



State Comptroller and Ombudsman
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Government Tourist Corporation

The interaction between the Ministry of Tourism and the Government Company for Tourism and aspects of the Company's conduct

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Background

The Government Company for Tourism (GCT) is a government company established in 1955 as the central execution arm of the Ministry of Tourism for the development of the public infrastructure for tourism. In 2012, the Ministry of Tourism and the Company signed a framework agreement regulating the interaction between them: The GCT develops public tourism infrastructure, and the Ministry of Tourism allocates the company's administrative and salary expenses. In 1965, a government land development company was established on the northern coast of Eilat - the Eilat Beach Development Company. In December 2010, the Ministerial Committee on Privatization decided to privatize the Eilat Beach Development Company. Since 2015, the GCT has been running the Eilat Beach Development Company.

Key figures

1.3 billion NIS

Ministry of Tourism budget for the year 2018

120 million NIS

Ministry of Tourism budget for the development of tourism infrastructure for the year 2018

11 million NIS

Budget transferred by the Ministry of Tourism to the GCT every year for administrative and salary expenses for the years of 2017 to 2019

100

The number of projects managed by the GCT and developed by it in 2017 - 2018 for the Ministry of Tourism

Audit Actions

In the period of December 2018 - October 2019, the State Comptroller's Office examined the interactions between the Ministry of Tourism and the Governmental Tourism Company (GCT) in 2017 - 2019, issues in the conduct of the Government Tourism Company, and aspects of the operation of the Eilat Beach Development Company (EBDC) and in its privatization process. The examination was carried out at the Ministry of Tourism, the Government Tourism Company and the Eilat Beach Development Company. Supplementary examinations were carried out at the Government Companies Authority, the Israel Lands Authority (ILA), and the municipality of Eilat.

The Situation Reflected in the Audit Findings








-  **Crisis of trust between the Ministry of Tourism and the GCT:** This crisis has lasted for more than four years, and is affecting the parties and their activities.
-  **Ongoing delay in the appointment of CEO to the GCT:** GCT has been operating without a permanent CEO for more than two years, during which it had to correct serious deficiencies that were observed in previous years' audit reports.
-  **Extending the framework agreement between the Ministry of Tourism and the GCT:** At the end of 2018 and mid-2019, the framework agreement between the Ministry of Tourism and the GCT was extended, each time for six months. These extensions impacted the internal management of the GCT (including the management of the annual budget, the formulation of an annual work plan, and the execution of long-term projects).
-  **Delay in payments made by the Ministry of Tourism to GCT for administrative expenses and salaries:** The Ministry of Tourism, which conducts monthly oversight of the payments, transferred to the GCT the funds used to pay salaries after the last date stipulated in the framework agreement between the parties.
-  **Company car to employees:** More than half of the employees of the GCT receive a company car. The procedure for using a GCT company car does not include reference to the positions and ranks to which the company may attach a car, does not set the eligibility criteria for a company car, and does not set rules regarding the coverage of expenses derived from the use of a company car.
-  **Privatization of EBDC:** Although the Ministerial Committee on Privatization decided in 2010 - 10 years ago - to privatize EBDC, and even though GCT has been managing EBDC for five years and EBDC has very reduced and limited areas of activity, the process was not yet completed. EBDC is still operating in Eilat, and no date, schedules or milestones have been set for the privatization process.
-  **Arrangement of conflicts of interest for the Deputy Mayor of Eilat who holds the tourism portfolio:** The person serving, in a voluntary capacity, as Deputy Mayor during the audit period, stated that he is the son of the Acting CEO of EBDC, but the arrangement, as formulated in the city's legal bureau, did not refer to this family connection and to rules of conduct that should apply in light of this connection.



Increasing financial transparency in the GCT: The Ministry of Tourism has been taking steps to appoint a financial supervisor to examine the financial conduct of the GCT and to increase transparency in its activities.

Correction of Financial Deficiencies: GCT has acted to correct deficiencies in its financial management.

Main Audit Recommendations

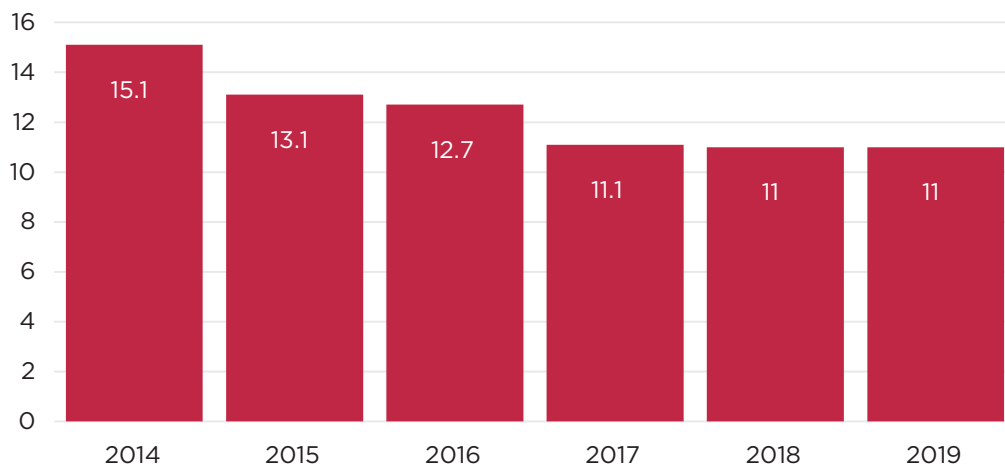
-  The Government Companies Authority, in its role as regulator of government companies, must monitor all government companies to ensure proper working order and compliance with the scheduled dates of appointment of CEOs in government companies.
-  The Ministry of Tourism, the Government Companies Authority and the GCT, must work to find an effective and long-term solution that will enable efficient working interaction between them, and to learn lessons from the deficiencies reflected in this report.
-  As the Ministry of Tourism and the Israel Lands Authority examine the transfer of responsibility for the implementation of certain projects from the GCT to the Dead Sea Preservation Government Company, it is necessary that the procedure be executed in accordance with the law, and in a process which will take various implications into account.
-  The GCT administration and the Board of Directors of GCT, must examine the procedure for using a company car and determine the criteria for eligibility for a company car, the functionaries to whom the company may award a company car, and rules regarding additional expenses derived from the use of a company car.
-  GCT, the Government Companies Authority and the Ministry of Tourism must act to finalize the EBDC privatization process, and to set schedules, milestones and deadlines. If it is decided to continue the privatization process through another government company, the Government Companies Authority must ensure that the move is carried out effectively and proficiently.

Summary

The audit shows that the Ministry of Tourism's management and its main execution company - GCT - have complex interactions. This impairs the ability of both entities to realize their goals and to promote tourism projects efficiently and economically. All the parties involved - the Ministry of Tourism, the Government Companies Authority and the GCT - must resolve this crisis without delay.

The Companies Authority must take into consideration the findings emerging from this audit report and examine how to balance the need to provide the government companies, which are the execution bodies of the government, with the operational flexibility needed to achieve their goals, and the requirement to secure in the hands of the state the ability to monitor their activities. It is also proposed to create mechanisms for resolving disputes between government ministries and their execution bodies.

The administrative budget passed by the Ministry of Tourism to GTC, 2014 - 2019 (NIS millions)



According to the GTC data, processed by the State Comptroller's Office.