

The State Comptroller

Annual Report 70A | 2020

Abstracts



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Foreword

Annual Audit Report 70A, which has been submitted to the Knesset, is the first part of the State Comptroller's report which will present the audit findings concerning the entities audited in 2019. For the most part, the report is focused on the areas of economics and national infrastructure, areas that are foundation stones, essential to the development of the economy and to the improvement of the lives of the State's citizens. The report also includes a broad and comprehensive audit of the burial system in Israel.

Upon my assuming the position of State Comptroller, a vision for the Office of the State Comptroller and Ombudsman was formulated, according to which –

The Office of the State Comptroller and Ombudsman shall conduct constructive, objective, and respectful audits, which are directed toward future challenges, promoting the assumption of responsibility by audited entities, enhancing their activities, and advancing the fulfilment of their objectives and maximizing the public benefit that can be derived from them.

The Office of the State Comptroller and Ombudsman shall act to achieve the objectives laid out in the law through professionalism, efficiency, and working independently and with organizational transparency, by aspiring to excellence and continual improvement, and grounded upon a workforce of auditors of the highest order in qualitative and ethical terms.



In line with my vision, we will act to position state audit as constructive, relevant and effective audit, dealing with the core areas of the audited entity, through focusing both on issues with a broad impact from the perspective of society and service to the citizen, and on the essential risks affecting the activities of the audited entity. Such audits will be undertaken in parallel with audit of subjects related to good governance and ethical practice.

This report is the first annual report that I will sign as the State Comptroller and Ombudsman, and it reflects the vision of the Office and the constructive audit reform framework.

Special emphasis by the Office of the State Comptroller was placed on conducting audits on systemic topics having broad national impact. This report details the findings of several systemic audits, including the audit of the **burial system in Israel**, in which a range of aspects of burial service provision to the general public were examined. The examination revealed significant deficiencies in this area, and consequently, recommendations for comprehensive reorganization in the area of burial service provision were formulated. These included recommendations to: intensify efforts to exploit to the maximum ground resources; adhere to the regulations intended to ensure that cemeteries are closed for burial when they are filled to capacity; be meticulous in ensuring that the number of plots that burial entities offer for sale at a full price is not greater than the number fixed by law; update the financial model to balance between the expenses of burial entities when opening new cemeteries and their income from selling burial plots; undertake long-term planning that will enable coping with the issue of anticipated lack of plots in areas of high demand; establish supervision and oversight policies related to planning offenses and construction within the cemetery grounds; be meticulous in following the regulations requiring the vaccination of employees handling the deceased; organize the system regarding burial of non-Jews. The entities involved in the area of burial must act to repair the deficiencies so that the principle of respecting the dead will be implemented vis a vis everyone according to their beliefs and traditions. It is worth noting some initiatives that have already been advanced in this area for the benefit of citizens, among

which are the establishment of a call center for the public and the launching of a navigation app for graves.

Each year, the Office of the State Comptroller will focus on areas designated as national objectives. This year, within this framework, aspects of the **national housing project “Buyer’s Price”** were examined. This is the State’s flagship project for dealing with the housing crisis and assisting young couples and individuals who do not own a home to purchase one at a reduced price. To implement the project, the State invested numerous resources and awarded those eligible significant discounts in the price of land. Accordingly, the National Housing Headquarters, the Ministry of Housing and the Israel Land Authority must examine the mix of apartments being offered and their location and do their utmost to shorten timetables and prevent delays in the apartment construction chain, so as to advance as much as possible their handover to those eligible to purchase them.

The Office of the State Comptroller began, in 2019, to conduct an in-depth study of the health system’s preparedness for dealing with diseases that could lead to high levels of infection and difficult challenges for public health. These included flu, hepatitis and ebola epidemics. The report was passed on to the audited entities in November of 2019 for their responses and was given to the Prime Minister on February 14, 2020. The situation that prevailed in China in December of 2019, toward the time at which the audit was completed - demonstrated the great danger involved in the spread of the Corona epidemic; and at the time the report was given to the Prime Minister, the virus had not yet appeared in Israel.

The audit found deficiencies regarding the preparations at the Ministry of Health, the health funds, and with the hospital system – with respect to their ability to deal with new and spreading diseases. It appears that pursuant to the Ministry of Health’s scenario, it was expected that – upon an outbreak of the flu virus – some 2.25 million Israeli residents (approximately 25% of the population) would become ill; the increased infection rate would take place over the course of some eight weeks, and during that time some 150,000 new patients would

require hospitalization; an additional 25,000 new patients approximately would need to be hospitalized in intensive care units and another 12,500 patients would need to be placed on respirators. The instructions regarding the necessary arrangements do not refer to the number of isolation beds that would be required. It should be noted that the hospital system is overburdened at all times. Many departments in the general hospitals are working at overcapacity levels already and there is a definite shortage in ICU beds.

The review showed that the Ministry of Health does not have a plan to fill in the gaps regarding the number of hospital beds, or the gaps in terms of medical staff and equipment needed in the event of a flu pandemic in order to enable appropriate care for the many patients who will need hospitalization in such a situation.

The preparedness plan provides that the system needs to supply stocks of sufficient anti-viral medications to provide for 25% of the population. But the audit found that the stock of these medications is sufficient for only 16% of the population.

This chapter demonstrates the manner in which the Office of the State Comptroller's policy was implemented in terms of conducting a constructive and effective, forward looking system audit that deals with risks before they are actually realized.

The chapter can be seen to be even more important in light of the World Health Organization's announcement on March 11, 2020 that Corona has reached the level of a world pandemic.

I hope that this chapter, which as noted was submitted before the outbreak of the Corona virus in Israel, has helped the relevant parties to make the best possible decisions, and has contributed to the preparations being made by the Ministry of Health and the Israeli government for prevention of the outbreak of the Corona virus in Israel; and that now, with its publication, it will increase the public's awareness of the need for following instructions from the competent authorities regarding such prevention.

My office also focused on the subject of **decision-making in the Ministry of Finance in the following areas: meeting the target deficit for 2018; forecasted revenues for 2019; and salary increases because of lack of occupational security.** The audit revealed that the actions of the accountant general and the tax authority toward the end of 2018, regarding which no authoritative irregularities were found, led to meeting the deficit ceiling at a rate of 2.9% of the gross domestic product (GDP). Nevertheless, these actions were undertaken without any consultations or discussions having been held. The updated revenue forecast for 2019 was presented to the government only in January 2019, after the State budget had already become binding. The updated forecast presented a deficit of 3.6% of the GDP (7% more than forecast), and this had implications for the government's ability to meet its targets; cooperation in the decision-making process in the Ministry of Finance was harmed as a result of the fact that relations within the Ministry, as discovered by the audit team, were not optimal. Considering the significant cost of the lack of an occupational safety scheme, which totaled 22 billion shekels, the process of authorizing this scheme was completed within a very tight schedule and accompanied by significant budget cuts in order to fund it. The Ministry of Finance, which plays a central and essential role in strengthening the Israeli economy, must make decisions in an orderly and inclusive fashion that will enable it to cope with future challenges. It would be appropriate to draw conclusions about the government's handling of the agreement for salary supplements in the case of lack of occupational security, with an eye to the future, and to map agreements and exposure bearing economic significance, and to hold orderly discussions about these issues and to make decisions ahead of time.

In my view, the types of audits performed by the Office of the State Comptroller should be diversified and move forward into the area of financial audits. In this framework, the subject of the **construction of the new sea ports and readiness for competition among the ports** was examined. The sea ports function as a primary gateway for the entry of merchandise and goods into the country and, consequently, make a crucial contribution to increasing competition and reducing the cost of living in a concentrated and isolated market such as Israel. Since 2005, the government has been promoting significant changes

in the sea port industry in Israel. The peak of these changes is expected to occur in 2021, with the start of operations of the new sea ports – the Haifa Bay Port and the South Port. The Israel Ports Development & Assets Company (Israel Ports) and the Ministry of Transport must advance an updated master plan upon which basis the necessary actions for developing the port industry in Israel can be determined. The Ministry of Transport, Israel Ports, the Ministry of Finance, the Haifa Port Company and the Ashdod Port Company must take the necessary steps as soon as possible to ready the existing ports for the expected competition, in order to ensure that the port sector in Israel will be competitive in all areas of operations.

An additional important economic area that is discussed in the report is economic aspects of the **arrangement of assets and the reform in the electricity sector**. In 2018, after negotiations that extended over two decades, the State and the Israel Electric Company reached agreement on all the issues related to arrangement of proprietary rights regarding assets held by the company and to changes in the electricity sector. The formulated arrangement provides the company with not insignificant monetary benefits and leaves in its hands proprietary rights of over 200 critical properties and of thousands of secondary operational assets, whose overall monetary value is unknown. In return for this, the company will return to the State 16 properties for the benefit of the public valued at 1.6 to 2.5 billion shekels. The arrangement contributed to the financial soundness of the Israel Electric Company. It is important that all the entities involved in the arrangement of properties and the reform work to realize fully the various agreements between the State and the Israel Electric Company (IEC), for the benefit of both sides as well as the public. An examination of the results of agreements made between the Ministry of Finance and the IEC and government companies in previous cases for which the concession period has ended*, indicates a lack of a strategy for handling the return of properties at the end of the concession period, even when there exist explicit instructions regarding division of the assets. Therefore, the Ministry

* The property arrangement with the Bazan Group Oil Refineries Ltd., Petroleum & Energy Infrastructure Ltd., and Oil Products Pipeline Ltd.

of Finance must formulate as soon as possible regulations for allocating concessions and handling the return of State assets and drawing conclusions from the way the State handled the properties held by the IEC during the past two decades. This should be done with an eye to the future, taking into account the distinction between companies intended to be privatized and companies meant to continue holding the properties.

Another section in the report deals with the subject of **transport of cargo on trains**. It was found that even though the economy is expected to benefit greatly from cargo transport by train in a variety of ways, the scope of cargo transport by train has dropped in recent years, and the sector suffers from a lack of infrastructure: The eastern tracks have yet to be completed, depots that have been built are closing because of problems related to protection of the environment, and the construction of new depots and extensions has been delayed for years. The cargo sector suffers from inferiority in terms of accessibility to track infrastructure because of the priority given to passenger transport, and it is characterized by lack of operational efficiency. Israel Railways has not increased the amount of cargo it can transport and has not exploited the potential of this type of transport. Even though already in 2012, the government decided to establish a subsidiary corporation in an attempt to privatize the area of cargo transport by train and increase its scope of activities, its establishment did not produce the hoped-for results. The financial soundness of the subsidiary was impaired and it incurred heavy losses already in its first year of operations, and due to these, it was unable to exist on its own. The Ministry of Finance, the Ministry of Transport and Israel Railways must work to repair the deficiencies raised in the report to increase the scope of cargo transport by train significantly. They must do this through realizing the substantial financial potential the economy and society can generate through cargo transport given that cargo transport by train instead of trucks is liable to improve the safety of people travelling on the roads.

As the State Comptroller, I place great importance on examining subjects that may affect the lives of the country's citizens, among which are the interface between citizens and government bodies. The role of the government and the

public sector is to serve the state's citizens while reducing the bureaucratic burden to the utmost. The audit of the **government's actions to reduce the bureaucratic burden** revealed that sometimes the public bodies imposed on businesses an excessive regulatory and bureaucratic burden that made it difficult for them to plan their business activities, to carry these out or to expand, and sometimes it even contributed to the closure of businesses. In the end, consumers are the ones who are forced to bear the burden, which causes, inter alia, the cost of living to increase and hurts economic growth, work productivity, residents' standard of living and revenues from state taxes. According to estimates made regarding this subject, not reducing the regulatory and bureaucratic burden by 30% entails a one-time loss of 58 billion shekels. We noted the government activities in the past few years to set up infrastructures and mechanisms that will allow it to estimate in advance the impact of new regulations. Nevertheless, this is insufficient. The government must invest concentrated and creative efforts to reduce the bureaucratic and regulatory burden and work continually to improve processes and procedures.

The Office of the State Comptroller puts special emphasis on tracking the rectification of deficiencies detailed in our reports, and it is my intention to significantly strengthen this trend and every work year to select a number of subjects to follow up on. This report includes a report tracking **the actions of the tax authority vis-à-vis the subject of diesel fuel arrangements**, in view of the audit report on this subject published in 2015. The diesel fuel arrangement was intended to reduce the damage to economic sectors in which diesel fuel and motor vehicles are the main means for creating income. The cost of the diesel fuel arrangement to the Israeli economy in 2018, because of subsidies to entities included in it, was approximately 3.59 billion shekels. In the previous report, it was shown that the tax authority was not handling the diesel fuel arrangements appropriately, and that it was not achieving its objectives and was creating a negative incentive to using green types of non polluting fuel. The present audit found that some deficiencies were rectified, some were partially corrected and some were not fixed at all. Until the completion of the reduction in the diesel fuel arrangement, the tax authority must act to rectify all the deficiencies that have not yet been fixed.



In summary, it is my pleasant obligation to thank the employees of the Office of the State Comptroller, who work devotedly to conduct examinations and audits professionally, in-depth, thoroughly and fairly, and publish objective, effective, relevant and clear audit reports.

The responsibility for acting quickly and efficiently to fix the deficiencies noted in this report, to enable the economy to grow and to improve the quality of life for all the State's citizens, rests with the audited bodies.

Matanyahu Englman

State Comptroller
and Ombudsman

Jerusalem, March 2020





State of Israel
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Chapter 1

Issues of Broad Importance



State of Israel
State Comptroller and Ombudsman
Annual Report 70A | 2020

The Israeli Burial System

Abstract

The Israeli Burial System

Background

The right to be buried is a fundamental right embodying numerous ethical values, including the inherent human right to be interred with dignity in accordance with one's faith. The Jewish Religious Services Law [Consolidated Version], 1971 (Religious Services Law), authorizes the Ministry of Religious Services (the Ministry) to regulate the activities of burial entities as well as the sale and purchase of burial plots. According to the law's implementing regulations, burials must be carried out by entities with a burial license, and burials are exempt from payment with the exception of an amount set for certain plots which aren't exempt from payment. The majority of funding for future cemetery development derives primarily from the fees that burial entities are permitted to charge the public for the sale of burial plots. Most of the land for burial is allocated by the state to the burial entity or to the local municipality for a symbolic lease fee through the Israel Lands Authority (ILA). The National Insurance Institute (NII) pays the burial entities a burial fee to finance burial day expenses and for cemetery maintenance. Due to a land shortage, several government decisions and a national outline plan for cemeteries (NOP 19) have determined that saturated burial (multi-layered) should be preferred over field burial. According to the law, burials should be carried out on grounds designated for this purpose in accordance with a detailed zoning plan.

Key figures

44,000

number of deceased per year in Israel

940

active cemeteries in Israel

577

licensed burial entities

12,400

dunams (1240 hectares): the total area in use for burials in Israel

21%

percentage of deceased buried in saturated burial from 2015-2017 (in three of the four cemeteries, where a large number of deceased were buried, the rate was between 55% and 81%)



The price of burial plots in Israel

NIS 0

payment for a burial plot for a deceased in a plot exempt from payment

NIS 3,712

minimum price for a plot purchased while alive

NIS 15,361

maximum price for a plot purchased while alive

NIS 20,000

minimum price charged in practice for an exceptional burial plot

NIS 12,000

minimum price charged in practice for a burial plot in a closed cemetery


NIS 80,000

maximum price charged in practice for an exceptional burial plot

NIS 80,000





maximum price charged in practice for a burial plot in a closed cemetery

Scope

 From February to October 2018, the State Comptroller's Office examined the provision of burial services in Israel to Jews and other religious groups. The audit was carried out at the Ministry of Religious Services, the National Insurance Institute, the Planning Administration, and the regional planning bureaus in the Ministry of Finance, the Israel Lands Authority, the Ministry of Health, the Foreign Ministry, the Department of Religious Groups in the Interior Ministry, and at Jewish and non-Jewish burial entities. Supplemental examinations were performed at the Ministry of Finance, the Justice Ministry, the Population and Immigration Authority, and the Israel Police. In order to conduct the audit, the State Comptroller's Office sent audit questionnaires to all the burial entities that the State Comptroller declared to be subject to audit.

1. Regulating the provision of burial services

Key Findings

-  The Ministry of Religious Services (the Ministry) has yet to complete the legislative procedures that it believes are required to regulate many matters pertaining to burial.
-  The Ministry did not fully implement government decisions on saturated burial in coordination with other entities. In the 30 largest cemeteries, some 64% of deceased were buried in a Jewish or civil burial. In 17 of them, "saturated" burial was not performed at all from 2015 to 2017. We note that in three of the four cemeteries where a large number of deceased were buried, the rate of saturated burial was between 55% to 81%.
-  In addition to 577 licensed burial entities operating in the period reviewed, dozens of burial entities operated without a valid Ministry license. The Ministry has not taken sufficient action to deal with the matter together with law enforcement bodies.
-  The license renewal process, especially for small burial entities, was found to contain duplications, constituting a bureaucratic burden on applicants.



During the audit, the Ministry made progress in computerizing burial work processes, including computerizing the burial license issuance process.

Key recommendations



The Ministry must work to promote the Burial Services Bill and solve disputes with other ministries.



Together with other relevant enforcement bodies, the Ministry must formulate a plan of action to eliminate the instances of unlicensed burial.



The Ministry must ensure that the process of reducing the regulatory burden on applicants for licenses goes ahead as planned, including the extension of licenses to a period of five years. We recommend re-examining the scope of documentation required in order to avoid duplicate documentation submission requirements and duplication in checking documentation.

