



State Comptroller of Israel | Local Government Audit  
Report | July 2024

Social Audit

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# **Employment of Workers Through Service Contractors in Local Authorities**





## Employment of Workers Through Service Contractors in Local Authorities

### Background

The local authorities provide their residents with various state and local services, both through employees they employ directly and through workers employed by external entities with whom the local authorities contract as part of their regular activities (contract worker). For this purpose, the local authorities hire external suppliers, including service contractors; some contracts are made through Local Government Economic Services Ltd. (Mashcal<sup>1</sup>) joint tenders. The service contractor employs the workers, contracts with them, and controls their conditions and rights. This form of employment may increase the vulnerability of contract workers due to job insecurity, frequent changes in employment conditions, low wages, and minimal social benefits. These workers are, therefore, more exposed to exploitation than other employees, obligating the employer to enforce labor laws on their behalf. Compliance with labor laws is crucial when the service recipient is a public body. The Law for Increased Enforcement of Labor Law, 2011, set legal arrangements to protect the rights of vulnerable workers, including contract workers. To this end, the law sets out the service recipient's administrative, civil, and criminal liability, including local authorities, regarding protecting contract workers' rights within their premises.

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1 This report relates to Mashkal and its subsidiary, the Local Government Human Resources Development Company (1995) Ltd.



## Key Figures

**about  
105,000**

contract workers:  
about 55,000 work in  
cleaning and 50,000  
in guarding and  
security in 2023,  
according to Ministry  
of Labor data

**NIS  
885,540**

the total financial  
cost of 18,858 wage  
violations raised in  
Mashcal audits in  
2022

**about  
NIS 19  
million**

money returned to  
service contract  
workers through the  
Employee Rights  
Enforcement  
Department in  
Mashcal (wage audits  
and employee  
complaints) in 2012–  
2023

**36%**

of the contract  
workers interviewed  
by the audit team in  
the five audited local  
authorities (18 out of  
50) were not aware  
of all the rights they  
were entitled to

**NIS  
108,112**

the total cost of 1,096  
wage violations in  
2020–2022 in four of  
the audited local  
authorities: NIS  
52,912 – the total  
cost of 403 violations  
in Bnei Brak; NIS  
6,863 – the total cost  
of 44 violations in  
Netanya; NIS 1,724 –  
the total cost of 37  
violations in Afula;  
NIS 46,613 – the total  
cost of 612 violations  
in Kiryat Yam<sup>2</sup>

**30%**

"study fund  
contributions"  
violations rate out of  
all wage violations in  
Afula in 2020–2022:  
16% – the rate of  
"recreation pay"  
violations in Netanya;  
23% – the rate of  
"annual leave"  
violations in Bnei  
Brak; 11% – the rate  
of "wage  
withholding"  
violations in Kiryat  
Yam

**NIS 563**

the average financial  
cost per wage  
violation per  
employee in 2020–  
2022 in Bnei Brak; in  
Kiryat Yam – NIS  
491; in Netanya –  
NIS 327; in Afula –  
NIS 124; in Misgav –  
the cost of wage  
violations was not  
calculated

**331**

the number of  
complaints from the  
security and  
guarding contract  
workers and cleaning  
contract workers to  
Mashcal's complaint  
center in 2022 (301  
and 30, respectively)

<sup>2</sup> In the Misgav Regional Council, no calculation was made of the financial value of the wage violations.



## Audit Actions



From May to November 2023, the State Comptroller's Office examined the employment of contract workers in local authorities. The audit was conducted in five local authorities: the municipalities of **Bnei Brak**, **Netanya**, **Afula**, and **Kiryat Yam** and the **Misgav** Regional Council (the audited local authorities). Additional examinations were conducted at Local Government Economic Services Ltd. (Mashcal) and the Ministry of Labor's Administration for Regulation and Enforcement of Labor Law. The audit focused on service contract workers in cleaning, guarding, and security, which require a large workforce and offer low wages. The audit examined the supervision and control mechanisms implemented by the local authorities regarding the employment conditions of these workers, as well as the workers' awareness of their rights.

