

CHAPTER III

TRANSACTION AUDIT

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The summary of the audit observations in respect of Cuttack Municipal Corporation (CMC), Bhubaneswar Municipal Corporation (BMC), 15 Municipalities and 13 Notified Area Councils (NACs) are as under: -

3.1 Idle investment due to delay in construction of Market Complex

Government allotted (October 1996) an area of 9.971 acres in favour of BMC for construction of a multi-storied commercial complex at Unit-IV market. As per the condition contained in the allotment order, premium of Rs 4.99 crore (Rs 50 lakh per acre) was to be paid by BMC in one instalment within 60 days from the date of receipt of the allotment order. The BMC did not make any payment towards premium value of land within the stipulated period. The Government subsequently allotted a portion of that land measuring 0.883 acre to BMC for construction of another multistoried market complex (April 1998) with a premium of Rs 44.15 lakh and BMC deposited Rs 4.42 lakh with the Government towards the premium value. Due to non-payment of balance premium by BMC, Government recovered Rs.5 crore (Rs 3 crore in August 2004 and Rs 2 crore in October, 2004) from the grants due to BMC towards the arrear premium. Though full payment of the premium value of the land had been made to Government by way of recovery, BMC had neither executed any lease agreement with the Government nor taken over possession of the land till March 2009. Due to non-acquisition of land, it was subjected to unlawful encroachment. Thus, failure on the part of the BMC in taking over possession of the land and evicting the unauthorized occupants led to blockage of funds of Rs.4.60 crore paid as premium for the land to the Government.

3.2 Unproductive expenditure on construction of Bus Stand within Jagatsinghpur Municipal area.

Timely completion of projects is a test of efficiency of any implementing agency. Prior to embarking upon any big projects, the implementing agency has to ensure adequate provision of funds and make strategic planning for economic and effective utilization of the resources to avoid cost and time over run.

The District Works Execution Committee took a decision in January 2003 to construct a Bus stand in village Mukundpur/Durgapur in the suburb of Jagatsinghpur town with an estimated cost of Rs 10.00 lakh. Scrutiny of records of Jagatsinghpur Municipality revealed that the Municipality had not prepared a detailed plan and estimate for execution of the above work and expenditure of Rs 24.52 lakh had been incurred in piece-meal basis between 2003-04 and 2005-06 (**Appendix-XII**) and still the work remained incomplete.

Joint verification of the site made by a team of engineers[†] as per the instructions of the District Planning Committee, reported in February 2007 that the works were in damaged condition due to misuse of the area by outsiders. The team suggested that an additional fund of Rs 81.55 lakh is required to make the bus stand operative.

Thus, lack of proper planning and improper utilization of funds resulted in non-completion of the bus stand rendering the expenditure of Rs 24.52 lakh unproductive.

3.3 Loss of funds due to non-adjustment of advance

As per Rule 138 of the Orissa Municipal Rules, 1953, advances made to individuals/contractors/suppliers for departmental purposes should be promptly adjusted and the unspent balances refunded/recovered immediately. Government of Orissa, Finance Department (GOFD) letter (January 2006) and Rule 509 of OTC Vol-I provided that advances paid to Government servant and outsiders were to be adjusted promptly within a month. Further GOFD Circular (February 2002) specifically instructed that unadjusted advances of more than one year shall be treated as a loss and disciplinary action shall be initiated against the officers concerned.

Scrutiny of records of CMC (November 2008) revealed that an amount of Rs.48.45 lakh paid as works advance was lying unadjusted against the following two officials.

[†] (i) Executive Engineer, DRDA, Jagatsinghpur, (ii) Municipal Engineer, Jagatsinghpur Municipality, (iii) Asst. Engineer (R&B) and (iv) Junior Engineer, Jagatsinghpur Municipality.

Name	Amount (Rs.)	Period of payment
Sri Biren Ch. Mohanty, AE	Rs.12,85,032	1997-98 to 1999-2000
Sri Padma Ch. Nayak, JE	Rs.35,59,497	Not available
Total:	Rs.48,44,529 or say Rs.48.45 lakh	

The above officials after transfer from the CMC retired from the service without adjustment of their outstanding advances. The H & UD Department directed (August 2006) the CMC to initiate criminal proceedings against the delinquent officials and called for a detailed report on the action taken by CMC for adjustment of the advances. However, no action was taken by CMC for adjustment of the outstanding advance so far.

