Organization. The Office of the Comptroller's recommendation in this matter from its 2012 report has not yet been implemented.

The conclusion concerning the strength and nature of the World Zionist Organization's ties with the Charities may necessitate changes in the Charities' by-laws concerning, among other things, their corporate governance."

### **Response of the WZO Finance Department Director**

"I have carefully reviewed and read the findings of the Office of the Comptroller report on the Zionist Council's Charities.

I assume that the heads of the Zionist Council and its directors will respond concerning the Council Charities' procurement and budget management policies. To the best of my understanding, the Office of the Comptroller's comments deserve a constructive response concerning the identified issues.

However, I would like to express my opinion concerning the leasing of office space in the Archives.

The agreement we negotiated in the past, whereby the Zionist Council pays rental fees to WZO through the Zionist Archives and not to commercial entities, facilitates WZO's budget in general, and in particular does not undermine the Council's budget.

Had we acted differently and had the Zionist Council been required to pay rental fees from its own budget (and the amount may well have been lower than that paid to WZO), then revenues in WZO's budget would have been adversely impacted, and thus also the Zionist Council's budget.

Concerning the agreement between WZO and the Zionist Council, which specifies the budget, and according to the Office of the Comptroller – the payment dates as well, this comment warrants examination. However, I would like to clarify that the Zionist Council is presented in WZO's budget under the Department for Israel Activities' budget, and is supervised by the Department chair. Thus, the Department is aware of the budget and the budget is also transferred with corresponding notice to the relevant Zionist Council officers.

And I emphasize – Over the years, WZO has used fixed dates for payments to the Zionist Council Charities. Clearly, fixed agreements concerning payment dates would not have changed a thing in the past few years, as WZO relied on sources which significantly delayed their transfers to WZO.”

### **3. Background**

#### **A. The Zionist Council in Israel**

The Zionist Council in Israel was established in 1972 by the World Zionist Organization, as a central organization for Zionist, educational and public activities in the State of Israel. The Council is an executive arm of the World Zionist Organization in Israel, and its main goal is to strengthen Israel's Jewish-Zionist identity.

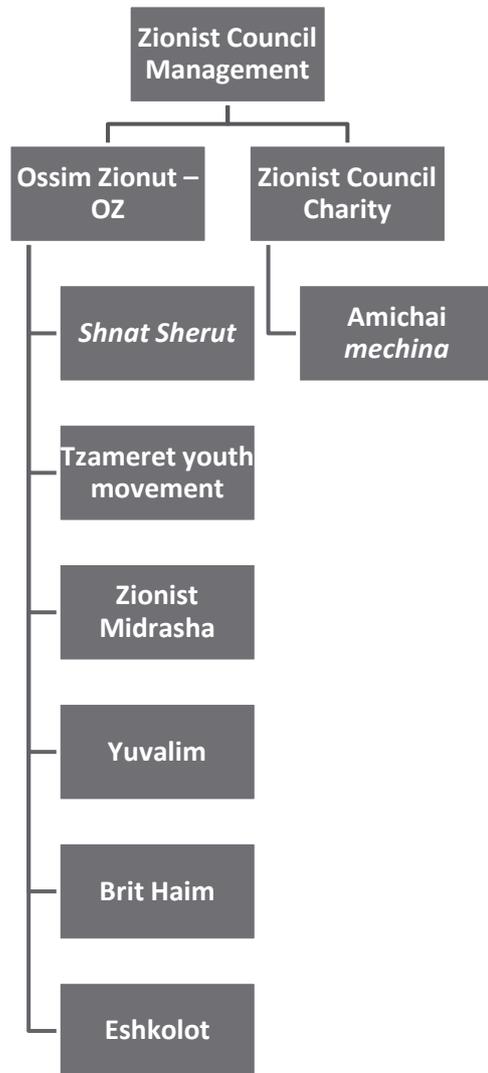
The Council was designed as a federation of Zionist communities and an umbrella organization for all Zionist parties in Israel. This is a volunteer-based, pan-Israeli, Zionist, and pan-political organization, which includes representatives from various organizations and institutions in Israel, representatives from local authorities, youth movements, educational institutions, women's rights organizations, economic organizations, writers and leading cultural figures.

The Council's activities take place across the country, with each type of activity overseen by a Council coordinator / director.

The Zionist Council's by-laws regulate the Council's operations, as follows:

1. The Council will operate as an arm of the World Zionist Organization and will work to realize Israel's Jewish-Zionist identity.
2. The Zionist Council is a national organization and will operate as such.
3. The Council's leadership will consist of the Council's management, the executive committee, a chairman and four deputies.
4. The management of the Zionist Council will convene at least four times a year.
5. Members of management will be appointed for a three-year period.

**B. Charities – organizational chart**



The director general of the Zionist Council serves as director general for the two Charities.

### **C. Financial data**

Highlights from the Charities' income statements for 2013-2014 (NIS thousands):

#### **Zionist Council Charity**

|                                    | <b>Item</b>                         | <b>2015*</b> | <b>2014</b>    | <b>2013</b>    |
|------------------------------------|-------------------------------------|--------------|----------------|----------------|
| <b>Revenues</b>                    | Ministry of Education               | 1,147        | 1,058          | 948            |
|                                    | Student fees                        | 389          | 273            | 227            |
|                                    | WZO                                 | 210          | 451            | 492            |
|                                    | KKL-JNF                             | 25           | –              | 240            |
|                                    | Avi Chai Foundation                 | 60           | 150            | 165            |
|                                    | Other sources                       | 30           | –              | 17             |
|                                    | Administrator General               | –            | 28             | –              |
|                                    |                                     | <b>Total</b> | <b>1,861</b>   | <b>1,960</b>   |
| <b>Expenses</b>                    | Operating expenses                  | (1,783)      | (2,022)        | (1,879)        |
|                                    | General and administrative expenses | (135)        | (138)          | (138)          |
|                                    | Finance expenses                    | (4)          | (3)            | (6)            |
|                                    |                                     | <b>Total</b> | <b>(1,922)</b> | <b>(2,163)</b> |
| <b>Operating surplus (deficit)</b> |                                     | <b>(61)</b>  | <b>(203)</b>   | <b>66</b>      |

**Ossim Zionut – OZ Charity**

|  | <b>Item</b>                                    | <b>*2015*</b>   | <b>2014</b>     | <b>2013</b>    |
|--|--|-----------------|-----------------|----------------|
| <b>Revenues</b>                        | WZO  | 1,738           | 2,900           | 2,340          |
|  | KKL-JNF  | 9,000           | 15,118          | 7,307          |
|  | Government ministries<br>and local authorities | 1,044           | 645             | 584            |
|  | Jewish Agencies                                | –               | –               | 155            |
|  | Municipal authorities<br>and corporations      | –               | 28              | 218            |
|  | Various funds                                  | 395             | 513             | 251            |
|  | <b>Total</b>                                   | <b>12,177</b>   | <b>19,204</b>   | <b>10,855</b>  |
| <b>Expenses</b>                        | Operating expenses                             | (11,264)        | (18,450)        | (8,288)        |
|  | General and<br>administrative expenses         | (759)           | (1,048)         | (852)          |
|  | Finance income<br>(expenses)                   | –               | 251             | (39)           |
|  | <b>Total</b>                                   | <b>(12,023)</b> | <b>(19,247)</b> | <b>(9,179)</b> |
| <b>Operating<br/>surplus (deficit)</b> |  | <b>154</b>      | <b>(43)</b>     | <b>1,676</b>   |

\*Based on trial balance sheets.

**D. The Zionist Council and Charities – headquarters**

The Zionist Council’s headquarters is located in the Zionist Archives building in Jerusalem, and includes both Charities’ offices and the general headquarter for all operations. As of 2016, the Zionist Council Charities employed 157 people, as follows:

|  | <b>Zionist Council,<br/>registered charity</b>   | <b>Ossim Zionut</b>  |
|--|--|--|
| <b>Employees (2016)</b>  | 18   | 139  |
| <b>Volunteers</b>  | 52   | 660  |
| <b>Salary expenses, 2014,<br/>NIS</b>                              | 920,671  | 7,094,794  |
| <b>Salary expenses, 2015,<br/>NIS</b>                              | 888,505  | 7,382,556  |
| <b>Main sources of<br/>funding</b> (details in<br>Chapter 4 below) | Ministry of<br>education, prep-<br>program tuition,<br>OZ charity, and<br>Avi Chai<br>Foundation | KKL-JNF, WZO,<br>Ministry of<br>Education, Youth<br>Movement<br>Council, and self-<br>generated revenues |

**Note:** Salaries for the Zionist Council director general and account manager is paid from the two Charities’ budgets.

**The Office of the Comptroller examined the Council’s organizational structure and activities in the Council’s offices.**

## **Findings**

### 1. Limiting the Council's office hours at the Zionist Archives

The Council works out of the Zionist Archives building in Jerusalem. The building's basements hold a historical and extremely valuable archive, and so the entire building is guarded 24/7. The building closes each day at 17:00, by which time all persons present are expected to leave, except for a number of key personnel who can – with prior coordination – finish work later and lock the building themselves. The Council's activities, mainly on red-letter dates such as 'Jerusalem Day', are conducted outside of ordinary business hours. This means that, in order to conduct youth activities, the Council occasionally needs to obtain prior approval and incur additional costs for keeping a security guard for the duration of these activities, as well as cleaning the premises.

### 2. High costs for rental fees, phone lines, and insurance

The Council pays WZO annual office rental fees to the amount of USD 50,000, plus another USD 30,000 for insurance, communications, mail, and miscellaneous services. These amounts are automatically offset from the Council's budget which is provided by WZO. The Council's offices cover an area of 100 square meters, so that monthly rental fees amount to NIS 160 per square meter. Including additional costs, this amount totals NIS 250 per square meter.

The Council's management prefers to remain close to the central bus station, in order to make it easier for youths from outside Jerusalem to commute to Council activities using public transportation. Upon examining rental costs per square meter in buildings up to 600 meters from the central bus station, the Office of the Comptroller found the cost of renting a similarly-sized office was NIS 80 per month. Thus, the Council pays double for office

space of a rather low level of finishing, and must also bear additional costs for activities taking place after 17:00.

### **Recommendation**

The Office of the Comptroller recommends that WZO re-examine the rental arrangement in the Zionist Archives building together with the Council's management, to reconsider the rental fees and usage terms for the offices.

### **Response of the Zionist Council Director General**

The Council has previously conducted an examination of rental and ancillary costs in similar facilities around Jerusalem. We could not find suitable offices at the price we pay WZO for the current offices. However, we will conduct another comparison in the near future. It is also noted that despite certain challenges, the offices' location adjacent to the central bus station and the entrance to the city (and to the train station scheduled to open soon) is of significant help to many of our visitors, and particularly to youths arriving at our offices using public transportation.

## **E. The Zionist Council's management**

The Zionist Council has an elected management representing the various organizations operating under the Council. Members of management are chosen after the Congress, which convenes once every four years.

The Zionist Council's management comprises 41 public figures, of which 16 are elected by the World Zionist Organization Executive, and the remaining 25 are elected by the chairman of the Zionist Council based on pre-determined criteria (city mayors, public figures, etc.).

Management's main duties are as follows:

1. To outline the Zionist Council's conceptual and practical direction.
2. To appoint management members for the Council's subordinate Charities.

Representatives of the Council's management are members of the Zionist Movement institutions, the Zionist Congress, and the Zionist General Council.

**The Office of the Comptroller reviewed minutes from Council meetings, the matters covered by the Council's by-laws, and the Council's implementation of its by-laws.**

### **Findings**

#### 1. Failure to elect active members to the Council's management

Members of the Council's management hold their position until the Zionist Congress, which convenes once every four or five years. After the Congress, WZO is supposed to choose 16 members, after which the chairman of the Council's management and the director of the Department for Zionist Activities in Israel are expected to choose the remaining 25 members. The last congress took place in October 2015, and since then no members have been elected to the Zionist Council's management. Effectively, the Council has not been functioning for the past 9 months.

### **Recommendation**

WZO should appoint an active management, to assure the Council's continued proper operation.

2. The number of Zionist Council management meetings was below the requisite amount

Despite the by-law provisions requiring the Council's management to convene four times a year, management met only twice in 2014 – in February and in October. In 2015, management met only once, in July. Under these circumstances, it seems that the Council's operations are not adequately managed or supervised.

**Recommendation**

The Council's management should comply with its by-laws and convene at least four times a year.

3. Failure to sign and approve minutes in management meetings

According to the Zionist Council's by-laws, the chairman and secretary will sign the minutes of management meetings. In practice, the minutes received by the Office of the Comptroller were not signed by either the chairman or the secretary. Furthermore, in contrast to common practice, at the start of each meeting, management does not approve the previous meeting's minutes. This means that members of management are not aware of the contents of such minutes and do not approve them.

**Recommendation**

The secretary of the Zionist Council's management should make sure that minutes are duly signed and approved.

4. Failure to monitor previous resolutions

In its meetings, the Council's management resolves to expand existing operations or carry out new ones. In management meetings, members of management do not receive updates on the

performance or non-performance of previous resolutions. Thus, they are unable to monitor implementation of adopted resolutions.

**Recommendation**

The Office of the Comptroller recommends that each meeting of the Zionist Council's management include a follow-up on the performance of prior resolutions, and management should occasionally request updates.

5. Lack of discussion on work plans in Council meetings

The Zionist Council's work plans are not presented or approved in Council management meetings, but rather in the executive committee meetings of the two Charities. Furthermore, the Council's management is not presented with any annual summary which would include an update on work plan performance. The Office of the Comptroller believes that, under current conditions, it is difficult for the Council's management to set a course for the organization and supervise its performance.

**Recommendation**

The Charities' management should present their annual work plans to the Council's management, discuss them, and submit a summary report and conclusions at the end of each year.

6. Appointing management members for insufficient periods

According to the Zionist Council's by-laws, members of management are to be appointed for 3-year terms. Since appointments are made after each Congress, which convenes at least once every four years, it would seem that management members must be re-appointed for the fourth year, or that the Council would be inactive in that year – as has indeed been the case recently.

### **Recommendation**

The by-laws should be changed so that management members are appointed for a four-year term, or until another management is chosen after a session of Congress.

#### 7. Failure to specify the Zionist Council's goals in its by-laws

The Zionist Council in Israel's by-laws do not specify the Council's operational goals. Instead, they mainly deal with the Council's operating procedures, its meeting procedures, and the manner in which its managers are appointed. The Office of the Comptroller believes that the by-laws of a public organization such as the Zionist Council should specify its goals, as common for other public organizations and charities.

### **Recommendation**

The Office of the Comptroller recommends that the Zionist Council's by-laws be amended to include its operative goals, as these appear in the by-laws of its subordinate Charities.

#### **F. The ties between the Council and its subordinate Charities**

The Zionist Council operates through two associate charities:

1. The Zionist Council in Israel charity.
2. The Ossim Zionut – OZ charity.

The Charities are not WZO-subsidary charities, but their operations are subject to the Zionist Council's management's decisions.

This subordination to the Council's management is anchored in the Organizations' by-laws, as detailed below (emphasis added):

### Zionist Council in Israel

- A. Section 3 to the by-laws, which specifies the charity's goals, includes the following goals:
1. "Promoting and increasing Zionist education, awareness and vision among teens and the younger generation in Israel, **based on the Zionist Council in Israel's goals**".
  2. "To work towards expanding the Zionist and educational activities of **the Zionist Council in Israel** in high-schools, universities, and community centers across the country".
  3. "To publish brochures, journals, manuscripts, newspapers, and other publications reflecting **the Zionist Council in Israel's activities**".
- B. Section 8.2.1 to the by-laws emphasizes that "The number of executive committee members will be determined in general meeting **and in consultation with the Zionist Council's management**".
- C. Section 9.1 to the Zionist Council charity's by-laws emphasizes that: "Committee members will comprise the chairman of the executive committee, the treasurer and the secretary, who will be selected in general meeting **in consultation with the Zionist Council in Israel's management**".

### Ossim Zionut – OZ

- A. Section 2A to the by-laws defines the "Charity" – "OZ Ossim Zionut, **which is subject to the Zionist Council in Israel's decisions**".
- B. Section 3 to the by-laws, which specifies the charity's goals, includes the following goals:

1. Promoting and increasing Zionist awareness and vision among teens and the younger generation in Israel, **based on the Zionist Council in Israel's goals**".
  2. "To work towards expanding the Zionist and educational activities of the **Zionist Council in Israel** in high-schools, universities and community centers across the country".
  3. "To publish brochures, journals, manuscripts, newspapers and other publications reflecting **the Zionist Council in Israel's activities**".
  4. "To maintain ties **and cooperate with the Zionist Council in Israel**".
- C. Section 4 – *Membership*, sub-section 5, emphasizes that "The Zionist Council may recommend to the Charity's management whether to accept or not to accept a member to the Charity".
- D. Section 9 – *General Meeting* lists the duties of the general meeting, including "To consult and receive recommendations in any matter **from the Zionist Council in Israel**".

**The Office of the Comptroller reviewed the Charities' status relative the Zionist Council, according to the Council's and the Charities' by-laws.**

### **Findings**

#### 1. Reference to insufficiently clear goals

Section 3 to the Charities' by-laws, which deals with their goals, emphasizes that one of the goals is "To promote and increase Zionist education, awareness and vision among teens and the younger generation in Israel, based on **the Zionist Council in Israel's goals**". Since the Council's by-laws do not specify any

goals, as aforesaid, it is unclear what goals the two Charities' by-laws are referring to.

### **Recommendation**

The Office of the Comptroller recommends changing the phrasing in the Charities' by-laws to state "based on the Council's instructions" instead of "based on the Council's goals".

#### 2. **No restrictions on changes to the Charities' by-laws**

The Charities' by-laws do not make changes to the Charities' goals contingent on Zionist Council approval, requiring only the approval of the Charities' general meetings. This exposes the Council to risk that the Charities' members might change their by-laws so that the Charities are not subject to Council decisions.

### **Recommendation**

To change the amendment clause in the Charities' by-laws so as to require approval by the Zionist Council's management.

## **4. The Zionist Council in Israel – Subordinate Charities**

### **4.1. Zionist Council in Israel, registered charity:**

The Zionist Council charity was established in 1998 and began operations in 1999. The charity's main goals, as set forth in its amended by-laws in 2008, are as follows:

- a. Promoting and increasing Zionist education, awareness, and vision among teens and the young generation in Israel.
- b. To work towards expanding the Zionist Council in Israel's Zionist and educational activities in high-schools, universities

and community centers across the country, to promote identification with the State of Israel as a Jewish-Democratic and Zionist state.

- c. To work towards strengthening the ties between towns in Israel and Jewish communities abroad.
- d. To promote volunteerism among teens to support new *olim*.
- e. To support local authorities and various public organizations, in initiating and organizing various Zionist events.
- f. The charity will engage teens aged 14-18 across all educational systems and from all Zionist streams in Israel.
- g. The charity will conduct activities in chapters throughout Israel, where it will conduct its activities together with local stakeholders.
- h. To publish brochures, journals, manuscripts, newspapers, and other publications which will reflect the Zionist Council in Israel's activities.

### **The Amichai Pre-Military *Mechina***

The Amichai Pre-Military *Mechina* ("the Mechina") was established in 2000 by the Zionist Council in Israel, and operated in Moshav Argaman in the Jordan Valley. The Mechina was established with the help of the Avi Chai Foundation, the Jordan Valley Regional Council, and the Zionist Council. In 2008, in order to back the principle statement with real action strengthening the Negev and outlying areas, it was decided that the Mechina would relocate to Kibbutz Kramim in the northern Negev.

The Program is intended for youths, both secular and religious, who have completed the 12<sup>th</sup> grade. These youths postpone their

enlistment to the IDF by one year, to devote the time for further study of biblical sources and their significance in the present context, thus strengthening their Jewish identity. As of 2016, the Mechina comprises 50 students.

The Mechina's main goals are:

- a. To strengthen the students' Jewish, Israeli and Zionist identity.
- b. To develop a sense of mission, social responsibility, and *hagshama*.
- c. To create an optimal social system, based on the group-collective and mutual support.
- d. To generate constructive dialog between the different opinions in the Mechina based on tolerance, discussion, and understanding the importance of disagreement.
- e. To imbue knowledge on the Jewish people and society, the State, ethics and democracy, to build a life-long set of values.
- f. To develop a thirst for knowledge and education.
- g. To develop physical strength and improved stamina in preparation for the students' service in the IDF.

Each month of study at the Mechina comprises three weeks of class-time, followed by a week-long field trip. In each week of class time, one day is devoted to volunteer work, and another day to manual labor.

The charity has signed a lease with the kibbutz for using the kibbutz's premises and facilities.

The charity leases mobile structures from WZO, and uses them as dormitories and classrooms for the Mechina, at an annual cost of NIS 80,000.

**The Office of the Comptroller examined the Zionist Council charity's operations as compared to its goals and work plans.**

**Findings:**

1. Operations not meeting the charity's goals as set in its by-laws

The charity's sole activity is to operate the pre-military preparatory *mechina* in Kibbutz Kramim. This activity meets one of the charity's various goals: "To promote and increase Zionist education, awareness and vision among teens and the younger generation in Israel". The charity's other goals are not met by the charity itself, but rather by the OZ charity.

The charity's goals, as listed above, were added to its by-laws in 2008. Until that time, the charity's sole goal was to "Nurture and develop Zionist awareness among teens, the younger generation, and broad parts of the population in Israel". In light of its actual operations, it is unclear why the change to the by-laws was made.

**Recommendation**

The charity should prepare long-term plans for meeting its goals. Alternatively, since the OZ charity's by-laws include the same goals (see the separate discussion of the OZ charity's operations below), the by-laws should be changed so that the charity's operations align with its actual operations.

2. Failure to approve and supervise the charity's budget in its general meeting

According to the by-laws, one of the duties of the general meeting is "To approve the charity's budget and supervise its performance". Minutes of general meetings from 2014-2015 received by the Office of the Comptroller do not mention the budget's approval.

### **Recommendation**

The charity must comply with its by-laws and approve its budget in its annual general meeting.

#### 3. Lack of work plans

The Zionist Council organization does not have any formal work plan for 2014-2015, setting clear goals and scope of operations. Although the charity's operations consist only of the pre-military preparatory program in Kibbutz Kramim, these operations also require work plans which would detail the required investment, growth in the Mechina's activities, addition of new educational content, on-site activities, and ongoing ties with graduates.

### **Recommendation**

At the start of each year, a formal work plan should be drafted for the charity. This work plan should detail goals and actions that the charity wishes to undertake during the year, along with the associated costs. The work plan should also specify metrics for assessing performance of these goals, and should be formally approved by the executive committee before the start of each year.

#### 4. No valid agreement with the kibbutz

As of the audit date, the charity does not have a valid agreement with Kibbutz Kramim. This is due to disagreement over the amount that the Mechina should pay the kibbutz for using its facilities.

### **Recommendation**

Negotiations with the kibbutz should be concluded, in order to formalize these activities and avoid undue exposure and risk of the Program being evicted.

### **Response of the Zionist Council Director General**

Negotiations with the kibbutz have not yet ended due to our desire to reduce costs and various commitments required by the kibbutz in the contract.

#### **5. Leasing facilities from WZO**

In operating the Mechina in Kibbutz Kramim, the charity leases mobile structures from WZO. These are used as classrooms and dormitories for both staff and students. The cost of leasing these structures is NIS 6,000 a month. It seems that no other alternatives had been considered, which might have been cheaper. It is also unclear whether WZO obligates the charity to lease these structures.

### **Recommendation**

To consider other alternatives available in the kibbutz for leasing structures.

### **Response of the Zionist Council Director General**

Until 3 years ago, all Mechina structures were leased from the kibbutz, and rental costs were much higher. Currently, the Council only leases its secretariat offices and an instructor dormitory from the kibbutz. We hope to receive additional structures from the Settlement Division soon, and not lease any structures from the kibbutz at all.

#### **4.2. Ossim Zionut – OZ**

Ossim Zionut is a charity incorporated in 1990 under the name ‘The Arie Tzimuki Foundation’. In 1997, the charity changed its name to ‘OZ – Ossim Zionut, Tzameret’.

The charity’s main goals, according to its by-laws, are as follows:

- a. To promote and increase Zionist education, awareness, and vision among teens and the younger generation in Israel.
- b. To work towards expanding the Zionist Council in Israel's Zionist and educational activities in high-schools, universities, and community centers across the country.
- c. To work towards strengthening the ties between towns in Israel and Jewish communities abroad.
- d. To aid local authorities and various public organizations in initiating and organizing various Zionist events.
- e. To organize and conduct seminars, symposia, public conferences, etc., together with organizations working to strengthen Zionist identity.
- f. To collect, charge, pay, receive donations and grants which the charity considers beneficial and conducive to the charity.
- g. To manage and hold monies and any other building assets and to take any other action.
- h. To incur all expenses required in carrying out the charity's goals and in conducting its business.
- i. To maintain ties and collaborate with the Zionist Council in Israel.

The charity's main operations are as follows:

#### **4.2.1. 'Tzameret' youth organization:**

'Tzameret' works to develop young Zionist leadership and social responsibility, with an emphasis on strengthening Jewish-Israeli identity and internalization of the Zionist concept.

'Tzameret' students take part in diverse educational activities, which seek to strengthen personal and collective identity, raise familiarity with the Jewish people and the land of Israel, and

develop leadership skills. Throughout the year, students participate in nation-wide activities, including field trips, seminars, and summer camps. Activities are conducted through ten branches across the country, mainly in mixed communities comprising both religious and secular individuals, with girls and boys together. In all, about 1,000 teens participate in the program.

#### **4.2.2. 'Tzameret' shnat sherut gar'in:**

The 'Tzameret' gar'in is a *shnat sherut* program offered by the Zionist Council in Israel and the World Zionist Organization. The program has been operating for eight years, supported by the Ministry of Defense and Ministry of Education. The gar'in seeks to promote volunteer-based Zionist involvement by teens, who postpone their military/national service for a year of community volunteer work. The *shnat sherut* volunteers work in both formal and informal educational programs, with activities taking place in eight cities across the country: Zefat, Arad, Beit Shemesh, Beit She'an, Ma'aleh Adumim, Ofakim, Kiryat Shmona, and Kiryat Ata.

The gar'in comprises 70 teens who receive monthly allowances and reimbursement of travel expenses from the charity.

Some of the activities are funded by the Ministry of Education under the Shnat Sherut Regulations.

#### **4.2.3. Eshkolot:**

The 'Eshkolot' program is intended mainly for adult audiences, offering additional knowledge and education in Zionist Council branches. The program comprises Jewish-Zionist-community activities in 80 municipal locations across Israel. Activities include, general interest sessions, educational

talks, marking key dates on the Zionist calendar, etc. The program caters to thousands of adults a year.

The program is run in collaboration with local authorities, government ministries, national organizations, charities, and volunteer centers. Some activities cater to all ages, such as *selichot* tours, field trips, participation in national events, official memorial ceremonies, etc.

#### **4.2.4. Yuvalim:**

The Yuvalim program seeks to promote and encourage Zionist action among university students across the country during the academic year. The program conducts diverse on-campus activities catering to students. Activities include tours to key Zionist sites, discussion panels on Zionist identity, Israeli society, etc. Activities take place on ten campuses across the country.

