



Report of the State Comptroller of Israel | Cyber and
Information Systems | 2022

The Israel Tax Authority

Establishing a New Foreign Trade System at the Tax Authority – the "Global Gateway" Project



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Background

Increased international trade (import and export) in goods and services manifests the globalization process. The "Global gateway" project establishes a new computer system in the Customs Administration at the Israel Tax Authority to manage the State of Israel's foreign trade, including the rapid transit of goods to and from the country. The project is outsourced to an external supplier (Company A). It began in 2008, and there have been many delays over the years. At the audit completion, phases A, B, and C of the project (in imports) went live. The project's final phase – phase D (export) – is to be completed in 2023.



Key figures

**NIS 240
and 172
billion**

import and export of goods to and from Israel, respectively, in 2020, according to the Central Bureau of Statistics data

12 years

the delay time of the project's planned end date compared to the date stipulated in the original agreement¹. The project is expected to take 15 years – 5 times longer than the original plan

**NIS 94
million**

the system's development costs increase due to delays in the project until the launch date of phase B – a deviation of 67% of the cost according to the original agreement

**NIS 627
million**

sum increase in the Tax Authority's contract with Company A (for development and maintenance)² compared to the original agreement

NIS 1 billion

total sum approved engagements with Company A. 62% was approved through exemption from a tender

48 years

the cumulative contract period with Company A for the development and maintenance of the Global Gateway system and the old system, from 1991 to 2039³

57 million

number of messages that went through the Global Gateway system in November 2021 ("online shopping month")

**6.7
million**

number of import declarations that went through the system in November 2021 in cargo release procedures from customs

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- 1 According to the original agreement between the Tax Authority and Company A from 2008, the project was planned to be completed three years later – in 2011.
 - 2 For the development of the Global Gateway System and its maintenance as well as for extending the maintenance of the old system or parts thereof, due to the delays in the project.
 - 3 Including option of six years.



Audit actions



From May 2021 to March 2022, the State Comptroller's Office examined the Global Gateway project, including the delays in the project schedule, the contracts with Company A, the users satisfaction of the system, and information security. The audit was conducted at the Israel Tax Authority ("Tax Authority" or the "Authority"). Completion examinations were done at the National Digital Agency at the Ministry of Economy and Industry ("Digital Agency") as well as at the National Cyber Directorate at the Prime Minister's Office (the "Cyber Directorate"). Moreover, this report examined the actions taken by the Customs Administration at the Tax Authority to rectify deficiencies raised in a previous audit report published by the State Comptroller on the project in 2016⁴ (the previous audit report).

The report was submitted to the Prime Minister on July 31, 2022, and was classified as confidential until its discussion at the State Audit Committee's Subcommittee. Under the authority vested upon the State Comptroller in Section 17(c) of the State Comptroller's Law, 1958 [Consolidated Version], considering the government's reasoning, consulting with the bodies entrusted with the security of defense information, in coordination with the Knesset chairman, and as the said subcommittee did not convene, it was decided to publish this report while classifying as confidential parts thereof. These sections will not be brought before the Knesset and will not be published. The audit report's findings and recommendations are correct as of the aforementioned date of its publication.

Key findings





Delays in the completion of the project – according to the original agreement with Company A from 2008, the project's completion was planned for three years later – in 2011. However, along the way, there were many difficulties in its advancement, and as a result, the project is expected to end with considerable delay and take 15 years (5 times longer than as planned). Phase B went live in 2018, while phase D is scheduled for completion in 2023. Some of the reasons for the delays are: the system's lack of readiness in terms of content; system malfunctions; multiple change requests; Tax


4 The State Comptroller, Annual Report 67A (2016), "The Global Gateway Project for the Establishment of a New Foreign Trade System at the Tax Authority", pp. 303–355.





Authority employees' sanctions; and the degree of cooperation of the foreign trade community⁵.

 **Increase in the system's development cost** – due to the delays until the launch date of phase B – in January 2018, the development cost of the system increased from NIS 140 million (the cost in the original agreement) to NIS 234 million – a 67% deviation. Furthermore, the delays in the project left the system with ineffective processing procedures. They delayed the realization of the supposed economic benefits from the system, which were the project basis, including reducing trade costs and rapid movement of goods to and from the country, increasing enforcement, and improving the service to the citizens.