## Key Findings



**Deciding to Employ Workers Through Service Contractors** – the scope of contracts with service contractors in 2022 was NIS 55,503,098 in **Bnei Brak** (about 300 employees<sup>3</sup>); NIS 58,442,717 in the **Netanya** (about 600 employees); NIS 12,495,033 in **Afula** (About 186 employees); NIS 8,566,028 in **Kiryat Yam** (about 300 employees), and NIS 6,036,865 in **Misgav** (about 131 employees). In the five audited local authorities (**Bnei Brak**, **Netanya**, **Afula**, **Kiryat Yam**, and **Misgav**), no documents were found detailing the circumstances that led to the decision to switch to indirect employment, including calculation of the economic viability of employing workers through service contractors. Hence, economic efficiency was not a consideration when engaging with service contractors.



**Protection of Employee Rights – Municipal Procedure** – contrary to the Ministry of Interior's Director General's circular from December 2016, by which the Director General of a local authority should prepare a mandatory detailed internal procedure on the employment of contract workers, in line with the Accountant General's guidelines 7.11.3, and that the authority adheres to it, **Bnei Brak**, **Netanya**, **Afula**, **Kiryat Yam**, and **Misgav** failed to prepare the above circular. Their Directors General failed to formulate such a procedure, incorporating the relevant legislative provisions in line with the nature of each respective authority.

3 The number of employees was taken from wage audit reports and calculated as the average number of employees during inspections over different periods.



**Supervision of Employee Rights Through Mashcal** – as part of managing contracts between local authorities and service contractors through Mashcal tenders at NIS 1,423,643,401 in 2022 and NIS 823,295,417 in 2023 (January to June), the Employee Rights Enforcement Department at Mashcal conducts periodic sample checks on wages and operates a telephone wage hotline to provide direct support to employees. For example, in 2022, 819 wage audits were performed, and in 2023 (January to June), 354 wage audits were conducted. In 2022, about 19,000 violations, most of which were financial violations, were found at about NIS 886,000. Additionally, by the end of June 2023, 11,700 violations were found, at about NIS 521,000. The harm caused to employees by these wage violations, particularly for low-wage workers in guarding, security, and cleaning, highlights the need for wage audits conducted by Mashcal. However, Mashcal's computerized database was not used to guide its wage auditors in focusing on common violations noted in previous audits.

**Contract Workers Telephone Hotline** – it was raised that despite the Increased Enforcement of Labor Law, requiring service recipients to establish an effective method in the workplace for reporting violations of Contract Workers rights, the phone numbers published by the Ministry of Labor and the auditing unit of the Accountant General's Office in the Ministry of Finance are not operational, thus preventing the submission of complaints through them.


**Appointment of a Wage Auditor** – it was raised that although the Law for Increased Enforcement of Labor Law, 2011 (the Law for Increased Enforcement) stipulates that a wage auditor shall conduct audits covering at least 10% of the workers every nine months, **Afula** and **Kiryat Yam** failed to appoint a wage auditor; hence, no wage audits were conducted for their direct engagements with service contractors. However, in the contracts they managed through Mashcal tenders, the Employee Rights Enforcement Department of Mashcal conducted periodic wage audits on their behalf. It should be noted that **Bnei Brak**, **Netanya**, and **Misgav** did appoint a wage auditor.


**Supervision of Employment Conditions of Contract Workers in the Audited Local Authorities** – **Afula** failed to conduct wage audits for 131 (about 71%) contract workers through three different service contractors. **Misgav** conducted wage audits; however, the number of sampled employees out of the total contract workers was not specified in three out of six wage audit reports. The three additional reports noted that the audit was conducted for four employees; however, their rate of the total employed workers was not specified. Therefore, it is unclear whether the sample size used for the wage audits complied with the Law for Increased Enforcement requirements, which mandates a sample audit of at least 10% of employees.


**Wage Violations** – the total financial cost of wage violations between 2020 and 2022 in **Bnei Brak** was NIS 52,912, with an average of NIS 563 per audited employee; in **Netanya**, it was NIS 6,863, with an average of NIS 327 per audited employee; in **Afula**, it was NIS 1,724, with an average of NIS 124 per audited employee; and in **Kiryat Yam**,




it was NIS 46,613, with an average of NIS 491 per audited employee. In **Misgav**, the cost of wage violations was not calculated. The most significant financial wage violations between 2020 and 2022 in **Bnei Brak** were annual leave (about 27% of the total amount of violations detected), illegal deductions from employees' wages (about 21%), and holiday pay (about 14%); in **Netanya** – travel allowance pay (25%), study fund contributions (14%), and recreation pay (14%). For some of the violations, the amount owed to employees was not calculated; in **Afula** – study fund contributions (37%) and leave redemption (17%); in **Kiryat Yam** – recreation pay (11%), annual leave (10%), and study fund contributions (10%); in **Misgav**, the audit reports were limited in scope, where in most cases, the financial amount owed due to the violations was not calculated.


