



State of Israel
State Comptroller and Ombudsman
Audit Reports on Municipalities 2020

Operation of Local Authorities Through Municipal Non-Profit Associations

Abstract

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Background

In recent decades, the areas of operation of local authorities has broadened as have the range of services they offer their residents. Many local authorities, accordingly, have set up corporations, incorporated as one of three types of corporations: municipal economic limited corporations, municipal public benefit corporations; municipal non-profit associations.

The primary areas of operations of municipal non-profit associations are urban development and provision of services in the areas of welfare, education, culture and sports.

Key figures

559

Corporations in which local authorities hold at least part of a controlling interest: 284 municipal non-profit associations; 239 municipal corporations; 36 municipal public benefit corporations

117

Fully controlled municipal non-profit associations (that is, the local authority holds 50% or more of the controlling interest in them)

1 billion shekels

Annual turnover of activities of the controlled municipal non-profit associations

23%

Percentage of non-profit associations controlled by municipalities whose articles of incorporation have yet to be regulated by the Ministry of Interior


600

Requests by representatives of local authorities who are candidates for positions on the corporations' board of directors waiting for approval by the Appointments Committee of the Ministry of Interior

75%

Percentage of municipal non-profit associations involved in culture and sports that were examined.





Audit actions






 In the months of June through October 2019, the Office of the State Comptroller examined the activities of local authorities through municipal non-profit associations. The audit included examination of the manner these non-profit associations had been established, how their objectives are determined and the means for realization thereof, their management through representatives of the respective local authority, their supervision by the local authorities and their financial reporting. The supervision of these associations by the Ministry of Interior and the Registrar of Associations was also examined. The audits were conducted in the municipalities of Umm al-Fahm, Givataim, Herzliya, Haifa, Maalot-Tarshiha, Netanya, the Local Council of Katzrin, the Local Council of the Upper Galilee, the Lower Galilee and Mate Asher (hereafter – the local authorities that were audited).

Supplementary examinations were performed in the Senior Corporations Division in the Ministry of Interior, the Registrar of Associations in the Corporations Authority in the Ministry of Justice and in the Accountant General Division of the Ministry of Finance.

Key findings



-  **Regulation of the articles of incorporation of municipal non-profit associations –** The regulation of the status of municipal associations in the Ministry of Interior has not been completed for about 30% of the associations that were examined.
-  **Registration of the associations by the Registrar of Associations –** In the database of the Registrar of Associations, there is no specification for municipal associations and no data about the degree of control held by local authorities in the associations.
-  **Preparation of a standard set of articles of incorporation –** The Ministries of Interior and Justice have not prepared a standard set of articles of incorporation for municipal associations that the latter can adopt and thereby shorten the process of authorization of the associations' articles of incorporation.
-  **Activities of the Appointments Committee –** The work patterns of the Ministry of Interior and the work procedures of its Appointments Committee are not compatible with the digital age. At the time of the audit, about 600 applications submitted by candidates for positions on the board of directors of various municipal corporations had accumulated in the office of the Appointments Committee. These applications faced about six months of handling before being completed.



-  **Approval of local authority representatives by the Appointments Committee** – Some local authorities examined had not submitted details of their representatives in the municipal associations for examination and approval by the Appointments Committee.
-  **Signing of an agreement between the local authorities and the associations** – Seven of the local authorities that were examined had not signed a contractual agreement with their associations regarding services that the latter were to provide and how they would use municipal properties, including the financial implications deriving from this.
-  **Levy of property taxes on the properties held by the municipal associations** – Some of the local authorities had not levied property taxes on the properties handed over for the exclusive use of the municipal associations. These properties are not eligible for exemption according to the property tax law. Real estate taxes were also not levied on properties that the associations rented from private owners.
-  **Use of associations in violation of their purposes** – Two local authorities, that were audited, used the associations for hiring human resources in violation of their stated purposes.
-  **Oversight by the Ministry of Interior** – The Ministry of Interior did not succeed in carrying out follow-up monitoring, and did not hold information about whether the associations corrected the deficiencies raised in the audits conducted by the Ministry.








Setting up internet sites – All the audited municipal associations that provide diverse leisure activity services, set up a website that provides information to the public regarding the activities offered and the ways to register for these activities. Most sites allow online registration for the activities.

Discussion of meeting minutes and financial reports of the associations – The audited local authorities discussed the financial reports of the associations during their annual council meetings, and forwarded meeting minutes to the Ministry of Interior.

Key recommendations

-  The local authorities must complete the process of formalizing and regulating their municipal associations, act to have their representatives on the board of directors approved as required and forward these to the Ministry of Interior's Appointments Committee for its examination and approval thereof.
-  The Office of the State comptroller notes in accordance with the Ministry of Interior's policy, that if the Ministry prefers the establishment of a municipal benefit corporation over an association, it is appropriate to consider the need to prepare a standard set of articles of incorporation of a municipal association, given the number of municipal associations needing to regulate or update their articles of incorporation.

-  The Office of the State Comptroller recommends to the local authorities to periodically examine the economic benefit and value of the municipal associations' activities and service provision through them. It should also examine the efficiency and savings in the appointment of a non-salaried director-general for associations whose activity turnover is low, given the limitations imposed by law and regulations; and the need to avoid conflict of interest, in order to ensure effective and optimal oversight of the director-general's actions by the board of directors.
-  The Office of the State Comptroller recommends completing establishment of the information transfer procedures between the Corporation Division and the Registrar of Associations so that municipal associations will be required to submit reports to only one authority, which will update the second one.
-  The local authorities should sign written agreements with the municipal associations that will anchor the rights and obligations of both sides. This agreement will detail the activities and services that the associations are to provide to residents and will regulate the use of municipal properties allocated to them for carrying out their activities, including the issues of the costs of maintaining and insuring the properties.
-  The local authorities must act to register the properties assigned to municipal associations for their use in the revenue collection system and require them to pay property tax as laid out by law. Further, optimally, local authorities should instruct the associations eligible for an exemption from property taxes to act to get the highest exemption rate possible by law for the properties that they operate.
-  It is appropriate that the Corporation Division in the Ministry of Interior follow the correction of the deficiencies raised in the audits that it conducted, including demand from the audited associations to submit a detailed report about correction of these deficiencies.

Summary

Establishment of municipal associations by various local authorities has a worthy aim: to provide leisure time services for residents in a way that minimizes bureaucracy and makes the services accessible. The local authorities should act with the requisite caution, while examining the economic value and efficiency of conducting their activities through the associations, supervise the activities and regulate their activities in order to ensure the effectiveness of the association and realization of their aims.



Distribution of the municipal corporations by type

