



Report of the State Comptroller of Israel | May 2022

Systemic Topics

Preventing Embezzlements and Frauds at the Israel Land Authority



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Background

Embezzlement and fraud are illegal actions for gaining a personal benefit by the deliberate improper use of an organization's resources and assets. In Israel, a distinction is made between embezzlement – an action performed by an internal party, and fraud – an action performed by an external party. According to a model published by the COSO organization¹ and adopted by many organizations worldwide, organizations must systematically prevent embezzlements and frauds, among other things, by risk assessment and internal audits. Accordingly, the provisions of the State of Israel's Finance and Economy Regulations (the Takam provisions) in operational risks, which are based on the COSO model, and bind the government ministries and their auxiliary units, also included the embezzlements and frauds risks as part of the operational risks which should be minimized.

The Israel Land Authority (ILA) manages one of the State's most significant assets – about 90% of Israel's lands. Any activity in an asset, including in land, creates a risk. A risk is a possibility that an event, activity, or action, internal or external, will cause damage, including financial losses, and adversely affect the organization's ability to meet its targets and objectives. The more substantial the organization's assets, such as in the ILA case, the more critical it is to establish and operate risk management mechanisms. Risks in the ILA's actions, as specified in this report, include, among other things, risks of malicious acts or errors in granting ownership proceedings, transfer of rights and land appraisal, awarding surplus compensation for land restitution, under-reporting in land supervision and invasion prevention, and the use of information systems by an unauthorized party and more.

¹ COSO – the Committee of Sponsoring Organizations – an American organization which is deemed a leading organization in the field of methodologies for risk management.



Key figures

**about NIS
23 and 18
billion**

the total receivables received and payments paid by the ILA, respectively, from 2019 to 2020

**about NIS
644
million**

the sum the ILA received from 2018 to 2020 for granting ownership of about 4,000 assets, constituting about 3.6% of the assets granted during these years

**about
3% only**

of the ILA employees underwent training in ethics in the public sector and professional ethics for a civil servant (30 employees out of approximately 900)

**about NIS
15 million**

were paid as a "rotation addition" from 2013 to 2020 (an average of about NIS 1.9 million per annum) to the ILA employees' even though the rotation² procedure has not yet been implemented

about 150

of the ILA employees received authorizations for the information system (SAP) without a systematic examination of their needs under the job definition

**about
26%**

of the ILA inspectors supervise the region under their responsibility continuously for five years and more (13 out of 51)

**about
35%**

of the valuations under the control of the Real Estate Valuation Division at the ILA required amendment

**about
16%**

the rate of control over the transfer of rights in fast-track service points in 2020, compared with 25% – the rate proposed in the control specification

² Rotation in the filling of positions can also serve as a mechanism for preventing embezzlements and frauds.



Audit actions

- From February to September 2021, the Office of the State Comptroller examined the prevention mechanisms of embezzlements and fraud risks at the ILA, including an organizational proceeding of management and survey risks, determining mechanisms for reducing the risks of embezzlements and frauds and implementing them. A supplementary examination was conducted at the Land Appraisal Department at the Ministry of Justice.

Key findings

- Risk management policy** – the ILA did not complete an orderly proceeding of an overall organizational operational risk management policy. Even though the ILA did start to formulate a risk management policy and conducted a risks survey and 14 control specifications focusing on the substantive work procedures – the proceeding was not completed. The ILA did not approve the risks survey and did not update it regularly; it did not formulate a risk reduction plan; it did not conduct the multi-year control program it had prepared, and it did not establish the control unit which it had intended to establish. Likewise, the ILA had not appointed an operational risks manager as of the audit completion date. It was further raised that in the past six years (2016–2021), the Israel Land Council (the Council) had not discussed risk management at the ILA.
- Monitoring process and automation mechanisms** – despite the information systems allowing systematic examination and control of the actions performed in the districts, the district directors do not initiate controls based on intelligent reports, nor use the system alerts. In practice, the district directors' control over transactions was performed "ad hoc", only over certain transactions discussed or brought to their attention. Likewise, the ILA did not transfer manual to automatic proceedings during the redemption of agricultural land proceedings (from the beginning of 2019 until the audit completion date the ILA agreed to pay, under the restitution agreements, the sum of approximately NIS 370 million for the redemption of agricultural land as it obligated to compensate).
- Preventing conflict of interest** – out of 122 employees on which the ILA considered applying the conflict of interest arrangement, 102 employees had signed a conflict of interest agreement (or after examining the matter, the ILA had decided that this was not necessary) and 19 employees had completed the questionnaire. Yet, as of the audit completion date, no conflict of interest agreement had been made with them, even