2. Exceptional burial plots

Key Findings



Even though they had previously been declared closed, we found three cemeteries where approximately 4,500 burial plots with a value of roughly NIS 141 million were sold. These cemeteries did not allow burials in plots for the general public which are exempt from payment.



The NII allowed two burial entities, controlling several cemeteries: to convert around 4,800 lots between the cemeteries under their control, to change the status of plots in one cemetery where there is high demand for cost-exempt plots. Consequently burial plots designated as free of charge were converted to exceptional plots that can be sold at a high price. This maximized the revenue potential of the burial entities from the sale of exceptional plots while reducing the supply of cost-exempt plots in cemeteries with high demand for plots. The funds were designated to finance cemetery development costs.

- ❗ For special burial plots (closed cemeteries and exceptional plots) no fee has been determined by law. In seven burial entities, amounts in excess of 200% of the rate of the fee for purchasing a burial plot while still alive were charged; these amounts ranged from NIS 30,000 to NIS 50,000 for closed plots, and NIS 22,500 to NIS 80,000 for exceptional plots, without any cost analysis by the burial entities or any supervision by the regulatory agencies.

Key recommendations

- 💡 The NII must periodically examine the number of plots sold in closed cemeteries after their closure and the number of free plots remaining in them. The Ministry of Religious Services should recommend to the Minister that he consider the annulling the declaration of cemeteries as closed if it is possible to conduct burials within them beyond what has been determined by internal NII procedures.
- 💡 The NII must instruct the burial entities to stop selling the public exceptional plots that were authorized in violation of regulations and allocate them as exempt burial plots; it should also conduct an audit of the burial entities in this regard.
- 💡 For burial in closed and exceptional plots, burial entities should charge a justifiable, reasonable, proportionate fee, in which development costs will be taken into account in view of the importance of allowing a citizen who wishes so to be buried next to his loved one in an exempt plot. We recommend that the Ministry of Religious Services consider regulating this matter in a manner that determines a price ceiling for exceptional plots and plots in closed cemeteries while considering the various burial entities development needs.

3. Burial of overseas residents in Israel

Key Findings

- ❗ The burials of about 20% of those who passed away overseas (1,073 of 5,416), authorized by the Ministry of Foreign Affairs for burial in Israel between 2015 and 2017, were handled by seven unlicensed burial entities.



During the audit, the Ministry issued two director general circulars with regard to burials containing guidelines for setting the maximum fee for the sale of a burial plots to overseas residents.

Key recommendations

- 💡 Prior to authorizing the burial of a deceased in Israel, the Ministry of Foreign Affairs must ensure that the deceased is buried by a burial entity holding a valid burial license issued by the Ministry for Religious Services.
- 💡 All entities engaged in burial in Israel must stop the practice of bringing deceased to Israel for burial by burial entities not holding a valid license.

4. The necessity of examining the suitability of the financing model to meet the burial entities' development needs

Key Findings



- 👎 According to the model used for decades, the burial entity should finance the development and maintenance of cemeteries under its responsibility from its revenue. This model provides the burial entity an incentive to increase its revenue from the sale of exceptional burial plots (and similar income sources) in order to finance general development costs, especially in light of the increase in cost as a result of the transition to saturated burials.

Key recommendations

- 💡 All relevant entities - the NII, the Ministry of Religious Services, and the Ministry of Finance - must re-examine the financing model for development and maintenance of cemeteries. As part of this re-examination, it is necessary to consider whether the model fits current needs or whether it needs to be improved and supplemented. It is necessary to take into account the reasonability, proportionality, and equality of the public's and the state's needs, current costs, and the financial capabilities of the burial entities.

5. Planning burial land, allocating them to burial entities, and supervising their use

Key Findings



- ❑ In the following decades, a shortfall of 1.5 million burial plots is forecasted for the central and Tel Aviv regions.
- ❑ The Planning Administration has not completed preparing plans to provide the public with long term burial solutions. It has not instructed regional planning bureaus to create region-wide plans for long term burial solutions.
- ❑ The Planning Administration does not have an assessment of the detailed planning status of cemeteries in Israel regarding the suitability of cemeteries to the public's needs, including the issue of accessibility. Only 24% of cemeteries have approved detailed plans.
- ❑ Burial entities conducted burials on land prior to its designation as a burial site and prior to the land being allocated to them. Enforcement authorities have incomplete information regarding planning and building code violations related to burial and they rarely use enforcement tools.
- ❑ We found building code violations connected to burial operations, some on the scale of thousands of burial plots, on land that is not designated for burials and extending to territory outside of the cemetery. Sometimes, these incursions impede other development plans for the land, for example transport and residential uses.
- ❑ A questionnaire distributed to all the burial entities found that 52% of the cemeteries had no disabled parking spots. We found cemeteries where accessibility has deteriorated, over the years, as burial plots were constructed on paths designated for cemetery visitors.
- ❑ The planning bureau in Judea and Samaria lacks the necessary information for planning burials for the Jewish population of Judea and Samaria. Furthermore, burial solutions for many Jewish residents of Judea and Samaria are not regulated, and it was found that only 12 of 60 communities audited had organized cemeteries. The lack of a burial solution is pressing in two large communities - Beitar Illit and Modiin Illit.



The Ministry has added to the funding criteria the possibility of receiving support for planning and carrying out adaptations needed to provide handicapped access.

Key recommendations



The Planning Administration must complete a prioritized program to map the planning status of all cemeteries where burials take place based on the size of cemeteries and the number of burials that take place in them. The Civil Administration must complete the preparation of a survey to locate areas to establish cemeteries, examine the full complement of burial needs, and prepare a regional cemetery zoning plan. Until a formal plan has been implemented, we suggest considering, in coordination with the Ministry of Religious Services, formulating burial arrangements for local residents among municipalities that have cemeteries within their jurisdictions and those that don't.



Enforcement authorities, primarily the department for the enforcement of land laws and the national enforcement unit, must coordinate their efforts to promote enforcement and to establish aspects of designated enforcement policy regarding zoning and construction code violations concerning burial.



The Ministry must review the current situation with regard to handicapped accessibility to cemeteries and require burial entities to prepare plans to improve accessibility and assist them in implementation.

6. Burial fees

Key Findings





Welfare ministers have not updated burial allowances as required by the government decision of May 2013.






Burial entities do not receive burial allowances from the NII for a significant number of deceased (7.5%). The NII and some of the burial entities audited did not act proactively to ensure full utilization of the right to receive burial allowances.

Key recommendations

-  The Minister of Welfare and the NII must, without further delay, complete the process of updating burial allowances, taking into account new burial methods and the possible economic impact of regulatory provisions added since the economic study carried out in 2007.
-  The burial entities must work systematically and in cooperation with the NII to fully utilize their right to receive burial allowances.

7. Service to the public

Key Findings

-  The maintenance of ancient burial sites in Israel requires improvement.
-  Burial entities have not kept adjacent plots for relatives of the deceased, not even for the period of time required by the Jewish Religious Services Law, i.e. 45 days.
-  The Ministry of Religious Services and the Ministry of Health have not ensured that burial entities adhere to guidelines regarding the requirement to vaccinate ritual body cleansers. In all the burial entities that we audited, we found that the ritual cleansers were not vaccinated as required. Only some cemeteries have allocated means to ensure the health of the ritual cleansers, e.g. single use gloves and aprons, anti-bacterial soap for washing hands, and a shower for use after ritual cleansing.



The Ministry published a procedure regarding the burial of stillbirths, fetuses, infants, and children.




The Ministry published a procedure for the professional training of burial workers.

The forum of burial societies (Hevrot Kadisha) established and operates a call center to provide information and assistance in the removal of the deceased.

During the audit, the Ministry issued a director general circular with guidelines for the vaccination of ritual cleansers and the operations of ritual cleansing facilities.



The Ministry initiated an amendment to the Jewish Religious Services Law (2016) with regard to the sale of services and products at the time of removal of the deceased.

Key recommendations

-  The Burial Department at the Ministry for Religious Services must articulate a policy on ancient cemeteries for local authorities or any other entity decided upon, and supervise its execution.
-  The Ministry of Religious Services must determine the tools and means to monitor how burial entities handle the issue of upholding family members' right to purchase the burial plot adjacent to the burial plot of their loved one.
-  The Ministry of Religious Services and the Ministry of Health must ensure that burial entities adhere to guidelines regarding the requirement to vaccinate ritual body cleansers.

8. Burial services in and around Jerusalem



Key Findings

-  Burial entities in Jerusalem limit the burial services they provide and the possibility to purchase a burial plot for a deceased or by the living, based on their discretion.
-  The conditions of the buildings and adjacent facilities for burial in Jerusalem require improvement.






The Jewish Cemeteries Council in Jerusalem reported that it is currently renovating the Shamgar Cemetery in Jerusalem.

Key recommendations

-  The Ministry must instruct the burial entities to set standards by which burial plots designated for field burial are to be allocated to residents of Jerusalem, in a way that upholds the principle of equality and prevents discrimination against persons who do not belong to the community that the burial entities serve.
-  The Jewish Cemeteries Council in Jerusalem, the Jerusalem Municipality and the Ministry of Religious Services must map accompanying burial services provided by cemeteries in Jerusalem and formulate a plan to correct irregularities raised by the audit.

9. Burial services for non-Jewish communities

Key Findings

-  Burial in non-Jewish communities has not been regulated. Neither the powers of the Non-Jewish Department of the Ministry of the Interior (Religious Communities Department) as the regulating body nor the responsibility of another binding entity in this matter, including local authorities, have been defined.
-  In some cemeteries of non-Jewish communities there is a lack of basic facilities for visitors; maintenance is poor, the placement of graves is not regulated, and graves are sometimes placed in a way that wastes land resources and are inaccessible to the public, and all the more so to people with limited mobility. We found that only one-quarter of graves examined, not managed by a licenses burial entity, were accessible by paths.
-  Whenever burial entities are not involved in burial and preparation for burial, responsibility for burial is left to those taking care of the deceased, usually their families. However, no entity has been authorized to instruct families with regard to precautionary health measures.



The Religious Communities Department at the Ministry is working on allocating budgets to develop cemeteries for non-Jewish communities providing budgetary assistance. In April 2012, NIS 6 million was allocated for a period of three years.

Key recommendations

- 💡 The Office of the State Comptroller recommends that the Ministry of the Interior and the Ministry of Religious Services work to regulate the issue of the burial of deceased from non-Jewish communities; we also recommend defining the powers of the Religious Communities Department at the Ministry of the Interior with regard to the regulation of burial of members of non-Jewish communities.
- 💡 The Religious Communities Department must continue its efforts to increase the number of authorized burial entities among non-Jewish communities.
- 💡 Until the obligations regarding burial of members of non-Jewish communities are regulated through authorized entities, we expect local authorities to exercise their authority to ensure that burial in cemeteries in their jurisdiction is regulated and that utilization of land therein is maximized.
- 💡 The Religious Communities Department must work to adapt and implement existing public health regulations in coordination with the Ministry of Health in all aspects regarding the burial of members of non-Jewish communities.

Summary

In this audit, we checked many aspects of the burial service apparatus in Israel and of the state entities involved in the matter: The Israel Lands Authority, the Planning Administration, the Ministry of Religious Services, the National Insurance Institute, and the Ministry of the Interior. The audit findings indicate flaws in the work of these entities, in the operation of burial services, in allocation of land for burial, and in supervision and monitoring of the field. The flaws listed in the report impinged on the dignity of the deceased and harmed their families, both financially and in terms of poor public service.

The importance of preserving the dignity of the deceased is a universal convention of all nations and religions, each in its unique way. The State of Israel allocates extensive resources to provide the public with burial services at a satisfactory level in their time of loss. This report emphasizes the need for all relevant entities to study and correct the findings raised by the audit so that each person can, according to his or her beliefs and practices, realize the fundamental right on which this burial system is based.

The project initiated by the *Kehilat Yerushalaim* Burial Society to construct an underground saturated burial tunnel at the Har Hamenuhot cemetery in Jerusalem



Photo: Audit team, State Comptroller's Office, May 2018



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Preparation for Competition at Sea Ports

Abstract

Preparation for Competition at Sea Ports

Background

The Israeli economy is highly dependent on foreign trade and some 98% of foreign trade passes through sea ports. There are four sea ports in Israel: Haifa and Ashdod ports operated by government companies (the Haifa Port Company Ltd., aka HPC, and the Ashdod Port Company Ltd., aka APC), and private ports in Eilat and Haifa (Israel Shipyards). Israel Ports Development and Assets Company Ltd. (IPC) is responsible for the development of infrastructure at the ports.

Further to a government decision to encourage competition in the ports sector and benefit the economy, two new ports are expected to commence operations in 2021: Bayport near HPC and Southport near APC. The new ports will enable large ships to dock, operate with advanced technologies, employ limited personnel, and divert much business from existing ports. This report examines the preparedness of the existing ports operated via government companies to face their future competition.

Key figures

98%

the percentage of foreign trade that passes through ports

59 million tons

total cargo passing through Israel's four ports in 2018

2.9 million TEU*

total movement of container ships through Haifa and Ashdod ports in 2018

15,300 TEU

the capacity of ships that can be handled at the government-operated ports in Haifa and Ashdod

18,000 TEU

the capacity of ships that can be handled at Bayport and Southport

NIS 1 billion

Ministry of Finance evaluation of damage caused to the economy by the lack of competition in the ports sector

NIS 143 million

expected operating loss for the government-operated ports in Haifa and Ashdod in 2023, according to the Ministry of Finance forecast








***TEU – twenty-foot equivalent unit**

Total movement of container ships through Haifa and Ashdod ports in 2018

Scope

 From July 2018 to February 2019, the State Comptroller's Office examined the preparation of the various entities for the operation of the new ports and the competition they are expected to represent. The audit was carried out at the Ministry of Transportation and Road Safety, the Ports and Ships Authority, the Ministry of Finance-Budgets Department, IPC, HPC, APC, and at the Government Companies Authority.

Key Findings

-  **The completion of strategic and business plans by the existing government ports companies - Haifa and Ashdod - has been delayed.** This could lead to the existing ports not being ready for competition when the new ports commence operations.
-  **IPC has reduced its investments in the existing ports** in Haifa and Ashdod from some NIS 247 million on average between 2005 and 2010 to NIS 32 million on average from 2011 to 2018. Consequently and absent alternative sources of finance, it is doubtful if infrastructures at existing ports can be adapted for competition.
-  **Adaptation of infrastructures at HPC** for the docking of large container ships has yet to commence and it seems that development may be delayed until 2033.
-  **Doubts exist with regard to the ability of APC to meet timetables to adapt infrastructures there** to take in large ships when competition commences in 2021.
-  **The lack of agreement on a quota of retirees at APC and HPC** could expose the companies to the risk that there will not be sufficient retirees to ensure the financial stability of the companies and their ability to take efficiency measures as required.
-  **Regulating the transfer of the sea departments at Haifa and Ashdod port to IPC has yet to be completed,** even though IPC and the management of both HPC and APC have worked to advance the issue. The transfer is a condition for equal competition among the various port operators.
-  **A land agreement has yet to be signed** between IPC and the Haifa and Ashdod ports companies, even though this issue has been under discussion for 14 years. A land agreement is an essential condition for upholding an agreement of principles and preparing HPC for competition.








With the commencement of operations of the new ports - Bayport and Southport - in 2021, **competition in the ports sector in Israel is likely to become more sophisticated and generate benefit for the entire economy.**

An agreement of principles was signed between HPC and the port employees that could advance, inter alia, the company's preparations for expected competition.

An agreement was signed on efficiency measures by HPC with regard to personnel, although the agreement has yet to be carried out and is based on voluntary retirement.

Key recommendations

-  **The State Comptroller's Office recommends that the Ministry of Transportation, IPC, and the ports companies** study and make a decision on infrastructure upgrades at the ports, including deepening the port in Haifa to enable it to serve ships of different sizes. Furthermore, all entities involved must work to adopt and develop suitable frameworks to finance IPC investments in infrastructure at the ports and define lines of the IPC's responsibility to finance these investments in order to enable the future advancement of necessary infrastructure projects at the ports in Haifa and Ashdod.
-  From time to time, the HPC, the Ministry of Transportation, and the Ministry of Finance must study the necessary efficiency measures required in the operations of the port in Haifa - especially from the personnel aspect **-and ensure that the number of retirees in practice is sufficient to endure the financial future of the port company.**
-  APC and the Director of Salaries at the Ministry of Finance **must accelerate negotiations on the efficiency measures agreement with company employees,** to generate savings in the company's expenses and improve its financial situation ahead of the entry of private competitors.
-  During negotiations on efficiency agreements at government companies, including in the field of personnel, **company management must play an active role.**
-  The IPC, the Ministry of Finance and Ministry of Transportation must, further to the agreement of principles signed by the HPC, must **complete the required measures in order to fulfill the obligations** stemming from the instructions of the agreement of principles these entities assumed as part of the documents of obligations they signed.

- 💡 Further to the agreement of principles signed on the subject, the Ministry of Finance, the Ministry of Transportation, and the Government Companies Authority must **complete an evaluation based on the value of the ports, including real estate**, as a condition for advancing the process of privatization of the port in Haifa. We recommend the timing of the preparation of the evaluation be defined in the procedures of the Government Companies Authority as part of the privatization procedures.
- 💡 IPC, the Ministry of Transportation, the Budgets Department, the Government Companies Authority, and the Director of Salaries at the Finance Ministry, in cooperation with the management of the ports must **complete the regulation of the activities of all sea departments** so they may provide their services to various operators.