#### **4.2.5. Brit Haim:**

A program for strengthening ties between the Druze and Jewish communities. The program's main goal is to connect Druze teens with Jewish teens during the school year, as part of their formal school curricula, through a series of meetings in Druze villages and Jewish towns. During the year, Jewish students learn about Druze heritage, their lifestyles, history, holidays, traditions, days of lamentation and rejoicing, etc.

The program targets 14-18 year-olds, from both Jewish and Druze communities, living in outlying towns in the Negev and Galilee.

The program also works to encourage Druze teens nearing 18 years of age to enlist to the IDF.

#### **4.2.6. Zionist Midrasha:**

The Zionist Midrasha is an educational program seeking to nurture and strengthen Jewish-Zionist awareness that is relevant in a contemporary Israeli context. The Midrasha offers a broad range of educational programs for teens and adults.

The Zionist Midrasha focuses on working through the educational establishment. These activities cater to educators, teacher and student teams, across different ages. To this end, Midrasha-certified instructors conduct workshops in schools across the country, in different settings. One of the Midrasha's programs is the Zionist Congress for Teens, in which about a thousand teens take part. The Congress takes place over two consecutive days, in a different location each year.

#### **4.2.7. Zionist Quiz:**

In 2014, the charity launched a new program for spreading Zionism: the Zionist Quiz. As part of this initiative, it issued an online open call for families and individuals to participate in the Zionist Quiz, which culminates in the final round which is broadcast on Yom Ha'Atzmaut on Channel 10. A contract was signed with Alice 14 Ltd. ("Producer"), which has professional experience producing such events. Under the agreement, the Producer would produce for the Council online, regional, local, and school-specific quizzes on Zionism in Israel and abroad. A new agreement is signed at the start of each year, specifying the amount payable for these production services.

##### **Quiz stages:**

The quiz starts out as an online public quiz. Later on, the highest-scoring families go on to compete in the regional quiz, held in six regional districts in Israel, with 8-10 families competing in each district. The winning family from each

district automatically goes on to compete in the national quiz. Furthermore, the Producer selects an additional four families, so that, in all, ten families compete in the national quiz which is broadcast in the evening on Yom Ha'Atzmaut.

**Quiz costs (NIS thousands):**

| Year | Contractual cost | Actual payment |
|------|------------------|----------------|
| 2014 | 1,496            | 1,766          |
| 2015 | 800              | 830            |
| 2016 | 700              | 700            |

The decrease in quiz costs over the years is mainly due to new partners who have joined the project and cover part of the costs.

**The Office of the Comptroller examined the implementation of by-laws as concerns to the OZ charity's goals, its work plans, and the agreement signed with the Producer of the Zionist Quiz.**

**Findings**

1. Failure to increase charity membership, in violation of general meeting minutes

According to the minutes of the general meeting of November 25, 2014, the number of charity members increased from 15 to 25. The by-laws submitted to the Office of the Comptroller stated that "The number of charity members will not exceed 10 members at any given time". It is not clear when the change from 10 to 15 members was made, and which was subsequently changed in the said general meeting. Furthermore, as of the audit date, about eighteen months after the decision to make such change), there were still only 14 members in the charity.

### **Recommendation**

The charity should amend its by-laws in accordance with the resolution of its general meeting, and work to add new members.

### **Response of the Zionist Council Director General**

The charity began enlisting new members and screening members who do not attend meetings regularly. Over the past eighteen months 2 new members have joined.

2. Failure to carry out the operations specified in the charity's goals

Under the charity's by-laws, one of its goals is to work to strengthen ties between towns in Israel and Jewish communities abroad". Another goal is to "Publish brochures, journals, manuscripts, newspapers, and other publications reflecting the Zionist Council in Israel's activities". A review of all charity activities seems to indicate that that charity does not work to implement these goals.

### **Recommendation**

The charity should change its by-laws to only include those operations on which it focuses, and for which it receives funding from WZO and KKL-JNF. Alternatively, the charity should work to pursue all goals listed in its by-laws.

3. Preparing a draft budget without specifying expense items and without previous-year review

The budget page which the charity prepares each year refers to expected expenses in each of the charity's activities, as well as its expected sources of revenue. The budget is not detailed and

does not indicate salary costs, rental fees, procurement, operating expenses, etc. for each activity. Thus, it does not enable reasonable control over budget utilization. Furthermore, there is no annual summary, which would enable cross-year comparisons and verification compliance with work plans, operational plans, and fiscal plans.

### **Recommendation**

The charity should prepare a budget detailing salary, rental and other material costs, along with a comparison to previous-year performance, at the same level of detail.

### **Response of the Zionist Council Director General**

The charity maintains a detailed and accurate budget, which includes all expenses expected in the coming year, including salary costs, rental fees, procurement, etc. Furthermore, the director general of the charity provides and receives updates based on trial balance sheets, updated throughout the year by the accounting manager using extremely detailed items for each activity separately. Obviously, the charity conducts an end-of-year summary and review (and additional reviews at least twice a month). The budget which the Office of the Comptroller's accountant examined was a preliminary draft which is approved in the general meeting, usually each November. This budget comprises detailed sub-items for each individual project, but this is not mentioned in the report.

### **Office of the Comptroller's Comment on the Zionist Council Director General's Response**

Despite making several requests, the only document we received was the aforementioned preliminary draft. As aforesaid, the budget should be submitted for approval at a level of detail

matching actual expenditure, so that it can be used as an administrative and supervisory tool during the year.

4. Expense items in budget proposal calculated using non-current exchange rates

The charity's budget proposal presents revenue and expense items in USD. The exchange rate specified in the budget proposal for 2015, and which was used in converting the amounts, was 3.5 NIS to the USD. However, the average NIS-USD exchange rate in November-December 2014 (when next year's budget proposal is prepared) was 3.88 NIS to the USD. It is unclear why the budget was calculated using an exchange rate almost 10% lower than the actual rate.

**Recommendation**

The charity should calculate its foreign-currency budget proposal using the average exchange rate for the budget preparation period.

5. Failure to recognize revenues from KKL-JNF in the budget proposal

Revenue items in the 2014-2015 budget proposal did not include funds received from KKL-JNF. These funds totaled NIS 7.3 million in 2013, and NIS 15.1 million in 2014. Instead, the charity opted to present revenues of NIS 9 million in its 2015 budget, under the 'Independent sources' item. Furthermore, in the budget proposal for 2014-2015, management presented 2 items under the title 'Revenues from Ministry of Education' – one for expected allocations, and one for prior-year debts, about which there is a measure of uncertainty.

### **Recommendation**

In its budget proposal, the charity should present all revenues expected to be received that year, from all budgetary sources. It should not include doubtful debts as revenues.

### **Response of the Zionist Council Director General**

Funds received from the Ministry of Education to support operations are transferred in several chunks throughout the year, with the largest chunk transferred after year's-end. This amount is certain and guaranteed and is in no way doubtful. On the contrary, usually on December 31<sup>st</sup> of each year, the budget only grows. Thus, we must recognize this amount as part of the budget for the subsequent year, and so the budget includes a 'Previous-year revenues from Ministry of Education' revenue item. Again, the budget is usually prepared and approved in November, when it is clear that Ministry of Education support will only be received in March-April of the subsequent year. Therefore, this amount is presented as revenues in the subsequent year's budget.

### **Office of the Comptroller's comment on the Zionist Council Director General's response**

The amount presented as previous-year debt is the entire budget from the previous year, and not only the balance outstanding; i.e. – double-presentation of the education budget.

#### 6. **Failure to record volunteer hours as cash-equivalent donations**

The charity does not record the numerous volunteer hours invested by hundreds of volunteers in its various activities. The charity's financial statements specify that "The charity receives volunteer services for teaching and instruction in the youth movements, *shnat sherut*, and in the Midrasha. Since it is not

possible to estimate the fair value of these volunteer services, such services were not included in the report on operations”. The Office of the Comptroller believes the value of most of the professional volunteer hours can be assessed. Thus, the Office of the Comptroller believes that, under generally accepted accounting principles, these revenues and expenses should be presented in the books.

### **Recommendation**

The charity should record professional volunteer hours received from its numerous volunteers as revenues and expenses.

#### 7. **Cumbersome billing for participation in activities**

In some of the charity’s operations, participants are charged for their participation. Payment is intended to cover some of the costs of these activities. Today, most payments from the hundreds of participants are received by check or in cash, and are submitted to the supervisor working from the Jerusalem office. The supervisor deposits these amounts, issues receipts, and mails them to participants. The Office of the Comptroller believes this process is cumbersome, leads to unnecessary costs, and may cause loss of revenues.

### **Recommendation**

The charity should make payment available by credit card, phone, or online through the charity’s website, issuing receipts via email.

### **Response of the Zionist Council Director General**

The charity formalized a credit card payment procedure, which is implemented on a project-specific basis through the charity’s website.

8. Insufficient investment in marketing and advertising Council activities to youths

One of the most effective ways of reaching teens is through ‘new media’, including advertising and social media campaigns on Facebook, Twitter, etc. Although the Council has Facebook and Twitter accounts, as of the audit date it seems that the Council does not make sufficient efforts to attract new followers and increase exposure to Council activities. For example, the Council has only 8,000 likes on its Facebook page, and only 600 followers on Twitter. The Office of the Comptroller believes it is possible to reach 100,000 followers and more with minimal effort.

**Recommendation**

The Council should invest more resources in developing its Facebook page and Twitter account, to reach a larger audience of teens who would follow the Council’s activities.

9. No supervision over selection of quiz winners

Zionist Quiz participants are required to answer questions on Zionism and Eretz Israel, which were written by the producers. In practice, the producers have complete control over the production, including deciding on the questions, their assignment to participants according to level of difficulty, selecting the contestants who progress to the next level, each contestant’s score, and ultimately deciding on the winner.

However, there is no written procedure specifying the contestant selection process, scoring, or winner selection, and the Council has no supervision or control over the Quiz, which is considered a high-profile event.

### **Recommendation**

The Council should establish a system of supervision and control over Quiz management, from the contestant selection stage and through to announcing the winner.

#### 10. Over-payment to the quiz Producer

As aforesaid, the agreement with the Producer is signed each year, and specifies the amount which the Council pays for production services. In practice, in 2014-2015, the Council paid a total of NIS 310,000 above what was required under the agreement. The Office of the Comptroller did not receive additional agreements with the Producer for rendering additional paid services.

### **Recommendation**

The Council should make sure to pay as specified in its agreements. If additional work is required, agreements should be updated accordingly.

### **Response of the Zionist Council Director General**

The charity does not pay the quiz Producer and to suppliers in general above the contractual amount. Additional payments in that year to that supplier were for additional activities (producing television programs on the Zionist Council's activities across the country, filming the regional quizzes and producing a film about them, and producing a clip for the quiz. These activities are not included in the quiz-production agreement.

## **5. Council Budget Management**

The main source of funding for the Zionist Council's budget is Keren Kayemeth LeIsrael ("KKL-JNF").

On September 1, 2014, KKL-JNF registered as a public benefit company (“PBC”), and from that date it is subject to all laws and regulations applicable to PBCs. As a result, the Endowments Registrar restricted KKL-JNF in conducting related-party and interested-party transactions (and the Zionist Council and WZO are considered such related parties) without detailed and approved agreements. These restrictions caused the funds for the 2015 budget to be received only from June 2015, following special approval by the Endowments Registrar. However, a significant part of the Council’s activities take part in the first half of the year.

In February 2016, KKL-JNF and the Council signed an agreement, whereby the Council would receive NIS 9 million in 2016. Payments would be transferred in equal installments, payable at the start of each quarter. The agreement may be extended for additional one-year terms, up to a total period of 5 years.

In practice, payments for the 2016 budget were partially transferred to the Council only recently. This created a significant strain on the Council’s cash flows in the first half of 2016.

Another source of funding for the Council is WZO, which budgets the Zionist Council’s activities each year.

### **Charity budgets:**

Before the start of the operating year, the Charities’ budgets are approved by their general meetings.

- The budget for the Zionist Council charity’s Mechina program is presented for a one-year period, from September of the current year until August of the following year, as customary for educational institutions.
- The budget for the OZ charity is presented for one calendar year, from January to December.

**The Office of the Comptroller examined the Council's and the Charities' budget management, including: budget approval, performance tracking, ongoing control, book-keeping, utilization rates, and proper resource allocation.**

**Findings:**

1. Operating under an irregular budget

The budget which the Council receives from WZO and KKL-JNF is not the same each year. Thus, Council management cannot properly plan its operations. Even when the budget is known at the start of the year, it is liable to change later on. Furthermore, the director general of the Charity does not know when the budget will be received, and its transfer is occasionally delayed. This leads to planned projects being postponed or cancelled.

**Recommendation**

The Council should sign a detailed agreement with WZO, specifying the scope of its annual support and the payment transfer dates. In KKL-JNF's case as well, the agreement should be updated to require KKL-JNF to transfer budgets on time.

2. No budgetary monitoring

The Council does not generate planned vs. actual budget performance reports of a reasonable resolution to enable management to exercise control and supervision. It is noted that, as part of its budgeting arrangement with WZO, the Council must report on the utilization of funds according to the expense items listed in the budget proposal. In practice, the Office of the Comptroller could not find any such reporting, and WZO does not monitor budget utilization. It is further added that the Zionist Council's management is inactive, so there is no supervision over budget utilization.

### **Recommendation**

The Council should generate budget performance reports at least once every quarter, and present it to management for discussion.

### **Response of the Zionist Council Director General**

The director general of the council generates performance reports once a month, and sometimes even twice a month. Furthermore, the director general of the Charity presents the *Hanhalah Metzumtza* with both performance reports and reports on the Charity's financial position.

### **Office of the Comptroller's Comment on the Zionist Council Director General's Response**

Although requested several times, the Office of the Comptroller did not receive any budget performance reports. Furthermore, budget performance reports should be presented to the Zionist Council's management. The *Hanhalah Metzumtza* is no substitute for meetings and discussions by the Zionist Council's management.

### 3. **Failure to record rent, communications, and insurance expenses**

The Council does not actually receive its budget for office rental and communications, insurance, mail, and miscellaneous expenses from WZO. Instead, WZO offsets these amounts from the Council's overall budget, since these services are provided by WZO in any case. At the same time, the Council does not record revenues and expenses to the amount equal to the designated budget for these items.

### **Recommendation**

The Council should record expenses and revenues for budget items such as rent, communications, insurance, mail, and miscellaneous expenses, as required.

#### 4. Failure to specify approved budget items in general meeting

The Charities' budgets approved in general meeting are not sufficiently detailed, and budget approval is done without a work-paper detailing all budget items. Thus, the discussion seems to be inadequate.

#### **Recommendation**

The Office of the Comptroller recommends the Charities prepare detailed budget proposals, document the discussion in each of their general meetings, and attach all relevant material to the approved minutes.

### **6. Procurement and Payments**

Procurement and supplier payments are anchored in a formal procedure in the Zionist Council. The procedure is identical for both Charities. The Council itself does not conduct independent procurement, but only operates through the two Charities.

Key points from the procedure:

#### ◆ Request for quotes:

| <b>Expense value</b> | <b>Expense type</b> | <b>No. of quotes</b> |
|----------------------|---------------------|----------------------|
| NIS 2,500 or less    | Procurement         | 0                    |
| 2,500-10,500         | Procurement         | 1                    |
| 10,500-50,000        | Procurement         | 2                    |
| 50,000 or more       | Procurement         | 3                    |
| 0-100,000            | Services            | 1                    |
| 100,000 or more      | Services            | 3                    |

- ◆ The procedure does not apply to payments going towards realizing the Charity's goals.
- ◆ Repeat procurement from the same supplier does not require quoting, unless the price has changed and must again be compared with prices from other suppliers.

**The Office of the Comptroller examined the procedure's implementation, including a sample of 12 payments to suppliers and 11 contracts issued by the Charities with a value ranging from NIS 64,000 to NIS 2,606,000, in 2014-2015.**

**The Office of the Comptroller examined the Charities' compliance with procurement procedures, mainly as concerns the following:**

- **Receiving several supplier quotes.**
- **Supplier selection.**
- **Issuing an order.**

### **Findings:**

1. Failure to apply the procurement procedure on all the Charities' expenses

Section 5 of the procurement procedure specifies that "This procurement procedure only pertains to services or products procured for the charity itself and does not apply to monetary payments made for realizing the charity's goals". This section is unreasonable and in fact excludes most of the charity's procurement from the procedure, as most expenses are made for realizing the charity's goals.

### **Recommendation**

The Council's procurement procedure should be updated and applied to all the Council's and the Charities' operations. A formal method can be integrated in the procedure for approving exceptional cases.

2. Ordering services up to NIS 100,000 based on only one quote

The procurement procedure allows contracts to be signed with service providers up to a value of NIS 100,000 based on only one quote. This is not proper and does not comply with minimal standard requirements for public organizations. For example, a large public organization that we audit, with a turnover of NIS 2 billion, requires more than one quote be obtained for contracts exceeding NIS 12,000 a year.

**Recommendation**

A new quoting hierarchy should be established in the procurement procedure for service procurement, requiring at least two quotes for contracts above NIS 10,000 a year.

3. Procurement of services without a formal agreement

According to the procurement procedure: services will be procured under a formal and signed agreement stating the nature and term of the contract. In a sample of contracts examined during the audit, the Office of the Comptroller was not shown agreements for four contracts, as follows:

| <b>Supplier</b> | <b>Contract value (NIS)</b> |
|-----------------|-----------------------------|
| A               | 64,600                      |
| B               | 174,558                     |
| C               | 353,911                     |
| D               | 514,802                     |
| E               | 158,269                     |

**Recommendation**

The Council should sign agreements with all service providers. The Council should obtain a standard format from its legal counsel and

apply it to all contracts, with the necessary changes. The Council should make sure to submit any format changes to legal counsel for comments.

4. Failure to obtain additional quotes

In the sample of contracts and supporting documents examined by the Office of the Comptroller, and for which the procurement procedure requires that quotes be obtained, the Office of the Comptroller was not shown quotes for 13 of the sampled contracts.

**Recommendation**

The Council should make sure to comply with its procurement procedure and obtain written quotes (one or three) as required by the procedure. Quotes should be documented and kept along with the contract in the supplier file.

5. Signing contracts for services before receiving quotes

In a sample examination of contracts, the Office of the Comptroller found an order for services from Gal Oren Ltd. for producing and organizing six regional Zionist Quizzes. The services were ordered on February 15, 2014, while the quotes were received on March 9, 2014 and March 13, 2014 (about a month after the agreement was signed). This constitutes improper conduct.

**Recommendation**

The Council should make sure to comply with its procurement procedure and obtain quotes before deciding to contract a supplier.

**Response of the Zionist Council Director General**

This order was based on a specific request and the quotes which 'seem' to have been received late, included additional items and

products relevant to the project. Thus, there are misunderstandings concerning the dates of the quotes and the order.

6. No documentation of discussions when selecting a winning supplier

For all the examined sample, the Office of the Comptroller was not shown minutes of any discussion on the received quotes, the advantages and disadvantages of each quote, and the decision on the winning bidder. This is also true of cases where a supplier was a sole supplier or chosen based on a single bid (8 out of 23 cases). The Office of the Comptroller believes that documenting the winning supplier selection process, and particularly in material contracts and when dealing with sole suppliers, is crucial to proper management.

**Recommendation**

The Council should make sure to document the service supplier selection process in minutes, including the circumstances, considerations and any professional opinions behind the decision.

7. Signing follow-up contracts with suppliers, without obtaining additional quotes

In a sample examination of contracts, the Office of the Comptroller found that the Charity conducted several follow-up contracts with Gal Oren Ltd. for producing events, at a value of hundreds of thousands of NIS, without obtaining additional quotes and without documenting the relevant circumstances. The Office of the Comptroller believes this to be improper conduct which does not meet generally accepted standards.

**Recommendation**

The Council should make sure to obtain quotes for follow-up contracts on each project separately, as required under its procurement procedure.

8. Not selecting the lowest bidder without adequate explanation

In a sample examination, the Office of the Comptroller found that the Charity contracted a company to build a website for the Zionist Quiz. The company's bid totaled NIS 63,700, compared to another bid received, which stood at NIS 35,000. Furthermore, the bid from the company that was contracted by the Charity, was received five days after signing the order for the services.

**Recommendation**

The Council should document and specify the reasons and circumstances that led it to select a more expensive supplier. Furthermore, the Charity should verify that all bids are received before deciding on the winning bidder.

**Response of the Zionist Council Director General**

The details of the relevant bids specify the services received in each bid. In this case, the lower bid did not include content development services, which were the main component of the rendered services.

9. Using WZO's and the Jewish Agency's framework agreements without formal regulation

In a sample examination, the Office of the Comptroller found that the Charity contracted several companies for various services, based on WZO's or the Jewish Agency's framework agreements with those companies. The Office of the Comptroller believes that use of other companies' framework agreements with WZO, without formal, written regulation of such practice detailing when the Charity may use these agreements, maximum amounts, service prioritization, and other aspects – is improper.

**Recommendation**

The Council should reach written understandings with the Jewish Agency and WZO on using their framework supplier agreements.

### **Response of the Zionist Council Director General**

The Council conducted quite a few comparisons and examinations with WZO and Jewish Agency suppliers. Fortunately, the flexibility that we are able to create in our work enables us to re-inquire with suppliers time and again, which over time drives down costs. WZO and Jewish Agency suppliers are selected by tender a year in advance, and prices are not necessarily cheaper.

### **7. Follow-Up on Correction of Key Findings from Previous 2012 Report\***

| <b>No.</b> | <b>Flaw</b>   | <b>Recommendation</b>  | <b>Response of Zionist Council Director General</b>  | <b>Examination</b> | <b>Comments</b>   |
|------------|---|--|--|--------------------|---|
| <b>1</b>   | Section 3 to the Charities' by-laws, dealing with their goals, emphasizes that their goals will be derived from those of the "Zionist Council in Israel". Since the draft by-laws of the Council itself do not specify its goals, it is unclear what goals the two charities' by-laws are referring to. | The charities should examine the level of 'official' influence WZO wants to maintain over the Zionist Council and OZ charities. If WZO wishes to clearly establish these charities' relation to WZO, it should be expressly stated that the charities' goals | An examination and review will be made of 'hesitant' and insufficiently clear terms concerning the charities' obligations towards the Zionist Council. | Not implemented.   | The Zionist Council's by-laws have not been amended and do not specify goals. |

| No. | Flaw  | Recommendation   | Response of Zionist Council Director General                                   | Examination     | Comments  |
|-----|---|--|--|-----------------|---|
|     |   | are derived from those of the WZO Zionist Council, and specify these goals in the Zionist Council's by-laws.   |  |                 |   |
| 2   | The Zionist Council and the charities do not have clear procedures for implementing ongoing budgetary control and it is unclear whether such controls are implemented regularly and consistently. | A budgetary control procedure should be drafted, to cover all aspects of budget management, utilization and control, such as: dates for submitting the budget for approval, the approving organ, specific budgetary controls, control frequency, required actions when a | A budgetary control procedure will be presented at the next committee meeting. | Not implemented | Controls are made using record files, but without a formal procedure. |

| No. | Flaw | Recommendation   | Response of Zionist Council Director General | Examination | Comments |
|-----|------|--|--|-------------|----------|
|     |      | budgetary deviation is found, reporting to general meeting on budget utilization rates and budgetary compliance. |  |             |          |

\* Systemic flaws identified in the previous audit report from 2012, not-including issue-specific findings identified in that report.

December 2016

**Keren Kayemeth LeIsrael (JNF)  
Information Technology (IT)**



# **Keren Kayemeth LeIsrael (JNF)**

## **Information Technology (IT)**

### **1. Goals:**

- 1.1** To examine IT policies in Keren Kayemeth LeIsrael (“KKL-JNF”). To examine ongoing operations in the IT Division (“the Division”), with special focus on responsibilities and key systems overseen by the Division.
- 1.2** To identify weaknesses in workflows and controls, and recommend improvements.
- 1.3** To examine compliance with internal control procedures, and the efficacy of existing procedures and workflows.

### **2. Scope:**

The audit was carried out in August – September 2016, and referred to the IT Division’s ongoing operations.

### **3. Method:**

The audit comprised:

- ◆ Meetings and discussions with IT Division executives, the Infrastructures and Technologies director, the system administrator, project managers and KKL-JNF employees

managing and overseeing information security, network administration, and IT.

- ◆ Surveys of KKL-JNF's IT systems and network.
- ◆ Surveys of KKL-JNF's IT-related work documents, procedures, reports, and agreements.
- ◆ Surveys of common standards for IT management: ISO27001 – a standard providing a framework for information security procedures and controls. Cobit5 – Control Objectives for IT & Related Technologies – an international standard defining the general controls required when operating IT systems.
- ◆ Verification examinations.

#### **4. Audit plan:**

##### **4.1 KKL-JNF's IT policies**

- ◆ Examining IT strategy.
- ◆ Examining alignment of organizational structure and work force.
- ◆ Examining work plan preparation and goal-setting.
- ◆ Examining budgetary alignment, including actual expenditure.

##### **4.2 Ongoing operations**

- ◆ Mapping KKL-JNF's information assets.
- ◆ Examining information security measures.
- ◆ Examining back-up management.
- ◆ Examining KKL-JNF's IT support activities.
- ◆ Examining the existence of a disaster recovery plan.
- ◆ Examining monitoring and control of IT resources.

#### 4.3 Change management

- ◆ Examining requirement consolidation.
- ◆ Examining approvals and validation.
- ◆ Examining submission for implementation.
- ◆ Compliance with schedules and budgets.

#### 4.4 Outsourced supplier management

- ◆ Examining agreements with suppliers.
- ◆ Examining control metric definitions.
- ◆ Examining service level agreement compliance.

