

State Comptroller Report

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A b s t r a c t s



State of Israel

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Foreword

This audit report is the second part of the annual audit report, submitted to the Knesset according to the State Comptroller's Law, 1958 [Consolidated Version]. This audit report deals mainly with the defense system, and it includes an audit on Money Laundering Prohibition Authority. It should be noted that, two reports on the preparedness and readiness of the Israeli government and the defense system to contend with the third circle threats, were submitted to the Prime Minister but due to their sensitivity and to maintain the state's security, they will not be made public.

This audit report also expresses the State Comptroller Office's vision, to position the state audit as an innovative, relevant, effective audit that motivates action. This audit report includes 15 different and diverse issues concerning the defense system – in the operational sphere, in national-strategic operation, in the financial field, the living conditions of those serving in the IDF, and more. All the issues are important; however, it is impossible to review them all in the introduction, and therefore, following is a review of only some of them:

- **The Aerospace Domain** – the aerospace is a strategic domain for the State of Israel, and its national security importance has been increasing in recent years. Since the mid-1990s, the defense system has been operating an array of satellites to collect intelligence from space, including several "Ofek" satellites. The administration of the "Etgar" program is responsible for the development and manufacturing of satellites for the defense system, and its annual budget in 2016–2024 was several hundred million NIS. The audit on **The "Etgar" Program Administration – Observation Satellites in the Defense System**, raised deficiencies, including the failure to establish a national policy in civil and military space and a national space program, and the lack of regularization and regulation of the space warfare at the national level. The audit also found certain gaps in providing the required response to the IDF's satellites operational needs. Given the importance of the aerospace domain to the State of Israel, it is recommended that the National Security Council, the Ministry of Defense and the IDF formulate an overall concept, civilian and military of the aerospace domain, determine the required resources for its implementation and present it to the political-security cabinet.
- **The Missile Boats in the Defense of the Maritime Space in Combat** – the State of Israel's coastline is the main foreign trade gateway. The maritime space extending from the coast to a distance of about 115 nautical miles is the country's exclusive economic zone and is also called "the economic waters". During the audit period on **the missile boats in the defense of the maritime space in combat** three gas rigs were in the State of Israel's economic waters and one backup LNG regasification vessel, threatened by various parties. To protect the economic waters, four Sa'ar 6 missile boats were purchased, however a four years delay occurred in the completion of the process



of their becoming operational, which was planned for the beginning of 2019. Given the development of the threats, it is recommended that the Chief of Staff direct an examination of the operational need for the missile boats in the marine branch and formulate, accordingly, a building up force plan, and it is also recommended that the plan be implemented and validated in a timely manner according to the updated reference scenarios.

- **Effectiveness of the Seam Zone Barrier** – in July 2001, the political-security cabinet decided to approve a comprehensive plan of the Seam Zone, as a component in effectively coping with terrorism. Unfortunately, in the first half of 2022, terrorists who infiltrated Israel through breaches in the Seam Zone fence carried out three attacks, claiming the lives of 11 murder victims. In the audit on **the effectiveness of the Seam Zone barrier – the operational and functional response**, it was noted that the length of the Seam Zone route is 554 km – 124 km in the form of a wall, 364 km in the form of a fence and 66 km without any barrier at all. It was raised that as of the end of 2021, 48% of the Seam Zone fence were inadequate, and enabled infiltration without warning, and that as of May 2022, an average of 3,600 infiltrations occur in Israel every day through breaches in the Seam Zone fence. To ensure maintenance of the barrier effectiveness and that the investments of approximately NIS 400 million and the actions that have recently been carried out will reduce the phenomenon of infiltration as a whole, and following the Prime Minister and the Minister of Defense statements in April 2022 that establishing the barrier along the entire length of the seam, as part of the defense concept, requires a multi-year plan – the National Security Council should ensure the formulation of a comprehensive multi-year plan. This plan will be formulated under the leadership of the National Security Council with the cooperation of an inter-ministerial team including representatives from the defense system, the Ministry of Internal Security, the Ministry of Justice, the Ministry of Finance and other relevant bodies. Under the framework of the plan formulating, ways to encourage Palestinians holding employment permits to enter Israel through the regulated crossings should be examined, by adjusting the number of crossings, their location and the quality of service provided therein to the desired number of people passing through them. It is further recommended that upon completing the formulation of the multi-year plan, the Prime Minister and the Minister of Defense submit the plan for discussion to the political-security cabinet for its approval, allocate budgets and define an implementation schedule. These, will reduce the phenomenon of the unlawful residents and the security and criminal risks associated with them, affecting the sense of security in Israel.
- **Living Conditions and Infrastructure in the IDF** – decent and respecting living conditions and infrastructure affect, among other things, the IDF's readiness and the motivation of soldiers in mandatory service and in the reserves to serve in it. In addition, the infrastructure of the residences – the toilets and showers, the dining rooms and the kitchens – impact the effectiveness of education, training and the fulfillment of operational activity tasks by the fighters. In the audit on **Infrastructures & Living**



Conditions for Mandatory and Reserve Combatants, it was noted that the budget the IDF planned to allocate to 'Tahal' (Required Infrastructure for the Soldier) programs for 2016–2021 was NIS 256 million for teaching bases and NIS 420 million for training base programs. The actual budget was NIS 202.6 million and NIS 290 million, respectively. From the competency scores of the logistical systems in the IDF, the tours conducted by the State Comptroller's Office in various units in the IDF, and the survey it conducted among mandatory service soldiers, it was raised that despite the importance of adequate living conditions and infrastructure in the education bases, training bases, and outposts – soldiers in mandatory service and in the reserves encounter infrastructures that are in moderate and even poor condition. This is reflected in dilapidated infrastructure in residences, toilets, showers, dining rooms and kitchens. According to the State Comptroller's Office survey, the rate of those "partially satisfied" with the living conditions and infrastructure in the training bases and outposts was 29%–40%, and the rate of those "very dissatisfied" was 31%–36%.

It should be noted that in October 2022 a special interim report was published presenting the State Comptroller's findings in the visit to the training base of the Kfir Brigade in the Jordan Valley and the Yakir outpost in Samaria.

It is recommended that the IDF draw lessons from the above situation report and provide a response to the disparities in the living conditions and infrastructure of the fighters.

- **the Shoham 3 Program** – the budget of Shoham 3 program, which is a strategic national program, was approximately NIS 18.5 billion. Within its framework the defense system and the Israel Land Authority are working to relocate IDF bases from high-demand areas, to market the land in the bases being vacated and increase the supply of housing units. In the audit on the **Implementation of the Shoham 3 Program – The Relocation of IDF Bases to Market Housing Units in High Demand Areas**, it was raised that as of the audit completion, the defense system had vacated approximately 65% of all the land that was supposed to be vacated according to the program, and that of the approximately 69,185 housing units planned to be built on the lands of the vacated bases, 11,404 housing units had been sold as of that date (about 16.5%), and the construction process of 6,855 housing units (about 10% of the housing units that are planned to be built according to the program and about 60% of the units sold) has begun. The most significant delays are in the PFI projects, and they affect the national-strategic aspect of the housing crisis, since the marketing of approximately 15,929 to 22,680 housing units, most of them in the center of the country, is delayed. As of the audit completion, the Israel Lands Authority, the Ministry of Defense and the Ministry of Finance have not agreed upon the bases and compounds to be evacuated as part of future evacuation plans, to enable the construction of at least 30,694 housing units (of which 586 are for sheltered housing) and at least 100 units for hotels and the use of approximately 1,765 thousand sqm. for commerce and employment. Since the Shoham 3 program is of national and security importance, the State Comptroller's Office recommends that all the relevant bodies – the Israel Lands Authority, the Ministry of



Defense and the Ministry of Finance – comprehensively and thoroughly examine the implementation of the program and its management, to apply lessons and optimize the work processes concerning future agreements for the evacuation of military bases. It is further recommended that the Minister of Construction and Housing, in coordination with the Minister of Defense and the Minister of Finance, initiate a discussion in the Housing Cabinet regarding the examination of the options for evacuating more IDF bases from the center of the country for construction and housing purposes from the total area of the IDF bases that will remain after the implementation of the Shoham 3 program (about 60,000 thousand sqm.), and formulate a national level policy from which a multi-year operative plan will be derived.

In the report on living conditions and infrastructure for mandatory service soldiers and in the reserves, it was stated that soldiers encounter poor infrastructure in the bases. It was also noted that, as a rule, the Shoham 3 program was not intended to address infrastructure gaps in existing bases where fighters serve. Hence, it is recommended that the IDF, within the framework of a multi-year plan for the establishment of infrastructure and within the framework of future evacuation plans, prioritize the establishment of new bases for fighters.

- **Rafael** – Rafael is one of the largest government companies in the State of Israel. It engages in defense, including the development and manufacturing of weapons for the IDF and the sale of a variety of defense products around the world. The preservation of its business and financial robustness is in the state's defense and economic interest. The report includes an audit of **The Financial Statements of Rafael Advanced Defense Systems Ltd. – State of the Company and its Risks**. The analysis of Rafael's business results in recent years indicates that alongside cumulative revenues of approximately NIS 46.5 billion in 2017–2021 and cumulative profits of approximately NIS 4.5 billion as of December 31, 2021, the company is facing difficulties, including a decrease in its revenues (without the subsidiaries) in 2020 and 2021; A decrease in operating profit compared to 2020; and operating loss forecasts in some of the projects. Furthermore, as of the end of 2021, only four directors actually served in the company, compared to ten in the Electric Company and nine in Israel Aerospace Industries. The State Comptroller's Office recommends that Rafael's management update its strategic plan, among other things, according to the audit's findings and recommendations and with the financial goals that will be agreed upon with the Government Companies Authority, and that the plan be submitted to the board of directors for consideration and approval. It is further recommended that the Government Companies Authority monitor the process of the plan formulation and its implementation.
- **The Building up of Force in the Operational Field** – in the last two decades, the battlefield has changed gradually but substantially. The audit on **A Specific Plan for Building Up of Force** raised disparities regarding the improvement of the capabilities of the fighters, and the State Audit Affairs Committee's subcommittee decided to impose confidentiality on these disparities and not to make them public. The audit also found



deficiencies in the work processes of the IDF and the Ministry of Defense in initiating and controlling certain weapons projects.

- **Follow-up Audits** – the State Comptroller's Office continues the trend of expanding the scope of follow-up audits. This report includes a follow-up audit on the **Attending to Lone Soldiers Throughout Their Military Service and After Discharge and on Israeli Administrated Industrial Zones in Judea & Samaria**.
- The fight against money laundering indirectly affects the majority of Israeli citizens, who are required to comply with various regulatory provisions. As part of the efforts to fortify and strengthen the anti-money laundering regime and fight terror financing in Israel, and following the international audit from 2018, the State Comptroller's Office conducted two comprehensive audits in 2020–2022 on the implementation of the money laundering regime in Israel: (a) The first audit was published in May 2021 and dealt with the examination of the systemic activity of all relevant enforcement and regulatory bodies on the subject; (b) The second audit, currently being published on the **Money Laundering and Terror Financing Prohibition Authority – the Handling of Information Embodying Concern of Money Laundering and Terror Financing**, focuses on the Authority's handling of information that embodies concern of money laundering and terror financing. The two audit reports, prepared on this subject for the first time by the State Comptroller's Office, include many significant findings. The audited bodies have already begun to rectify, and it is appropriate that they continue until completion. It should be noted that all state institutions are committed to combat money laundering and terror financing, and operate in many arenas – covert and overt, local and international – and invest efforts, manpower and budget in doing so.

It should be noted that the audit procedure at the Money Laundering and Terror Financing Prohibition Authority (IMPA) was conducted according to the methodology implemented by the State Comptroller's Office, which differs from the methodology employed by FATF (Financial Action Task Force), the international umbrella organization in which 37 countries are members. The FATF established the international rules under which the Money Laundering and Terror Financing Prohibition Authority in the State of Israel was established and according to which it operates. These audits are therefore another layer designed to strengthen the existing anti-money laundering regime in Israel.

The responsibility for the proper operation of IMPA rests upon the Minister of Justice, the Director General of the Ministry of Justice, and the IMPA Director. These parties are obligated to ensure improvement in IMPA's core activity, and further improve the cooperation between it and the information customers. These are necessary to justify the imposition of the reporting regime and its costs on the public, to make an effective contribution to the investigative and security authorities, in particular in the war against organized crime, serious crime and terror financing, and that IMPA can fulfill its mandate according to law, efficiently and effectively.



The preparation of the report, like the ones preceding it, necessitated great effort on the part of the audit staff in my office, especially in the Defense System Audit Division and the Headquarters, who fulfill their public role out of a real sense of mission. The audit staff labored on the preparation of the report with all professionalism and thoroughness, and I thank them.

It is the duty of the audited bodies to speedily and effectively rectify the deficiencies raised in this audit report to strengthen the State of Israel security and the country's residents protection, to improve the well-being of those serving in the IDF and to fortify the defense industrial infrastructure.

A handwritten signature in blue ink, reading "Matanyahu Englman".

Matanyahu Englman
State Comptroller and
Ombudsman of Israel

Jerusalem, February 2023



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Chapter One

Systemic Audit Reports



State Comptroller Report | February 2023

Systemic Audit Reports

**Israel Money
Laundering and Terror
Financing Prohibition
Authority – Handling
Information Embodying
Concern of Money
Laundering and Terror
Financing**



Israel Money Laundering and Terror Financing Prohibition Authority – Handling Information Embodying Concern of Money Laundering and Terror Financing

Background

Money laundering aims to assimilate property related to criminal activity into a property of a legal and innocent nature in a manner that makes it impossible to trace its illegal origin. As part of the State of Israel's joining the international efforts to fight money laundering and terror financing, the Money Laundering and Terror Financing Prohibition Authority (IMPA) was established in 2002.

IMPA's receives reports (each year – hundreds of thousands of **currency transaction report** and tens of thousands of **unusual activity reports**¹) from reporting entities (including banking corporations, financial service providers, etc.) obligated to report under the Prohibition on Money Laundering Law, for their entry into the database under its responsibility, analyze them and transfer financial intelligence (**information articles**) to enforcement and defense authorities, including the Police, the General Security Service, the Tax Authority, the Intelligence Division of the IDF and the Securities Authority (**information clients**).

The State Comptroller Report on the Anti-Money Laundering Regime in Israel, published in May 2022, examined the functioning of the regulators and other government ministries in this area and the effects of the regulation on the clients of the supervised entities.

The current audit examined the effectiveness of IMPA's activity in receipt of reports from the reporting entities, their entry into the database, their transfer to the information clients, and the effectiveness of the enforcement system and controls on IMPA's functioning.

A list of abbreviations of professional terms used in this report appears at the end of the abstract.

1 About transactions that, according to the reporting entity information and its knowledge of the customer, are unusual, for no apparent reason, or that there is concern that they are related to the prohibited activity under the Prohibition on Money Laundering Law.



Key Figures

2.16
million
currency
transaction
reports and
100,000
unusual
activity
reports

were received by
IMPA on average,
every year in
2017–2021

68% of
the unusual
activity
reports

in 2017–2021 did not
reach IMPA as
required within two
days of their writing

57% of
currency
transaction
reports and
33% of
unusual
activity
reports

were sent offline to
IMPA by the
reporting entities in
2017–2021

in **29%** of
887 police
responses

IMPA received in
2019–2021,
regarding response
articles, with no
information on the
investigation, and in
at least 67% of them,
the article did not
point to new and
relevant investigation
directions

in **95%** of
the articles
(2,243)

IMPA produced in
2020–2021, with no
specific graph
included

230,000
unusual
activity
reports

were entered into the
database from
October 2021 to
October 2022 but did
not extract
intelligence from the
information attached
thereto

52 out of
60
(87%)
self-
initiated
main
articles

transferred from
IMPA to the Police in
2018–2020, did not
lead to an
investigation

NIS 8
million out
of **NIS**
144
million

the total property
value of seizures in
money laundering
cases in 2020,
estimated by
attorneys as IMPA
contribution in the
aspects examined



Audit Actions

 From March 2020 to June 2022, the State Comptroller Office examined transverse aspects of the core activities of the Money Laundering and Terror Financing Prohibition Authority. The audit was carried out at IMPA; At the Israel Police (the Police); At the Tax Authority; At the Banking Supervision Division, at the Bank of Israel (the Supervisor of Banks); At the Securities Authority; And the Capital Market Authority. Supplementary examinations were conducted at the Ministry of Justice headquarters, at the State Attorney's Office, at the Legal Counseling and Legislation (Criminal) Department at the Ministry of Justice (the Legal Counseling and Legislation Department), at the Prime Minister's Office, and the National Cyber Directorate.

The Knesset State Audit Committee sub-committee decided not to bring this report in its entirety before the Knesset but to publish only parts thereof, to protect the state's security and prevent harm to its foreign relations and international trade relations under Section 17 of the State Comptroller's Law, 1958 [Consolidated Version].

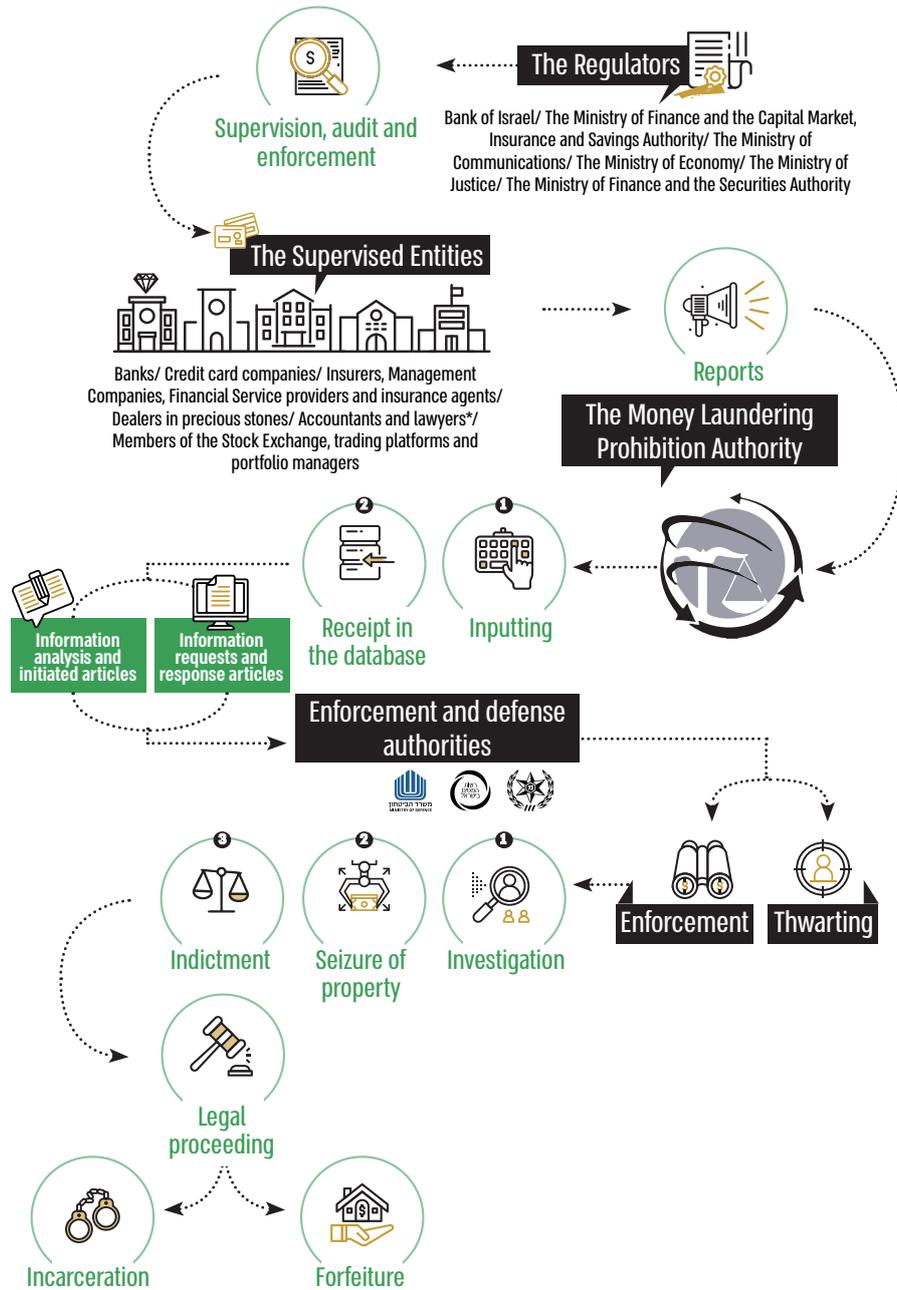
As part of the audit, data from IMPA's databases were analyzed. It should be noted that international organizations examined IMPA's activities: the MONEYVAL organization² in 2008³ (and follow-up reports in 2009 and 2011) and in 2013⁴, as well as the FATF organization in 2018⁵.

This report completes a series of three key reports dealing with the state's activity against crime and severe crime organizations, which indicated deficiencies in the functioning of the authorities in regulation, intelligence, and forfeiture: The State Comptroller's Report on Combating Crime Through Economic Enforcement and Forfeiture (2020)⁶ as well as the State Comptroller's report on the Anti-Money Laundering and Terror Financing Regime (2022)⁷ – Systemic Regulation Report.

-
- 2 Serves as an independent regional organization of the Council of Europe, similar to the FATF.
 - 3 See: Moneyval, Mutual evaluation of Israel (2008).
 - 4 See: Moneyval, Mutual evaluation of Israel (2013).
 - 5 See: FATF, 4th round of mutual evaluations – joint FATF/Moneyval mutual evaluation of Israel (October 2018).
 - 6 State Comptroller, Annual Report 70b (2020), "Combating Crime Through Economic Enforcement and Forfeiture", pp. 1730–1731.
 - 7 State Comptroller, Annual Report 72C (2022), "Anti-Money Laundering Regime in Israel".



Diagram 1: The Intelligence Information Transfer from the Reporting Entities to IMPA and from it to the Information Clients**



According to the Money Laundering Prohibition Authority data processed by the State Comptroller's Office.



- * Each sector is under its reporting obligations defined in the order applicable to it. It should be noted that according to the existing regulation, the business service providers sector⁸ is not obligated to submit reports to IMPA. The database also includes Customs reports, reports from citizens on cash transactions with Palestinian Authority residents, and information from public inquiries.
- ** This diagram did not show an indirect path of transferring information to regulators and other enforcement authorities, which operates, among other things, through the Police and subject to its discretion, under dedicated regulations⁹. Details regarding this route will be provided below in the report.

8 Business service providers are lawyers and accountants, engaged in the operations listed in Section 8B of the Prohibition on Money Laundering Law.

9 Regulations for the Prohibition of Money Laundering (Rules for the Use of Information Furnished to the Police or the General Security Service for the Purpose of Investigating Additional Offenses and its Transfer to Another Authority), 2006.



IMPA Reports Collection and Their Entry into the Database

Key Findings



- IMPA's Information Input and Output** – in 2017–2021, IMPA received 85,517 currency transaction reports on 10.8 million transactions and 500,013 unusual activity reports (about unusual transactions, or those that raise concerns of being related to activities prohibited under the Prohibition on Money Laundering Law), and produced 5,381 articles (70% of which were transferred to the Police), which included information from 24,278 unusual activity reports it received.
- IMPA's Controls on the Input and Extraction of Information from Unusual Reports** – 27% of the reports examined by IMPA were not entered into the database at all at the end of the computerization process due to a deficiency. In another 27% of the reports, deficiencies were found in the information extraction as required or in its entry. Despite an unusual rate of deficiencies in the entry of the examined reports (about 37%), the rate of IMPA's controls from April 2020 to December 2021 was 0.3% (325 of the 113,651 unusual activity reports). In one month, no controls were carried out at all.
- Accumulation of Tens of Thousands of Reports not Entered into the Database** – in 2017–2022, IMPA accumulated tens of thousands of unusual activity reports that were not entered into the database. In 2020–2021, among other things, due to the Covid-19 pandemic, the number of reports that were not entered increased to about 50,000, about 50% of all the annual reports received in 2020.
- The Reports Configuration and Their Transfer Mode to IMPA** – over 15 years after the establishment of IMPA, in 2017–2021, most of the currency transaction reports (49,029; 57%) and about 33% of the unusual activity reports (162,228) were received by IMPA offline (via Israel Post, courier services, hand delivery or sending via facsimile), and 69% of the unusual activity reports (346,166) during the above period are unstructured, and 31% (153,847) are partially structured. It should be noted that an improvement in this regard is apparent since in 2020–2021, 12,267 (37%) of the 33,085 currency transaction reports were transferred offline, and 51,072 (21.5%) of the 234,658 unusual activity reports were transferred offline. Furthermore, a detailed analysis of unusual activity reports received in 2021 raised that 52,317 (35.6%) out of 146,759 unusual activity reports were partially structured, and 94,442 (64.4%) were unstructured.



-  **Late Receipt of Currency Transaction Reports** – IMPA did not ensure that the currency transaction reports were received in general or adequately on time. In 2017–2021, some of the currency transaction reports of bank corporations were not transferred to it within nine days of the beginning of the reporting period, as stipulated in the IMPA reporting regulations and instructions.
-  **Late Receipt of Unusual Activity Reports** – 68% of the unusual activity reports transferred to IMPA in 2017–2021 and entered into the database during this period (320,173 out of 472,110 unusual activity reports reviewed) were transferred after over two days from the day the report was written.
-  **Delays in Entering Currency Transaction Reports into the Database** – 95% of the currency transaction reports entered manually in 2017–2021 (4,823 out of 5,131 currency transaction reports files) were improperly fed within a significantly longer period of time than one day, the deadline required according to IMPA's procedures (up to 270 days).
-  **Delays in Entering Unusual Activity Reports into the Database** – by IMPA's procedures, an unusual activity report must be entered within 48 working hours from when the Authority receives it. Still, in 2017–2021 most of the unusual unstructured activity reports (about 76%; 263,085 out of 346,165) were entered 10 days or more after the date on which IMPA receipt them, of which – about 44% (152,312 out of 346,165) were entered after months.
-  **Exhausting Intelligence Information Potential Received by IMPA** – deficiencies were raised regarding the extraction and coding of intelligence information¹⁰ included in the reports for their entry into the database.
-  **Extraction of Intelligence Information Received from Certain Entities** – in 2017–2021 significant information from certain money laundering and terror financing entities, at least 3,567 information items – is not extracted and coded for their entry into the database or is only partially extracted, thereby compromising the integrity and updated nature of the database.
-  **The Account Settling Mode with a Provider for the Information Entry** – IMPA's payment to the supplier that won the tender for the provision of report-feed services is given according to outputs, without measuring the typed material's quality and completeness. This is inconsistent with IMPA's interest in extracting and encoding information qualitatively.
-  **The Accumulation of Tens of Thousands of Reports not Entered into the Database on Time and Reducing Information Extraction by IMPA** – as part of IMPA's coping with the accumulation of tens of thousands of unusual activity reports not entered into the database immediately after their receipt, it decided in October 2021,

¹⁰ Tagging an incident and its characteristics using key words.



not to type 230,000 reports into the database in a structured manner the information that can exist in the appendices to unusual activity reports, and thus the database was affected. This IMPA's conduct is especially problematic regarding the FSP sector. Furthermore, the decrease in the entries was done without consulting the Authority's information clients and the government bodies entrusted with law enforcement and without updating them on the situation above. Moreover, as of July 2022, about 6,237 unusual activity reports have not been entered into the database due to a technological difficulty for which no solution has been found.



Disclosure of Information from the Public on Suspected Money Laundering –

IMPA does not have a direct and dedicated hotline for receiving reports from the public regarding money laundering and terror financing, nor does it have an incentive program for providing valuable information voluntarily. In contrast, in the USA, there is a dedicated hotline and an incentive program.



All of the currency transaction reports received by IMPA are received in a structured configuration, which shortens part of the process of information entry into IMPA's database.

Key Recommendations



The Configuration of the Reports and Their Transfer Mode to IMPA and the Late Receipt of Reports –

it is appropriate that IMPA adopt advanced work methods and implement them orderly and optimally to receive and enter currency transaction reports and unusual activity reports online in a structured configuration to the extent possible, while considering their regulatory costs, and assist the reporting entities to report online and in a structured way. In converting the reporting system, it is appropriate to prioritize implementing the necessary technological upgrades, to receive the reports of the sectors facing an increased risk of money laundering.



Late Receipt of Currency Transaction and Unusual Activity Reports –

the Supervisor of Banks, the Capital Markets Authority, the Ministry of Communications, and the Securities Authority should examine the data of the report's transferring dates to IMPA presented in this report and act by their authority vested by law to ensure that the entities subject to their supervision will properly transfer reports to IMPA on time. For this purpose, it is appropriate that IMPA send to all the regulators a periodic update on the level of compliance of the reporting entities with the deadlines and instructions for transferring currency transactions and unusual activity reports to IMPA. According to their authority, it is also appropriate that the regulators and the Authority ensure the reporting entities report in a designated field within the reporting form prepared by the Authority on the date when the concern of unusual activity arose and the first time the reporting entity examined the



information. It is further recommended that the regulators and IMPA, each in their authority, examine the processes of reporting to IMPA and their scope, including the regulatory costs involved and the possibility of targeting them in sectors where there is a greater risk, based on the national risk survey such as the FSP sector, and thus streamlining the IMPA's activities.

-  **The Processing Time for Entering Reports by IMPA in the Database** – it is appropriate that the Director General of the Ministry of Justice set an outline to rectify the deficiencies raised in this report, ensuring a complete and comprehensive entry of reports within timetables as required by IMPA's procedures. It is also appropriate that the Director General consider setting periodic supervision and control mechanisms to ensure that IMPA receives and enters the entirety of the reports on proper timetables to fulfill its mission according to law – receiving, processing, and transmitting complete and high-quality information to the enforcement and defense authorities.
-  **Exhausting the Intelligence Information Potential Received by IMPA** – it is recommended that IMPA exhaust information enabling it to derive the most benefit from the reports transferred by improving its capabilities in coding¹¹, collection, and organization of the information sent to it, among other things, by upgrading its information systems.
-  **IMPA's Controls on the Receipt and Extraction of Information from Unusual Activity Reports** – it is appropriate that IMPA examine the increase in the number of controls it performs on the receipt of data and the extraction of information, identify patterns that cause a high rate of deficiencies and derive lessons to reduce the scope of errors and deficiencies. It is also appropriate that IMPA present to the information clients the deficiencies raised in the controls, what they imply from an operational perspective, and the processes it is initiating to improve the information entry into the database.
-  **Extraction of Intelligence Information Received from Certain Entities** – it is appropriate that IMPA include in its article a reference to the complete extraction of information from certain entities included in the article, to allow feedback from the information clients on the risk management of the extraction of information and consider its decisions regarding the extraction of the specific information and of this type of information in general, according to the said feedback. It is further recommended that IMPA consider using technological tools to convert the content of the articles into structured information that will be entered into the database.
-  **The Account Settling Mode with a Provider of Information Entry** – it is appropriate that IMPA integrate into the engagement mode with the provider, methods of measurement and incentives for high-quality entry of unusual activity reports, mainly to prevent mistakes or partial entry.