Summary

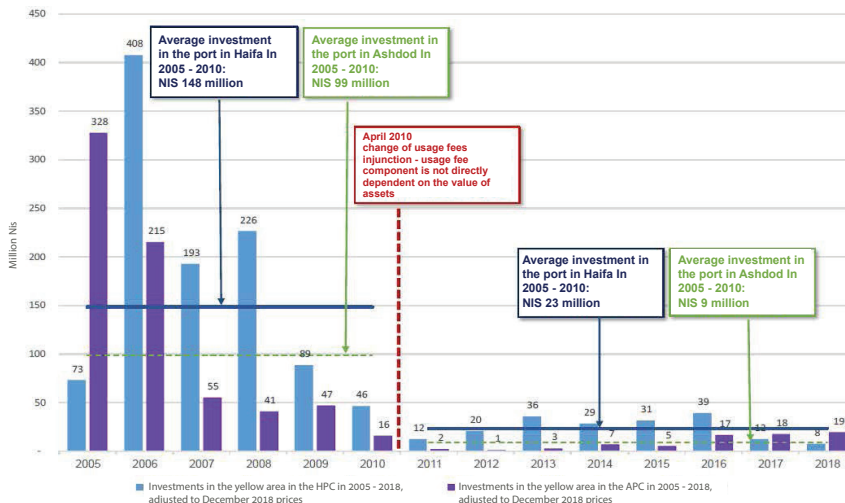
The Ministry of Transportation, the Ministry of Finance, the IPC, the Ports and Ships Authority, and the management of the Haifa and Ashdod ports have yet to complete the preparation of existing ports for competition expected in essential fields, i.e. adapting port infrastructures and personnel. When the new ports commence operations in 2021, the infrastructure of the port in Haifa will not be able to provide docking for large container ships, and there is doubt regarding the readiness of infrastructures the port in Ashdod. Given the fact that efficiency measures affecting personnel have not been carried out, the financial stability of the existing ports companies could be hurt. Consequently, competition between the ports, cost savings, and improved efficiency might also be impacted. Implementation of the recommendations of this report will contribute to advancing competition in the sector.

The boundaries of the Haifa Port and Bayport (the new port)



Source: Israel Ports Company

Investments by IPC in yellow areas at the Haifa and Ashdod ports companies 2005-2018 (in thousands of shekels adjusted to December 2018 prices)



According to the figures of Israel Ports Company, processed by the State Comptroller's Office.



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Government Actions to Reduce the Bureaucratic Burden on Businesses

Abstract

Government Actions to Reduce the Bureaucratic Burden on Businesses

Background

The administrative authorities in the state determine, inter alia, the conditions (hereinafter administrative requirements) for the operations of the business sector. When it comes to business licensing, the purpose of regulation is, inter alia, to preserve public peace and keep the public safe from various dangers. The administrative requirements for the public are intended to preserve public resources and allow scrutiny and control before one right or another is granted. At the same time, these requirements are bothersome and represent a bureaucratic-administrative burden (henceforth: bureaucratic burden or burden) for entrepreneurs, business owners, and businesses themselves, and should be reduced to the absolute minimum need.

Key figures

NIS 58 billion

4.6% of GDP: the one-time estimated increase in economic activity were the bureaucratic burden reduced by 30%

55,000

businesses open in Israel every year 42,000 businesses close every year 500,000 active businesses in Israel

59

Israel's ranking among 140 countries in the 2018 World Economic Forum (WEF) survey in the "regulatory burden" rubric

35

Israel's ranking in the World Bank's Doing Business Report 2020. 49th: Israel's ranking in 2019.

11 days

the average time required to register a business with the various authorities in Israel in 2019

24%

the percentage of applications for a building permit submitted to local committees that were authorized only after more than year


11

of ~200 businesses for which a "specification" was written by March 2019 containing the requirements the business has to meet





200 days




the average time to receive a building permit. There are 20 authorizing entities whose authorization is required to receive a building permit including departments at local authorities and various government offices

Scope

 From September 2018 to January 2019, the State Comptroller's Office examined aspects connected to the reduction of the bureaucratic burden imposed on the business sector as a whole, and on industrialists in particular, at several government ministries. At the Ministry of Economy and Industry, we examined the measures taken to reduce the bureaucratic burden on industry, while at the Tax Authority we examined the process of registering a business and the process of making tax payments to the Authority. Supplemental examinations were carried out, inter alia, at the Prime Minister's Office, the Department of Business Licensing, the Planning Administration, the Israel Lands Authority, and the National Fire and Rescue Authority.

Key Findings

-  The World Economic Forum (WEF) has found that ineffective government bureaucracy is the one factor most responsible for creating the greatest difficulties for businesses in Israel. Government ministries have yet to study or implement the use of shared service centers in many areas, e.g. allocating land for industry, issuing a building permit for industrial and labor purposes, and licensing businesses at the Ministry of the Interior.
-  Many government ministries have yet to formulate a program to reduce regulation as required by the 2015-2019 five-year plan. Of the 370 programs that should have been formulated by the end of the five-year program, only 160 programs had been formulated. Of these 160, some were only partially carried out.
-  Tax directives in Israel are complex. Directives are scattered among the Income Tax Ordinance, orders by virtue of the ordinance, and regulations and administrative instructions by the director of the Tax Authority. Businesses are required to submit various reports to the Tax Authority based on varying criteria at different dates and via different interfaces. Many times, the tax directives are not clear to the public and to entrepreneurs and they are forced to turn to representatives just to in order to report and make payment to the Tax Authority or in order to clarify their debt or credit balance. Assesseees can still not view their account with the Tax Authority directly via the internet.
-  Corporations cannot be established with the Registrar of Corporations, the Tax Authority, and the National Insurance Institute at the same time through a common online form.

-  The procedure of allocating land for an industrial business takes several months. About 40% of land allocation applications submitted to the Ministry of Economy in 2017 have yet to be completed by 2019. Of the applications submitted to the Israel Lands Authority from 2014 to 2016, 35% took more than six months to be processed, while 17% of applications took more than a year.
-  According to the measurements employed by the World Bank, Israel ranks low in terms of the time required to obtain a permit (29th out of 36 OECD countries) and stands at about 200 days. In terms of the financial cost, the issuing of the permit constitutes around 1.7% of construction costs (23rd out of 36 OECD countries).
-  In November 2010, it was decided that all licensing entities, regulators, and the Department of Business Licensing at the Ministry of the Interior should formulate uniform specifications for licensing businesses. By March 2019, specifications had been issued for only 11 out of 200 different business classifications. The number of businesses in fields from which specifications were published is about 20,000 of some 150,000 businesses requiring licensing.









The plans to reduce the bureaucratic burden published by the Department of Home Affairs, Planning and Development in the Prime Minister's Office, which were included in the five-year plan, are expected to result in savings of NIS 2.67 billion each year in direct costs and to savings of more than 40 million "waiting days" once they are implemented.

Israel's ranking in the World Bank's Doing Business Report 2020 improved in some of the clauses surveyed.

The Tax Authority is developing possibilities for assesseees to report and pay online.

Key recommendations

-  The Department of Home Affairs, Planning and Development in the Prime Minister's Office must continue to study how it can assist in reducing the bureaucratic burden that falls on the business sector in cross-ministerial procedures. The Department must supervise and guide the completion of some 210 programs to reduce regulation that have yet to be formulated as part of the five-year plan.
-  To the extent possible, the Ministry of Justice, the Corporations Authority, the Tax Authority, and the National Insurance Institute must unify the system of an online form for fast-tracking the registration of businesses, with all the aforementioned at the same time. Furthermore, they must study the necessity of the documentation requested during the procedure.

-  The Ministry of Finance and the Tax Authority must jointly study the reason that Israel ranks so low on the World Bank index of the cost and time required to make a report and carry out payment to the Tax Authority. According to the World Bank, the action requires the employment of an employee over a period of more than a month. In 2020, there was no improvement in this index. The Tax Authority must simplify the requirements of businesses throughout the tax system and make those requirements as flexible as possible, including the dates of reporting that it requires and, to the extent possible, make the data in the system accessible to all assesseees.
-  The Ministry of Economy and the Israel Lands Authority must combine procedures for land allocation for industry, so that both bodies carry out their examinations simultaneously. Furthermore, they must study the need for one service point for land allocation.
-  The Planning Administration must study the need for authorization by the many authorizing entities, as required by law, in accordance with the essence of the requested building permit.
-  Entities providing authorizations must complete a specification for each of the occupations, and the Ministry of the Interior must consolidate them into one specification and publish the requirements (and the date they go into effect) so as to implement the business licensing reform and bring clarity and certainty to businesses with regard to the conditions they are required to meet to obtain a business license.

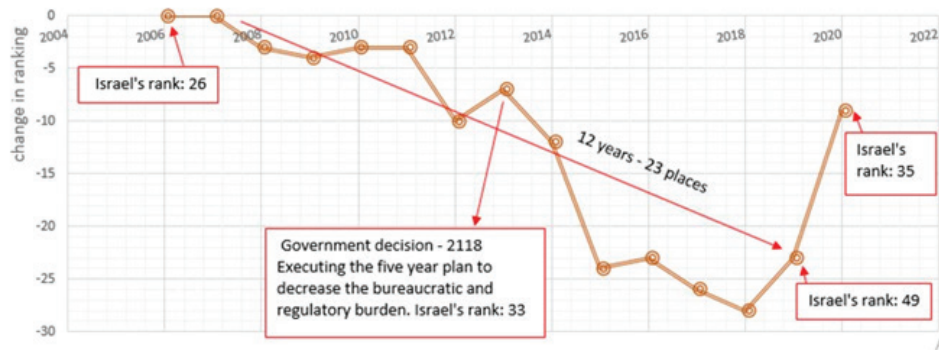
Summary

Businesses in Israel suffer from a heavy regulatory burden in several fields. The entire public service, led by the Prime Minister's Office, must apply itself to the mission of reducing the regulatory burden on businesses through technological improvements, coordination among regulators, joint action by them, and setting goals to reduce unnecessary requirements. Recently, the regulatory burden on businesses has been reduced, but not sufficiently; barriers should continue to be removed and ideas from overseas adopted.



The change in Israel's ranking in the World Bank Index from 2006 to 2020 (among 190 countries)

The index is a major indicator for investors world-wide



Source: World Bank Doing Business Report 2020



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Ensuring the Innovational and Technological Advantage of the Israeli Economy

Abstract

Ensuring the Innovative and Technological Advantage of the Israeli Economy

Background

The State of Israel is known in the world as the start-up nation, in part because of the large number of start-up companies established in the country, its R&D facilities, and the number of international buyouts of Israeli companies. This status was partly achieved by a business culture that encourages innovation and risk taking by entrepreneurs, the academic level of its universities, and a government policy supporting innovative initiatives. A partnership among the government, the academe, and the private sector has resulted in groundbreaking technologies in the field of water, agriculture, communications, life sciences, space, and more.

Key figures

NIS 58 billion

i.e. 4.5% of the GDP: the national expenditure on civilian R&D in 2017

77%

the high-tech companies in the country operate in the central region and Tel Aviv

40%

of total exports of the State of Israel in 2017 were high-tech exports

NIS 55 billion

state income from taxation of the high-tech sector in 2015-2018

24%

of those employed at high wages in the high-tech sector were women; fewer than 2% were Arabs and ultra-Orthodox

290,000

the number of employees in the high-tech sector, accounting for 8.3% of the total number of employees in 2017

78%

of the salaried positions at start-up companies are concentrated in the central region and Tel Aviv

NIS 1.7 billion

the 2018 budget of the National Authority for Technology and Innovationx

NIS 450 million

the amount of royalties collected by the Authority in 2018 The royalties were transferred to the Ministry of Finance






20%

of the support provided as part of the R&D fund are provided for innovation in traditional industries, even though they contribute approximately 38% of the GDP

Scope

 From August 2018 to March 2019, the State Comptroller's Office examined what the government has done to preserve the state's technological advantage. The audit was conducted at the Innovation Authority, the Ministry of Economy and Industry, the National Economic Council at the Prime Minister's Office, the Budgets Department at the Ministry of Finance, the Capital Markets Insurance and Savings Authority, Israel Securities Authority, the Ministry of Social Equality, the National Council for Civilian Research and Development, and at the Planning and Budgeting Committee, which operates within the Council for Higher Education in Israel.

Key Findings

-
-  **The scope of foreign investments** in Israeli high-tech companies and these companies' dependence on such investments required the relevant entities to examine the subject in depth. The entities must conduct a study of the tools providing a regulatory response if foreign investment in the Israeli high-tech industry is reduced, including encouraging funds of institutional entities in Israel to expand their investments in this sector.
 -  **The government's program to fill available positions** in high-tech professions has not led to a sufficient response to the problem of a lack of professional employees.
 -  **Because of the difficulty in transferring knowledge from academia to companies in the industry**, the full extent of academic knowledge is not translated into applied research. The Innovation Authority and the Planning and Budgeting Committee have yet to finalize a workable plan that will bring about full utilization of the knowledge gained by research in academia and the healthcare system.
 -  **Despite efforts on the part of the Innovation Authority and the Ministry of the Economy to promote innovative procedures in traditional industries**, the demand for assistance provided by the Authority to industry to assimilate innovative technologies is still low.
 -  **A decision has yet to be made by the Innovation Authority Council to promote research in the field of commerce**, even though productivity in the sector is low compared to OECD countries and other industry sectors.



Strengthening high-tech in Jerusalem: The extensive work of the Jerusalem Development Authority and other local NGOs in setting up communities of entrepreneurs, provide grants, and generate connections with academia has led to significant growth in the number of start-ups operating in the city.

Innovation in traditional industries: In 2018, the Innovation Authority supported 246 R&D projects with a total of NIS 125 million. Around half the sum was invested in the periphery.

Human and intellectual capital: The Innovation Authority has assisted in analyzing various issues related to the under-representation of different populations in the high-tech sector and in conducting courses and retraining of employees from other professions to increase the number of high-tech employees.

Collaboration between the Innovation Authority and the Ministry of the Economy is an important part of assimilating innovative technologies in manufacturing industries and advancing R&D procedures in these industries.

Key recommendations

- 💡 In view of the major impact of global economic changes on the Israeli high-tech industry, it is important that a **government entity with a wide perspective examine the challenges faced by the high-tech industry in Israel**, formulate a long-term strategy, and suggest suitable tools to maintain Israel's capabilities and lead in this sector.
- 💡 So that international R&D centers do not hurt local R&D companies and ensure that the technological advantage of Israeli high-tech companies in the global arena is maintained, **increasing the supply of manpower with advanced degrees in relevant subjects must be considered a national goal**. Achieving this goal requires cooperation between government ministries and academia and the pooling of resources.
- 💡 With the cooperation of the relevant government ministries, including the Ministry of the Economy and the Ministry of Finance, the Innovation Authority must be proactive **in promoting innovation and a larger scale of R&D in traditional industries to enable them to transition to the next stage in the industrialized world**.
- 💡 **To extend the influence of the high-tech sector to other areas of the country**, the National Economic Council and the Ministry of the Economy, in cooperation with

the Innovation Authority, must examine additional ways of developing innovation in the periphery and to develop the eco-system required for high-tech companies in the metropolises.

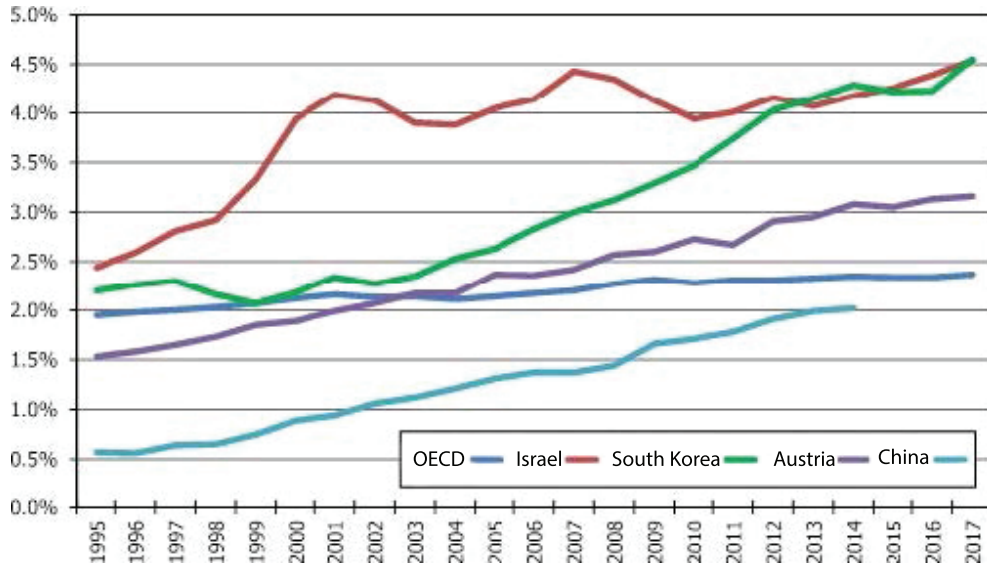


The Innovation Authority, as one of the entities operating to expand the participation of a variety of populations in the high-tech professions, must be assisted by the relevant government ministries in order to **map the technological fields in which it will be possible to integrate the Arab and ultra-Orthodox populations in quality employment** so they are able to participate in innovative processes.