 **Increase in engagements in the project** – in addition to the increase in the system's development cost, the delays in the project necessitated repeated extensions of the old system maintenance engagement. As a result, the total sum of the engagement with Company A increased from NIS 384 million (the sum in the original agreement) to approximately NIS 1 billion – an increase of NIS 627 million (163%); and the engagement period with Company A increased by 15 years: from 16 years in the original agreement to 31 years.

 **Exemption from tender in engagements** – 62% of the engagement sum with company A (NIS 627 million) and half of the engagement period with it (15 years) was approved through an exemption from tender (continuing engagement) – which is not the preferred method under the Mandatory Tenders Regulations, 1993. The changes approved in this method constitute a considerable deviation from the planned outline of the project, given the need to extend the validity of the original maintenance agreement by many years.

 **The engagement with Company A** – by a systemic issue raised in the previous audit report, Company A is responsible for both the maintenance of the old system and for the development of the new system and its maintenance, thus creating a situation of "captive supplier-customer relations" and "supplier with a dual personality". This situation in the project is expected to continue until its conclusion⁶.







 **The total duration of the engagement with Company A and its scope** – due to the lack of competition in the tender from 2004 and the delays in the project, the cumulative engagement between the Tax Authority with Company A regarding the two

5 The system serves all the parties involved in the foreign trade processes of the State of Israel, including customs agents and importers.

6 When phase D goes live, the maintenance of the old system will be suspended.



systems (the Global Gateway system and the old system) will last 48 years (from 1991 to 2039⁷) and the financial scope will exceed NIS 1 billion.

-  **Extension agreement for the project** – although the engagement time between the parties, according to the expansion agreement, ended in January 2020, in May 2022, the parties have not yet signed an extension agreement. Hence, for more than two years, the Tax Authority continued to purchase services from Company A, for about NIS 74 million⁸, without a validly signed engagement agreement.
-  **Convening of the Steering Committee** – in 2019–2021 there were significant delays in the project, its completion date was postponed by three years and the engagement budget increased by NIS 106 million. Nevertheless the Tax Authority convened the steering committee once a year (in 2020) or twice a year (in 2019 and 2021) in contravention of its decision to convene every quarter.
-  **Service Level Agreement (SLA)** – four years after phase B (the primary phase) went live, the determining procedure of the service level indices to measure the system was not completed, and at the audit completion, an updated service level agreement had not yet been signed between the parties. Moreover, the satisfaction degree of the system users with the level of service provided to them through the support center operated by Company A was not examined.
-  **Internal users' survey** – the Tax Authority conducted the first satisfaction survey among internal users in January 2021 – three years after the launch of phase B. A third of the respondents (16 out of 52) were marginally or not at all satisfied with the display of the system screens, and a quarter of them (13 out of 52) felt the same concerning the system search screens. In another survey conducted by the Authority during the audit in November 2021, 37% of the respondents (21 out of 57) stated that there is a great, and a great extent, lack of training on the system.
-  **External users' survey** – a satisfaction survey for the external users was also conducted three years after the launch of phase B in February 2021. Only online users of the Global Gateway participated in the survey, and it did not include the external users working in the system. Most respondents to the survey rated the system's performance as average or less in response speed (51%) and in the user experience (57%).
-  **Information security in the system** – the project was managed for over a decade without completing the necessary response for information security, focusing on updating the requirements defined in the past. In the time (14 years) from the information security requirements characterization in the tender in 2004 to the

⁷ Including the six option years (2033–2039).

⁸ For monthly maintenance for NIS 2.6 million from January 2020 to May 2022 (including VAT).



implementation of the system in 2018, inconsistencies were created in the system information security. Following the conclusions from information security events in the Israeli economy in 2019 and their possible impact on Customs, a multi-year work plan was formulated. The audit found that the Tax Authority is working on implementing the plan.



Cyber protection in the supply chain – company A is a significant factor in the Global Gateway system and its operation. Therefore, a cyber-breach in the company might cause damage to the system. Despite this, at the audit completion, Customs did not know whether Company A had completed the planned examination procedure of the level of cyber protection in the 'Yuval' system (goals and controls for organizations)⁹, and it did not have the results document of the said examination. Furthermore, Customs did not complete the examination of the level of cyber protection in the 'Yuval' system of suppliers providing it with computing and communication services defined as "material suppliers," which have been associated with the Global Gateway system for some time. It should be noted that after the audit completion, the Cyber Directorate published an updated directive in which the timetables for this examination were postponed.