 **Follow-up on Wage Audit Findings – Bnei Brak, Netanya, and Kiryat Yam** made do with the service contractors' declarations that the violations had been rectified. In contrast, follow-up audits by the wage auditor raised that some violations were not rectified. For example, 50 out of 715 wage violations identified in 22 wage audits conducted from January 2020 to August 2022 in **Bnei Brak**, and 10 out of 864 wage violations noted in 18 wage audits in **Kiryat Yam** were not rectified. **Afula** and **Misgav** failed to follow up on wage audit reports, nor did they ensure that the violations were rectified.

 **Workplace Safety** – the audit raised that, despite their responsibility for the safety of contract workers on their premises, as stipulated in the Work Safety Ordinance [New Version], 1970, and Director General's Circular 9/2016, **Bnei Brak, Netanya, and Misgav** had no internal procedure for monitoring the safety of contract workers in their premises. **Afula** and **Kiryat Yam** had a safety procedure for contract workers based on the various safety laws. In their contracts with service contractors, all five audited local authorities included a clause regarding employee safety. All the audited authorities supervised and enforced service contractors through regional inspectors who checked their compliance with their obligations, such as providing equipment to employees, conducting training, and reporting safety incidents. This was also confirmed during the audit field inspections.

 **Complaint Mechanisms** – although Directive 8.2.1 of the Accountant General's Office (Takam) stipulates that a visible and accessible complaint box should be installed, **Bnei Brak** and **Netanya** failed to install such a box for contract workers in their jurisdictions.

 **Prevention of Sexual Harassment** – it was raised that although the Prevention of Sexual Harassment Law requires employers with over 25 employees to establish and publish regulations that outline the main provisions of the law regarding sexual harassment, **Bnei Brak, Afula, and Kiryat Yam** published the regulations only in Hebrew and not in other languages. This is even though they employ contract workers who do not speak Hebrew and cannot read or understand the content of the published regulations.








 **Public Participation** – in a State Comptroller's Office public participation process in the audited local authorities, most of the interviewed contract workers, complained about the low wages they receive and expressed a desire to be employed directly by the local authority. About one-third of the interviewees were unaware of all the rights to which they are entitled, and only a few received an explanation of their rights from the employing company or the person in charge in the local authority. However, most of them were satisfied with their treatment by the employing contractor and the local authority in which they worked.



**Follow-up on Wage Audit Findings** – the State Comptroller's Office commends **Bnei Brak** and **Netanya** for conducting follow-ups on service contractors regarding rectifying wage violations. However, the follow-up report should be published closely after the wage audit report to enhance the effectiveness of wage audits, as some violations cannot be rectified retroactively.