### 5. Executive summary:

|    | Finding  | Recommendation  | IT Division's Response  | Finance Division's Response | Ownership Deadline        |
|----|--|---|---|-----------------------------|---------------------------|
| 1. | Examinations found that the IT Division does not have a long-term strategic plan establishing long-term goals and milestones, responsibilities in key processes, opportunities and new trends, monitoring and control of technological developments. | Formulate a long-term strategic document for the IT Division, for discussion and approval by senior management. | The matter is included in the 2017 work plan, and a reporting and coordination effort was carried out in January with KKL-JNF's senior management to approve the IT strategy. In preparing the new budget, a verbal work plan was also required, which will be approved at the Board level. Furthermore, the Director General plans to require that all KKL-JNF units prepare formal, written work plans. |                             | Management Deadline: 2017 |

|    | <b>Finding</b>  | <b>Recommendation</b>  | <b>IT Division's Response</b>  | <b>Finance Division's Response</b> | <b>Ownership Deadline</b> |
|----|---|--|--|------------------------------------|---------------------------|
| 2. | There are no management-engaged steering committees focusing on IT or information security, which would approve, decide and set policies in these matters. There is also no formal process for updating and reporting to management on Division activities. | Establish a forum of IT-focused steering committees with senior management involvement and document forum decisions. | The head of the IT sub-committee has extensive experience in this field. When the process is presented to senior management, one product will be a steering committee comprising KKL-JNF's senior management, which will implement ongoing monitoring and control. As part of the flaw-correction efforts, the flaw correction team held several meetings on IT issues, and discussed the Office of the Comptroller's findings, current conditions, and challenges moving forward. |                                    |                           |
| 3. | The Division does not have an information security officer charged with implementing information security policies and applying adequate controls in the Division. Responsibility over information security in KKL-JNF is given                             | Appoint a designated supervisor over information security in the IT Division.  | The recommendation is accepted. It is further noted that under the KKL-JNF's management's decision, the national security director was appointed as KKL-JNF's information security officer.  |                                    | Management Deadline: 2017 |

|    | <b>Finding</b>   | <b>Recommendation</b>   | <b>IT Division's Response</b>  | <b>Finance Division's Response</b>   | <b>Ownership Deadline</b> |
|----|--|---|--|--|---------------------------|
|    | to the security officer. According to Civil Service Circular 13/2012, information security officer is a core position in an IT division.   |   |  |  |                           |
| 4. | <p>The work plan is derived from the budget, which is set in advance and not according to the Division's needs. The work plan is not presented to management. The plan does not include milestones, responsibilities or deadlines for tasks. There is no reference to long-term projects spanning several years.</p> | For each task in the plan, set deadlines, responsibilities, task priority, etc. | The annual work plan for 2017 was presented to management and included a (quarterly) schedule, costs (based on hourly estimates), responsibilities and priorities. | <p>The IT Division's operating budget is managed solely by the IT Division director, and under his responsibility.</p> <p>The item mentioned in the report is the administration budget (not the operating budget) – inflexible which the Division director does not manage according to current management policy. The salaries and administration costs budget for KKL-JNF's units is managed by the HR Division, which liaises with the Budgets Division.</p> <p>Pre-emptive budgetary control is applied. Again, the</p> |                           |

|    | Finding  | Recommendation  | IT Division's Response  | Finance Division's Response   | Ownership Deadline |
|----|--|---|---|---|--------------------|
|    |  |   |   | <p>item mentioned in the report refers to administrative costs transferred from the 'Lavyan' system which forwards leasing charges. Controls over this item are only applied retrospectively – and are inherently defined as such. A monthly review is also conducted of budgeted vs. actual expenditure. It is again emphasized that the operating activities budget can be exceeded. Budgets are diverted as necessary.</p> |                    |
| 5. | <p>The Office of the Comptroller's examination found that KKL-JNF does not verify accurate assignment to, and match of, budgetary items.</p> | <p>Establish regular controls over budgeted vs. actual expenditure. Also make sure to accurately record expenses according to</p> | <p>The recommendation is accepted.<br/>Accurate assignment to items will be verified.</p> | <p>The IT Division's budget (as in other KKL-JNF units) is set according to the annual work plan prepared by the respective unit and following Board/management approval. If the professional organ (IT Division) finds</p>   |                    |

|  | Finding | Recommendation            | IT Division's Response | Finance Division's Response   | Ownership Deadline |
|--|---------|---------------------------|------------------------|---|--------------------|
|  |         | the set budget structure. |                        | <p>that budgets must be diverted to manage information security risks, it is the IT Division's responsibility to adjust the annual work plan accordingly (according to the budgetary framework approved for the Division).</p> <p>The IT Division's budget is based on line items, and budgeted according to the professional unit's request. The finance management system allows for flexibility when opening tasks and for managing each project separately. There is nothing to prevent each project from being opened as a separate budgetary task, and being entirely managed in one place.</p> <p>Following KKL-</p> |                    |

|    | Finding   | Recommendation                            | IT Division's Response   | Finance Division's Response   | Ownership Deadline         |
|----|---|---|--|---|----------------------------|
|    |   |   |  | <p>JNF's management's instructions, led by KKL-JNF's chairman, the 2017 budget is significantly more detailed than KKL-JNF's previous budgets, and the 2018 budget will be even more detailed, as instructed by KKL-JNF's chairman and acting director general.</p> <p>The Finance Division director has instructed that management of maintenance expenses be immediately separated from property, plant and equipment expenses, as recommended in the Office of the Comptroller's draft report.</p> |                            |
| 6. | Division procedures are current as of 2000, and in several cases do not match | Update the Division's IT system operating | A comprehensive effort is currently underway using a third-party service provider. |   | IT Division Deadline: 2017 |

|    | <b>Finding</b>  | <b>Recommendation</b>  | <b>IT Division's Response</b>  | <b>Finance Division's Response</b> | <b>Ownership Deadline</b>                                  |
|----|---|--|--|------------------------------------|--|
|    | actual practice. There is a lack of IT operating procedures.  | procedures.  | Procedures have been drafted for the Division, and will be brought before KKL-JNF's procedures committee within about a month.         |                                    |  |
| 7. | Of 134 active servers, there were 14 servers accounting for some 10% of all servers running an operating system that is no longer supported by the manufacturer (Microsoft) and without current security updates, such as: Windows 2000, 2003. Lack of manufacturer-released security updates for these operating systems exposes KKL-JNF to bugs, various security breaches, and maintenance difficulties. | Update operating systems not supported by the manufacturer.      | Recommendation accepted. Will be included in the Application Development Department's work plan for 2017 (SW upgrade).                 |                                    | IT Division's Application Development Dept. Deadline: 2017 |
| 8. | KKL-JNF does not have an information security policy. It is noted that, lacking an information security policy, and lacking   | Establish an information security policy approved by management, | KKL-JNF accepts the comment on establishing an information security policy in the suitable executive forum. Basic information security |                                    | IT Division: Deadline 2017                                 |

|            | <b>Finding</b>   | <b>Recommendation</b>  | <b>IT Division's Response</b>  | <b>Finance Division's Response</b> | <b>Ownership Deadline</b>                           |
|------------|--|--|--|------------------------------------|---|
|            | management approval for such policy, there is a risk for non-supervised information security activity.   | as well as written information security procedures.  | procedures are currently being prepared, and are expected to be approved within a month.                               |                                    |   |
| <b>9.</b>  | There is no monitoring or supervision over existing information security measures. See details and examples below.   | Establish a procedure for monitoring existing information security measures, and identifying gaps.   | Recommendation accepted.   |                                    | IT Division<br>Deadline:<br>2017                    |
| <b>10.</b> | In practice, information Security measures are used extensively, without any ability for monitoring or control. These measures expose KKL-JNF to virus infiltrations on the one hand, and on the other allow information to be removed from KKL-JNF's network. | Establish a procedure for removing and receiving information in KKL-JNF. Also examine use of quarantine stations and information outflow tracking systems. | Recommendation accepted. Will be brought for discussion in formulating the organization's information security policy. |                                    | IT Division<br>manage-<br>ment<br>Deadline:<br>2017 |
| <b>11.</b> | The back-up procedure was not approved by management. Thus,  | Establish a management-approved back-up  | A procedure exists. The procedure will be brought before the procedures committee for                                  |                                    | IT Division   |

|     | <b>Finding</b>   | <b>Recommendation</b>   | <b>IT Division's Response</b>  | <b>Finance Division's Response</b> | <b>Ownership Deadline</b> |
|-----|--|---|--|------------------------------------|---------------------------|
|     | back-up policies, such as: information being backed-up, back-up frequency, back-up saving times and methods, do not match KKL-JNF's needs. Furthermore, the current procedure does not refer to key issues. See details below.   | procedure, which will refer to the issues identified in the report and to back-up methods.  | approval within about a month.   |                                    |                           |
| 12. | There is no disaster recovery policy approved by KKL-JNF's management or Board. Thus, there are no formal procedures assigning permissions for putting a plan in action or specifying under what circumstances. Also, as of the audit date, the 'Triple-C' site was not being synched and did not contain all necessary information. It is noted that KKL-JNF pays NIS 6,656 a month for this service. | Establish a disaster recovery plan set a maximum time-frame for information loss and the maximum time-frame for recovery. Also, review the synch with the secondary site on Triple-C. | A re-examination is currently underway for implementing a comprehensive solution and is currently being submitted to management. |                                    | IT Division               |

|     | <b>Finding</b>  | <b>Recommendation</b>  | <b>IT Division's Response</b>  | <b>Finance Division's Response</b> | <b>Ownership Deadline</b>                  |
|-----|---|--|--|------------------------------------|--|
| 13. | Excessive IT systems and databases require unique specialization for each system and requires ongoing maintenance while developing additional systems to support operations. Thus, there is no long-term plan to consolidate all systems into one single system that would comprise several modules providing the functionality of all current systems (e.g. – a central ERP system). | Consider consolidating IT systems into a comprehensive ERP solution that would include all necessary modules.  | In approving the IT strategy – an initiative that will be led by the IT sub-committee, KKL-JNF will examine a plan for a consolidated ERP system. It is noted that the State Comptroller's report also mentioned this issue, and KKL-JNF will formulate an overarching strategy for this matter. |                                    | Management                                 |
| 14. | Today, QA is performed by the development team, and not by QA specialists. There is also a lack of systems for managing QA, support ticket tracking, and identifying bugs. Without an automated QA system, current development  | The Division should utilize an automated QA system. Furthermore, each project or change involving integration between several systems and system interfacing | Recommendation accepted.<br>We will work to adopt a standard in this matter.   |                                    | IT Division + management<br>Deadline: 2017 |

|            | <b>Finding</b>  | <b>Recommendation</b>   | <b>IT Division's Response</b> | <b>Finance Division's Response</b> | <b>Ownership Deadline</b>  |
|------------|---|---|-------------------------------|------------------------------------|----------------------------|
|            | activities in KKL-JNF are at risk for coding problems, numerous operating issues, especially in projects requiring integration testing. It is noted that this system is also important in tracking problems once a system goes live.  | should include QA testing.  |                               |                                    |                            |
| <b>15.</b> | Systems maintenance is budgeted under the Applications team's work plan. However, the Applications team does not log issues for system maintenance purposes. Without the Applications team logging and monitoring issues, the Division will find it challenging to monitor technical issues and formulate its annual work plan. | The Applications team should document issues as part of ongoing maintenance activities. | Recommendation accepted       |                                    | IT Division Deadline: 2017 |
| <b>16.</b> | Under the current organizational structure, development activities are assigned   | Establish a joint development team, providing   | Recommendation accepted       |                                    | IT Division Deadline: 2017 |

|  | <b>Finding</b>  | <b>Recommendation</b>  | <b>IT Division's Response</b> | <b>Finance Division's Response</b> | <b>Ownership Deadline</b> |
|--|---|--|-------------------------------|------------------------------------|---------------------------|
|  | to specific teams according to system type. Thus, development teams are permanently defined according to the various systems. This structure limits the ability to manage development tasks. It is also difficult to generate shared knowledge for the various system developers and to implement shared standards across development activities. | developers with unrestricted exposure to all implemented systems. This will allow teams to be assembled according to the Division's development tasks. |                               |                                    |                           |

**Response of the Chairman of KKL-JNF's Board of Directors (March 2017):**

The report covers material and important issues concerning KKL-JNF's IT systems, including: preparing a strategic plan for IT activities, procedures, proper budget management, emergency response planning, information security strategy, excess of IT systems and lack of synchronization between them, documentation and monitoring, etc.

Needless to say, KKL-JNF considers all audit reports of its operations as vitally important. As you know, in the past eighteen months, the organization is undergoing a comprehensive, profound, and thorough effort to rectify flaws, which also pertains to the organization's IT systems.

Among other things, we have completed work on the IT Division's procedures file, and it is expected to be approved in the coming weeks; we

have established a steering committee specifically for IT strategy (which began working a few months ago); we have developed new IT systems, including: a tendering and contracting system (which was even awarded the ‘People & Computers’ award), call for entry management system, finance system (OneView), Board and management meeting system, and more. We are also currently in the process of reviewing and synchronizing our various IT systems. Alongside these efforts, we are making fundamental, cross-organizational changes (which also apply to the IT Division), with special focus on documentation and knowledge retention as part of our organizational transparency efforts; budget management; work plan-based operations; etc.

As in all other matters we handle, we will leave no stone unturned in our efforts to rectify all flaws identified in our IT activities.

## **6. Survey of IT governance**

### **6.1 IT governance**

Information technology governance refers to the manner in which IT-related decisions align with an organization’s vision, values, and strategy, and support its commercial operations. IT governance seeks to provide guidelines for projects in this field, such as: matching information systems with organizational goals; identifying and mitigating IT risks; responsible use of IT resources; IT support for acting on business opportunities; etc.

As part of these principles, IT governance works to formalize workflows and define performance metrics in the following areas: defining the roles of IT systems in the organization and how they meet these goals; designing IT system architecture; investments and prioritizing IT systems in the organization. Developing an IT governance system in an organization comprises several key aspects: developing a strategy and long-term work plans; adapting the organizational structure; goal-setting; budget-setting; deciding on personnel employment and outsourcing policies for IT services; establishing controls and implementing the selected strategy in all levels of the organization.

## 6.2 Steering committee and long-term IT strategy

The IT steering committee is the forum responsible for IT governance, and its proper operation enables control over adaptation of an organization's technological structure to support the development of that organization's operations. Thus, its goal is to establish and approve an organization's IT strategy, as well as a binding information security policy. Setting a clear and well-defined strategy facilitates alignment between the commercial vision and decisions shaping the technological future and development of that organization, which require material investments in IT infrastructure.

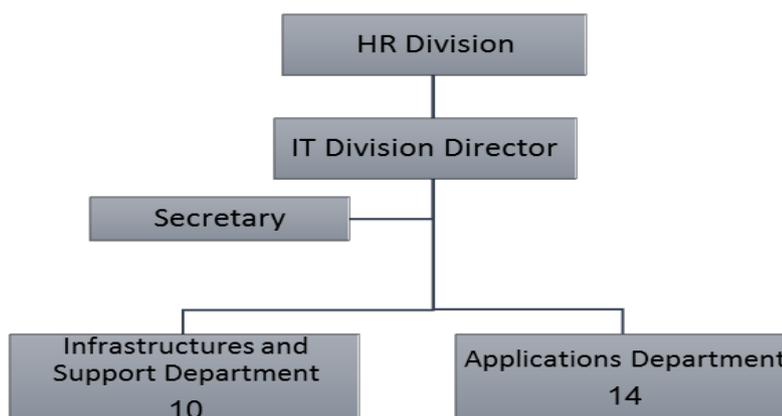
## 6.3 Organizational structure

The IT Division's organizational structure must ensure effective and efficient support of the organization's operational goals, and match its IT strategy.

KKL-JNF is built of several branches spread across the country, and a main headquarters located in Jerusalem. There are also more than 20 IT systems, and 70 databases, with more than 800 user accounts.

The Division's organizational structure:

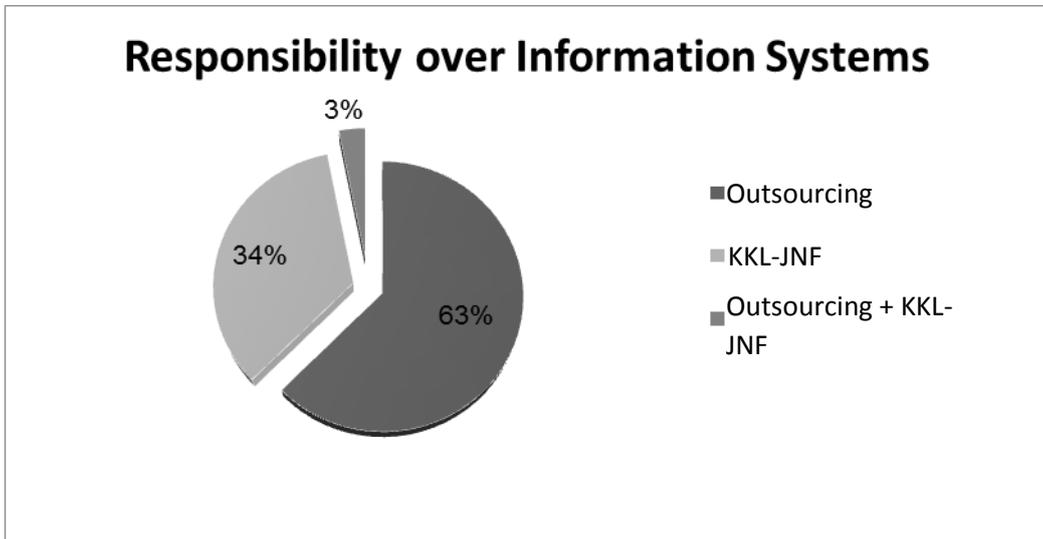
The IT Division comprises 28 staff members, of which 14 are regular KKL-JNF employees, and 14 are outsourced personnel:



Key activities:

- Support of KKL-JNF's ongoing operations by supporting its operational IT systems.
- Maintenance and management of communications equipment, infrastructures, and maintenance of KKL-JNF's existing systems.
- Technical support services for KKL-JNF employees and users.
- Managing IT and information system projects.
- Contracting suppliers, buying hardware, etc.
- Information and IT system security.
- Managing Division personnel.

KKL-JNF's IT activities are mostly based on outsourced application services:



**The Office of the Comptroller examined the following aspects of the Division's IT strategy and work plans:**

- **Existence of long-term IT planning in KKL-JNF.**
- **Direction of technological development compared with KKL-JNF's goals.**
- **Existence of a steering committee forum.**
- **Alignment of organizational structure.**

**Findings:**

1. In March 2013, the Division presented KKL-JNF's management with gaps between existing conditions in the Division and the strategic goals set by KKL-JNF's management, and the need for changes to match the set goals. However, the Office of the Comptroller found that the IT Division does not have a long-term strategic plan defining long-term goals, milestones, responsibilities for key work-flows, opportunities and new trends, monitoring and control over where technology is going.
2. It is customary to establish an IT steering committee. The Office of the Comptroller found that there is no steering committee forum involving senior management representatives in matters of IT or information security technology, which would approve, make decisions and set policies in these matters (see Section 5.2). Furthermore, there is no formal process for reporting to management on Division activities.
3. Upon examining alignment of the IT Division's organizational structure with actual operations, the Office of the Comptroller found that the Division does not have an information security officer, who would be responsible for implementing information security policy and applying the necessary controls. Furthermore, responsibility over information security in KKL-JNF is given to the security officer. It is noted, that according to Civil Service Commission Circular 13/2012, the information security officer is a core position in an IT division.

**Conclusions and recommendation:**

| <b>Recommendation</b>  | <b>IT Division's response</b>  | <b>Ownership and deadline</b>        |
|--|--|--------------------------------------|
| <p>1. Formulate a long-term strategy for the IT Division, reviewed and approved by senior management.</p>                          | <p>Over the past two months, we have updated the strategic goals document and aligned it with actual practice. This issue appears in the 2017 work plan, and at the start of January we will work to report to and coordinate with KKL-JNF's senior management to approve the IT strategy. As part of KKL-JNF's new budget preparation procedure, approved on January 3, 2017, from now on every unit must also prepare a written work plan when preparing the budget. This plan will be approved at the Board level. Furthermore, the director general intends to lead an effort to create formal and written work plans for each of KKL-JNF's units.</p> | <p>Management<br/>Deadline: 2017</p> |
| <p>2. Establish an IT steering committee forum including representatives from senior management, and document forum decisions.</p> | <p>KKL-JNF's Board Committee for Human Resources and Administration has established an IT sub-committee. The chairman of the committee has extensive experience in IT. When the initiative is presented to senior management, one of the outcomes will be an oversight and supervision steering committee comprising senior KKL-JNF managers. Furthermore, as part of the</p>  |                                      |

| Recommendation   | IT Division's response   | Ownership and deadline |
|--|--|------------------------|
|  | <p>flaw correction process, several meetings were held by the flaw correction team on 'IT and information systems'. The team discussed identified flaws, current conditions, and future challenges. Flaw correction efforts will continue under the aforesaid sub-committee.</p> |                        |
| <p>3. Appoint a designated officer for overseeing information security in the IT Division.</p> | <p>Recommendation accepted. It is further noted that, according to KKL-JNF's management's decision, the national security officer has been made responsible for information security in KKL-JNF.</p>   |                        |

#### 6.4 Work plan and budget

At the end of each year, the IT Division consolidates and collects requirements from each system's users, in order to implement changes. The IT Division director, together with the Applications Team and the Infrastructures Team prioritize user requirements and needs to build an annual work plan for the Division.

#### The IT Division's goals and objectives, as presented to management in March 2013:

- To propose, develop, apply, and implement state-of-the-art, stable and maintenance-efficient information systems to support KKL-JNF's operating activities and its goals.

- To take all actions necessary to maintain stability and availability of IT systems and infrastructures in routine and emergency conditions, with a continuous focus on efficiency.
- To provide service, support, and integration in a friendly and professional manner to IT customers, while maximizing utility from existing systems.
- To serve as KKL-JNF's sole technological standardization body for IT, bearing in mind IT market trends and adapting them to the organizational environment.
- To provide an optimal level of information security to protect KKL-JNF's assets and as a solution to threats.

### **Budget**

The IT budget is overseen by the Division director. In 2015, the IT Division's investment budget for infrastructure, applications, and general activities including salaries totaled NIS 18,512,129.

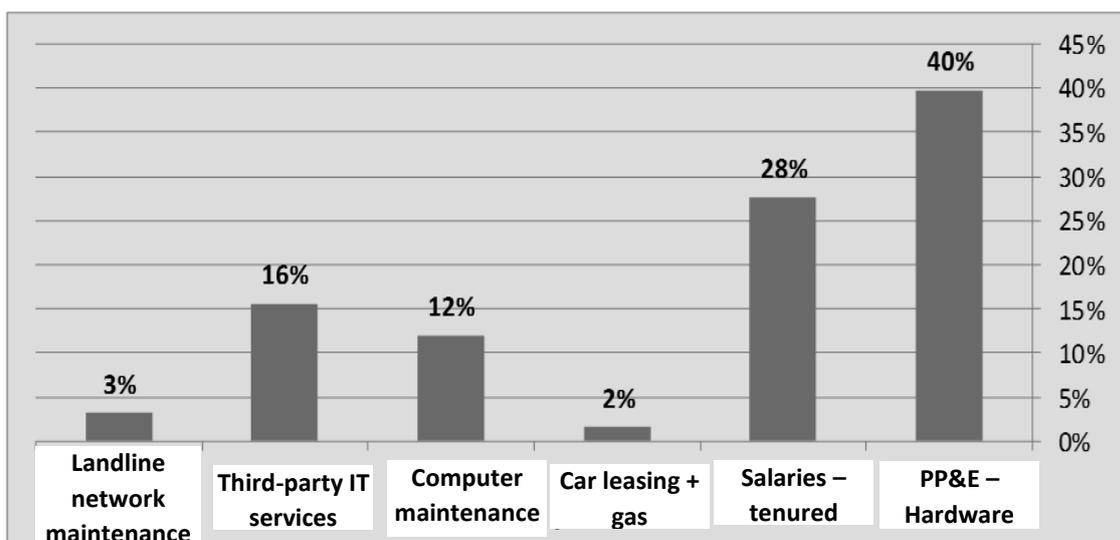
The IT Division's budget is set in advance by management, and the work plan is then developed according to this budget.

### **Items and utilization in the Division's budget for 2015:**

| <b>Item no.</b> | <b>Item name</b>                        | <b>Approved amount (NIS)</b> | <b>Utilized amount (NIS)</b> | <b>Balance</b> | <b>% utilization</b> |
|-----------------|---|------------------------------|------------------------------|----------------|----------------------|
| 180060000       | Property, plant and equipment – IT      | 7,380,000                    | 7,364,977                    | 15,023         | 100%                 |
| 500001000       | Salaries – tenured                      | 4,506,025                    | 5,111,991                    | -605,966       | 113%                 |
| 500146000       | Employees and fuel for personal leading | 0                            | 67,749                       | -67,749        | –                    |

| Item no.      | Item name                    | Approved amount (NIS) | Utilized amount (NIS) | Balance         | % utilization |
|---------------|------------------------------|-----------------------|-----------------------|-----------------|---------------|
| 50015<br>1000 | Car expenses – leasing       | 244,042               | 250,136               | -6,094          | 102%          |
| 50016<br>1000 | Computer maintenance         | 2,220,000             | 2,228,083             | -8,083          | 100%          |
| 50016<br>2000 | Third-party IT services      | 2,890,000             | 2,889,678             | 322             | 100%          |
| 50016<br>4000 | Landline network maintenance | 600,000               | 599,514               | 486             | 100%          |
| <b>Total</b>  |                              | <b>17,840,067</b>     | <b>18,512,128</b>     | <b>-672,061</b> |               |

**2015 budget breakdown:**



**The Office of the Comptroller examined the following aspects of the Division's budget and work plan:**

- **Existence of annual and long-term work plans for the Division.**
- **How work goals are set in the Division.**
- **Alignment of budget structure with KKL-JNF's goals and needs.**
- **Monitoring and control over budget deviations.**
- **Existence of operating procedures.**

**Findings:**

4. A review of the Division's annual work plan for 2015 found the following:
  - The work plan is derived from a pre-determined budget, and not according to the Division's needs.
  - The work plan is not presented to management.
  - There is no reference to long-term projects spanning several years.
  
5. The structure of the IT Division's budget does not match Division activities, and impedes supervision and control over budget management. For example:
  - There is no separation between infrastructure and applications.
  - Budget items are not detailed according to expense type: licensing, annual maintenance, one-time purchases, etc.
  - There is no specific budget for managing information security risks.

- The budget is not managed by project, so it is difficult to identify costs by project.

6. Some of the Division's budget items are overseen by the Budgets Division, while others are overseen by the Division director. The system does not apply any pre-emptive budgetary controls. The system enables deviation from the approved budget amount. Furthermore, the system allows purchase orders to be issued even when the budget is 0, for example – budget item 500146000.
7. Upon examination, the Office of the Comptroller found that expenses are not always properly assigned or matched to budget items. For example:

| <b>Description</b> | <b>Amount (NIS)</b> | <b>Recorded under budget item</b> | <b>Correct budget item</b>               | <b>Date</b>   |
|--------------------|---------------------|-----------------------------------|--|---------------|
| Software purchase  | 20,124              | Hardware purchases                | Software purchases                       | Oct. 29, 2015 |
| Hard disk          | 2,006               | Computer maintenance              | Property, plant and equipment – hardware | Jan. 27, 2015 |
| System services    | 38,610              | Landline maintenance              | Third party IT services                  | Nov. 4, 2015  |
| System services    | 45,312              | Computer maintenance              | Third party IT services                  | Jan. 7, 2015  |

8. As of the audit date, the Division's procedures were current as of 2000, and in several cases do not match actual practice. Furthermore, there are no procedures governing IT system operations, such as: a technical issues procedure defining the SLA for repairing bugs and issues according to system importance and issue type; incidents procedure for

handling disruptive malfunctions; cyberattack procedure for mitigating information security risks by common scenarios; etc.