Since launching phase B (import), the Global Gateway system has contributed significantly to streamlining import processes and improving Customs' ability to perform a risk assessment and enforce trade laws. This is through managing work processes in a computerized manner, switching to paperless work, and using advanced analytical tools.

Key recommendations



It is recommended that the Tax Authority and the Digital Agency examine the significance of engagements with one supplier for 48 years in a sum exceeding NIS 1 billion. In this context, it is proposed to encourage competition in large government IT (Information technology) tenders, such as reducing entry barriers in tenders and splitting the service into several parts, preserving knowledge in the government body, and limiting the duration of the engagement to encourage more suppliers to submit bids in tenders and to encourage technological innovation. Such an examination is necessary to analyze, learn, and generate systemic insights, both in managing large government software development projects and government IT engagements.



It is proposed that the Digital Agency consider examining and mapping the existing government IT engagements, including collecting data on their duration, financial scope,

⁹ A system for managing cyber risks and information security developed by the Cyber Directorate.



and approval method (through a tender process or exemption from a tender). This will enable identifying fundamental problems in government IT engagements and examination of aspects of the concentration of suppliers in this field, including situations of a "supplier with a dual personality" and "captive supplier-customer relationships".



The Tax Authority should sign an updated extension agreement with Company A, including all the required annexes, an updated work plan defining agreed schedules, and a dispute resolution mechanism. Furthermore, the Tax Authority Director should ensure that the Steering Committee, the guiding body and ultimate auditor of the project, would convene every quarter, as it has stipulated, to monitor and control the project until all system components go live and the project's goals are completed.



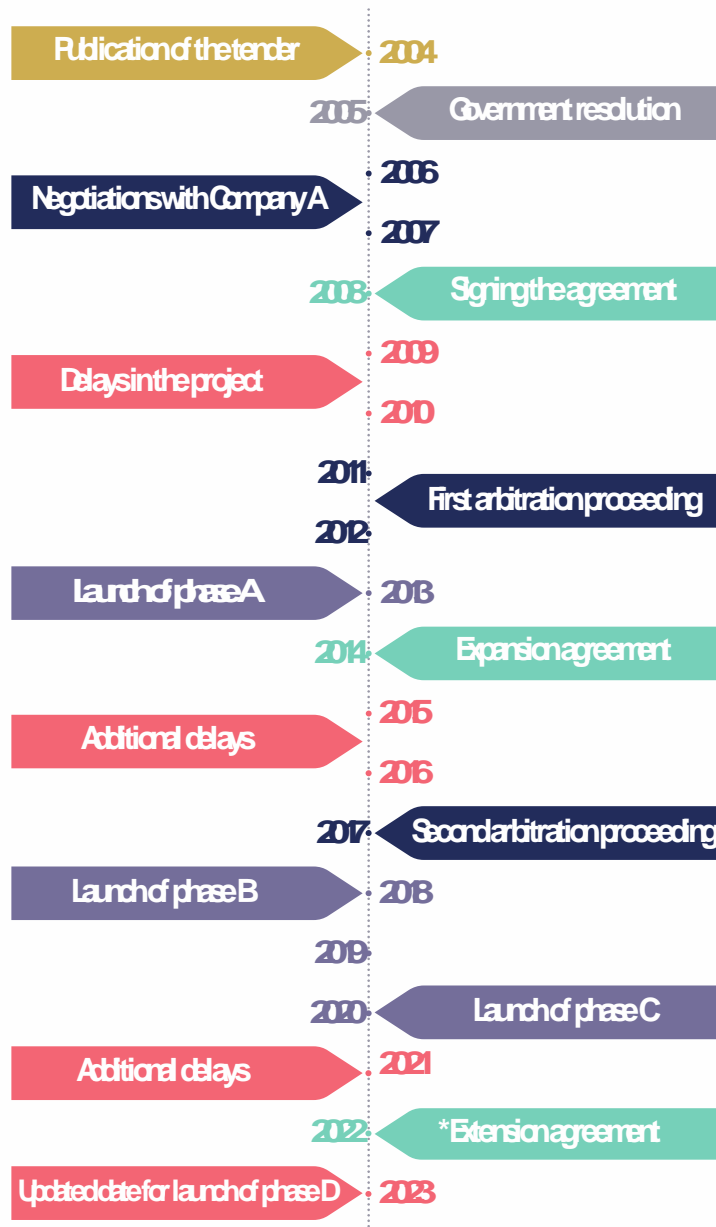
The Tax Authority should determine the agreed service level indices (SLA) and formulate a final version of the agreement to control and monitor Company A's compliance with the required service level. Moreover, since in the two surveys conducted by Customs among the internal users in 2021, dissatisfaction with the display mode and the screen colors came up repeatedly, it is recommended that Customs complete its handling of the matter. It is recommended that the Authority conduct an extensive satisfaction survey among all external users who work with the system with high frequency and daily, including customs agents, forwarders, and importers. Such a survey will enable receiving feedback on the work scope of the external parties in the system and its processes; collecting information about difficulties and problems to learn and implement and drawing lessons for the launch of the export phase.