though the ILA had not determined that there was no need for it. Likewise, despite what is stipulated in the Takam provisions, the members of the ILA Tenders Committee are not required to sign a refresher of the declaration of the absence of conflict of interest once a year and neither are they required to sign a statement of the lack of conflict of interest when they are appointed to the committee.



Overall organizational mechanisms for preventing embezzlements and frauds

– it was found that the ILA lack a series of preventing embezzlements and frauds mechanisms: the ILA has still not implemented the jobs rotation procedure, thus the employees subject to the jobs rotation procedure have not yet been transferred to other positions; no procedure has been determined for handling receivables; no positions have been defined to undergo integrity and trustworthiness tests; an entire organization ethical code has yet to be formulated; the ILA does not operate a mechanism for receiving anonymous reports inside or outside the organization about irregularities within the organization (hotline); the ILA has not set up a mechanism for concluding cases of embezzlements and frauds, including due to the controls' failures.



Rotation in the Security Division – the role of the inspector in the Security Division at the ILA is a susceptible enforcement position and serves as "the eyes" of the ILA in the field. It was raised that as of the audit date, out of the 51 inspectors in all the security districts, 13 (approximately 26%) had inspected the region for which they were responsible over five years and six of them (12%) had inspected their region over seven years. It should be noted that according to the rotation procedure, the term of office in such position is five years and that approximately NIS 15 million was paid as a "rotation addition" (an average of approximately NIS 1.9 million per annum) from 2013 to 2020 notwithstanding that the rotation procedure had not yet actually been implemented.



Mechanisms for preventing embezzlements and frauds in the information systems – management of authorizations

– the ILA has formulated an "authorizations according to position matrix" so that the system will issue authorizations systematically and inherently according to the organizational structure and the employee's position; however, it was found that authorizations for the information system (SAP) had been issued to about 150 employees without any systemic examination of their job definition and requirements. It was also found that out of roughly 350 employees whose employment at the ILA had terminated between January 2018 and June 2021, nine employees still had authorizations for access to the ILA information systems by the audit end.



Control mechanisms over land valuations – the ILA Real Estate Valuation Division did not determine a control procedure over the valuations in the districts. It was also found that during the Real Estate Valuation Division's control, the rate of valuations found requiring amendment was about 35%.



Data security controls – the ILA conducted controls for most of its employees to ascertain that its data security training sessions had been assimilated and implemented.