¹¹ Coding is the tagging of an event and its characteristics using key words.



The Accumulation of Tens of Thousands of Reports not Entered into the Database on Time and the Reduction in Information Extraction by IMPA – IMPA should enter into the database, on time, all the unusual activity reports transferred to it by the reporting entities, including about 6,237 unusual activity reports (as of July 2022) not entered in the absence of a technological solution. IMPA should make decisions that impact information clients and their activities only after consulting with them and hearing their position.



Incentivizing the Public to Disclose Information on Suspicion of Money Laundering – it is recommended that after a comparative international examination, accordingly, IMPA, the Ministry of Justice, the Police, and the Tax Authority consider establishing a dedicated hotline for the public, allowing citizens to report suspicions of money laundering and terror financing, to assist the enforcement authorities in their fight against these crimes. It is also appropriate that the Ministry of Justice consider encouraging the submission of reports, among other things, through financial incentives conditional on the imposition of sanctions or the forfeiture of funds by judicial or quasi-judicial bodies, such as the incentive program in the USA.



Production of Articles (Intelligence Information) from the Reporting Database for the Enforcement and Security Authorities

Key Findings



Production of Articles Based on the Database – in 2017–2021, IMPA's research department produced 5,381 articles (70% of which were transferred to the Police, 16% to counterpart authorities abroad (FIUs), 7% to Israeli defense authorities, and 7% to the Tax Authority). While during this period, 500,013 unusual activity reports and 10.8 million currency transaction reports were entered into the database.

Response Articles Processing Times – a response article is produced responding to a request for concrete information from enforcement and defense authorities. Producing an article quickly contributes to the effectiveness of the investigation and the seizure of the assets. 839 out of 2,923 examined response articles in 2017–2021 (about 29%) were produced after an exceeding one month since the date of the request for information. The delay in IMPA's response to the Tax Authority's requests for information stood out, in particular. Most requests (about 80% of 194 articles) were answered after 30 days or more. The Tax Authority stated that it could not use the information effectively due to this delay. Hence, it reduced the number of its information requests from IMPA and limited them to unprocessed information requests.

Adapting Response Articles to the Information Clients' Needs – IMPA took measures to receive statistical feedback from police investigators for response articles so that they address the quality of the articles and offer suggestions for improvement. IMPA received individual answers on 887 response articles from January 2019 to November 2021. The feedback analysis indicated that, the article included information relevant to the investigation in at least 59% of the articles. However, in at least 29% of the articles, the article did not include information pertinent to the investigation, and in most of the articles (at least 67% of them), the article did not point to new directions of inquiry relevant to the investigation, I.e., they did not provide the Police with new information about assets, crimes, money laundering patterns or entities. The statistical feedback and 32 qualitative feedback from specific police units' investigators, the State Attorney's Office, the Tax Authority, and the examination of 12 IMPA articles to the Tax Authority raised only a partial match between the needs of the information clients and the response articles. Consequently, the enforcement authorities must invest many inputs in



processing information and analyze it to create a diagram in the relevant sections and to submit additional requests to IMPA for information not detailed in the article.

 **Sharing with the Information Clients Suspicions Raised in Response Articles and Self-Initiated Articles** – although specific self-initiated articles or unusual activity reports included in response articles may be relevant to over one enforcement and security authority, there is no distribution of articles or reports regulation, simultaneously to several entities, and IMPA decides, without coordination with all the authorities, which of the information clients will receive the self-initiated article. Furthermore, IMPA only transferred the reports it included in the response article to the entity requesting the information, although it may be relevant to other clients. Thus, although most offenses¹² listed in the law are affiliated with the Tax Authority, most self-initiated articles (69%) were produced for the Police. In contrast, a small percentage (5.5%) of the articles were produced for the Tax Authority. Moreover, since most of the response articles (68%) are transferred to the Police, the other information clients are not exposed to most of the suspicions arising from unusual activity reports whose disclosure in the article to information clients has been approved.

 **Adapting the Self-Initiated Articles¹³ to the Information Client's Needs** – most (87%–100%) of the audited, self-initiated articles transferred to the Police, the Tax Authority, or the Securities Authority did not lead to the launching of an investigation. This raises the concern that the many resources invested by IMPA are lost. This may originate from the information clients' perception of IMPA as a source of intelligence that does not necessarily lead to an investigation, from the low quality of IMPA's articles, from the incompatibility of the suspicions with the level of severity of the investigations handled and prioritized by each of the bodies or from the lack of desire of these authorities to advance investigations following information received from IMPA.

 **Producing Self-Initiated Article Following Unusual Activity Reports Accumulation by Certain Entities or Activities** – although in 32 audited cases, IMPA received dozens of unusual activity reports about people and companies suspected of money laundering and of the listed offenses, it did not send relevant self-initiated articles. This information reached the clients only months and years later, following their request for information about these entities.

 **Transfer Rate of Unusual Activity Reports to the Information Clients** – in 2017–2021, 500,013 unusual activity reports were entered into the database, but 95% of the information was not transferred to the information clients. Data received from IMPA in 2015–2021 raised similar findings. Therefore, because of suboptimal extraction of the information, there is concern that unusual activity reports that may include

12 The offenses listed in the First Schedule to the Prohibition on Money Laundering Law are, among other things, trafficking in dangerous drugs, illegal arms trafficking, gambling, bribery and various tax offenses.

13 Analyzing information and transferring it to the client in a specified format (article) on IMPA's initiative and not as a response to a request it received.



suspicions not detected within the framework of the queries in the database and as a result relevant items of information will not be included in response to requests for information or self-initiated articles and will not be transferred to the enforcement authorities. Furthermore, it was found that IMPA did not rate the examined unusual activity reports in a way that justifies the failure to transfer the bulk of them to the enforcement authorities due to a low to zero intelligence value.

-  **Aspects of IMPA's Activities in the Integrated Intelligence Center (Which is Shared by IMPA, the Police, and the Tax Authority)** – (a) The sharing of information between IMPA and the integrated center to fight organized crime and serious crime and their products is not optimal, due to legal difficulties. Hence, sharing all of the information is not possible in all cases; (b) Even though IMPA was required to place two representatives permanently and exclusively at the integrated center (financed by the Forfeiture Fund Council) – it was found that it permanently manned only one of the positions by placing an employee who was also his only occupation. In addition, IMPA did not report to the Forfeiture Fund Council about diverting one position but instead reported not according to the state of affairs as it was.

Key Recommendations

-  **Response Articles – Processing Times** – IMPA should respond to the information clients at relevant times; complete work procedures with the Tax Authority and each information client added; and formulate a procedure requiring compliance with processing goals. Moreover, the Director General of the Ministry of Justice should examine the reasons for the significant delays in the transfer of information from IMPA to the information clients, particularly the Tax Authority. It is appropriate that IMPA set maximum processing times for responding to information clients' information requests, among other things, depending on the degree of complexity and urgency of the requests, and implement periodic control mechanisms to monitor its activity and identify backlogs ahead of time.
-  **Cooperation Between IMPA and the Tax Authority** – it is recommended that IMPA and the Tax Authority jointly form a cooperation procedure. It is also appropriate that the Director General of the Ministry of Justice and the Director General of the Ministry of Finance ensure cooperation between the Tax Authority and IMPA and proper and effective working interfaces between them.
-  **Adapting Response Articles to the Information Clients' Needs** – it is recommended that IMPA conduct an ongoing dialogue with the information clients and improve the correlation between the articles' structuring mode, their design, and the information contained therein.
-  **Sharing with Additional Information Clients the Suspicions Raised in Response Articles** – to improve the fight against organized crime and its products and to derive the



maximum potential benefit from the information in IMPA's possession according to the purpose of the law and the additional offenses regulations, it is appropriate that the supra team form a mechanism format through which information from unusual activity reports about the listed offenses relevant to them will be presented to the information clients, while fully coordinating between the information clients so the sharing of information will be proportionate considering the right to privacy without disruption of a current investigation or duplication of investigations.



Adapting the Self-Initiated Articles to the Information Clients' Needs and Sharing with all Relevant Clients the Suspicions Raised in the Self-Initiated Articles – to realize the potential inherent in IMPA's research capability to create added value for the information clients within self-initiated articles, it is recommended that IMPA consider a risk-based approach in cooperation with the information clients and attorneys skilled in money laundering cases to be appointed for this purpose by the State Attorney, the operational and investigative needs of each of them, and accordingly adjust the activities of the research department to the needs above. It is also recommended that IMPA, in cooperation with the information clients, formulate a sharing information format relevant to more than one client. For example, it is appropriate to consider an update of each of the relevant information clients regarding the other clients to whom the information has been transferred or to form an information client forum where ongoing dialogue will take place in real-time and which IMPA can consult quickly to set priorities in routing information, without disrupting an ongoing investigation, while aligning with the national risk survey. It is recommended that the supra team follow up on implementing this recommendation. It is further recommended that IMPA examine the Police's proposal to divert resources directed to self-initiated articles that do not lead to the launch of an investigation for effective assistance in the response articles.



Preparation of a Self-Initiated Article Following the Unusual Activity Reports Accumulation About Certain Entities or Activities – it is appropriate that IMPA implement a computerized tool for monitoring and identifying accumulations of quality reports, unusual activity, and currency transaction reports about entities or related entities, so the quantity and quality of the reports will serve it according to a risk-based approach in deciding. They will be proactively transferred to the information clients in the appropriate cases, close to the information accumulation time. It is recommended that IMPA coordinate with each enforcement and security authority on the desired model of transferring such initiated articles.



Transfer Rate of Unusual Activity Reports to the Information Clients – to improve IMPA's proactive activity and given the volume of unusual activity reports received (500,013) compared to the volume of unusual activity reports transferred to the information clients (24,278; 5%), it is appropriate that IMPA initially identify unusual activity reports from which suspicion of prohibited activity arises, and set criteria in consultation with the information clients about the quality of unusual activity reporting, to maximize the number of unusual activity reports of high-risk activity that are forwarded to



the information clients, while reducing the number of unusual activity reports that in its opinion are not of sufficient quality and for which there is no justification for their transfer to it or to enforcement and defense authorities. Furthermore, the regulators and IMPA, each in their authority, should examine the above to train and prevent excess reports or underreporting, which cannot contribute to IMPA's activity in managing the database and its analysis.



Aspects of IMPA's Activity in the Integrated Intelligence Center – (a) given the importance of the information products of the integrated center generated for the law enforcement and security authorities to fight severe and organized crime and terrorism – it is appropriate that the supra team, in coordination with the Ministry of Justice, discuss the transfer of information – on its various types – from IMPA to the integrated center, and resolve the legal difficulties, while maintaining a proper balance between the purposes of the law, among them the prevention of money laundering, of terror financing and the right to privacy, and the use preference of specific tools to enable the center to fulfill its mission optimally according to the government resolution; (b) IMPA should staff the two positions assigned to it for its representation at the integrated center by placing employees permanently, whose only task will be it, and it should also ensure accurate reporting. The Forfeiture Fund Council should follow up to ensure that the directive is implemented and that these positions are staffed according to the designations approved and financed by it.



Additional Topics

Key Findings



- Determining a Security Classification for Articles and the Effects of the Blanket Classification on the Information Clients** – IMPA overwhelmingly classifies all articles intended for information clients – including the articles concerning entities other than the General Security Service and the Police that deals with criminal civilian nature matters – in a blanket "top secret" security classification, even when the information therein does not have security classification. In the meantime, regarding the articles that are forwarded to corresponding authorities abroad based on the same information (from transferring currency transactions and unusual activity reports), processed to make the information accessible, it assigns a blanket classification of "highly confidential." This affects IMPA's contribution to the enforcement authorities.
- Control over IMPA's Functioning** – despite the extensive scope of IMPA's activities, which receives millions of currency transaction reports and hundreds of thousands of unusual activity reports and produces thousands of articles for information clients to fight money laundering and terror financing, and alongside the importance of maintaining its independence, the Ministry of Justice does not orderly control IMPA's core activity, which do not concern the independent discretion in the decisions of the head of IMPA on the transfer of information.
- IMPA's Reports to the Knesset and the Public** – the reports IMPA transfers to the Knesset and the public about its activities do not present the effectiveness of its activity (the quantitative reports on the outputs of its activity are based on the rate of annual change in its activity about the previous period and not based on indicators of compliance with timetables; As of 2019 there is a substantial gap between IMPA's reporting to the public in the annual report on the rate of self-initiated articles and their actual rate). For example, in the 2020 yearly report, IMPA reported to the public that the rate of self-initiated articles was 30%. However, according to the IMPA's database analysis, the rate of the self-initiated article was 11.54%. Hence, it does not enable public or parliamentary control of its activities.
- Positions of Attorneys Engaged in Money Laundering and Terror Financing Cases Regarding the Effectiveness of IMPA's Contribution** – to examine IMPA's contribution to the fight against crime and terrorism, the State Comptroller's Office surveyed attorneys, through the State Attorney's Office (the Attorneys' Survey), regarding 26 criminal cases handled by the Attorney's Office, which included asset seizures under the Prohibition on Money Laundering Law in 2020, as well as 3 criminal



cases dealt by the prosecutor's office regarding terrorism that had asset seizures under the Counter-Terrorism Law in 2018–2021. Seven (27%) of the 26 cases examined in the Attorneys' Survey, in which property was seized under the Prohibition on Money Laundering Law in about NIS 20 million, did not include any article produced by IMPA, and therefore IMPA or IMPA's reporting regime, through these cases, did not contribute to the economic war on crime.

-  By the State Comptroller's Office, Attorneys' Survey data, regarding cases in which property of NIS 124 million was seized in 2020 under the Prohibition on Money Laundering Law, the attorneys' summarized assessments on the degree of contribution of IMPA articles to establishing a new factual basis on the actual crime committed in the range of 0 to 5 are as follows: in 12 (63%) of the 19 cases including articles, the degree of contribution was assessed as 0, and the assets seized within these cases were 60% of all the assets seized in cases that included articles in the period under review. Furthermore, in 2 (11%) of the 19 cases, which deal with 20% of all the assets seized in the period under review, the degree of contribution was estimated at 1. The attorneys' assessment of the effectiveness of enforcement requires examination. In the minority of cases in which the contribution of IMPA's articles to establishing new factual infrastructure and locating new property was relatively significant, NIS 20 million were seized, but in practice, NIS 12 million (60%) of which were returned to the parties from which they were seized, and for the remainder of the amount – NIS 8 million – a request for forfeiture has not yet been submitted, or a decision has not yet been made regarding thereto. It should be noted that in this matter, no examination was made on whether the aforementioned low contribution is built into IMPA's conduct or the other relevant entities in the enforcement system.
-  By analyzing the prosecutor's office's response, IMPA's work made a small contribution to establishing the evidence or locating property in the three terrorism cases examined, which dealt with property seized in 2018–2021 under the Counter-Terrorism Law. The information (prepared at IMPA's initiative or the request of the information clients) constituted about 10% of all the articles delivered during this period to all the information clients.

Key Recommendations

-  **Determining a Security Classification for the Articles** – it is appropriate that IMPA, in cooperation with the General Security Services, the National Cyber Directorate, and the information clients, each in their authority, formulate an outline to transfer information that does not have security classification to the information clients, with classification corresponding to the actual sensitivity of the information.
-  **Control over IMPA's Functioning** – it is recommended that the Attorney General, who heads the General Prosecutor's Office and serves as the Chairperson of the supra team in cooperation with the Director General of the Ministry of Justice, set goals in IMPA's



collection and research activities and measure the effectiveness of its activities with the goals it set, similar to the supra team's intervention in the supervision over the FSPs by the Capital Market Authority. It is further recommended that the goals defining procedure and the work processes required to achieve them will be done by IMPA in cooperation with the investigation and prosecution authorities and particularly concerning criminal activity and high-risk areas, such as through FSPs that are currency service providers (Changes) and entities that deal in cryptocurrency, according to the national risk survey from 2021.



IMPA's Reports to the Knesset and the Public – to present the effectiveness of IMPA's operation and enable public and parliamentary control over it, it is appropriate to consider improving IMPA's reports to the Knesset and the public. It is recommended that IMPA clarify the method of calculating the data presented, to accurately reflect the nature and type of the activity it carried out.



Positions of Attorneys Engaged in Money Laundering and Terror Financing Cases Regarding the Effectiveness of IMPA's Contribution – IMPA is the only government body that has full access to the database and is the only one authorized to produce articles on money laundering and terror financing based on the database information. Given this, it is appropriate that the relevant authorities will examine the contribution of the articles produced by IMPA presenting the evidence in the cases on these subjects.

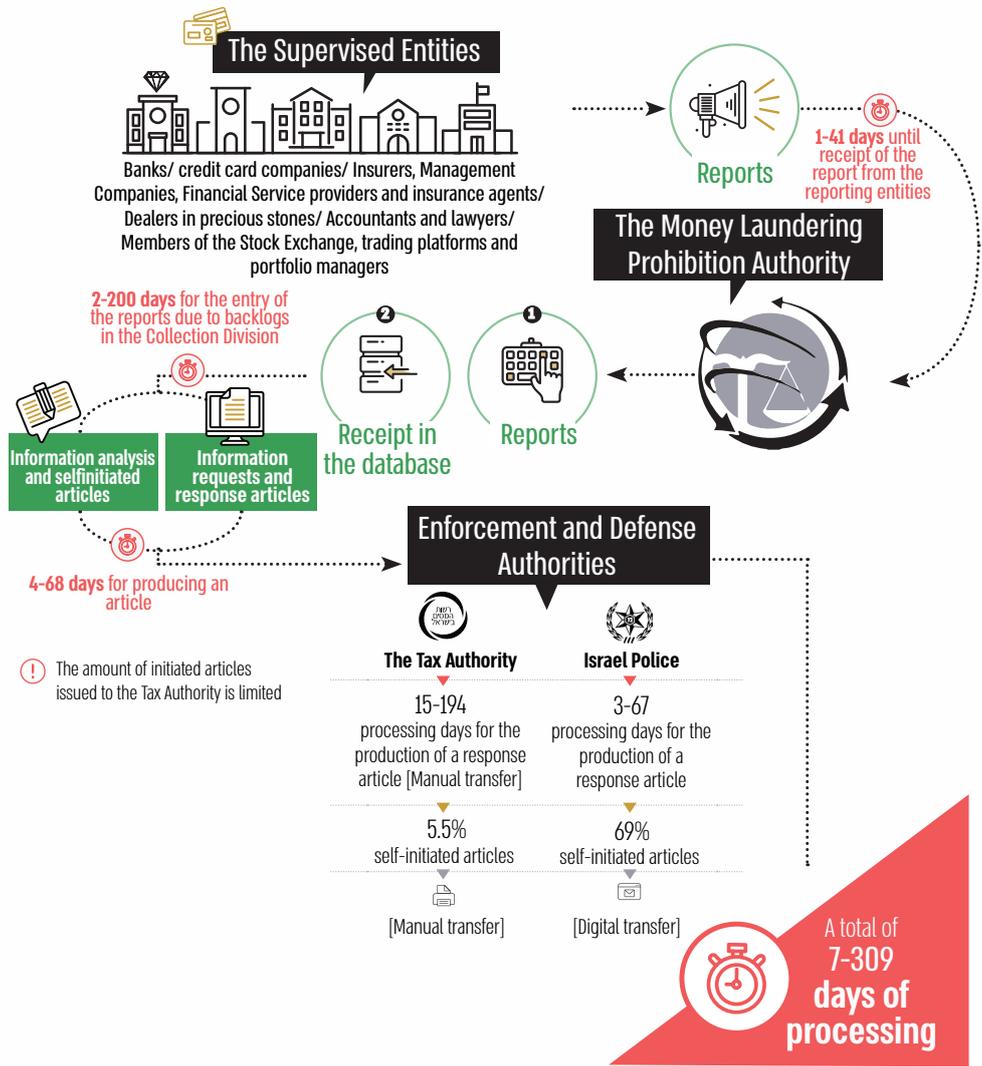


The Effectiveness of the Reporting Regime and IMPA's Activities – it is recommended that the Attorney General examine the effectiveness of IMPA's reporting regime and activities in substantive and operational aspects and their contribution to the economic enforcement system and the fight against terrorism. Moreover, she should examine the data on the extent of the seized property and forfeitures, all in collaboration with the Director General of the Ministry of Justice. This is to examine the extent the inputs invested by the government system and the private sector in the obligations implementation of the anti-money laundering and terror financing regime, including the costs that cannot be quantified, match the degree of effectiveness of the enforcement system in realizing a fundamental principle of economic enforcement – forfeiture of property including the fruits of the offense or property of such value.

According to the findings, it is recommended to consider measures to significantly improve the contribution of the information provided by IMPA to the enforcement and security Authorities to strengthen economic enforcement in the fight against crime and its products, particularly in the fight against terrorism. This is regardless of whether the improvement is required in the activity of the reporting entities, IMPA, the enforcement authorities, or the prosecution's office. It is also recommended to consider forming an unusual activity reporting obligation for all reporting sectors, similar to the banking corporations – unusual activity reporting obligation, only when there is a concern of prohibited activity and not in every case of activity that is perceived as being unusual, and ensure that the reports will only be submitted in these cases. This will lead to the receipt of quality reports, enable IMPA to fully exhaust them, optimally analyze them and deliver information to the information clients at relevant times, contributing to the investigation.



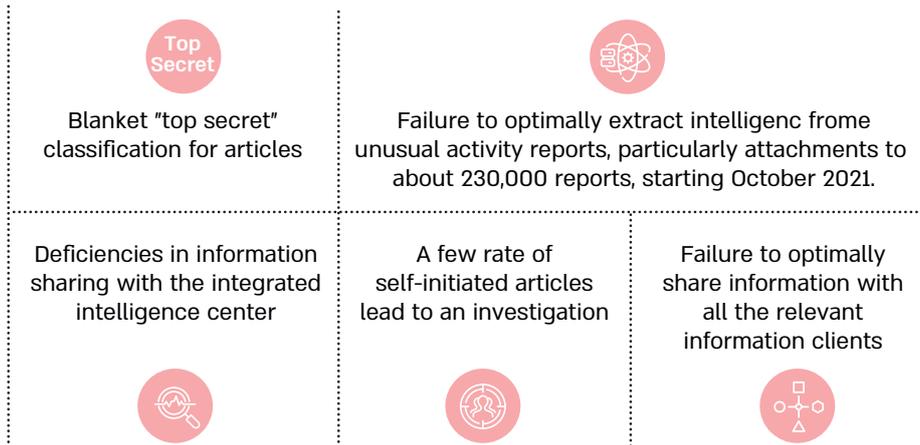
Diagrams 2A and 2B: The Deficiency Routes in the Report on the Range of Processing Time*, the Adaptation of the Information to the Information Client, the Scope of the Information, and the Quality of the Service Provided to the Tax Authority Compared to that Provided to the Police



* To prevent bias, the range of processing times was calculated for about 80% of the activity types without referencing each of the 10% found at the upper and lower ends of the activity.



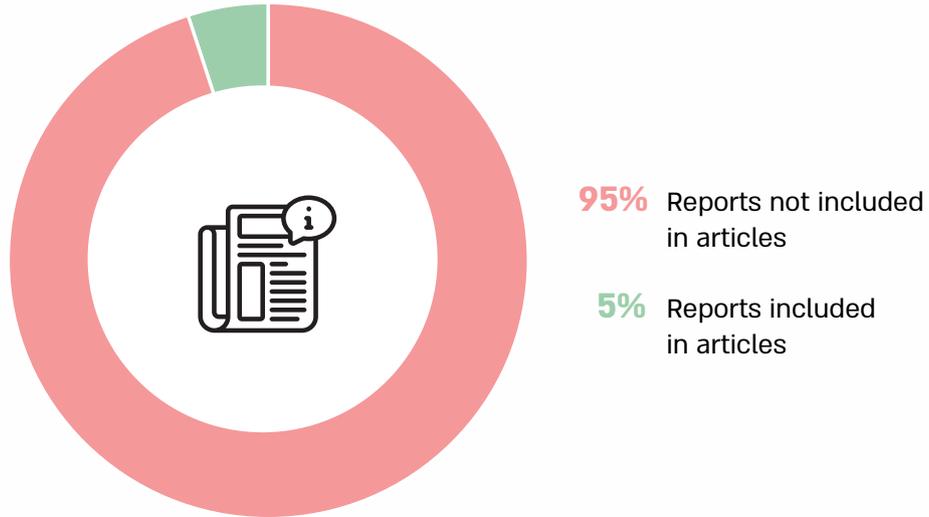
Adapting the Activity to the Information Clients Needs



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



Diagram 3: The Rate of Unusual Activity Reports Included in Articles for Information Clients Compared to the Total Number of Unusual Activity Reports Received by IMPA, 2017–2021



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



Summary

IMPA serves as a financial intelligence unit assisting the enforcement and defense authorities in fulfilling their duties in preventing and investigating money laundering and terror financing offenses and in their prosecution. To this end, it was entrusted with powers to demand and receive a great deal of information from financial and business entities, analyze it, and pass it on within a short time as information reports to the enforcement authorities (such as the Israel Police and the Tax Authority) and the defense authorities (such as the General Security Service), for them to prevent crime and enforce the law in the money laundering and counter-terrorism.

This audit report raised a long series of deficiencies in IMPA's functioning and its ability to fulfill its role while implementing core work processes efficiently and optimally, thus, impairing its ability to assist the enforcement and defense authorities in the prevention and investigation of money laundering and terror financing offenses and their prosecution, all of this while balancing the right to privacy. These require the Ministry of Justice to conduct examinations and measures in several key areas:

1. **IMPA's Outputs** – IMPA's outputs should be examined given the heavy burden imposed on the public and the financial entities required to maintain an extensive and complicated reporting regime involving many financial and bureaucratic inputs. In addition, the findings of the Attorneys' Survey conducted by the State Comptroller's Office about the contribution of the IMPA articles to form an evidentiary infrastructure and to locate assets for forfeiture require an examination of the extent to which the inputs invested by the government system and the private sector in the implementation of the obligations in the anti-money laundering and terror financing regime, including the costs that cannot be quantified, match the degree of effectiveness of the enforcement system in implementing a fundamental principle of economic enforcement – forfeiture of property including the fruits of the offense or property of such value.
2. **Evaluating IMPA's Performance** – the deficiencies raised require an examination and analysis of their creation and the manner of their handling.
3. **Mandatory Functional Standard** – a) Executing a significant change in IMPA's functional array in receiving, analyzing, and transferring the significant amount of information that reaches it requires the implementation of measurable targets for its functioning regarding the core activities it carries out, as well as ongoing measurement and monitoring of its performance and drawing lessons from the results of the measure. b) Implement in IMPA a functional pattern by which significant information received by it or requested of it by the enforcement and defense authorities, which is not processed and analyzed within a short time – may harm their ability to prevent crimes and enforce the law on money laundering, terror financing, and the listed offenses, as part of the fight against serious and organized crime and the war on terrorism.



4. **The Transparency of IMPA's Work** – the IMPA reports over the years to the Constitution, Law, and Justice Committee, the Ministry of Justice administration, the regulators, the reporting entities, and the public – did not present the functional gaps in its work or on the extent of its effectiveness in terms of contributing to the activities of the information clients. It is, therefore, appropriate to set report standards and define the resolution of the information provided and its frequency.
5. **The Supervision over FSPs** – if IMPA will be authorized in the future under a government's resolution to supervise the FSP sector, given the risk of money laundering posed by this sector and in particular by money service businesses (changes) and cryptocurrency service providers, it is appropriate it supervise, audit and enforce this sector, ensuring the transfer of quality reports, contributing to the fight against serious and organized crime and terror financing, using financial institutions in this sector.

The responsibility for the proper operation of IMPA rests with the Minister of Justice, the Director General of the Ministry of Justice, and the head of IMPA. Therefore, they are obligated to ensure the necessary improvement in IMPA's core activity and to improve the cooperation between it and the information clients. This is necessary to justify the imposition of the reporting regime and its costs on the public, to contribute effectively to the investigative and security authorities, in particular in the war against organized crime, serious crime, and terror financing, and for IMPA to fulfill its mandate according to law, efficiently and effectively.

List of Abbreviations

1. **The Prohibition on Money Laundering Law, 2000, Regulations and Orders Promulgated Thereunder** – the law led to the establishment of the Money Laundering and Terror Financing Prohibition Authority (IMPA), the establishment of the database, to the authorization of regulators to audit, supervise and enforce over supervised sectors and to impose obligations on supervised sectors to transfer reports to IMPA.
2. **IMPA** – the Money Laundering and Terror Financing Prohibition Authority is a unit in the Ministry of Justice responsible for the database.
3. **The data Base or the Database** – the IMPA's database, established by law, includes reports received by IMPA under the law and additional information.
4. **Reports** – Financial information IMPA receives from financial and non-financial entities.
5. **Regulators** – the Banking Supervision Division at the Bank of Israel, the Securities Authority, the Capital Market, Insurance and Savings Authority (the Capital Market Authority), the Postal Administration at the Ministry of Communications, the Diamonds Supervisor at the Ministry of Economy and Industry, and the Commissioner of Business Service Providers at the Ministry of Justice, who are responsible for carrying out regulation of the supervised sectors.



6. **The Supervised Sectors** – financial and non-financial sectors that are subject to supervision under the law.
7. **The Reporting Sectors** – the supervised sectors that must submit reports to IMPA.
8. **Information Clients or Enforcement and Defense Authorities** – the government entities authorized by the Prohibition on Money Laundering Law and its regulations to request information under certain conditions or receive information from IMPA on its initiative under certain conditions. The Authorities are the Israel Police, the Tax Authority, the Securities Authority, the Police Investigation Unit of the Israel Police, the General Security Service, the Institute for Intelligence and Special Operations (Mossad), a specific unit in the Director of Security of the Defense Establishment, the Intelligence Corps of the IDF, as well as counterpart authorities abroad (similar to IMPA) called FIUs.
9. **The FATF Organization and MONEYVAL Organization** – the FATF organization is an international organization that sets standards and guidelines on the global fight against money laundering and terror financing, and MONEYVAL organization is a similar organization, at the local level in Europe, that implements FATF guidelines.
10. **EGMONT GROUP** – a group uniting all the authorities similar to IMPA – FIUs.
11. **Articles** – the document by which IMPA transfers information to the information clients.
12. **Financial Service Providers** – "Service in Financial Asset" and "Extension of Credit" are as defined in the Supervision of Financial Services (Regulated Financial Services) Law, 2016 (the Supervision of Regulated Financial Services Law). "Financial asset" includes, among other things, a cash deposit, credit card, and virtual (digital) currency. All those engaged in these fields, as of 2021, are regulated under the same order (Anti-Money Laundering Order (Duties of Identification, Reporting, and Record-Keeping of Money Service Businesses and Credit Service Providers for the Prevention of Money Laundering and Terror Financing) 2018, will also be referred as "FSPs."