Due to non-adherence of the codal provision, there was loss of Rs 48.45 lakh to CMC by way of works advance, given to the officials.

Apart from this, in nine test checked ULBs, it was further revealed that advances of Rs 64.22 crore (**Appendix-XIII**) had not been adjusted and were outstanding for a long time. On a detailed scrutiny of the advances, it was observed that no age wise detail of the advances was on record. It was also noticed that advances were pending from 1988 onwards. The ULBs did not take any effort for adjustment of advances despite repeated audit observations.

On being pointed out, the ULBs agreed (2008-09) to recover the advances early. As the advances were outstanding for a pretty long period the possibility of their recovery was remote.

3.4 Loss due to parking of scheme funds in P.L. Account

Guidelines in respect of Centrally Sponsored Schemes stipulate that both Central and State share of the funds shall be kept in interest bearing savings bank accounts. The interest earned on these accounts shall be treated as additional grant of the schemes. Scrutiny of records revealed that CMC had kept a total of monthly minimum balances of Rs 8.08 crore (Rs 106.43 crore ÷ 12) in Personal Ledger (PL) Account during 2007-08

instead of keeping the same in interest bearing savings bank account. This resulted in loss of interest of Rs 31.04 lakh (Rs.106.43 crore \div 12 \times 3.5) for the period from April 2007 to March 2008 to the scheme funds calculated on the minimum balance at the prevailing simple rate of interest of 3.5 percent per annum.

3.5 Undue favour to contractor by way of supply of materials worth Rs. 16.89 lakh

The BMC was executing the cleaning, sweeping, waste removal and other civic functions mainly through outside agencies. An agreement had been executed with six private agencies for execution of the above work on a monthly lump sum basis and the amount of the contract includes cost of all other expenses for utilization of machineries such as T & P charges.

As per Government instructions (November 2007), BMC had purchased (January 2008) sweeping equipment for its own use from M/s Prabhu Dayal Om Prakash, New Delhi (Rs.4.15 lakh) and from M/s Syntex Industries Limited, Kolkota (Rs.25.76 lakh) and the materials were received in May 2008. On request of Private Agencies Municipal Commissioner issued various items amounting to Rs. 16.89 lakh free of cost (Tricycle-22, push cart – 212 @ Rs14502 and Rs 6462 each respectively) though as per the terms of the contract private agencies had to arrange these items for cleaning and sweeping purpose.

As the private agencies were assigned with sanitation works on lump sum monthly contract basis, supply of equipments at the cost of the Corporation without collection of hire charges resulted in a loss of earning and extension of undue favour to the contractors.

On being pointed out, BMC did not furnish any reply.

3.6 Pre-mature encashment of Term Deposits resulted in loss of interest

Section 115 of Orissa Municipal Act, 1950 read with Rule 148 of Orissa Municipal Rules, 1953 provide that Municipalities may invest any surplus funds not required for immediate use either in Government securities or in other securities approved by Government.

Scrutiny of records (January and March 2009) of NAC, Belpahar revealed that an amount of Rs.3.63 crore being the Octroi duty received from Tata Refractory Ltd (TRL) based on Court order was deposited in a Savings Bank Account of SBI, Samada. Of this, Rs 1.00 crore was invested in a five year term(s) deposits and Rs 2 crore in February 2001 for one year term deposit. When TRL's case for refund of Octroi was rejected in appeal (December 2005), the Term Deposits Receipt (TDR) were encashed by the NAC and an amount of Rs 3.88 crore (including interest) was transferred to current account. As the NAC was invariably maintaining cash balance exceeding Rs 3.10 crore on each day in the P.L and current accounts, there was no immediate requirement of cash and hence encashment of interest bearing deposit was unwarranted. Further, due to premature encashment of securities, the bank recovered a sum of Rs 9.43 lakh from the amount of interest due to the NAC till date of encashment.

Thus, premature encashment of term deposits of Rs 3.00 crore without specific requirement and parking the same in current and PL account resulted in avoidable loss of interest of Rs 56.25 lakh calculated at a minimum of 6.25 *per cent* per annum during the period from February 2006 to January 2009.

The matter was referred (April 2009) to the Commissioner-cum-Secretary to the Government of Orissa, H&UD Department and reply awaited (July 2009).