The Tax Authority and the Cyber Directorate should ensure the completion of all information security gaps that arise within the Cyber Directorate's guidance procedure and monitor the implementation of the requirements for information security in the system on an ongoing basis. Customs should verify that Company A has completed the examination of the 'Yuval' (goals and controls for organizations) cyber-system protection level and that it regularly performs tests of its protection level, receive the results of the tests, and follow the rectifying of the gaps that arise in these inspections. Customs should also ensure the examination completion of the level of cyber protection in the 'Yuval' system of the suppliers associated with the Global Gateway system which were defined as "material suppliers," according to the Cyber Directorate's instructions. If Customs cannot coordinate with the companies in the execution of the inspection, it should regulate compensatory controls to protect the system.



The sequence of events in the Global Gateway project, 2004–2022



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

* At audit completion, this agreement had not yet been signed.



Users of the Global Gateway system



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

* At audit completion, this agreement had not yet been signed.



Summary

The Global Gateway project to establish a new foreign trade system is a complex project of national importance. The system serves about 1,200 internal users at the Tax Authority and over 1,500 external parties in the foreign trade community. It is designed to optimize and improve the service along the supply chain of an import-export transaction and increase the enforcement of trade laws. The system is a significant component in managing Israel's foreign trade. Implementing the import phase in the system in 2018 considerably, streamline the import work procedures through their computerized management and reduce the need to attend the Customs sites for service physically.

Over the years, the many difficulties in the project led to two arbitration proceedings and many delays. They even delayed the realization of the economic benefits of the system, including the reduction of trade costs, the rapid movement of goods, to the country and from it, and the improvement of service to the citizen. Because of these delays, the Tax Authority was repeatedly required to extend the engagement period with Company A and to increase the engagement sum by hundreds of percent. All this under the exemption from tender, which is given in a situation where there is a considerable deviation from the project's budget and a delay of over a decade in its completion. Throughout the project years, Company A was responsible for both the old system's maintenance and the new system's development and maintenance, thus creating a situation of "captive supplier-customer relations" and "supplier with a dual personality".

It is recommended that the Tax Authority complete the system according to the schedules it determined, improve the areas where dissatisfaction arose among the system users, and ensure that the supplier meets the level of service according to the indices examined. Moreover, given the increasing threats in cyber protection to critical systems in the government and the project's outsourcing, the Authority should lead and plan the system's cyber protection and find solutions for all its current information security needs.

Due to the delays in the project and the lack of competition in the 2004 tender, the cumulative engagement period between the Tax Authority and Company A regarding the two systems will last 48 years, and the financial scope will exceed NIS 1 billion. It is recommended that the Tax Authority and the Digital Agency examine the significance of a multi-year engagement with one supplier. It is further proposed to encourage competition in large IT tenders in the government and preserve knowledge in the government body. It is also recommended that the Digital Agency continue to conclude from this project to incorporate them into projects of a similar scope in the government system and consider mapping government IT engagements. Such an examination is necessary to identify fundamental problems and generate systemic insights in managing large software development projects in the government and in government IT engagements.