**Conclusions and recommendations:**

| Recommendation   | IT Division's Response   | Ownership Deadline                               |
|--|--|--|
| 1) Present the work plan to management and include long-term projects.   | The 2017 work plan has been presented to management.   |  |
| 2) Under the primary budget items, establish additional sub-items detailing expenses by topic which would enable supervision over Division expenses. Also, consider establishing a designated information security budget for KKL-JNF. | <p>Recommendation accepted. We will work with the Budgets Division to change the budget item resolution to support accurate control over expenses, including information security.</p> <p><b>CFO's response</b></p> <p>a) The IT Division's budget (similar to other KKL-JNF units) is set according to the work plan submitted by the unit itself, and according to management/Board approval. If the professional organ (IT Division) finds that a budget should be allocated for managing information security risks, then it is the IT Division's job and responsibility to put that in its annual work plan (according to the budget framework approved for the Division).</p> <p>b) The IT Division budget is overseen through items and budgeted according to the professional unit's request. The finance management system provides flexibility in opening tasks and for managing each project separately. There is nothing to prevent each project from being opened as a separate</p> | IT Division + Budgets Division<br>Deadline: 2017 |

| Recommendation   | IT Division's Response  | Ownership<br>Deadline |
|--|---|-----------------------|
|  | <p>budgetary task and being managed entirely in one place.</p> <p>c) Following the instructions of KKL-JNF's management and Chairman, the 2017 budget is significantly more detailed than KKL-JNF's budgets from previous years. The 2018 budget will be even more detailed, as instructed by KKL-JNF's Chairman and acting director general.</p> <p>d) The Finance Division director has been instructed to immediately separate maintenance expenses from property, plant and equipment expenses, as recommended in the draft audit report.</p>   |                       |
| <p>3) The IT Division budget should be overseen by the Division director. Also, set up pre-emptive controls in the system to prevent deviation from approved budget.</p> | <p>This is implemented throughout KKL-JNF. There are pre-emptive controls for budget items controlled by the Division. The Finance Division can act freely. The comment will be forwarded to the Finance and Economics Division for review at the overall organizational level.</p> <p><b>CFO's response:</b><br/>See Section 5 above.</p> <p>a) The IT Division's operating budget is overseen solely by the IT Division director, and is under his responsibility.</p> <p>b) The item mentioned in the report constitutes administrative budget (and not operating budget) – inflexible, which is not overseen by the IT Division director according to existing management policy.</p> |                       |

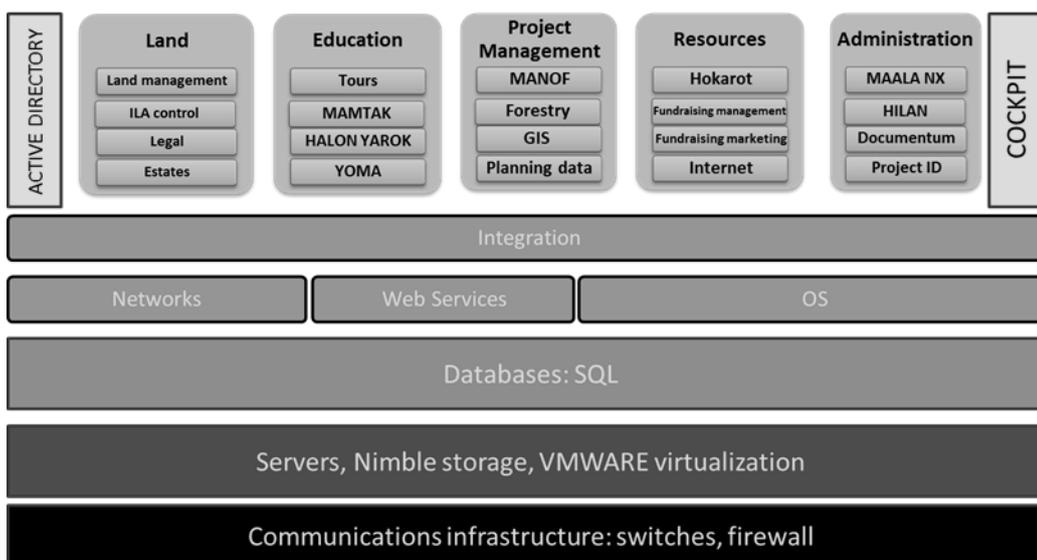
| Recommendation  | IT Division's Response   | Ownership<br>Deadline                 |
|---|--|---------------------------------------|
|   | <p>The salaries and administrative expenses budget for KKL-JNF units is overseen by the HR Division together with the Budgets Division.</p> <p>c) Pre-emptive controls are in place. Again, the item mentioned in the report refers to administrative expenses transferred from the 'Lavyan' system which transfers leasing charges. Control over this item is implemented retrospectively – and is inherently defined as such. Monthly controls are also applied in comparing actual vs. planned expenditure. It is again emphasized that the current operating budget cannot be exceeded. Budget re-allocations are made if necessary.</p> |                                       |
| <p>4) Establish routine control of actual vs. planned expenditure. Also make sure to accurately record expenses based on the pre-determined budget structure.</p> | <p>Recommendation accepted.<br/>Accurate assignment to budget items will be verified.</p> <p><b>CFO's response:</b><br/>See Section 6(a,b) above.</p>  |                                       |
| <p>5) Update the IT Division's operating procedures.</p>  | <p>A comprehensive effort is currently underway with the help of a third party provider. The Division's procedures have been drafted, and will be brought before KKL-JNF's Procedures Committee for approval within a month.</p> <p><b>CFO's response:</b><br/>See Section 6(c) above.</p>   | <p>IT Division<br/>Deadline: 2017</p> |

## 7. Routine Operations

### 7.1 Mapping IT systems

KKL-JNF's network is based on a Microsoft operating system platform. There is also a very broad range of different business-supporting systems, including systems developed by KKL-JNF, off-the-shelf programs, and various outsourced systems for managing finances and accounting activities.

#### Chart of information systems and infrastructures:



KKL-JNF runs its IT systems off 116 servers, of which 76 are virtual and 40 are physical servers.

The Technology Infrastructure, Service, and Operations Department provides support for operating computer equipment, information systems, and for resolving technical issues. An internal support team was established in the Division for these

services. The team comprises support personnel, computer technicians, and network administrators.

The Infrastructures and Services Department's responsibilities include:

- Routine maintenance of operating systems.
- Overall responsibility for proper management of a DR website, data backup systems, the communications network, and computer work environments.
- Tracking reports from the various systems.
- Formulating operating procedures.
- Assisting the database manager in managing and backing up the database server.
- Information security – defining risks, assisting in setting information security policy, implementing such policy, and routine monitoring.
- Assisting the resolution of user support tickets.

**The Office of the Comptroller examined the alignment of the IT systems map with the Company's needs.**

- **Examining servers and information asset mapping.**
- **Examining operating system updates on the servers.**
- **Examining technical support for users.**

**Findings:**

9. KKL-JNF has not fully mapped its existing servers, including in the following aspects: which business processes take place on each server;

the urgency and importance of each server; the systems installed on each server; end of warranty period; operating system; etc.

10. Analysis of data from existing servers found the following:

- Of 134 active servers, 14 servers (10% of all servers) ran operating systems that are no longer supported by the manufacturer (Microsoft), for which security updates are no longer available (e.g. – Win 2000, Win 2003). A lack of manufacturer security updates and patches for these operating systems exposes KKL-JNF to bugs, various security breaches, and maintenance difficulties.

11. A survey of ‘Admin’ users on KKL-JNF’s network found a generic user – “Shoshi” – which has full access permissions and is used by the support team. The above poses a risk, since the lack of a control path makes it impossible to identify a specific user making changes.

12. Examination of existing issues on the issue support system found the following:

- Issues are not always recorded and reported in the issue management system. It is noted that, without recording and reporting issues in the system, the Division will find it difficult to monitor and track routine Department activities in general, and technician activities in particular. Furthermore, the Division will find it difficult to identify recurrent issue patterns, disruptive malfunctions, etc. The following table details the number of issues by region for the period of January to April 2015:

| Region               | Issues reported in the system |
|----------------------|-------------------------------|
| North                | 0                             |
| South                | 10                            |
| Center and Jerusalem | 118                           |
| Total                | 128                           |

- There is no monitoring and control over technical issues that have gone unresolved for more than a month.

13. Not all servers are defined in the monitoring systems. In addition, there is no routine monitoring of reports received from the various monitoring systems. It is noted, that not using reports generated by these systems creates a risk for unexpected server and system down-times.

**14. Conclusions and recommendations:**

| <b>Recommendation</b>  | <b>KKL-JNF's response</b>   | <b>Ownership and deadline</b>                             |
|--|---|---|
| Map out the servers in an automated database, including as concerns: priority, versions, operating system, warranty end date, systems installed on each server, etc. | Recommendation accepted. Will be included in the 2017 work plan as recommended.                                     | IT Division<br>Deadline: 2017                             |
| Update operating systems that are not supported by the manufacturer.   | Recommendation accepted. Will be included in the Application Development Dept.'s work plan for 2017 (WS upgrade).   | IT Division's<br>Application<br>Development<br>Department |
| Define discrete accounts for admin users, instead of one generic user.   | Recommendation not accepted.<br>The generic password is only available to system personnel (not support personnel). |   |
| Consider implementing a dedicated issue management system, so that tickets are directed to technicians' phones according to region and nature of ticket.             | KKL-JNF is already working to replace its existing system in 2017, subject to budget approval.                      | Application<br>Development<br>Dept. + HD team             |

| <b>Recommendation</b>  | <b>KKL-JNF's response</b>  | <b>Ownership and deadline</b>          |
|--|--|--|
| Define all servers in the monitoring systems, and use these systems. | Recommendation accepted in full and will be implemented. Current monitoring covers over 90%. | Application Development Dept. director |

## **7.2 Information security measures**

KKL-JNF implements the following information security measures:

| <b>System</b>                                       | <b>Purpose</b>   | <b>Manufacturer</b> |
|---|--|---------------------|
| <b>Firewall</b>                                     | Monitoring and blocking undesired connections through the communications network.  | Palo Alto           |
| <b>JUNIPER</b>                                      | A platform for secure, encrypted (vpn ssl) remote access   | JUNIPER             |
| <b>TMG</b><br>(Forefront Threat Management Gateway) | An access control system for information systems and servers which checks client requests for information from various services on the network, and performs them securely for the client (reverse proxy). Filters content and access to websites. | Microsoft           |
| <b>Mail filter</b>                                  | Filtering email traffic for viruses and malware.   | Pineapp             |
| <b>Antivirus</b>                                    | Enterprise-level system for managing antivirus protection for workstations and servers.  | Trend Micro         |

| <b>System</b>   | <b>Purpose</b>  | <b>Manufacturer</b> |
|-----------------|---|---------------------|
| <b>HEXATEIR</b> | Database protection system, protecting from SQL injection (a method for exploiting security breaches in computers through databases). | Hexateir            |

The network architecture comprises 24 LAN networks for each branch, tied back via a WAN to the central node (Jerusalem) over a VPN/IP network.

**The Office of the Comptroller examined the information security measures according to KKL-JNF's needs**

- **Examining the existence of an information security policy.**
- **Examining existing security measures.**
- **Examining firewall rules.**
- **Examining the antivirus system.**

**Findings:**

15. The Office of the Comptroller found that KKL-JNF does not have an information security policy. It is noted, that lacking an information security policy, and lacking management approval for such a policy, there is risk for un-controlled information security activities.

16. KKL-JNF does not monitor and control existing information security measures:

- ◆ A survey of the firewall rules and antivirus system found the following:
  - Some rules do not have specific names (rule3, rule10), which makes it difficult to identify that rule's purpose.

- In 2015, KKL-JNF suffered 5 ‘ransom’ attacks. These attacks were not blocked by the existing information security measures. Furthermore, no investigations or reviews were made following each attack, and no report was made to management.
- There were 8 users who had left KKL-JNF, but were not deleted from the remote access permissions list to KKL-JNF’s network. These included: sarah, eranl, elenar, hillelb, osnate.

◆ A survey of the antivirus logs for August 2016 found the following:

- 310 out of 791 work stations and servers were not connected to the antivirus server (offline), as follows:

| <b>Type</b>   | <b>No. of workstations</b> |
|---------------|----------------------------|
| Kakal.local   | 95                         |
| Work stations | 124                        |
| Laptops       | 89                         |
| System        | 1                          |
| TS            | 1                          |
| <b>Total</b>  | <b>310</b>                 |

- 38 out of 116 servers did not have an antivirus program installed, such as the following servers:

| <b>Server name</b> |
|--------------------|
| APPLSTORE-NEW      |
| KNF-DB12           |
| KNF-DB1-DEV        |
| KNF-DB2014         |
| KNF-PICTURES2      |
| USERSTORE          |

17. In 2015, an information security survey of KKL-JNF was conducted by a third-party provider. As of the audit date, the Office of the

Comptroller could not find a plan to close gaps. There are still flaws which have not been handled by the Division. For example, connection to KKL-JNF's network through using a net-stick device which is available to employees but not defined in the firewall. This poses a risk of access to KKL-JNF's network circumventing the firewall.

18. Upon examining access methods and ability to remove information off KKL-JNF's network, the Office of the Comptroller found that users can introduce and remove files from KKL-JNF's network using a flash drive. In practice, these devices are used extensively, without any ability to control or monitor their use. These devices create a risk of viruses being introduced to KKL-JNF's network on the one hand, and to information being removed from KKL-JNF's network on the other.
19. The Office of the Comptroller's examination found that KKL-JNF employees do not undergo periodic information security training. Furthermore, developers do not undergo secure development training. It is noted that security training also does not appear on the annual work plan.
20. KKL-JNF operates a large number of internet websites, with some sites maintained by a third-party provider (PioneT) and other sites maintained by the Division. The website infrastructure is located in the Division. Upon examination, the Office of the Comptroller found that no designated systems had been implemented to monitor hacking attempts (IDS/IPS) or to manage information security and cyber incidents (SIEM). Without these systems, the system is vulnerable to sophisticated attacks, and attacks on the websites have more severe consequences.
21. According to the Privacy Protection Law, 1981, and according to the Ministry of Justice's Law, Technology, and Information Authority's regulations, the Division is required to register the databases operated by KKL-JNF, and to designate a supervisor for each database. The Office of the Comptroller's examination found that the Division had registered the databases, but had not designated a supervisor for each database.

**Findings and recommendations:**

| <b>Recommendation</b>  | <b>IT Division's response</b>  | <b>Ownership and deadline</b>                     |
|--|--|---|
| 6) Establish a management-approved information security policy. Also formulate written information security procedures.  | KKL-JNF accepts the comment about having an executive forum establish an information security policy. Basic information security procedures are currently being drafted and are expected to be approved in the coming month. | IT Division<br>Deadline: 2017                     |
| 7) Establish a procedure for monitoring KKL-JNF's existing information security measures, and examine the identified gaps.   | Recommendation accepted  | IT Division<br>Deadline: 2017                     |
| 8) Examine the reasons for not implementing the risk survey recommendations. Also, formulate a plan to minimize gaps.  | Recommendation accepted  | IT Division<br>Deadline: 2017                     |
| 9) Establish a procedure for introducing and removing information to and from KKL-JNF. Also, consider the use of 'quarantine' stations (designated workstations for uploading files into the network), and data loss prevention systems. | Recommendation accepted. Will be discussed when formulating the organization's information security policy.  | IT Division + management<br>Deadline: 2017        |
| 10) Formulate an employee training program covering information security risks.  | Recommendation accepted. Will be implemented subject to budget availability together with the Training Department.   | IT Division + Training Division<br>Deadline: 2017 |
| 11) Implement attack identification and prevention   | Currently monitored by Netvision along with IPS/DOS  | Exists  |

| Recommendation  | IT Division's response   | Ownership and deadline   |
|---|--------------------------|--|
| measures and real-time security information and event management tools. |                          |  |
| 12) Designate supervisors for each database.                            | Recommendation accepted. | IT Division<br>Deadline: Will be designated in the first quarter of 2017 |

### **7.3 Backup and recovery management**

Effective back-up and recovery management seeks to allow the recovery of crucial information in the event of deletion or interruption when equipment and hardware are available on-site in the organization. To this end, the organization must:

- Establish a back-up policy ensuring that information is backed up and saved according to operating needs and with management approval.
- Guarantee that backups are made according to the set policy.
- Guarantee that backups are saved securely and remotely off-site, so that in case of damage to the back-up system, there will always be a copy available.
- Guarantee that, if necessary, it is possible to recover compromised information while minimizing interruption to business. Thus, recovery measures must be specific and fast.

#### Types of back-ups:

KKL-JNF has 3 types of back-ups:

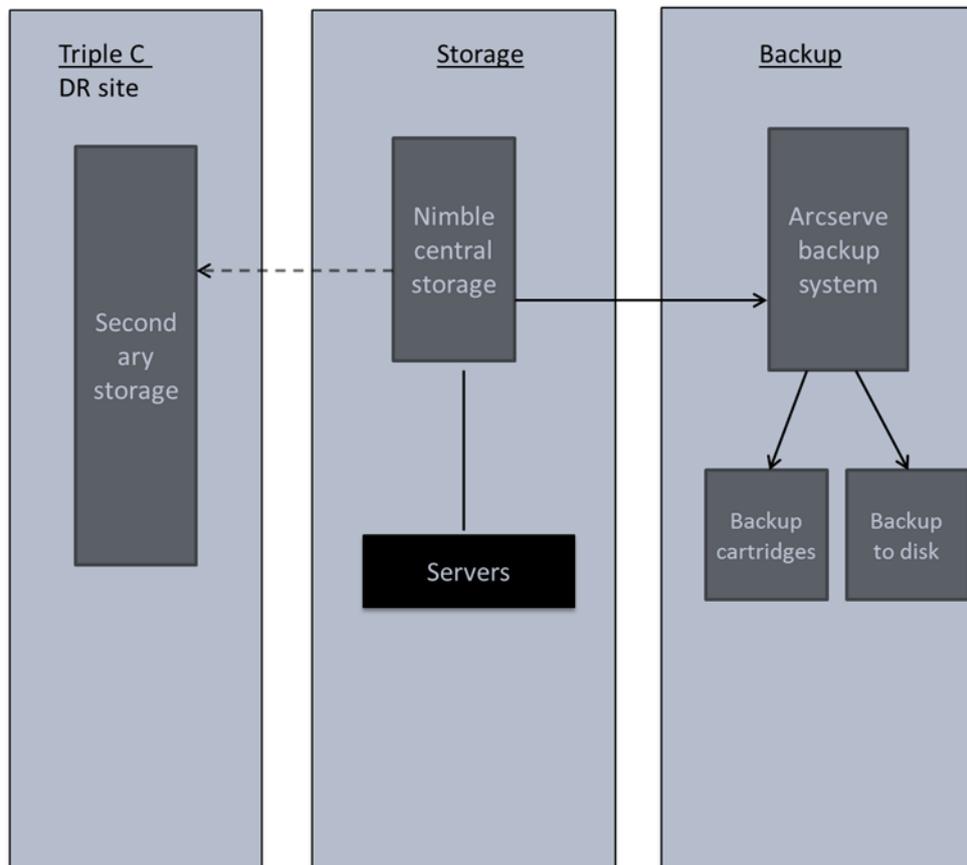
1. Arcserve Backup – a backup robot with 23 LT06 cartridges with a 6T capacity.

2. Arcserve Udp – backup for remote sites, virtual and physical servers.
3. Snapshot – saves copies to the Nimble storage server every hour.  
Copies of these backups are saved on backup cartridges on the following schedule:

Storage system

In 2015, the Division deployed a new Nimble storage system. The system provides fast performance, lowers costs, and uses effective storage methods. Current storage capacity is 30T.

KKL-JNF’s backup activities are implemented as follows:



### IT disaster management

A disaster management plan is also referred to as business continuity planning. This plan defines the required level of business operation under different disaster scenarios, and prescribes methods to guarantee that operational levels are maintained and that access to information systems and to business-critical information is maintained regardless of the ability to resume production activities.

A disaster recovery plan (DRP) includes work-flows, policies, and procedures for recovering a company's information systems in the event of a disaster causing extended down-time of an organization's business-critical technology infrastructure. Disaster scenarios requiring use of recovery plans can include: fire, earthquake, flood, missile strike, building collapse, accidental deletion, etc. Disaster recovery plans must include plans and infrastructures for recovering applications, data, hardware, communications (e.g. – network), and other IT elements.

#### **The Office of the Comptroller examined the following aspects of the Division's back-up and recovery processes:**

- **The backup procedure's alignment with KKL-JNF's needs.**
- **Proper backup activities.**
- **Database backups.**
- **Recovery management.**
- **Disaster recovery plan.**

#### **Findings:**

22. The backup procedure was not approved by management. Thus, the backup policy (including information being backed up, backup frequency, backup save times and save methods) may not match KKL-

JNF's needs. Furthermore, the existing procedure does not refer to the following key issues:

- Synchronization of information transferred between the central site and the TripleC site.
- Database backup policies.
- Development and testing server backup policies.
- Periodic recovery of information systems and databases.
- No description or details on how the system is used to perform the backups.
- Laptop backups.

23. Analysis of the morning testing reports compiled by the Division's infrastructures team, found the following:

- The report does not state the tester's name.
- The morning test report for July 7, 2016, states that the recovery process for 6 servers was completed successfully. However, examination of the backup logs on the backup system could not find indication of any recovery operations.
- Examination of the updates to the antivirus server are not performed every day, but only once a week.
- A review of July and August 2016 found servers such as: kkl-fs1-userstore BIR-DC1, CAB-DC for which alerts had been received from the OpManager system concerning memory problems, server loads, shortage of space, etc. These issues were not resolved in time and the alerts were repeated day after day.
- Analysis of the morning reports for July and August 2016 found that morning reports were not made every day. There were more than 15 days without morning reports.

24. Analysis of the backup logs for July and August 2016 found the following:

- Backup of the database server failed several times. No analysis or investigation were made following the incident to prevent additional failures. Server failure incidents were as follows:

| Server         | Date       |
|----------------|------------|
| <b>kk1-db1</b> | 03/07/2016 |
|                | 03/07/2016 |
|                | 03/07/2016 |
|                | 04/07/2016 |
|                | 04/07/2016 |
|                | 05/07/2016 |
|                | 05/07/2016 |
|                | 09/07/2016 |
|                | 12/07/2016 |
|                | 12/07/2016 |
|                | 14/07/2016 |
|                | 17/07/2016 |
|                | 17/07/2016 |
|                | 23/07/2016 |

- The kkl-Erdas server was not backed up 16 times in this period.

25. There is no disaster recovery plan approved by KKL-JNF's management or Board. Thus, there are no formal procedures defining who has permission to order a plan's implementation, or under what circumstances. Furthermore, as of the audit date, the TripleC site had not been synched, and did not contain all necessary information. It is noted that KKL-JNF pays a total of NIS 6,656 a month for this service.

26. The full backup is saved on backup cartridges which are kept in fire-proof safes in the Kanfei Nesharim site in Jerusalem. However, there is

no documentation of the cartridges sent to the Jerusalem site or returning from such site. Without documentation and control over the cartridge cycles, there is a risk that cartridges will not be transferred in time to the vault, or that the Division will not be able to easily identify the right cartridges in case of emergency.

**Conclusions and recommendations:**

| <b>Recommendation</b>  | <b>IT Division's response</b>  | <b>Ownership and deadline</b>    |
|--|--|----------------------------------|
| 6) Establish a management-approved backup procedure, including reference to the aforesaid matters and to backup methods.   | The procedure exists. The procedure will be brought before the Procedures Committee for approval in the coming month.                      | IT Division                      |
| 7) Update the morning test report and align tests with actual work flows.  | Will be implemented and updated according to current work flows.   | IT Division<br>Deadline:<br>2017 |
| 8) Examine the reasons for database backup failures. Also, establish investigation and management reporting procedures for backup failures.  | The matter has been examined. In the sampled period, the system had integration problems. Everything is currently working properly.        |                                  |
| 9) Formulate a disaster recovery plan and define the maximum acceptable time for data loss and the maximum time to recovery. Also, examine synchronization with the secondary Triple-C site. | A re-examination is currently underway for implementing a comprehensive solution. Will be submitted to management in the immediate future. | IT Division                      |
| 10) Define the documentation of cartridges sent to and from the main site.   | Recommendation accepted. Will examine feasibility of the suggestion for daily documentation.   | IT Division                      |

## **8. Change management**

Developing and changing information systems is the process of creating or changing an information system, following a controlled method. Lifecycle management in information systems is defined based on several structured and pre-defined stages, while implementing controls assuring that the information system supports the needs and goals of the organization.

A controlled lifecycle management process in information systems development is necessary, regardless of whether a system's development is carried out in the Division or through an outsourced service provider. Furthermore, the process is cyclical and requires routine assessment and control even after the system has been submitted for production.

The Division's Applications Department is responsible for developing and maintaining all operational and organizational systems in KKL-JNF.

KKL-JNF's ongoing and dynamic use of systems requires improvements and adaptations of its information systems, alongside maintenance of existing functionality and development of new systems as necessary.

Changes made in 2015 by status:

| <b>Status</b>                                      | <b>No.</b> | <b>%</b>    |
|--|------------|-------------|
| Completed  | 122        | 69%         |
| Carried to 2016                                    | 19         | 11%         |
| Not implemented                                    | 13         | 7%          |
| Incomplete / Pending/ Characterization/ In process | 22         | 13%         |
| <b>Total</b>                                       | <b>176</b> | <b>100%</b> |

**The Office of the Comptroller examined the following aspects of the Division's change management work flows:**

**Examining requirement consolidation.**

- **Examining in-house characterization and development activities.**
- **Examining submission to production.**
- **Examining knowledge retention and management.**

- **Findings:**

27. The multitude of information systems and databases requires unique specialism in each system and ongoing maintenance of existing systems while developing additional functionality according to business needs. Thus, there is no long-term plan to unify all systems under a single system that would include several modules offering the functionality of all of KKL-JNF's systems, such as a central enterprise resource planning (ERP) system.
28. The Division undertakes developments for mobile using a specialized free platform (Phonegap). Upon examination, the Office of the Comptroller found that no supervisor has been designated to approve open-source development for public communications media (such as the internet). Furthermore, code is not reviewed to verify secure development, and no monitoring is done to identify hacks into applications. For example, a code review was not conducted to examine the link between mobile systems and business-supporting systems (web service).
29. Testing is currently done by the development team and not by professional QA testers. Furthermore, there is no system for QA management, issue tracking, and bug testing. Without an automated QA system, the scope of KKL-JNF's current development activities creates a risk for bad code, and numerous operational issues despite testing (mainly in projects requiring integration testing). It is noted that such a system is also important in tracking issues once a system goes live.

30. System maintenance activities are budgeted as part of the Applications Team's work plan. However, the Applications Team does not document routine technical issues as part of its system maintenance duties. Without the Applications Team documenting and tracking technical issues, the Division will find it difficult to monitor and track issues and to formulate its annual work plan.
31. The Division does not have a formal change procedure regulating work flows when making changes to information systems. In this context, the following were found:
- For example, examination of changes made in the land asset management system, the Office of the Comptroller found documents supporting the process (characterization documents, kick-off document, request application, live-launch form, etc.). However, examination of the changes made to the internet websites did not find any documentation of requirements, characterization, testing, etc. Requirement management is performed by email, and not through a specific change management and tracking system.
  - The parameter for deciding whether a change is considered a project or stand-alone change was not defined.
  - Notes are not added to source code. Without in-code documentation, it is difficult to maintain the system and identify code errors.
  - System live-launch approval forms are not filed and are not retained in a designated folder. It is thus difficult to locate these forms.
  - Lack of a formal knowledge management and retention process between project managers.