Summary

The Israeli high-tech industry has a big impact on the economy of the State of Israel, on quality employment, and on the resilience of the Israeli economy in international indices. Turning the Chief Scientist's Office at the Ministry of Economy into the National Authority for Technology and Innovation as an independent authority was a welcome step that allowed the Authority flexibility to act and provide a fast, effective response to the challenges facing the high-tech industry. The findings of the audit show that there are gaps in various areas liable to lead to the loss of Israel's advantage in the technological arena and make it difficult for industry to deal with future challenges. To maintain Israel's advantage in the technological arena, there is a need for full coordination of those involved. Therefore, there is great importance to the existence of a government entity with a wide perspective and integrative capabilities having the necessary authority to pool resources. Such an entity would be able to formulate a long-term strategy and propose suitable tools for maintaining Israel's technological advantage.

The rate of expenditure on R&D in select nations and OECD members (1995-2017)



Source: OECD



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Members of Workers' Committees Serving in Senior Management and Staffing Positions of Government Entities

Abstract

Members of Workers' Committees Serving in Senior Management and Staffing Positions of Government Entities

Background

Anyone holding a public service position, and certainly a senior position in a government entity, must be absolutely free of any conflict of interest and ulterior motives. The Civil Service Regulations regulate in detail the issue of conflict of interest when it comes to employment in certain positions in the public service simultaneously with membership in a workers' committee (labor union).

Key figures

5,700

employees at the Tax Authority in Israel

172

members of workers' committee in the Income Tax Department, 29 of whom have senior rankings (42-44) according to the Union of Social Sciences and Humanities Academics⁷

149

employees at the Israel Postal Company Ltd. who are subordinate to a manager who simultaneously serves as a member of the workers' committee


46

senior positions at the Tax Authority are staffed by substitute employees or were assigned to employees as "an additional task"

111


members of workers' committee in the Customs and VAT Department, 87 of whom have senior salary rankings (41 and above) according to the Union of Social Sciences and Humanities Academics, and a rank of 19 and above on the administrative ranking scale


Scope


 From October 2017 to February 2018, the State Comptroller's Office examined certain aspects of the tenure of managers and employees holding positions while simultaneously being members of workers' committee and government entities, as well as the staffing process of certain senior positions at these entities. The examinations were carried out at the Tax Authority, the Civil Service Commission, the Ministry of Transportation and Road Safety, the Airports Authority, and the Israel Postal Company Ltd. Supplementary examination were carried out in February and July 2019.

Key Findings



 **Concerns regarding conflict of interest:** Dozens of members of workers' committees at the Tax Authority, the Israel Postal Company, and the Airports Authority serve in senior positions or in other positions that raise a concern of conflict of interest in contravention of the Civil Service Regulations.

 **Conflict of interest settlements:** Following the start of the audit, the Tax Authority approached two serving workers' committee members - employees B and C - requesting that they sign a conflict of interest statement the Authority had formulated. The committee members declined to sign the statement and the Authority has yet to finalize the handling of the matter.





 **Delay in the staffing of senior positions at the Tax Authority:** 46 senior positions at the Tax Authority are staffed by substitute employees or were assigned to employees as "an additional task." 21 of those positions have been "temporarily" staffed for over a year.



The deputy director of administration and personnel resources at the Tax Authority has taken the required actions to prevent conflict of interest.



Key recommendations

-  It behooves the Civil Service Commission comprehensively examine the implementation of its conflict of interest directives as applicable to all government ministries, examine the need to update the Civil Service Regulations on the matter, and define the positions in which a workers committee member cannot serve or for which s/he may not submit his/her candidacy as part of the civil service job standard.
-  In view of the refusal of employees B and C to sign a conflict of interest statement, the Tax Authority and the Civil Service Commission must complete their review of these cases and act in accordance with the Civil Service Regulations, the directive of the Attorney General, and previous rulings. Furthermore, we propose that the Civil Service Commission, in coordination with the New Histadrut Labor Federation, in so far as may be required, set a standard, uniform draft of a conflict of interest statement and apply it wherever relevant.
-  The Tax Authority must collect data with regard to positions that have not been staffed for a long time and regarding employees who have been charged with an "additional task" and to act with the assistance of the Civil Service Commission to staff them via tender to ensure equal opportunity and improve staffing procedures at the Tax Authority.
-  It is important to settle the issue of "dual loyalty" of workers' committee members at statutory corporations. We recommend that every statutory corporation, in cooperation with the relevant entities, including representatives of workers' organizations, examine the need for relevant and updated regulations, including suitable audit, supervision, and enforcement tools, to ensure a balance between the right of workers to freedom of association and the directives of the Civil Service Regulation or any other regulations.

Summary

As there have been many changes over the years in the definition of roles and their place in the organizational hierarchy, the State Comptroller's Office recommends that the Civil Service Commission carry out a comprehensive examination of the implementation of its conflict of interest directives in all government ministries, examine the need to update the Civil Service Regulations on the matter, and define the positions in which a workers' committee member cannot serve or for which s/he may



not submit his/her candidacy as part of the civil service job standard. We propose that such an examination take place from time to time, inter alia in accordance with the directives of the Attorney General and the recommendations of the inter-ministerial team on a rethinking of aspects associated with a conflict of interest.*

* In this regard, see the directives of the Attorney General - report on the inter-ministerial team on a rethinking of aspects associated with a conflict of interest aspects, directives from July 29, 2019.







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Chapter 2

Government Ministries



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Ministry of Health

The Healthcare System's Handling of Emerging and Re-emerging Epidemics

Abstract

Ministry of Health

The Healthcare System's Handling of Emerging and Re-emerging Epidemics

Background

An epidemic is the rapid spread of a disease in a population. For the most part, it is a sudden outbreak of an infectious disease spread by a virus or bacteria. To reduce the impact of the outbreak of an infectious disease, it is necessary to take preventive action. Responsibility for this lies primarily with the Ministry of Health, which is in charge of this field, as well as with other entities such as the Ministry of Agriculture, the Ministry of the Environment, the Ministry of Defense, and local authorities, each of which has its own area of expertise. Rapid eradication of disease and the prevention of outbreaks and renewal of epidemics are a noble social goal with implications for human life and of enormous economic significance.

Toward the end of the audit, the risk posed by the outbreak of an epidemic around the world was illustrated by the emergence of the corona virus in the town of Wuhan in China in December 2019. People infected with the virus can be differentiated by the severity of the illness: some suffer only a mild cold, while others suffer damage to their health liable to lead to general systemic collapse and death. A vaccine against the virus has yet to be developed. At the end of January 2020, the World Health Organization declared an emergency due to the rapid spread of the virus not just in China, but also beyond. To prevent the spread of the virus, in Israel the Ministry of Health issued several guidelines to the public and to those returning from China and other countries in Asia and guidelines for people who need to be in quarantine. Furthermore, the Ministry recommended that people planning to fly to the aforementioned countries should weigh the necessity of their trip. As of updated data for February 12, 2020, the virus has yet to be discovered in Israel.

In this report, we examined the preparedness of the Ministry of Health to treat diseases with various origins, such as infectious agents (pandemic flu, measles, Ebola) and animal infections (leishmaniasis, leishmaniosis, leptospirosis, Q fever).



Key figures

5%

the cost of a global pandemic to global GDP - approximately U.S. \$4.3 trillion

2.25 million

more than 2 million Israelis could fall ill in the wake of a flu pandemic (a global outbreak of flu)

10

in the past decade, Israel has dealt/prepared to deal with more than ten diseases, including measles, leptospirosis, pandemic flu, and leishmaniosis

7th

Israel's rank in terms of rate of infection in 2018-2019 In this period, 4,300 people became ill.

97%

percentage of people in Israel vaccinating against measles in 2017


1:16

every dollar spent on vaccination saves \$16 spent on treatment for a disease for which vaccinations are provided in childhood





705






from mid-July through to mid-September of 2018, 705 people contracted leptospirosis compared with 6 people in the same period in 2017

Scope

 From February to October 2019, the State Comptroller's Office examined the preparedness of the Israeli healthcare system to deal with diseases that can bring about large-scale illness and cause serious damage to the public healthcare system, such as pandemic flu, measles, and Ebola. The audit was conducted at the Ministry of Health, the Jerusalem District Health Bureau, the Ministry of the Environment, and the Ministry of Agriculture. Supplementary examinations were conducted at additional district healthcare bureaus, the Tel Aviv-Jaffa municipality, the Jerusalem municipality, four health management organizations, the Ministry of Defense, the IDF, and the Nature and Parks Authority.

Key Findings

-  The Ministry of Health, the health management organizations, and hospitalization apparatus are not fully prepared for an outbreak of pandemic flu in which approximately 2,250,000 residents of Israel (around 25% of the population) could become ill. This is especially true regarding stockpiles of medicines, which today suffice to treat 16% of the population (as opposed to 25% stipulated by preparation plans), vaccines, and hospital beds for an additional 150,000 hospitalized patients.
-  The Ministry of Health has not made a complete list of diseases for which it is necessary to articulate preparedness directives and instructions for actions that must be taken in case of an outbreak (i.e. an operational doctrine). It has done so only for a small number of diseases (pandemic flu, Ebola, anthrax, smallpox).
-  The Ministry has not formulated directives regarding the required inventory of vaccines and procuring them at the onset of various illnesses (such as measles and pandemic flu) and how to acquire them.
-  Even though the rate of vaccination among school children during the 2018-2019 school year reached 97.8% (an increase over the previous year), in 19% of Israeli schools, the rate of vaccination was lower than 95%. According to Ministry of Health analysis of children and teenagers aged 2-19 ill with measles in the 2018 outbreak, at least 49% were children of parents who refused to vaccinate their children.

-  A sample of epidemiological case investigation files^[1] examined at the Jerusalem District Health Bureau with regard to the 2018 measles outbreak showed that in only 57% of cases was an investigation commenced within 48 hours (the timetable set by the World Health Organization). The longer an epidemiological investigation is delayed, the longer the outreach^[2] to exposed people is delayed, the effectiveness of the vaccine is liable to diminish, and the concern is that exposed people will infect others is liable to increase.
-  Cooperation among government ministries and other authorities, such as the Nature and Parks Authority, in treating diseases transferred by animals is not regulated, and there is no entity charged with coordinating treatment.
-  Details of the leishmaniasisleishmaniosis (“Jericho buttons”) outbreak are not fully reported. The Ministry of Health does not provide the Ministry of the Environment with details of the exact location of the outbreak of the disease, and the IDF does not report to the Ministry of Health most cases in which soldiers are infected with the disease.
-  The monitoring of potentially virus-carrying mosquitos is conducted by the Ministry of the Environment is only partially carried out.
-  The Ministry of Health and the Ministry of Finance have not determined a consensual mechanism for updating the budget for the basic package of public healthcare services the Ministry of Health must offer, including preventive medicine provided to district health bureaus and well babywell-baby clinics.



In 2017, the national coverage of measles vaccination in Israel was 97%, higher than the ratio recommended by the World Health Organization^[3], although there are pockets of non-vaccination, a fact that could cause the disease to spread.

In 2018-2019, there was a measles outbreak in Israel. Even though the process of providing certain vaccines was extended due to their non-availability and the need to move them around the entire country, at the end of the day, anyone requiring a vaccine received it.








[1] Tracing the development of the outbreak of an epidemic at the individual level is critical in understanding which specific person or animal is causing the spread of the contagious disease

[2] It also furthers proactive initiatives by therapeutic service providers (e.g. psychologists, social workers, nurses) trying to reach people who need treatment who do not access it independently.

[3] The World Health Organization has determined that one of the conditions a country must meet to be considered free of measles is a 90% vaccination coverage



Key recommendations

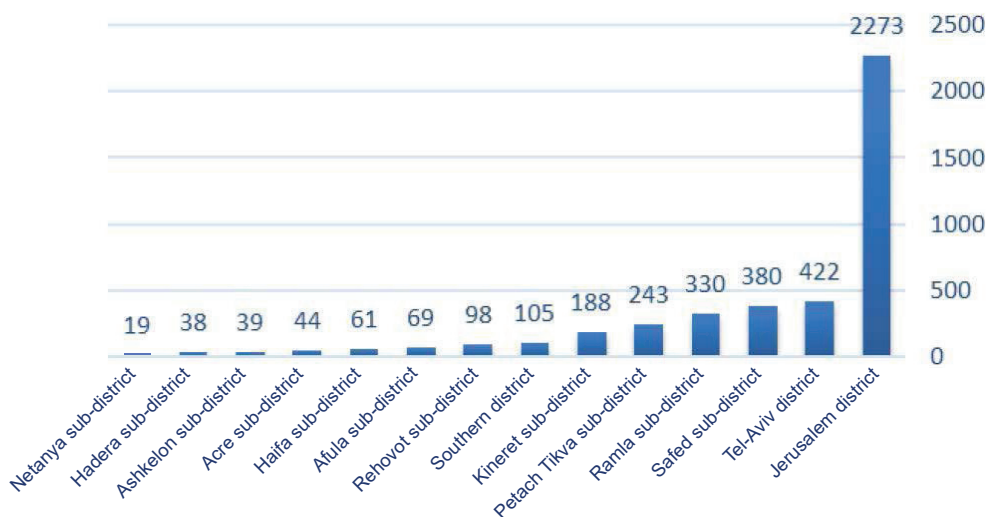
-  Given the importance of the reference scenario approved by the defense minister - a key component of the combat doctrine for dealing with a pandemic flu - the Ministry of Defense must work to update its reference scenario, update its combat doctrine, and disseminate it to all relevant government ministries and entities for assimilation.
-  The Ministry of Health and the health management organizations must prepare an operative plan to deal with an outbreak of pandemic flu and drill it, while the Ministry of Defense and the Ministry of Health must advance staff work for the purchase of vaccines.
-  We suggest the Ministry of Health map the diseases requiring unique preparations. It will determine if directives should be prepared for deployment at the time of an outbreak of those diseases so as to enable optimum early preparation (operational doctrine). The Ministry must consider the preparation of directives for deployment and action during a measles outbreak.
-  The Ministry of Health and the Ministry of Environmental Protection must formulate a plan based on a dedicated model for the deployment of monitoring stations to discover virus-carrying mosquitos.
-  The Ministry of Health should work to institutionalize the work of the inter-ministerial team on the treatment of animal transmitted diseases, determine a responsible entity and increase cooperation between the entities involved.
-  It behooves the Ministry to consider computerizing processes, such as the reporting of diseases requiring notification and epidemiological investigation. It must also consider opening inter-ministerial reporting interfaces while making sure to maintain privacy.
-  The IDF must examine the possibility and process of reporting cases of soldiers infected with leishmaniasisleishmaniosis to the Ministry of Health even if they that have not been confirmed by a lab.



Summary

Eradicating epidemics and treating diseases are global concerns based on a common goal of preventing health, economic, and developmental harm to humanity as a whole. A key disease-prevention measure is mass vaccination and disease monitoring. The audit found flaws in Israel's preparedness for dealing with new epidemics and re-emerging diseases. The healthcare system and other responsible entities must act to deal with diseases liable to become epidemics and prevent their outbreak and spread.

The number of cases of measles by district, from the beginning of 2018 to September 2019



According to data from the Ministry of Health processed by the State Comptroller



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Ministry of Finance

**Decision-making
processes:
Meeting the deficit
target for 2018;
revenues forecast
for 2019; salary
increases for a
lack of job security**

Abstract

Decision Making Processes at the Ministry of Finance

Meeting the deficit target for 2018; revenues forecast for 2019; salary increases for a lack of job security

Background

The state budget is the principal tool for implementing the government's economic policy and is of decisive importance for national economic and social processes.

The state budget is managed on a cash basis, i.e. revenues and expenditures in the state budget are recognized on the actual date of payment or actual date of receipt of proceeds.

The budget deficit is the gap between the state's revenues and its expenditures, and its size affects the onus of interest payments paid from the state budget. The law determines a multi-year fiscal rule ("deficit ceiling") that defines the maximum yearly deficit rate in the budget as a percentage of the GDP. Therefore, the timing of actual revenues and expenditures matters greatly, especially toward the end of the year.

In November 2018, the government decided on a wage increase for the security services - the Israel Police, the Israel Security Agency and the Mossad - to compensate for the lack of job security in that employment sector. This decision meant an expenditure of NIS 22 billion from the state budget.

Key figures

NIS 377.5 billion

government expenditures in 2018

2.9%

of GDP = NIS 38.9 billion:
the deficit in practice in 2018 = the deficit ceiling set by law

14%

the increase in revenues from direct taxes in December 2018 compared to December 2017



NIS 1.5 billion

the decrease in expenditures in the fourth quarter of 2018 compared with the same quarter of 2017

26%

the increase in government ministry expenditures in January 2019 compared to January 2018


NIS 22 billion

the cost of the framework for a salary increase due to lack of job security





3.6% of GDP

updated deficit forecast for 2019, reflecting a 0.7% increase compared to the original forecast The forecast was presented to the government in January 2019.

Scope

-  We examined decision-making processes related to meeting the 2018 deficit target and the preparation of the 2019 forecast. We also examined the decision-making process on the increase compensating for the lack of job security. The decisions were adopted in late 2018 and had a significant budgetary impact.

