



Report of the State Comptroller of Israel | May

Law Enforcement and Collection
Authority

The Center for Collection of Fines at the Law Enforcement and Collection System Authority



The Center for Collection of Fines at the Law Enforcement and Collection System Authority

Background

The Center for Collection of Fines, Fees, and Expenses at the Law Enforcement and Collection System Authority (the Center) collects debts for the State Treasury and public bodies and compensation awarded to victims of crime in criminal proceedings. The types of debts collected by the Center are fines (such as traffic fines and administrative fines), fees (such as Israeli Corporations Authority's fees), and expenses (such as expenses awarded by the court). For collecting debts, the Center was granted collection powers such as imposing confiscations on various bodies, spreading or postponing payments, granting exemption from arrears addition, and requesting debtor's information from public bodies.



Key Figures

**about NIS
2.3 billion**

the Center's total debts collection, out of a total of NIS 5 billion, in 2017–2021

**about NIS
2.6 billion**

the total of arrears addition, interest and linkage differentials, and collection expenses out of the balance in the open cases handled by the Center, about NIS 6.8 billion (as of February 2023)

472 days

have passed, on average, from the case's receipt date at the Center to the first collection procedure. During this, linkage differentials, interest and arrears are added to the debt

**about
3 million**

debtors throughout the years

**about
600,000
confiscation
orders**

the Execution Office sent to the Tax Authority in 2019–2021 were not handled by the Tax Authority (about 85% of the orders sent to the Tax Authority)

**about NIS
350
million
about NIS
102
million**

total of arrears additions erasures by the Center in 2019–2021 and the total of debts relieved by the Supreme Committee for Compromises, Deletions, and Arrangements in the Ministry of Finance in 2022, respectively

22%


the collection rate of compensations for crime victims (NIS 84 million out of NIS 382 million), which is less than half the rate of other debts (49% – NIS 2.24 billion out of NIS 4.57 billion)

39%

debtors' payments rate (NIS 896,969 out of NIS 2,294 million), which were not transferred to victims of crime in November 2020 – December 2021 under the Priority Rules in the Compensation Law but instead channeled to the state



Audit Actions


 From September 2021 to October 2022, the State Comptroller Office audited various aspects of the Center for Collection of Fines, Fees, and Expenses, the debt collection management process that includes the receiving of files, sending demands for payment, and implementing various collection procedures; the debt spread mechanisms, reduction of arrears addition and debts relief; managing the debt collection proceedings for victims of crime and the contact with crime victims. Supplementary examinations were conducted in January and February 2023.


The audit was conducted at the Center for Collection of Fines at the Law Enforcement and Collection System Authority and the authority's headquarters. Supplementary examinations were conducted at the Ministry of Finance, The Courts Directorate, the Israel Tax Authority, and the Israel Prison Service. The Center was previously audited in 2012¹.

Key Findings



Debt Collection Process at the Center for Collection of Fines, Fees, and Expenses


 **The Scope of Debt Collection** – since the Center was established in 1995 and until 2021, the Center received cases that included principal debt at NIS 8.4 billion. By January 2023, NIS 6.9 billion was collected, including arrears addition, interest, and linkage differentials and expenses. As of February 2023, the debt balance was NIS 6.8 billion, of which NIS 2.6 billion is due for arrears addition, interest, and linkage differentials and expenses.


 **Collection Policy According to Debt and Debtor's Characteristics** – the center does not implement a collection policy based on the type of debt, its scope, or the debtor's profile. Instead, it follows the same procedures for all debtors, thus compromising the effectiveness of collection. It was found that the higher the debt, the lower the collection rate. Following, on average, the collection rate in cases with a debt of up to NIS 1,000 was 58%; the collection rate in cases with a debt of NIS 1,000–10,000 decreased to 34%; the collection rate in cases with a debt of NIS 10,000–100,000 was


1 State Comptroller, **Annual Report 63c** (2012), "The Enforcement Authority vs. creditors and debtors", pages 1161–1187.





33%, and in cases with a debt higher than NIS 100,000, the collection rate was only 10%.

 **Receipt of Pre-due Debts (Pre-debt Cases)** – in 2016, the Center began to receive pre-debt cases for collection. By January 2023, 6.9 million pre-debt cases were received at the center, at a total debt of NIS 4.2 billion, out of which 3.9 million cases (56%) were closed with payment at the pre-debt stage, 2.8 million cases (40%) were not paid by the debtors on time, and thus were classified as debt cases and 278,941 files (4%) were not due yet at the time the audit was conducted. A debtor who wishes to repay his debt at the pre-debt stage is not entitled to a debt spread.