State Comptroller Report | February 2023

Chapter two

Defense System



State Comptroller Report | February 2023

National-Strategic Fields of Operation

**Implementation of the
Shoham 3 Program –
the Relocation of IDF
Bases to Market
Housing Units in High
Demand Areas**



Implementation of the Shoham 3 Program – the Relocation of IDF Bases to Market Housing Units in High Demand Areas

Background

The Shoham 3 program (marketing and relocation of bases), signed in March 2015 between ILA, the Ministry of Defense (MOD), and the Ministry of Finance, is a strategic national program through which the defense system and the Israel Land Authority (ILA) relocate IDF bases from high-demand areas to market the land in the bases being vacated and increase the supply of housing by 69,185 units. The program includes the evacuation of IDF units from six main bases, mainly in the center of the country (Sde Dov, Tzrifin, Tel Hashomer, Sirkin, Ganim, and Tira) to reception bases after the completion of dozens of construction and infrastructure projects in these bases. According to the Shoham 3 Agreement, the schedule for completing the program (evacuation of the last compounds) was January 2023; As of the audit completion, this deadline has been postponed by almost six years – to November 2028.

The program budget was about NIS 18.5 billion, financed by ILA from revenues from marketing the lands in the vacated bases and paid to the Ministry of Defense. The Shoham 3 program is important both at the national and security levels. At the national level, its goal is to alleviate the housing crisis as the lack of housing, in particular, in the central region, is one of the main reasons for the increase in housing prices by about 51.2% from January 2015 – when the government's resolution to implement the program was adopted – to May 2022. At the security level, its goal is to enable the IDF to strengthen and improve the infrastructure in its bases.



Key Figures

January 2015

the government decision date on the Shoham 3 program – vacating IDF bases from high-demand areas and moving them to reception bases throughout the country. Including forming of guidelines designed to execute the program

69,185

planned housing units to be built following the implementation of the program and the evacuation of IDF bases, mainly in the center of the country

46,505–53,256

the marketing potential of the housing units following the partial evacuation of the IDF bases, as of the audit completion; The marketing of 15,929 to 22,680 housing units is delayed due to bases evacuation delays

only 11,404

housing units were marketed by ILA (about 16.5% of the planned units). Of these, the construction of only 6,855 units (about 10% of all the planned units) has begun as of the audit completion

51.2%

the housing price increase index¹ from the date of the government's resolution on January 2015 to May 2022, according to the Central Bureau of Statistics data

6.5, 3 years

the expected delay in the projects included in the program, as of the audit completion – Ofek Rahav² 6.5 years and the "Unified Supply Center"³ over 3 years, compared to the date set in the Shoham 3 Agreement

43%

the actual payment rate to suppliers (about NIS 6.16 billion) from the budget for the relocation of the bases (about NIS 14.31 billion – without financing and overheads), as of the audit completion

about 60,000 thousand sqm.

the total area of 25 IDF bases in the country's center which will remain after the implementation of the Shoham 3 program as of March 2022. The defense system has mapped for future evacuation and marketing of 3%–19% of this area

1 An index that reflects the increase in prices for new and second-hand apartments.
 2 Ofek Rahav project – consolidation of units of the Ground Forces and the Technology and Logistics Division as well as the Human Resources Division.
 3 Unified Supply Center Project – an organizational and physical merger of Technology and Logistics Division centers and the establishment of three regional supply centers and three satellite bases.



Audit Actions

 From September 2021 to June 2022, the State Comptroller's Office audited the implementation of the Shoham 3 program. Some of the data was updated to September 2022. The audit examined: the economic and budgetary aspects of the program, including the economic feasibility inherent therein and the overall value to the Ministry of Defense for the evacuation of the IDF bases; The status of the evacuation of the IDF bases and the lands after evacuations as of the audit completion; The evacuation delays main reasons, including budgetary reasons and reasons associated with construction and PFI projects⁴; The challenges in evacuating bases in stages; The supervision and control of the decision-makers on the implementation of the program; And future plans for evacuating bases from the center of the country, including a situation report on the IDF bases in the center of the country and their potential for evacuations. The audit was conducted at the Ministry of Defense; The IDF; The Israel Land Authority; The Ministry of Finance; And the Environmental Services Company Ltd. Supplementary examinations were carried out at the Ministry of Transport and Road Safety (Ministry of Transport).

The Knesset State Audit Committee sub-committee decided not to bring this report in its entirety before the Knesset but to publish only parts thereof, to protect state security under Section 17 of the State Comptroller's Law, 1958 [Consolidated Version].

Key Findings



 **Evacuation Status of the IDF Bases by the Defense System** – by the audit completion, over seven years after the launch of the Shoham 3 program, the defense system evacuated 5,323 thousand sqm. (about 65%) of the total area required to vacate according to the agreement, which was about 8,181 thousand sqm. – three bases were fully evacuated (Sde Dov, Sirkin, and Tira); The remaining areas (about 35%), at 2,858 thousand sqm., have not been evacuated yet (Tel Hashomer and Tzrifin bases were partially evacuated, and at Ganim base the evacuation did not begin); Most of them (about 95%) due to delays in the realization of the PFI projects – the Unified Supply Center Project and the Ofek Rahav Project.

 **The Effect on the Housing Market by the Delay in the Evacuation of the IDF Bases** – the marketing of 15,929 to 22,680 housing units, most of them in the center

⁴ Public Finance Initiative – according with this method, the private sector finances the execution of a defense system project as well as the supply of products or services for operation and maintenance.



of the country, out of the total number of planned housing units in the vacated bases (69,185), is delayed due to the evacuation delays of the bases and due to the delay in the PFI projects – the Unified Supply Center Project and the Ofek Rahav Project. It should be noted that by the National Economic Council's strategic housing plan for 2017–2040, the housing needs in the center of the country in 2021–2030 are estimated at an average of 24,000 housing units per year. Hence, the extent of the delays reflects their significant impact on the strategic-national need for housing units in the central area.

-  **The Status of the Lands in the IDF Bases Fully or Partially Evacuated and the Impact on the Housing Market** – according to ILA's figures processed by the State Comptroller's Office, as of the audit completion, out of 69,185 units planned in the areas of the vacated bases, the potential housing units for marketing was about 46,505 to 53,256 units (67%–77%). Out of this potential, ILA marketed 11,404 housing units (16.5% of all units planned for marketing), and the construction of a maximum of 6,855 units (10% of all units designed for marketing) began. It should be noted that according to ILA, in some complexes, there are various barriers to the marketing of the land, such as the need to rehabilitate the land, different planning stipulations, and the inability of local authorities to handle the marketing of a large number of housing units.
-  **Budgetary and Financial Aspect of the Planning Versus the Implementation** – as of the audit completion, June 2022, the scope of orders issued to suppliers by the Ministry of Defense was about NIS 9.38 billion (about 66% of the budget without the financing costs and overheads of the PFI projects), and the actual payments to suppliers were about NIS 6.16 billion (about 66% of the total orders). Most of the current balance between the budget framework and the scope of the orders issued by the Ministry of Defense to the suppliers was because no concessionaire was selected for the Ofek Rahav project, and no order was issued.
-  **The Process of Approving the Israel Land Authority's Participation in the Evacuation Cost of the IDF Bases** – in the discussion held by the Israel Lands Council in March 2015 to approve the Shoham 3 program, ILA did not present an economic opinion including land value estimation, but instead presented a general assessment (about NIS 40 billion) without detail or substantiation. Nevertheless, the Council approved the program without insisting on receiving the complete data. During the audit, ILA failed to locate the data on which it based the calculation required by the directive of the Israel Land Council (Estimate of the value of the vacated lands). This data was not found in the Ministry of Finance as well.
-  **The Benefits to the Defense System by the Shoham 3 Agreement** – the main benefits the defense system receives as part of the overall value are reinforcement, streamlining and improvement of infrastructures, financing of associated costs, allocation of headcounts posts, non-participation in the costs of implementing the program and budgeting of the program in a separate budget item from the defense budget. In addition, under the government's resolution from 2011 included in the Shoham 3



Agreement, the Ministry of Defense will receive 34% of ILA's total receipts from the marketing of the lands after a deduction of the total value for the Ministry of Defense (NIS 18.5 billion) and of the NIS 6 billion that ILA is supposed to receive⁵. Estimates by the State Comptroller's Office at about NIS 18.4 billion. The background, circumstances, and justifications that led to the above decision were not found in ILA, the Ministry of Defense, and the Ministry of Finance. Even if this decision has a considerable impact on the state coffers about NIS 18.4 billion will increase the defense budget and not be used for other purposes such as covering the state deficit. It should be noted that the average annual payments in 2015–2020 of ILA transfers to the state as the land owner (income surplus over expenses) was NIS 1.75 billion. Hence, the Ministry of Defense's (estimated) share in the ILA's receipts for the lands in the program, about NIS 18.4 billion, presents the average amount of the ILA payments to the state over ten years, thereby testifying to its considerable influence on the state coffers.

 It was also raised that in the Shoham 3 Agreement, no penalty mechanism was included for the Ministry of Defense's failure to comply with the schedules so that there was no dependence between receiving the overall value for the program and meeting the schedules for its implementation; In addition, no designation has been set for funds earmarked for the Ministry of Defense from land receipts. It should be noted that as part of the first supplementary agreement from February 2020⁶, a mechanism was established to encourage compliance with the schedules that included fines (for delaying the realization of a milestone vis-à-vis the date set) and offsetting fines (for bringing ahead the realization of a milestone vis-à-vis the planned evacuation dates). Still, it pertained to 16 remaining milestones out of 54, as 38 were already completed.

 **Adjustment Costs** – according to the Shoham 3 Agreement, the adjustment costs result from evacuating the bases in stages. These costs include, among other things, the costs of relocating buildings, fences and sewage infrastructure, electricity, and water in the vacated bases. At the audit completion, June 2022, the disagreements between the Ministry of Finance and the Ministry of Defense regarding the latter authority to use the budgetary source of the adjustment costs without the approval of the Monitoring and Control Committee originated from their different interpretations, were not resolved, according to the government's resolution from 2015 and the Shoham 3 Agreement. Despite this, the disagreement was not raised for decision at the CEOs Committee. Moreover, in September 2020, the Ministry of Defense presented a plan to utilize the total adjustment costs budget and even more – NIS 525 million, presenting an excess of NIS 25 million from the cost determined in the agreement. Assuming that the budget

5 In the aforementioned government resolution, it was determined that ILA would finance an amount of NIS 6 billion for the purpose of relocating IDF bases to the Negev. It was also determined that if the total receipts from the marketing of the land exceeded this amount, 34% of the remaining receipts would be transferred to the Ministry of Defense.

6 At this time, ILA, the Ministry of Defense and the Ministry of Finance signed a first supplementary agreement to the Shoham 3 Agreement.



will be used according to plan, no budget will be left for additional content for the evacuation in stages of the remaining bases.

The Reasons for the Delays in Vacating the Bases:

- **The Dispute Within the Ministry of Finance Regarding the Determination of the Mechanism for the Transfer of the Value** – the dispute between the Budgets Division and the Accountant General's Division, both, in the Ministry of Finance (the Accountant General) regarding the determination of the mechanism for the transfer of value between ILA and the Ministry of Defense in the Shoham 3 Agreement persisted for about a year and a half, from July 2014 to February 2016. This dispute caused, in practice, a delay of almost a year in the implementation of the agreement (from March 2015 to February 2016). The documents describing the above dispute were not found in the Ministry of Finance, the Budgets Division, or the Accountant General's Division. As a result, the reason why the dispute was resolved only after about a year, significantly delaying the plan's implementation, was not found. Lack of documentation of processes and decisions violates the principle of transparency and the ability to learn and conclude for the future.
- **Adaptation of Headcount Posts in the Transition South Administration in the Ministry of Defense to Implement the Program** – as of April 2022, three headcount posts out of the 45 approved for the Ministry of Defense in the Shoham 3 Agreement have not been assigned. Out of the 42 posts, only one has been assigned to the Transition South Administration. Furthermore, although the Transition South Administration alerted already in December 2016 of its inability to comply with the publication of three tenders at the same time (for Kiryat HaModi'in, the Unified Supply Center Project, and Ofek Rahav), as part of its strategic work until 2019, it did not request additional posts for the Contracting Unit.
- **Delays in the Ofek Rahav Project** – the planned end date of the project was postponed by about six and a half years from the date set in the agreement (from March 2022 to November 2028). The delay was due to the following reasons:
 - The project tender was published about two and a half years after the date set in the agreement, due to (a) The prolonging of the examination process and the final decision by the Ministry of Defense and the IDF regarding the project contract method (the process took about two and a half years – from March 2015 to November 2017 – compared to the 30 days stipulated in the agreement); (b) The Transition South Administration's inability to formulate and publish several PFI tenders at the same time and the decision of the defense system to "work in progression" (step by step and not at the same time) and that the Ofek Rahav tender will be the last of them (after the Unified Supply Center Project). This is despite the Ofek Rahav project evacuated large parts of its bases compared to the Unified Supply Center Project, and therefore



its importance for land marketing is greater than that of the Unified Supply Center Project; (c) The defense system's decision that the implementation of the transportation solutions is a condition for publishing a tender.

- The tender procedure (from the date of publication of the tender to the signing of an agreement with the concessionaire) was extended by a year compared to the Gantt from September 2016, due to a five-month delay in the submission of bids for the tender and due to the Ministry of Defense decision to change the tender procedure to "double financial closure" which extended the schedule by seven additional months.
- The planned duration of the construction phase (until the evacuation of the relevant bases) was extended by about three years (from approximately three years, according to the agreement, to about six years, according to the updated Gantt from October 2021).
- **Delays in the Defense System Projects for Receiving the Units in the Reception Bases** – in the construction projects (without PFI projects) in the reception bases, there were delays of about two to three years in their operational⁷ date compared to the planned date. The delays were due, among other things, to the Shoham 3 Agreement timetables, which dictated short planning and execution times that did not correspond with the situation on the ground and ended up taking longer than planned; IDF changes of the operational requirements of the projects as well as requests for additions and alterations after the projects have started and during their execution; Unexpected incidents such as the discovery of large areas of contaminated land and waste as a result of under-estimation in the preliminary surveys; And incidents in which the supervision and control processes of the Engineering and Construction Department at the Ministry of Defense over the performing contractors were not regulated.

📌 The Status of the Transportation Solutions to the Rehavam Base – as of the audit completion, some of the transportation solutions for the Rehavam base have not been finalized: there is a dispute between the Ministry of Finance and the Ministry of Transport regarding both the need for the construction of a train station and regarding the barriers to its development (budget block or disagreement on its construction); And the construction of the Klausner Interchange is suspended due to the lack of agreements regarding the transfer of the Government Vehicle Administration under which the interchange is supposed to be built.

📌 The Supervision and Control of the Decision Makers over the Implementation of the Shoham 3 Program – from the signing of the Shoham 3 Agreement until the audit completion, the supervision and control mechanisms established for the implementation of the program were not operated: contrary to the government's

⁷ Becoming operational – population of the reception bases.



resolution, the Barriers Committee headed by the Director General of the Prime Minister's Office was not formed and did not convene, and therefore it did not report to the government on the progress in the implementation of the resolution; Furthermore, ILA did not report to the Israel Lands Council on the progress of the Shoham 3 Agreement, in contravention of the Council's decision. In addition, there were no discussions on the Shoham 3 program within the Housing Cabinet.

 **Future Plans for the Evacuation of Bases from the Center of the Country** – even after the completion of the Shoham 3 program, 25 bases will remain in the country's center over a total area of about 60,000 thousand sqm., of which ten are operational bases. The rest are administrative or joint (operational and administrative) bases. Even though in 2016, the Ministry of Defense began mapping potential bases and complexes for future evacuation, as of the audit completion, the ILA, the Ministry of Defense, and the Ministry of Finance had not concluded which bases would be evacuated. The main bases and complexes with potential for future evacuation are the four parts of the bases that remained in Tzrifin as "islands" after the implementation of Shoham 3, the refurbishment and maintenance centers, Base 80 near Hadera, a Home Front Command unit, the military colleges, the Tira Equipment base, a Ground Forces unit and the Kirya in Tel Aviv. Future evacuation of the said bases or parts of them is expected to enable the construction of at least 30,694 housing units (of which approximately 586 are for sheltered housing), of at least 100 units for hotels, and of at least 1,765 thousand sqm. for commerce and employment.



The Economic Feasibility of the Program – the Shoham 3 program is a national strategic plan that can increase the supply of housing units in high-demand areas and contribute to strengthening the IDF. At the signing of the Shoham 3 Agreement, the program was economically feasible because the cost of the bases evacuating set in the agreement (approximately NIS 18.5 billion) was lower than the estimates made by the defense system and ILA as to the value of the lands (NIS 35.1 and 40 billion, respectively). According to the State Comptroller's Office evaluation based on raw estimates submitted by ILA, as of the audit completion, the program is still economically feasible (the estimated value of the land in the bases at this time was about NIS 78.6 billion).



Key Recommendations

-  It is recommended that the Minister of Construction and Housing, in coordination with the Minister of Defense and the Minister of Finance, discuss in the Housing Cabinet the options for evacuating additional IDF bases from the center of the country for construction and housing (out of the total area of IDF bases that will remain after the implementation of the Shoham 3 program – about 60,000 thousand sqm.) and formulate a policy at the national level from which a multi-year operative plan will be derived.
-  It is recommended that the Ministry of Defense complete the remaining projects in the reception bases according to the set schedules without further delays so that ILA can market the lands in the vacated bases at the earliest possible date; And that ILA and the Planning Administration at the Ministry of Interior in cooperation with the relevant local authorities market about 50,000 housing units in the vacant lands, this is to increase the supply of housing units in the center of the country and thus lead to a mitigation of the housing crisis.
-  It is recommended that the Ministry of Defense promote the requirements and standardization needs of the Transition South Administration to avoid future delays in the construction of the projects and for optimal management of the construction and operation contracts, including supervision and control thereof. This is given the Administration's tasks and roles in leading the PFI projects, the construction of which is expected to be completed by 2028 and whose operation spans about 20 years from their establishment.
-  It is recommended that the Ministry of Finance and the Ministry of Transport, in cooperation with the Ministry of Defense, formulate a coordinated and final position regarding the establishment of the Rehavam train station and accordingly reach an agreement on its budgeting on the timetables and the dates for the transfer of the budgets in respect thereof. Furthermore, to promote the establishment of the Klausner Interchange, it is recommended that the Ministry of Finance find a solution to transfer the Government Vehicle Administration and, with the cooperation of the Ministry of Transport and the Ministry of Defense, reach an agreement on the timetables and the dates for the transfer of the budgets. It is also recommended that the Ministry of Transport ensure that the construction of all the projects that provide transportation solutions for the Rehavam base – the Rehavam train station, the Gezer Interchange, the Klausner Interchange, and the public transportation terminal – will be completed on the required date. Failure to complete the transportation solutions when the units are transferred to the base will affect the transportation accessibility of thousands of soldiers and candidates for military service who are supposed to arrive there starting November 2028.
-  It is recommended that in future agreements, the Ministry of Defense ensure that the process of setting the schedules considers suitable periods to enable realistic schedules for the stages of planning, contracting, and execution. It is also recommended that the Ministry



of Defense receive final and approved operational requirements from the IDF, as well as carry out orderly processes of adding changes that are coordinated with all the relevant factors while defining precise configuration suspension times; Ensure the performance of land mapping and land surveys optimally for locating all environmental hazards; Supervise and control contractors in an orderly manner; And manage the coordination between the various contractors optimally.

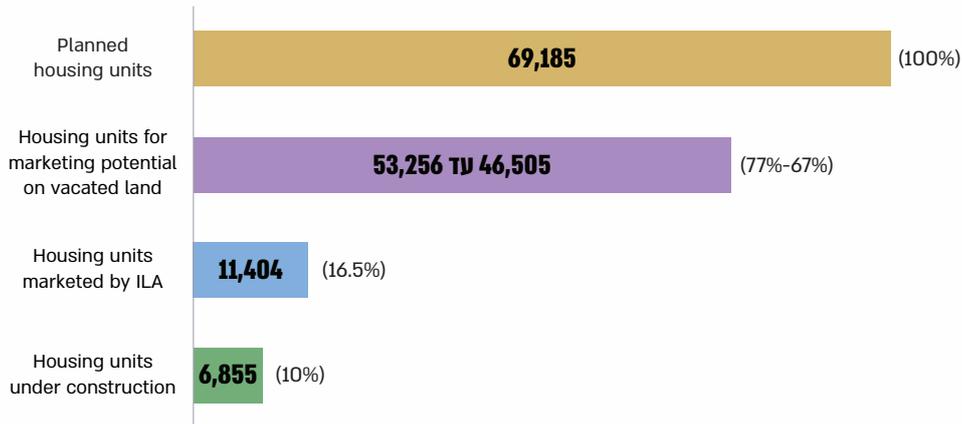
 It is recommended that the Minister of Construction and Housing initiate periodic discussions in the Housing Cabinet and the Israel Lands Council to supervise and control the progress of the planning and construction of 69,185 housing units and consider the need for such discussions also on the evacuation of the remaining lands within the Shoham 3 program. It is further recommended that the Minister of Construction and Housing initiate discussions for supervision and control of similar government programs.

 It is recommended that the three main bodies responsible for the realization of plans for the evacuation of IDF bases for land marketing – ILA, the Ministry of Defense, and the Ministry of Finance – jointly draw lessons from the Shoham 3 program to be implemented for future evacuation plans, to create a mechanism that stipulates schedules to the received value as mentioned above, for the transfer of the lands as they are (AS-IS) to ILA in a way that shortens the schedules, and for resolving barriers between them.

 It is recommended that the Ministry of Construction and Housing, the Ministry of Finance, ILA, and the defense system establish a joint work team that will formulate a strategic plan for the evacuation or consolidation of IDF bases in the central region, given the expected benefits to the civilian economy from the evacuation of the bases and given the worsening of the housing crisis. The team will set priorities for evacuation, examine economic feasibility and consider land alternatives for these bases. The team's conclusions will be discussed and approved by the government for their implementation. After that, it is recommended that they agree on schedules and budgets to promote future plans and bring them to the Housing Cabinet for discussion and approval.



Realization of the Potential of Planned Housing Units as Part of the Program, as of the Audit Completion



According to ILA figures processed by the State Comptroller's Office.



Summary

The Shoham 3 program, launched about seven and a half years ago, is of strategic national importance. By which the defense system and the Israel Land Administration work to relocate IDF bases from areas of high demand, mainly in the center of the country. The realization of the program will enable the evacuation of lands of over 8,000 thousand sqm., the vast majority of which are in high-demand areas in the center of the country, and expected to yield 69,185 housing units in the area of the vacated bases – almost three times the average annual number of housing units defined as a need in the central region according to the strategic housing plan of the National Economic Council for 2017–2040.

The audit raised that the defense system did not meet the planned timetables for evacuating the bases as it had committed to in the 2015 agreement. As of the audit completion, the defense system had vacated about 65% of the total land that was supposed to be vacated as part of the program, and of the about 69,185 housing units planned to be built on the land of the vacated bases, as of this date, 11,404 housing units (about 16.5%) have been sold, and the construction process has begun for additional 6,855 units (about 10% of all units in the program; And about 60% of the units sold). The delays in evacuating the bases range from nine months to seven years, mainly due to disputes within the Ministry of Finance, staffing gaps in the Transition South Administration, the lengthening of the decision-making processes at the defense system on the proper way to manage the Ofek Rahav project, setting schedules in the agreement that did not correspond with the situation on the ground, and many IDF changes in the projects. The most noticeable delays are in the PFI projects, affecting the national-strategic aspect of the housing crisis by delaying the marketing of about 15,929 to 22,680 housing units, most of them in the center of the country.

As of the audit completion, ILA, the Ministry of Defense, and the Ministry of Finance have not decided which bases and complexes will be evacuated as part of future evacuation plans. The evacuation of the above is expected to enable the construction of at least 30,694 housing units (of which 586 are for sheltered housing), at least 100 units for hotels, and about 1,765 thousand sqm. for commerce and employment. In addition, the evacuation will remove planning restrictions, promote civil planning, and improve urban and infrastructural development, including inaccessibility to transportation routes, constructing a light rail line (the Brown Line), and expanding green areas. The bases and complexes with potential for evacuation in the future are the four parts of the bases that remained in Tzrifin as "islands" after the implementation of Shoham 3, the refurbishment and maintenance centers, Base 80, a Home Front Command unit, the military colleges, the Tira Equipment base, a Ground Forces unit and the Kirya in Tel Aviv.

It is recommended that all the relevant bodies – ILA, the Ministry of Defense, and the Ministry of Finance – comprehensively and thoroughly examine the implementation of the Shoham 3 program and its management to apply lessons and improve the work processes of future



agreements for the evacuation of military bases. It is also recommended that the Minister of Construction and Housing initiate, in coordination with the Minister of Defense and the Minister of Finance, a discussion in the Housing Cabinet considering the evacuation of additional IDF bases from the center of the country for construction and housing purposes (out of the total area of IDF bases that will remain after the implementation of the Shoham 3 program (about 60,000 thousand sqm.)) and formulate a policy at the national level from which a multi-year operative plan will be derived.

Appropriate and respectful living conditions and infrastructures affect, among other things, the readiness and motivation of combat soldiers and the effectiveness of qualifications, training, and operational employment tasks. The State Comptroller's report⁸ on living conditions and infrastructure for soldiers in mandatory service and the reserves, raised that soldiers encounter poor infrastructure in the bases, and even if, as a rule, the Shoham 3 program was not intended to address gaps in infrastructure in existing bases where soldiers serve, it is recommended that, as part of a multi-year plan for establishing infrastructure, the IDF will prioritize the establishment of new bases for combat soldiers, including as part of future evacuation plans.

8 See this collection of reports, the chapter "Living conditions and infrastructure for soldiers in mandatory service and reserves".



State Comptroller Report | February 2023

National-Strategic Fields of Operation

**The Effectiveness of
the Seam Zone
Barrier – the
Operational and
Functional Response**



The Effectiveness of the Seam Zone Barrier – the Operational and Functional Response

Background

In July 2001, the Ministerial Committee for National Security Affairs (the State Security Cabinet) approved the Seam Zone comprehensive plan, a component to effectively deal with terrorism through a regime preventing and thwarting infiltrators from the Seam Zone into Israel. The plan included, among other things, the establishment of a physical barrier from the Jordanian border near Tirat Zvi in the north to the Masadot Yehuda area in the south (the Seam Line). In 2002, the execution of the Seam Zone plan began, contributing to a significant reduction of terrorist activity from Judea and Samaria to Israel. When the Seam Line Fence was built, the military order of battle operating in the Judea and Samaria region (the West Bank) included several dozen battalions, some of which were engaged in ongoing security activities along the Seam Line Barrier. According to the operational doctrine set then, the Seam Line Fence would alert of any attempt to cross or cut the fence and the operational response would be based on a military force that would arrive quickly at the location and would handle the incident. However, over the years, the military order of battle in the West Bank was reduced from 2002 to 2019 until March 2022 by about 70%.

Concurrently with the order of battle reduction, a phenomenon was raised of Palestinians sabotaging and damaging the fence to create breaches for infiltrating Israel from the West Bank. Some of the damage was characterized by destroying all fence components over many kilometers. Much of the damage that was repaired was breached hours or days later. The order of battle reduction affected the IDF's ability to guard the fence, and in 2017 the IDF Central Command decided to stop repairing the recurring damage to the fence.

In the first half of 2022, terrorists who infiltrated Israel through breaches in the Seam Line fence carried out three attacks resulting in 11 casualties. Following, the IDF launched at the end of March 2022 and during the audit period, Operation "Breakwater" to tighten the Seam Line defense and prevent infiltration from the West Bank to Israel.



Key Figures

11 murdered in March – May 2022

in three terror attacks by terrorists who infiltrated Israel through breaches in the Seam Line Fence

554 km

the length of the Seam Line route. Of which, 124 km are walled, 364 km are fenced, and 66 km are unobstructed at all

48%

of the Seam Line Fence was unfit as of the end of 2021

1.4 million

entries of infiltrators into Israel identified by the Combat Intelligence Collection Corps in the Ephraim and Menashe Regional Brigades area in 2021. Less than 1% of the entries received a response from the forces

3,600 infiltrators on average per day

through breaches in the Seam Line fence as of May 2022 and after the reinforcement of forces from the end of March 2022

only 6,823

arrests of infiltrators were carried out by the Israel Police in 2021 (compared to about 1.4 million Infiltrators entering Israel in the Ephraim and Menasha Regional Brigades area)

NIS 8.3 billion

the establishment cost of the Seam Zone (the Seam Line barrier and other components) until the end of 2021

NIS 161 million

the maintenance cost of the Seam Zone in 2021

NIS 360 million

the sum allocated by the State Security Cabinet in April 2022 for the construction of 40 km of wall, instead of the existing Seam Line fence (out of the estimated cost of constructing a wall along the entire Seam Line at about NIS 2.4 billion)



Audit Actions

 From September 2021 to July 2022, the State Comptroller's Office audited the effectiveness of the operational and functional response at the Seam Zone Barrier, focusing on the Menashe and Ephraim Regional Brigades area. The audit was conducted in the IDF: at the Central Command, the Ground Forces, the Planning Directorate, and the Operations Directorate; In the Ministry of Defense: at the Defense Ministry Fence Authority, the Department of Production and Procurement (DOPP), the Department of Engineering and Construction, and the Budget Department; and at the National Security Council. Completion examinations were conducted until August 2022 at the Israel Police, the Israel Border Police (Magav), the General Security Service, and the Directorate of Defense, Research & Development.

During the audit, the State Comptroller's Office shared with the public the audit process by meeting with heads of security departments and Civilian military security coordinators from local authorities and settlements adjacent to the Seam Line Barrier.

The Knesset State Audit Committee sub-committee decided not to bring this report in its entirety before the Knesset but to publish only parts thereof, to protect state security under Section 17 of the State Comptroller's Law, 1958 [Consolidated Version].