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## Key Recommendations

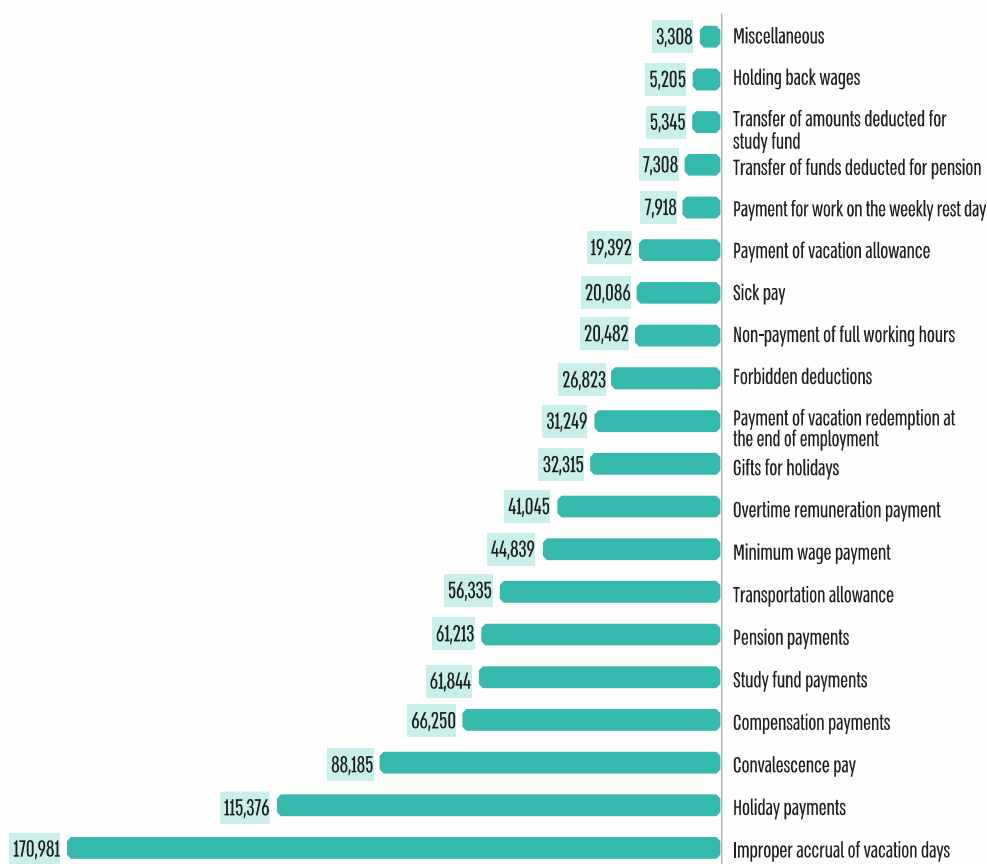
-  It is recommended that **Bnei Brak, Netanya, Afula, Kiryat Yam, and Misgav** review their decisions regarding the employment of workers through service contractors and base these decisions on a structured and documented process that considers all relevant factors, including an economic feasibility assessment.
-  **Bnei Brak, Netanya, Afula, Kiryat Yam, and Misgav** should prepare a detailed internal procedure in line with the Director General's circular, adapted to the guidelines of the Accountant General, Takam directives, and all relevant laws, regarding the protection of the rights of contract workers in security, guarding, and cleaning.
-  **Afula and Kiryat Yam** should engage wage auditors, as the law requires, to conduct wage audits for the service contract workers with whom they have contracts. Failure to do so could result in the violation of the contract workers' rights; moreover, it may expose the local authorities to civil and criminal lawsuits and even administrative sanctions, such as financial penalties, in cases of labor law violations and infringement on employees' rights by service contractors.
-  **Bnei Brak and Netanya** should install a complaint box in a prominent location and inform the contract workers of its location, as required by Ministry of Interior Director General Circular 9/2016, to enable them to file a complaint in case their rights are violated.
-  It is recommended that **Bnei Brak, Netanya, and Misgav**, prepare an internal procedure detailing the guidelines for monitoring the safety of contract workers tailored to their nature





of work. This is particularly important given that the Work Safety Ordinance [New Version], 1970, lacks explicit references to work in cleaning, security, and guarding, in which the most vulnerable workers in local authorities are employed.

### The Financial Cost of the Violations Found in Wage Audits Conducted by Mashcal for Contract Workers, 2022 (in NIS)



According to the Employee Rights Enforcement Department at Mashcal, processed by the State Comptroller's Office.

\* In 2022, the Wage Enforcement Department uncovered 18,858 violations, 14,437 of which were financial violations at NIS 885,540, as presented in the chart above.



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## Summary

Many local authorities in Israel and worldwide rely on external suppliers, including service contractors, to provide services to their residents. This form of employment exposes workers to the risk of exploitation, particularly in roles that require a large workforce and offer low wages, such as cleaning, security, and guarding. These positions are characterized by poor working conditions and job insecurity, making those who fill them especially vulnerable and needing protection and enforcement of labor laws by their employers.

The audit findings raised deficiencies in the audited local authorities' supervision of the employment conditions of contract workers within their jurisdictions, some of which expose the workers to significant violations of their rights. The audited local authorities failed to enforce the rectification of violations by the service contractors and relied solely on the wage auditor's follow-up without intervention or discussions with the contractor about the noted violations.

The audited local authorities should conduct wage audits under the law and supervise these audits, including enforcing the rectifications of violations by service contractors as required by the Law for Increased Enforcement. They should enforce the service contractors to give their employees the rights they are entitled to. Given the vulnerability of contract workers in the labor market and their susceptibility to exploitation and unfair treatment by employers, local authorities need to increase their supervision of the employment conditions of these workers and develop mechanisms to ensure their rights are protected.