 **Delivery of Demands for Payment to Lawful Debtors (legal notice)** – examination of the cases that were opened at the Center in May and June 2017–2021 raised that the average time between the receipt date at the center and the date on which the second demand for payment was lawfully delivered was almost a year (344 days). Arrears additions and interest and linkage differentials are accumulated during this period. As of the audit date, hundreds of thousands of cases were not handled adequately by the Center, and legal notices have not been sent.

 **Taking Legal Action Before Legal Notices for Payment** – in 2020–2021, the Center appealed to the Registrar regarding six debtors (while in those years, there were 623,360 active cases in which No Legal notice has yet been made and legal actions were not taken), asking to commence debt collection procedures before sending a demand for payment due to a reasonable concern that the debtors would conceal assets or leave the state.

 **Information on Debtors** – although the Center is authorized to receive information on the debtors for debt collection purposes, at the beginning of the collection procedures, the Center has limited information that only includes debtors' information specified on the Population Registry. Insufficient information on debtors' assets makes the collection process more challenging. Thus, with no information on the debtor's bank accounts, the Center sends confiscation orders, at NIS 3 per order, to 9 different banks to locate the relevant bank accounts. The debtors are charged with the confiscation management fees. According to the Center's data, the cost of bank account confiscation conducted in 2017–2021 was NIS 27 million.

 **Confiscations** – the average time between the date of legal notice (after which confiscation proceedings may commence) and the confiscation proceedings date was 128 days (over 4 months). This time increases the risk of concealing or transferring assets to another person, decreases the Center's chances of collecting the debt, and, in some cases, increases the debt due to linkage differentials, interest, and arrears additions. Following, for instance, a traffic fine of NIS 1,000 that is not paid on time is increased by NIS 500 due to the addition of arrears it accumulates over 472 days (344



days from the due date to legal notice and another 128 days) and arrears of an additional NIS 100, so at the end of that period, the total debt is NIS 1,600.



Confiscation by Israel Tax Authority – in 2019–2021, the Execution Office sent 717,257 confiscation orders to the Tax Authority; however, the Tax Authority did not handle 85% of the orders (608,206). It was further found that the tax authority transfers confiscation orders that are not received by the Tax Authority's systems after a specific time for eradication and, in practice, are not treated. The cases of debtors against whom confiscation orders were issued and handled by the Tax Authority had credit balances of NIS 8.48 million that were transferred to the Execution Office. Based on the Tax Authority data, if it had handled all confiscation orders it could have sent to the Execution Office (rather than 15% of them, which yielded NIS 8.5 million), dozens of millions in 2019–2021.



The Rate of Additions According to the Debt Balance – the rate of linkage differentials, interest, and arrears additions for debts of up to NIS 1,000 is 35% of the total debt (a total of NIS 486 million added to the principal of NIS 870 million), as opposed to 17% for debts of NIS 100,000 and higher (a total of NIS 87 million added to the principal of NIS 416 million)².

Debt Arrangements – Debts' Relief, Debts' Reduction, and Debts' Spread



The Center's Committee's Decisions on Civil Debts' Principal Relief – before the Debt Relief Committee's meetings, the Center does not collect data about the feasibility of debt collection. Therefore, the above committee does not have sufficient information to check whether sufficient attempts have been made to collect the debts. This includes examining the realization of collateral and liens.



Criteria for Debts Relief and Reducing Arrears Additions by the Center – it was found that some of the Center's policy criteria regarding requests to relieve debts or reduce arrears additions do not reflect the actual financial abilities of the debtors to pay off their debts since they grant the debtor some credit points even if the debtor's financial ability does not meet the criteria of low income. For example, amongst the economic considerations specified in the policy, there are considerations such as "four or more children under the age of 21" and "resident of the territories," regardless of the debtor's income.



Transferring Criminal and Civil Debts Expired or Postponed to the Debt Relief Committee at the Ministry of Finance – in January 2022, the Settlement, relief, and Arrangement Committee at the Ministry of Finance, based on the Center's

2 It should be noted that many of the debts of up to NIS 1,000 derive from traffic fines with 50% arrears addition which is added right after due date, regardless of collection procedures, and that might be the reason for the high rate of additions added to these fines.



recommendations, relieved debts at NIS 102.5 million, due to debts' expiration and failure to send legal notices to debtors.