3.7 Excess payment on computerization of database.

CMC maintained computerized data base on birth and death since May 2002 and prior to that the same was maintained manually. The Corporation decided (July 2005) to computerise the database on birth and death prior to May 2002 (From 1975 to 2001) also. Accordingly, tenders were called for (June 2006) and the work was entrusted to M/S DIGIPRO INDIA being the lowest bidder @ 14 paise for each birth field entry and 16 paise for death field entry which was inclusive of VAT @ 12.5 percent of the value of work.

Scrutiny of records revealed that the manual records on birth and death contains a maximum of 25 and 21 fields respectively. As against the actual fields required for the data base, CMC created 39 and 33 fields for computerization of old data for which no

data was available in manual records which resulted in creation of excess data base fields of 14 and 12 respectively. Due to excess creation of data base field there was an excess payment of Rs 10.66 lakh to the firm as given below:-

Nature	Actual payment made	Amount for required fields	Extra payment made.
Birth	Rs. 2128713.00	Rs. 1364560.00	Rs. 764153.00
Death	Rs. 831415.00	Rs. 529082.00	Rs. 302333.00
Total			Rs. 1066486.00

Apart from above, CMC made payment of Rs 3.63 lakh towards VAT to the firm, which was not admissible since the rate was inclusive of VAT. Hence there was a total excess payment of Rs 14.29 lakh to the firm, for the extra field not required.

On being pointed out, no reply was furnished by CMC.

3.8 Idle expenditure on purchase of Laparoscopic unit

BMC decided (April 2006) for establishment of one Laparoscopic unit in its hospital located at Old Town, Bhubaneswar. Tender was called for (September 2006) and the offer of M/S Vishal Surgical Equipment Company, Hyderabad was accepted. The firm supplied the equipments (August 2007) and the test operation of the unit was made (August 2007) by the Professor of Surgery, S.C.B.Medical College, Cuttack after which the firm was paid Rs 20.50 lakh (July 2008).

Scrutiny of records (January 2009) revealed that BMC hospital had no Surgery Specialist and other trained personnel for operation of the Laparoscopic unit. In the absence of qualified persons for operation, the unit could not be put to use and the entire unit was lying idle since the date of its installation (August 2007).

Injudicious decision of BMC to establish Laparoscopic unit without having supporting qualified doctors for operation and maintenance resulted in idle expenditure of Rs 20.50 lakh. On being pointed out, no reply was furnished by BMC (March 2009).

3.9 Extra expenditure due to non-acceptance of valid tender.

BMC took the construction of a Kalyana Mandap at VSS Nagar in Bhubaneswar at an estimated cost of Rs 22.42 lakh. The work was put to tender (May 2006) and five tenderers submitted quotations for the work. The first lowest tenderer was asked to execute the work (September 2006) at a tender value of Rs 11.33 lakh. As the tenderer did not turn up, the tender was cancelled by the Standing Committee and no attempt was made to negotiate with the second lowest tenderer whose quoted rate was Rs 11.75 lakh. Fresh tenders were again invited (March 2007) and awarded to the lowest tenderer at his quoted rate of Rs 20.21 lakh. The contractor executed (October 2007) the work at his quoted rate.

Had the work been awarded to the second lowest tenderer after proper negotiation the extra expenditure of Rs 8.46 lakh paid due to invitation of fresh tender could have been avoided.

In another case, tenders were invited by BMC (February 2006) for construction of drain from Institute of Hotel Management to Badambadi Chhak of VSS Nagar at an estimated cost of Rs 16.72 lakh. Three tenderers offered their rates and the lowest tender of Rs 13.77 lakh was accepted. As the contractor did not turn up, the tender was cancelled (December 2006). In this case also, BMC did not make any attempt to go for the second lowest tenderer (Rs 14.52 lakh) and instead fresh tenders were invited (March 2007) and the work was entrusted to the lowest tenderer at an offered price of Rs 18.38 lakh. The work was completed by the contractor at an expenditure of Rs 17.22 lakh (November 2008) and BMC incurred an avoidable extra expenditure of Rs.2.70 lakh.

On this being pointed out, no reply was furnished by the BMC.