Key Findings






-  The updated 2019 revenue forecast was only presented to the government in January 2019, after the budget for that year had already gone into effect. The updated forecast showed a deficit of 3.6% of the GDP (0.7% above the original forecast) and this impacted the government's ability to meet its target. This was a result of the 2019 budget being exceptional as it was authorized by the Knesset in March 2018 and was based on a revenue forecast conducted in late 2017. The updated forecast for 2019 was authorized by the management of the Ministry of Finance only in late 2018.
-  The operations of the Department of the Accountant General and the Tax Authority's tax collection efforts at the end of 2018, which were not found to have been performed in violation of authority or in violation of the law, resulted in compliance with the deficit ceiling of 2.9% of the GDP. However, this was done without an inclusive debate of all the professional entities about the effect of preferring one budget year over the next budget year.
-  Taking into account the significant cost of the plan to compensate for lack of job security, which totaled NIS 22 billion, the authorization process of the plan was conducted on a tight schedule and accompanied by a significant budget cut in order to finance it. This will have implications for the state budget in coming years.
-  The auditors found that cooperation in decision-making processes at the Ministry of Finance was damaged as a result of sub-optimal relations within the ministry.



The adoption of the numerator (measure of anticipated income and expenses) in 2015 was a welcome step in maintaining fiscal sustainability, but it is necessary to make sure that decisions inconsistent with this mechanism are not taken.

In preparing the 2019 forecast, the Ministry of Finance operated according to the “procedure for preparation of a base forecast for the state budget,” which provides that the chief economist is responsible for compiling the forecast.

Key recommendations

-  We recommend that macro-economic forecast decisions, which could have an effect on the state economy and the priorities of the government, be based on solid professional foundations and on an examination of the complex of circumstances based on a long term look that examines economic policy, by means of a process of integrative knowledge-sharing among all the professional entities.
-  We recommend ensuring that no decisions are taken that are inconsistent with the numerator’s underlying principles.
-  We recommend that the Ministry of Finance consider formulating supplementary regulations for the directives of Section 40A of the Budget Principles Law, for circumstances in which the government decides to formulate its budget based on early forecasts. The regulations should determine internal conduct in the Ministry of Finance, and determine that the debate in the government takes place at a time that will allow preparations for meeting the deficit targets.
-  Without detracting from the authority of the Accountant General and the Tax Authority, we recommend that any decision on incurring expenditure or taking steps to lawfully collect tax for a particular budget year, especially in significant amounts, be taken only after constructing a comprehensive assessment of the economic situation and obtaining the positions of all the relevant professional entities.
-  We recommend that the Ministry of Finance complete the debate on the formulation of recommendations with regard to the rate of interest currently employed in the tax system, currently at a rate of 4% including linkage, given the low rates of interest currently prevailing in the economy, while taking into account all the implications, including aspects of positive and negative incentives regarding tax payments and aspects of timing.
-  We recommend that the government, through the Minister of Finance, conduct a retrospective analysis of the process that authorized the job security compensation agreement and derive the appropriate lessons. We also recommend that the Ministry of Finance map the issues and subjects currently under legal process, or have the potential for broad economic exposure, and formulate a foundation for debating and taking action on these subjects and bringing them to debate before the government for the purpose of decision making in a timely fashion.



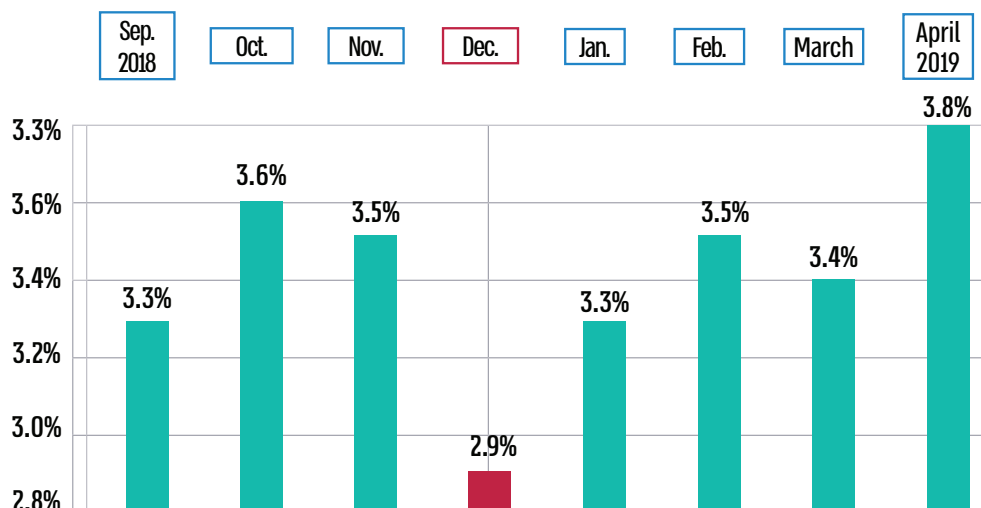
We recommend that the Minister of Finance complete the examination of the structure of authority of the Finance Ministry's Director General and the heads of the different wings, and formulate the structure in a way that optimizes the work of the Ministry of Finance.

Summary

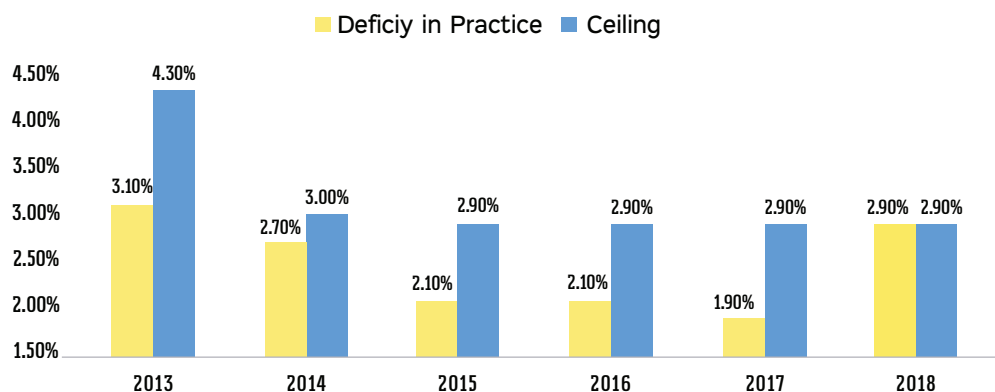
The Ministry of Finance plays a central role in strengthening the Israeli economy. The professional echelons must lay the infrastructure required to assist the elected echelons in implementing Ministry policy, including producing relevant and timely forecasts and integrating payment and collection efforts, while examining the effect of the deficit from a macro-economic perspective.

Lessons should be learned from the government's handling of the wage increase agreement compensating for lack of job security with a forward-looking perspective; agreements and disclosures of considerable economic significance should be mapped; and regular debates of these issues should be held and decisions made in a timely manner.

The development of the state budget deficit as a percentage of the GDP from 09/18 to 04/19



The budget deficit as a percentage of the GDP in 2013-2018 versus the deficit target





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Tax Authority

Follow-up Audit Actions on the Diesel Fuel Settlement

Abstract

Tax Authority

Follow-up Audit Actions on the Diesel Fuel Settlement

Background

Excise tax on fuel is a fixed tax imposed on types of fuels, such as oil, diesel, and gasoline. The excise tax is regulated by the Fuel Excise Tax Law 1958. In January 2005, the Knesset Finance Committee authorized an increase in the excise tax on diesel fuel to be introduced over four years until it was equal to the excise tax on gasoline.

To reduce the economic impact on businesses in sectors where diesel fuel is a significant component in generating revenues, a restitution mechanism was put in place aimed at providing such businesses a partial refund on their diesel expenditures (i.e. the diesel fuel settlement or the settlement).

Key figures

NIS 94 billion

revenues in 2018 from excise tax on diesel

NIS 3.59 billion

offsetting of the diesel excise for the Palestinian Authority in 2018

NIS 3.59 billion

the refund given to businesses in 2018 as part of the diesel fuel restitution settlement

NIS 5.76 billion

net state revenues in 2018 from excise tax on diesel, after deducting the restitution mechanism for the diesel fuel settlement and offsetting the excise tax for the Palestinian Authority


53,000

the number of businesses included in the diesel fuel settlement in 2018


600



the number of businesses for which the ratio between the size of the diesel refund claimed under the settlement and the turnover was unreasonable



Scope



 In 2015, the State Comptroller's Office published a report on the diesel fuel settlement (the previous report). In the current report, we present findings from the follow-up after the correcting of major flaws noted in the previous report. From March to May 2019, the State Comptroller's Office examined the actions of the Tax Authority to correct the flaws noted in the previous report on the diesel fuel settlement (the follow-up). The follow-up was conducted at the Tax Authority management offices, the diesel unit, and district income tax and VAT offices in Rehovot and Hadera.



Key Findings


- 

 In the previous audit, we found that refueling with an accumulator enables businesses to register the estimated amount of diesel for each vehicle and tool, including vehicles ineligible for refunds, without any supervisory mechanism. In such a situation, it is possible that excise tax is being refunded to ineligible businesses. The follow-up found that this loophole has yet to be closed.
- 

 The previous audit found cases in which businesses received refunds for diesel fuel based on fictitious tax receipts they submitted. The follow-up found that this loophole has yet to be closed.
- 

 The previous audit found that only about half of the businesses eligible for diesel fuel refunds in 2014 were included in the diesel fuel settlement and submitted an application to be included. This would seem to indicate that some businesses preferred to be excluded from the settlement so as not to expose their diesel consumption and keep their businesses from being audited. The follow-up found that any business meeting the requirements that did not submit a refund request was automatically removed by the Tax Authority from the database of businesses eligible for inclusion in the diesel settlement.
- 

 The previous audit found that the economic unit at the Tax Authority submitted to the VAT offices a list of about 600 businesses whose reports on diesel consumption were incompatible with the transaction volume they had claimed to the district VAT offices. It found that the VAT offices did not make use of the lists they had been given by the economic unit to check irregular reports. The follow-up found that this loophole has yet to be closed.
- 

 It also found that there is currently no strict requirement that tax inspectors check the files of assesseees who received the highest refunds.



The previous audit found that the Tax Authority does not conduct sufficient oversight to ensure that businesses that received manual vouchers to pay debts for excess refunds indeed paid their debts. The follow-up found that this flaw was corrected.



The previous audit found that the computerized system enabled businesses to receive diesel expense refunds for a period in which the vehicle license was not valid. The follow-up found that this flaw was corrected.

The previous audit found that the VAT offices did not follow Tax Authority guidelines: in 2013 they conducted an accounting audit on the issue of the diesel fuel settlement in only 75% of the caseload they had been given. The follow-up found that this flaw was corrected.

The previous audit found that the Tax Authority had not published guidelines for assesseees and their representatives on how to report diesel expense refunds to the income tax authorities. In the absence of such guidelines, most assesseees did not report the revenue they generated as a result of the diesel expense refunds. The follow-up found that assesseees were instructed to report the excise tax refunds they received for diesel fuel expenses using a form attached to their annual report.

The previous audit found that, in the course of the nine years in which the diesel fuel settlement was in effect, the Tax Authority did not examine the continued operation of the settlement and its impact from economic, social, and environmental aspects. The follow-up found that this flaw was, to a great extent, corrected. In March 2018, an amendment to the restitution order was published, which determined that excise refunds on diesel would gradually be phased out by the end of 2026.

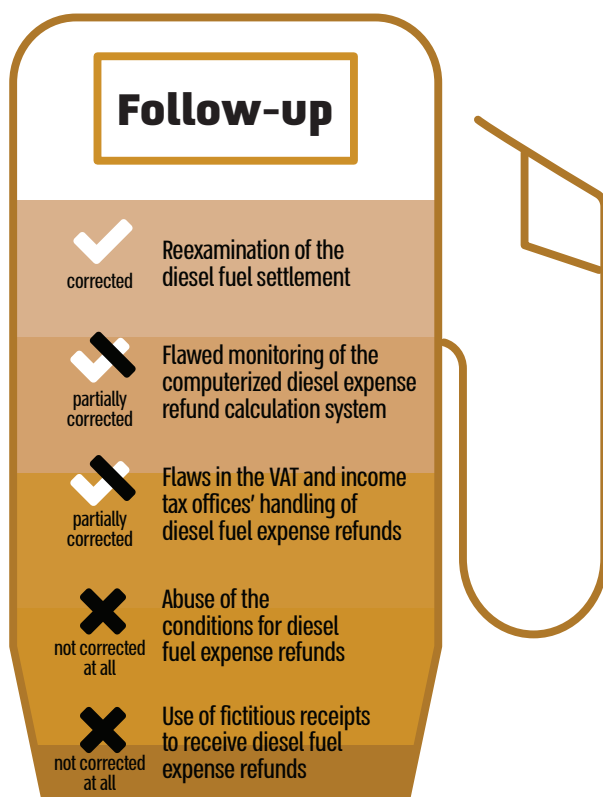
Key recommendations

-  The Tax Authority must promote legislation with regard to ordinances on bookkeeping regulations, so that they include use of technological measurements as noted in the response of the Tax Authority.
-  The Tax Authority must review its guidelines for district VAT offices regarding the inclusion of business files for audit whenever there is a marked discrepancy between the business's diesel expenses according to its reports and its total turnover, or whenever there are flaws in the business's reporting on the amount of diesel it consumed.

Summary

The diesel fuel settlement was aimed at reducing harm to economic sectors where diesel fuel and vehicles are the main means of generating revenues. In 2018, the cost of the diesel fuel settlement to the Israeli economy was NIS 3.59 billion. The previous report found that the Tax Authority was not sufficiently addressing the issue of the diesel fuel settlement, was not fulfilling its objectives, and was dis-incentivizing the transition to non-polluting green fuels. The current audit found that some of the flaws were fully corrected, some were partially corrected, and some were not corrected at all.

The findings raised in the follow-up report





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Ministry of Energy

Advancing the Mining and Quarrying Industry in Israel

Abstract

Ministry of Energy

Advancing the Mining and Quarrying Industry in Israel

Background

Quarrying and mining materials are used in construction, laying roads, and industry. In September 2010, the National Council for Planning and Construction authorized the policy document of the National Mining and Quarrying Outline Plan - National Outline Plan 14B. This document set guidelines for demarcating mining and quarrying sites, and set out the supplementary measures required from government ministries to implement the planning and management policies for these sites. The National Outline Plan 14B was authorized in March 2018. The National Outline Plan demarcates sites from which raw materials for construction and paving are to be supplied until 2040, and for industry until 2045.

Key figures

10.7%

(~NIS 136 billion): the rate of investment in the building and paving sector as a percentage of the GDP in 2017

66

quarries operated in Israel in 2018

66-70 million tons

quarrying materials produced a year, of which 42 million tons are aggregates

129

mining and quarrying sites on an overall area of 34,400 hectares (344,000 dunams) marked in National Outline Plan 14B

139 million tons

the shortfall expected in quarrying materials by 2025 (assuming an annual population growth of 1.9%)


290 million tons

raw materials found in quarries returned to the Israel Lands Authorities from 2000 to 2015 and have yet to be sold





NIS 34 and 85 million



expected value from operating a freight transport track in 2025 and 2040

Scope

 From November 2018 to March 2019, the State Comptroller's Office examined the management of the mining and quarrying sector in Israel, supervision of quarries, advancement of planning of National Outline Plan 14B sites and their marketing, and the implementation of the supplementary means for implementing the National Outline Plan. The audit was conducted at the Ministry of Energy, the Israel Lands Authority (ILA), the Planning Administration at the Ministry of Finance, the Ministry of the Environment, the Ministry of Housing and Construction, the Ministry of Transportation and Road Safety, the Cargo Railways Company Ltd., the Administration for Local Government in the Ministry of the Interior, and the Ministry of Health.

Key Findings

-  **Lack of cooperation among the supervising entities:** The Ministry of Energy periodically holds joint tours with the following supervising entities: the ILA, the Ministry of the Environment, the Ministry of Labor, Welfare and Social Services, and local authorities. However, beyond these joint tours, the supervisory entities do not maintain any ongoing work interfaces or mutual exchanges of information.
-  **Difficulties in marketing quarries:** The ILA sold only seven quarries out of 18 designated for marketing and of those only four started operating; authorization from the security establishment has yet to be received to enter the area of the Modi'im quarry, located in a security zone, to conduct a geological survey; the geography committees have yet to make decisions regarding the distribution of municipal tax revenue regarding several quarries located at the edges of jurisdictional areas. This could delay the future expansion of quarries located near the Kiryat Gat North Site, near Kiryat Gat, and the Kidma North Site, near Kiryat Malachi, both included in the National Outline Plan 14B. If residential plans for expansion of these towns are authorized, it will not be possible to meet reserve supply targets set in the National Outline Plan through 2040.
-  **Delays in implementation of the rail transportation project:** In view of the delays in advancing implementation of the rail transportation project, there might be a shortfall of quarrying materials in the center of the country toward 2025.
-  **Lack of agreement on the evaluation of the risk quarries pose to public health:** Recommendations have yet to be formulated for an agreed upon methodology to evaluate health risks at quarries.

-  **Flaws in computer system:** The computer system of the Department of Mining and Quarrying at the National Resources Administration (mining division) at the Ministry of Energy is outdated, and the information on quarries is not fully updated.
-  **The procedure for submitting an application for a quarrying license is not accessible online:** The quarrying license application form and other required documents are available on the Ministry of Energy's website as downloadable files only, and cannot be submitted online to the mining division.





Computerized system: The Ministry of Energy has begun to advance a transfer of databases to a system based on new infrastructure and to update the existing computer systems.

Arranging contracts: The ILA is arranging contracts for all quarries.

Supervision: The Ministry of Energy's supervision of quarries is carried out regularly (three visits a year on average) at every active quarry.

Utilization of raw material: In 2018, the ILA published two tenders related to programs whereby raw materials would be utilized prior to new development, thereby starting to implement the relevant provision in National Outline Plan 14B.