Using Information from Public Bodies for Consideration of Requests for Reduction of Arrears Additions – decisions to reduce arrears additions are made by the Center based on the data attached by the debtor to his application with no database check to verify the claim in the application, although the Center has access to the relevant databases.



Publication of the Possibility of Drawing Up a Debt Arrangement – the criteria the Center uses to discuss requests for reduction of arrears addition due to exceptional circumstances are not published and are not brought to the attention of the debtors interested in filing the requests. Although they constitute administrative instructions. In addition, the Center's management has not published the debt spread options instructions implemented at the Center.

Collection of Compensation for Victims of Crime



Collection of Compensation for Crime Victims – in 2017–2021, the annual rate of collection of compensation for crime victims was 22% on average (NIS 84 million out of NIS 382 million were collected), while the rate of debt collection for the state in those years was 49% on average (NIS 2.24 billion out of NIS 4.57 billion were collected). I.e., the collection rate in compensation cases is less than 50% of the collection rate of other debts.



Seizure of Debtor's Assets Before Sending Demands for Payment – the Center has no guidelines for identifying in advance cases in which there is a concern of asset smuggling by the debtor. In addition, requesting the Registrar to perform assets seizure at an early stage of the opening the case at the Center is only done following the Israel Police or another enforcement agency information that funds have been seized, and there is concern that if they are returned to the debtor, he will smuggle them out.



Taking the First Collection Procedure in Compensation Cases for Crime Victims – in 2,818 (31%) compensation for crime victims' cases opened at the center in 2017–2021, no collection procedures were carried out until September 2022 (audit end date). In cases in which collection proceedings were carried out, the first collection procedure was carried out after an average of 368 days from the opening date of the case at the Center (251 days until the legal notice is sent and another 117 days until the first collection proceeding is initiated), and not under the center rule requiring collection proceedings to be carried out within 30 days from the legal notice of the second payment demand.

Examples of Cases in Which Collection Proceedings had been Delayed for Years:

1. In a compensation case, a minor whose father sexually abused her multiple times was awarded NIS 200,000 as compensation. The court's verdict was given in January



2019, and the compensation funds were to be paid by March 2019. The compensation case was received at the center the day after the court's decision was made; however, the Center initiated the first collection proceeding only 20 months after the due date. Only NIS 5,435 were collected until the audit end date.

2. In a compensation case, four children, one of whom is a minor whose father murdered their mother, were awarded NIS 258,000 as compensation. The court decided in December 2018 that the debt would be paid by March 2019. The compensation case was received at the Center in January 2019. The first collection procedure was conducted over 14 months after the due date. Only NIS 3,846 were collected in this file until the audit end date.



Implementing the Article of the Law Regarding Priority Rules on Compensation

— from November 2020 to December 2021, NIS 2,294 million was paid by debtors who also have active compensation for victims of crime cases. Out of the total above, NIS 896,969 (39%) were not transferred to crime victims under the Priority Rules but instead transferred to the State.



Pre-debt Cases — from 2016 to January 2023, 6.9 million pre-debt cases were received at the Center with a debt scope of NIS 4.2 billion. To streamline the process and avoid collection expenses, the Center updates debtors on pre-debt cases through text messages, although it is not required.






Computerized Confiscations — there is a consistent rise in using online interfaces at the Center to streamline collection procedures in governmental bodies — the number of online processes quadrupled within five years (from 296,048 computerized confiscation orders issued in 2017 to 1,230,686 computerized confiscation orders issued in 2021).

Computerized Interfaces for Sending Cases to the Center — the computerized interface between the Center and the bodies that impose the charges, including the Courts Directorate, identifies errors made at the stage of case opening and alerts the body that imposes the charge so that it can fix the error immediately.




Key Recommendations




Debt Collection Process at the Center for Collection of Fines, Fees, and Expenses

-  It is recommended that the Center examine the duration of the collection process stages and the possibility of shortening them. In addition, the Center should consider improving the location of debtors, the handover of payment demands, and other methods to shorten collection proceedings.
-  It is recommended that the Center learn from the hundreds of thousands of active cases in which there was no legal notice (in some cases after several years of failed attempts) about the warning signals that indicate, at the initial stages, that there is a reasonable concern of assets concealment or debtor disappearance. Therefore, the Center should consider the construction of such characteristics that, once met, will be appropriate to apply to the Registrar for initiating collection proceedings before submitting a payment demand.
-  It is recommended that the Center thoroughly examine, once in a while, the public bodies that keep relevant information and the types of information that might be used for locating debtors' assets efficiently to minimize additional costs for the State and for the debtors, as well as minimizing violation of debtors' privacy. If the information above is granted, the Center should consider the necessary balance between the need for information and the duty of handling debtors proportionally with minimal violation of privacy. Following such deliberation, the Center's Department of Financial Investigations might also use the information to locate debtors who conceal assets.
-  The Tax Authority should verify that all confiscation orders transferred to it are handled appropriately. The Enforcement Authority and the Tax Authority should cooperate to establish the interfaces between them and prevent the Tax Authority from transferring state funds to people who have active debts registered at the Execution Office or the Center. This includes completing the construction of the computerized interface between them in 2023 according to the established work plan.
-  It is recommended that the Center consider adjusting the collection process while differentiating between the types of files and debtors based on broad data mapping and analysis.