Key Findings



 **The Seam Line Fence's Fitness** – by the end of 2021, close to half of the length of the Seam Line fence was unfit or partially fit according to the Judea and Samaria Division indicators, enabling infiltration without warning. In the Ephraim and Menasha Regional Brigades areas, where 62% of the Seam Line fence is within their territory, 61% (about 73 km) and 34% (about 34 km) were unfit or partially fit, respectively. From the Central Command and General Security Service's data, it was raised that by the end of March 2022, thousands of Palestinians infiltrated through the breaches in the Seam Line Barrier every day, both on foot and by vehicle. Central Command documents raised that the Combat Intelligence Collection Corps in the West Bank in 2020 and 2021 identified about 918,000 and about 1.4 million (respectively) entries of Infiltrators into Israel through the breaches in the Seam Line Barrier in the Ephraim and Menashe Regional Brigades areas.

 **Updating the Political Echelon of the Decrease in Repairs of Breaches in the Seam Line Barrier** – the IDF (Central Command) decision in 2017 not to repair the recurring damage to the Seam Line Barrier was not preceded by an orderly process,



including an examination of the expected effects, also regarding the order of battle reduction. This decision does not consider the insurance agreement between the Ministry of Defense and the lead contractor of the Seam Line fence maintenance, according to which the repair of most of the damage is included in the agreement with no additional payment. It was also raised that this decision was not documented in the Ministry of Defense and the IDF documents and was not submitted to the Minister of Defense for discussion and approval. The above IDF (Central Command) decision has led to a continuous deterioration in the barrier's fitness (from 92% fitness in 2018 to 52% fitness at the end of 2021, according to Judea and Samaria Division data), and led to the abandoning the seam line barrier and losing governance in the region, without applying another solution preventing infiltration into Israeli territory.

📌 The Involvement of the Political Echelon in Coping with the Breaches in the Seam Line Fence – the loosening of the defense in the Seam Zone, established at a cost of NIS 8.3 billion until 2021, by reducing the order of battle and the increase of breaches in the fence, was presented to the decision-makers at the Ministry of Defense, to the Prime Minister and the State Security Cabinet from 2017 onwards. However, the State Security Cabinet did not discuss actions to improve the effectiveness of the Seam Line Barrier until the murder of Israelis in terror attacks by terrorists who infiltrated Israel through breaches in the barrier in March and April 2022. It was also raised that after 2017 the barrier's physical condition continued to deteriorate and simultaneously the order scope of battle the IDF assigned in the Seam Zone continued to decrease, thus undermining the fence awareness and governance in the Seam Zone and increasing the security risk. Finally, this risk has been realized over the years, especially in 2022. Furthermore, during the audit, in April 2022, and following a series of terror attacks, a budget of NIS 360 million was allocated by the State Security Cabinet for the construction of a wall to replace a 40 km long fence segment in the Menashe Regional Brigade area out of the estimated cost of building a wall along the entire Seam Line at about NIS 2.4 billion. This may reduce infiltration in a specific segment; however, in the absence of a complete and comprehensive plan, there is concern that the infiltration will continue and the risk posed in respect thereof.

📌 Defining the Military Forces' Mission to Prevent Infiltration in the Seam Zone – until the terror attacks in the first half of 2022, the definition of the IDF's missions regarding the infiltration of Palestinians from the West Bank to Israel was not clear and was not coordinated between the various operational echelons (General Staff, command, division, brigade). The uneven messages and the change in the definition of the mission, from infiltration prevention to reducing it to channeling and monitoring it, occurred without any change in the Minister of Defense's instructions regarding the role of the Seam Line Barrier.

📌 Intelligence Collection Activity Through Mobile and Stationary Observations and Various Technological Means – the information gathering array, which serves as an essential component of the operational response in the Seam Zone, is deficient.



For example, the deficiencies in the coverage of Intelligence collection – where the existing observation systems do not observe a significant part of the Seam Line Barrier area, the shortage of observation staff (10%–25% of the facilities are not manned) and the limitations of the current observation means. Given the above deficiencies, the IDF forces' ability to cope with infiltrators is impaired. Equipping the IDF with specific means of Intelligence collection operations rooms in the Seam Zone by the end of 2023 (several dozens of particular means of Intelligence collection) is expected to improve the Intelligence collection capabilities in the Seam Zone. However, given the plan does not include the establishment of all the required observation sites, the upgrading of all existing sites, and the integration of a specific observation system in all the regional brigades' operation rooms responsible for the Seam Line, the Intelligence collection response will continue to be incomplete.

-  **The Central Command's Operational Response to Prevent Infiltration into Israel** – in contravention of the requirements under the Thwarting and Preventing Infiltration into Israeli Territory Order, in 2019–2021, the IDF forces in the Menasha Regional Brigade did not respond to every infiltration incident detected through the observations. Over the years, the rate of their responses to such incidents continually decreased.
-  **Infiltration Following Operation "Breakwater"** – in early May 2022, the Chief of Staff approved a plan to continue Operation "Breakwater" and its expansion out of the IDF budget. The plan's budgetary scope was NIS 472 million, of which NIS 415 million in 2022. About 63% (NIS 295 million) of the plan's budget is for the reinforcement of the routine security operations along the Seam Line by reserves battalions, and about 8.5% (NIS 40 million) is for repairs to the fence and adding physical components to the fence area. Despite the significant reinforcement of the military order of battle in the Seam Zone from the end of March 2022 at the height of the reinforcement, almost doubling the order of battle in the entire West Bank area, infiltration into Israeli territory was not prevented (up to about 6,000 unlawfully present persons enter Israel per day) and the implementation of the required operational response. This is given the extensive damage still being caused to the fence (about 100 breaches per day on average, although nowadays they are repaired within a day, according to the Central Command and the Defense Ministry Fence Authority) and the loss of governance along the Seam Line. Hence, as indicated by the statement of the Chief of Staff, the existing operational response has failed. It was further raised that the IDF forces reinforcing the Seam Zone area from May 2022 and securing the breaches in the fence are staying in temporary and unregulated guard posts, not adapted to the conditions in area, and for an extended stay of several months long.
-  **The Israel Police's Handling of Infiltrators and Their Collaborators** – according to the Israel Police data, in 2021, the number of arrests of infiltrators entering Israel was infinitesimal at 6,823 arrests out of an estimated 1.4 million infiltrators entering Israel (according to data of the Combat Intelligence Collection Corps in the West Bank) in the Ephraim and Menashe Regional Brigades areas. This figure is highlighted, given that the



number of infiltrators entering Israel is biased downward due to the gaps in intelligence collection and as it does not include all the areas. Furthermore, by the West Bank Borders Police data, the number of detained infiltrators for questioning (3,185 in 2021) was minimal compared to the scope of the infiltrations (as mentioned, about 1.4 million Infiltrators entries in 2021). It was also raised that 5% of all the drivers assisting them questioned during the audited period were arrested.

📌 The Effectiveness of the Maintenance and Operational Response to the Seam Line Barrier – given the Central Command's decision in 2017 not to repair the fence in the event of repeated damage, the extent of the fence repairs by the company responsible for maintaining the Seam Line fence in the Ephraim and Menashe Regional Brigades area (Company A) decreased by about 78%, and the periodic maintenance by the company decreased by about 30% on average, according to the Judea and Samaria Division data. Still, the scope of the Ministry of Defense's contractual agreement with the company remained at about NIS 10 million per year. Moreover, although the Borders and the Seam Line Administration has the complete data on Company A's activity to maintain the indicative barrier, it was not aware of the company's activity reduction in 2018–2021. It did not present it to the Department of Production and Procurement (DOPP) to update the company's agreement following the IDF (Central Command) decision. Hence, the Department of Production and Procurement continued to extend and renew the contract with Company A for a similar financial scope.

📌 Analysis of the Contractual Format with the Fence maintenance Contractor Before the Renewal of the Agreement – for the establishment of fences and their maintenance, the Ministry of Defense has been holding public tenders since 2002, in which the three companies were declared winners. These tenders included contracts for maintaining the fence for several years. Since the end of the maintenance period stipulated in the construction tender, these engagements continue, as of the audit end until the end of 2024, by an exemption from a tender renewed every few years. The average contract scope exempts from a tender, for this matter, in recent years was about NIS 18 million per year. A long-term engagement through an exemption from tender, even though possible under the Tender Obligation Law, may create a "captive customer" on all its effects.



Measures Taken During the Audit to Improve the Seam Line Barrier Effectiveness – during the audit and following Operation "Breakwater", some measures were taken to rectify the deficiencies: (a) The order of battle in the West Bank has been reinforced by the establishment of two Israel Border Police (Magav) companies that began operating in December 2021 and March 2022; b) Beginning with the start of Operation "Breakwater", breaches in the fence are routinely fixed; (c) Cooperation from the middle of 2022 between the IDF, the General Security Service, and the Police for



reducing the infiltration; (d) Temporary forces were assigned by the IDF for reinforcing the Seam Zone area and for securing the breaches in the fence; (e) A budget of NIS 360 million was allocated by the State Security Cabinet for constructing a wall to replace a 40 km long section of fence in the Menashe Regional Brigade sector; (f) Measures were taken to strengthen the intelligence collection response in the Seam Zone.

Key Recommendations

-  The National Security Council should ensure the formulation of a comprehensive multi-year plan including all the aspects required to establish and maintain an effective barrier preventing infiltrators from crossing into Israel. As coping with infiltration from the Seam Zone requires the attention of all security and enforcement bodies, it is recommended that this plan will be led by the National Security Council, coordinating an inter-ministerial team, including representatives from the defense bodies, the Ministry of National Security (formerly Ministry of Public Security), the Ministry of Justice, the Ministry of Finance and other relevant parties. As part of the plan, encouraging Palestinians holding employment permits to enter Israel through the crossings should be considered. This should be regulated by adapting the number of crossings, their location, and the service quality to the desired number of people passing through them. It is further recommended that the Prime Minister and the Minister of Defense present the multi-year plan before the State Security Cabinet for its approval, including allocating budgets and setting a schedule for its implementation. These will reduce the infiltrators and the security and criminal risk involved, affecting Israel's sense of security.
-  Given the reduction in the order of battle assigned to routine security in the West Bank area in general and the Seam Zone area in particular, it is increasingly important that the orders be clear and coordinated along the entire chain of command, adapted to the threats posed to the West Bank area and the resources allocated for that purpose. The echelon in charge (at the General Staff, command, and division level) should approve the orders to the echelon subordinate and verify their compliance with the assigned tasks.
-  Given the terror attacks that began in March 2022 and the formulation of the plan to upgrade the observations array, approved by the Chief of Staff, it is recommended that the Central Command and the Defense Ministry Fence Authority consider completing this plan, including the operational concept in intelligence collection in the Ephraim Regional Brigade. It is further recommended that the Planning Directorate and the Operations Directorate, in cooperation with Central Command, consider the implementation of the systemic concept in the Menashe Regional Brigade as well as throughout the Seam Zone, according to the plan priorities such as the level of risk and proximity to the settlements. Furthermore, the IDF should staff the intelligence collection sites with observation staff according to standards to exhaust the intelligence collection potential fully.



-  It is recommended that Central Command, in cooperation with the Planning Directorate, the Operations Directorate, and Ground Forces, formulate a solution effectively protecting the Seam Zone against the threats and present to the General Staff additional resources required for the protection at the required level and according to the orders. It is further recommended that the IDF examine and define the operational and infrastructural conditions needed for the security posts of the IDF forces reinforcing the Seam Zone area, securing the breaches in the fence, and accordingly respond.
-  Given the existing threats and as the reinforcement of forces in the Seam Zone is temporary, it is recommended that the IDF, as part of an inter-ministerial team, include representatives from the defense bodies, the Ministry of National Security (formerly Ministry of Public Security), the Ministry of Justice, the Ministry of Finance and other relevant parties, formulate a response and a long-term operational concept providing protection for the Seam Zone area and for Israel's home front, approved by the Prime Minister and the Minister of Defense. Furthermore, it is essential to continue combining the IDF, the Israel Police, and the General Security Service forces in cooperation with the Ministry of Justice for effective systemic enforcement actions, especially against the those assisting the infiltrators, increasing deterrence and improving governance in the Seam Zone.
-  It is recommended that the Attorney General examine the policy of enforcement and prosecution of the infiltrators at the Seam Line and guide the enforcement bodies accordingly to increase deterrence that would assist coping with the infiltration.
-  It is recommended that the Israel Police and the IDF consider locating the infiltrators holding employment permits who prefer to pass through breaches rather than through the regulated crossings, and in the process, examine, in coordination with the Attorney General, the enforcement policy to deter the employers and drivers of the infiltrators.
-  It is recommended that the Ministry of Defense Director General consider engagement alternatives with a fence maintenance provider enabling holding a public tender towards the end of the current agreement period.



Breaches in the Seam Line Barrier



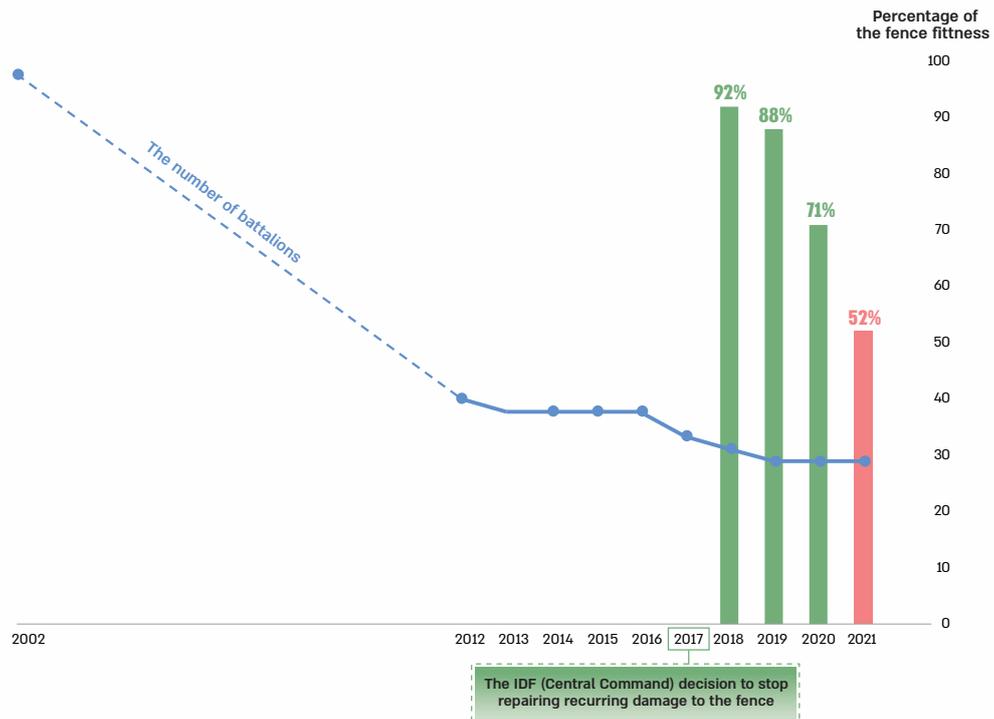
Photographed by the audit team in March 2021 (before the start of the audit).



Photographed by the audit team near a settlement in the center of the country in February 2022.



Changes in the Central Command Order of Battle and the Fence Fitness in the West Bank Areas, 2002–2021



Source: Judea and Samaria Division, processed by the State Comptroller's Office.



Summary

The Execution of the Seam Zone plan, in which considerable resources invested, is essential to cope with the danger of terrorist infiltration into the State of Israel. Maintaining the effectiveness of the Seam Line Barrier requires continuous operational activity along with effective maintenance activity. Deficiencies were raised regarding the political echelon and the decision-making echelon of the defense bodies dealing with the ineffectiveness of the Seam Line Barrier and the defense bodies' actions exhausting the resources for the maintenance of the fence and the protection of the Seam Zone. Following a series of terror attacks in the first half of 2022 in which 11 people were murdered, the IDF changed its approach, increased the scope of the forces operating in the Seam Zone, and invested budgets in restoring the fence and replacing part thereof with a wall (at a total cost of approximately NIS 400 million), along with improving the cooperation between all the relevant defense bodies. These actions, which incorporated a change in the approach with a concentration of resources and effort from all defense bodies, reduced the number of infiltrators, but did not eradicate the infiltration.

To ensure the barrier effectiveness is maintained and that the recent investments and measures will contribute to reducing the infiltration as a whole, and following the statement made by the Prime Minister and the Minister of Defense in April 2022 that the construction of the barrier along the entire length of the Seam Line is part of the defense concept and for this purpose a multi-year plan is required; the National Security Council should formulate a comprehensive multi-year plan covering all the aspects needed to establish and maintain an effective barrier deterring infiltrators from crossing into Israel. As coping with the infiltration from the Seam Zone requires the attention of all defense and enforcement bodies, it is recommended that this plan be led by an inter-ministerial team, including representatives from the defense bodies, the Ministry of National Security (formerly Ministry of Public Security), the Ministry of Justice, the Ministry of Finance and other relevant parties. Within the plan, Palestinians holding employment permits should be encouraged to enter Israel through the regulated crossings by adjusting the number of crossings, their location, and the quality of service provided to the desired number of people passing through them. It is further recommended that the Prime Minister and the Minister of Defense present the multi-year plan to the State Security Cabinet for its approval while allocating budgets and setting a schedule for its implementation. These will reduce the number of infiltrators and the security and criminal risk involved, affecting Israel's citizens' sense of security.



State Comptroller Report | February 2023

National-Strategic Fields of Operation

**The "Etgar" Program
Administration –
Observation Satellites
in the Defense System**



The "Etgar" Program Administration – Observation Satellites in the Defense System

Background

Since the beginning of the 1980s, the State of Israel has developed an independent and advanced technological capability in aerospace, knowledge, quality and skilled personnel in the industry and academia, and unique infrastructures. This ability has placed Israel at the world forefront of knowledge and activity of aerospace. Since the mid-1990s, the defense system¹ has operated an array of satellites for intelligence gathering from space, including observation satellites manufactured in Israel ("Blue & White"). Since 2008, Israel was caught in a continuous crisis in the aerospace array, mainly due to a lack of sufficient civilian and defense budget for its maintenance and promotion.

1 In this report – the Ministry of Defense (MoD) and the IDF.



Key Figures

several

"Ofek" satellites are operating in space in July 2022

several

satellite launches planned for 2022 and 2024

several hundred million NIS

the annual budget of the "Etgar" Program Administration for 2016–2024. This is compared to the IDF's recognition of the need to increase the annual budget

several hundred million NIS and several tens of millions of dollars

the average annual defense system budget for observation satellites in 2022–2027

12

years to develop and manufacture a specific "Ofek" satellite until its launch

several

launches were carried out by the State of Israel using "Blue & White" launchers; most were successful

Audit Actions

 From November 2021 to July 2022, the State Comptroller's Office audited the defense system observation satellite array, including the national space program and the observation satellite array response to the operational need of the IDF and the Etgar Program Administration activity. The audit was conducted at the Ministry of Defense: in the CEO's bureau and the Etgar Program Administration; At the IDF: in the Office of the Chief of Staff, the Office of the Deputy Chief of Staff, the Planning Directorate, the Operations Directorate and the Air and Space Arm (the Air Force); At the government defense Industries: Israel Aerospace Industries Ltd. (IAI) and Rafael Advanced Combat Systems Ltd. (Rafael); And the National Security Council. Completion examinations were conducted at the Israel Space Agency (ISA) within the Ministry of Innovation, Science and Technology (Ministry of Science).

The Knesset State Audit Committee sub-committee decided not to bring this report in its entirety before the Knesset but to publish only parts thereof, to protect the state's security under Section 17 of the State Comptroller's Law, 1958 [Consolidated Version].



Key Findings

- The National Space Program** – about 14 years after the outbreak of the space crisis in Israel in 2008, no national policy in the civil and military space and no budgeted multi-year plan have been determined. The recommendations of 3 space field committees² in 2010–2016 were implemented partially or not implemented at all. Furthermore, ISA's budget for civilian space activities was increased to about NIS 60–80 million per year in 2012–2018, not in accordance with the recommendations of the above three committees to allocate about NIS 300 million per year for this activity.
- Policy and Regulation of Space Warfare** – although space warfare has become increasingly important over the years and is expected to continue in the future, Israel has no organization and regulation of space warfare at the national level.
- The Existing Response to the General Staff's Operational Need of Satellites** – specific gaps were found in this field.
- The Expected Response to the General Staff's Operational Need of Satellites** – by the 'Tnufa' Multi-Year Plan for 2020–2024, responding to the General Staff's operational need, requires a specific response. Still, this response was not budgeted. Starting from 2024, under some assumptions, a particular gap arises.
- The Budget for Observation Satellites** – specific gaps were found.
- The Ministry of Defense's Engagements in Observation Satellites** – the Ministry of Defense did not engage with IAI to develop and manufacture certain satellites. After the audit completion, in September 2022, the tender process carried out by the Ministry of Defense to select a company in a specific field has ended.
- Formulation of a Multi-Year Plan for Satellites** – despite the Minister of Defense's directive from July 2018 to the Directorate of Defense, Research & Development (DDR&D) and the Planning Directorate, and the directive of the Director General of the Ministry of Defense from November 2020 to the Planning Directorate, the Planning Directorate, in cooperation with the DDR&D, did not formulate a multi-year plan concerning satellites for 2025 onwards and did not arrange its budgeting. Furthermore, the defense system did not promote the plan to develop certain satellites.

² The President's Staff report from July 2010, the recommendations of the R&D Policy Committee from May 2015 and the Space Committee report from December 2016.



The Etgar Program Administration's Cooperation with Entities Operating in Satellites Array – the Etgar Program Administration operates and manages the satellites in the defense system in cooperation with the IDF and entities in the Ministry of Defense and IAI.

Key Recommendations

-  It is recommended that the National Security Council update the strategic work in the space field, which it began to implement in May 2019 and cooperate with the Israel Space Agency to bring it for discussion in the State Security Cabinet. This is to determine a national policy and to get the Cabinet's approval for a budgeted national space program. It is also recommended that the defense system and the National Security Council formulate a national concept on space warfare and regulate it at the national – both civilian, and military levels.
-  It is recommended that the Minister of Defense, the Chief of Staff, and the Director General of the Ministry of Defense form a budgeted multi-year plan for observation satellites in the defense system, providing answers to all technological, operational, and political aspects as part of the defense system's needs. It is also recommended that the Minister of Defense present to the Prime Minister and the State Security Cabinet the above multi-year plan and its short and long-term effects on the IDF's operations and the defense industries.
-  It is recommended that the Ministry of Defense and the Ministry of Finance examine the costs, implications, and benefits arising from the existing competition in Israel in a specific satellite array, including the scope of the required investments in infrastructure and the establishment of knowledge centers, considering that Rafael and IAI are government-owned companies.
-  It is recommended that the IDF, in cooperation with the Etgar Program Administration, examine the scope of the budget required for the Etgar Program Administration to provide the best response to the operational need and present the results of the examination to the Director General of the Ministry of Defense and the Deputy Chief of Staff.



Summary

Aerospace field is strategic for the State of Israel, and its importance to its national security has increased in recent years, given the changes in the international arena, the emerging and expanding threats, the challenges of intelligence gathering, and the IDF needs changes. The defense system operates several "Ofek" satellites.

Deficiencies were found by the audit, including the failure to determine a national policy in the civil and military space and a national space program and the lack of organization and regulation of space warfare at the national level. The audit also raised specific gaps in providing the required response to the IDF's satellite operational needs.

Given the importance of aerospace array to the State of Israel, it is recommended that the National Security Council, the Ministry of Defense, and the IDF formulate an overall aerospace concept (civilian and military) regarding the aerospace domain, determine what resources are required for the realization of this concept and present it to the State Security Cabinet.



State Comptroller Report | February 2023

Ministry of Defense

A Specific Plan for Building Up of Force



A Specific Plan for Building Up of Force

Background

The specific plan for building up the force was led by the IDF's 22nd Chief of General Staff upon assuming office in January 2019. The plan was intended to improve the operational effectiveness of the fighting force in response to the changes in recent years in the battlefield and in the enemy's form of war. At the end of 2020, the IDF published the operational concept for victory, which ratified the principles underlying the plan, and published the 'Tnufa' Multi-Year Plan (from 2020 to 2024), which expanded the effort to increase specific capabilities of the IDF.

Key Figures

hundreds of millions of NIS

the total budget allocated to the specific plan for the building up of the force, of which 85% was for the first part of the plan

Audit Actions

 From July 2021 to June 2022, the State Comptroller's Office examined the implementation of the specific plan for building up the force. The IDF and the Ministry of Defense's work processes regarding its implementation and its effectiveness were also examined. The audit was carried out at the IDF and the Ministry of Defense. Completion examinations were carried out at Defense Industry A.

The Knesset State Audit Committee subcommittee decided not to bring this report in its entirety before the Knesset but to publish only parts thereof, to protect the state's security under Section 17 of the State Comptroller's Law, 1958 [Consolidated Version].



Key Findings

-  **Implementation of the Specific Plan for the Building up of the Force Versus the Planning** – the audit raised that the IDF implemented the plan in certain areas. However, as of June 2022, over three years since the plan was launched, certain discrepancies arose in its implementation compared to the planning.
-  **The Work Procedures in the Initiation and Organization Phase for the Implementation of the Weapon-A Project** – the IDF and the Ministry of Defense did not comply with the work procedures required in the initiation and organization phase for the implementation of the project for the development and equipping of the Weapon-A Project: in March 2019, the Planning Directorate at the IDF gave the "green light" to hold negotiations with the Weapon-A manufacturer, and in April 2019 the Directorate of Defense Research & Development (DDR&D) approved a tender exemption to contract that manufacturer. This was even before the approving ranks in the IDF approved the development of Weapon-A and its equipping as a replacement for Weapon-B, an existing weapon that was in use (their approvals were given in April and May 2019, respectively), and even before the engagement documents for the project were approved (in May 2019), including the technical characteristics and required content of work, based on which negotiations are conducted.
-  **Management and Control of the Program Administration During the Development Phase of Weapon-A** – the administration of the Weapon-A Program, entrusted with the integrative management of the project, with its initiation and with its component's development, also ensured the coordination between the various factors of development and trials. The administration summoned the Weapon-A manufacturer to the discussions chaired by it but did not summon the Weapon-C manufacturer (required for the development of Weapon-A) to increase ongoing cooperation between the two manufacturers, even though throughout the development process of Weapon-A, issues concerning the interface between Weapon-C and Weapon-A arose.
-  **Management and Control of the Program Administration During the Development Phase of Weapon-D** – in the summaries of discussions of the Weapon-D Program administration from July 2021 to February 2022, the presented information did not reflect the original schedule of delivery dates and the cumulative delay in the project execution. In the summary of discussions of the program administration from October 2020 to July 2021, the administration chairman presented the delay in the schedules in general terms. Hence, there was a delay of about a year and a half compared to the milestones set in the order. Failure to reflect the situation in the summary of the discussions of the program's administration may lead to conclusions that



do not correspond with actual occurrences of the weapon development. Moreover, the program's administration, whose duties include detecting and alerting irregularities in the project, held the second meeting in January 2020, about a year and a half after the first meeting; not according to the Ministry of Defense's directive by which the administration of a program will convene once every six months and contrary to the agreement of the administration chairman. Furthermore, since January 2020, the administration has convened three more times with an average frequency of once every eight months. Failure to convene the administration as often as required by the Ministry of Defense directive could affect the development process, in particular with compliance with the project's schedule, its budget, and the content set for it.



The Sub-Programs in the Specific System and the ICT – those sub-programs were implemented according to the planning in the program order from January 2019, except for specific contents in the ICT that were implemented in 2020 and 2021.

The Realization of the Plan for the Procurement of Other Weapons – the quantity mainly purchased corresponded to the plan. All weapons were delivered on time as planned except for two specific weapons.

Key Recommendations

-  It is recommended that the IDF and the Ministry of Defense investigate why components of a certain sub-program were not received three years after the program was launched and conclude from this, considering the need to adapt the duration of the development and procurement processes to an environment where technologies are developing at a rapid pace.
-  The IDF and the Ministry of Defense should applicate work procedures in the initiation and organization stage for the implementation of projects according to the relevant directives. By the optimal order of operations, projects will be presented to the IDF approving ranks, discussed and approved by them; technical characterization and content of work documents will be determined; And only afterwards the supplier's identity and engagement means be determined, and negotiations with it take place. Furthermore, it is recommended that the IDF promote the approval of Standing Order 10/1 of the Planning Directorate regarding initiating, developing, equipping, and receiving of weapons in the IDF in the updated version and publish the updated order.
-  It is recommended that development processes involving technological challenges, risks, and changes be managed by a program administration in the Ministry of Defense. The administration will convene at least at the minimum frequency required, once every six



months and, if necessary, more frequently. This is necessary to address gaps and barriers and discuss them, to find solutions and ensure compliance with the contents and schedules. It is further recommended that the discussion summaries of the program administration accurately present the project's status, including the cumulative delay, if any, to present to the relevant parties in the IDF and the Ministry of Defense a correct and up-to-date situation report. In projects whose feasibility depends on the product of a supplier who is a third party to the project, it is recommended that the program administration ensure that from the beginning of the development phase, there is optimal coordination between the suppliers and close cooperation between them to increase the certainty that the project will progress as required.

Summary

In the last two decades, the battlefield has changed gradually but fundamentally.

The audit raised that over three years since the specific plan for building up the force, intended to improve particular capabilities, was launched – gaps were found in its implementation. Moreover, the audit found deficiencies in the work processes of the IDF and the Ministry of Defense in initiating and controlling specific projects.

Given the above, it is recommended that the IDF and the Ministry of Defense investigate what were the deficiencies that led to situation that components of the plan were not received.



State Comptroller Report | February 2023

Israel Defense Forces

Aspects of Building Up of the Force of the Armored Corps



Aspects of Building Up of the Force of the Armored Corps

Background

The Armored Corps is a critical component of the IDF's maneuvering effort on the battlefield, expressing the combination between mobility and firepower of the 'Merkava' (Chariot) tanks, which is among the most advanced in the world from a technological standpoint. The reliance on the tank as a central element in combat requires both a high level of operational capability¹ of the fighters and commanders – in terms of qualifications and training, and a high level of qualification² of the tank, from the technical perspective, with an emphasis on the availability of spare parts. As part of the IDF's 'Momentum' Multi-Year Plan for 2020–2024, a decision was made on the scope of the order of battle of tanks. Accordingly, specific Armored Corps units were shut down. At the same time, the remaining order of battle of tanks in the IDF is being renewed.