Key recommendations

-  The government must consider expanding the powers of the mining division to include the promotion of detailed planning, the coordination of marketing, and the promotion of supplementary measures, so that it can function as an integrative entity.
-  In order to ensure the regular and reliable supply of raw materials that meet the needs of the economy, the ILA must act to market un-marketed quarries; the Ministry of Defense and Ministry of Energy must agree on a system of coordination and work with it, as well as obtain the necessary approvals for the expansion of the Modi'im quarry and examine the issue also with regard to other quarries located in security zones; and the geography committees must decide to operate quarries located on the boundaries of two or more local government jurisdictions and examine fair distributional arrangements to divide income from municipal taxes among municipalities to enable quarry expansion.

- 💡 The Planning Administration must formulate possible solutions together with Israel Rail Cargo Company Ltd. to promote planning of railway lines and loading and off-loading terminals near the quarries.
- 💡 The Ministry of Energy and other ministries must implement supplementary means for the supply of quarrying and mining materials and advance recycling of building waste.
- 💡 The Ministry of Energy must work to fully update and upgrade IT systems to manage the mining and quarrying sector in order to generate a full assessment of quarries, achieve efficient and optimal supervision and advance online interfaces with all the relevant entities.

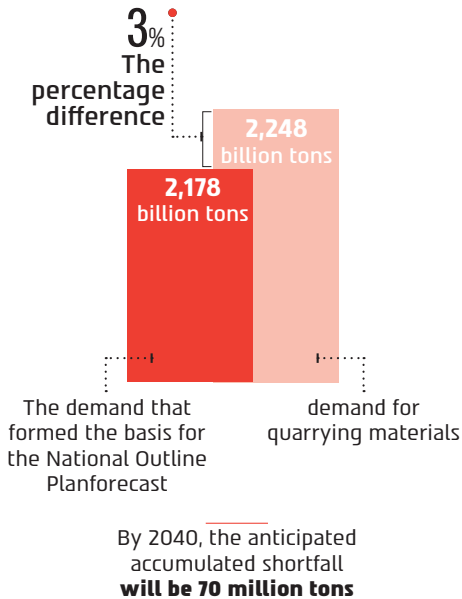
Summary

The development of the State of Israel is based, inter alia, on the construction and paving sector. The findings of this audit show that the planning and marketing of quarries is being delayed and that some of the supplementary means to supply mining and quarrying materials - necessary to implement the National Outline Plan - have yet to be implemented.

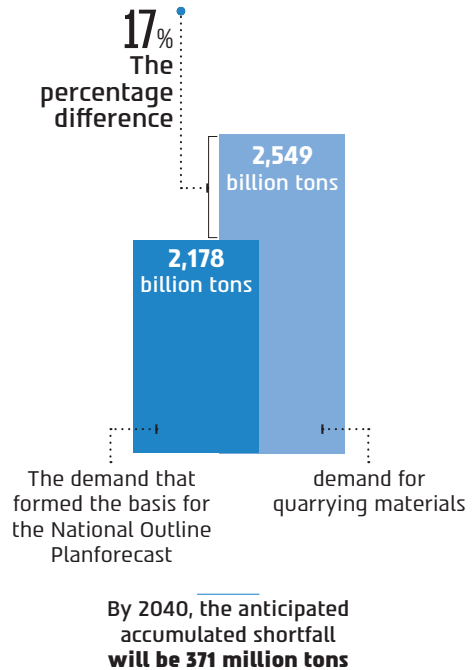
Government ministries must cooperate on implementing the recommendations in the policy document to prevent a significant shortage of quarrying materials, which would lead to a delay in development and an increase in the price of raw materials for the construction industry and subsequently to an increase in the cost of living.

The expected shortage of quarrying materials in 2040

slowdown in the population growth rate



continued population growth at an annual rate of 1.9%



* According to data from the Ministry of Energy, processed by the State Comptroller



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Ministry of Construction and
Housing

Aspects of the Government's Subsidized Housing Program “Mechir Lamishtaken”

Abstract

Ministry of Construction and Housing

Aspects of the Government's Subsidized Housing Program "Mechir Lamishtaken"

Background

In 2015, the government decided to implement the Mechir Lamishtaken (lit. price for a resident) subsidized housing program to tackle the housing crisis and assist young couples and singles who do not own any housing to purchase an apartment at reduced cost. The program determined that, for tenders in the program, bidders (developers and contractors) would compete for the lowest price per square meter of an apartment, and that the Israel Lands Authority and the Ministry of Construction and Housing would market all the land included in this program. According to the program, couples and singles over the age of 35 years who do not own any housing would be able to purchase an apartment. Were apartments to remain without demand by first-time buyers, they could be marketed to second-time buyers. If the number of people eligible to purchase an apartment in a project were to be greater than the number of apartments offered for sale, priority would be determined by a lottery.

Key figures

128,100

the number of household registered for the program as of August 2018

64,000

housing units for which contractors have been selected from the date the program began until December 2018

60,700

housing units raffled since the program began, as of December 2018

NIS 5.9 billion

cost of the program to state coffers as of September 2018

44%

of 11,780 housing units that had received construction permits as of May 2018 were large apartments (5 or more rooms)

14%

of 11,780 housing units that had received construction permits as of May 2018 were small apartments (3-3.5 rooms)

5,900





housing units (of 20,170 units investigated) that as of September 2018 had yet to receive a construction permit even though the date of handing the land over to winning developers to commence construction had passed

Scope

 From February to September 2018, the State Comptroller's Office examined several aspects of implementation of the Mechir Lamishtaken program. The issues examined included the manner of submitting suggested decisions on the program, land planning, land marketing, the process for issuing building permits, and the handling of applications submitted by eligible applicants. The audit was carried out at the Ministry of Housing and Construction, the Israel Lands Authority (ILA), and the National Housing Headquarters at the Ministry of Finance. Supplemental examinations were carried out at the Netanya, Modiin-Maccabim-Reut, Ofakim, and Kiryat Bialik municipalities.

Key Findings



-  The National Housing Headquarters, the Ministry of Housing, and the ILA did not map the complex of needs of those eligible for the program, including high-demand residential areas and the types of apartments needed. In some districts, there was no correlation between the volume of marketing and the areas of residence of those who were eligible for the program. This is liable to impair the program's effectiveness, the purpose of which is to enable the purchase of an apartment for residential purposes, and also, from the perspective of the national economy, the effectiveness of resource allocation.
-  Even though most eligible applicants are young households, many of the housing units marketed by ILA and the Ministry of Housing were large apartments (44% had 5 or more rooms) and some of the apartments had gardens or large balconies, which drove up the price.
-  An examination of 20,170 housing units (for which, in September 2018, data was available about the date of the developer's winning bid and the date the building permit was received) showed that, with regard to 5,900 of those units, building permits had yet to be received at the time the land was supposed to be handed over to the developers to begin construction. It is already obvious that delays in the completion of construction can be expected. A delay in the timetable is also expected with regard to 8,600 housing units for which building permits were only received after the date on which construction was supposed to have begun.
-  The Ministry of Housing's handling of applications by the public did not meet the standards set by the Ministry itself.



- ❗ Despite the importance and broad scope of the program, as of the date of the audit's completion, the National Housing Headquarters and the Ministry of Housing had yet to conduct an orderly procedure to measure and assess the program to see if it is achieving its goals.



The government decision to take action and invest resources to tackle the housing crisis and assist young couples and singles who do not own any housing to purchase an apartment was an initiative that was important and necessary in view of the ongoing crisis.

The ILA and the Ministry of Housing conducted a procedure to analyze failed marketing tenders and learn lessons to improve marketing and reduce failures.

The Housing Headquarters, the Ministry of Housing, and the ILA corrected some of the failures that arose during the implementation of the program and reduced the scale of construction of large apartments. Furthermore, they have embarked on research that will serve as the basis for decision making affecting the program.

Key recommendations

- 💡 It behooves the Ministry of Housing, which is coordinating the handling of eligible applicants, to examine the possibility of contacting all those who have yet to win (via the lottery) an apartment or lottery winners who have renounced their eligibility in order to learn as much as possible about their needs, preferences, and capabilities, and map them. This mapping would allow more informed decision making not only with regard to marketing of land, but also with regard to planning projects and the type of apartments to be offered.
- 💡 It behooves the Ministry of Housing, ILA, and Housing Headquarters to examine the suitability of the existing program to the needs of the program's target population prior to marketing. In particular, they should examine if there is sufficient inventory of small apartments. If necessary, changes should be made to the program to adapt it to needs.
- 💡 With regard to projects where the number of small apartments is lowest and the plans therein are unchangeable, it would be appropriate to consider the possibility of marketing the large apartments in a different format, such as regular marketing on the free market.
- 💡 The Ministry of Housing and the Housing Headquarters must consider ways to find

solutions to delays in the receipt of building permits in addition to those taken to date.

- 💡 The Ministry of Housing must deal with the applications of applicants eligible for the program within a reasonable time and provide them with a satisfactory level of service, as well as ensure that monitoring companies meet the level of service defined and supervise this on an ongoing basis.

Summary

Mehir Lamishtaken is the state's flagship program to resolve the housing crisis. To implement the program and afford those who do not own any housing to purchase an apartment at a reduced price, the state has invested significant resources and substantially subsidized the cost of state-owned land. The Housing Headquarters, the Ministry of Housing, and the ILA must work to shorten the timetable to prevent delays in the apartment production chain aimed at advancing handover of apartments to those eligible to the extent possible.

Mehir Lamishtaken in central Israel



Description of image:

The picture shows two nine-story buildings. There are landscaped public areas in front of the buildings and more buildings behind them.



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Ministry of Transport and
Road Safety

The Israel Meteorological Service

Abstract

Ministry of Transport and Road Safety

The Israel Meteorological Service

Background

The Israel Meteorological Service (IMS) is an auxiliary unit in the Ministry of Transportation and Road Safety. The IMS is responsible for: providing weather forecasting services and warnings of anomalous weather phenomena; providing forecasts and warnings for various sectors of the economy; conducting meteorological observations to compile a national climate data bank; establishing, operating, and maintaining a basic meteorological database; conducting applied meteorological research for government ministries and the public sector; and is responsible for international activities in the field of meteorology.

Key figures

NIS 30.5 million

annual average IMS budget in 2017-2019

400

volunteers who measure rainfall around the country


82

meteorological measuring stations where devices are installed to measure rainfall, temperature, wind, humidity and more







71 employees

the IMS has three professional divisions: the operational meteorological division, the technological infrastructure division, and the research division

Scope

-  From August 2018 to March 2019, the State Comptroller's Office examined IMS activities. The examinations were conducted at the IMS offices in Beit Dagan. Supplemental examinations on regulatory legislation and purchasing were conducted at the Ministry of Transportation, and on meteorological measurements - at the Ministry of Agriculture and Rural Development.

Key Findings

- 
-  **The status of the IMS and its fields of responsibility:** The meteorological sector operates without overall legal regulation defining the state entity responsible for the field, the services the IMS should provide, and if those services can be opened up for competition. Furthermore, the law does not define the authority responsible for publishing alerts and warnings for anomalous and dangerous weather events.
 -  In 2017, the IMS worked with the Civil Aviation Authority to map the differences between the directives of Appendix 3 to the Chicago Convention and Israeli law, and found that **112 standards and recommendations are not regulated by Israeli law**. As of the completion of the audit, legislative procedures to close these gaps had yet to be advanced.
 -  **Network of measuring stations:** The distribution of stations, some dating back to the British Mandate era, occurred without planning and without an overall vision of needs. At the same time, other government and public entities set up meteorological stations for their own needs, sometimes adjacent to IMS stations. IMS stations are mostly located on public lands, while a minority are on private land. The land rights of most of the stations have yet to be regulated.
 -  **Cloud radar** is used to provide early warning of strong rain showers and other rare phenomena, enabling local preparation for expected weather hazards. The proper functioning of radar is of great importance in providing information to the aviation sector, including the prevention of hazards and damage to aircraft. The IMS cloud radar was purchased 20 years ago and operates with outdated technologies. In recent years, it has malfunctioned several times, until it was completely shut down in the winter of 2018.
 -  Purchase and contractual procedures at the IMS take place without any preliminary assessment of the cost of purchase. The audit noted incidents in which the IMS refrained from publishing tenders and engaged with service providers even when the sum was higher than NIS 50,000, requiring the issuance of a tender.








Regulation of IMS operations with other entities: Absent a law governing the operations of the IMS with other entities, the IMS regulated its operations with those entities through agreements to cooperate and share work.

Operation of cloud radar: Since the cloud radar has gone out of use, the IMS has found an interim solution to provide a cloud radar picture. This picture is a product that integrates automatic rainfall gauges with available radar systems through the use of algorithms of short term forecasting systems.

Strengthening the meteorological service: Despite its limited resources, the IMS operates in several fields. It carries out meteorological observations to ensure a national climate data bank; establishes, operates, and maintains a basic meteorological database; conducts applied meteorological research for government ministries and the public sector to promote meteorological science and develop scientific understanding of the weather and climate in Israel; and is responsible for international operations in the meteorological field.

Key recommendations

-  The Ministry of Transportation must work to regulate the field of meteorology, including defining the role of the meteorological service and its status and fields of responsibility.
-  The IMS must examine the distribution of its measuring stations and find the optimal distribution.
-  To increase the efficient use of public resources, the IMS must increase cooperation with the various entities involved in measuring, among them the Ministry of Agriculture, the Israel Electric Corporation, the Ministry of the Environment, the Airports Authority, the Mekorot Water Company, and the Ministry of Defense.
-  The Ministry of Finance and Ministry of Transportation must consider all relevant aspects of purchasing a new cloud radar, while exercising cost-benefit considerations with regard to purchasing a new radar as opposed to continued use of the existing radar.
-  To receive high-quality, uniform data, the IMS must further the purchase of measuring equipment for the meteorological stations meeting international standards, replace the booths for storing field equipment outdoors with high-quality, modern booths and replace aging equipment for which spare parts are no longer available.

- 💡 The IMS must make sure to manage its engagements with suppliers in accordance with the law.

Summary

There is great importance to the existence of a central state entity to concentrate operations in the meteorological field to carry out observations, publish weather forecasts, transmit data to counterpart national meteorological centers in other nations, and provide warnings of anomalous weather events that might cause damage to property and person. The Ministry of Transportation must study the needs of the IMS and regulate its operations as a state entity. Furthermore, it should act to strengthen the IMS and optimize interfaces between it and other entities dealing with the subject to ensure the quality of forecasting and the efficiency of resource allocation from a national perspective.

The IMS building







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Chapter 3

State Institutions, Governmental Companies and Corporations Importance



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Israel Railways

Freight Transport by Train

Abstract

Israel Railways

Freight Transport by Train**Background**

Israel Railways Ltd. was established in 1998 and began to operate in 2003. The government company is fully owned by the Israeli government. The Ministry of Transportation and Road Safety is responsible for the regulation of railway activity, and its supervision and control. Transporting freight by train reduces the negative external effects of transporting freight by truck. In April 2012, the government decided to set up a freight subsidiary in to increase the volume of freight transported by train. All freight transport operations are carried out by the rail cargo division, and the subsidiary pays it for these operations.

Key figures**5.5% only**

the estimated rate of freight transport by rail as a percentage of all freight transport in Israel

8.54 million tons

the weight of freight transported by train in 2018, a decrease of 6.2% in comparison to 2017

2.6 million ton-kms

average productivity per employee in 2018, compared with 3 million ton-kms in 2016

10.9% only

cumulative increase in freight transportation in 1999-2018 as compared to a doubling of GDP (97.7%) in that period

NIS 580 million

balance of commitments for projects to transport freight via train that have yet to be completed and did not reach the payment stage in 2018

NIS 60.8 million

total operating losses of the train freight transportation sector from transporting freight in 2018, compared to a loss of NIS 19.6 million in 2017

NIS 144 million

sum of subsidies paid to the Israel Rail Company from the state budget for transporting freight in 2018

30.5 agorot per ton-km


freight cost of rail freight in 2018, compared to 24 agorot per ton-km in 2016

1,251 million tons per kilometer^[1]






the movement of freight carried by Israel Railways in 2018, a decline of 9.4% compared to 2017

[1] tons per kilometer = the transport of one ton a distance of one kilometer Freight transportation is calculated by multiplying the weight of freight by the length of distance it is carried. Freight transportation during a particular period of time is the sum of the multiplication of all the freight carried in that time.

Scope

 From November 2018 to March 2019, the State Comptroller's Office examined the subject of transporting freight by train and the operations of the subsidiary company. The audit was carried out at the train company, at the cargo subsidiary, and at the Ministry of Transportation. Supplemental examinations were conducted at the Budgets Department of the Ministry of Finance, at the Accountant General, and at the Government Companies Authority.