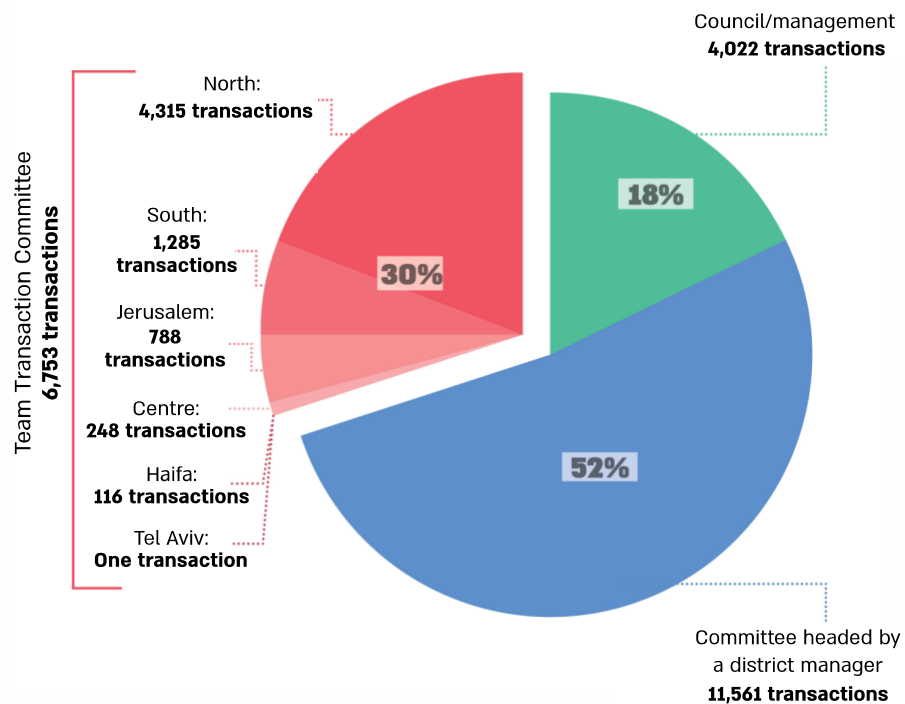
Key recommendations

- 💡 The ILA should complete the formulation of the overall organizational policy for risk management, including updating and approving the risks surveys, formulating and implementing a program for risk reduction, and establishing a control mechanism; develop the concept of inclusive control, including the activities or processes subject to the control, the type and scope of the control; complete handling the conflict of interest arrangements and implement the rotation procedure. Likewise, it is recommended that the ILA appoint an operational risks manager and regularly convene the risk management and control team, examine the automated control regulation; and consider a separation of positions in processes where there is none. It is also recommended that the Council consider the ILA's risk management, including the need to outline an ongoing strategy or inclusive policy and ascertain that the ILA management acts accordingly.
- 💡 In assimilating overall organizational mechanisms for preventing embezzlements and frauds, it is recommended that the ILA examine all its existing positions and consider which positions should be defined as required to undergo integrity and trustworthiness tests; it should advance the creation of an ethical code for the entire organization and publish it to the public, complete the training sessions for employees in ethics and include in its training programs, the risks of embezzlements and frauds. Likewise, it is recommended that the ILA examine a mechanism for receiving reports (including anonymous reports) – a "hotline" inside or outside the organization. It is also recommended that the ILA conclude in cases a concern arises regarding embezzlement, fraud, etc., performed by an employee, without derogating from any law.
- 💡 It is recommended that the ILA strictly observe the allocation of the maximum period for an inspector's responsibility for an inspection region and implement job rotation among the inspectors accordingly.
- 💡 The ILA must ensure that the authorizations for employees who have terminated their employment, including outsourced employees, are canceled on the same day they leave the ILA. Likewise, it is recommended that the ILA prevent access by employees who live in agricultural localities to files concerning their places of residence using the authorizations system. Until preventative control is regulated, it is recommended that the ILA consider determining locating or compensatory controls to deal with this risk.



It is recommended that the ILA integrate a computerized control mechanism into the transfer of rights files at the fast-track service point while paying attention to the appropriate measure and balance of the mechanism vis-à-vis the need to avoid surplus bureaucracy and preserve the quality of the service to the public.

The rate and number of transactions performed at the ILA by authorizing party, 2017–2019



According to data from the ILA, it is processed by the State Comptroller's Office.



Summary

The ILA manages one of the State's most significant assets – Israel's lands. Managing this resource involves many risks, including fraud and embezzlement. To reduce these risks, the ILA should reduce the probability of them occurring and the severity of their effect, among other things, by improving the work processes and establishing supervisory and control mechanisms.

The ILA should complete the formulation of the overall organizational risk management policy, including updating and approving the risks surveys, formulating and implementing a risk reduction program, establishing a control mechanism over its activity, and appointing an operation risks manager. It is recommended that the ILA reinforce and improve its mechanisms to prevent risks of embezzlement frauds and irregularities and consider adding such mechanisms based on the determined policy. It is further recommended that the ILA formulate inclusive control, defining, among other things, all the positions responsible for conducting controls, activities or processes over which the control will be exerted, the type and scope of the control and the reporting and follow-up arrangements, while paying attention to the appropriate measure and balance of the control mechanisms vis-à-vis the need to avoid surplus bureaucracy and preserve the quality of the service to the public. It is recommended that the Israel Land Council consider ILA's risk management, including outlining an ongoing strategy or inclusive policy and ascertaining that the ILA acts accordingly.