Key Figures

for about 6 years

the ministers of defense did not present to the government the qualification of the reserve array, including the reserve Armored Corps array (from 2016 to 2022)

Audit Actions

 From February to June 2022 (the audit completion date), the State Comptroller's Office examined the force buildup of the Armored Corps array. The audit included the following: the presentation to the government of the order of battle of tanks in the reserve Armored Corps array and its qualification; Emergency spare parts for tanks; And tank crew training. The audit was carried out mainly at the IDF – in the Ground Forces, the Chief Armor Officer Headquarters, the Ground Technology Division, the National Ground Training Center, the tank brigades; The Operations Directorate; the Planning Directorate;

- 1 Operational capability – the capability and readiness of a military body, of firearms, etc. to effectively fulfill operational tasks. The dictionary of IDF terms.
- 2 Qualification – the ability needed to fulfill some task or accomplish something. For example: reserve days, engine hours, ammunition coefficients and vehicle release are key input components for maintaining qualification in the reserves. The dictionary of IDF terms.



The Intelligence Directorate, the air and aerospace arm; At the Ministry of Defense – in the Merkava and Armored Personnel Carrier Directorate and the Directorate of Defense Research & Development; And the National Security Council in the Prime Minister's Office.

The Knesset State Audit Committee sub-committee decided not to bring this report in its entirety before the Knesset but to publish only parts thereof, to protect state security under Section 17 of the State Comptroller's Law, 1958 [Consolidated Version].

Key Findings



-  **Presentation of the Tanks' Order of Battle in the Reserve Brigades to the Government** – in 2020, the plan determining the tanks' order of battle began to be implemented without the Minister of Defense presenting it in advance to State Security Cabinet for examining its need, and in contravention of the Reserve Service Law and the Prime Minister's summary of the discussions from January 2020. At the State Security Cabinet meeting in November 2020, where the order of battle was presented after the change was made, the ministers were not asked to approve it.
-  **Presentation of the Reserve Armored Corps Array's Qualification to the Government** – although the Reserve Service Law requires the Minister of Defense to present the qualification level of the reserve array to the government once a year, from 2016 to 2022, the government was not presented with the reserve Armored Corps array's qualification level.

Key Recommendations

-  The Minister of Defense should ensure that any scope determination of the reserve array, including the Armored Corps array, is brought to the government's approval before it is carried out. Likewise, every year, the Minister should present to the government the required qualification level of the reserve array, including the Armored Corps array. The National Security Council should ensure that this topic is included in the government's agenda every year so the IDF's level of preparedness for war is brought to the government's attention for consideration in military moves decisions and approving of multi-year plans and their budgeting.



Summary

The audit raised that the IDF presented to the government retrospectively the tank order of battle determination and that for about six years, from 2016 to 2022, the ministers of defense did not present to the government the qualification level of the reserve array, including the qualification level of the reserve Armored Corps array.

The Minister of Defense should ensure that the scope of the reserve array is brought to the government's approval, and present every year to the government the qualification level of the reserve array. The National Security Council should ensure this topic is included in the government's agenda.



State Comptroller Report | February 2023

Israel Defense Forces

Missile Boats in the Defense of the Maritime Space in Combat



Missile Boats in the Defense of the Maritime Space in Combat

Background

The State of Israel's coastline is the main gateway to its foreign trade. It stretches over 12 miles of maritime space under Israel's sovereignty (territorial waters). The maritime space expanse extending from the coast to a distance of about 115 nautical miles is the country's exclusive economic zone and is also called 'the economic waters', containing gas exploration and production facilities that are a significant energy source for the State of Israel. Various factors threaten this space. The mission of the Israeli Navy is to defend the State of Israel's maritime expanse, for which missile boats (Sa'ar 5 and 4.5 missile boats) are used. In recent years, the Israeli navy has formulated a concept for achieving maritime supremacy and has developed the firing capabilities of the various vessels.

Key Figures

**about 115
nautical
miles**

the State of Israel's economic waters border (at the farthest point from the coast)

**3
gas raft**

were in the State of Israel's economic waters during the audit period, and one backup LNG regasification vessel. Various factors threaten these facilities

**4 Sa'ar 6
missile
boats**

also called defense ships, were purchased for the protection of the economic waters. It is planned to complete their onboarding and their operation in the course of the 'Momentum' Multi-Year Plan

4 years

delay in operating four defense ships, planned for the beginning of 2019



Audit Actions

 From February 2020 to June 2022, the State Comptroller's Office alternately audited the missile boats in defense of maritime space in combat. The audit examined the building up of force of the Israeli Navy and its cooperation with the Air and Space Force. The audit was carried out in the IDF – at the Navy, the Planning Directorate, the Operations Directorate, the Military Intelligence Directorate, and the Air and Space Force. Completion examinations were conducted at the National Security Council in the Prime Minister's Office and the Ministry of Energy.

The Knesset State Audit Committee Subcommittee decided not to bring this report in its entirety before the Knesset but to publish only parts thereof, to protect state security under Section 17 of the State Comptroller's Law, 1958 [Consolidated Version].

Key Findings



 **Meeting the 2013 Set Target of Supplying the Defense Ships** – as of the audit period, there is a delay of about four years in the completion of the supply and operation of the four defense ships, as according to Government Resolution B/53¹, the target was the beginning of 2019. The current expectation for the completion of this process is in 2023.

 **The Obsolescence of Certain Vessels and the Need to Replace Them** – although the operational need to replace certain ships was approved as early as 2018, at the audit end, June 2022, approval of the Planning Directorate and its budgeting had not yet been granted, approval that was supposed to be received according to the Gantt presented by the navy in September 2021.



Cooperation with the Air and Space Force – there is a constant effort of both the Navy and the Air and Space Force to promote handling the challenges of the economic water's protection. Both have joint annual work plans regulating joint training and building of

1 On November 13, 2013, following the discovery of the gas fields, the Ministerial Committee for National Security Affairs (the State Security Cabinet) decided (Resolution B/53) to employ the IDF with protecting the vital interests of the State of Israel in the field of energy located in the exclusive economic zone.



force, planning and debriefing procedures, the execution, and the force allocated to each training.

Key Recommendations

- 💡 It is recommended that the Chief of Staff direct an examination of the operational need of the missile boats force in the Navy and formulate, accordingly, an updated force-building plan that will consider all IDF missions, including the Navy's missions – current, emerging, and future – and the developing threats.
- 💡 It is recommended that the IDF and the Ministry of Defense carry out a lesson-learning procedure to meet the supply schedule of the four defense ships about matters under their purview.
- 💡 It is recommended that the Planning Directorate and the Navy, each in their field, monitor the project to replace certain vessels and ensure that every effort is made to promote their replacement, including control over the budgeting and its implementation.

Sa'ar 6 Type Missile Boat (defense ship)



Source: the Navy, IDF.



Summary

In recent years, there has been a significant change in the threats in the maritime environment: essential strategic facilities for the search and production of gas, which are critical sources of energy for the State of Israel, have been established and are threatened by various factors. Given the development of the threats, it is recommended that the Chief of Staff direct an examination of the operational need of the Navy's missile boat force and formulate a force-building plan accordingly. It is also recommended that the plan be implemented and enforced periodically according to the updated reference scenarios.



State Comptroller Report | February 2023

Israel Defense Forces

Screening and Recruitment to the IDF – Extended Follow-up Audit



Screening and Recruitment to the IDF – Extended Follow-up Audit

Background

The Israeli Defense Service Law sets provisions regarding call to report for registration and examinations of those intended for military service (candidates). The Manpower Directorate (MD), as part of the general staff, is responsible for exhausting manpower potential in the IDF. IDF's screening and recruitment policy is set by the Human Resources & Planning Division (HRP) of the MD and by Meitav, the Division's executive body, implementing the policy. A colonel heads Meitav, and it is divided into five branches. These branches, including five regional recruitment bureaus, manage all candidates' registration and military service suitability processes. Meitav's other responsibilities are: identifying recruitment potential and planning its scope; calling candidates to first summon; initial screening and placement of all candidates under the guidelines of the HRP Division in the MD; handling candidates' requests; handling the enlistment process and approving exemptions from military service. Meitav contends with the need to adjust to technological developments, social and intergenerational changes affecting candidates' conduct and expectations.



Key Figures

hundreds of thousands of youth	about 40% of candidates	only about 3%	2.5 million
are handled every year by Meitav, including candidates and recruits	do not complete medical examinations (determining medical profile) during the first summon to the recruitment bureau	of the required evaluations of Medical Committees physicians, by the chief physicians were carried out in 2020–2021	candidates' inquiries were received at Meitav through phone calls and digital channels in 2021
16.5%	1,102 inquiries	31.4%	44.9%
the periphery residents' rate serving in the leading technological tracks compared to their rate amongst other IDF units, which is 32%	Meitav received through an "unofficial channel" ¹ from May 2020 to December 2021	is the predicted non-recruitment rate of men born in 2003, whose main recruitment year is 2021	is the predicted non-recruitment rate of females born in 2003, whose main recruitment year is 2021

Audit Actions

 In November 2016, the State Comptroller's Office published a report on "Screening and recruitment to the IDF" (the previous audit). From October 2021 to June 2022, the State Comptroller's Office examined the rectification of the main deficiencies noted in the previous audit and raised new findings.

The follow-up audit was conducted at the IDF: in the HRP Division of the MD, Meitav Headquarters, Recruitment Bureaus, the Screening Systems Development Branch of the Behavioral Science Department, and at the Chief Medical Officer Department (CMO).

The sub-committee of the State Control Committee of the Knesset decided not to submit the full report to the Knesset but rather to publish only short sections of it, for the sake

1 "Unofficial channel" – candidates' referring to Meitav through other than the official channels (such as the Mitgaisim website, e-mail, call center, etc.) and directly to Meitav officials rather than through the call center.



of maintaining state security, under article 17 of the State Comptroller Law, 1958 [consolidated version].

Key Findings



- The Rise of IDF's Non-Recruitment Rates** – in the birth yearbooks 1998–2003, there was a 4% rise in non-recruitment amongst men based on their status as religious scholars and a 2% rise in non-recruitment amongst women on religious grounds. In addition, a 1% rise in non-recruitment of men (except a slight decrease for 2003) and women, based on medical grounds, was also found for the same age cohorts. On the whole, regarding the above age cohorts, there is a 3.5% rise in non-recruitment of men and a 2.5% rise in non-recruitment of women, on different grounds, so the predicted non-recruitment rate for youth born in 2003 (whose main recruitment year is 2021) is 31% for men and 45% for women.
- Medical Screening Processes** – by the previous audit, the medical profile of 60% of the candidates was determined in the first summon. The follow-up audit raised that the candidates' rate whose medical profile was not determined in the first summon remained at 40%. Moreover, Meitav and the CMO Department had not set a multi-year target for raising the low rate of candidates' profile determination in the first summon. Delays in summarizing the medical profile may reduce the screening and placement options for the candidates.
- The Scope and Frequency of Audits Conducted on the Medical Committee's Physicians** – the previous audit noted that the performance of most medical committees' physicians at the various recruitment bureaus was not evaluated annually, as required by the CMO Department's guidelines. The follow-up audit raised that **the deficiency had not been rectified**: according to the references saved at the Medical Screening Branch, in 2020–2021, the chief physicians conducted about 3% of the required evaluations of doctors in their bureaus. Except for Tel-Hashomer Recruitment Bureau, the Medical Screening Branch conducted only one partial audit at each recruitment bureau instead of two audits under the updated guidelines. These audits were partial since they did not include sample evaluations of records and physicians. That year, the branch conducted two partial audits at Tel Hashomer Recruitment Bureau. The situation improved in 2021: Two audits were conducted at three recruitment bureaus (Tel Hashomer, Haifa, and Tiberias) as required. However, only one audit was conducted at the Jerusalem Recruitment Bureau and at Beer-Sheva Bureau – two audits were conducted. Still, they were partial and did not include a sample records evaluation.



- Findings of the Evaluation of Physicians' Performance at Recruitment Bureaus** – the previous audit noted that the audit staff of the CMO Department found some "substantial" errors in physicians' judgment in about 26% of the files, for example, failure to establish an impairment clause, completing records without thorough inquiry, lack of reference to medical documents and medical issues noted in the medical questionnaire and determining wrong impairment clause. The follow-up audit raised that the Medical Screening Branch does not sample all types of medical files at the recruitment bureaus but instead focuses on "complex" ones. Moreover, during the follow-up audit, the results of sample evaluations conducted by the Medical Screening Branch were presented as questions addressed to the chief physician of the audited bureau and did not include a professional decision made by the Medical Screening Branch. Therefore, based on the findings of the sample reviews, it was impossible to understand whether there were errors in professional judgment in the physicians' judgments.
- Evaluation of Psycho-Technical Evaluators' Performance** – the previous audit noted that the Psycho-technical Department did not set at what stage during his service the feedback interview with the evaluators will be conducted. In addition, some evaluators' feedback interviews were conducted at a very advanced stage of their military service, and some evaluators were never interviewed. The follow-up audit raised that **the deficiencies were rectified to a small extent**: a time-frame for a feedback interview was regulated, by which any deviation from the time frame requires approval by the head of the Psycho-technical department. Nevertheless, some deviations were found at a scope of 16%, and the approvals for the deviations were not documented.
- Documentation of Candidates' Inquiries & Feeding Data into Mechanized Systems** – the previous audit noted documentation deficiencies in the computerized customer system for management of actions carried out by all the entities dealing with candidates. The follow-up audit raised that **the deficiency was not rectified** – there was a lack of documentation, deficient documentation and entry of documents were found in both the customer care system and the mechanized systems, and also malfunctions in the management system documentation (to which all candidates' data are fed). It Should be noted that throughout the years, the number of inquiries Meitav received through digital channels increased from 152,230 in 2017 to 1,346,150 in 2021 (800% increase), while the number of phone inquiries decreased from 1,524,869 in 2017 to 1,235,000 in 2021 (19% decrease). Overall, there is an upward trend of about 54% in the total inquiries received at the service center in those years.
- Functional Continuity of Mechanized Systems at Meitav's Service Center** – the previous audit noted that there had been multiple and frequent disruptions in the functional continuity of the call centers at the service center and the system server's management. These disruptions caused systems to shut down, ("drop", or "unresponsive"), or slow every month. The follow-up audit raised that **the deficiency in the telecommunication system was rectified. As for the management system, the deficiency was not rectified**, affecting the level of service provided to the candidates.



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Clarity & Completeness of Information on Screening and Placement Inquiries – the previous audit noted multiple information sources regarding candidates' inquiries handling – specific instructions were found on the Mitgaisim website, while others were found in different instruction files. Furthermore, some instructions were unclear. The follow-up audit raised that **the deficiency was rectified to a small extent:** information references on the Mitgaisim homepage included duplications and were not organized logically. Therefore, Mitgaisim's homepage is not user-friendly, making navigating the website challenging. The information available for the candidates and representatives handling candidates' requests includes inconsistent instructions.
- 
Candidates' Inquiries Outside Meitav's Service Center – Meitav's contact information is specified on the Mitgaisim website, and candidates are invited to contact it through the website, e-mail, call center, etc. These inquiries are documented in the service center's systems and handled there. The follow-up audit raised some unofficial channels of communication outside Meitav's service center, which are not published on Mitgaisim's website. Such channels might compromise candidates' equal opportunities.
- 
Periphery Residents Rate Serving in Technological Roles – the IDF offers various technological roles that provide the desired experience in the civil labor market. As a result, these roles are very popular with many candidates. As a rule, to be given such a role, the candidate must undergo preliminary screening. The central technological bodies in the IDF are the Israeli Intelligence Corps and the Israeli Computer and IT Directorate. The follow-up audit raised that the periphery residents' rate serving in the leading technological tracks is half their rate in all IDF units: about 16.5% in main technological tracks, compared to about 32% in all IDF units.



Recruitment Threshold – there are several grounds for non-recruitment, mainly religion and medical conditions. One of the exemptions is granted if a candidate does not meet the MD's "recruitment threshold" criteria. The previous audit noted that the IDF had not defined the "recruitment threshold" and no criteria were formed to set the threshold or approve it. Moreover, the committee's composition, authorities, and procedures discussing exemptions based on the recruitment threshold had not been specified in any of the IDF's regulations or orders. The follow-up audit raised that **the deficiency had been rectified:** the head of the HRP Division in the MD had set a recruitment threshold policy. The policy was then included in Meitav's order and approved by the director of the MD.

Collaboration with the Ministry of Education – "Collective First Summon" – the State Comptroller Office commends the cooperation between the Ministry of Education and the IDF to conduct "Collective First Summon" (a tool shared by the IDF and the Ministry of Education, allowing educational institutions to plan the first summon for an entire age group) enabling the candidates to prepare for IDF's screening together and receive support and guidance not always available otherwise. However, 236 institutions



out of 806 (29%) had not collaborated with the IDF and had not adopted the "Collective First Summon".

A Quota of Examinees by the Medical Committee – the previous audit noted that the physicians' quota for daily tasks, determined by Meitav and the CMO Department, did not include all the required tasks. The follow-up audit raised that **the deficiency had been rectified**: the quotas were adjusted to include all different types of outputs the physicians are expected to fulfill.

Medical Committees' Quality Control – the previous audit noted that the audit of all recruitment bureaus was assigned to an audit staff headed by the chief physician of one of the recruitment bureaus, who, according to the guidelines, was supposed to be subject to the same audit. The follow-up audit raised that **the deficiency had been rectified**: the CMO Department issued an updated directive, by which the audit would not be conducted by the audit staff, as was previously done, but instead the chief physicians at the various recruitment bureaus are required to perform a periodic evaluation of all the physicians employed at his bureau according to the frequency prescribed in the directive, and the chief physicians' performance would be evaluated as part of a semi-annual audit by the head of the Recruitment Bureaus Department of the Medical Screening Branch.

Maintaining Candidates' Privacy at the Medical Committee – the previous audit noted some deficiencies in the working environment of the medical committees in the various recruitment bureaus. The main deficiency was the inadequate setup of the physical structure of the medical unit at the recruitment bureaus leading to candidates' privacy issues. The follow-up audit raised that **the deficiency was rectified**: the medical committees' rooms were separated, so different medical committees worked in different rooms.

Key Recommendations

-  Given the significant importance of recruitment to the IDF including the recruitment threshold policy that determines the circumstances an exemption from conscription will be given, it is recommended that the division of non-recruitment trends, including the recruitment threshold policy and its effect on recruitment volume trends are periodically presented to the Chief of Staff, the Minister of Defense and the Knesset's Foreign Affairs and Defense Committee.
-  It is recommended that Meitav and the CMO Department complete the strategic work determining candidates' medical profiles and set multi-year targets to raise the rate of candidates' medical profile determination during their first summon. It is further recommended that the Ministry of Health and the HMOs consider establishing an online



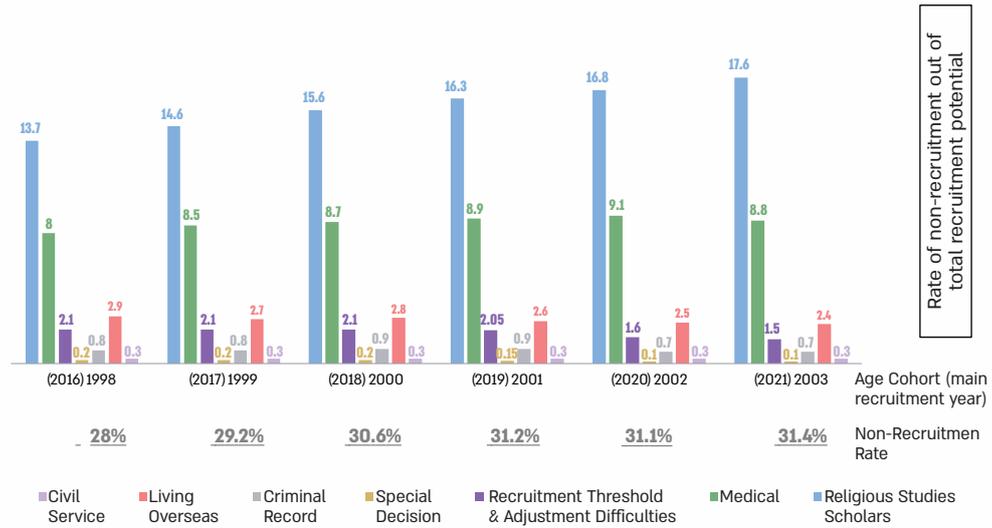
interface through which candidates' medical information is transferred, under the provisions of the law. Thus, optimizing the process. Moreover, it is recommended that the Medical Screening Branch consider ways to minimize the number of unnecessary referrals to further medical inquiries since a delayed medical profile might decrease the number of screening and placement options available for candidates.

-  The Medical Screening Branch of the CMO Department should improve the scope of audits conducted at the various recruitment bureaus and perform them periodically under the updated guidelines. It is further recommended that the Medical Screening Branch ensure that the chief physicians at the recruitment bureaus evaluate all the physicians employed at their recruitment bureaus and send the reports as required.
-  It is recommended that Meitav examines the clarity and completeness of information on the Mitgaisim website and that it ensures the accessibility and availability of the required data for the candidates and the entities that handle them, and that the completeness of the information is strictly monitored. As part of examining and rewriting of the appeal policy, it is recommended that Meitav determines at which phase of the process a candidate is allowed to appeal against screening and placement decisions. It is also recommended that Meitav form the appropriate appeals hierarchy and set applicable procedures accordingly. Furthermore, it is recommended that Meitav thoroughly examines the leading causes for repetitive candidates' inquiries, aside from appeals, and address them.
-  Meitav should ensure that all candidates and representatives on behalf of them contact Meitav through the official channel and the service center so all inquiries are documented at the service center and the mechanized systems. Meitav should also set in its policy the circumstances under which inquiries are sent to the head of the Conscripts Branch, the Help Center, or any other relevant entity and anchor this in a procedure that will be published for all candidates on the "Mitgaisim" website.
-  It is recommended that the IDF continues to minimize the gaps between candidates who reside in the periphery and the rest of the candidates and increase the periphery's representation in technological roles. Moreover, the State Comptroller's Office recommends conducting periodic examinations and control of the processes of the various initiatives handling the gaps above, especially on the changes in screening processes minimizing the gaps, and meeting the targets set by the Minister of Defense and the Chief of Staff.



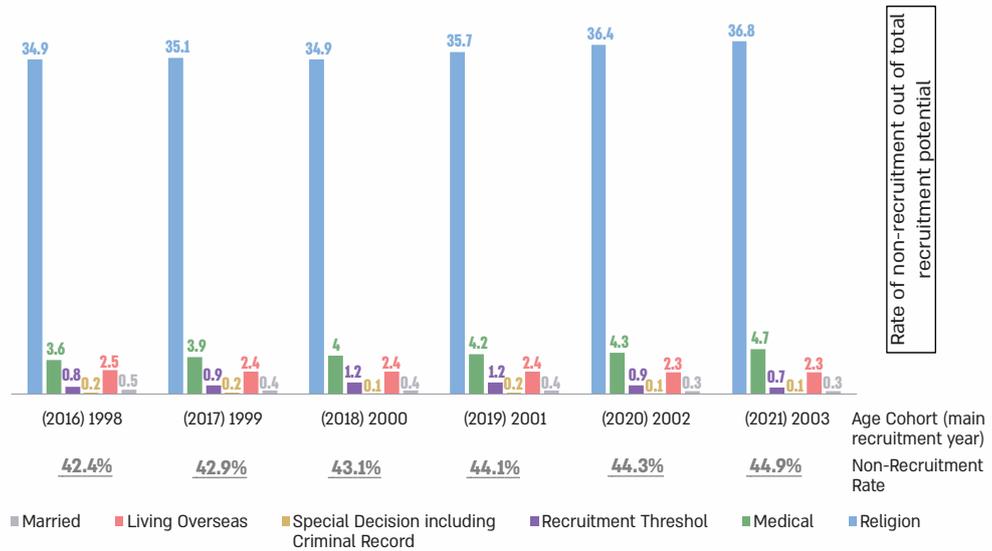
Distribution of Non-Recruitment Grounds

Distribution of Non-Recruitment Grounds – Men



According to Meitav's statistics from July 2022, processed by the State Comptroller Office.

Distribution of Non-Recruitment Grounds – Women



According to Meitav's statistics from July 2022, processed by the State Comptroller Office.



The Extent the Main Deficiencies Noted in the Previous Audit were Rectified

Audit chapter	The Deficiency Noted in the Previous Audit	The Extent of Deficiencies Rectification in the Follow-up Audit			
		Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
Recruitment Threshold	The IDF did not define the term "recruitment threshold" and no criteria were formed setting the threshold or approving it. It was found that the composition, authorities, and procedures of the committee discussing exemptions based on the recruitment threshold was not included in any of the IDF's regulations or orders.				
Medical Screening	The physicians' quota of daily tasks, as determined by Meitav and the CMO Department, did not include all the tasks they were required to undertake, such as reviewing appeals and exceptional requests, and as a result, physicians carried out tasks that exceeded the pre-defined quotas.				
	The audit of all recruitment bureaus was assigned to an audit staff headed by the chief physician of one of the recruitment bureaus, who, according to the guidelines, was supposed to be subject to the same inspection.				
	Most of the medical committees' physicians at the various recruitment bureaus were not evaluated annually, as the CMO Department requires, and most were not evaluated for two or three years.				



Audit chapter	The Deficiency Noted in the Previous Audit	The Extent of Deficiencies Rectification in the Follow-up Audit			
		Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
	Deficiencies were found in the working environment of the medical committees at the recruitment bureaus. The main one was the inadequate setup of the physical structure of the medical unit at the recruitment bureaus, which led to candidates' privacy issues.				
	The medical profile of about 40% of the candidates was not determined during the first summon.				
Qualitative Sorting	The Psycho-technical Department did not determine the stage at which the evaluators should have a feedback interview. With some evaluators, the feedback interviews were conducted at a very advanced stage of their military service, and other evaluators never participated in such interviews.				
	Independence Personality Trait: definition of this personality trait and the process of assessing it is too complicated, and high scores do not necessarily indicate positive characteristics of the interviewee. This should be examined professionally and determined by the head of the MD.				



Audit chapter	The Deficiency Noted in the Previous Audit	The Extent of Deficiencies Rectification in the Follow-up Audit			
		Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
Managing Candidates for IDF Service	Deficiencies were found in documenting the different actions of various officials dealing with the candidates.				
	Multiple and frequent disruptions in the functional continuity of the call center servers at the service center and of other systems were found. These disruptions caused shutdowns or slowed operations every month.				
	Multiple sources of information for the management of candidates' inquiries was found – specific instructions were found on the Mitgaisim website, while others were found in the different instruction files. Furthermore, some instructions were unclear.				



Summary

The follow-up audit raised that both the MD and Meitav tried to rectify some of the deficiencies noted in the previous audit. Regarding medical screening, quotas of physicians' work were set considering the required outputs; An updated quality control guideline over the medical committees at the various recruitment bureaus was issued; and structural changes were applied to maintain candidates' privacy. Regarding qualitative screening, a timeframe for a feedback interview with the evaluators was set; the head of the HRP Division of the MD formed a non-recruitment policy. The policy was established as an order and approved by the head of the MD. Moreover, the recruitment threshold policy and MD's actions were intended to increase the recruitment volume amongst diverse populations and create unique recruitment tracks for that purpose. Regarding the screening and placement processes, some projects were initiated for their improvement: collaboration with the Ministry of Education through the "Collective First Summon"; strategic work improving the medical screening processes and a plan to improve the qualitative screening system – both through advanced technological tools; establishing a professionally enhanced staff to deal with the challenges of screening and placement; improving the function of the call center and adding some advanced technological innovations to handle candidates' inquiries. In addition, some actions were taken to better exhaust human capital while maintaining equal opportunities and minimizing bias.

Some of the deficiencies noted in the previous audit were not rectified or only partially rectified, especially in two main domains: regarding the medical screening – the rate of chief physicians' evaluations at the recruitment bureaus and the CMO Department is lower than required; the Medical Screening Branch does not sample all types of medical files at the recruitment bureaus, but instead focuses on the "complex" files; and contrary to the previous audit, the results of the sample reviews conducted by the Medical Screening Branch are mainly presented as questions addressed to the chief physician of the audited bureau, and do not include a professional decision made by the Medical Screening Branch. Regarding handling candidates' inquiries, there is still deficient documentation, and their entry into mechanized systems, and occasional system malfunctions. Furthermore, the information references on the Mitgaisim homepage include duplications and are not organized logically. Therefore, Mitgaisim's homepage is not user-friendly, making navigating the website challenging. The information available for the candidates and their representatives includes inconsistent instructions. In addition, some unofficial communication channels outside Meitav's service center are not published on Mitgaisim's website.

The MD and Meitav should rectify the above deficiencies since the medical profile is the basis for the candidates' future military service, and handling candidates' inquiries might affect their entire military career.



State Comptroller Report | February 2023

Israel Defense Forces

Infrastructures & Living Conditions for Mandatory and Reserve Combatants



Infrastructures & Living Conditions for Mandatory and Reserve Combatants

Background

IDF soldiers' living conditions and infrastructures in military camps and outposts are a significant part of treating individual soldiers in the IDF. Proper living conditions and infrastructures are needed to guarantee the effectiveness of training, exercises, and operation employment tasks and appropriately address soldiers' needs. The IDF has set the term "Essential Infrastructures for Soldiers" (EIS), including barracks (including air conditioning), restrooms, showers (including hot water), kitchens, and dining rooms, mainly at three meeting points between the IDF and its combatants: (a) during the training period as soldiers stay in training bases; (b) during the exercise period as soldiers stay in exercise camps; (c) during operation employment as soldiers stay at outposts.



Key Figures

NIS 676 million

the IDF planned budget for EIS programs in 2016–2021: NIS 256 million for training bases (Oz LaChayal – "soldiers' might" program) and NIS 420 million for exercise camps ("the Machanot Imunim")

NIS 492.6 million

the actual budget for EIS programs in 2016–2021: NIS 202.6 million for training bases (Oz LaChayal program) and NIS 290 million for exercise camps ("the Machanot Imunim")

29%–40%

rate of "partially satisfied" and "highly dissatisfied" with living conditions and infrastructures in exercise camps, according to State Comptroller Office's survey

5%–33%

rate of appropriateness scores of living conditions and infrastructures in exercise camps indicating very bad and mediocre conditions according to IDF's statistics

31%–36%

rate of "partially satisfied" and "highly dissatisfied" with living conditions and infrastructures in outposts, according to the State Comptroller Office's survey

3%–12%

rate of appropriateness scores of living conditions and infrastructures in outposts indicating bad and mediocre conditions according to IDF's statistics

35%

rate of military health audits in 2019–2021 in which fungus, scale, or mold were found in restrooms and showers

25%

rate of combatants who reported on infrastructure malfunction and indicated it was not fixed according to the State Comptroller Office's survey



Audit Actions

 The State Comptroller's Office examined mandatory and reserve combatants' infrastructures and living conditions in August 2021 – April 2022. The audit focused on the infrastructures and living conditions of ground forces combatants. The audit was carried out in the IDF and included its plans to minimize gaps in infrastructures and living conditions in main training bases, exercise camps, and outposts. In January – February 2022, State Comptroller Office's representatives visited five training bases, four exercise camps, and eight outposts across the three military districts.