Key Findings

-  **Continuation of statutory proceedings for the promotion of terminals for freight transport by rail:** The proceedings have lasted between five to nine years at the planning authorities, the Planning Administration at the Ministry of Finance, the Ministry of Transportation, the Ministry of Environmental Protection, the railway company, and the local authorities within whose jurisdiction terminals are planned, and there is as yet no end in sight. Activity at some of the freight terminals has declined and some have even closed.
-  **Lack of efficiency in transporting freight by train due to a lack of infrastructure:** The non-development of infrastructure (the eastern line, terminals, and extensions) by planning institutions, the Ministry of Transportation, and the Ministry of Finance, as well as the limited availability of freight tracks to transport freight, means that mobile equipment is inefficiently utilized.
-  **The delays in advancing projects to develop infrastructure to transport freight by train have led to non-utilization of budgets allocated to this end.** Even though, in certain years, the authorization to commit budget stood at tens and even hundreds of millions of shekels a year and its execution was implemented every year, cash performance for most years amounted to just a few million shekels.
-  **Recent decline in efficiency of transporting freight by train:** In 2017-2018, the average productivity of employees declined and the cost of transporting freight per unit of output increased.
-  **Freight operations were loss-generating in 2017-2018 and the first half of 2019,** and contributed to the rail company's losses, which increased in 2018. The cumulative loss in these years was NIS 114.1 million. The cargo subsidiary lost financial stability and, in February 2019, the rail company's board of directors decided to recommend that the Government Companies Authority terminate the operations of the subsidiary and dissolve it.

Deficiencies in the establishment of the cargo subsidiary: Establishment of the subsidiary was not accompanied by supplementary development plans. The actions of the ministries of transportation and finance made it possible to advance procedures to set up the company, but the limitations set out in the agreements limited the company's ability to operate and nullified the benefits of its establishment and privatization.

Increase in number of safety incidents relative to the movement of freight by rail: In 2014, there were 26 safety incidents per billion ton-kilometers. The number increased to 31 safety incidents per billion ton-kilometers in 2018. In 2015, there was a record high of 43 incidents per billion ton-kilometers and in 2016-2018 the number of incidents stabilized at around 30.





Improvement of the field of freight transportation: The government began a comprehensive program to improve freight transportation by rail.

Amendment to the development agreement between the ministries of finance and transportation and the rail company: The amendment includes abolition of the depreciation co-efficient for the subsidy per ton-kilometer in 2019 and 2020, bonuses for increase in freight volume transportation compared to 2018, and incentives for transporting empty containers to prevent the subsidiary's insolvency until the appointment of new rail company management and also to formulate a restructuring plan.

Decline in the number of safety incidents in 2019: The operations of the rail company to improve safety and the work of the rail department at the Ministry of Transportation to continuously monitor safety incidents led to a reduction in safety incidents in 2019.

Key recommendations

-  The Ministry of Transportation must **act to complete the plans to implement the cargo master plan** that the Ministry itself prepared with the goal of increasing the volume of freight significantly.
-  The Ministry of Transportation, the Ministry of Finance, the Ministry of Environmental Protection, the Rail Company, and the Planning Administration **must work together to streamline planning procedures** for the sake of developing rail infrastructure that will assist in transporting freight by rail.

- 💡 The Rail Company, the Ministry of Transportation and the Ministry of Finance **must work cooperatively with the workers' organization to advance streamlining measures in the freight sector**; to improve financial results in the sector and restore the cargo subsidiary to a satisfactory level of operational profitability.
- 💡 The ministries of transportation and finance and the rail company **must act to ensure that subsidies paid to the freight sector reflect the benefit to the economy of transporting freight by train.**
- 💡 In the course of working to advance competition in the economy and streamline government companies, **the ministries of transportation and finance must refrain from imposing significant limitations in future agreements** that, even if they allow the promotion of government policy in the short term (for example, through the establishment of subsidiaries), can impair the possibility of implementing policy in the long term (for example, restrictions on privatization of subsidiaries in the future).

Summary

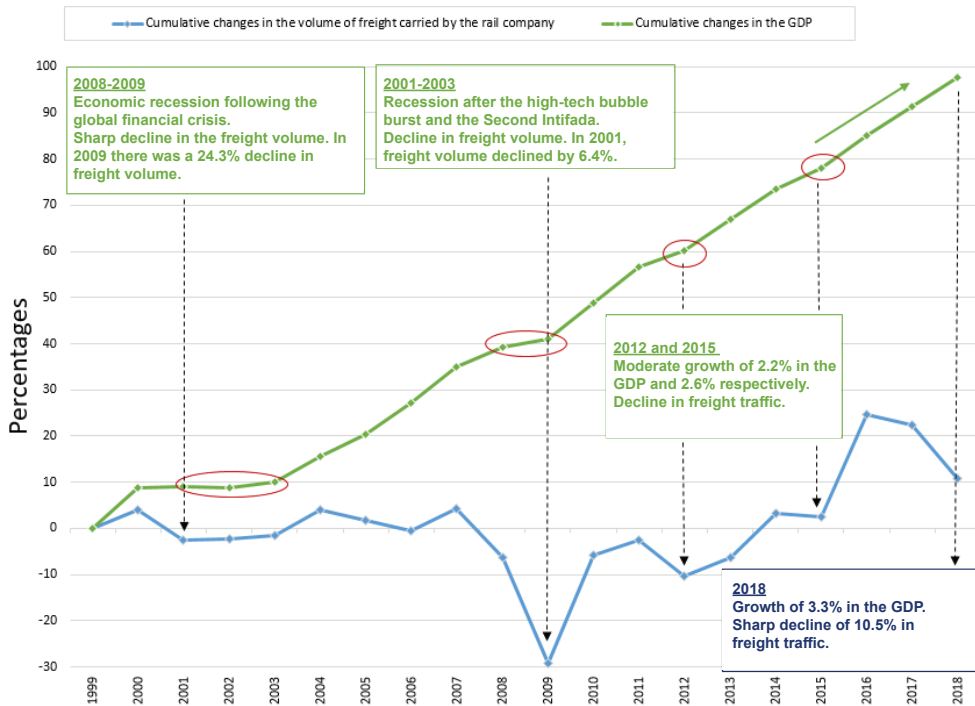
The volume of freight transport by rail decreased in 2017 and 2018, and the cargo sector is suffering from a lack of infrastructure. The rail freight sector is characterized by a lack of efficiency, due to a lack of infrastructure and inefficient operations. Consequently, in recent years, freight operations have been generating losses. The ministries of finance and transportation and the rail company must correct the deficiencies cited in this report and significantly increase the volume of rail freight transportation to enable the economy to grow and the company to realize its inherent economic potential.

Cargo transportation by the Israel Rails Company



Image description: The image shows two photos of freight trains.
According to rail company documentation

Cumulative changes in freight volume and the GDP, 1999-2018



Description of chart:

With regard to 1999-2018, the chart presents the correlation between the cumulative annual changes in the GDP and the cumulative annual changes in the volume of freight carried by the rail company. In 2001-2003, there was a global recession after the high-tech bubble burst and the Second Intifada, and at the same time there was a decline in freight volume. For example, in 2001, freight volume declined by 6.4%; in 2008-2009, there was an economic recession following the global financial crisis and at the same time there was a sharp decline in the freight volume. For example, in 2009 there was a 24.3% decline in freight volume; in 2012 and 2015 there was moderate growth in the GDP of 2.2% and 2.6% respectively and at the same time there was a decline in freight traffic; in 2018 GDP grew by 3.3%, but there was a sharp decline of 10.5% in freight traffic.

According to data from the Central Bureau of Statistics and the Rail Company processed by the State Comptroller's Office



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Israel Electric Corporation

Asset Settlement with the Israel Electric Corporation and Its Effect on the Cost of the Reform

Abstract

Israel Electric Corporation

Asset Settlement with the Israel Electric Corporation and Its Effect on the Cost of the Reform**Background**

The Israel Electric Corporation Ltd. (the IEC or the Company) operated until 1996 under a franchise granted to it by the British Mandate for a period of 70 years. At the end of the franchise period, the company was supposed to have returned the undertaking to the state. The Electricity Sector Law of 1996 replaced the directives of the franchise and formulated directives for handling the return of the company's assets.

In 2018, two significant settlements were formulated in the electricity sector. These were approved by the ministers and enshrined in legislation, reflecting benefits and costs of billions of shekels, through the assets settlement between the state and the IEC and the electricity sector reform, which ended a dispute that had lasted two decades.

Key figures**NIS 85.9 billion**

the total value of the IEC balance sheet in 2018 in tandem with a decline in the scope of its commitments

220

number of assets the IEC has reported as substantial for the purposes of examining the settlement, out of 14,000 assets, most of which are small operational assets

27

number of assets for which the IEC has conducted appraisals
The accumulated value of these assets is NIS 2.87 billion.

16

number of assets returned to the state as part of the assets settlement, appraised at NIS 1.67-2.5 billion

NIS 2.5-2.8 billion

net cost of the settlement to the state without many substantial assets, which remained in the hands of the IEC

NIS 2.7 billion

total decline in liabilities on the books of the IEC in exchange for a payment of NIS 15 million that led to recording a profit of NIS 2.6 billion


8 ← 4.8

the improvement in the IEC's EBITDA debt ratio in 2013-2018





NIS 2.15 -2.45 billion

gap between the state's estimate of the net cost of the assets settlement and the IEC's estimate

Scope

 From July 2018 to January 2019, the State Comptroller's Office examined the assets settlement signed between the state and the IEC and the interfaces with the electricity sector reform, including databases that existed at the time the agreement was formulated, the scale of the agreement and its possible impact. The audit was carried out at the Ministry of Finance, the Government Companies Authority, and the IEC. Supplemental examinations were carried out at the Israel Lands Authority (ILA) and the Electricity Authority. It should be noted that the report does not deal with the agreements formulated in the reform itself or the implementation of the reform.

Key Findings

-  **Formulation of the assets settlement based on a partial list of assets:** The assets settlement was formulated on the basis of an IEC database that included only the company's substantial assets, excluding many secondary operational assets. The Ministry of Finance did not formulate its own independent list of assets. Therefore, many assets were never discussed in the negotiations over their return to the state. The possibility that some of them may be significant to the state cannot be ruled out.
-  **The lack of evaluations of substantial assets held by the company:** At the time the settlement was signed, the state had an appraisal of only 27 assets out of a list of 220 assets handed over by the IEC to the state. Official appraisals were not made for the remaining assets. Therefore, the state did not possess information about the scale of assets held by the IEC and it was not possible to ascertain the extent to which the state exhausted its rights and on the scale of concessions it agreed to in negotiations with the company.
-  **The Ministry of Finance has no strategy for handling asset recovery when a franchise expires:** Despite the state's repeated difficulty in enforcing its position on its rights at the end of a long franchise period, the Ministry of Finance has not formulated a strategy to address such issues. The absence of a strategy creates an incentive to toughen positions on the part of the side holding a franchise in order to extract benefits resulting from state concessions.
-  **Shortfall presentation of costs and benefits of the reform in the electricity sector:** The cost of the assets settlement is evaluated at NIS 2.5-2.8 billion at least. The assets settlement is an integral part of the financing of the electricity

sector reform. However, the Ministry of Finance did not include the full financial implications of the assets settlement in its cost-benefit calculation of the reform to change the structure of the electricity sector.






The end of the dispute between the IEC and the state: The assets settlement brings an end to the years-long dispute between the state and the IEC over the issue of the ownership of IEC assets.

A further improvement in the financial situation of the IEC: The assets settlement improves the company's financial situation and the terms at which it raises capital. This improvement is in addition to the improvement made as a result of actions the company has taken over the past five years to reduce its commitments.

Implementation of the electricity sector reform and the maximization of benefits to the public: The assets settlement is an integral part of realizing the reform, both in terms of financing and in terms of implementing the company's obligations to sell production plants to private entities. It is important to implement the assets settlement in tandem with implementing the reform. The settlement enables the state to maximize the public benefit inherent in the assets that were held by the IEC and were returned to the state as part of the settlement.

Key recommendations

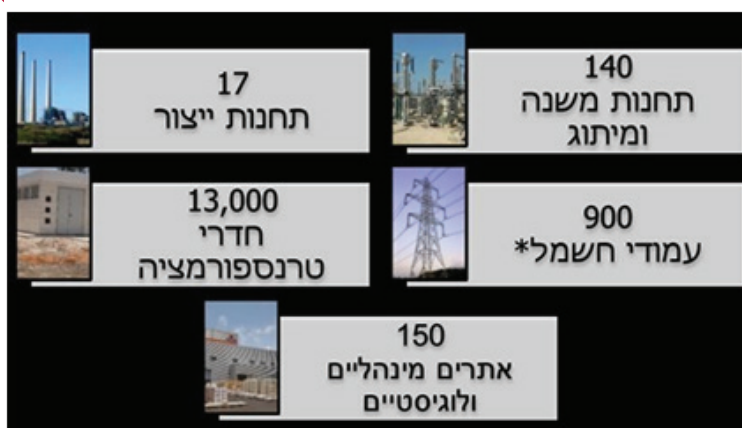
-  The Accountant General and the Government Companies Authority must **routinely maintain complete lists of assets held by all government companies**, including information on the nature of the asset and details of its use.
-  It behooves the Government Companies Authority and the Accountant General **to examine the formulation of a current and up-to-date control mechanism for the assets held by the IEC** as an alternative to the company's statements, as these fail to reflect the value of assets remaining in its hands, and to serve as a mechanism for supervising the future sale of the assets. Furthermore, we propose that such an examination be held also with respect to all government companies whose assets are not fully reflected in their financial reports.
-  State entities and the IEC must ensure that **the overall settlement on distribution of assets and the structural change agreed upon in the electricity sector are fully completed** to benefit both parties and reduce risks to the public weal. Furthermore, in future deals made by the state, it behooves the Ministry of Finance to reduce to a minimum the state's exposure to risk of not receiving full proceeds.

- 💡 The Ministry of Finance and the Accountant General must **formulate a strategy to return assets to the state when long-term franchises end and formulate rules for granting future franchises** that will leave no room for disagreement over future settlements. Furthermore, they must examine the need to formulate a mechanism to resolve long-lasting disputes between the position of the companies and their own.
- 💡 The Ministry of Finance must **ensure that it presents to decision makers with a full picture** of the costs of settlements or policy measures for which it seeks to receive authorization as well as reflect them accurately to the public.

Summary

The state, which serves as the public trustee for the management of state assets, is required to represent the public benefit in an optimal manner. Even though the settlement ended a multi-year dispute between the sides, its results are sub-optimal due to the government's lack of preparation or strategy on reclaiming assets from government companies and due to non-uniformity in the state's conduct. Lessons must be drawn from the current settlement to optimize the state's operations in formulating similar settlements when franchises end in the future.

The assets held by the IEC in 2017





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Mei Avivim 2010

Aspects of the Mei Avivim Corporation's Activities

Abstract

Mei Avivim 2010

Aspects of the Mei Avivim Corporation's Activities

Background

Mei Avivim 2010 Ltd. (the corporation) is responsible for providing water and sewage services to the residents of the city of Tel Aviv-Jaffa. The company was established by the Tel Aviv-Jaffa municipality in January 2010 and it is fully owned and held by the municipality. In January 2010, the Director of Corporations granted Mei Avivim a license to operate a corporation under the Water and Sewage Corporations Law.

Key figures

47.5
million cubic meters

amount of water supplied by the corporation in 2018 to Tel Aviv's 450,000 residents commitments

NIS 0.08 million

the corporation's loss in 2018 (before tax on revenues) compared to its loss of NIS 6 million in 2017^[1]

NIS 43 million

the gap between actual operating expenses and operating expenses according to operating norms^[2] set for the corporation in 2017

2.8%

the rate of the corporation's collection depreciation^[3] in 2018

8.5%

the rate of water depreciation of the corporation^[4] in 2018

10.5%

the percentage of water the corporation supplied in 2018 from independent sources

[1] Losses include tax on revenues in 2018 of NIS 6.6 million and in 2017 of NIS 8.8 million.

[2] Operating norms concern the following components of water fee: the water network component, the sewage network component, the collection component, and administrative expenses.

[3] Collection depreciation is the difference between total charges for the company's expenditure to provide water services to its customers and the total actually collected from those charges.

[4] Water depreciation is the difference between the amount of water the corporation purchases or produces and the amount of water it supplies to all its customers. This report relates to water engineering depreciation, in accordance with the Water and Sewage Corporations Regulations (setting conditions for licenses with regard to engineering standards) 2017.



89.5%

the percentage of water acquired from the Mekorot Water Company Ltd.

NIS 69.2 million

investments made by the corporation in 2018, i.e. ~16% of its revenues
Investments by the corporation in 2014-2017 ranged from 16.2% to 20.7% of its revenues.

NIS 42.2 million


the cost of collection for the corporation in 2017 (excluding expenditure on doubtful debts), around^[5] 6% of revenues

52





the number of corporation employees (out of 182) borrowed from the Tel Aviv-Jaffa municipality in 2018
That year, wage expenses for these employees were 43% of the corporation's wage expenses.

[5] The figure is based on the corporation's financial reports and includes additional collection costs.

Scope

 From August 2018 to February 2019, the State Comptroller's Office examined aspects of the operations of the Mei Avivim corporation. Supplemental examinations were conducted at the Water Authority and the Tel Aviv District Health Bureau.

Key Findings

-  **Failure to comply with operating norms:** Gaps were found in all components of operating norms set by the Water Authority for the corporation in 2017 and in actual costs. That year, the gap between operating norms and actual costs was NIS 43 million.
-  **Failure to comply with collection depreciation and water depreciation norms:** The corporation did not comply with the collection depreciation rate recognized and set in the regulations (1.5%). In 2018, collection depreciation was almost double that rate. The corporation also failed to comply with the rate of "general, recognized water depreciation" it had been given, i.e. 6.68%. In 2018, water depreciation was 8.5%.
-  **Decline in the volume of water production from independent sources:** In 2012, the corporation had ten active wells; in 2017 and 2018, it had just six and seven active wells respectively.
-  **Flaws in the management of the corporation's contracts and their control and supervision:** The audit found cases in which the corporation did not prepare ahead of time to publish tenders and therefore extended existing contracts because it had no valid option in hand. Cases were also found in which the corporation did not monitor the rate of expenditures for its contracts and did not examine this matter.