3.10 Avoidable expenditure towards departmental charges.

Developmental works such as construction of road, drain, water supply, sanitation, and street lighting etc. are executed by BMC through engagement of contractors. These works were executed under the supervision of two Executive Engineers, Assistant Engineers and Junior Engineers posted in BMC. BMC obtained the services of two

Executive Engineers from P.H Department on deputation for supervision of water supply and sanitation works.

Scrutiny of records revealed that BMC has paid Rs 24.04 lakh (one *percent* towards contingencies and 17 *percent* towards departmental charges) to the P.H.Division III for installation of 194 tube wells for the year 2007-08 (100) and 2008-09 (94) despite availability of sufficient engineers for supervision of the works.

Thus payment of 18 *percent* of the total cost of the work (Rs. 133.57 lakh) i.e. Rs.24.04 lakh towards departmental charges for supervision of the work was avoidable.

3.11 Idle investment due to non-allotment of Market complex

CMC completed (November 2006) construction of one market complex with 22 shopping units at Chaudhury Bazar, Cuttack at a cost of Rs 13.36 lakh. As per the Project Report, the offset price of one shopping unit was Rs 800 per month. These shopping units were to be allotted through public auction. No auction was conducted by the CMC for allotment of these shopping units. Due to non allotment of the shopping unit by the CMC even after the lapse of two years since its completion, there was a loss of revenue of Rs 4.22 lakh besides idle investment of Rs.13.36 lakh.

3.12 Incomplete Valmiki Ambedkar Awas Yojana Houses

In six test checked ULBs out of 586 houses taken up for construction under Valmiki Ambedkar Awas Yojana (VAMBAY)[‡], 376 houses on which an amount of Rs.62.25 lakh was incurred, were still lying incomplete (April 2009). The concerned beneficiaries did not avail all the four/five instalments to complete these houses and were left at different stages of construction (**Appendix-XIV**).

Thus, a sum of Rs.62.25 lakh spent on these incomplete houses became unfruitful and 376 homeless beneficiaries were deprived of getting a dwelling unit.

[‡] Vambay is a centrally sponsored housing scheme launched during 2001-02 for the benefit of slum dwellers in urban areas.

The E.O, Anandpur Municipality and the EO, Chatrapur NAC, attributed (March 2009) the non-completion of VAMBAY houses to lack of interest by the concerned beneficiaries, whereas in the remaining four selected ULBs, non completion was mainly due to non release of requisite Central Subsidy for want of deposit of matching share by the ULBs, delayed submission of UCs and non construction of house in time. Even though BMC deposited the balance matching share of Rs.30 lakh in the designated VAMBAY account, release of matching Central Subsidy was not considered by HUDCO and no reasons were on record.

3.13 Loss of Central subsidy

As per the VAMBAY scheme, Central Subsidy (CS) of 50 *percent* would be released by HUDCO through State Urban Development Agency (SUDA) only after deposit of State matching share of 50 *percent* by the ULBs in their VAMBAY accounts and submission of utilization certificates by SUDA to HUDCO.

During 2002-06, proposals were submitted (24 ULBs) for construction of 1564 VAMBAY houses for which CS of Rs.3.13 crore (Rs.20, 000 per DU) was to be released by HUDCO. As per the proposal, State matching share of Rs 3.13 crore was to be deposited by the ULBs in their designated VAMBAY accounts against which only Rs 2.16 crore was deposited. Despite deposit of State matching share of Rs.2.16 crore for 1080 DUs by the ULBs, CS of only Rs 1.24 crore was released by HUDCO for 620 DUs resulting a short release of Rs 91.90 lakh (Rs 215.90 lakh – Rs 124.00 lakh). Further, due to short deposit of the State matching share of Rs 96.90 lakh (Rs 312.80 lakh – Rs 215.90 lakh) by the ULBs, there was non-release of CS to that extent.

Thus there was total loss of CS Rs 1.89 crore (Rs 91.90 lakh + Rs 96.90 lakh) during the above period.

3.14 Allotment of VAMBAY house to non-slum dwellers

The target group under VAMBAY is slum dwellers who do not possess any house. In Anandpur Municipality, out of 50 VAMBAY houses, 40 houses were allotted to non slum dwellers. A sum of Rs.15.76 lakh was spent on the construction of these houses which included CS for Rs 8 lakh. Thus scheme funds to that extent were misutilised.