As part of the audit, the State Comptroller Office conducted a survey amongst 821 male and female combat soldiers (a fifth of the questionnaires were filled in by female combat soldiers) who, in November 2021 – April 2022, took part in operation employment and exercises.

Moreover, a special interim report on the above subject was issued on October 2nd, 2022. The report noted the findings of the State Comptroller Office's visit to the Kfir Brigade exercise camp in Jordan Rift Valley and the Yakir outpost in Samaria on August 4th, 2022. The interim report included findings and recommendations about living conditions, infrastructure, health care, food and water, readiness, equipment, etc. The visit was a "surprise visit." Thus, the relevant IDF officials were notified only several days before them.

The sub-committee of the State Control Committee of the Knesset decided not to submit the full report to the Knesset but rather to publish only short sections of it, for the sake of maintaining state security, under article 17 of the State Comptroller Law, 1958 [consolidated version].

Key Findings



 **Allocating and Implementing Budget to Improve Infrastructures and Living Conditions of Combatants** – the Oz LaChayal and Machanot Imunim programs are intended to improve combatants' infrastructures and living conditions in training bases and exercise camps. The actual budget for the programs was NIS 492.6 million – 27% lower than the planned budget of NIS 676 million, in 2016–2021. As a result, the ground forces did not implement some of the EIS plans in training bases and exercise camps.

 **Normative Foundation for Forming a Situational Assessment of Living Conditions and Infrastructures** – the Technological and Logistics Directorate has not



set a policy for establishing appropriateness scores of living conditions and infrastructures in IDF's bases. In practice, the appropriateness scores of living conditions and infrastructures in training bases, exercise camps, and outposts are not based on pre-defined standards, unified criteria, or a fixed formula but rather on the logistics team's experience and subjective opinion.

-  **The Situation in Training Bases** – according to IDF's data, about 19% of the infrastructures' appropriateness scores indicate mediocre and very bad conditions. Furthermore, as part of the State Comptroller Office's representatives' visits to barracks, restrooms, showers, kitchens, and dining rooms at five training bases, dysfunctional or partially functional infrastructures were found in about 37% of the areas examined.
-  **The Situation in Exercise Camps** – according to IDF's data, the rate of appropriateness scores indicating mediocre and very bad condition ranges between 5% to 33%, while according to the State Comptroller Office survey, the rate of partially satisfied and dissatisfied participants ranges between 29% to 40%. In addition, the appropriateness scores indicating very good conditions in exercise camps ranges between 40% to 79%, while according to the State Comptroller Office survey, the rate of combatants who are very satisfied with the condition ranges between 18% to 28%.
-  **The Situation in Outposts** – according to IDF's data, between 3% to 12% of the appropriateness scores of infrastructures in outposts across the three commands indicate very bad and mediocre condition, while according to the State Comptroller Office survey, between 31% to 36% of the combatants are highly dissatisfied or partially satisfied with the infrastructures in barracks, restrooms, showers and dining rooms in the outposts.
-  **Deficiencies Found in Military Health Audits in 2019–2021** – out of all the deficiencies found in kitchens, two main deficiencies stood out – leaks or standing water (54% of audits) and missing floor tiles (37% of audits). Out of all the deficiencies found in barracks, restrooms, and showers, three main deficiencies stood out: lack of windows or window insect screens (36% of audits), fungus, scale, or mold in restrooms and showers (35% of audits), and dysfunctional toilet seats in restrooms (32% of audits). These deficiencies compromise combatants' living conditions and may even damage their health. Thus, for example, leaks and standing water may lead to bacterial development and hazards that might come in contact with food. Moreover, mold and fungus on the walls and ceilings harm the quality of air the combatants' breath and may cause infections and diseases.
-  **Combatants' Reports on Infrastructure Malfunctions** – soldiers report infrastructure malfunctions in different ways on different bases, rather than online, in a unified, centralized manner.
-  **Infrastructures for Female Combatants** – as of February 2022, no work plans have been developed to optimize infrastructures for female combatants.



Plans Intended to Improve Living Conditions and Infrastructures in 2022–2023 – the IDF plans to proceed with the Oz LaChayal and Machanot Imunim programs in 2022, with a budget of NIS 65 million for each. Furthermore, the IDF has developed three additional programs to improve infrastructures and living conditions of combatants: (A) the Kav HaMaga ("contact line") program to improve the appropriateness of infrastructures in outposts in 2022–2023 with a budget of NIS 42 million; (B) the Mahapecha BaMitbach ("kitchen revolution") program to improve diners' experience upgrading dining rooms' infrastructures in outposts, exercise camps and training bases, in 2022 with a budget of about NIS 37 million; (C) the Tnufa BaGvulot ("border momentum") program to minimize EIS gaps in specific outposts in the central and southern commands, in 2022–2023, with a budget of about NIS 14 million.

Key Recommendations

-  It is recommended that the Technological and Logistics Directorate set a policy for establishing appropriateness scores of infrastructures and living conditions in IDF's bases and define unified criteria for determining the appropriateness scores by the logistics teams in all IDF's bases.
-  Given the condition of the infrastructure in training bases, exercise camps, and outposts and given the gap between the IDF appropriateness scores used in exercise camps and outposts and the combatants' level of satisfaction according to the State Comptroller Office survey, it is recommended that the IDF fixes the dysfunctional or partially dysfunctional infrastructures to provide the combatants with appropriate living conditions.
-  It is recommended that the IDF implements the five programs intended to improve combatants' infrastructures and living conditions.
-  It is recommended that the IDF consider using an app or any other tool to manage soldiers' reports on infrastructure malfunctions online in a unified, centralized manner.
-  The IDF is recommended to improve female combatants' infrastructures and living conditions in different training bases, exercise camps, and outposts.



Pictures Taken in State Comptroller Office Visits



The dysfunctional kitchen at The School for Infantry Corps Professions and Squad Commanders



Dysfunctional shower at The School for Armored Corps



Residence area with no environmental development at an exercise camp in the Golan Heights

The source: pictures taken during visits conducted by representatives of the State Comptroller Office in training bases and exercise camps.



Summary

Proper and respectful living conditions and infrastructure affect the willingness and motivation of mandatory and reserve combatants to serve in the IDF. In addition, infrastructures in barracks, restrooms, showers, dining rooms, and kitchens impact the effectiveness of combatants' training, exercises, and operation employment tasks.

Appropriateness scores determined by the IDF's logistic unit, State Comptroller Office visits, and survey indicate that despite the importance of appropriate infrastructures and living conditions in training bases, exercise camps, and outposts, mandatory and reserve combatants still encounter dysfunctional or partially dysfunctional infrastructures, in barracks, restrooms, showers, dining rooms, and kitchens. It is recommended that the IDF conclude from the situation described in this report and contend with the gaps in infrastructures and living conditions of combatants.



State Comptroller Report | February 2023

Israel Defense Forces

Attending to Lone Soldiers Throughout Their Military Service and After Discharge – Follow-up Audit



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Background

Lone soldiers enlisting in the IDF, including those from abroad, even though they are not required to enlist, seek to promote the security of the state and its residents and serve in various positions, including combat roles. According to IDF's orders, lone soldiers include lone soldiers lacking family support.

During their military service, lone soldiers are attended to by the Manpower Directorate, TASH (service conditions) staff, and unit commanders. Following discharge, the Ministry of Defense helps lone soldiers integrate into civil society in education, vocational training, and employment through the Discharged Soldiers Guidance Division and the Discharged Soldiers Absorption Fund¹.

1 The Department for Discharged Soldiers functions under the Absorption of Discharged Soldiers Law, 1944 and Ministry of Defense's directives.



Key Figures

6,613

the number of lone soldiers serving in the IDF in December 2021. 48% of them were lone soldiers lacking family support

87%

lone soldiers' rate who stayed in Israel out of the total lone soldiers not born in Israel discharged between 2017 and 2020

**40%,
46%**

satisfaction² level with assistance provided to lone soldiers by the IDF (40%) and by the Ministry of Defense following discharge (46%)

**65%,
58%**

answers rate in which financial difficulties were cited as the reason for dissatisfaction³ with the IDF assistance (65%) and with the Ministry of Defense assistance following discharge (58%)

55%

lone soldiers' rate not familiar with the Lone Soldiers Center operated by the Manpower Directorate

38%

lone soldiers' rate whose military salary covered less than 50% of their living expenses

**3.9%,
11%**

increase rate in the IDF assistance scope for rent and housing maintenance expenses in 2017–2022 (3.9%), compared with the average increase in rent expenses according to the Central Bureau of Statistics in the same period (11%)

**only
NIS 54**

addition to combat lone soldiers' monthly salary (monthly stipend not included) (a rise from NIS 1,082 in 2017 to NIS 1,136 in 2022); an addition of NIS 50 to the monthly salary of lone soldiers in combat support roles; and an addition of NIS 45 to the monthly salary of lone soldiers in non-combat roles

2 The term refers to the number of respondents who indicated a high or very high level of satisfaction in a questionnaire distributed by the State Comptroller Office as part of the follow-up audit.

3 According to answers to the questionnaire circulated by the State Comptroller Office as part of the follow-up audit.



Audit Actions

 From October 2021 to May 2022, the State Comptroller's Office conducted a follow-up over the rectification of deficiencies noted in the previous audit (follow-up audit). Supplementary audits were conducted until October 2022. The follow-up audit, examined: the IDF's assistance to lone soldiers during their military service; the Ministry of Defense's assistance to lone soldiers after discharge; regulation of assistance provided by NGOs during lone soldiers' military service and after discharge and the establishment of an inter-ministerial strategic plan for integrating discharged lone soldiers into Israeli society. The audit was conducted at the Manpower Directorate (IDF), the Discharged Soldiers Guidance Division, the Discharged Soldiers Absorption Fund (Ministry of Defense), and the Yahad organization⁴.

The follow-up audit included the State Comptroller Office's questionnaires circulated amongst discharged lone soldiers: (a) A questionnaire examining the assistance provided to the soldiers **during their military** service. 578 discharged soldiers thoroughly answered this questionnaire. (b) A questionnaire examining the assistance provided to the soldiers **following discharge**. 685 discharged soldiers responded to most of the questions in this questionnaire.

Key Findings



 **IDF's Assistance to Fulfill Ongoing Needs of Lone Soldiers Without Housing** – by the previous audit, the IDF was aware that most lone soldiers were struggling financially. Still, since 2010, the Manpower Directorate had not examined lone soldiers' subsistence needs. By the follow-up audit **this deficiency was rectified to a small extent:** the IDF conducted staff work on the ongoing needs, but it had not led to significant improvements in lone soldiers' financial situation: in January 2022, there was a 50% increase in monthly subsistence payment given to all IDF's soldiers, and lone soldiers were provided with temporary financial assistance during the Covid-19 pandemic. However, since the previous audit, in 2017–2022, the monthly salary of combat lone soldiers (monthly subsistence payment not included) increased by NIS 54 only, from NIS 1,082 to NIS 1,136. In addition, by answers to the questionnaire, only 5% of the respondents' military salary (including monthly subsistence payment) covered

⁴ Yahad – United for Israel's Soldiers, is a non-profit organization whose purpose is to promote the wellbeing of IDF's soldiers. Yahad was established as a merger between the LIBI Fund and the Association for the Welfare of Israeli Soldiers.



all their expenses, and 38% of respondents' military salary covered less than 50% of their monthly living expenses. This was also reflected in lone soldiers' level of satisfaction with the IDF assistance – only 40% (the satisfaction level in the previous audit was 43%).

IDF's Housing Assistance – the previous audit noted that despite the gaps, known to the IDF, between lone soldiers' housing needs and the IDF solutions, the Manpower Directorate did not conduct thorough staff works on these gaps, nor did it consider the budget needed to finance housing solutions fulfilling their personal needs adequately. By the follow-up audit, **the deficiency was rectified to a small extent:** in 2018, the Manpower Directorate conducted staff work on the housing problem and formed three projects to improve housing conditions: founding a Soldier House in Rishon le Zion, building accommodations for soldiers as part of the Ofek Rahav project and providing combat soldiers with a room of their own as part of the Bayit Ham (affable home) project. By the audit completion, the above projects have not provided housing solutions to all lone soldiers adequately meeting their personal needs. Except for adding ten Bayit Ham flats, the first two projects were not completed, and the Ofek Rahav project is expected to be completed only in 2028. Most lone soldiers (57% of them) live in rented flats, and according to questionnaire answers, 44% had difficulties paying for rent and house maintenance. The State Comptroller Office found that the housing assistance value provided by the IDF eroded (an increase of 3.9% in the scope of assistance, from NIS 1,300 in 2017 to NIS 1,351 in 2022) vis-a-vis the average increase of 11% in monthly rent, according to the Central Bureau of Statistics, (from NIS 1,300 in 2017 to NIS 1,443 in 2022).

Discharge Preparation Courses – the previous audit noted that in 2014–2016, an average of 46% of the lone soldiers who were invited to discharge preparation courses attended them. By the follow-up audit, **the deficiency was rectified to a small extent:** in 2021, 4.5 years following the previous audit completion, the IDF founded an administration designated, among other things, to increase the rate of lone soldiers' participation in discharge preparation courses. Moreover, the IDF established the Lone Soldiers Center to supervise and monitor course participation. Nevertheless, lone soldiers' participation decreased from 59% in 2016 to 42% in 2021. According to questionnaire answers, the main reasons for not attending the courses were: not receiving invitations (31%) or being unaware of them (23%), indicating deficient participants' notifications. According to the head of the administration, the courses took place only in Rehovot, making it difficult for soldiers living in different regions of Israel to attend them.

The Connection Between the IDF and Non-profit and NGOs Assistance to Lone Soldiers – the previous audit noted that non-profit organizations and NGOs had assisted lone soldiers directly – providing them with housing assistance and advising them about communication with IDF's entities and civil entities. Thus, the IDF's November 2016 directive, by which all donations for the IDF will be accepted through the Yahad organization, cannot be applied sweepingly to all ways of granting a benefit or benefit of



economic value given to lone soldiers. By the follow-up audit, **the deficiency was rectified to a small extent:** despite the Manpower Directorate regulating the activities of the various NGOs through the Yahad organization and the publication of a list composed of 40 NGOs approved by the Manpower Directorate, the questionnaire answers indicated that 22 (out of 31) of the NGOs that assisted lone soldiers were not included in the list.

-  **Discharged Lone Soldiers' Level of Satisfaction with the Ministry of Defense Assistance** – by the questionnaire, 46% of the discharged lone soldiers were satisfied⁵, and 23% indicated that they were hardly satisfied with the Ministry of Defense assistance, mainly due to economic difficulties and bureaucracy. In terms of consultation and guidance provided by the Ministry of Defense, 25% of the respondents to the questionnaire indicated that there was no connection between them and the district office⁶. 65% of them were not even aware of the possibility of contacting the district office. Moreover, by the questionnaire answers, only 53% of the respondents who the district offices attended to were satisfied with the assistance provided to them.
-  **IDF's Assistance Through the Lone Soldiers Center** – by the questionnaire answers, more than half of the respondents were not familiar with the Center (55%) established in March 2020, and the level of satisfaction with the assistance it provided was low– only 50% of the respondents indicated they were satisfied with it. The soldiers dissatisfied with the assistance stated that the staff had no adequate tools, knowledge, and powers to assist lone soldiers and that the center was overburdened. Furthermore, some respondents complained about the treatment manner at the Center.
-  **Additional Assistance Needed During Military Service** – by an analysis of the questionnaire answers, 61% of the respondents indicated that during their military service, they needed assistance from the IDF in other areas for which they did not receive a response. The main assistance areas were financial assistance (32%), consideration and empathy on the part of military officials such as the commanders (20%), emotional support (19%), and preparation for civilian life (8%).
-  **Additional Assistance Needed Following Discharge** – by an analysis of the questionnaire answers, almost half of the respondents (47%) indicated that as discharged lone soldiers, they needed additional assistance that was not included in the Ministry of Defense assistance, and especially with the following areas⁷: financial support

5 It should be noted that 31% of the respondents indicated a medium level of satisfaction with the assistance they were given.

6 Lone soldiers are entitled to personal consultation and guidance through the four district offices of the Foundation and Unit for Discharge Soldiers: the Central and Tel-Aviv district office, the Northern and Haifa district office, the Jerusalem district office and the Southern and Beer-Sheva district office.

7 Some of the respondents indicated more than one kind of assistance, thus there are additional kinds of assistance that add up to more than 12%.



(50% of respondents), tuition assistance (19% of respondents) and transition to civilian life (19% of respondents).



Ministry of Defense Housing Assistance – the previous audit noted that the Ministry of Defense fully funded discharged lone soldiers' stay at a Soldiers' House for three months from discharge day and that only 15% of them seized the opportunity. The Soldiers' House benefit was perceived as irrelevant, not meeting the needs of discharged lone soldiers. The follow-up audit raised that **the deficiency was fully rectified:** following the Absorption of Discharged Soldiers Law (amendment 19), 2017, in 2021, the Ministry of Defense assisted 3,195 discharged lone soldiers (99% of the average number of lone soldiers who were discharged between 2020 and 2021) and provided them up to NIS 1,000 per month for monthly rent during their first year as civilians. In addition, discharged lone soldiers, who did not get the above benefit, were given one-time assistance of about NIS 5,000 from the second year of discharge to the fifth year. This grant was given to them according to the budget transferred to the Unit from the Administrator General Office.

IDF's Activities to Improve Solutions Offered to Lone Soldiers – the follow-up audit noted that since the previous audit, the IDF had conducted staff work and took the following steps: in 2019, the Manpower Directorate conducted staff work focusing on this population and provided a complete response to its needs; in July 2021 the Manpower Directorate approved the staff work on the response to the conditions of service for conscripts and approved it; in March 2020 the Mofet Unit at the Manpower Directorate started operating the Lone Soldiers Center to optimize the solutions offered to lone soldiers.

Ministry of Defense Tuition Assistance – the follow-up audit noted that the number of discharged lone soldiers who received tuition assistance increased by 34% (from 1,468 to 1,973) between 2018 and 2021 and that there is a high level of satisfaction (71%) with this assistance. It was further raised that in 2021, 59% of discharged lone soldiers (1,973 out of 3,327) received tuition assistance (for all academic tracks). In 2021 the overall support provided by the Ministry of Defense was NIS 24.6 million.

An Inter-Ministerial Strategic Plan for Integration of Discharged Lone Soldiers into Israeli Society – the previous audit noted that there was no inter-ministerial strategic plan defining the state's targets to integrate discharged lone soldiers lacking family support and to maintain contact with them after they go back to their country of origin. **The follow-up audit raised that the deficiency was rectified to a large extent:** upon the follow-up audit completion, the Ministry of Defense and other relevant ministries had not completed their staff work to advance an inter-ministerial strategic plan for integrating discharged lone soldiers. Nevertheless, in the follow-up audit, Discharged Soldiers Guidance Division and the Discharged Soldiers Absorption Fund



established a professional forum dedicated to assisting discharged soldiers and collaborating with relevant ministries and authorities. By June 2022, the forum convened three times and set some targets to advance assistance provided to discharged soldiers, including attending to special populations such as lone soldiers.

Key Recommendations

-  It is recommended that the Manpower Directorate thoroughly reexamine the solutions it offers in areas where there was a low rate of soldiers' satisfaction – economic difficulties, bureaucracy, and degrading attitudes on the part of IDF officials. Moreover, it is recommended that the IDF consider diverting resources allocated to financing other housing solutions in favor of participation in housing wages of more lone soldiers and of updating the amount of participation in rent according to the increase in rent in the economy so that IDF's assistance to lone soldiers would fulfill their basic needs.
-  It is recommended that the Ministry of Defense optimize the assistance it offers to discharged lone soldiers, find solutions for economic difficulties and reduce the burden of bureaucracy, which makes it harder for them to understand and exercise their rights. Furthermore, it is recommended that the Ministry of Defense initiate contact with all discharged lone soldiers to minimize the rate of discharged lone soldiers (25%–30% of discharged lone soldiers) who are not in touch with the district office and improve their access to information regarding their rights, including the right for tuition assistance and increase the implementation rate of educational assistance among lone discharged soldiers. Thus, advancing their integration into Israeli society.
-  It is recommended that the IDF and the Ministry of Defense improve access to information about the assistance NGOs offer to lone soldiers and discharged lone soldiers. It is further recommended that the Manpower Directorate fully collaborate with the different NGOs, according to the layout agreed upon in 2019. In addition, it is recommended that the Ministry of Defense examine the causes for the low number of discharged lone soldiers who chose to receive mentorship and support and collaborate with the Manpower Directorate to maintain and continue the personal guidance provided to lone soldiers during their service even after discharge, through the associations examined and approved by him.
-  It is recommended that the IDF conducts occasional surveys amongst lone soldiers to understand their needs better and improve the solutions offered to them. It is further recommended that it examine the areas in which soldiers needed assistance that was not given to them and consider providing optimal solutions in these areas, such as financial assistance, emotional support, and guiding commanders about the unique characteristics of the lone soldiers' population and the way they should be treated. In addition, it is recommended that the Ministry of Defense consider solutions for discharged lone soldiers

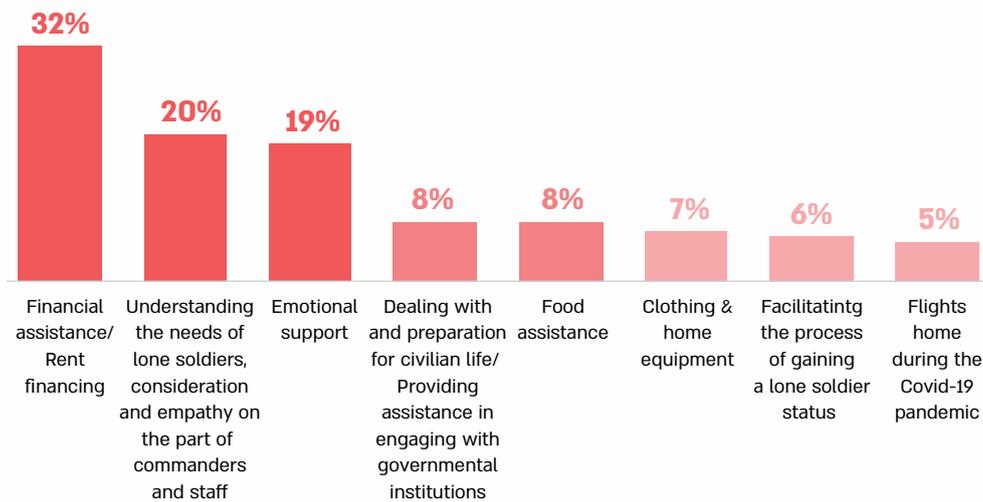


in the areas they indicated as dissatisfactory solutions offered to them, including financial support, preparation for civilian life, and tuition assistance.



It is recommended that the Ministry of Defense ensure that the professional forum it initiated in collaboration with relevant ministries and authorities form an inter-ministerial strategic plan dealing with integrating discharged lone soldiers into society emphasizing the unique characteristics of this population and the kinds of assistance they need.

The Areas in Which Lone Soldiers Needed Assistance not Provided to them



According to the answers to the questionnaire distributed in the course of the follow-up audit and processed by the State Comptroller Office. Some of the respondents indicated more than one area. Thus, the respondents' rates in the chart add up to more than 100%.



The Extent the Main Deficiencies Noted in the Previous Report were Rectified

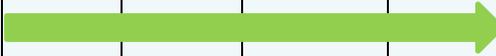
Audit chapter	The Deficiency Noted in the Previous Audit	The Extent of Deficiencies Rectification in the Follow-up Audit			
		Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
Satisfaction of lone soldiers with the assistance provided by the IDF	The satisfaction rate of lone soldiers with the assistance provided by the IDF was low (43%).				
IDF assistance to fulfill ongoing needs of lone soldiers (housing not included)	Since 2010, the Manpower Directorate has not examined the living needs of lone soldiers, although the IDF was aware that most lone soldiers struggle with their financial situation.				
IDF's Housing Assistance	The Manpower Directorate has not thoroughly investigated the gaps between the housing solutions the IDF provides to lone soldiers and the soldiers' housing needs. In addition, the budget needed to fund housing solutions guarantying better housing conditions for lone soldiers, was not considered.				
Discharge Preparation Courses	Between 2014 and 2016, an average of 46% of the lone soldiers who were invited to discharge preparation courses attended them. The Manpower Directorate did not examine the reasons for the low participation rate.				



Audit chapter	The Deficiency Noted in the Previous Audit	The Extent of Deficiencies Rectification in the Follow-up Audit			
		Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
The connection between IDF and NGOs and organizations that assist lone soldiers	IDF's instruction from November 2016 by which all donations are to be received through the Yahad organization cannot be applied to all ways of granting a benefit or benefit of economic value.				
Mentoring lone soldiers during their military service and after discharge	The IDF has not regulated personal mentoring for lone soldiers during their military service and has not published any relevant instruction. Moreover, the mentoring program initiated by the Discharged Soldiers Guidance Division and the Discharged Soldiers Absorption Fund failed, and lone soldiers (both serving and discharged) have received mentorship through local initiatives or NGOs.				
Inter-ministerial strategic plan for integration of discharged lone soldiers into Israeli society	There is no inter-ministerial strategic plan defining the state's targets to integrate discharged lone soldiers lacking family support and maintain contact with them after returning to their country of origin. In addition, there is no follow-up on integrating discharged lone soldiers into Israeli society; they are not kept in touch, and no national agency supervises the situation and ensures that they are adequately integrated into society. Furthermore, no designated database includes information on lone soldiers following discharge.				



Audit chapter	The Deficiency Noted in the Previous Audit	The Extent of Deficiencies Rectification in the Follow-up Audit			
		Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
Ministry of Defense's Housing Assistance	The Ministry of Defense fully funded discharged lone soldiers' stay at a Soldiers' House for three months from discharge day. However, only 15% of them seized the opportunity. The most urgent need of discharged lone soldiers was housing, and the complimentary stay at the Soldiers' House was perceived as irrelevant.				





Summary

The State of Israel cherishes the lone soldiers who join the IDF, particularly those who reside overseas and are not required to serve. The Lone Soldiers' commitment to Israel's security is highly appreciated. Attending to the population of lone soldiers is one of Israel's top interests since it might maintain relationships between the State of Israel and the Jewish diaspora, empower populations worthy of advancement and increase the sense of belonging and integration into Israeli society.

The follow-up audit raised that most of the deficiencies noted in the previous audit were rectified to a small extent. It is recommended that the IDF and the Ministry of Defense improve solutions offered to lone soldiers in areas in which they need additional assistance, including financial assistance, consideration and empathy on the part of IDF's officials and mainly the commanders, emotional support, preparation for civilian life and tuition assistance. It should be done to improve lone soldiers' satisfaction level, fulfill their needs more effectively and improve their integration into Israeli society.



Report of the State Comptroller of Israel |
February 2023

Interdisciplinary Audit

Israeli Administrated Industrial Zones in Judea & Samaria – Follow-up Audit



Israeli Administrated Industrial Zones in Judea & Samaria – Follow-up Audit

Background

There are 35 industrial zones administrated by Israel in area C in Judea & Samaria. The industrial zones are divided into three types: (a) regional industrial zones that operate outside the settlements, are not affiliated with them, and are operated independently in terms of security and administration (b) industrial zones adjacent to the settlements and affiliated with them in terms of security; (c) regional industrial zones including joint public commercial centers, serving both the Israeli and Palestinian populations characterized by a space full of daytime and nighttime activities. About 5,500 Israeli and 14,100 Palestinian workers are employed in Judea & Samaria industrial zones.

Hostile, destructive activities in which Israeli civilians and soldiers were killed or injured have occurred in Judea & Samaria industrial zones and their environs in recent years. Following are some examples: At the Barkan Industrial Park: in 2006, at the southern entrance to the Barkan Industrial Park, a terrorist shot a security guard, stole his weapon, and fled. In 2008, a resident of Chares village set fire to several factories; in 2018, a terrorist entered the industrial zone with a weapon, tied up two Israeli workers, killed them, and fled. At the industrial zone in Ariel: In October 2002, at the gas station in Ariel, a suicide bomber killed three soldiers and wounded 19 people, including soldiers. In December 2015, two people were injured in a stabbing attack at the industrial zone in Ariel. In April 2022, a security guard was killed at the checkpoint near the city entrance. In November 2022, a terrorist stabbed a security guard at the entrance to Ariel industrial zone and then proceeded to a nearby gas station where he stabbed three more people, two of whom died due to the stabbing. Later, the same terrorist ran over another person, killed him, and stabbed another person.

In 2012, the State Comptroller Office published a report on Israeli Administrated Industrial Zones in Judea & Samaria – Law Enforcement Aspects (previous report or previous audit)



Key Figures

some

industrial zones were defined by the Central Command as highly threatened

**about
14,100**

Palestinians and 5,500 Israeli workers are employed at Judea & Samaria industrial zones

in about 70%

of the perimeter fence surrounding the industrial zones adjacent to the settlements, there are gaps

5

fatal work accidents in Judea & Samaria industrial zones were reported to the Safety Administration of the Ministry of Economy in 2019–2021. Non-fatal work accidents are not reported

4 out of 16

Labor laws applied in Israel were applied to employing workers in Israeli settlements and industrial zones in Judea & Samaria. All 16 laws were defined in a government decision from 2014 as laws that should be applied in Judea & Samaria

3

indictments were issued in 2020–2022 against employers in Judea & Samaria industrial zones who violated the Minimum Wage Act regarding Palestinian workers. 2 indictments were issued in 2020, and 1 indictment was issued in 2021. No indictments were issued in 2022 (by August)

Audit Actions

 From October 2021 to July 2022, the State Comptroller's office conducted a follow-up audit of the rectification of deficiencies noted in the previous report. Supplementary examinations were carried out until August 2022. The follow-up audit was conducted in the IDf Central Command, the Headquarters of Coordination of Government Activities in the Territories (COGAT), the Civil Administration in Judea & Samaria, the Ministry of Economy and Industry (Labor Department), and the Ministry of Justice.

The sub-committee of the State Control Committee of the Knesset decided not to submit the full report to the Knesset but rather to publish only short sections of it, for the maintenance of state security, under article 17 of the State Comptroller Law, 1958 [consolidated version].



