



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

# **ETHOS – The Haifa Municipality Art, Culture and Sports Association Company**

Abstract



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## Abstract

### Background

ETHOS – The Haifa Municipality Art, Culture and Sports Association Company, was incorporated in 1956 (ETHOS or the Company), with the aim of promoting, conducting and managing cultural and entertainment fairs, exhibitions, conferences and performances. Today, ETHOS operates 15 entities in five main areas: management, rental and operation of cultural halls and buildings, management of sports courts, management and operation of cultural entities, production of events and festivals. It also operates the Haifa educational Zoo named after the late Louis Ariel Goldschmidt.

### Key figures

**230**

employees in the company

**NIS<sup>2</sup> 65 million**

Operating turnover in 2018

**NIS 40.7 million**

Amount of funds allocated by the municipality and other entities in 2018

**NIS 24.4 million**

ETHOS' income in 2018

**NIS 5.2 million**

Cumulative deficit as at December 31, 2019 (unaudited)

**NIS 10.4 million**

Loss of the Haifa Symphony from its activities in 2018 (before the allocation of funds by the municipality to cover the loss)

**20%**

Decrease in the number of visitors to the zoo in 2018 compared to 2013

**NIS 0.5 million**

Loss of potential income due to the non-exploitation of the surfers' beach


1 Public-benefit company.

2 As of December 31, 2019 1 US dollar = 3.45 NIS

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## Audit Actions






 From May to September 2019, the State Comptroller's Office examined different aspects in the Company: fields of operation, transfer of assets from the Company to the Haifa Municipality (the Municipality), composition of the board of directors, the Company's by-laws and budget, its organizational structure and human resources, tenders and engagements, and the activities of some of its profit centers.




The audit was conducted at ETHOS and the Municipality. Supplementary audit activities were conducted at the Ministry of Interior's Municipal Companies Division, and the Ministry of Finance's Wage and Labor Agreements Department.

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## Key findings



-  **Interactions between the municipality and ETHOS:** The municipality and ETHOS did not formalize their interactions in respect to the organization of events, which is at the core of the Company's activities. This includes, for example, formalizing the work procedures between the parties, establishing schedules from event planning through to execution, and aspects relating to a production's content, finances and organization.
-  **Expansion of the areas of operation of ETHOS:** The municipality expanded the fields of operation and responsibilities of the Company beyond its original mission, and without assessing the possible implications on other municipal entities that engage in similar activities. This also caused a duplication of roles between ETHOS and those other entities.
-  **Transfer and management of assets:** The municipality transferred assets to ETHOS, and then took away those responsibilities without providing prior notice. This was not in accordance with the provisions of the agreements between them. Responsibility over some assets was assigned without an assessment of needs. No feasibility, economic, administrative or operational examinations were conducted, and the transfer costs and effects were not evaluated.
-  **Financial management:** The municipality and ETHOS failed to formulate a plan to close the deficit the Company accumulated, which at the end of 2019 amounted to NIS 5.2 million, and may increase in the coming years. Most of the Company's profit centers show a deficit, and its reliance on municipality funds is constantly on the rise.
-  **Work plan and budget:** The municipality and the Company did not formulate annual and multi-year work plans for ETHOS. The Company's budget was not determined based on goals and objectives.







-  **Organizational structure and wages:** The Company does not have an updated and approved organizational structure. The Company did not set up a mechanism for establishing employee wages.
-  **Donations:** The Company did not take action in respect of donations received through the Haifa Foundation, in accordance with the Ministry of Interior's procedures.
-  **Educational zoo:** The zoo has been in stagnation for years. It's Income does not increase and the number of visitors is decreasing. Important elements in the master plan for the zoo were not implemented.



**Management of ETHOS assets:** In 2018, the municipality and ETHOS entered into an agreement stipulating provisions for the management of assets transferred to ETHOS, the "Permissible Agreement".