Debt Arrangements – Debts' Relief, Debts' Reduction, and Debts' Spread

-  While making decisions on debt relief, the Center should attach importance to the actions taken to collect the debt and the possibilities of collecting it in additional collection proceedings.



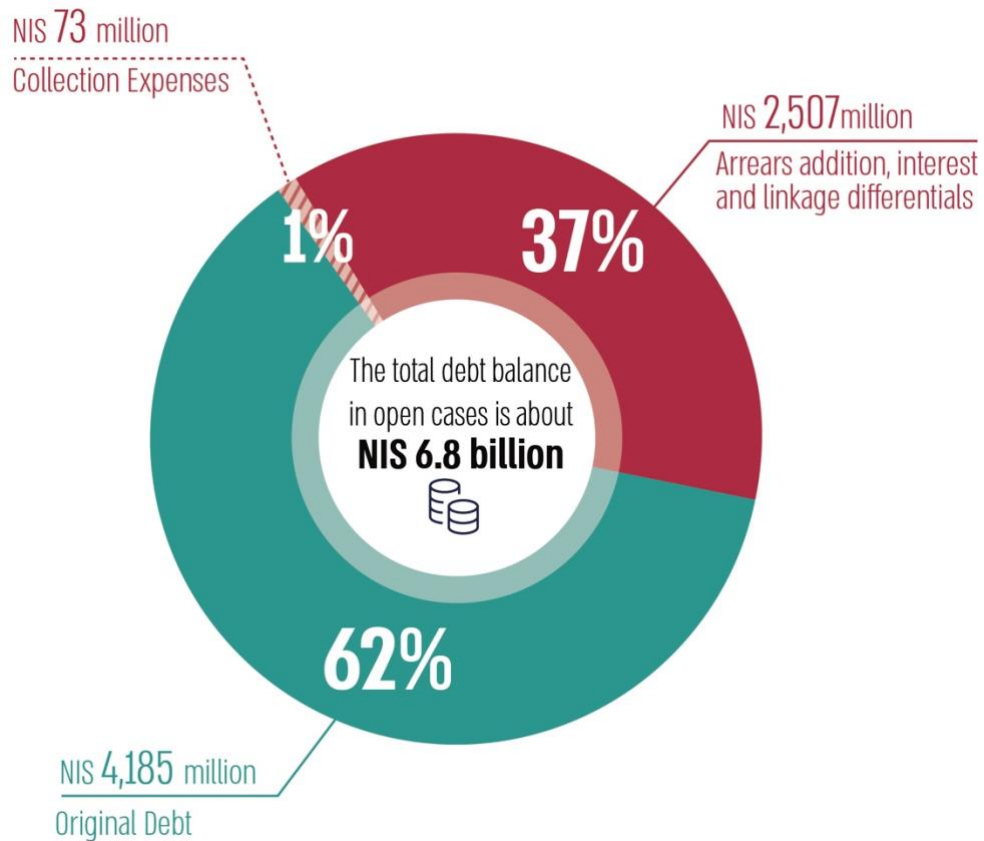
-  It is recommended that the Center establishes a debt hierarchy and types of independent and automated examinations conducted for each level of procedure, according to the information it receives from other public bodies through online interfaces, and present this information to the decision-makers at the Center before a decision on debt spread or reduction of arrears addition is made.
-  It is recommended that the Center form a list of specified criteria for deciding on requests to relieve debts or reduce arrears additions, which shall relate measurably, among other things, to the debtor's financial ability to pay the debt as prescribed by law.
-  It is recommended that the Center notifies debtors of the criteria used when examining requests to reduce arrears additions or allow debt's spread.