Reducing collection depreciation: In 2014-2018, the corporation managed to reduce the rate of collection depreciation from 5% in 2014 to 2.8% in 2018.


Reducing water depreciation: In 2014-2018, the corporation managed to reduce the rate of water depreciation from 8.8% in 2014 to 8.5% in 2018.

Water quality: We did not find deficiencies in the quality of water provided by the corporation.

Key recommendations

 It behooves the Water Authority, as the regulating body, and the corporation to periodically examine the congruence between normal water depreciation and actual water depreciation and formulate implementable recommendations on this matter.

 The Water Authority must periodically examine the method of calculating operating costs in all corporations. The said examination is necessary to make the water sector more efficient and to meet the goals set by the Water Corporations Law, which include professional and efficient business management of the water and sewage systems. With regard to the corporation, it must work to comply with operating norms.

 In view of the contribution of well rehabilitation and optimization in increasing the natural water supply on the coastal aquifer, and in view of the low cost of producing natural water compared to the cost of purchasing desalinated water, the corporation's board of directors must examine the possibility of implementing a plan prepared by the corporation to rehabilitate and optimize wells.

The corporation must monitor the expenditure rate for its contracts. Strengthening control mechanisms and systematic, regular monitoring will enable the corporation to optimize management and improve its efficiency, meet planning objectives, monitor resource and budget utilization, and examine its performance.

Summary

In order that water fees reflect the costs required to efficiently ensure a supply water at an optimum level of service, quality, and reliability, and at a reasonable price, it is necessary to ensure that there is congruence between norms and actual operating costs. Such congruence will increase the monetary sources available to the corporation for increasing its investment in infrastructure. Regarding independent production from drilling, this increases the water supply, prevents pollution, maintains the ability to produce water from natural sources, and reduces the need to purchase desalinated water. The corporation, together with the Water Authority, must work to bring into use wells that will allow independent production from drilling.

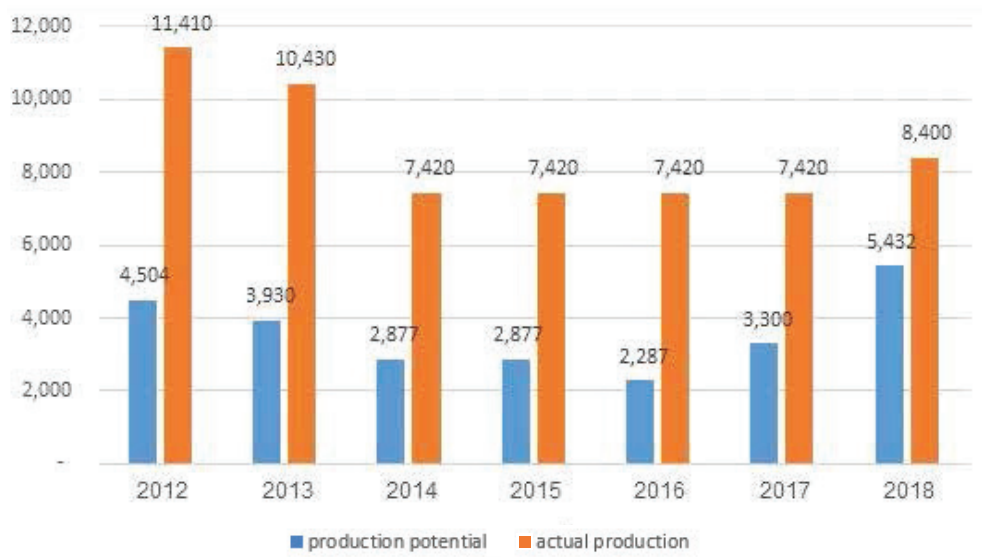
Mei Avivim, Tel Aviv-Jaffa, water line



Description of image:

The image shows a section of the Mei Avivim water pipeline.

Mei Avivim Corporation potential production compared to actual production, 2012-2018 (in thousands of cubic meters)



According to data from the corporation processed by the State Comptroller



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Gihon Corporation

Aspects of the Gihon Corporation's Activities

Abstract

Gihon Corporation

Aspects of the Gihon Corporation's Activities**Background**

The Gihon Corporation Ltd. (the corporation) is responsible for providing water and sewage services to the residents of Jerusalem, Mevasseret Zion and Abu Gosh. The Gihon Corporation was established by the Jerusalem Municipality in 1996. In 2003, the Director of Corporations granted the corporation a license to operate a corporation under the Water and Sewage Corporations Law. The corporation is owned by the Jerusalem Municipality (which holds 94.95% of the ownership), the Mevasseret Zion Local Council (3.5% of the ownership) and the Abu Gosh Local Council (1.55% of the ownership).

Key figures

71.4
million cubic meters

the amount of water supplied by the corporation in 2018 to approximately 900,000 residents of Jerusalem and the surrounding area

125,000
cubic meters

recycled wastewater purchased by the Jerusalem Municipality from the corporation in 2018, used for watering public parks in the city

2.1
million cubic meters

fresh water used to water public parks in Jerusalem in 2018

Only 6%

of the water used to water public parks in 2018 was recycled wastewater

NIS 36 million

the corporation's profits in 2018 (compared to NIS 44 million in 2017)

NIS 27.8 million

the corporation's financial losses in 2017 as a result of water depreciation^[1] in Arab neighborhoods in East Jerusalem

34.1%

the rate of water depreciation in the Arab neighborhoods of East Jerusalem in 2017

8.5%


the overall rate of depreciation of the water corporation in that year

NIS 140.5 million




gap between the state's estimate of the net cost of the assets settlement and the IEC's estimate

[1] Water depreciation is the difference between the amount of water the corporation purchases or produces and the amount of water it supplies to all its customers.

Scope

 From August 2018 to February 2019, the State Comptroller's Office examined aspects of the operations of the Gihon Corporation. The State Comptroller's Office examined the corporation's operating expenses, water depreciation, collection depreciation^[2], connecting neighborhoods in East Jerusalem to water, expenditure on wages and on-call expenses, tenders and agreements, and the supply of recycled wastewater to public parks in Jerusalem. The audit was carried out at the corporation and supplemental examinations were conducted at the Water Authority.

Key Findings




-  **Higher collection depreciation and water depreciation in neighborhoods over the separation fence in East Jerusalem:** Water depreciation and collection depreciation are significantly higher in these neighborhoods than the norms set for the corporation. This causes a waste of water, which is a scarce resource, and increases water fees. According to calculations made by the corporation, the financial damages caused to it as a result were NIS 12 million in 2017.
-  **Failure to comply with water depreciation and collection depreciation norms:** Due to the difficulty in collection in East Jerusalem, there is an irregularity in collection depreciation that impacts the overall collection depreciation of the corporation. In 2014 to 2018, the rate of collection depreciation at the corporation was 2.34% to 3.3%, as opposed its set norm of 1.5%. In 2018, the rate of water depreciation of the corporation was 7.3% as opposed to 7%, the norm set by the Director of Corporations^[3].
-  **Failure to comply with operating norms^[4]:** The corporation did not meet the operating norms set, and in 2017 the gap between norms and actual expenses was NIS 48 million.

[2] Collection depreciation is the difference between total charges for the company's expenditure on providing water services to its customers, and the total actually collected from those charges.

[3] This norm was updated to 8% as part of the decision to update fees in January 2020.

[4] Operating norms concern the following components of water tariffs: the water network component, the sewage network component, the collection component and administrative expenses.



-  **The Gihon's engagements:** The Gihon tenders committee authorized an increase in contractual agreements in a way that does not comply with contracting procedures: several agreements were increased several times and the accumulated increase exceeded the limitations set in procedures. We found agreements where the increase in the financial scope was brought before the tenders committee only retroactively.
-  **Allocation of on-call hours:** Even though some of corporation employees were called to return to work on only 10% of the on-call hours allocated to them in 2017, the corporation did not learn its lessons and in 2018 continued to pay its employees for a similar number of on-call hours. The minimal utilization of on-call hours allocated in 2017 raises doubts about the necessity of the number of on-call hours paid to employees.
-  **Use of reclaimed wastewater for public parks:** From 2015, with the laying of infrastructure to pipe reclaimed wastewater from the effluent purification plant at Har Homa to large parks in Jerusalem, the use of reclaimed wastewater for watering public parks in the city increased. However, the amount of reclaimed wastewater transferred from the corporation to the Jerusalem Municipality is lower than expected (in 2018 around 125,000 cubic meters out of around 500,000 cubic meters expected, around 25%) and from the purification capacity (around only 12.5%). At the same time, excellent quality reclaimed wastewater is returned for re-purification in the central sewage system.








Water quality: We did not find deficiencies in the quality of water provided by the Gihon Corporation.

Reduction of collection depreciation: In 2013 to 2017, the corporation reduced the rate of collection depreciation in East Jerusalem from 20.59% to 11.26%. However, this rate is higher than the rate set by the Director of Corporations - 1.5%.

Reduction of water depreciation: In 2014 to 2018, the corporation reduced water depreciation from 10.8% to 7.3% but failed to meet the norms set for it.

Key recommendations

-  **The corporation must strive to meet the norms of collection depreciation, water depreciation, and operations** set by the Director of Corporations in order to narrow the financial burden on water consumers receiving services from the corporation.

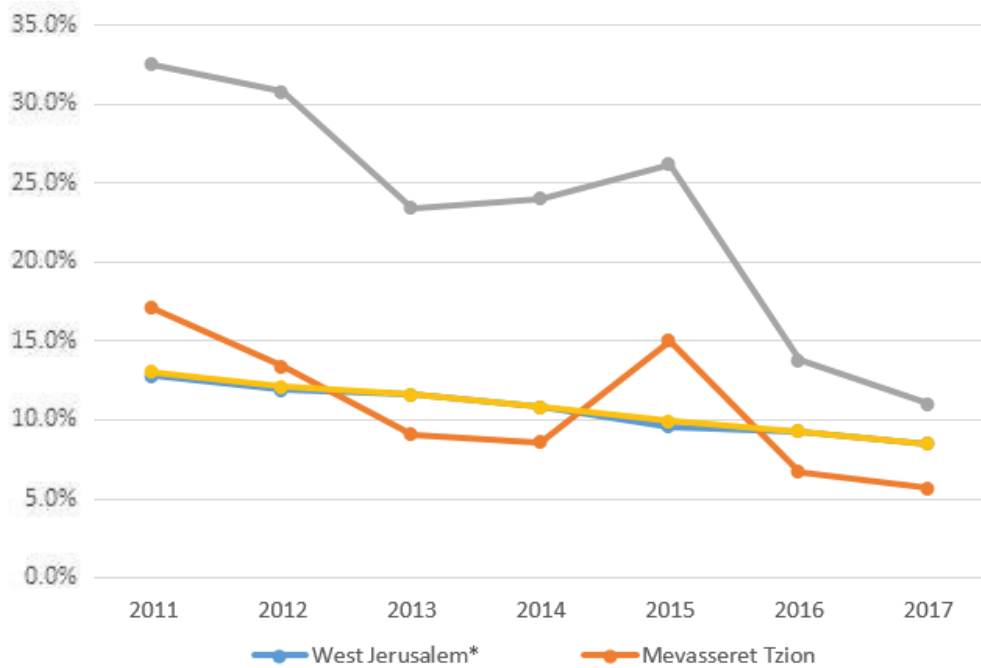
-  Action must be taken to find **a solution to the issue of East Jerusalem** by holding an ongoing discourse between the relevant entities (the Ministry of Finance, the Water Authority, the corporation, the Jerusalem Municipality, and security services insofar as required) to improve water supply, collection depreciation, and water depreciation.
-  The corporation **must make sure to conduct its engagements and agreements** in compliance with the Mandatory Tenders Law, its ordinances, and its own internal procurement procedures.
-  The corporation must examine the way it allocates on-call hours to employees, supervises their utilization, and formalize the matter with the Wage Commissioner.
-  In view of the importance **of utilizing reclaimed wastewater**, the Water Authority, as the regulating entity, must provide guidance on instances where there is financial feasibility for watering public parks of municipalities and public institutions with reclaimed wastewater as an alternative to watering with fresh water. It should examine the need to set designated fees for these uses for all suppliers of reclaimed wastewater. The corporation must work to efficiently utilize surplus reclaimed wastewater from the effluent purification plant at Har Homa to benefit the public.

Summary

The corporation supplies water and sewage services to a diverse population, including the residents of East Jerusalem, a factor that poses some challenges. There are gaps between the norms set by the Water Authority and the corporation's actual costs. In view of the fact that the water market is a closed financial market, costs higher than the norms may come at the expense of the capital component designated to finance water and sewage infrastructure development in Jerusalem. The Water Authority and the corporation must find a solution to the issue of excess costs so that they not be a burden on water consumers.



Water depreciation at the corporation by districts 2011-2017



According to data from the corporation processed by the State Comptroller in January 2019

Laying infrastructure at the Gihon Corporation



Description of image:

The image shows heavy mechanical equipment laying a water pipeline in a desert vista.

Source: Gihon Corporation



State of Israel
State Comptroller and Ombudsman
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Dan Region Water
Environmental Project

Consultants for Training and Supervising the Dan Region Water Environmental Project

Abstract

Dan Region Water Environmental Project

Consultants for Training and Supervising the Dan Region Water Environmental Project

Background

The Dan Region Agricultural Cooperative Water Association Ltd. (Dan Water) purifies wastewater and treats sludge at the Dan Region Wastewater Treatment Plant (Shafdan). Igudan - the Dan Region Association for Environmental Infrastructure - is an association of towns to treat sewage, that collects effluents and transfers it to the Shafdan. Igudan and Dan Water provide services to collect effluent from 23 regional authorities in the Dan Region and then treat it. In 2009 and 2013, Dan Water engaged with NGO A to carry out the "From Black to Green" project, a training project on the reduction of industrial pollution. Through the NGO, Dan Water engaged consultant A (2012-2013) and consultant B (2014-2018).

Key figures

140
million cubic meters

the average amount of effluent treated by Dan Water every year

138
million cubic meters

reclaimed wastewater Dan Water transfers to agriculture after further treatment by Mekorot Water Company

NIS 22 million

Dan Water's 2018 losses (NIS 217 million in revenues as opposed to NIS 239 million in expenditures)

NIS 2.15 million

what Dan Water paid the NGO for the "From Black to Green" project according to milestones from 2013-2017


NIS 886,460

the sum Dan Water paid consultants A and B from 2013 to 2018







29%

the percentage paid to consultants A and B out of total payments for the "From Black to Green" project

Scope

-  From August 2018 to January 2019, the State Comptroller's Office examined the way consultants A and B were hired as part of the engagement between Dan Water and the NGO regarding the project and Igudan's involvement in hiring them. The examination was conducted at Dan Water and Igudan and supplemental examinations were conducted at the NGO.

Key Findings




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-  **Selecting consultant without a competitive procedure:** Some 29% of payments made to the NGO for the "From Black to Green" project was spent on hiring consultants A and B. The consultants were selected without a competitive process and Dan Water was involved in their selection.
 -  **Hiring of consultants without an agreement:** The consultants were hired without a written agreement or summary defining issues such as content of the work or services required of them or the results they must produce and in consideration of which remuneration was to be paid to them or to the entity to which there were to report to. In addition, no supervisory and control mechanisms for their work were set.
 -  **We found a lack of clarity with regard to reports and products** of consultant B, on the basis of which payments were made to him.
 -  **Flawed oversight of the NGO:** The audit found that part of the role of consultants A and B was to also supervise the work of the NGO that employed them. Oversight by a consultant who reports and submits the results of the supervisory work to the same supervised entity is improper. It places the consultant supervisor in a position of conflict of interest and might impair the supervisory action.
 -  **Failure to conduct a compatibility test:** The skills, experience, and compatibility of consultant B were only checked retroactively rather than a priori.



Initiative to reduce industrial pollution: Dan Water initiated the "From Black to Green" project, aimed reducing industrial pollution, by providing training to industrial plants whose effluent is collected by Shafdan.

Lessons learned from the audit: Dan Water and Igudan announced they had drawn conclusions from the audit, would effect changes in the process of working with consultants, and implement an in-house process of learning and drawing conclusions.

Key recommendations

-  Engagement of consultants must occur via a competitive process as required and must define a priori and in writing the content of work, the products for which the remuneration is paid, and the identity of the entity to which they should report. Furthermore, supervisory and control mechanisms for their work must be set. The products required from the supervisors and the reporting mechanism must be defined.
-  Engagement of consultants whose role is to supervise a project must be made via the party ordering the project and not by the entity the consultant is meant to supervise. Prior to selecting a consultant, the requirements of the position must be defined as well as the compatibility of the candidate and their advantages over other candidates.
-  We recommend examining the percentage of the cost of engaging a consultant as compared to the overall cost of the project.

Summary

Igudan and Dan Water must make sure that engagement of consultants is done in line with the rules of proper administration and based on a competitive process. Engagement of consultants must be direct. There must be a clear definition of their role to enable oversight of their work. Furthermore, supervision of external suppliers must be conducted by Igudan or Dan Water by themselves, or via consultants on their behalf, not by consultants who are supposed to be selected by the suppliers to report to them or be subordinate to them.

In view of the findings of the report, the Water Authority must consider setting regulations for the control mechanisms in the engagement of entities operating in the water and sewage sector.



The Shafdan compound