**Accessibility:** The actions taken by the municipality and ETHOS to improve accessibility to ETHOS' building to people with disabilities and to its website are noteworthy.

## Key recommendations

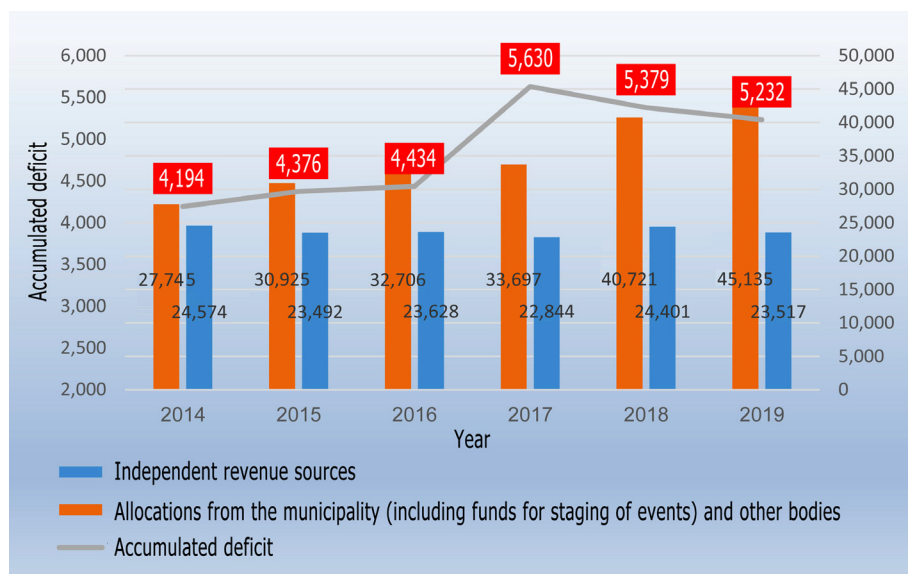
-  The municipality and ETHOS must prepare a program for closing the accumulated deficit, monitor its implementation, evaluate ways to increase independent income, and ensure its budgetary balance as much as possible.
-  The municipality and ETHOS must consolidate annual and multi-year plans according to the policy documents, objectives and mission, and determine the Company's budget in consultation with it's management.
-  The municipality and ETHOS must set out the contractual relations between them, in particular in respect of the organization of events, which is the main occupation of the Company.
-  It is recommended that the municipality evaluates the duplication of roles between ETHOS, municipal bodies and other city companies that are engaged in the same fields of activity. The municipality and ETHOS must jointly initiate a re-evaluation of all the assets the municipality transferred to the Company and the 'relative advantage' the Company has in the management of those assets, to optimize their use in benefit of the public.
-  ETHOS must immediately consolidate and approve a detailed organizational structure that reflects its human resources, existing positions and needs. It is also recommended that the Company defines criteria for employee wages and advancement.
-  It is recommended that the Ministry of Interior consolidates sample by laws that adapt to the unique characteristics of municipal companies. Such by laws would prevent uncertainty and unnecessary bureaucratic processes.

## Summary

The audit's findings indicate that, for years, the municipality expanded the activities of the Company, requesting it to manage, operate and maintain assets that are not in line with its original mission, for example, the zoo. The municipality failed to properly assess the consequences of expanding the operations of the Company, and its ability to manage all these entities while executing all tasks it was entrusted with. The relative advantage of the Company compared to other municipal bodies that engage in similar activities was not assessed either. In this reality, many of the organizations managed by ETHOS incur losses that resulted in a cumulative deficit at the end of 2019 of NIS 5.2 million.

This situation indicates that there is a need to immediately assess the scope of activities of the Company and focus in the areas where it can offer added value, as well as significant managerial, economic or operational advantages over other municipal entities.

### Operating turnover and cumulative deficit, 2014-2019 (NIS in thousands)\*



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

\*Unaudited financial data for 2019.