32. Under the current organizational structure, development activities are conducted through specific teams according to system type. Thus, development teams are fixed, based on the various operational systems. This structure limits the ability to manage development activities by tasks. It is also difficult to create shared knowledge for developers across the various operational systems, and apply shared standards in development activities.

**Conclusions and recommendations:**

| Recommendation  | IT Division's response   | Ownership and deadline                     |
|---|--|--|
| 6) Consider a plan to unify operational system under a single comprehensive ERP system with all necessary modules.  | In approving the IT strategy – a process led by the IT sub-committee – KKL-JNF will consider a plan to consolidate all systems under an ERP system. It is noted that this issue also appears in the State Comptroller's report, and KKL-JNF will formulate an overarching strategy on this matter. | Management                                 |
| 7) For web service development activities, code must be reviewed at the information security officer level. Furthermore, when a system includes a permanent web interface, the system should undergo hacking tests before being sent to production. | Recommendation accepted. Control will be tightened and an employee assigned to oversee security.   |  |
| 8) The Division should implement an automated QA testing system. Also, each   | Recommendation accepted. We will work to secure staff for these activities.  | IT Division + management<br>Deadline: 2017 |

| Recommendation   | IT Division's response  | Ownership and deadline        |
|--|-------------------------|-------------------------------|
| project or change involving integration between several systems and involving system interfaces should be tested by QA personnel.  |                         |                               |
| 9) The Applications Team should document routine technical issues as part of its routine maintenance activities.   | Recommendation accepted | IT Division<br>Deadline: 2017 |
| 10) Establish a uniform change procedure for the Division, including uniform standards for all teams and project managers.   | Recommendation accepted | IT Division<br>Deadline: 2017 |
| 11) Consider creating a shared development team, providing developers unrestricted exposure to all operational systems. This will allow teams to be created according to the Division's development tasks. | Recommendation accepted | IT Division<br>Deadline: 2017 |

## 9. Outsourced services management

When receiving outsourced services, it is necessary to ensure that the chosen provider is an expert in the relevant field, and that a formal contract is signed between the provider and the organization.

Thus, the agreement with the provider is a contractual agreement whereby the organization grants the provider control over some of the functions in the organization.

Before selecting a specialized service provider, a public tender is issued with a request for quotations. KKL-JNF utilizes several outsourcing service providers in its IT operations:

| Area                       | Supplier           | Personnel | Agreement date |
|----------------------------|--------------------|-----------|----------------|
| Applications               | One                | 11        | 2010           |
| Infrastructure and support | Ness / Gav Systems | 3         | 2015           |

The Infrastructures Team report their work hours by project.

**The Office of the Comptroller examined the following aspects of outsourced services management:**

- Existing supplier agreements.
- Compliance with contractual terms.
- Assessment and control metrics.

**Findings:**

33. A survey of the agreement for system services found the following:

- The agreement states that, once a year, the supplier will send workers on a 5-day training course. In practice, workers did not undergo training in 2015-2016.
- The agreement states that the system administrator must implement information security policies. In practice, no information security policy exists and it is thus not implemented.
- The agreement states that workers must fill a quota of 186 hours a month. In practice, workers do not report their work attendance and it is difficult to track actual work hours.

- The Office of the Comptroller examined a sample of 5 invoices for outsourced workers, and agreement-compliant payment. **Propriety was found.**

**Conclusions and recommendations:**

| <b>Recommendation</b>  | <b>IT Division's response</b>  | <b>Ownership and deadline</b> |
|--|--|-------------------------------|
| 6) Periodically examine supplier agreements to verify that suppliers meet their contractual obligations. | This is already done and will be done with extra care in the future. KKL-JNF is currently reviewing a contract-management system to provide an organization-wide solution to this problem (obligations, guarantees, payment dates, etc.). This initiative is being overseen by the Contracts Division and is in advanced stages of review. |                               |

March 2017



**Keren Kayemeth LeIsrael**  
**Finance and Economics Division**  
**Payments to Suppliers**



**Keren Kayemeth LeIsrael**  
**Finance and Economics Division**  
**Payments to Suppliers**

**1. Introduction**

1.1 According to the Office of the Comptroller's work plan, the Office of the Comptroller examined Keren Kayemeth LeIsrael's ("KKL-JNF") supplier payment processes.

1.2 The audit examined the following work flows:

- Registering new suppliers in the ERP system.
- Payment request approval, including: use of original documents, verification against contracts, and compliance with procedure-mandated documentation.
- Actual payments to suppliers, including: reviewing existing payment methods, the payment transfer process, authorized signatory approval, and compliance with contractual payment terms.

1.3 The audit was made in KKL-JNF's headquarters in Jerusalem, in the South District Finance Department, and in the Central District Finance Department in August-December 2014.

During the audit, the Office of the Comptroller met with: the director of the Finance and Economics Division, director of the Accounting and Finance Section, director of the Supplier Management Department, finance department directors for the Central and South districts, and additional personnel as necessary.

The audit applies to 2014.

#### 1.4 Objectives:

- A. To examine KKL-JNF's supplier and service provider invoice processing, the verification and approval of such invoices, and actual payments.
- B. To examine the procurement request and contracting process in KKL-JNF's headquarter units.
- C. To examine compliance with internal control procedures and the efficacy of existing procedures and work flows.
- D. To identify weaknesses in existing work flows and controls, and recommend improvements.

#### 1.5 Key documents used in the audit:

- ◆ KKL-JNF's audited financial statements for 2013.
- ◆ Trial balances and supplier files for January-December 2014.
- ◆ Transfer forms from the bank clearance system ("MASAV").
- ◆ Documents required for registering new suppliers in the ERP system.
- ◆ Procedures governing the supplier payment process.
- ◆ Print-outs from the SPL system, including reports on contractor activities on KKL-JNF sites.
- ◆ Invoices, bills, and payment requests from suppliers.
- ◆ Supplier contracts signed by KKL-JNF's headquarters and district units.
- ◆ Payment orders for contracted suppliers, submitted to the Supplier Management Department.
- ◆ Tenders Committee approvals for various contracts.

- ◆ Internal procedures and relevant guidelines.
- ◆ Specific documents obtained upon request.

#### 1.6 Methods:

- ◆ Reviewing existing procedures (as applicable to the audit), reviewing internal guidelines, and checking against actual work-flows.
- ◆ Meeting with audit-relevant supervisors and additional employees, as necessary.
- ◆ Reviewing audit-relevant IT systems.
- ◆ Examining the new supplier registration process, the necessary documents, and approvals.
- ◆ Examining the payment request approval process in the districts/headquarters units, prior to their submittal to KKL-JNF's Supplier Management Department for payment.
- ◆ On-site auditing and sample examinations in the Central District – Eshtaol and in the South – Gilat district finance departments.
- ◆ Examining the Supplier Management Department's payment request approval process.
- ◆ Examining actual payment transfer processes and applied controls.
- ◆ Sample examinations of payments to suppliers contracted by KKL-JNF's headquarters units, so as to examine the procurement and contracting process.

- ◆ Sample examinations of payments to suppliers, so as to examine the payment approval process, including: verifying that there is a valid contract, Tenders Committee approval for the contract, use of original documents, approval by relevant KKL-JNF supervisors for receiving the goods/services, compliance with payment terms, etc.
- ◆ Consolidating findings.
- ◆ Preparing the audit report, including recommendations.

## **2. Background**

### **A. Introduction:**

Keren Kayemeth LeIsrael was established in 1901, by resolution of the Fifth Zionist Congress in Basel. Since then, KKL-JNF has been acting to fulfill its original objectives, namely: to purchase lands in Israel, to prepare such lands for settlement, and to settle them. KKL-JNF also develops water resources, conducts agricultural research and development, conducts reforestation projects, invests in settlements and outlying areas, and promotes eco-tourism, community relations and environmental awareness.

### **B. Finance and Economics Division:**

The Finance and Economics Division is responsible for managing KKL-JNF's budgets and accounts. Responsibilities mainly cover budget planning, monitoring and control; financial accounting; payment transfers; and managing and registration of funds and estates.

The Finance and Economics Division is headed by a division director, and comprises the Budgets and Control Section and the

Finance and Accounts Section. The latter comprises the following departments:

- Treasury Department.
- Accounting Department.
- Supplier Management Department.

Supplier Management Department

Comprising the following:

- Department director.
- Two employees (certified book-keepers) + part-time employee responsible for processing incoming invoices and accounting-related activities.

**C. Suppliers – General Data:**

Material suppliers in KKL-JNF's regional districts are mainly in the following fields:

Engineering Department – Charged with land development, building water reservoirs, etc. Contracts involve suppliers of heavy machinery for KKL-JNF's projects, transportation, surveyors, and turn-key sub-contractors.

Forestry Department – Charged with planting, clearing and maintaining forests. Work mainly involves annual contracts according to a pre-determined plan for forest thinning and sanitation services. It is noted that these works follow two contracting formats, based on market conditions: either KKL-JNF pays for the services, or the contractor undertakes to pay KKL-JNF for cut timber.

KKL-JNF's headquarters units operate through annual contracts, signed with various suppliers and service providers for a range of

different services. Services involve the units' ongoing needs, according to each unit's responsibilities. Services include legal counsel, architectural services, goods, IT systems, etc.

The supplier trial balance sheet for January-December 2014 indicates that, as of that period, KKL-JNF had 3,156 active contractors and service providers (some of which were one-time engagements), as follows:

| <b>Supplier class</b>                 | <b>Code</b> | <b>Suppliers</b> |
|---------------------------------------|-------------|------------------|
| Suppliers in Israel, NIS              | 206 XXXXXX  | 3,062            |
| Suppliers in Israel, foreign currency | 207 XXXXXX  | 53               |
| Overseas suppliers                    | 208 XXXXXX  | 41               |
| <b>Total</b>                          |             | <b>3,156</b>     |

Data for 2012-2013, taken from the 2013 audited financial statements, concerning the scope of KKL-JNF's liabilities towards suppliers, as compared to advanced payments to suppliers:

| <b>Item</b>                                    | <b>Dec. 31, 2012<br/>(NIS<br/>thousands)</b> | <b>Dec. 31,<br/>2013 (NIS<br/>thousands)</b> | <b>%<br/>change</b> |
|--|--|--|---------------------|
| Accounts receivable – advances to suppliers    | 5,494  | 4,276  | -28                 |
| Liabilities to suppliers and service providers | * 130,152                                    | 147,192                                      | 13                  |

\* Re-classified

#### **D. Credit terms:**

In general, according to KKL-JNF's 'official' procedure (historical CEO directive), all suppliers are paid NET 60.

However, according to a directive issued by the current Finance and Economics Division director, supplier credit terms are determined by each supplier's profile, as follows:

- NET 30 for service providers, consultants and labor-intensive professions.
- NET 60 for development and construction suppliers.
- Special payments: payment within 5 business days (court-ruled payments, government ministries, supported organizations, and others).

#### **Findings -**

- The Finance and Economics Division director's directive, dated October 10, 2013, is still a draft document and not an official directive. As of the date of the audit, there are general guidelines concerning payment terms as detailed above. However, in some cases, the payment date is dictated by the suppliers, who wish to shorten the credit period. There are also cases of delayed payments. See also Chapter 6, Finding C.

This means that, currently, there are no uniform credit terms for suppliers.

#### **Recommendation –**

- The supplier credit terms directive should be officially implemented. Furthermore, KKL-JNF should ensure that

guidelines are applied consistently and equally, without discriminating between suppliers unless it is economically and operationally justified to do so.

**KKL-JNF's response**

The Office of the Comptroller's recommendation for uniform payment terms is accepted. The Finance Division Director has issued a corresponding directive on July 23, 2015.

**E. IT systems:**

Supplier payment work-flows are supported by the following information systems:

1. **ERP system**

An organization-wide finance management system provided by ONE Ltd. The system includes a logistics module and a finance module. The system is overseen by KKL-JNF's Finance Division, and includes financial and logistical data such as: overall investment in a project, payment orders, and budget tracking.

2. **SPL system**

A professional engineering management system (non-financial) used by KKL-JNF's regional districts to track project performance.

Finance personnel in the various districts feed contractual terms into the system, to check supplier payment requests. KKL-JNF foremen report a supplier's approved on-site work hours, and these are also entered in the system for control and comparison against supplier payment requests (e.g. – work site, engineering machinery, work hours).

### 3. Registering New Suppliers

Permissions – The Suppliers Management Department has an employee responsible for setting up new suppliers in the ERP system (Field 213), or modifying existing supplier entries. This employee is the only person with permissions to set up or modify suppliers. If she is away, another employee is granted the necessary permissions. Responsibilities are transferred between the two employees when the first goes on extended leave, and on the department director's express instructions.

Required forms – To set up a new supplier, the supplier must provide a sample invoice and a copy of a check. The invoice provides the supplier's business details, while the check confirms the supplier's bank details. Data are entered into the ERP system, including the supplier's credit terms (based on the supplier classes specified in the Finance and Economics Division director's directive).

Overseas suppliers – When setting up overseas suppliers without an Israeli bank account, the employee obtains a confirmation form from the overseas bank, specifying the supplier's account details. Requests to set up overseas suppliers are usually made by the Budgets Section and the Maintenance Section.

Taxation – 'Organized' suppliers also send tax authority certification for their exemption from withholding tax or confirmation on the percent to be withheld. Otherwise, the KKL-JNF employee accesses the tax authority website, obtains the necessary information, and enters it into the ERP system along with the relevant expiration dates.

Foreclosures – Some suppliers face foreclosure by the tax authorities, repossession authorities, etc. When these authorities send foreclosure demands, the KKL-JNF employee enters the data in the ERP system, and the supplier is flagged as facing

foreclosure. A corresponding message is sent to the department director for further inquiry with the relevant authorities.

Modifying supplier details – If a supplier’s bank account details change, the supplier must send a copy of a new check. In case of a change in a supplier’s legal status having tax implications (e.g. – changing from a ‘sole-proprietor’ to a ‘limited company’, etc.), KKL-JNF verifies that the supplier has a zero balance, and then deactivates the supplier in the logistics system (revocation of ‘active supplier’ status). In addition, the supplier’s accounting file is closed in the ERP system. A new supplier is then registered, as aforesaid.

All data is entered in the ERP system.

After the data is entered in the ERP system, data is pulled from the ERP system to the logistics system, so that the supplier may be issued receipts.

**The Office of the Comptroller reviewed the supplier registration process and the IT systems’ support for this process.**

**Findings:**

A. Lack of separation of duties or controls when registering/updating supplier data

The process for registering new suppliers and for updating supplier data has the following flaws:

- The same employee oversees the entire supplier registration process, without proper separation of duties. She both enters supplier details, and approves their subsequent registration.

- Updates to supplier data, including changes to bank account details, are made exclusively by the employee. This creates potential for errors and misconduct.
- Today, there is no control, monitoring or verification (even through sample examination) over new supplier registrations or changes to supplier details.
- No periodic monitoring reports are generated for new suppliers, nor has KKL-JNF considered options for using such reports.
- Furthermore, the employee charged with registering/updating suppliers has held that position for 12 years. Having one employee hold such a sensitive position for such a long time, without controls and checks, constitutes improper separation of duties.

B. No mandatory contract period field

When registering new suppliers, the IT system is not set up with a field for specifying the contract's duration. The Office of the Comptroller believes setting up a mandatory contract period field when registering new suppliers would serve as an additional control for tracking payments to suppliers whose contract has expired or has not yet been renewed. Currently, there is nothing preventing the transfer of payments to suppliers after a contract has expired.

C. Registering new suppliers prior to obtaining contracts

New suppliers are registered without first obtaining the relevant contract and without any confirmation from the directors of the districts/units ordering the service. The Office of the Comptroller believes that contracts are an essential document when registering new suppliers. They should be

used both for entering contract details (prices, payment terms), and as a means of control and supervision for the relevant POCs in KKL-JNF. They would enable KKL-JNF to verify that the contracted supplier is indeed the supplier entered into the IT system (it is noted that works exceeding NIS 10,000 require a signed contract). District units are not required to submit the contracts, and the Supplier Management Department does not ask to see them.

#### D. Procedures

There are no formal procedures for separation of duties and employee rotation, nor is there any separation in system permissions, between registering new suppliers and updating a supplier's bank account details. Both actions are done by the same person.

New supplier registration is currently based on non-written procedures. There is no written procedure specifying the necessary preparations and documentation when registering new suppliers, be they local or overseas suppliers (such as – obtaining relevant approvals, bank account confirmation, tax certifications, actions required to verify that the supplier has not been previously registered, etc.).

#### **Recommendations:**

1. To maintain separation of duties when registering new suppliers, and to implement controls

The Office of the Comptroller recommends implementing controls over the supplier registration/update process, as follows:

- a. Separate the person entering the supplier data from the person approving new suppliers. The Office of the

Comptroller recommends that approval be given by one of the department's managerial staff.

**KKL-JNF's response**

The Office of the Comptroller's recommendation is accepted and has been implemented. The Finance Division director has instructed that these functions be separated when registering new suppliers, and that controls be implemented.

- b. The Office of the Comptroller recommends separating the person updating the bank details from the employee who first registered the supplier.

**KKL-JNF's response**

The Office of the Comptroller's recommendation is not accepted. There is no need to separate these functions as recommended. In the spirit of the Office of the Comptroller's recommendation, the Finance Division director has instructed that results from control measures be submitted to **another** employee (whereas today results would reach the same employee who first registered the supplier).

- c. All department personnel should rotate in registering/updating suppliers.

**KKL-JNF's response**

The Finance Division director has instructed that the department review the feasibility of implementing the Office of the Comptroller's recommendation.

2. Setting up a contract period field

The Office of the Comptroller recommends that the IT system be modified and set up with a mandatory field for specifying contract period. The Office of the Comptroller further recommends setting up alerts when a supplier invoice is entered but the relevant contract has expired.

**KKL-JNF's response**

The Office of the Comptroller's recommendation is accepted and is being implemented. The IT Division has been instructed to develop the necessary system characterizations.

3. Obtaining contracts when registering new suppliers

The Office of the Comptroller recommends requiring that contracts be submitted to the Supplier Management Department prior to data entry. Contracts should be scanned and filed by the Supplier Management Department.

**KKL-JNF's response**

The Office of the Comptroller's recommendation is not accepted. There is no practical implication for obtaining the contract when registering new suppliers. However, according to the Finance Division director's directive of July 27, 2015, no payments can be made without a contract or signed work order with the supplier.

4. Procedures for registering new suppliers

The Office of the Comptroller recommends formulating a procedure for registering new suppliers, specifying among other things:

- The documents and approvals required of a supplier prior to registration, applicable to both local and overseas suppliers.
- Obtaining the contract with the supplier along with a letter of confirmation from the director of the organizational unit, affirming that a contract has been signed.

Filling out a 'Supplier Registration Form', which would include the supplier's details, the contract period, credit terms, means of payment, etc. The form should be scanned and kept by the Supplier Management Department.

#### **KKL-JNF's response**

The Office of the Comptroller's recommendation is accepted, except as concerns the contract (as detailed in our response to Item 3 above). The Finance Division director has instructed the Finance Section director to prepare a formal procedure for registering new suppliers.

#### **4. Invoice Processing by District Units**

Supplier invoices are processed in two stages:

1. The district finance departments receive invoices from suppliers. Invoices are examined and approved before being forwarded to the Supplier Management department for payment.
2. Invoices from all regional districts are sent to the Finance Division's Supplier Management Department in Jerusalem for approval and payment.

The number of staff processing supplier invoices is as follows:

| <b>Unit</b>                                   | <b>Account Managers</b> |
|---|-------------------------|
| North District                                | 2                       |
| Central District                              | 3                       |
| South District                                | 3                       |
| Jerusalem headquarters (Supplier Mgmt. Dept.) | 3                       |
| Resource Development Division                 | 3                       |
| Education Division                            | 2                       |
| Warehouses                                    | 1                       |
| <b>Total</b>                                  | <b>17</b>               |

When approving payment requests, the regional districts operate as follows:

1. Professional personnel approval – The professional personnel overseeing the service signs their approval that the service was indeed rendered as necessary, for example:
  - Machinery suppliers – (in land-clearing/forestation) work is approved by the on-site foreman (KKL-JNF employee) who oversees the works from start to finish. These daily approvals include, among other things: project name, budget ref. number, work site, type of machinery, machinery ref. number, description of works, and hours worked.
  - Development contractors – the regional engineer checks and verifies the project completion rate. Payment is determined by the project's progress.

Once a week, the foremen submit their approvals to the Finance Department.

2. District Finance Departments – enter approvals into the SPL system, verify budget compliance, check quantities and payment rates against contracts. As a precaution, on the 10<sup>th</sup> of every month a report is generated through the SPL system for every piece of machinery, and is then checked against the supplier's monthly bill.
3. Examination and approval by the district Finance Department directors.
4. Approval and signature by the district director/deputy.
5. Invoices are sent to the Supplier Management Department (by internal mail).

**The Office of the Comptroller visited the finance departments in the Central and South districts, and examined the invoice processing, control and approval process.**

**A sample of 30 payment requests was examined for the following:**

- **Existence of a valid contract.**
- **Billed terms versus contractual terms.**
- **Approval by KKL-JNF service recipients/professional personnel.**
- **Managerial approval.**

**Findings:**

A. Professional supervision of district account managers

A review of the organizational structure indicates that account managers in the regional districts and the

headquarters units are not subject to the Supplier Management Department director's supervision, but rather to the district/unit directors. Thus, they are not bound to work-flow related instructions and guidance. The Office of the Comptroller believes that district account managers should be instructed to follow the Supplier Management Department's professional guidance.

B. Payments for transporting heavy machinery

The Office of the Comptroller documented several cases where the Central District was billed for equipment transport to a project work site. The Office of the Comptroller found deletions in those places indicating the transport rates, with lower rates filled in by hand. Upon inquiry, the Office of the Comptroller was told that KKL-JNF cannot know the machinery's origin and distance from which it was transported to the project site, and so rates are reduced.

**KKL-JNF's response**

- Transport fees for heavy machinery are determined by the distance the machinery must be transported (loaded); unloaded travel (from the transporter's lot to the machinery's location, and from the work site back to the lot); the machinery's weight; waiting times (every now and then, when a transporter must wait more than is customary/reasonable). Invoices may be changed due to an error in any one of these items. For example: for every kilometer of loaded travel, KKL-JNF is entitled to one free kilometer of unloaded travel, and this item commonly contains errors requiring invoices to be corrected.

- Every correction has a reason. The transporter's lot is specified in the contract, and the district knows the equipment's origin and destination. The approval signature on the bill refers to this information. KKL-JNF also verifies mileage using the online 'MAPA' website.

C. Not specifying payment terms in contracts

In several supplier contracts, the contract does not specify payment terms. The Office of the Comptroller believes this item to be fundamentally essential to the contract and therefore must be officially stated.

D. No written procedures

The Office of the Comptroller's examination indicates that the districts do not have uniform invoice processing and approval procedures, outlining methods for verifying and approving supplier bills. For example:

- Which original documents must be received from the supplier.
- How to cross-check information between bills and data on KKL-JNF's IT systems.
- What examinations should be made prior to approving bills (e.g. – verifying that there are valid contracts, quantities, rates, credit terms, processing invoices based on business registration numbers and not on supplier names, etc.).
- Which personnel in the districts/headquarters units must approve receipt of goods/services.

- Which management personnel in the district/headquarters units must approve the bills.

The lack of formal procedures undermines adequate control prior to approving bills for payment, and necessitates, at the very least, compensating controls in the Supplier Management Department.

**Recommendations:**

1. Placing account managers under the Supplier Management Department's professional guidance

The Office of the Comptroller recommends that account managers outside the Finance Department, who process supplier invoices, be professionally bound to instructions issued by the director of the Supplier Management Department.

**KKL-JNF's response**

The Office of the Comptroller's recommendation is accepted and is being implemented. The issue of the regional account managers' oversight (both professionally and administratively) by the Finance Department was discussed recently by the *Hanhala Metzumtzaemet* at the CEO's initiative, and subsequently approved. The issue was then brought before the Board Finance Committee for discussion, and also approved. After obtaining all necessary approvals, the matter is currently being implemented.

2. Adding payment terms as an integral part of all contracts

The Office of the Comptroller recommends that a payment terms clause be added to all contracts, to clarify when suppliers are to be paid.

### **KKL-JNF's response**

The Office of the Comptroller's recommendation is accepted and is being implemented. The Finance Division director has contacted KKL-JNF's legal counsel to implement the matter in future contracts.

### 3. Work procedures

The Office of the Comptroller recommends preparing work procedures to guide relevant personnel in processing and approving supplier payment requests. Among other things, the Office of the Comptroller recommends compiling a 'Payment Request Processing and Approval' check-list, which will specify items to be checked, such as:

- Date received.
- Valid agreement.
- Rates.
- Quantities (to be confirmed by an engineer or other professional personnel).
- Budgetary approval.
- Foremen approvals.
- District/unit finance manager's signature.
- Receipt of service confirmation from the relevant professional personnel.
- Supervising manager's approval (stamp + signature + date).

This form will be sent to the Supplier Management Department along with the payment request.

### **KKL-JNF's response**

The Office of the Comptroller's recommendation is accepted and is currently being implemented. The Finance Division director has instructed the Finance and Accounts Section director to draft a procedure to verify that all the necessary examinations are made when processing and approving payment requests.

## **5. Invoice Approval by the Supplier Management Department**

Once an invoice is received by the Supplier Management Department and entered in the ERP system, it is assigned a 'Received' status, and highlighted red. At this stage, the Department conducts the necessary examinations to approve the invoice for payment. The following matters are examined:

- Original documents – only original invoices are acceptable; no 'true to original' copies allowed.
- Approvals from relevant supervisors in the districts/units from which the invoice was received.
- Any supplier foreclosures (in case of several creditors, it is necessary to check who is entitled to the money).
- Whether any amounts should be offset for suppliers running a debt balance (through advanced payments to suppliers, mainly for amounts exceeding NIS 50,000).
- Checking the supplier number in the IT system.
- Inquiries and clarifications by phone.

Once all examinations are complete, the invoice is moved to 'Approved for Payment' status, highlighted green, and is then ready for payment.

#### Payment requests exceeding NIS 100,000

On July 14, 2014, the Finance and Economics Division director issued a directive concerning examination of supplier payments exceeding NIS 100,000 ("Procedure").

The directive requires that all payment requests exceeding NIS 100,000 include the following documents:

- a) Tenders Committee/Board of Directors approval (as applicable).
- b) Signed and valid contract.
- c) Payment order, signed by the unit receiving the services (financial supervisor and unit director).
- d) Invoice and delivery confirmation.

The directive emphasizes that without these documents, payment to the supplier will be delayed.

#### "Payment order"

A payment order is made against a payment request from a supplier contracted by one of KKL-JNF's headquarters units. For example: payment request for legal services provided to Himnuta, or fund transfers for joint venture agreements with third-party organizations. Payment orders are also received in cases where funds are transferred to third parties, such as from the Resource Development Division.

Payment orders are sent to the Supplier Management Department along with a payment order form, signed by the Division director.