Key Findings

-  **Security Components in Judea & Samaria Industrial Zones** – the previous audit noted that the security components of the city building plan were not applied as required in two of the industrial zones out of the audited seven industrial zones; some of the needed components were missing in three of the zones; vehicles with Palestinian license plates entered three settlements uninspected and in four industrial zones there was no entrance control. The follow-up audit raised that **the deficiency was not rectified**: there was no perimeter fence in some industrial zones, no response team assigned to some of the zones, and the security inspections were inadequate. Hence the readiness for security threats constituting mortal danger is significantly compromised in these industrial zones.
-  **Implementation of the Security Officers Order by the Central Command** – the previous audit noted that following the publication of the Order of Security Provisions in Industrial Zones (appointment of security officers) (Judea & Samaria) (no. 1640), 2009, the Central Command did not state which of the factories required the appointment of a security officer; that in one of the industrial zones, security officers were appointed in only 22% of the factories operating and, in another zone, and security officers were appointed only in 6% of the factories. The follow-up audit raised that **the deficiency was not rectified**: security officers were not appointed in all the factories; the Central Command had no data concerning the appointment of security officers in factories, and the regional division had not allowed the chief security officer of a specific industrial zone to appoint security officers for the factories. Hence, as the Order's provisions concerning the appointment of security officers in factories are not applied and enforced, and as the Central Command has no control over the execution of the Order in factories, there are security risks for the factories' workers and visitors. Moreover, Palestinian-originated goods might be transferred to Israel without being inspected adequately, posing a security risk.



📌 Applying Israel's Labor Laws to Israeli Employers who Employ Locals Within Israeli Settlements and Industrial Zones in Judea & Samaria – the previous report noted that the work of the inter-ministerial staff to examine the need to amend the security legislation (through which Israeli orders and laws can be applied in Judea & Samaria) concerning labor laws was only at the beginning. The follow-up audit raised that **the deficiency was rectified to a small extent**: upon the audit completion in July 2022, most labor laws (12 out of 16), which were decided¹ upon in 2014 to be applied in Judea & Samaria, were not applied in regional authorities' regulations. The four applied laws are the Minimum Wage Act, 1987; Employment of Women Law, 1954; Foreign Workers Law, 1991 and the Employment Service Law, 1959.

📌 Audits of Enforcement of the Minimum Wage Act, 1987 in Factories in Israel Administrated Industrial Zones in Judea & Samaria – the previous report noted that the employment staff officer² and the auxiliary unit at the Ministry of Industry, Trade & Tourism had not periodically audited the enforcement of the Minimum Wage Act on Israeli employers in Judea & Samaria. Furthermore, there had been no policy regulating the distribution of work between the Ministry's supervisors and the employment staff officer nor a policy regulating the enforcement practices in Judea & Samaria carried out by the supervisors and the staff officer, including the information sharing. The follow-up audit raised that **the deficiencies were not rectified**: the Regulation & Enforcement Administration of the Labor Department of the Ministry of Economy (previously known as the Ministry of Industry, Trade & Tourism) and the employment staff officer had not initiated minimum wage inspections in Judea & Samaria industrial zones, and no policy had been set regarding regulating the distribution of work between the two bodies. All of the above might compromise the wages paid to all employees employed in Judea and Samaria. In 2020 two indictments were issued against employers who violated the Minimum Wage Act. In 2021, one indictment was issued, and in 2022 (by August), no indictments were issued.

1 By a professional team headed by the Deputy Attorney General Consulting. The team included representatives from the Ministries of Industry, Trade and Labor the Ministry of finance and the Judea and Samaria legal advisor.

2 The role of the Employment Staff Officer at the Civil Administration in Judea & Samaria is primarily to issue work permits for Palestinian workers, which allow them to work in Israel and Judea & Samaria.



-  **Applying Workplace Safety and Health Regulations in Judea & Samaria** – the previous audit noted that throughout the years, there had been some legislative gaps in workplace safety and health in Judea & Samaria, compared to the legislation in Israel. Moreover, the State Comptroller Office recommended that the Civil Administration in Judea & Samaria, which is responsible for protecting the rights of the residents of Judea & Samaria, apply adequate workplace safety and health regulations in collaboration with the Coordinator of Government Activities in the Territories, the Ministry of Industry, Trade & Tourism and the Ministry of Justice. The follow-up audit raised that the **deficiency was not rectified**: Israel's workplace safety and health regulations were not applied in Judea & Samaria.
-  **Supervision and Enforcement of Workplace Safety and Health Regulations in Judea & Samaria** – in the previous audit, the State Comptroller's Office recommended that the Civil Administration in Judea & Samaria and the Ministry of Industry, Trade & Tourism regularly enforce the law amongst Israeli employers in Judea & Samaria and supervise the situation to ensure the safety and well-being of all employees employed in Judea & Samaria – Israeli and Palestinians. The follow-up audit raised that **the deficiency was not rectified**: the Civil Administration in Judea & Samaria, the Employment Staff Officer, and the Ministry of Economy had not supervised and not controlled the application of the Workplace Safety and Health law and order regarding Employing Employees in Specific Places (Judea & Samaria) (no. 967), 1982.
-  **Insuring Palestinian Employees Against Work Injuries** – the previous report noted that the Civil Administration in Judea & Samaria had not appointed any "authority" to be responsible for insurance, had not enforced the Order provisions of the Insurance against Work Injuries (Judea & Samaria) (no. 662), 1976 and had not ensured that Israeli employers were purchasing insurance policies for the Palestinian workers they employ outside the Israeli settlements in Judea & Samaria as required in the order. The follow-up audit raised that the **deficiencies were not rectified**: the Civil Administration in Judea & Samaria had not appointed an "authority" to be in charge of insurance matters, had not enforced the provisions of the Order regarding Insurance against Work-related Injuries, and had not ensured that Israeli employers were purchasing insurance policies for the Palestinian workers they employ outside the Israeli settlements in Judea & Samaria as required in the order.

Deficiencies Raised in the Current Audit

-  **Security Components in Industrial Zone 1** – there are significant gaps in security components in industrial zone 1. It was further found that the digital cameras array, for which the Ministry of Economy allocated NIS 2 million, was not established. In a visit to the industrial zone in May 2022, the audit team found that the perimeter fence around the industrial zone was partial, which might endanger the people in this area.



 **Security Components in Industrial Zone 2** – despite the instruction given by the head of Keshet Tsvaim and border-Line Administration in the IDF to the head of the local authority in 2019, only after three years did the local authority appoint a chief security officer for the industrial zone. Furthermore, despite the instructions given by the Central Command and the head of Keshet Tsvaim and border-Line Administration to the head of the local authority, to improve security components in this industrial zone (which was defined by the regional defense officer in Central Command as one of the areas needed to be focused on), upon the audit completion, substantial gaps remain in the industrial zone in security components: there was no perimeter fence, people entering the industrial zones were not inspected by digital inspection system or magnetometers, and no response team had been assigned to handle hostile, destructive activities in the area. All pose a security risk for the people around the industrial zone.

 **Security Officers in Industrial Zones** – in April 2022, in three industrial zones inspected by the IDF, in areas in focus, there are no regional security officers. On defining the authority and responsibilities of regional defense officers, there are discrepancies compared to the order's provisions regarding the appointment of Security Officers – the regional defense officers were not involved in appointing and supervising factory security officers as required in the Order.



Updating the City Building Plan for the Mesila Industrial Zones – the previous audit noted that since the Mesila industrial zone was neglected for many years, it was impossible to apply the original city building plan, and a new plan adapted to the current situation is required but was not completed yet. Some buildings were built around the Mesila industrial zone without building permits and sometimes even by taking over private Palestinian and state lands. The follow-up audit raised that the **deficiency was rectified**: the Planning Department of the Civil Administration prepared a new city building plan for the Mesila Industrial Zone. The plan was published on August 18th, 2022, and the pace of construction in the industrial zone was adjusted to the pace of infrastructure development there.

Key Recommendations

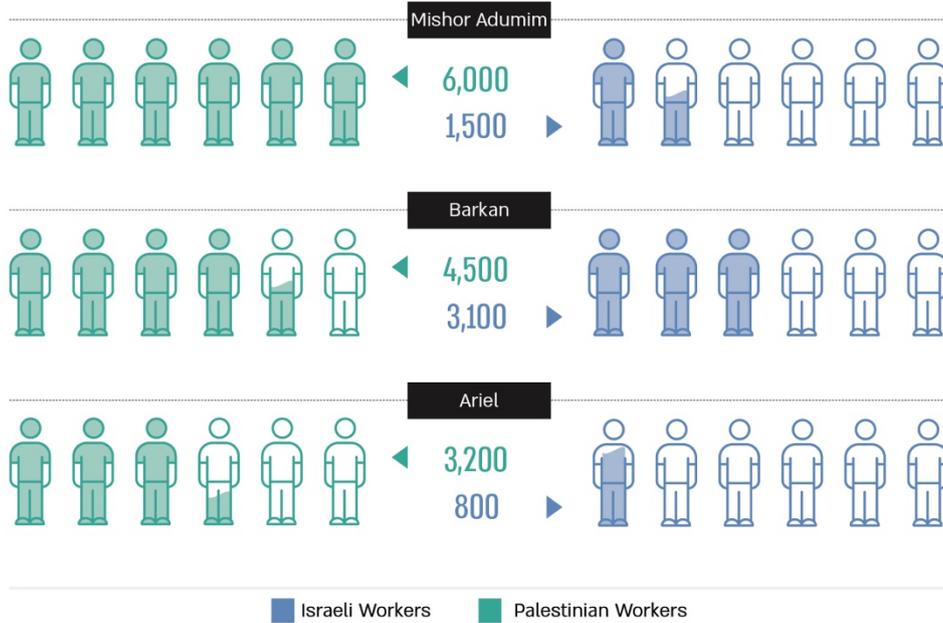
 It is recommended that the Ministry of Defense and the IDF, in collaboration with the Ministry of Economy and the local authorities, form a plan to rectify the deficiencies and fill the gaps in security components in Judea & Samaria industrial zones and submit it to the government which will discuss the budgeting and operating of the plan while determining the authority and responsibility of the relevant bodies for its realization.



-  In collaboration with the local authorities, it is recommended that the Central Command fill the gaps in security components in Judea & Samaria industrial zones and publish a policy ensuring the implementation of the Command guidelines of security components across all industrial zones and its implementation.
-  It is recommended that the IDF, the Ministry of Economy, and the local authority fill the gaps in security components in industrial zone 1 and complete the digital cameras array that had already been budgeted. It is further recommended that the regional defense of the Central Command validates the defense portfolio for industrial Zone 1 and supply the digital inspection system to all industrial zones in Judea & Samaria. In addition, it is recommended that the Central Command, in collaboration with the local authority, form a plan, including a budget and timetable, to fill the gaps in security components.
-  Given the risks of the absence of security officers at industrial zone factories, the IDF should improve its supervision and control over implementing the order's provisions regarding appointing security officers for all factories.
-  It is recommended that the IDF, in collaboration with local authorities, consider appointing a security officer for industrial zones. It is further recommended to consider adjusting the normative infrastructure to include appointing a security officer for industrial zones, improving security across the industrial zones, and inspecting goods leaving out of them. Moreover, it is recommended that the IDF examine the compatibility between the Regional Defense's responsibilities about factory security officers and its authority with its capabilities and ensure that the responsibilities for various security issues, in Judea & Samaria in particular, are implemented.
-  The Ministry of Justice, of Economy and of Finance, in collaboration with the Judea & Samaria legal advisor, should resolve the issues adhering to the application of Israeli labor laws to the Judea & Samaria industrial zones under the government resolution from 2014 and the High Court of Justice ruling - Kav LaOved. The Ministry of Economy should establish a policy regarding the parallel powers of the enforcement wing and the employment staff officer to enable audits and to adjust the number of supervisors necessary for conducting periodic audits of Israeli employers in Judea & Samaria to ensure granting of rights to Palestinian workers employed by Israelis in Judea & Samaria.



The Number of Employees in Mishor Adumim, Barkan and Ariel Industrial Zones – Israeli and Palestinian Workers





The Extent the Previous Report Deficiencies were Rectified

Audit chapter	The Deficiency Noted in the Previous Audit	The Extent of Deficiencies Rectification in the Follow-up Audit			
		Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
Security Components	Gaps in the Security Components in Judea & Samaria Industrial Zones.				
Security Officers in Factories	The security officers' order is not applied to all Judea & Samaria industrial zones.				
Security Officers in Factories	The Central Command did not define the factories that require appointment of a security officer.				
Applying Israeli labor laws to Judea & Samaria	The legislation in Judea & Samaria adopted 4 out of the 16 labor laws applied in Israel				
Audits in factories in Judea & Samaria industrial zones administrated by the State of Israel	The Regulation & Enforcement Administration of the Labor Department of the Ministry of Economy (previously known as the Ministry of Industry, Trade & Tourism) does not initiate audits about minimum wage in Judea & Samaria industrial zones. The employment staff officer had not periodically audit factories to enforce the minimum wage requirement and no policy had been set to regulate the distribution of work between the two bodies.				
Applying Workplace Safety and Health Regulations in Judea & Samaria	Workplace safety and health regulations applied in Israel have not been applied to Judea & Samaria.				



Audit chapter	The Deficiency Noted in the Previous Audit	The Extent of Deficiencies Rectification in the Follow-up Audit			
		Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
Supervision and enforcement of workplace safety and health regulations in Judea & Samaria	The Civil Administration in Judea & Samaria, the Employment Staff Officer and The Ministry of Economy has not supervised and monitored the implementation of workplace safety and health regulations in Judea & Samaria under Jordanian law and order regarding employees' employment.				
Insuring Palestinian Workers against Work Injuries	The Civil Administration had not appointed an "authority" to be in charge of insurance matters, had not enforced the provisions of the Order regarding Insurance against Work Injuries and had not ensured that Israeli employers were purchasing insurance policies for the Palestinian workers they employ outside the Israeli settlements in Judea & Samaria as specified in the order.				
Updating the City building plan for Mesila Industrial Zone	Since the Mesila industrial zone was neglected for many years, it is impossible to apply the original city building plan and a new plan, adjusted to the current situation is required but was not completed yet.				



Summary

The follow-up audit raised that some of the deficiencies noted in the previous audit were not rectified. For instance, significant security arrangements gaps were found in most of the industrial zones. These gaps constitute a security breach that might endanger the people in the industrial zones and Israeli citizens in general. Furthermore, the High Court of Justice's ruling from 2007 and the government resolution in 2014 about applying Israeli labor laws in Judea & Samaria had not been implemented by the audit completion in July 2022. Thus, 12 of the 16 Israeli labor laws ensuring the rights and well-being of Palestinian workers employed in Judea & Samaria industrial zones administrated by the State of Israel were not applied in Judea & Samaria's regional authority.

Nevertheless, the follow-up audit raised that the operation deficiencies of the Mesila and Alei Zahav industrial zones were rectified following the formulation of a new city building plan. It is recommended that the Ministry of Defense and the IDF, in collaboration with the Ministry of Economy and the local authorities, form a plan rectifying the deficiencies and fill the gaps in security components in Judea & Samaria industrial zones and submit it to the government for discussing the budgeting and operation of the plan and establish the powers and responsibilities of the relevant bodies implementing it. The IDF, Central Command, COGAT, and Civil Administration in Judea & Samaria, in collaboration with the local and regional authorities and the Ministry of Economy, should rectify the deficiencies of the industrial zones' security to ensure the safety and security of the workers employed in Judea & Samaria industrial zones.



Report of the State Comptroller of Israel |
February 2023

Interdisciplinary Audit

Evacuation of Parts of Israeli Settlements in Judea & Samaria and Attending to Evacuees

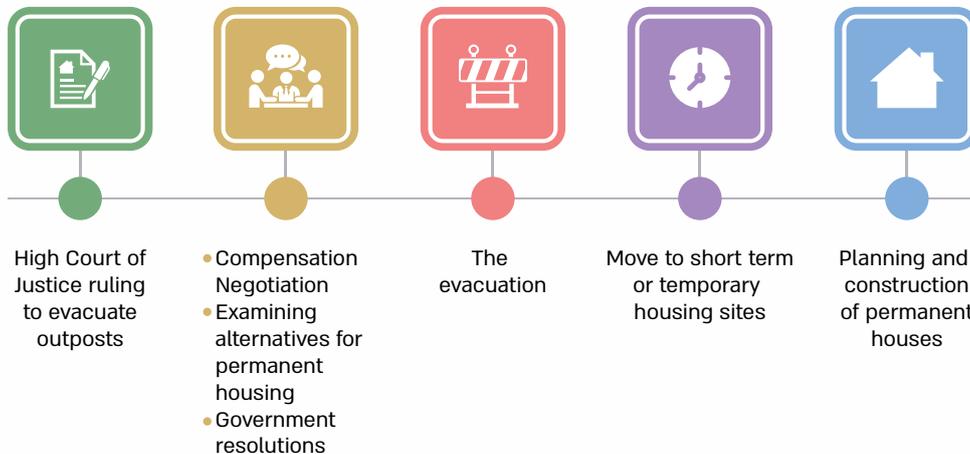


Evacuation of Parts of Israeli Settlements in Judea & Samaria and Attending to Evacuees

Background

From 2012 to 2022, 115 families were evacuated from four Israeli settlements in Migron, Amona, Ofra, and Netiv HaAvot in Judea & Samaria following High Court of Justice ruling by which these were illegal settlements built on private land and under various government decisions. The evacuation and demolition of houses where evacuees had lived for many years led to grave implications both in individual and community aspects. Following the High Court of Justice ruling, the government decided, among other things, on the short-term housing site¹ for evacuees on the evacuation day, the construction of a temporary housing site², the scope of compensation to evacuees, and the construction of public buildings and permanent houses.

Main Milestones from Evacuation to Permanent Housing



According to data collected during the audit and processed by the State Comptroller's Office.

- 1 Short-term Housing – hotels, guest houses, hostels, etc. to which evacuees were brought right after the evacuation as a short-term housing solution.
- 2 Temporary Housing – temporary housing (such as caravan and caravillas) sites designated for evacuees until permanent houses are built.



Key Figures

115

families were evacuated from Migron, Amona, Ofra and Netiv HaAvot

7 to 9 years

evacuees from Migron stayed at the temporary housing

14 months

evacuees from Amona stayed in short-term housing at Midreshet Ofra, until the establishment of temporary housing in Amichai

about 6%

allocated by the government under the decision to provide support to the evacuees from Amona, Ofra, and Netiv HaAvot, as a solution for exceptional circumstances – was not executed

45%

of the families evacuated from Migron, Amona, Ofra, and Netiv HaAvot built their permanent houses

12%

rate of erosion of compensation funds value granted to evacuees from Netiv HaAvot following the delay in building permanent houses and the lack of a compensation mechanism related to the index for evacuees' funds

Audit Actions

 From August 2021 to June 2022, the State Comptroller Office examined the handling of evacuees from Israeli settlements following the High Court of Justice ruling and the implementation of government resolutions in this regard. The examination included the relevant entities' responsibility and authority in implementing these government resolutions, the implementation of the resolution, and the lesson-learning processes. The audit was conducted in the Ministry of Defense – at the office of the Assistant Minister of Defense for Settlement Affairs, at the Logistics and Assets Department and the Department of Engineering and Construction in the Ministry of Defense, in the Ministry of Interior, Ministry of Justice, Ministry of Finance, Israel Police, the unit for the Coordination of Government Activities in the territories, the Civil Administration in Judea and Samaria and the regional councils of Mateh Binyamin and Gush Etzion. Moreover, the audit team met with former relevant officials: the former Acting Director General of the Prime Minister's Office and Cabinet Secretary, the former Consultants to the Minister of Defense on Settlement, and the Ministry of Defense's Legal Advisor.

The audit included Public participation outcomes collected through meetings with evacuees from Israeli settlements and their representatives.



Key Findings

-  **Integrative Entity in Charge of Evacuation of Parts of Israeli Settlements –** the State Commission of Inquiry to Examine " State Investigation Committee on the treatment of competent authorities in Gush-Katif and northern Samaria " noted the importance of establishing a multidisciplinary entity coordinating the handling of settlements evacuation. However, no entity was in charge of integrating the work done by the various bodies responsible for implementing the government resolutions, directing these bodies, or coordinating between them. Moreover, there was no designated entity to be approached by the evacuees, the committees representing them, and the relevant regional councils. In the absence of a single entity that guides and coordinates between the different bodies regarding the outpost's evacuation, it is impossible to carry out an optimal evacuation process or devise optimal solutions for evacuees.
-  **Monitoring the Implementation of Government Resolutions –** concerning the implementation of two resolutions, regarding the evacuation of Netiv HaAvot, included in the Prime Minister Office's follow-up report (Government Resolution 3598) and the construction of a temporary housing site for Amona and Ofra's evacuees (Government Resolution 2178), some clauses were marked as "executed", still, they were not executed or only partially executed. In addition, the reports on implementing government resolutions did not present the condition of evacuees, and the Prime Minister's Office did not hold follow up discussions about the implementation of government resolutions on parts of settlements points evacuation. Hence, government and the relevant units in the regional councils or the ministries could not detect gaps or barriers and handle them in time, for instance, by shortening the length of stay at short-term and temporary housing. The need to follow up on implementing government resolutions is enhanced given the length of stay in short-term and temporary housing. For example, Migron evacuees lived in temporary housing for seven years; Amona evacuees stayed in short-term housing for 14 months, and Netiv HaAvot evacuees stayed in temporary housing from June 2018 until the audit completion.
-  **Public Buildings for Amona's Evacuees –** following the delay in temporary housing for Amona's evacuees, they continued to live in short-term housing for 14 months resulting in an unplanned expense of NIS 5 million, which was deducted from the budget designated for the construction of public buildings in Amihai. This state of affairs raises concerns that the public buildings might not be built as planned, increasing the harm to the evacuees, with an emphasis on community activity based on public buildings.
-  **Netiv HaAvot Evacuees' Stay at Temporary Housing –** as of the audit completion, Netiv HaAvot evacuees had not moved into their permanent houses due to Palestinians'



appeals against building permanent houses in the Elazar settlement. Therefore, the evacuees had been living in temporary housing for about four years – from the evacuation day to the audit completion, despite receiving a grant for only three years. Since the evacuees continued to pay their monthly rent, the above delay economically impacted them. Moreover, the former Cabinet Secretary had not reported to the prime minister about the government resolution implementation of the evacuation of Netiv HaAvot residents every three months under Government Resolution 3598, and that the gaps related to grants intended to pay for management, maintenance, and rental fees had not been discussed by the government.

-  **Forming a Compensation Mechanism for Migron's Evacuees** – the government resolution on Migron did not include a compensation mechanism and criteria for granting compensation, similar to the mechanism formed for the Disengagement evacuees and the evacuees from Amona, Ofra, and Netiv HaAvot who were evacuated afterward. The regional council of Mateh Binyamin granted compensation to Migron's evacuees in April 2021, nine years after the evacuation, based on the compromise agreement signed with the Prime Minister's Office in November 2018.
-  **Erosion of Compensation Funds Value Granted to Netiv HaAvot's Evacuees** – the government resolutions about evacuating part of settlements points do not include a mechanism related to the index for evacuees' funds. The rate of change in the residential construction input price index between the evacuation decision date and the completion of permanent houses for Netiv HaAvot's evacuees was about 12%. Given the delayed move of Netiv HaAvot's evacuees to permanent houses, the erosion in the compensation value set for them compared to the amount estimated by the government appraiser in August 2018 is estimated at NIS 2.5 million as of May 2022.
-  **Compensating Evacuees Under Exceptional Circumstances Through a Special Committee** – the government allocated NIS 6 million to support evacuees from Amona, Ofra, and Netiv HaAvot in response to exceptional circumstances. Although the evacuees from Amona, Ofra, and Netiv HaAvot had submitted 26 support applications, as of the audit completion, the regional councils had not discussed them to advance support, partially because the Ministry of Finance had not appointed a designated professional official, according to the government resolution. Hence, the budget above, allocated by the government, had not been executed, and the purpose of the assistance was not achieved, impairing the treatment of the evacuees.
-  **Welfare Assistance to Evacuees** – the government resolutions about the evacuation of Israeli outposts did not address evacuees' welfare, despite its importance, as presented in the national commission of Inquiry report about the lessons learned from the Disengagement. As a result, no budgeted welfare plan was devised for the evacuees. Mateh Binyamin and Gush Etzion regional councils carried most of the burden of handling the evacuees. They shifted some of their budgetary and HR resources from welfare populations to the evacuees.



 **Lesson Learning Process** – as of the audit completion, there was no entity responsible for reviewing the lessons learned following the evacuation of Judea & Samaria settlements points to integrate the implementation of government resolutions by the main bodies handling the evacuation – the Cabinet Secretary, the Ministry of Defense (including different units in charge of evacuation) and the Consultant to the Minister of Defense on Settlement, relevant ministries and the regional councils to which the evacuees were moved. The following main lessons and conclusions discussed by the national commission of Inquiry concerning the Disengagement were not implemented: establishing a multi-disciplinary body responsible for the implementation of the evacuation process, refraining from using short-term housing, and preparing to transfer evacuees directly to temporary housing and permanent houses and providing welfare solutions.



Transfer of Amona's Evacuees to Temporary Housing – the State Comptroller Office commends Amona's evacuees' transfer to temporary housing adjacent to the permanent housing site in Amihai. Thus, enabling the evacuees to supervise the construction of their permanent houses, to move their property from house to house independently, and to continue to live within their community right after moving into the temporary housing site adjacent to their future permanent houses in Amihai.

Key Recommendations

-  Given the importance and sensitivity embedded in the process of evacuation of parts of settlements points and attending to evacuees, and in the absence of a regular entity integrating follow-up and responsible for notifying the government about the implementation gaps of its resolutions, it is recommended that as long as the government does not appoint such an entity, the Cabinet Secretary, based on the power vested in him under the government's bylaws, regularly follows-up the implementation of government resolutions about outposts evacuation and notifies the government about barriers and gaps found in the implementation process.
-  As a lesson learned from the Disengagement Program, recommended by the national commission of Inquiry and given the prolonged arrangement process for Migron's evacuees, it is recommended that the government adopts a comprehensive plan for advancing the construction of permanent houses and public buildings for the evacuees in proximity to the High Court of Justice ruling. This plan should include a realistic timetable allowing all concerned parties to complete their assignments, including handling unexpected issues. It is further recommended that it is done after the Ministry of Defense and the Civil Administration in Judea and Samaria, in cooperation with the relevant entities



at the Prime Minister's Office, provide proper solutions to the move into temporary and permanent housing in coordination with the relevant ministries. In addition, it is recommended that the government set the arrangement for a permanent solution and form a timetable for a rapid move to permanent houses so the evacuees can resume their routine family and community life as soon as possible.



It is recommended that the Cabinet Secretary ensure that the decision proposal submitted to the government includes a compensation fund mechanism related to the index to support evacuees (for instance, that the appraiser's evaluation is linked to the residential construction input price index). The lack of the above mechanism applied to compensation funds might lead to erosion of the fund's value that the evacuees are entitled to under government resolutions.



The regional Councils should finish the work of their special committee to submit their recommendations to the Ministry of Finance for approval. Furthermore, the regional councils and the Ministry of Finance should collaborate to execute the government support, and the Ministry of Finance should appoint a designated representative experienced in compensation arrangements to examine the submitted requests enabling the evacuees to use the designated budget determined by the government.



Any future decision proposal submitted to the government about settlements' points evacuation is recommended to include provisions for welfare solutions led by the Ministry of Welfare in cooperation with the regional councils' welfare departments. It should be accomplished through a plan including the appointment of relevant professionals, an adequate budget for regional councils' welfare departments, and a set timetable. It is appropriate that the Ministry of Welfare consider prolonging the family support plan up to a year from evacuation (according to the national commission of Inquiry's recommendations) to allow optimal adjustments to evacuation implications.



It is recommended that if no designated official is determined by the Prime Minister, the Cabinet Secretary will conduct a lesson-learning process including significant lessons raised by the entities involved in the evacuation in the past decade – lessons learned by the regional councils that hosted the evacuees and were in direct touch with them and those learned by the various ministries and the Civil Administration in Judea and Samaria. It is further appropriate that the government discuss the concentrated lessons and that it serves as a basis for a learning process.



It is recommended that the Civil Administration in Judea and Samaria monitor follow up processes of the decision making over appeals in Netiv HaAvot and act upon them. If it is necessary, it's recommended to ask the Coordinator of Government Activities in the Territories to get involved in this issue.

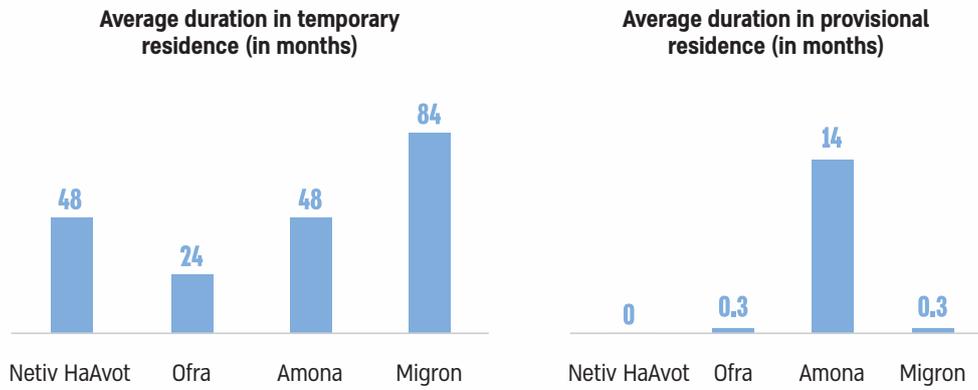


As for Netiv HaAvot's evacuees, it is recommended that the Cabinet Secretary informs the government about the delay in moving them to permanent housing and request the government to decide on additional assistance for the evacuees, given their prolonged stay



at temporary housing. It is further recommended that the Cabinet Secretary map and remove the barriers preventing the completion of the planning process and report quarterly to the Prime Minister on the progress of moving to permanent housing according to government resolution.

Average Length of Evacuees' Stay at Short Term Housing and Temporary Housing as of the Audit Completion



According to regional councils' statistics, processed by the State Comptroller Office.