Collection of Compensation for Victims of Crime

-  The Center should examine why collection proceedings were not carried out in 31% of the cases where a Legal notice was made; review the time it takes to initiate collection proceedings and the low collection rate in compensation cases, and improve the situation.
-  It is recommended that the Center management form a procedure to refer to the Registrar cases in which there is a suspicion of asset smuggling by the debtors, including the examinations when receiving the case. Moreover, the Center should notify crime victims that it might apply to the Registrar to conduct assets seizure before sending a demand for payment.
-  The Center should act under the Priority Rules and transfer to the compensation cases the funds collected from debtors that were unlawfully transferred to their other open debt cases and ensure the violations do not reoccur.



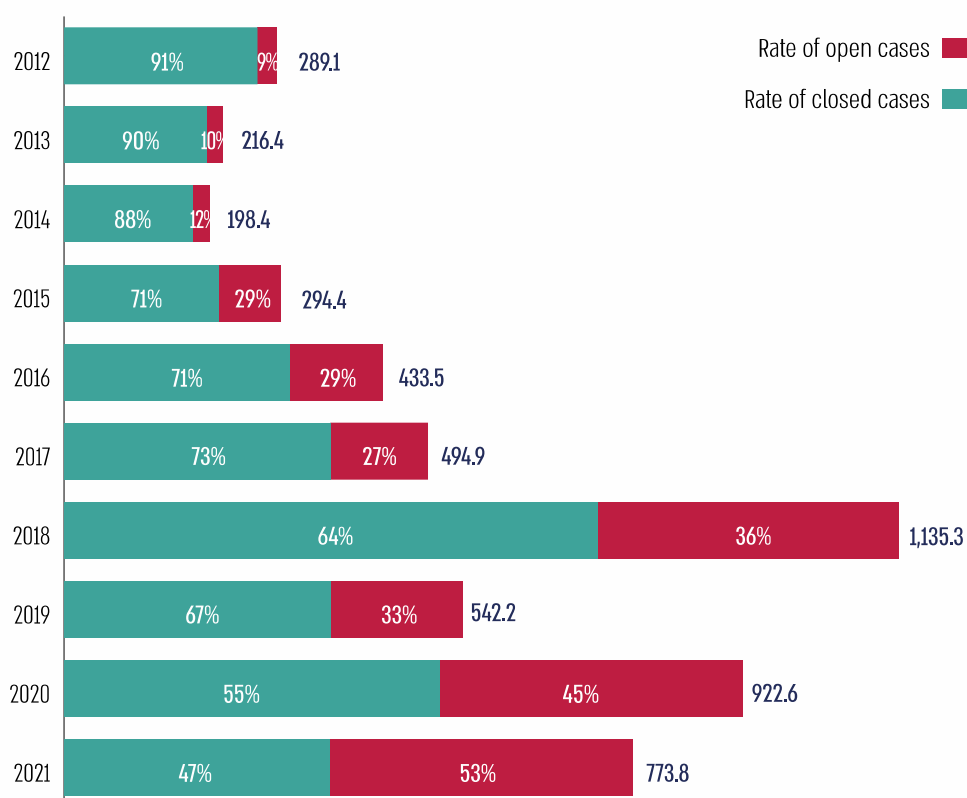
Details of Debt Balance Components in Open Cases that are not Frozen, February 2023