### Supplier Management Department pre-payment recommendation

As aforesaid, at this point the invoice is marked 'Approved for Payment'. At this point, except for 'sensitive' supplier classes, the Department electronically issues an order which automatically upgrades all invoices to 'Recommended for Payment' status. Only invoices with 'Recommended for Payment' status are dispatched in the next MASAV batch. The system will block transfers for invoices not marked 'Recommended for Payment'.

The following groups are classified as 'sensitive' suppliers, for whom invoices are not automatically upgraded to 'Recommended for Payment' status, and are instead examined manually:

- a. Foreclosed suppliers
- b. Suppliers who have assigned their rights to a third party (under the Assignment of Charges and Credits Law). Such assignments are subject to special approval.
- c. Overseas suppliers.
- d. Suppliers in land deals.
- e. Payment requests exceeding NIS 100,000.
- f. Suppliers not exempt from withholding tax.

**The Office of the Comptroller examined the Supplier Management Department's invoice processing and approval process. The Office of the Comptroller examined a sample of 65 payment requests for amounts exceeding NIS 100,000, of which 45 were dated after the Procedure was issued and 20 were dated prior to the Procedure's issue.**

## Findings:

### A. Payments approved without verifying documentation

The Office of the Comptroller found that material documents were missing. These documents were supposed to be checked when approving payment requests and are specifically mentioned in the Finance and Economics Division director's directive. Findings were as follows:

- In 8 out of 65 payment requests (12%), the original invoice was missing.
- In 5 out of 65 payment requests (8%), the approval from KKL-JNF's service recipient was missing.
- In 21 out of 45 payment requests (47%), the contract with the supplier/service provider was not attached.
- In 24 out of 45 payment requests (53%), the Tenders Committee/Board approval for the contract was not attached.

Key examples from the sample examination:

| Supplier name | Invoice date | Amount  | Original invoice | Service recipient confirmation | Contract | Tenders committee approval |
|---------------|--------------|---------|------------------|--------------------------------|----------|----------------------------|
| K.L.          | 31.8.2014    | 251,700 | No               | No                             | No       | No                         |
| K.L.          | 1.9.2014     | 357,166 | No               | No                             | No       | No                         |
| P.P.I.        | 11.8.2014    | 131,152 | Yes              | No                             | No       | No                         |
| J.V.E.        | 23.9.2014    | 114,750 | Yes              | No                             | No       | No                         |
| A.D.          | 17.9.2014    | 762,000 | No               | Yes                            | No       | No                         |
| F.B.          | 31.8.2014    | 571,186 | Yes              | Yes                            | No       | No                         |

| Supplier name | Invoice date | Amount  | Original invoice | Service recipient confirmation | Contract | Tenders committee approval |
|---------------|--------------|---------|------------------|--------------------------------|----------|----------------------------|
| E.Y.          | 31.3.2014    | 722,520 | No               | Yes                            | N/A*     | N/A*                       |
| A.A.          | 30.12.2013   | 159,747 | No               | Yes                            | N/A*     | N/A*                       |
| R.K.R.        | 31.12.2013   | 129,800 | No               | Yes                            | N/A*     | N/A*                       |

\* Prior to the directive.

### **KKL-JNF's response**

Following our examination of these suppliers:

- E.Y., A.A., R.K.R. – KKL-JNF found the invoices which were not originally presented to the Office of the Comptroller.
- F.B, P.P.I., J.V.E. – KKL-JNF found the contract which was not presented to the Office of the Comptroller.

### **Office of the Comptroller's reply**

It is noted that, at the time of the audit, the sampled materials were presented after several requests, and the Office of the Comptroller examined all attached documents. In light of the Office of the Comptroller's findings, KKL-JNF conducted an additional examination and found some of the documents, apparently in other places. The Office of the Comptroller believes this to indicate that KKL-JNF's Finance Section's filing and documentation practices require improvement.

#### **B. Payment orders for headquarters units**

An examination of the payment orders found several flaws:

- KKL-JNF does not have any internal procedures specifying who is authorized to approve payment orders. Current practice is for each unit's authorized signatory to sign and approve the

payment orders. If this position is not filled, the order is signed by members of KKL-JNF's senior management.

Examples demonstrating the inconsistency in approving payment orders:

| <b>Supplier</b>                            | <b>Service recipient approval</b>      | <b>Supervisor approval</b>               |
|--|--|--|
| KKL Sayarut Assoc.                         | Director of Education & Youth Division | KKL Director General                     |
| The Israeli Opera Tel-Aviv Yafo            | KKL Director General                   | Director of Finance & Economics Division |
| Etz – Osim Tzionut                         | –                                      | Director of Finance & Economics Division |
| Ze'ev Jabotinsky Jerusalem Heritage Center | –                                      | Director of Finance & Economics Division |

- A large number of supplier payment requests are submitted as payment orders after the supplier renders its services, without any preliminary purchase order (which would be common practice). The Office of the Comptroller believes that not issuing purchase orders and entering orders in the computer system to constitute improper conduct.

For example: a payment to M.E. as part of the Spokesperson's Unit's activities (advertising campaign) was made as an 'ordinary' payment request, while a payment to a daily newspaper from the Spokesperson's Unit (Environmental Heroes project in 2014) was made as a 'payment order'.

C. Examining rates and quantities in service provider payment requests

The Office of the Comptroller's examination indicates that the Supplier Management Department does not conduct any examinations to verify that rates and quantities match contractual terms. In effect, there is full reliance on the examination made by the district/headquarters unit which contracted the services. For example:

- The payment request from R. Architects and Town Planners contains a bill for NIS 221,043, for 'periodic charges' without specifying hours and rates. The bill was approved.
- The payment request from Atty. A details the number of hours and rates, but the Supplier Management Department cannot know if these match the hours and rates specified in the contract. Upon further inquiry, it seems that no agreement was actually signed.

**Recommendations:**

1. To implement a payments procedures in general, and for payments exceeding NIS 100,000 in particular

The Office of the Comptroller recommends taking action to review the procedure and increase control over payments to suppliers. Examinations should be made into the above indicated cases, where material documents were missing, to check if the work was approved, whether services were contracted properly, etc.

**KKL-JNF's response**

The Office of the Comptroller's recommendation is accepted and is already being implemented. Several challenges were

encountered in implementing the Finance Division director's directive for payments over NIS 100,000. Therefore, KKL-JNF decided to recruit another employee (already recruited) to provide adequate control over supplier payments. Furthermore, the threshold amount for inspecting individual payments has been lowered from NIS 100,000 to NIS 50,000.

2. Orderly document filing

The Office of the Comptroller recommends establishing an orderly filing list, which would specify all the documents that must be filed along with payment orders.

3. Establishing procedures for sending payment orders

The Office of the Comptroller recommends establishing procedures that would rectify the above flaws, i.e. – what characterizes payment requests submitted as payment orders; who is authorized to approve these requests, and what signatures are required.

**KKL-JNF's response**

The Office of the Comptroller's recommendation is accepted and is being implemented. The Finance Division director has instructed the Finance and Accounts Section director to prepare a procedure for payment requests submitted as payment orders, including specifying who is authorized to approve these requests and the required signatures.

It is also emphasized that, following KKL-JNF's CEO's instructions, KKL-JNF has recently appointed dedicated personnel whose responsibility it is to verify third parties' compliance with their obligations towards the organization.

4. Work procedures and separation of duties between the units and the Supplier Management Department

Following on the recommendation from the previous chapter that procedures be formulated to regulate payment request processing and approval, the Office of the Comptroller recommends specifying the responsibilities and the examinations to be carried out by the Supplier Management Department, as opposed to responsibilities and examinations to be carried out by the unit finance departments. Thus, examinations will neither be missed nor carried out redundantly.

**KKL-JNF's response**

The Office of the Comptroller's recommendation is accepted and is being implemented. The Finance Division director has instructed the Finance and Accounts Section director to prepare a procedure to formalize the division of duties between the units and the Supplier Management Department.

6. **Payments to Suppliers**

Supplier payment options

- a. Transfers through the electronic bank clearing system ("MASAV"), which serves as the principal payment method.
- b. Overseas (Luxembourg) bank account– used to pay overseas suppliers. Payments cannot be made over the internet, and must be made through correspondence.
- c. Electronic clearing system for foreign currency payments.
- d. Checks.

### Permissions

KKL-JNF has an official document (“Authorized Signatory Procedure”) which clearly defines the hierarchy of required approvals, according to expense brackets. The procedure specifies permissions for making electronic payment transfers.

MASAV payments can only be made by an authorized person using a personalized key (disk-on-key), and only from the authorized computer station. Both conditions must be met or no transmission can be made.

### MASAV transmission and associated controls

- Selecting ‘Recommended for Payment’ items on the ERP system, selecting the bank account to which payment will be charged, specifying the date of record.
- Conversion into an Excel file. This file is sent to the Supplier Management Department director for review.
- Erasing the previous transmission file as a precautionary measure, to avoid repeated transmission of the previous payments.
- The file is on a computer hard-drive which can only be accessed by the Finance and Accounts Section director and the Treasury Department director.
- Transmitting the file (passwords, approvals, e-signatures).

**The Office of the Comptroller examined the payment transfer process and ongoing controls over this process.**

## Findings:

### A. Granting payment permissions to non-Finance personnel

Section B to the Authorized Signatory Procedure specifies which positions are authorized to take the following actions:

- Sign contracts on behalf of KKL-JNF at a value of up to NIS 5 million.
- To approve payments of amounts up to NIS 1 million.

The procedure names the following positions: Maintenance Department director; Land Development Authority director; Resource Division director; Human Resource Development Division director; Real Estate Department director. **These are not Finance Division personnel** and it is not clear how they can be authorized to charge up to one million shekels from the organization's bank accounts. Moreover, this constitutes a flaw in terms of separation of duties, as these persons contract suppliers as part of their daily work. Thus, the person contracting the service also approves payments to the relevant suppliers.

### B. Payment by check

The bulk of supplier payments are made by electronic transfer, as aforesaid. Payments are made by check in two cases:

- Loans to employees.
- Payments to institutions, such as: income tax, social security, pension funds, study funds, etc.

| Supplier | Amount    | Invoice date | Payment date | Credit days | Formal requirement |
|----------|-----------|--------------|--------------|-------------|--------------------|
| F.B.     | 1,146,301 | 29.9.2014    | 16.11.2014   | NET 45      | NET 30             |
| F.B.     | 1,047,174 | 30.9.2014    | 31.10.2014   | NET 30      | NET 30             |
| A.M.H.   | 507,625   | 18.5.2014    | 3.10.2014    | NET 120     | NET 30             |

| Supplier                             | Amount  | Invoice date | Payment date | Credit days | Formal requirement |
|--------------------------------------|---------|--------------|--------------|-------------|--------------------|
| A.M.H.                               | 406,100 | 28.5.2014    | 3.9.2014     | NET 90      | NET 30             |
| A.E.S.                               | 59,761  | 19.1.2014    | 17.2.2014    | NET 15      | NET 60             |
| A.E.S                                | 145,919 | 27.7.2014    | 6.11.2014    | NET 70      | NET 60             |
| Halutzit 4 Ltd.                      | 465,950 | 20.10.2014   | 31.10.2014   | NET 0       | NET 60             |
| Halutza Agricultural Collective Ltd. | 526,482 | 17.7.2014    | 23.7.2014    | NET 0       | NET 60             |

#### **KKL-JNF's response**

Actual credit days as presented in the above table are not determined by KKL-JNF's payment terms policy. Rather, they are a result of the actual invoice processing date. In other words: if an invoice is processed late by the end-unit and the payment date has already passed, the actual payment date will only be determined by the invoice processing date. Payment will then be made on the nearest payment date – the 15<sup>th</sup> or 30<sup>th</sup> of the month (KKL-JNF's payment issue dates). As for Halutzit and Halutza, payment was transferred immediately as aid donations during Operation Protective Edge, and was used among other things to purchase ballistic protection.

#### **C. Non-compliant electronic transfers**

Payments to suppliers are made on various dates, which are not the middle or end of a month (KKL-JNF's regular payment issue dates). In fact, MASAV transfers are made every few days. The process is complex, requires numerous controls, and entails various risks. Suppliers request that payments be approved urgently. These requests are usually granted, for reasons the Office of the Comptroller finds unjustified. This creates unnecessary work load and regularly exposes KKL-JNF to risks.

**Recommendations:**

1. Update the Authorized Signatory Procedure

The Office of the Comptroller recommends updating the Authorized Signatory Procedure, so that payments to suppliers only be made by Finance Division personnel and Board/Finance Committee members.

**KKL-JNF's response**

According to the Finance Division director's instructions, in principle, payments are made through the MASAV system, and only by authorized Finance Division signatories. Recently, another authorized signatory from the Finance Division was added.

2. Payments by check

The Office of the Comptroller recommends considering that payments currently made by check be made through the MASAV system.

**KKL-JNF's response**

The Office of the Comptroller's recommendation is accepted and has been implemented for some time, even prior to receiving the draft audit report. According to the Finance Division director's instructions, checks are not to be used, not even for employee loans or contributions to study or pension funds.

3. Adherence to directive-specified payment dates

KKL-JNF should adhere to the payment dates specified in the Directive. Exceptional cases where a supplier asks to advance

payment should be brought before senior Finance Division personnel for special approval.

**KKL-JNF's response**

The Office of the Comptroller's recommendation concerning advancing payment dates is accepted and implemented. Payments to suppliers can only be moved up by senior Finance Division personnel – the Finance and Accounts Section director or the Finance Division director.

4. **Reducing the number of dates on which MASAV transfers are made**

The Office of the Comptroller recommends significantly reducing the number of MASAV transfers made each month. Payments to suppliers outside KKL-JNF's two official payment dates will only be made in extremely exceptional cases, and subject to the Finance Division director's approval.

**KKL-JNF's response**

The Office of the Comptroller's recommendation is accepted and implemented. In principle, there are two payment dates a month: the 15<sup>th</sup> and the 30<sup>th</sup>/31<sup>st</sup>. The Finance Division director has instructed the Finance and Accounts Section to adhere to this rule.

7. **Procurement by Headquarters Units**

As part of their regular activities, KKL-JNF's headquarters units make hundreds of procurement transactions (of goods and services) a year. Cumulatively, these purchases amount to millions of shekels, in a broad range of fields.

### KKL-JNF's contracting by-laws

The contracting by-laws document serves as a parallel-document to the tendering regulations, which bind government ministries and government companies to specific contracting criteria. Among other things, the by-laws seek to ensure that contracting is as open and equal as possible, while providing equal opportunity to all bidders.

KKL-JNF's legal status does not require it to follow the tendering requirement regulations. However, KKL-JNF considers itself bound to these regulations in all its operations. The by-laws document opens with the words: "The by-laws therefore constitute a uniform statute for all of KKL-JNF's contracting activities ... and constitute a progressive codex of norms matching the current legal developments in the field of tender law, and KKL-JNF's needs."

**The Office of the Comptroller examined the procurement process in several units. A sample examination was made of 28 invoices for procurement made by the headquarters units and the following sections: Education, IT, Maintenance, HR, Himnuta, Spokesperson, Resource Development, Legal Department, Land Development Authority.**

**The Office of the Comptroller examined the following matters:**

- **Examining other supplier options and obtaining quotes.**
- **Compliance with KKL-JNF's contracting by-laws.**
- **Contract approval by the Tenders/Exemptions Committee, and compliance with Committee instructions.**
- **Contract-compliant payment, following a proper approval process.**

**Flaws were found in 12 cases (43% of sampled cases), as follows:**

## **Findings -**

### 1. Contracting without first contacting additional suppliers

The Office of the Comptroller found four cases in which a contract was signed without first checking other possible suppliers, while relying on claims (concerning supplier expertise and urgent operating needs) which the Office of the Comptroller believes are not sufficiently founded. Thus, contracting was in violation of the contracting by-laws. Sometimes, contracts span extended periods of time, and the winning bidder handles several matters. It is the Office of the Comptroller's understanding, that even after contracting is finished, no additional efforts are made to find additional suppliers to facilitate a future competitive bidding process.

The overall value of three out of the four contracts totaled NIS 2.5 million a year, and the overall value of the fourth contract is unknown.

The contracts are as follows:

#### A. Attorneys Office contracted in the matter of substitution of property improvement tax (hereinafter: A)

The contract was signed as part of litigation proceedings with the Israel Land Authority and the Ministry of Finance, concerning substitution of property improvement taxes. The Office of the Comptroller found that no additional suppliers were asked for quotes prior to contracting. Section 25 to the by-laws requires that additional bids be obtained, especially in light of the fact that Office handles several additional matters for KKL-JNF, as detailed in the contract. The Office of the Comptroller does not believe it is reasonable that so many legal issues be handled by one single service provider, without an equal-opportunity tendering round between additional bidders.

### **KKL-JNF's Response**

The Real Estate Department handled the matter according to such guidelines as prevalent at that time, and as issued by the former CEO who resigned in 2012. Negotiations concerning attorney's fees were conducted by KKL-JNF's acting legal counsel.

In this context it is noted that, today, the Real Estate Department follows the Contracts Division's guidelines, as instituted by KKL-JNF's current CEO.

B. **Attorneys Office contracted in the matter of developing investments in infrastructure operations (hereinafter: B)**

KKL-JNF contracted Atty. B for legal support in developing additional investment channels in infrastructure operations. The appointment was approved by the Tenders Committee on January 1, 2014. In the meeting, Himnuta's CEO noted that Atty. Vered is the sole expert in infrastructure. The contract is limited to NIS 75,000 a month. No additional suppliers were contacted, and no additional quotes were received.

At the time of the audit, the Office of the Comptroller was told that, in practice, activities have been suspended by order of KKL-JNF's Finance Committee, until formal procedures can be issued.

As a side note, the Office of the Comptroller mentions that KKL-JNF's contracting by-laws do not specify procedures for cases where several quotes are required, but only one quote is obtained (Section 41 refers to open/closed tenders. If a closed tender was conducted instead of an open one, the Exemptions Committee's approval must be obtained). The Office of the Comptroller believes the by-laws should clarify this matter.

### **KKL-JNF's response**

Concerning Atty. B's experience and the contract itself – in light of the fact that Himnuta's CEO attested to the fact that Atty. B has unique, even if not exclusive, experience, the contract was approved as exempt from a competitive bidding process.

C. Company contracted for activities with the Evangelical Communities

The Company provides KKL-JNF with services for its activities with the Christian and Evangelical communities abroad. The contract was approved by the Exemptions Committee. The Office of the Comptroller found that KKL-JNF did not examine whether there were other possible suppliers. This was due to the fact that, at the time, KKL-JNF was under intense media attack and urgently required the services. The reason presented to the Committee for contracting this specific company, was its reputation and the recommendation of KKL-JNF's management and legal counsel (at the time).

The Office of the Comptroller's comments are as follows:

1. The Exemption Committee minutes provided to the Office of the Comptroller do not mention that there is an urgent need for the services. Furthermore, under Section 23.7 to the contracting by-laws, an urgent contract is one that prevents serious damage and must be approved by the chairman of the National Tenders Committee.
2. It is unclear why the Exemptions Committee did not seek to check if there were additional possible suppliers.

### **KKL-JNF's response**

The contract with the Company was approved by the Exemptions Committee towards the end of 2012, based on the procedure then in effect. Under that procedure, the Exemptions Committee was authorized to approve contracts exceeding NIS 150,000 without a competitive process, subject to a discussion and official resolution. According to the Finance and Economics Division director, new contracting by-laws were approved in June 2015.

#### D. Labor Law Attorney's Office

The Office was contracted following hearings held for several KKL-JNF employees suspected of serious violations of work-attendance clocking and reporting procedures. The contract was signed as a continuation of a previous contract with the Office on another matter (sexual harassment complaint).

The original contract was signed without first obtaining other quotes. The Office of the Comptroller was not presented with explanations for the original decision to work with the Office, other than the fact that it is an expert in labor law. The Office of the Comptroller believes this explanation is insufficient as there are other experts available. Thus, the Office's preference over other suppliers is unclear, both in the original contract and in the second contract. Furthermore, this violates KKL-JNF's contracting by-laws (Section 25, 25.1.2), which require that contracts be signed after obtaining several proposals.

### **KKL-JNF's response**

The rather urgent contracting of the Office's services was due to **exceptional circumstances** whereby a member of KKL-JNF's workers' union **publically** issued a document alleging their direct involvement in an extended personal relationship

with a female KKL-JNF employee, relations which essentially constituted sexual harassment.

The Tenders Committee reviewed and approved the request as an exceptional case, at a rate of NIS 600 plus VAT.

2. Failure to draft an agreement prior to enlisting services/transferring funds exceeding contractual amounts, and approving services retroactively

The Office of the Comptroller found three cases in which the Office of the Comptroller believes there were flaws in the contracting process, such as:

- A. Enlisting services without a signed agreement – Himnuta's enlistment of Atty. Ze'ev Scharf's services, to the amount of NIS 1.3 million in 2014 (1-11/2014).

The contract that the Office of the Comptroller received, after several requests, was dated February 12, 2015. The sampled invoice was dated from the start of October 2014. It seems that the terms were not agreed upon in advance and in writing. Furthermore, the Tenders Committee's approval is dated from the end of December 2014. In other words – the services were approved retroactively.

- B. Transfer of funds above the original contractual amount – The Office of the Comptroller examined an invoice for NIS 100,000, concerning the Land Development Authority's research contract with the Israel Academy of Sciences and Humanities. Payment was made under a contract signed for 2014, to a total amount of NIS 100,000. KKL-JNF's ledgers indicate that, in 2014, the Israel Academy of Sciences and Humanities was paid a total of NIS 400,000.

### **KKL-JNF's response**

The matter was examined by the Land Development Authority headquarters, which found that, indeed, there was no agreement concerning KKL-JNF's support. Payment was found to have been made based on an on a decision of a joint forum of Israel Academy of Sciences and Humanities and the KKL-JNF along with approval by the Forestry Division director who included this matter in the Land Development Authority's research programs. Currently, there is a signed agreement.

- C. Approving services retroactively – The Human Resources Division's retention of the Labor Laws Attorney's services, up to a total amount of NIS 500,000.

In the Committee's meeting of September 17, 2014, the CEO reported that responsibility for the employees' hearings had been submitted to the Office in error and in violation of the Tenders Committee's decision of May 21, 2014. That decision approved the extension of the Office's contract strictly in connection with the sexual harassment case. Therefore, the Office's services were

### **KKL-JNF's response**

The Office of the Comptroller's findings accurately reflect the circumstances concerning the extension/expansion of the contract, with the Office, including in retrospect. However, in view of the chain of events and their severity, it would have been wrong to act differently.

3. Deciding the attorney's fee

Two cases were found in connection with two separate instances where Himnuta contracted legal services, where the Office of the

Comptroller believes there were flaws in deciding the attorney's fee for the services. Thus, the services were not contracted in the manner most benefiting KKL-JNF's interests while minimizing resource usage. Findings were as follows:

- Contract with Atty. A – The payment request for the invoice examined by the Office of the Comptroller noted that the cost of A's personal attorney's fee was USD 500 per hour, before VAT. These rates were decided by email in 2008. It is unclear if any negotiations were made back then to reduce the hourly rate. In any case, the rate seems excessive. It is noted that the Committee's approval of December 2014 is for a maximum rate of NIS 750. Thus, it seems that over the years, higher rates were paid than those approved in the Committee's decision. According to the supplier's file, the total amount invoiced by A's office between January and November 2014, was NIS 1.3 million.
- Atty. B's hourly rate was decided based on the second quote obtained from him, which specified an hourly fee of NIS 700, before VAT (the first quote proposed an hourly rate of NIS 850). In the Tenders Committee meeting, it was argued that the rate is 'extortionate', but the contract was approved subject to negotiations.

That same day, Himnuta contacted B by email and notified him that the contract was approved by the Tenders Committee, and that his fee would be as specified in his last quote. It seems that the Tenders Committee's instructions were not met, both due to the lack of negotiation, and as no discount was actually given.

The Office of the Comptroller believes that the Tenders Committee should have approved the contract in principle only, and requested an update on the results of the negotiations prior to granting final approval for the contract.

### **KKL-JNF's response**

Concerning Atty. B's fee, negotiations were held and his fee was reduced from NIS 850 to NIS 750 an hour. Following the Tenders Committee's request, Atty. B's office was asked to provide an additional discount, but he refused.

#### 4. Extension of contracts

The Office of the Comptroller found one case where a contract was repeatedly extended (Labor Law Attorney, up to a maximum of NIS 500,000), even though the grounds for these extensions were unclear. A review of the relevant minutes indicated that there was disagreement on the matter. Those supporting the request's approval argued that it was not possible to discontinue the services and contract another provider while proceedings were still underway. Others argued that it was a matter of splitting a large contract and that a competitive process should be pursued.

The Office of the Comptroller believes that the contract's extension was problematic in the first place, and could serve to bypass the contracting by-laws (e.g. – splitting one contract into several amounts/periods).

It is noted that KKL-JNF's by-laws do not refer to cases where a contract is to be extended/expanded, or the necessary approvals in such cases.

#### 5. Payments to the Jewish Agency

The Office of the Comptroller examined a payment of NIS 164,000 to the Jewish Agency. Payments are for instructional services and operating the Machon LeMadrichim program (activities for empowering leadership, mainly for Latin American participants). Upon inquiry, the Office of the Comptroller found that the invoices or their copies are not presented to KKL-JNF. Furthermore, the

agreement specifying the manner in which funds are to be transferred and KKL-JNF's support calculated – could not be found. At an unknown time, a system was set up whereby KKL-JNF provides the Jewish Agency with NIS 750,000 each year for various activities, including the Machon.

The calculation made at the time of the audit was based on oral tradition developed over time. Thus, the reliability of these calculations is unclear.

6. Payments to the Headquarters Workers' Union

The Office of the Comptroller examined a payment of NIS 6,800 by the Human Resources Division. Payment was made to reimburse the workers' union for payment to basketball coaches for KKL-JNF employees. The payment order did not include any invoice. It seems that the coaches did not provide the union with invoices. The Office of the Comptroller does not find it reasonable that KKL-JNF transfers payments without any corresponding invoice/reference document. There is also room to check if KKL-JNF and the workers' union have established formal procedures for fund transfers in general. In the period from January to November 2014, a total of NIS 201,000 were transferred to the union.

The Human Resources Division informed the Office of the Comptroller that, "The service provider is contracted by the union and not by KKL-JNF's management." However, the Office of the Comptroller found that the collective agreement explicitly states (Section 24.1) that, "Management will be responsible and will budget KKL-JNF's sports activities." Thus, it seems that it is KKL-JNF's right and duty to set standards for transferring payments, including requiring proper invoices.

The decision document from 2008 which the Office of the Comptroller received is of an operational nature and refers to various employee benefit activities. However, it does not refer to financial

aspects, the mechanism for transferring funds to the workers' union, corresponding controls, nor does it make any reference to consensual procedures. The Office of the Comptroller believes the matter should be re-examined.

7. IT systems – Education Division

The Education Division issues service procurement requests through a separate system – the “Orders System”. The Orders System does not interface with KKL-JNF’s ERP system. This means that the Division’s budget is managed on the ERP system, while procurement is managed through the Orders System. This requires constant monitoring and coordination between the two systems. The Office of the Comptroller was told that an interface between the two systems is planned “any day”.