Summary

This Audit includes deficiencies noted in the process of parts of settlements points and families' evacuation. These deficiencies should be considered for handling the evacuees who still have not moved to permanent houses under the government resolutions. The deficiencies should also be considered when deciding on the settlements points 's evacuation in the future if such decisions are made. By the audit, although the lessons and recommendations of the national commission of Inquiry about the "handling of evacuees of Gush Katif and North Samaria by the authorized authorities" were available to decision-makers, most of them were not implemented. There was no single integrative entity that coordinated or guided the various bodies that were given the responsibility to implement government resolutions, and the government was not informed about different problems and barriers that postponed the solutions provided to the evacuees. In the absence of such an entity, managing budgets and timetables for the evacuees are deficient. For example, some evacuees stayed in short-term and temporary housing for a considerable time, which was inconsistent with the government resolution by which all concerned parties should make all necessary efforts to arrange the sites intended to construct permanent houses urgently and immediately. Moreover, by the audit, no entity has conducted a comprehensive lesson-learning process following the evacuation of these parts of the settlements points to study and improve work processes regarding the treatment of evacuees. Given the evacuation of families from their homes is a long, sensitive, and complicated process, it is recommended that the government considers appointing a designated entity to lead, coordinate and integrate the efforts of the various ministries and local authorities to advance the construction of permanent houses and public buildings for the evacuees. That might enable the evacuees to resume their routine family and community life as soon as possible.



State Comptroller Report | February 2023

Government Defense Industries

Representation of Different Populations in Government- Defense Companies



Representation of Different Populations in Government-Defense Companies

Background

Diverse employees in an organization reflects a perception of employing different populations. Diverse employment entails many advantages, such as enhancing creativity and innovation. Diverse populations include the two genders; people with disabilities, Arab population, Circassians, Druze community; people of Ethiopian descent; Ultra-Orthodox; and new immigrants. Rafael Advanced Defense Systems Ltd. (Rafael), Israel Aerospace Industries Ltd. (IAI), and ELTA Systems Ltd.¹ (ELTA) are government companies. By the Government Companies Law, 1975 (Government Companies Law), as a rule, they must act according to the same business considerations guiding non-governmental companies. Diverse populations amongst IAI and Rafael's employees include people of Ethiopian descent, Druze community, people with disabilities, Ultra-Orthodox, and women who serve at senior executive levels. Regarding adequate representation, the following apply to governmental companies: the provisions of the Government Companies Law, Women's Equal Rights Law, 1951 (Women's Equal Rights Law), Employment Equal Opportunities Law, 1988, The Equal Rights for Persons with Disabilities Law, 1998, Extension Order for Promoting Employment of Persons with Disabilities under the Collective Agreements Law, 1957 (Extension Order) issued by the Minister of Economy in 2014 and directives of the Government Companies Authority (Companies Authority) through various circulars.

1 ELTA is a government company and a government subsidiary of Israel Aerospace Industries (IAI) and a business division in IAI. In this report the adequate representation data of the managers and employees of IAI include ELTA's data. The adequate representation data of ELTA's board of directors are presented separately.



Key Figures

615 employees

of diverse populations were employed in IAI in 2021 (4.67% of the total employees in IAI)

117 employees

of diverse populations were employed in Rafael in 2021 (1.34% of the total employees in Rafael)

**2.3%,
0.58%**

employment rates of people of Ethiopian descent in 2021 in IAI and Rafael (respectively). Employment Target in Civil Service – 1.7%

**0.16%,
0.15%**

Druze community employment rates in 2021 in IAI and Rafael (respectively). Their rate in the population – 1.6%

**2.3%,
0.58%**

employment rates of persons with disabilities in 2021 in IAI and Rafael (respectively). The employment Target according to the Extension Order is 3%

**2.6%,
0.9%**

employment rates of the Ultra-Orthodox population in 2021 in IAI and Rafael (respectively). The Rate of working age of Ultra-Orthodox in general population is 8%

**15.3%,
22.6%**

women employment rate in the three levels of senior management in 2021 in IAI and Rafael (respectively). According to the Companies Authority, the desirable employment target for women in senior management roles is 50% of all managers

0

people of Ethiopian descent as senior managers in IAI. Rafael has submitted no report addressing this issue to the Government Companies Authority

**NIS
5,650—
3,298**

average monthly "gross" gender wage gaps in Rafael (a non-representative, random sample of two employees' groups)

**NIS
4,428**

average monthly "gross" gender wage gaps in IAI (non-representative, a random sample of one employee's group)



Audit Actions

 From August 2021 to July 2022, the State Comptroller's Office audited the representation of diverse populations amongst employees and the board of directors in Rafael, IAI, and ELTA. The audit focused on the following populations: people of Ethiopian descent; the Arab population, including Circassians and Druze community; Ultra-Orthodox; people with disabilities; and women at senior executive levels. The audit was conducted in Rafael, IAI, ELTA, and the Government Companies Authority. Supplementary audits were conducted in the Equal Employment Opportunities Commission in the Ministry of Economy and Industry (Equal Employment Opportunities Commission) and in the Commission for Equal Rights for Persons with Disabilities in the Ministry of Justice (Commission for Equal Rights for Persons with Disabilities).

Key Findings



 **Figures Regarding Employing Diverse Populations in IAI and Rafael** – the employment rates of people with disabilities in IAI and Rafael (2.3% and 0.58%, respectively) are lower than those noted in the Extension Order (3%); the employment rates of the Ultra-Orthodox population (0.9% and 2.6%, respectively) are lower than the rate of working age Ultra-Orthodox population (8%). The employment rates of the Druze community (0.16% and 0.15%, respectively) are lower than the rate of the Druze community in Israel (1.6%). In addition, in Rafael, the employment rate of three out of four diverse populations – people of Ethiopian Descent (0.58%), people with disabilities (0.58%), and Ultra-Orthodox (0.9%) is lower than in IAI (2.3%, 2.3%, 2.6%).

 **Norms for Adequate Representation of People of Ethiopian Descent and the Druze community in Government Companies** – different laws apply to the Civil Service and government companies regarding the representation of people of Ethiopian descent and the Druze community. Unlike in the Civil Service, no government decision was made about the rate of adequate representation of people of Ethiopian descent and the Druze community in government companies, and the rate is at the discretion of the Company's Board of Directors. Concerning the Arab population and Circassian, there is no legislation about their representation in government companies.



- 👎 Norms for Adequate Representation of People with Disabilities in Government Companies** – the Equal Rights for Persons with Disabilities Law states that Ministries and public employers should follow the adequate representation target of 5% for people with significant disabilities. The law further defines the criteria for determining an individual as a person with a significant disability. However, the Extension Order, applied on various employers as defined in the order, including IAI and Rafael, set an adequate representation target of 3% for people with disabilities, but the conditions determining who is a person with any disability, have not been defined. It was further found that there is no mechanism enabling an employer of over 100 employees, including governmental companies, the Commission for Equal Rights for Persons with Disabilities, and the Government Companies Authority to receive information regarding the representation rate of people with disabilities, unlike the mechanism included in the Equal Rights for Persons with Disabilities Law regarding the representation of people with significant disabilities in the Civil Service and major public employers as they are defined in this law. Hence, government companies and the Government Companies Authority are not able to know whether government companies meet the people with disabilities employment target noted in the Extension Order – 3%.
- 👎 Rafael's Promoting Adequate Representation** – until June 2022, Rafael's board of directors had not discussed or taken any action to advance adequate representation of people of Ethiopian descent, the Druze community, people with disabilities, and women who serve as senior executives. Moreover, Rafael's Board of Directors had not set targets for the employment of people of Ethiopian Descent and Druze community, and by June 2022, had not taken the necessary steps for that purpose or set a policy to promote and enable adequate representation of these populations, including through designated positions and affirmative action, not in accordance with the Government Companies Law and the Government Companies Authority's circulars from 2011 and 2012. Furthermore, Rafael's board of directors had not set a target for the employment of people with disabilities, had not held a relevant discussion by June 2022, and had not formed any relevant rules. All, not according to the Government Companies Authority's circular from 2014.
- 👎 Setting Targets by the IAI's Board of Directors** – the IAI Board of Directors' Committee on Corporate Governance, Sustainability and Advancement of Women and Diverse Populations had held meetings from 2017 to the audit completion in July 2022, in which it had not approved employing targets of diverse populations and women in "senior core positions." In addition, it had not approved targets for promoting women to senior executive roles in 2021–2023. Not setting employment targets for each diverse population might compromise their employment.



-  **Position Designation** – upon the audit completion in July 2022, Rafael's management had not designated positions for people of Ethiopian descent and Druze community, and the management of IAI had not designated positions for people of Ethiopian descent, Druze community, and people with disabilities. Yet, the two companies tried to locate candidates and recruit employees from these populations.
-  **Rafael's Report to the Government Companies Authority** – until 2021, Rafael had not reported to the Government Companies Authority about the implementation of the Government Companies Law provisions regarding adequate representation of people of Ethiopian descent and the Druze community.
-  **Supervision, Monitoring, and Reporting by the Government Companies Authority** – except for queries it sent to Rafael regarding diverse populations reports, by 2022, the Government Companies Authority had not ensured that Rafael was fulfilling the obligations imposed on it in the Government Companies Law and the circulars it issued by the Government Companies Authority regarding adequate representation. Despite the legal obligation in the Government Companies Law, the Government Companies Authority had not submitted reports to the government, the Knesset's committees, and the Equal Employment Opportunities Commission regarding employing people of Ethiopian Descent in governmental companies in 2019–2020 and employing Druze community in governmental companies in 2020. Only in September 2022, following the audit completion, rather than every year, the Government Companies Authority submitted the reports above for 2019, 2020, and 2021.
-  **Representation in Board of Directors** – in 2017–2021, both genders were adequately represented in the boards of directors of Rafael, IAI, and ELTA. In some years between 2017 and 2021, the Druze community was represented on the board of directors of IAI and ELTA (a female director served for four years out of the five, and a male director served for one year out of the five, respectively). In 2017–2021, people with disabilities, people of Ethiopian descent, Ultra-Orthodox, and new immigrants were not adequately represented on the board of directors of the three companies above.
-  **Gender Wage Gaps** – sample wage figures in Rafael and IAI indicate "gross" gender wage gaps amongst the audited employee groups. Different wage components were reviewed, and the average monthly gaps added up to NIS 3,298–5,650 and NIS 4,428, respectively. The differences at Rafael are mostly related to the wage components: working extra hours, position allowance, bonuses, and car allowance. At IAI, the differences are mostly related to the following wage components: seniority, incentives, remuneration, extra hours, and general salary increments. Moreover, the average wage gap is also because the number of men who serve in senior positions is higher than the number of women who serve in such positions.



Employing Diverse Populations in IAI – the employment rate of people of Ethiopian descent in 2021 (2.3%) was higher than the rate determined for the Civil Service (1.7%).

The Government Companies Authority in 2022 Advancement of Employing Diverse Populations and Adequate Representation in IAI and Rafael Through Remuneration of Senior Managers – in 2022, the Authority allowed government companies to set adequate representation targets. Meeting these objectives would grant senior employees financial rewards.

Adequate Representation for Men and Women – there was an increase in the employment rate of women in high-level positions in IAI and Rafael in 2018–2021 – from 12% to 15.3% and from 20.6% to 22.6%, respectively. This is in contrast to 2012, when no woman was employed in high-level positions in both companies.

Key Recommendations



Rafael's board of directors should advance adequate representation of people of Ethiopian descent and Druze community as required by the Government Companies Law, and adequate representation of people with disabilities and women in senior management positions and "senior core positions" as required in the Government Companies Authority's circulars from 2014 and 2017, respectively. The company is also required to set employment targets and follow up on their implementation. It is recommended that Rafael's board of directors consider setting employment targets for additional diverse populations, such as the Ultra-Orthodox. It is recommended that the Board of Directors consider the targets set for the civil service in determining the employment targets.



IAI's board of directors should set adequate representation targets of people of Ethiopian descent and Druze community, as required in the Government Companies Law; of people with disabilities, as required in the Government Companies Authority's circular from 2014 and of women in senior positions and "senior core positions," as required in the Government Companies Authority's Circular from 2017 and follow up on the implementation. It is further recommended that in continuation of the diverse employment policy set by IAI's management, the board of directors set an employment target for the Ultra-Orthodox population. It is recommended that the board of directors consider the targets set for the Civil Service in determining the employment targets.



-  Rafael should submit to the Government Companies Authority complete reports on people of Ethiopian descent, the Druze community, and people with disabilities. Rafael and IAI should submit reports on women in senior management and "senior core positions." It is recommended that the Government Companies Authority ensure that the companies submit the necessary reports.
-  It is recommended that the Commission for Equal Rights for Persons with Disabilities, in collaboration with the Government Companies Authority, consider formulating a definition of a person with a disability, including conditions such as degrees of disability; the possibility of setting a mechanism allowing receiving information about the rate of representation of people with disabilities; and regulating enforcement powers and required reporting procedures. All are intended to ensure that employers who employ more than 100 employees, including government companies, meet the adequate representation targets set in the Extension Order. It is recommended that the Government Companies Authority update the circular issued for government companies regarding people with disabilities.



Comparison Between the Representation of Diverse Populations Rates in IAI and Rafael and the Set Targets

The Diverse Population	Employment Targets	Rate of Representation at the End of 2021	
		Rafael	IAI
People of Ethiopian Descent	1.7% employment target in Civil Service	52 (0.58%)	299 (2.3%)
Druze community	1.6% rate in population*	13** (0.15%)	23 (0.16%)
People with Disabilities	3%***	52 (0.58%)	293 (2.3%)
Ultra-Orthodox Population	At least 7% of the employees who joined the Civil Service between 2018–2020**** their rate in working age population – 8%*****	80 (0.9%)	346 (2.6%)

according to reports submitted by the Government Companies Authority to the Knesset's Committee for Immigration, Absorption and Diaspora Affairs and the Constitution, Law, and Justice Committee; the audit draft report submitted by the IAI's auditor on "Population – diversification related wage gaps" from October 2021; reports submitted by Rafael and IAI's board of directors to the Companies Authority; IAI's documents, Extension Order, based on Government Resolution 2579, "Adequate representation of Arab population, Druze community and Circassian in Civil Service" (11.11.07); Government Resolutions 1065 (28.1.06) and 1107 (4.2.16) regarding people of Ethiopian descent; Government Resolution 3268 regarding the Ultra-Orthodox population (17.12.17) and data provided by the Central Bureau of Statistics, processed by the State Comptroller Office. The data are valid for the end of the year.

* According to the employment objective in the Civil Service, the Arab population, including Druze community and Circassians, constitutes at least 10% of the employees. No separate employment target refers to the Druze community in Civil Service. According to the Central Bureau of Statistics, the rate of the Druze community in Israel at the end of 2021 was 1.6%.

** This figure as of the end of June 2021

*** The target was set as part of the Extension Order that applies to IAI and Rafael.

**** The Civil Service did not set an employment target for the Ultra-Orthodox population from 2021 onwards.

***** Data from the Knesset's Research and Information Center for 2022.



Summary

Awareness of the importance of adequate representation of diverse population groups has risen throughout the years, given its social significance and the groups' contribution to organizations. Legislation of adequate representation in Civil Service and government companies evolved, and several government resolutions have been made. The legislation and government resolutions on the Civil Service are advanced and detailed compared to those of government companies. The audit raised findings regarding the lack of determination of the appropriate representation rate for the various diverse populations at Rafael and IAI and gaps between the binding directives and their implementation.

Rafael and IAI's management and boards of directors should advance the representation of diverse populations alongside their commitment to business considerations. Moreover, enforcement by the Government Companies Authority, the Equal Employment Opportunities Commission and the Commission for Equal Rights of Persons with Disabilities is more essential to ensure Rafael and IAI meet adequate representation targets.



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Government-Owned Defense Industries

**The Financial
Statements of Rafael
Advanced Defense
Systems Ltd. – State
of the Company and
its Risks**



The Financial Statements of Rafael Advanced Defense Systems Ltd. – State of the Company and its Risks

Background

Rafael Advanced Defense Systems Ltd. (Rafael) is a government-owned company specializing in the development of munition and defense systems for air, land, and sea, as well as solutions for ICT, intelligence gathering and processing, and cyber warfare. Rafael comprises seven divisions; three of which are business divisions – Air Defense Division, Air & Intelligence Division, and Land & Naval Division. The consolidated company's financial statements include its statements and the statements of its subsidiaries (Rafael Group)¹. In 2021, Rafael Group's revenue turnover was about NIS 10 billion, 49% of which were from export, and the Group's accumulated profit, at the end of 2021, was NIS 4.5 billion. On December 31st, 2021, 9,517 employees were employed by Rafael Group; 8,019 of them were employed at Rafael.

In its annual statements, Rafael noted that it is highly dependent on the Defense budget: a significant share of the company's activity depends on the State of Israel's Defense budget, and erosion of the Defense budget or changes in Defense priorities in the state of Israel might compromise the company's engagements and financial results. It should be noted that a "continual" state budget was applied in 2019–2020²; and by Rafael's annual statements for 2019 and 2020 in light of this, there was a delay in receiving orders from the Ministry of Defense in those years.

The covid-19 global pandemic broke out in the first quarter of 2020. BY Rafael's annual statement for 2020 the definition of the company as an essential enterprise enabled it to continue functioning in a reasonable manner relative to other companies in the economy since it continued to operate and perform optimally considering the circumstances and restrictions; and it took measures allowing it to maintain its operating profit. It was further noted that the company suffered in 2020 mainly due to receiving new orders from overseas on a scale smaller than the budget target and in the operating results of some of the subsidiaries; throughout this period, there was no indication to problems related to financing the Company's activities. Rafael's annual statement for 2021 states that the spread of Covid-19 brought about disruption in the supply chain.

- 1 The financial data included in this report refer to the group's activity, unless indicated otherwise. Financial data are presented in nominal terms.
- 2 The Basic Law: The State Economy states that a "continual budget year" is a fiscal year that by the beginning of which no budget law had been passed. According to this law, in such a year, every month the government is entitled to spend 1/12 of the governmental expenditure of the previous year or of the governmental expenditure ceiling of the previous year.



In April 2021, Rafael consolidated Aeronautics Ltd. and Controp Precision Technologies Ltd. in its financial statements³.

Key Figures

**about
NIS 17.9
billion**

Rafael Group's total assets as of December 31st, 2021

**about
NIS 46.5
billion**

Rafael Group's Revenues in 2017–2021

about 50%

of Rafael's revenues derive from the Defense budget

13%

decline rate in Rafael's operating profit from its sales revenues from 2017 (6.1%) to 2021 (5.3%)

**NIS
663 million**

the total current dividends declared by Rafael in 2017–2021, compared to cumulative revenues of about NIS 46 billion and accumulated net profit of over NIS 2 billion

only 4 directors

served on Rafael's board of directors as of the end of 2021

Audit Actions

 From October 2021 to July 2022, the State Comptroller's Office examined aspects of Rafael's business and financial status, as presented in its Annual Financial Statements for 2017–2021 (the examined period) and in its documents. In addition, corporate governance aspects were also examined. The audit was conducted at Rafael. Supplementary audit actions were conducted at the Government Companies Authority, the Ministry of Defense (IMOD), and Israel Aerospace Industries Ltd. (IAI).

The sub-committee of the State Control Committee of the Knesset decided not to submit the full report to the Knesset but rather to publish only sections of it, to avoid harm to the state's international commercial relations under article 17 of the State Comptroller Law, 1958 [consolidated version].

³ Rafael and Aeronautics hold an equal share (50%) of Controp. Aeronautics and Controp's financial statements were initially consolidated on April 1st, 2021, after Rafael gained control of Aeronautics.



Key Findings



Revenues & Profitability

- In 2020–2021, Rafael Group's sales revenues decreased (Aeronautics and Controp's data excluded) by 3% and 1%, respectively. In those years, Rafael Group did not fully meet the budget targets. Rafael's sales revenues in 2017–2021 were about NIS 9.3 billion a year on average, 38% lower than that of Elbit Systems Ltd., and 33% lower than that of IAI (and approx. 10% lower than the military sector of IAI).
- About 50% of Rafael's sales revenues derive from the Defense budget. It leads to high dependency on the Defense budget and may compromise the company's business results in case of budgetary instability or a decrease in the Shekel-based Defense budget.
- The gross, operating, and net profit of Rafael decreased in 2017–2019 by 1.6%, 0.8% and 1.4%, respectively.



Overseas Order Volume – in 2017–2021, the volume of overseas orders Rafael received (solo) was about 53% on average out of all orders, which is 7% lower than the stabilization targets set in Rafael's strategic plan for 2021–2030 – 60%. In 2021, there was a 12% reduction in the relative rate of overseas orders compared to 2020, and the average rate of overseas orders in 2020–2021 decreased by 9% compared to 2019.



Profitability Embedded in the Order Backlog – the rate of gross profit embedded in the order backlog of the main projects⁴ increased in 2017–2020 by 2.6% from 16.7% to 19.3%; in 2021 it decreased by 0.9%. In 2018–2021 there was an evident trend of decrease in the rate of project profitability⁵ embedded in the order backlog of mixed projects⁶ and in main development projects (an accumulative reduction of 3.6%), as opposed to a 4% increase in profitability rate of production-based projects. These changes, and the consistent decrease in project profitability in 2020–2021 in particular, present a change in the upward trend that was typical of Rafael's order backlog profitability in 2018–2019. Moreover, the average gross profit rate embedded in the order backlog of the main projects in 2017–2021 is 3.2 percentage points lower than the company's (solo) average gross profit in those years.

4 Approx. 150 projects (annual average) between 2017–2021 intended for the local market and export, were ordered on the basis of "fixed price" engagement, the volume of each is over USD 10 million.

5 Project Profitability – gross profit minus general and administrative expenses and minus selling and marketing expenses, not including R&D costs which are calculated in accordance with accounting principles.

6 Mixed Projects – projects that include Development and Production.



Change in Multi-Annual Profitability of Main Projects

- As of December, 31st, 2021, the accumulative volume of orders deriving from Rafael's 163 main projects at that time was NIS 51 billion; out of this amount NIS 28 billion were recognized as revenues in Rafael's solo statements. The forecast of average project profitability and operating profitability rates for December 31st, 2021, in mixed projects (projects designated for both the local market and for export) and in export development projects is lower than the forecast of profitability rate of these projects on order date.
- About half of the predicted operating loss as of December 31st, 2021, from some of Rafael's projects, originates from several IMOD development projects; the loss is attributed to Rafael's R&D costs (internal R&D).

 **Rate of Payroll Cost from Sales** – the rate of payroll cost out of sales revenues increased by 4% in 2018–2021. Furthermore, compared to a 5% average increase in the workforce and a 3% average increase in sales revenues in those years, the payroll cost increased by 13% (more than twice of the increase in the workforce), and the average payroll cost per employee increased by 7%. In 2021, the total payroll costs and payroll costs per employee increased by 3.6% and 2.5%, respectively. The increase in the index of wage costs relative to sales revenue directly affects the company's profitability and competitiveness.

 **Meeting Contract Milestones** – there is a certain gap in meeting milestones in Rafael's projects.

 **Investment in Investee Companies** – in 2017–2021, Rafael partially implemented the annual budget for acquisitions of company shares. The accumulative net profit of Rafael's investees before amortization⁷ in 2017–2021 was about NIS 264 million compared with a higher forecast. Regarding accumulative net profit after amortization in 2017–2021, the investees lost a cumulative sum of about NIS 16 million as opposed to the profitability forecast.

Distribution of Dividends

- In 2017–2021, Rafael declared NIS 663 million of current dividends out of a net profit of over NIS 2 billion and total revenues of over NIS 46 billion. In 2019–2021, Rafael's board of directors did not carry out a process of determining the sum of the current dividend and date of payment as required by the relevant Authority's circular, and the Government Companies Authority did not insist on the execution of such a process.

⁷ Amortization of surplus on investment, goodwill and intangible assets.



- Government resolutions on receiving special dividends from governmental companies were not fully implemented.

Staffing of Rafael's Board of Directors – as of the end of 2021, the number of directors at Rafael (with an annual revenue of NIS 10 billion) was only four. Companies classified by the Government Companies Authority as having a level of complexity similar to that of Rafael (such as Israel Electric Corporation and IAI), a minimum number of directors was defined for the activities of the Board of Directors, while Rafael did not define this number. For comparison, although the date of the directors' first term termination was known in advance, the authorized ministers and the Government Companies Authority had not reappointed the directors or appointed new ones, so at the end of 2021, only four directors served at Rafael's board of directors, as opposed to ten directors at Israel Electric Corporation and nine directors at IAI.

Appointment of an Auditing Accountant – given the deficient panel of the committee in charge of appointing auditing accountants, auditing accountants have not been replaced on time at governmental companies for an extended period. The same auditing accountant has served at Rafael for over 15 years, contrary to governmental companies' regulations.



Increase in Order Backlog Volume – in 2017–2021, Rafael Group's order backlog increased by about 19.5%, and by 16%, without Aeronautics and Controp's order backlog. This while contending in 2020–2021 with the effects of Covid-19 and a "continual state budget." On December 31st, 2021, the Group's order backlog was about NIS 28.8 billion, which are 2.9 times its annual revenues for the same year. Such order backlog provides the company with income security for the medium term.

Key Recommendations

Revenues and Profitability – it is recommended that Rafael's management consider measures necessary to meet sales revenues targets included in the budget; examine the extent and characteristics of the company's dependency on the IMOD, including as its major client, and form an action plan to mitigate the entailed risks. Moreover, it is recommended that Rafael's management review the causes that hinder its operating profit and define the measures necessary for increasing it.

Change in Main Projects' Multi-Annual Profitability – it is recommended that Rafael's management review the assumptions and estimates used to determine the forecast of profitability rates at the time of ordering. It is further recommended that Rafael's management analyze the causes for the decline in projects' profitability throughout the



years and present its findings, including the necessary measures to minimize this trend, to the board of directors. As for the company's activities in the local market (especially with regards to the IMOD) about all types of projects – it is recommended that the company's management examine it, present the findings to the board of directors to form guidelines, about, for example, the minimal profitability needed for such activities. Moreover, these guidelines should be anchored in the company's signature authorization policy.



Meeting Contract Milestones – it is recommended that Rafael's management continue to examine the management and control processes of specific projects, in which there were certain gaps, from the initiation and quoting stage to their current implementation status. It is further recommended that Rafael's management and board of directors get more involved in the issue, particularly in the detailed analysis of the reasons and lessons learned and their assimilation into the company's activities.



Investment in Investee Companies – given the gap between the forecasted results of the investees and the actual results, it is recommended that Rafael's management examines the quality of its forecasts and form more accurate measures for future estimations. It is further recommended that the company's board of directors continue to follow up on the performance of the investees, including the reasons for the losses from the investments thereof, the added value that they are supposed to provide to Rafael, including income deriving from dividends and profit distribution and the companies value targets.



Distribution of Dividends

- It is recommended that the Government Companies Authority follow up on implementing of its guidelines regarding the dividend distribution and reporting thereof, and if needed, act vis-a-vis the board of directors. In addition, it is recommended that the Authority form a plan for implementing government resolutions regarding special dividend distribution, including guidelines and implementation mechanisms, and have it approved by the government.
- Rafael's Board of Directors should hold an annual discussion before the yearly statements are approved on the designation of its profits, and decide whether the company can meet its obligation to distribute current dividends at 50% of its profits.

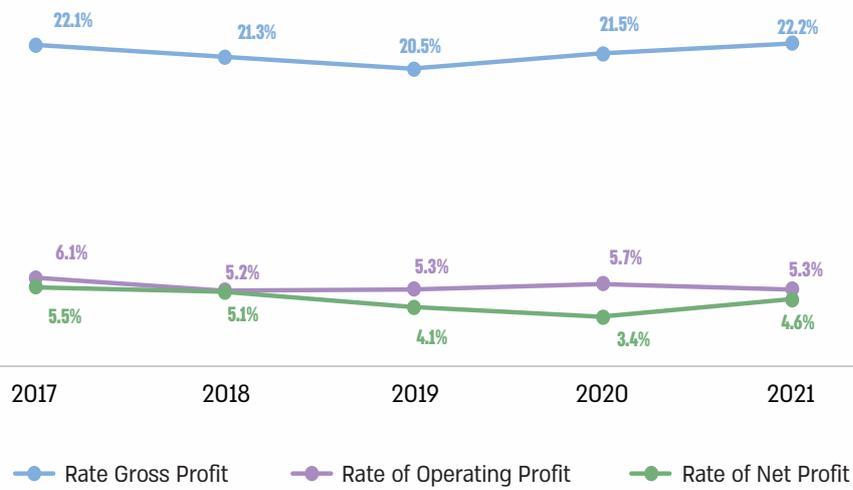


Staffing of Rafael's Board of Directors – It is recommended that the Government Companies Authority, in coordination with Rafael, consider changing the Company's articles of association and set a minimal number of board members, considering the size of the company and the complexity of its activity. It is further recommended that the authorized ministers and the Government Companies Authority, according to its role on that matter, ensure that the process of selecting new directors on behalf of the state or extending the term of serving directors starts in time, before the end of the term. Moreover, it is recommended that the Government Companies Authority consider forming an accelerated appointment process for an additional service term of directors in governmental companies;



that a gradual turnover of directors is implemented, and that the possibility of determining a differential term duration for the company directors is considered, according to the companies' complexity level and classification.

Rate of Rafael's Gross, Operating and Net Profits, 2017–2021



According to Rafael Group's financial statements for 2017–2021, processed by the State Comptroller Office.



Rate of Operating Profit in Israel's Three Major Defense Industries, 2017–2021



According to the financial statements of Rafael, IAI, and Elbit Systems Ltd. for 2017–2021, the average annual exchange rate according to the Bank of Israel data, processed by the State Comptroller Office.

* Including data of Aeronautics Ltd. and Controp Precision Technologies Ltd.



Summary

Rafael, one of the major governmental companies in Israel, has advanced and unique capabilities and technologies, engaged in defense, including the development and manufacture of weapons for the IDF and the sale of a range of defense related products around the world. Maintaining Rafael's business and financial stability is one of Israel's defense and economic interests. Analysis of Rafael's business results in recent years indicates that alongside accumulative revenues of NIS 46.5 billion in 2017–2021, and accumulative profits of NIS 4.5 billion as of December 31st, 2021, the company faced some difficulties, including a decline in revenues (without taking subsidiaries into account) in 2020–2021; a decrease in operating profit compared to 2020; operation loss forecasts in several projects; certain gaps in the contracts milestones and difficulty in meeting some of its business objectives.

It is recommended that the Company's management update its strategic plan, given the findings and recommendations noted in this report and according to the financial targets agreed upon with the Government Companies Authority. The plan should be examined and approved by the Board of Directors. It is further recommended that the Government Companies Authority follows up on the process of devising the strategy and implementing it.



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Chapter Third

Special classified Audit Reports



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State Comptroller Report

The Government and the Defense System Preparedness Against Third Cycle Threats



The Government and the Defense System Preparedness Against Third Cycle Threats

The state Comptroller Office audited The Israel Government and Defense System preparedness against third cycle threats. To protect the state's security and under Section 17 of the State Comptroller's Law, 1958 [Consolidated Version], the state comptroller decided not to submit the audit report before the Knesset, nor to publish it.