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



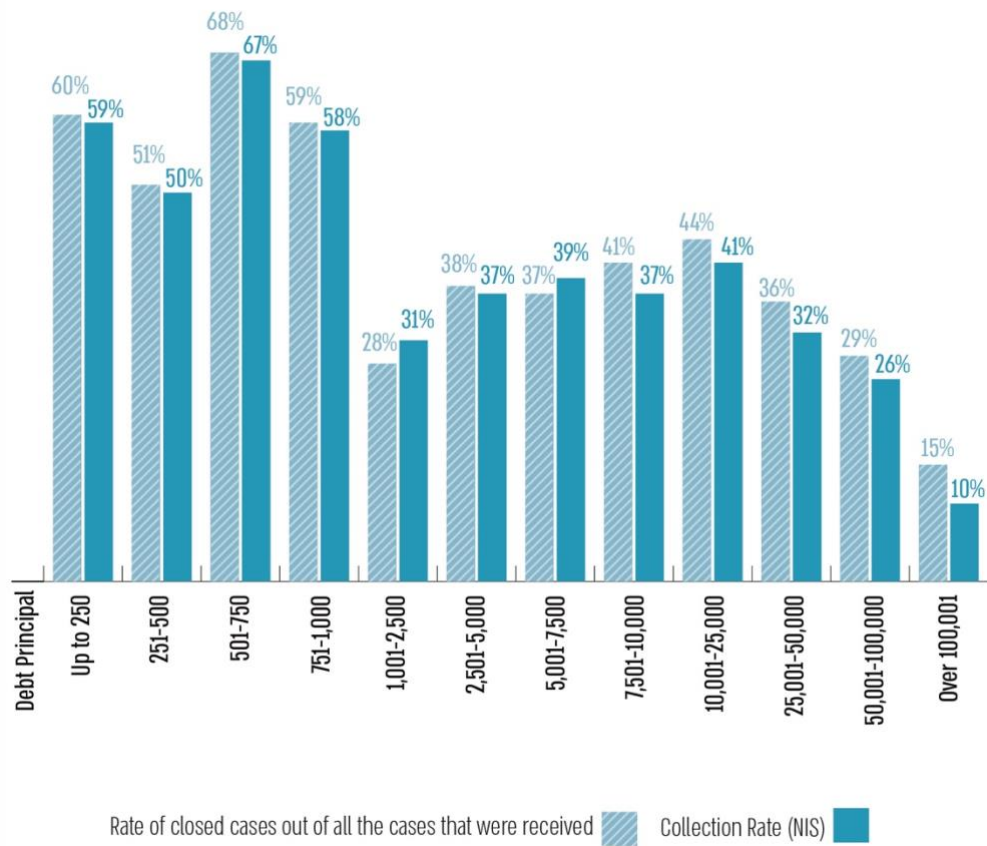
The Rate of Open and Closed Cases at the Center on Audit Date and the Overall Number of Cases According to Their Receipt Year, 2012–2021



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



Distribution of Received Cases at the Center in 2017–2021, According to Debt Principal, the Rate of Closed Cases Out of the Total Number of Cases and the Collection Rate (in open and closed cases)



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



Summary

The collection of fees, fines, and expenses for the state and the collection of compensation awarded to crime victims is essential to maintaining good governance and equality. The Center was established to increase the collection rate and optimize the process, given the inadequate performance of the previous collection mechanisms. The number of debt cases transferred to the Center multiplied by 2.5 in 2012–2021. In 2017–2021, the Center received about 3.9 million cases with a total debt of NIS 5 billion (including arrears addition, linkage differentials, interest, and expenses), out of which it managed to collect a sum of NIS 2.3 billion (47%). To deal with the increased volume of activity, the Center turned most of the stages in the process into computerized and automated stages.

This report raises deficiencies over three significant areas of the Center's debt collection process compromising collection efforts.

1. Managing the various stages of the debt collection processes: the stage of receiving the case at the Center, the stage of sending the payment demand, and the stage of initiating various collection proceedings;
2. Mechanisms used for debt spread, arrears addition reduction, and debt relief;
3. Managing the process of collecting debts for crime victims and contact with the victims.

Deficiencies were found regarding the duration of the various stages of the collection process, manual work processes, and computerized interfaces with external entities. Due to insufficient collaboration between the different entities, the State might return funds to civilians for multiple reasons and, at the same time, initiate debt collection proceedings against them. Moreover, deficiencies were found in the process of debt relief, reducing arrears addition, and regarding the effectiveness of collecting compensation for crime victims.

Furthermore, the center does not implement a collection policy based on the type of debt, its scope, or the debtor's profile but instead follows the same procedures for all debtors, compromising the effectiveness of collection. It was found that the higher the debt, the lower the collection rate. Following, on average, the collection rate in cases that included a debt of up to NIS 1,000 was 58%; the collection rate in cases that had a debt of NIS 1,000–10,000 went down to 34%; the collection rate in cases that included a debt of NIS 10,000–100,000 was 33%, and in cases that had a debt higher than NIS 100,000, the collection rate was only 10%.

The Center should optimize the debt collection process and shorten the time to collect debts to minimize expenses for the public and the debtors. It is recommended that the Center characterize additional actions that should be automated and expand the mechanism to receive cases at the pre-debt stage to optimize collection. Furthermore, the Center, the various governmental ministries, and the Accountant General should establish work interfaces and adjust the repayment and debt collection systems to guarantee efficient collection



proceedings and minimal expenses while insisting on repayment of debts and maintaining debtors' privacy. It is further recommended that the Center uses all its tools to prevent the concealment of assets by debtors and adjust the collection proceedings to the type of debt, its scope, and the debtor's profile. Moreover, the Center should guarantee, as much as possible, the right of crime victims to receive compensation as quickly as possible as was decided by the court.