The Office of the Comptroller notes that this fact was already mentioned in the previous audit report from 2012 (KKL – Education and Youth Division), along with the flaws created by the lack of any interface between the systems, and a recommendation that such an interface be made. At the time, KKL-JNF’s CEO responded, “We are currently (March 2012) working to interface the orders program with the financial program on numerous issues, including occupancy rates in field centers.”

The current state of things seems to indicate that the recommendation was not implemented.

8. Legal Department

The Office of the Comptroller sampled two invoices from Atty. A (mentioned above) and a payment order of NIS 17,523 to Atty. C. Overall, payments to Atty. C between January and November 2014 totaled NIS 298,000.

All attempts to obtain information concerning the manner in which these service providers were contracted failed, on the grounds that

KKL-JNF has a new Legal Counsel, who wishes to study the matter and that “the matter is under examination”.

## **Recommendations**

### **A. By-law compliant contracting**

- Contracts should be made in compliance with KKL-JNF’s contracting by-laws, including considering additional suppliers and obtaining price quotes. KKL-JNF should examine if it is necessary to review the procedures with relevant unit personnel.
- In cases where a professional supervisor believes there is a sole supplier, he must inform the Tenders/Exemptions Committee of the examinations or actions that he has taken which led him to conclude that there is a sole supplier.
- If a professional supervisor seeks to contract a specific supplier which he believes to be most suitable (of other potential suppliers) to render services to KKL-JNF, he must inform the Tenders/Exemptions Committee of his examinations or actions which led him to this conclusion.
- If a professional supervisor believes there is an urgent operational need, he must inform the Tenders/Exemptions Committee why the matter is too urgent to allow a tender to be issued and additional price quotes to be obtained.
- If a contract is signed without a tender/without obtaining additional quotes, actions should be taken (prior to the current contract’s expiration) to identify additional relevant suppliers. The Office of the Comptroller recommends that KKL-JNF maintain a database of potential service providers, to facilitate a competitive process between several candidates, and obtaining the best possible contract terms while maintaining service quality.

This would minimize the use of contracting under sole-supplier and urgent-need contracting.

**KKL-JNF's response**

Since the current CEO entered office, unequivocal and binding instructions have been issued, requiring that applications to the Tenders Committee include data, documents and detailed explanations in all cases where an exemption is requested.

B. Obligation to contract prior to receiving services

KKL-JNF should make sure to sign a formal agreement, as customary in the organization, and that approval be obtained from the Tenders/Exemptions Committee, prior to receiving services. Under no circumstances should services be rendered under any other document except such contracts as common in KKL-JNF.

Prior to a contract's final approval, KKL-JNF should check that:

- It was approved by the Legal Department.
- It details the fees to all relevant service provider personnel.
- The process was carried out in compliance with Tenders/Exemptions Committee instructions.

C. Implementing controls prior to payment

The professional supervisor in the contracting unit will implement controls to verify that the value and time of the payment matches the contractual terms. Under no circumstances should KKL-JNF allow the transfer of funds exceeding the contractual amount, without first signing a new agreement.

D. Tenders/Exemptions Committee activities

- The Tenders/Exemptions Committee will also ask the professional supervisor to explain various requests and to specify what examinations were made.
- The Office of the Comptroller recommends that the Tenders/Exemptions Committee's decisions note the contracting by-law on which the exemption decision is based.
- A quarterly report should be provided to the Tenders Committee, detailing all contracts signed without a tendering process or additional bids, along with corresponding explanations.
- The Office of the Comptroller recommends that Committee decisions detail whether additional factors were considered other than price, such as those detailed in Section 40 to the contracting by-laws.
- If a professional supervisor is required to conduct negotiations to reduce fees, the Committee will issue an instruction on the price that it believes reasonable, to the best of its understanding and experience. In these cases, or if any other requirement is made, the Committee will only approve the contract in principle. The Committee will require an update on the results of such negotiations or compliance with its conditions, and only then will grant its final approval for the contract.
- The Office of the Comptroller recommends examining what controls are currently in place to prevent the recurrence of an incident such as that involving the Labor Law Attorney, where additional work was submitted by mistake and in violation of the Tenders Committee's decision.

E. Updating the Contracting By-Laws

The by-laws were last updated in 2012. The Office of the Comptroller believes KKL-JNF should consider whether the by-laws need updating, in light of changes made in this field by KKL-JNF over the past year, so as to cover the following cases:

- Continuing the contracting process in cases where several bids are required but only one bid was received. Should contracting proceed with the bidder, or should KKL-JNF issue a public tender, re-issue the original RFP.
- Cases where a fiduciary service provider's contract needs extending/expansion, and the cumulative value of the contract exceeds NIS 200,000. This includes specifying the forum that must approve such extension and the explanations that must be presented. Clarifying the matter would prevent possible splitting of contracts.

F. Examining agreements with the Jewish Agency

The Office of the Comptroller recommends verifying that the collaborative agreement with the Jewish Agency actually exists and is still valid, and that payments currently made to the Jewish Agency comply with the amounts agreed upon by the Jewish Agency and KKL-JNF.

**KKL-JNF's response**

The Office of the Comptroller's recommendation is accepted and is currently being implemented. The Finance Division director has asked the Education Division director to verify that a valid agreement is in place.

G. Payments to the workers' union

The Office of the Comptroller recommends checking if it is necessary to update/review the employee benefit principles document for KKL-JNF employees. KKL-JNF should check to see if there is room to establish new procedures before transferring payments, to comply with proper conduct principles and implement fundamental controls. The Office of the Comptroller believes these instructions should be formalized under new procedures.

**KKL-JNF's response**

The payment to the basketball coaches was exceptional. The Office of the Comptroller's recommendation to avoid such payments and arrangements is accepted and will be implemented in full. Every year, the workers' union committee is convened, and reviews the procedure along with a file which includes, among other things, management decisions and procedures concerning employee benefit budgets.

September 2015



**Keren Hayesod – UIA**  
**Salaries and Human Resources**



# **Keren Hayesod – UIA**

## **Salaries and Human Resources**

### **1. Introduction**

1.1 In keeping with its work plan, the Office of the Comptroller examined salary and human resource activities in Keren Hayesod – United Israel Appeal (“Keren Hayesod”).

1.2 The audit included examination of the following:

- Salary payments to head office employees.
- Recruitment of overseas representatives (“Representatives”).
- Salary and expense payments to Representatives.
- Correction of flaws identified in the previous 2012 audit report, based on Audit Committee decisions and Keren Hayesod’s replies.

1.3 The audit was conducted in Keren Hayesod’s Jerusalem offices in April-July 2015.

The audit included meetings with the CFO, the Human Resources director, human resources coordinator, Representative supervisor, salary manager, Finance Division accounting manager, and additional personnel as deemed necessary.

1.4 Objectives:

- a. To examine salary payments to head office personnel, based on existing agreements.

- b. To review management and control of Representative recruitment, and salary and expense payments.
- c. To examine if adequate internal control procedures exist, and to examine the efficacy of existing procedures and work flows.
- d. To examine whether flaws identified in the previous 2012 audit report have been corrected.
- e. To identify weaknesses in existing work flows and controls, and recommend improvements.

1.5 Key documents used in the audit:

- ◆ Keren Hayesod's internal human resources procedures.
- ◆ Guideline – Processing Employee Salaries (pending approval).
- ◆ Income tax guidelines concerning tax payments overseas.
- ◆ Salary tables based on MACHAR and AHID rankings, used by government institutions.
- ◆ Salary tables for Israeli representatives abroad, compiled by the Ministry of Foreign Affairs.
- ◆ Minutes from Service Terms Committee meetings, concerning the terms of employment of overseas Representatives.
- ◆ List of employees in Israel and abroad, and their salary terms.
- ◆ Work agreements.

- ◆ Attendance sheets from the HILAN system, and pay-slips for a sample of 16 employees in Israel, and 8 Representatives abroad.
- ◆ Vacation and sick day balances reports as of December 31, 2014.
- ◆ Overtime reports for January-March 2015.
- ◆ Various references and documents from employee files, such as: individual employment agreements, Representative leases, correspondence concerning employment terms, etc.
- ◆ Access permissions for Keren Hayesod's IT systems, at the status level.
- ◆ Representative expense payments report for February 2015.
- ◆ Specific documents received upon request.

#### 1.6 Methods:

- ◆ Reviewing the Human Resources Department's organizational structure, including personnel responsibilities.
- ◆ Meeting with audit-relevant supervisors and additional employees as deemed necessary.
- ◆ Reading existing procedures and comparing with actual work-flows.
- ◆ Analyzing reports and data obtained from the IT systems.
- ◆ Reviewing audit-relevant IT support systems.
- ◆ Reviewing a sample of employee personal files, and examining whether the necessary documentation has been kept concerning employee recruitment and salary terms.

- ◆ Conducting a sample examination of salary payments to employees in Israel and abroad, including comparing actual salary payments to attendance sheets, Keren Hayesod guidelines, and collective/individual employment agreements.
- ◆ Reviewing income tax guidelines concerning salary and expense payments for overseas employees, and examining Keren Hayesod's compliance with these guidelines.
- ◆ Examining propriety of employee social benefit payments.
- ◆ Examining attendance reporting and whether reports match subsequent salary payments.
- ◆ Reviewing expense payments for *shlichim* and compliance with Keren Hayesod procedures.
- ◆ Examining correction of flaws identified in the previous audit report.
- ◆ Consolidating findings.
- ◆ Preparing the audit report, including conclusions and recommendations.

## 2. **Background**

### A. **Introduction**

Keren Hayesod was incorporated in 1920. Its main goal is to promote the establishment of a Jewish national homeland in Israel. Keren Hayesod seeks to achieve this goal, among other things, by receiving donations, loans, gifts, and endowments.

These funds are invested in developing Jewish settlement in Israel.

Keren Hayesod operates in forty-five countries, and is held in equal parts by the World Zionist Organization (50%) and the campaigns (50%). Keren Hayesod transfers the bulk of its available income to the Jewish Agency, to fund its ongoing activities. Part of the funds transferred to the Jewish Agency are transferred as designated donations

**B. Personnel and Cost Data**

Keren Hayesod employs about 80 people in its Israel office. It also employs about 30 paid Representatives abroad. These work in the larger campaigns, and some serve as local campaign managers.

Workforce and salary budget data for 2013-2014:

| Employees                             | 2013       |                                 | 2014       |                                 |
|---------------------------------------|------------|---------------------------------|------------|---------------------------------|
|                                       | Employees  | Expenses<br>(USD<br>thousands*) | Employees  | Expenses<br>(USD<br>thousands*) |
| <b>Israel office</b>                  | 79         | 9,655                           | 75         | 9,598                           |
| <b>Overseas<br/><i>shlichim</i>**</b> | 31         | 6,705                           | 28         | 6,363                           |
| <b>Total</b>                          | <b>110</b> | <b>16,360</b>                   | <b>103</b> | <b>15,961</b>                   |

\* Salary expenses including reimbursements such as: meals, travel, tuition, rent, etc.

\*\* Employee roster, excluding spouses. Expenses also include budgeting for spouses.

### **C. The Human Resources Department**

The Human Resources Department is located in Keren Hayesod's headquarters, in the National Institutions Building in Jerusalem. The Department comprises three employees:

- A. Human Resources Department director.
- B. Human resources coordinator.
- C. Overseas Representatives supervisor.

Activities include working with Keren Hayesod's employees in Israel (including the workers' union), Representatives abroad, and Keren Hayesod's Finance Division.

Responsibilities:

- Sourcing, screening and recruiting employees in Israel and abroad.
- Ongoing support for employees in Israel and abroad, including: attendance management, vacation and sick days, service terms and welfare, instruction and training, job promotions, working with the workers' union, etc.
- Employment termination.

### **D. IT Systems**

- HILAN-Pro – a comprehensive management system for human resources, employee attendance, and salaries.
- HILAN-Net – a supplementary system to HILAN-Pro. Provides online attendance management services, allowing employees to access their attendance data, report/fill-in work-attendance data, and allowing managers to approve, control and monitor employee attendance reporting.

- Priority – an ERP system used by the Finance Department. The system comprises basic modules and add-on modules. The system supports, among other things, payments for overseas Representatives’ expenses not included in the official pay-slips – see below.

#### **E. Approved workforce**

Every year, Keren Hayesod’s Budget Committee approves the organization’s annual budget. The budget includes a ‘Personnel’ line item, specifying the number of staff positions. Following its 2008 re-structuring, Keren Hayesod’s basic workforce comprises 80 full-time positions (there were subsequently 83 approved positions). These are specified in each annual budget by job description. At the start of 2014, Keren Hayesod initiated a voluntary retirement program, in which 8 employees retired. After this initiative, the approved number of positions was 75.1, which were included in the 2015 budget. In 2015, 3 additional positions were approved after negotiations with the workers’ union. These positions will be approved and budgeted in the 2016 budget.

### **3. Attendance – Head Office Employees**

#### Procedures

The internal procedure ‘Work Hours, Vacation and Leave for Employees in Israel’ (in this chapter – “Procedure”) specifies Keren Hayesod’s employee attendance requirements, including work hours, ‘core hours’, absence, and vacation and sick days. The Procedure has been in place since January 5, 2015 and was updated, among other things, as part of the effort to correct flaws identified in the previous audit report.

**Key points from the Procedure:**

Work hours and 'core hours'

Keren Hayesod institutes a 5-day work week (Sunday not being a work day), comprising 40 weekly hours, as follows:

| <b>Day</b>   | <b>Work hours*</b>           |
|--------------|------------------------------|
| Mon.         | 7:30-16:30 (9 hours)         |
| Tue.-Thu.    | 7:30-16:00 (8.5 hours)       |
| Fri.         | 7:30-13:00 (5.5 hours)       |
| <b>Total</b> | <b>40 weekly work hours*</b> |

\* Nursing mothers of children under one year and working mothers of children under 12 holding a full-time position may work one/one-half hour less than the allotted daily hours, respectively.

Non-management personnel working under a collective agreement must be at work during 'core hours', as detailed below:

| <b>Day</b> | <b>Core hours</b>    |
|------------|----------------------|
| Mon.-Thu.  | 9:00-15:30 (6 hours) |
| Fri.       | 8:00-12:00 (4 hours) |

If an employee is absent during core hours, that employee must complete his daily hour quota. Otherwise, his absence is deducted from his allotted vacation days.

Management employees under collective agreements, and employees working under individual agreements, are not obligated to core work hours, provided they meet their monthly hour quota. For employees

under individual agreements, attendance offsets are made once every fiscal quarter.

#### Attendance reporting

Employees are required to report their arrival to/departure from the head office by punching a time card. If an employee fails to punch their card (forgot their card, business trip abroad, working out of office, off-site seminars, etc.), arrival and departure times can be reported retroactively through Keren Hayesod's HILAN-Net online attendance management system. This system can be accessed remotely from any computer.

When reporting hours retroactively, employees must provide a reason for failing to clock in (the system provides several built-in options which an employee can select, such as: travel abroad, forgotten card, etc., and an additional field for entering free-text). Furthermore, retroactive reports are automatically submitted to the employee's direct supervisor for approval. The supervisor must approve the amendment through the system. Without approving these reports, the supervisor will not be able to 'finalize' attendance data at the end of the month.

#### Attendance processing

- Employees must complete their attendance reporting by the 7<sup>th</sup> of the following month (offsets for work absence are calculated in the following month's pay-slip).
- Supervisors must approve their employees' attendance by the 10<sup>th</sup> of the following month. After this date, the system blocks the supervisors' access.
- The human resources coordinator emails HILAN to finalize that month's data. HILAN sends the human resources

coordinator and the salary manager an employee attendance file for review.

- The Human Resource Department's personnel coordinator audits the file for missing attendance data, unreasonable number of work days, supervisor approval, confirmations for sick days, military reserve service, seminars, etc.
- The personnel coordinator approves the data for transfer to the salary management system.
- The personnel coordinator emails the salary manager an instructions file for any additions/deductions that may be necessary.

#### Vacation days

Employees working under collective agreements receive paid vacation and sick leave based on their professional seniority, as follows:

| <b>Years' employment<br/>(Seniority)</b> | <b>Paid vacation<br/>(days)</b> |
|--|---------------------------------|
| Up to 4 years                            | 12                              |
| 5-7 years                                | 18                              |
| 8 years or more                          | 25                              |

Employees working under individual agreements are given various numbers of days of paid vacation, as specified in their respective contracts.

Section 7.3.1 E to the Procedure states that the maximum number of vacation days that may be accrued is 55 days. Any vacation days accrued above this limit are lost, except in exceptional cases where the Human Resources director approves their transfer to the following year, or in special cases where vacation days are approved for

redemption. Furthermore, Section 7.3.1 D states that at the end of each year, any absence of more than 20 days will be deducted from an employee's salary, if that employee has exceeded their vacation quota by more than 20 days.

#### Sick leave

Keren Hayesod employees may accrue 25 sick days a year. Employees may accrue sick days without limitation throughout their employment term.

**The Office of the Comptroller examined attendance management processes in Keren Hayesod's head office in Israel and existing controls thereon, including compliance with Keren Hayesod's procedure, and correction of flaws identified in the previous audit report. The Office of the Comptroller conducted the following examinations:**

- a. A sample examination of attendance sheets (for December 2014) and pay-slips (for January 2015) for 16 head office employees (20% of the head office's staff), of whom: 7 are employed under individual contracts, and 9 are employed under a collective agreement with different ranks.**
- b. Examining vacation and sick day balances for all main office employees, as of December 31, 2014, and approvals for carrying those days forward to the next year in accordance with the applicable procedures.**
- c. Examining attendance sheets for 7 individual contract employees, and comparison with absence reports generated by the salary management system for January-March 2015 (21 attendance sheets in all), to examine the management of vacation days versus employee absences and their corresponding transfer to employee pay-slips.**

## **Findings:**

### 1. Employees with unapproved over-quota vacation days

Following the previous audit report, Section 7.3.1 E of the Procedure was amended to prohibit carrying more than 55 vacation days forward to the following year, except in special cases. Upon examining the relevant balances as of December 31, 2015 (matching the vacation days stated in the employees' pay-slips for January 2015), the Office of the Comptroller found 15 employees with more than 55 vacation days. 9 of these were not given approval to carry these balances forward and the balances were not annulled, as required by the Procedure. The total number of over-quota vacation days was 89. As a general estimate, these over-quota days represent a monetary value of NIS 60,000.

### 2. Retroactive attendance reporting, without explanations or limitations

- a. The Office of the Comptroller found employee attendance updates without explanations or details on the reason for absence in the 'Comments' field. These reports were approved by the respective supervisors. For example – in July, an employee (no. 10104) made eight retroactive attendance entries, only specifying the nature of her work outside the office in one of these entries. That same month, another employee (no. 10366) made six such entries, without commenting on the reasons for his absence. All reports were approved by the respective supervisors.
- b. The Procedure does not contain any restriction or guidelines concerning the number of attendance entries employees can make. The Office of the Comptroller believes this facilitates wide-spread retroactive reporting,

undermining the organization's ability to monitor employee attendance. This is particularly true in light of the fact that employees making retroactive entries tend to enter rounded-off hours, and not exact arrival and departure times.

3. Explanations for approving vacation day carry-overs, and the approving supervisor

Section 6.2.4 to the Procedure states that the director of the Human Resources Department will be authorized to approve the carry-over of vacation days exceeding the permissible quota, and such approval will only be given in exceptional cases. The Office of the Comptroller was told that carry-overs (for those employees who were given approval) were approved on the grounds of 'excessive work load'. The Office of the Comptroller believes this does not constitute an exceptional case, and Keren Hayesod should make sure that employees utilize their vacation days. Furthermore, some approvals were granted by the Director General and not by the Human Resources director, for reasons which remain unclear.

**Recommendations:**

a. To monitor employee vacation day balances

The Human Resources Department is charged with implementing the Procedure (Section 7.3):

- 3 months before the end of the year, the personnel coordinator must review all employees carrying a balance of more than 55 days, and require them to utilize their vacation days. Correspondence must be documented in the employee file. The Human Resources director must verify that such request was made and oversee the process.

- Employees wishing to carry unutilized vacation days to the following year, must apply in writing to the Human Resources director, and to her alone, specifying the grounds for the request along with their direct supervisor's recommendation.
- The organization should make sure that employees utilize vacation days as much as possible and only approve exceptional requests. The request, accompanying explanations, and the director's decision must all be documented.
- If an employee has accrued more than 55 vacation days without approval by the end of the year, these will be deducted at the start of the following year.

#### **Response of Keren Hayesod**

The Office of the Comptroller's recommendation is accepted. In July 2015, the employees were notified, with a corresponding follow-up in the second half of September.

#### b. Retroactive employee reporting

- Employees and supervisors should be instructed not to make or approve retroactive entries without filling in the 'Comments' field, providing explanations on the nature of their absence.

#### **Response of Keren Hayesod's management**

The recommendation is accepted.

#### 4. Salary Payments – Head Office Employees

##### **Procedures:**

The ‘Head Office Employee Service Terms Procedure’ regulates Keren Hayesod’s operations concerning:

- Employment terms – specifying a rating system for collective agreement employees, recognition of professional seniority, specifying ranks and promotions/promotion delays.
- Various benefits (clothing, sports, travel), participation in vehicle costs, phone, per diem costs, etc.

##### **Salary agreements:**

The head office comprises 75 employees, working under either collective or individual agreements, as follows:

| <b>Employment contract</b> | <b>Employees</b> | <b>% of total workforce</b> |
|----------------------------|------------------|-----------------------------|
| Individual                 | 30               | 40%                         |
| Collective                 | 45               | 60%                         |
| <b>Total</b>               | <b>75</b>        | <b>100%</b>                 |

Employee salaries and ancillary costs are determined by their respective employment agreement.

Individual contract employees – Salaries are based on market benchmarks for similar positions, and negotiations with each employee.

Collective agreement employees – Salaries are based on the rank and rating specified in the relevant collective agreement. Ratings are based on an employee’s level of education (AHID, MACHAR, etc.). Ranks

are determined by the Human Resources director, out of the rank bracket specified for each position.

**Employee recruitment:**

When Keren Hayesod recruits a new employee, the salary manager sets up the employee's number in the IT system. The Human Resources Department personnel coordinator enters the relevant employment terms (individual contract or collective agreement), along with all salary-relevant details, such as: rank, seniority, and various add-on benefits.

**Rank promotions:**

Employees are entitled to rank promotions once every two years (MAs or PhDs under collective agreements – once every eighteen months), up to the maximum rank specified for their respective position. Promotions are granted subject to the direct supervisor's recommendation. The direct supervisor may recommend that the promotion be moved up by six months. Such recommendation is subject to the Director General's approval.

**Salary processing:**

- Once a month, the personnel coordinator sends the salary manager an instruction file specifying any updates to the next month's salaries (deductions for absence, addition/deduction of vacation or sick days, overtime payment, rank changes, etc.). The salary manager enters these changes in the IT system.
- Once data entry is completed, the salary manager instructs HILAN to prepare a draft salary sheet, and issue trial pay-slips.
- The salary manager makes sure that all updates received from the Human Resources Department were properly entered, and the pay-slips are submitted to the Human Resources director and the Budgets Department director for review and approval.

- Following approval, the salary manager instructs HILAN to finalize the data and issue the actual employee pay-slips.
- The salary manager prepares a MASAV e-transfer file through the HILAN system. Salaries, pension contributions and study fund contributions are made through the MASAV e-transfer system.
- The head bookkeeper in the Finance Department checks correspondence between the net sums in the salary slips and the sums transferred through the MASAV.
- Salary payment orders through the MASAV are restricted to the head accounting manager and the director of the Budget and Contracting Department, using a disk-on-key dongle and password.
- The salary manager documents the salary transfer, and compares the MASAV payment data with the bank statement received from HILAN.

**The Office of the Comptroller examined the salary preparation process for head office employees and existing controls, including compliance with statutory requirements and Keren Hayesod procedures, and correction of flaws identified in the previous audit report.**

**The Office of the Comptroller examined the following:**

- a. A sample examination of 16 pay-slips, to examine salary and ancillary cost payments to employees.**
- b. Pension contributions to provident and study funds – propriety was found.**
- c. Examining adequate separation of duties – propriety was found.**

- d. Examining rank brackets for employees under collective agreements, and rank-compliant salary payments – propriety was found.**
- e. Examining the permissions hierarchy in the IT systems, according to the relevant individuals’ part in the process – propriety was found.**
- f. Examining employee rank promotions in 2014, and compliance with wait period and supervisor recommendation requirements – propriety was found.**

**Findings:**

1. No salary deductions for employees with over-quota vacation day balances

The Office of the Comptroller found two employees (no. 10216, 10302) who since the end of 2014 have continued to carry a negative balance of more than 20 vacation days (-29, -27, respectively). Upon inquiry, the Office of the Comptroller found that as of the audit date, no deductions had been made from their salaries.

2. ‘Mobility add-on’ salary component (code 356), of unclear origins and at varying rates

The pay-slip for several employees working under individual or collective employment contracts (e.g. – 10104, 10039, 10370, 10450) and entitled to mobility pay, contained two salary codes: ‘156 – Mobility level’; and ‘356 – Mobility add-on’. Code 156 constitutes reimbursement for vehicle-related fixed costs, with rates specified in the Ministry of Finance’s Accountant General’s guidelines.

However, the Office of the Comptroller was not given any explanation concerning payments under code 356. The code

would seem to be a redundancy, or at the very least an erroneous rate, as compared to the Accountant General's guidelines.

3. No procedures regulating salary raises for individual contract employees

The Procedure does not refer to salary raises for individual contract employees (31 of 78 employees). Current practice is to hold salary discussions once every two years (strictly at the employee's initiative), with raises ranging from 0%-10%. In CPI-linked contracts, this discussion is commonly held once every three years.

Failure to regulate the matter through fixed and uniform procedures may ultimately undermine workplace equality.

4. Failure to reimburse an eligible employee for phone costs

The Office of the Comptroller found one employee (no. 10039) whose personal file contains a document confirming reimbursement eligibility for his home telephone line costs, to the amount of NIS 300 a month, starting March 2012. However, the employee's pay-slip did not include such reimbursement. The Office of the Comptroller found that, in December 2012, the employee was asked to submit his phone bills, but the employee failed to meet such request. However, the employee pays for the tax value of this benefit, despite not actually receiving it.

5. Head Office Employee Service Terms Procedure not approved

The Head Office Employee Service Terms Procedure supersedes the previous procedure from 1996. The procedure covers material issues such as: rank promotions, payment of various benefits, etc. However, even following management approval, the procedure has not yet come into effect, due to a dispute with the workers' union on various matters. No target date has been set to resolve the issue.

## **Recommendations:**

- a. Salary deductions for employees with over-quota vacation day balances

According to Keren Hayesod's internal procedures, over-quota vacation days should be deducted from employees' next monthly salary.

Procedures also require the Human Resources director and the Budgets and Contracting Department director to monitor employee vacation day balances and offset in a timely fashion any balances that are over-quota by more than 20 days.

### **Response of Keren Hayesod's Management**

The recommendation is accepted. Concerning one employee, the matter has already been resolved in the first half of 2015.