On this being pointed out, the EO, Anandpur Municipality replied that the houses were allotted to the beneficiaries as per resolution of the Municipal Council. The reply is not acceptable as the decision of the Municipal Council violated the guidelines and spirit of the scheme.

3.15 Diversion of National Slum Development Programme (NSDP) funds

The guidelines of NSDP envisage that funds released under the scheme is to be utilised only for upgradation of slum. Out of Rs.40.92 lakh allotted to Rayagada Municipality under NSDP for 2004-05, a sum of Rs.22.12 lakh was utilised on 51 projects (seven roads, 21 drains, two Solid Waste Management projects and 21 Electricity Projects) in areas other than slums during 2005-06 to 2007-08. Thus, the slum dwellers of the municipality were deprived of getting benefit of the scheme to that extent.

On being pointed out, the E.O, Rayagada Municipality stated that the council had resolved to undertake same volume of work in slum areas in order to compensate the diversion of funds. But works were not taken up in any slum areas as of April-2009.

Similarly in Anandpur Municipality and Bargarh Municipality, Rs.3.52 lakh and Rs.0.50 lakh were utilised towards purchase of electrical fitting (2006-07) and purchase of chairs and durry (May 2007) respectively. The Electrical fittings were utilised mainly in non-slum areas in Anandpur Municipality, whereas the chairs and durry were retained by the Bargarh Municipality for office use and meetings. Thus scheme funds to the tune of Rs.4.02 lakh was diverted for other purposes and misutilised by these two Municipalities.

3.16 Irregular Expenditure

There are 377 slums including 279 non-recognised slums in BMC area. Against the allotment of Rs.1.56 crore to BMC under NSDP for 2004-05, Rs.68.19 lakh (44 percent) was utilised in 81 projects undertaken in non-recognised slums during 2005-08. Since developmental activity in non-recognised slums would encourage mushrooming of more slums and illegal encroachment of corporation/government land, these projects should not have been executed.

In reply the Slum Improvement Officer (SIO), BMC replied that the works were under taken due to demand of slum dwellers and as per the approval of the BMC. The reply is not acceptable as it violates the spirit of the scheme guidelines.

3.17 Non payment of loan instalments and interest

The loan component of NSDP (70 percent of the NSDP funds) carried interest ranging from 10 percent to 14 percent fixed by the GOI from time to time. As per the conditions of sanction, the period of loan was 20 years and 50 percent of the loan was to be recovered from the ULBs in 20 equal annual installments. The balance 50 percent enjoyed five years grace period, after which repayment would be effected in 15 annual equal instalments. In the event of default in repayment of principal and/or interest, 2.75 percent extra would be charged on all the overdue installments.

Scrutiny of loan ledger maintained by the H&UD Department revealed that against the release of loans for Rs.20.95 crore under the scheme to 103 ULBs from November 1999 onwards, Rs.18.25 crore towards principal was outstanding as of March 2008. Out of 103 ULBs in the State, only 10 ULBs have fully cleared up their loans and interest thereon. The remaining 93 ULBs defaulted the payment of principal as well as interest due there on. Over due principal of Rs.2.31 crore and cumulative overdue interest of Rs.7.51 crore were pending for recovery from these 93 ULBs.

On being pointed out, it was stated that as the financial condition of most of the ULBs was not sound, they were unable to repay the outstanding loan. Reply of H&UD Department is contrary to actual financial position of the ULBs who had surplus funds. However, part of the outstanding dues were being recovered regularly from octroi compensation grants of the defaulted ULBs.

3.18 Non provision of shelter for slum dwellers

As per the guidelines, 10 percent of the allocation to State under the scheme should be utilised for construction and /or upgradation of houses for the urban poor. A sum of Rs.64.20 lakh (10 percent of Rs 642.00 lakh of NSDP funds released to ULBs in 2005-06) should have been utilised for construction of 128 new houses (Rs.40,000 per unit) and up gradation of 65 existing houses (Rs.20,000 per unit) against which only 31 new houses were constructed as reported by SUDA in 2005-06. In 11 test checked ULBs, neither any new house was constructed nor any existing house upgraded.

The Executive Officers concerned stated that provision for shelter could not be made due to insufficient release of funds. The reply was not acceptable in view of the fact that funds available with the ULBs were utilised by them fully.