- b. Examining the origins of code 356

The Office of the Comptroller recommends that Keren Hayesod check with HILAN concerning salary component 356 paid to various employees, including: the nature of this component, its calculation, and its compliance with employee salary agreements.

### **Response of Keren Hayesod's Management**

The recommendation is accepted.

- c. Establishing uniform salary raise procedures for individual contract employees

The Office of the Comptroller recommends Keren Hayesod formalize its salary raising activities through a formal

procedure. This also holds for individual contract employees. The procedure should address the following: initiating discussions (employee/management); waiting periods between raises; possible salary raising rates; criteria for approving requests; specifying who recommends a raise and who approves it.

#### **Response of Keren Hayesod's Management**

The recommendation is accepted. The matter will be discussed by Management.

#### d. Checking with employees allegedly entitled to reimbursements

The Office of the Comptroller recommends examining if there are additional employees entitled to any reimbursements who are not currently being reimbursed, for various reasons, and to examine the reasons why such reimbursements are not made. It is then recommended to act in one of two ways: if it is found that the entitlement still holds, reimbursements should be made against actual receipts and supporting documents provided by the employee. If the entitlement no longer applies, the employee should be notified in writing and the fact should be documented in their personal file.

#### **Response of Keren Hayesod's Management**

Keren Hayesod will consider the recommendation. Employers are responsible for deciding which benefits to provide against receipts or supporting documents. And employees are responsible for submitting them.

#### e. Formulating consensual work procedures

The Office of the Comptroller recommends that a coordinated effort be made to reach understandings with the workers'

union, so that work may be carried out smoothly and payments be made according to an approved and consensual procedure.

### **Response of Keren Hayesod's Management**

Keren Hayesod's Management is conducting negotiations with the workers' union.

## **5. Overtime**

Keren Hayesod has two arrangements concerning overtime payments:

- a. Payment on an hourly basis, according to reported work hours.
- b. General overtime payment, i.e. – a fixed addition regardless of actual work.

### **Compensation for overtime**

Individual contract employees – not entitled to compensation for overtime, and these hours are logged to employees' 'excess work hours' balance. These excess work hours are accrued and subsequently offset against absentee hours. They are not accrued for use as vacation days. Reconciliation is carried out automatically once every quarter. At the same time, as a control over the automated system, the personnel coordinator maintains a spreadsheet (which specifies employee surplus and absentee hours for that quarter). The personnel coordinator compares the spreadsheet data with computer-generated quarterly data.

Non-management head office employees working under collective agreements – may work overtime as necessary, subject to their direct supervisor's approval.

Employees entitled to general overtime compensation – These employees are entitled to overtime payment according to the specified quota. An employee who is entitled to a general overtime quota and who actually worked overtime, will only receive additional payment (in

addition to the general overtime compensation) if the actual number of overtime hours exceeds their general overtime quota.

Section 7.2.3 E to the Procedure states that the maximum number of overtime payable to employees will be 60 hours' overtime (actual + general quota), in accordance with the Work and Rest Hours Law.

**The Office of the Comptroller examined Keren Hayesod's overtime payments against the Work and Rest Hours Law, Keren Hayesod's internal procedures, and correction of flaws identified in the previous audit report.**

**Findings:**

1. No permit for employment during rest hours

Section 11 to Management's personal driver's employment agreement (employee number 10370) specifies that he is not entitled to overtime payment "as the nature of the employee's job does not permit Management to oversee the employee's work and rest hours..."

This clause seeks to meet the definition of Section 30(A)(6) to the Work and Rest Hours Law and fall under the general permission to employ a person in the designated rest hours due to inability to supervise their work.

The Office of the Comptroller believes the company driver does not meet this definition of inability to supervise.

**Response of Keren Hayesod's Management:**

The Office of the Comptroller's recommendations are accepted and their implementation will be considered in the future in case of a personnel change.

2. Non-compliance with the Work and Rest Hours Law and Keren Hayesod's Procedure

According to the Law, employers may not employ employees for more than 60 hours' overtime a month. This is also specified in the Procedure. A sample examination found that some employees have a general overtime quota of more than 60 hours, in violation of both the Law and Keren Hayesod's procedures. Findings were as follows:

| <b>Employee No.</b> | <b>General Overtime Quota</b> |
|---------------------|-------------------------------|
| 10370               | 80                            |
| 10215               | 75                            |
| 10675               | 65                            |

3. General overtime compensation – exposure to lawsuits by not contributing towards benefits

Payment for general overtime quotas is made regardless of actual overtime work. Thus, employees are compensated even if they did not work a single hour of overtime. Thus, the organization is exposed to employee lawsuits that this salary component be recognized as part of their base pay for contributions towards social benefits. For example:

| <b>Employee No.</b> | <b>General Overtime Quota</b> | <b>Actual Overtime</b> | <b>% Actual Utilization</b> |
|---------------------|-------------------------------|------------------------|-----------------------------|
| 10215               | 75                            | 4                      | 5%                          |
| 10370               | 80                            | 41                     | 51%                         |

| <b>Employee No.</b> | <b>General Overtime Quota</b> | <b>Actual Overtime</b> | <b>% Actual Utilization</b> |
|---------------------|-------------------------------|------------------------|-----------------------------|
| 10450               | 45                            | 9                      | 20%                         |
| 10637               | 60                            | -                      | 0%                          |
| 10675               | 65                            | 3                      | 5%                          |

This fact was pointed out in the previous audit report, and today's pay-slips differentiate between 'General overtime' payment and 'Actual overtime' payment.

**Recommendations:**

- a. Obtaining permission for overtime employment

The Office of the Comptroller recommends Keren Hayesod obtain legal counsel concerning employee number 10370. If necessary, Keren Hayesod should obtain specific permission from the Ministry of the Economy for that employee's overtime.

**Response of Keren Hayesod's Management**

According to the information on file, the Jewish Agency has been given permission to employ executive drivers and we follow the Jewish Agency's practice. As aforesaid, we are aware of the legal risks, which we mitigate.

- b. Obtaining legal counsel concerning employees working more than 60 hours a month of general overtime

Keren Hayesod should obtain a legal opinion concerning employees whose general overtime quota exceeds 60 hours.

## **Response of Keren Hayesod's Management**

Keren Hayesod regularly receives legal counsel in this matter.

### **6. Recruiting Overseas Representatives (*Shlichim*)**

#### **6.1 Sourcing, Screening and Recruiting Representatives**

The Representative Sourcing, Screening, Recruiting and Training Procedure (effective date: December 2013) (in this chapter – “Procedure”) specifies methods for recruiting Representatives, from the candidate sourcing stage, screening, job suitability assessment, and ultimately selecting and training *shlichut* candidates.

#### **Recruitment stages are as follows:**

1. Sourcing candidates – Advertising in newspapers, contacting institutions and prior Representatives, “word of mouth”.
2. Candidate screening – Preliminary screening by the personnel coordinator, phone interview (through a third-party company), inviting candidates to assessment centers.
3. Assessment centers – Candidates are invited to assessment centers, where they are required to prove their social skills through a range of tasks, such as: presentation abilities, prioritization exercises and role-play. The assessment team comprises head office employees and representatives from the company specializing in personnel assessment and screening.
4. Personal interview and reliability testing – Assessment center personnel select the leading candidates and invite them, along with their spouses to a joint interview by the Human Resources director and the regional director for their intended placement. Candidates also undergo reliability testing to assess their

suitability for the role. Once all recruitment stages have been completed, the Human Resources director and the regional director formulate their recommendations. After conferring with each other, they select the best candidate who is accepted to the basic Representative training course.

5. Basic Representative training – The course serves to screen candidates in preparation for the advanced Representative training course, and introduce the knowledge and skills required of Representatives.
6. Advanced Representative training – The course provides job-specific training: in-depth familiarization with the Representative's functions and Keren Hayesod's organizational structure; Representatives' interactions with the head office; and placement-specific pointers.
7. Meeting with the leadership of the UIA campaign where the candidate is to be placed.

**The Office of the Comptroller examined a sample of 8 Representatives (out of 26 Representatives, 31%), and examined the following aspects of their recruitment:**

- **Initiation of Representative recruitment activities according to Keren Hayesod's needs – propriety was found.**
- **Documenting the Representative recruitment and selection process, to examine how decisions were made to move candidates to the next step of their recruitment process, up to their ultimate placement.**

## Findings:

- a. Failure to document results of recruiting stages and considerations in selecting Representatives

The Office of the Comptroller examined whether Representatives are selected based on objective tests, i.e. – based on the candidates’ skills and suitability for the job. The selection process includes, among other things, assessment center testing, reliability assessments, participation in a basic Representative training course, and the UIA campaign’s leadership’s impression of the candidate.

For two of the eight Representatives sampled, who began their tenure in 2012-2014, the Office of the Comptroller received only partial materials. For the six remaining Representatives, no materials at all could be found.

Failure to document the opinions and considerations that led to a Representative’s selection undermines transparency and the ability to understand a candidate’s suitability and the circumstances that led to their selection.

It is noted that the Office of the Comptroller received materials pertaining to the basic Representative training course from 2014, conducted by the Human Resources director and the Training and Leadership Development manager. The materials include various summaries concerning the candidates and recommendations regarding their participation in the follow-up course.

- b. Procedures do not define who/what forum is authorized to decide to continue with a candidate’s recruitment, and who is responsible for the overall process

Although Section 6 to the Procedure specifies that the Human Resources director will have overall responsibility for recruitment and the Representatives course, additional senior personnel are involved in the process. These include the regional directors, Keren Hayesod's Director General and its Chairman (see Section 7.4.3 A, F).

However, the Office of the Comptroller believes the Procedure is lacking in that it does not refer to who in Keren Hayesod is authorized to decide whether a candidate will proceed to the next stage in the recruitment process (Human Resources director / regional director/ Director General/ Chairman).

The Office of the Comptroller believes this may lead to process stake-holders exerting undue influence.

**Recommendations:**

1. Documenting the Representative recruitment and selection process

Keren Hayesod should document its decision-making in each of the aforementioned recruitment stages (except the initial sourcing and screening) so as to reflect each candidate's recruitment process and the circumstances that led to a candidate's selection, including his skills and suitability. Keren Hayesod should maintain written documentation of opinions received from all personnel involved in the recruitment process. Materials will be documented and filed (in either hard-copy or digital copy) by the Human Resources Department.

Where the Director General or the Chairman's intervention is required, and particularly where an individual not associated with the recruitment process was involved, such involvement should be documented in writing in the candidate's file.

In this context, the Office of the Comptroller recommends specifying the list of materials which must be included in a candidate's file up to their dispatch abroad. The Procedure should be updated accordingly.

#### **Response of Keren Hayesod's Management**

The recommendation is accepted.

2. Establishing a decision-making forum for recruitment processes, and assigning overall responsibility

The Office of the Comptroller recommends specifying the persons in Keren Hayesod authorized to make recruitment process decisions, and who has overall responsibility for the process. The Procedure should be updated accordingly.

#### **Response of Keren Hayesod's Management**

The recommendation is accepted.

### **6.2 Complaint against Keren Hayesod for not paying salaries during the recruitment process**

In 2014, an anonymous complaint reached Keren Hayesod, demanding payment for the time candidates spent in the basic Representative training course. After a while, Keren Hayesod discovered that the anonymous complaint was made by one of the candidates dismissed after the basic Representative training course. In light of this incident, Keren Hayesod is considering to halt the rest of the recruitment process. Following legal counsel, Keren Hayesod decided to pay the claimant a minimum wage for his time in the course.

**The Office of the Comptroller examined the debriefing and learning process following the claim made by the Representative course candidate – propriety was found.**

### **Examination of the complaint**

Following the incident in which payment was demanded of Keren Hayesod for the duration of the course, several actions were taken:

- The basic Representative course was designated a ‘screening’ course for candidates. Prior to attending the course, participants sign a disclaimer waiving any employment ties with Keren Hayesod at this stage.
- The advanced Representative course has been defined as a ‘training’ course, and Keren Hayesod pays attendees minimum wage + travel expenses.
- It is made clear to candidates that even should they successfully pass the advanced Representative course, Keren Hayesod is under no obligation to employ them.

## **7. Salary Payments – Representatives**

- A. Base salary** – based on the Ministry of Foreign Affairs’ salary tables. A base salary is specified for each country, designated in that country’s local currency and living costs. Keren Hayesod is not obligated to adhere to this table.
- B. Rank** – determined by the Human Resources Department according to the size of the UIA campaign and the Representative’s specific responsibilities.

### **Income Tax provisions:**

According to Income Tax provisions, Israeli residents on *shlichut* are required to pay taxes on their salaries and on additional compensation payments, including reimbursement for expenses. Tax deductions are made according to brackets, with a 45% exemption deducted from any

tax payments on base monthly salaries of up to USD 6,000. Salaries for spouses are based on a Level 7 rating for local Israeli employees.

**Expenses:**

*Shlichim* incur various expenses as a result of moving abroad, or in the line of duty. Thus, each Representative is compensated for expenses according to Keren Hayesod's established guidelines. These include: coverage of rental fees (excluding ongoing maintenance costs), business travel, tuition for the Representative's children, entertaining donors at the Representative's residence, etc., as detailed in the Representative Service Terms Procedure.

Reimbursement process

1. Filing a monthly report specifying expenses incurred by the *shaliach*, along with original copies of receipts.
2. The Human Resource Department's Representatives supervisor verifies that the claimed expenses are approved for reimbursement.
3. The Finance Division's reimbursement supervisor verifies that supporting documents are provided for all claimed expenses, and then enters the expenses in the Priority system.
4. The Human Resources director approves the expenses through the Priority system.
5. The salary manager generates an invoice through the Priority system, transferring it for payment via wire transfer (either to the Representative's bank account or directly to the service provider for expenses such as tuition, which is paid directly to the schools; or rent, which is paid directly to the landlord's bank account).

**Service Terms Committee:**

The Committee comprises the Human Resources director (chairperson), the CFO, the Planning and Control Unit director (as a former Representative), and the relevant regional director.

The Committee holds discussions, establishes uniform policies for Representatives, and approves exceptions and deviations from the *shlichut* agreement's rules and guidelines, or deviations from relevant Keren Hayesod procedures.

The Committee mainly handles two types of requests:

- a. Requests for reimbursement for non-covered expenses.
- b. Requests for deviating from Keren Hayesod's procedures, when such deviation involves monetary expenditure.

Between January 2014 and January 2015, the Committee convened six times to discuss various matters concerning Representative service terms.

**The Office of the Comptroller examined the following:**

- **Salary payment, including adequate separation of duties throughout the process and managing access permissions for the IT systems – propriety was found.**
- **A sample examination of pay-slips for 9 Representatives (33% of all Representatives), examining whether actual salaries matched their employment contracts, including social benefits – propriety was found.**
- **Examining possible exposure through payments to employees, due to Income Tax provisions – propriety was found.**

- **Examining expense reports for February 2015, claimed by 9 Representatives and paid by Keren Hayesod.**
- **Examining expense reports for December 2014, claimed by 3 Representatives during their trial period, and paid by Keren Hayesod.**
- **Examining employee files maintained by the Human Resources and Accounting departments.**

**Findings:**

**1. Reimbursing Representatives without receiving original receipts**

Upon examining expense reports filed for February, the Office of the Comptroller found that one Representative (employee no. 8446) did not submit original copies of invoices/receipts for train travel, toll roads, phone costs, and medical insurance, to the amount of EUR 448, as required by the Procedure. Instead, the employee submitted a detailed bank statement.

The Office of the Comptroller further notes that, Representatives frequently submit invoices without specifying their purpose, as required under Section 7.2.4 B to the Procedure.

**2. Employee file missing an employment contract for 2015**

The Office of the Comptroller found that the contract with employee no. 10592 terminated at the end of 2014, and the Human Resources Department does not have a valid employment contract for 2015. Furthermore, concerning that same employee, the Salary Department did not have an income tax declaration (Form 101) for 2015.

3. Procedure not updated concerning Representative vacation days

In its January 2015 meeting, the Service Terms Committee conducted a principle discussion on charges for Representative vacation days. A subsequent announcement was issued to Representatives, but it was also determined that the procedures should be updated accordingly. The procedures have yet to be updated, and it is unclear who in Keren Hayesod is responsible for updating procedures.

**Recommendations:**

a. Reimbursing Representatives according to the Procedure

Keren Hayesod should make sure that supporting documents are submitted as required by the Procedure, i.e. – original invoices/receipts while specifying the nature of incurred expense.

**Response of Keren Hayesod's Management**

The recommendation is accepted. However, in some cases (and the examined Representative is one such case) it is not possible to obtain original copies of receipts and as an exception and while exercising discretion, we make do with bank statements. The Budget and Contracts director will make sure to document the deviation from the Procedure on an official approval document.

b. Tracking Representative reimbursements during the trial period

Keren Hayesod should make sure that Representatives serving a trial period are familiar with Procedure-mandated reporting requirements. Keren Hayesod should consider speaking with Representatives after filling in the form for the first time to provide feedback/comments.

**Response of Keren Hayesod's Management**

The recommendation is accepted.

- c. Making sure to have a valid employment contract and the necessary forms

The Office of the Comptroller immediately recommends having Representative 10592 sign a valid employment contract and income tax declaration (Form 101).

The Office of the Comptroller further recommends preparing a check-list specifying the forms that are to be kept in all Representative files – both those kept by Human Resources and those kept by Accounting. The Representative supervisor and the salary manager should be responsible for verifying that all necessary forms are kept in each file.

**Response of Keren Hayesod's Management**

The recommendation is accepted.

Representative 10592 completes his tenure in October 2015.

- d. Updating the Procedure as concerns Representative vacation days

Keren Hayesod should specify who is responsible to update existing procedures. The Office of the Comptroller recommends updating the Representative Service Terms Procedure according to the Committee's decision.

**Response of Keren Hayesod's Management**

The recommendation is accepted.

## 8. Follow-Up on Implementation of Recommendations\*

\* The follow-up relates to systematic flaws identified in the previous 2012 audit report, not including specific findings from the said audit report.

| Item | Flaw  | Recommendation   | Response                | Follow-Up Examination | Office of Comptroller Comments   |
|------|---|--|-------------------------|-----------------------|--|
| 1    | Jobs whose rank bracket was re-structured following the Director General's decision, even though Keren Hayesod does not have a formal position structuring process. | Position re-structuring will be done based on a formal procedure, against specific and clearly-defined criteria; also recommended that structuring decisions be made by a committee and not a single individual. | Recommendation accepted | Implemented           | In 2013, the delegations director position was re-structured. In 2014, the following positions were re-structured: project coordinator, HR personnel coordinator and administrative assistants in the Chairman's and Director General's offices. A formal procedure has not yet been drafted specifying uniform and clearly-defined criteria for re- |

| Item | Flaw  | Recommendation   | Response   | Follow-Up Examination | Office of Comptroller Comments   |
|------|---|--|--|-----------------------|--|
|      |   |  |  |                       | structuring positions or the approving committee.  |
| 2    | Procedures updated in 2001 do not reflect actual activities as concerns human capital.  | Adapt procedures to current work-flows and specifically examine cases where work-flows have changed. | Recommendation to prepare updated procedures was accepted. | Implemented           | Several updates should be made to the procedures in light of the comments indicated in the present audit report. |
| 3    | No interface between the work hours processing system and the salary system; manual entry; erroneous standardization of work hours. | Upgrade the work hours processing system.  | Recommendation accepted.                                   | Implemented           |  |
| 4    | Deducting salaries/vacation days for absence during core hours for individual contract employees even though                        | Conduct a legal review of the lawfulness and necessity of deducting employee salaries.               | Recommendation accepted.                                   | Implemented           |  |

| Item | Flaw   | Recommendation   | Response                 | Follow-Up Examination | Office of Comptroller Comments  |
|------|--|--|--------------------------|-----------------------|---|
|      | they made up the missing hours.  |  |                          |                       |   |
| 5    | No minimum or maximum limits for accumulated vacation days as common in public sector organizations. | Set a maximum deviation limit for over-quota vacation days and set a maximum limit on vacation day accruals. | Recommendation accepted. | Partially implemented | Procedure updated, but only partially implemented. See Chapter 3 to the present report.<br><br><b><u>Response of Keren Hayesod's Management Will be resolved.</u></b> |
| 6    | No management of Representative vacation days and no details in pay-slip.                            | Managing Representative vacation days and including details in pay-slips as customary.                       | Recommendation accepted  | Implemented           | Recommendation implemented since January 2015.  |
| 7    | No separation of duties in salary preparation  | Maintain separation of duties.   | Recommendation accepted  | Implemented           |   |
| 8    | Specifying work hours on pay-slips.  | Update pay-slip details and indicate number of actual work hours for each employee.                          | Recommendation accepted  | Implemented           |   |

| Item | Flaw  | Recommendation   | Response   | Follow-Up Examination | Office of Comptroller Comments  |
|------|---|--|--|-----------------------|---|
| 9    | No signed 101 Forms.  | Make sure that all employees sign 101 Forms at the start of each year.   | Recommendation accepted  | Implemented           |   |
| 10   | No formal process for determining overtime quotas. No limit on overtime hours employees may work. | To specify in the procedure that employees eligible for reporting-based overtime pay will be allocated a maximum overtime quota. | Recommendation accepted  | Partially implemented | <p>Procedure updated, but some employees have general overtime quotas exceeding 60 hours a month. See Chapter 5 to the report.</p> <p><b><u>Response of Keren Hayesod's Management Opposed to this change</u></b></p> |
| 11   | Distinguishing general overtime from actual overtime in employee pay-slips                        | Presenting general overtime as-is in pay-slips, adding the word 'general' and distinguishing them from actual overtime work.     | Recommendation accepted. Keren Hayesod is working and will work to resolve this complex issue, without exposing itself to legal actions. | Implemented           | Keren Hayesod still has exposure to lawsuits and accepts this risk in a controlled manner.  |

| Item | Flaw   | Recommendation  | Response                | Follow-Up Examination | Office of Comptroller Comments |
|------|--|---|-------------------------|-----------------------|--------------------------------|
| 12   | Wage agreement not approved by Ministry of Industry, Trade and Labor for Representatives' spouses, in that wages include severance pay components. | Submit Keren Hayesod's employment agreements for Representatives' spouses for Ministry of Industry, Trade and Labor approval. | Recommendation accepted | Implemented           |                                |

November 2015



**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.<sup>1</sup>

## **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 24<sup>th</sup> 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.

<sup>1</sup> 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 <sup>2</sup> | 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 determined by the  |

<sup>2</sup> Amended by the Presidium Resolution of June 11, 1991.

- 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      5. The Comptroller shall not, in the fulfillment of his  
Comptroller                duties,  
                                      be subservient to any body, and shall be responsible  
                                      solely to the Congress and to the General Council (in  
                                      accordance with Article 60, Section 6 of the  
                                      Constitution).
- Special Status            6. The Comptroller shall participate in an advisory capacity  
                                      in the Congress, the General Council, and their  
                                      committees, including the Finance Committee (in  
                                      accordance with Article 32. Section 3 of the  
                                      Constitution).
7. The status of the Comptroller shall be equal to that of a  
                                      Member of the Executive, and his salary shall be in  
                                      accordance with that status, and the status of the Deputy  
                                      Comptroller shall be equal to the status of a Deputy  
                                      Member of the Executive.
- Restrictions                8. (a) Neither the Comptroller nor his Deputy shall serve

on the executive of a controlled body; nor shall they hold any other paid office;

- (b) Neither the Comptroller nor his Deputy shall during their period of office purchase, lease, or acquire by gift any movable or immovable property belonging to any controlled body, nor shall they receive from such bodies any concessions, grants, or favors, except for land or a loan for the purpose of settlement or housing.
- (c) Neither the Comptroller nor his Deputy shall take up employment with a controlled body within three years of leaving office.

Secrecy

- 9. The Comptroller and his Deputy shall be bound to observe secrecy of all information, documents, or reports to which they have access in the course of their work.

### **C. Scope of Control**

Controlled Bodies

- 10. The following are the bodies subject to control by the Comptroller:
  - (a) All departments, enterprises, and institutions of the World Zionist Organization, both in Israel and in the Diaspora.
  - (b) The National Funds and every other fund of the World Zionist Organization, including their departments, enterprises, and institutions, both in Israel and in the Diaspora.
  - (c) Every company, enterprise, fund or other body in whose capital or budget the World Zionist Organization and/or the National Funds, together or separately, participate to an extent of 50 percent or more, or in which they have at least 50 percent of the voting rights.
  - (d) Every company, enterprise, fund or other body in whose capital or budget the World Zionist

Organization and/or the Funds mentioned in subsection (b), together or separately, participate to an extent of less than 50 percent, provided that the right of examination was a prior condition agreed upon with such bodies. The extent of such control shall be determined by agreement between the Executive and the Comptroller.

- (e) Every body subsidized by the World Zionist Organization, or other body, the examination of which is imposed upon the Comptroller by decision of the Congress, the General Council, the Finance Committee, or the Executive. The extent of such control shall be determined by agreement between the Executive and the Comptroller.

#### **D. Functions of the Control**

Details of Control

11. The Comptroller shall examine the administration of the controlled bodies, the condition and administration of their finances, their accounts, and their property, with respect to their legality, order, efficiency, economy, and integrity, and shall examine:
  - (a) Whether the controlled body functions in accordance with the Constitution and the directions of the Central Zionist Bodies;
  - (b) Whether the expenditure of the examined bodies was made within the scope of their budgets, as approved by the competent institutions, and for the purposes for which they were intended;
  - (c) Whether the procedures of the controlled body regarding receipts and payments is satisfactory;
  - (d) Whether the methods of safeguarding monies and property and the state of cash and supplies are satisfactory, and whether the accounts and balance sheets are accurate and prepared at the proper time;

- (e) Whether the controlled bodies operate economically and efficiently in all aspects of their work, while adhering to legal and moral principles;
- (f) Whether the auditing of accounts, if conducted by an auditor, is done at the proper time, and whether the controlled body complies with the auditor's directives.

Investigating  
Complaints

12. The Comptroller shall investigate complaints submitted to him by the public against any body or person subject to his control, as set forth in Section 10 above.

**E. Control Procedure**

Submission of  
Budgets by  
Controlled Bodies

13. A controlled body shall be obligated to submit its detailed budget to the Comptroller immediately upon its approval by the competent institutions, to inform the Comptroller of any changes in the budget, and to submit to him all documents pertaining to it.

Submission of  
Statements and  
Balances by  
Controlled Bodies

14. (a) Every controlled body shall be obligated to submit to the Comptroller an interim report on its income and expenditures for each fiscal year no later than four months after the end of such year, and six months after the end of the year, but not later than nine months, a balance sheet showing assets and liabilities as at the end of the fiscal year.

(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.<sup>3</sup>
- (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

<sup>3</sup> Amended by the Presidium Resolution of June 11, 1991

controlled body for appropriate action and shall notify the Chairman of the Executive and the Legal Counsel.<sup>4</sup>

- (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<sup>5</sup>

- 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.
- (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.

<sup>4</sup> Amended by the Presidium Resolution of June 11, 1991

<sup>5</sup> Amended by a Resolution passed by the Zionist General Council at its Session on February 21, 1974.

## **G. Reports<sup>6</sup>**

- 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 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

<sup>6</sup> 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.

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.

