

CHAPTER II

AUDIT OF TRANSACTIONS

2.1 Excess payment; wasteful/infructuous expenditure

CONSUMER AFFAIRS, FOOD & CIVIL SUPPLIES DEPARTMENT

2.1.1 Issue of Iris based Ration Cards

The Iris based methodology as adopted and operated for issue of ration cards on which an expenditure of Rs 106.88 crore has been incurred (up to March 2009) was inappropriate.

Government launched (June 2005) the project for issue of ration cards using 'Iris Biometric technology' by discarding the traditional system of 'door to door' enquiry by an official team. For this purpose, 1,800 Designated Photographic Locations (DPLs) were established across the State. The Government instructions stipulated capturing iris images of beneficiaries, digital family photographs and applicants' details with the help of iris cameras positioned at DPL centres. A ration card with unique number is then generated for issue to the head of the family.

Software Development for the project was executed through Andhra Pradesh Technology Services Limited (APTSL). Iris personal licences (for 8 crore population) that include implementation support service period of nine years was acquired (June 2005) from M/s Labcal Biometric Technologies Private Limited, Hyderabad, a representative of LG Electronics, USA through global tender.

To the end of January 2009, 2.17 crore ration cards covering population of 7.77 crore (average family size: 3.58) were issued. Of this, 1.78 crore cards related to Below Poverty Line families (BPL) (population: 6.34 crore). In order to cover the remaining families, transfer of cards from one place to another, modifications in the existing cards, conversion of cards on account of increase in income ceiling limits¹, 100 permanent DPL centres were established (duly phasing out the 1,800 centres) in the State, one each in 81 Revenue Divisions and 19 Metropolitan cities/municipal corporations. The cost of the project to the end of March 2009² amounted to Rs 106.88 crore³.

Audit scrutinised (March 2009) the records relating to the implementation of the project in the office of the Commissioner of Civil Supplies.

¹ Rs 20,000 to Rs 60,000 (Rural areas); Rs 24,000 to Rs 75,000 (urban areas)

² This does not include the committed liability for the year 2008-09 as the payments for the year 2008-09 were yet to be made

³ APTSL: Rs 15.99 crore; Computer Service Providers (CSPs): Rs 56.79 crore; Misc.: Rs 11.78 crore; amount yet to be paid to CSPs: Rs 22.32 crore

Audit carried out an analysis to ascertain as to what extent the ‘Iris Bio-metric technology’ was effective in ensuring that bogus ration cards are not issued. The following observations are made:

Vulnerability concerns	Audit observations
<p><i>Issue of multiple cards to members of the same family</i></p>	<p>Iris based technology is useful to establish the identity of an individual. The basic principle is that each individual has a unique iris. One important application where this is relevant is verification of the individual’s identity at the immigration counter at the airport.</p> <p>The primary focus of issue of a ration card is not the individual but family as a unit because the entitlements are linked to ‘family’. Accordingly, the primary concern is to ensure issue of not more than one card per family.</p> <p>As per the existing rules, each member of a family is entitled to 4 Kg of rice per month subject to upper limit of 20 Kg. In case of sugar/dals, the entitlement is 1 Kg per card. For example, if a family consists of 10 members, the family can obtain more than one card. The iris technology cannot establish the family relationship from the iris image of individuals to prevent issue of more than one card to members of a family. This is the inherent limitation in iris technology as far as issue of ration cards is concerned. Given this limitation, iris technology adopted by the department does not restrict the issue of multiple cards to members within ‘<i>the same family</i>’ from the same DPL centre. Capturing iris image is easier part of the system. The more complex and significant part is the iris pattern recognition system. Before issue of ration card two essential controls are required.</p> <p>(i) No issue of ration card if iris images of the family members included in the ration card are not captured.</p> <p>(ii) Verifying the present iris images captured with the iris images already captured at the current DPL centre or any other DPL centre to prevent issue of duplicate cards.</p> <p>Due to the absence of these controls, the issue of cards at other centres is also not prevented.</p> <p>Government while admitting that there were cases of issuance of multiple cards to the members of the same family attributed (June 2009) this to the DPL centres working only as stand alone centres which prevented validating iris image against the State-wide iris data.</p>
<p><i>Issue of cards with fictitious addresses</i></p>	<p>Iris technology offers no superior safeguard against the traditional method of issue of ration cards as far as this aspect is concerned.</p> <p>Address is a vital segment of information. Audit observed that in a large number of cases the ‘address field’ had no valid information as it was filled with invalid data like ‘OOO’ and some of them were blank. This clearly establishes that there is no control to prevent issue of ration cards without information relating to address being captured.</p>

	<p>The objective of the project is to do away with door-to-door verification. Scrutiny however, revealed that this objective had not been achieved as the iris technology could not prevent issue of duplicate (bogus) cards. In a large number of cases the department had to resort (January 2007) to verification of particulars by door-to-door visits with the help of the district administration.</p> <p>Government while accepting that there were instances of issue of cards with fictitious addresses stated that the deficiencies would be rectified during the proposed intensive door-to-door verification. The reply is not acceptable. When the iris technology was adopted for issue of ration cards, the envisaged benefit was that door-to-door verification could be dispensed with. Thus, this objective of adopting iris technology has been defeated.</p>
<i>Issue of cards to families which do not satisfy income criteria</i>	<p>The new iris technology did not offer any solution better than the conventional method with regard to the risk of issuing cards to families who do not satisfy the income criteria. Government sought to justify this by stating that biometric technologies cannot offer solutions to wrong declarations of income by the applicants. The Government's reply only confirms the audit observation.</p>
<i>Cards issued without Iris Image (Null-Iris cards)</i>	<p>The basic requirement for issue of iris based ration card is to capture iris images of all the family members. Scrutiny revealed that in the State as whole, 25.27 lakh iris cards covering a population of 1.06 crore were issued without the capture of iris image of even a single family member of the card holder. The subsidy involved in these cards was Rs 269.21 crore for the year 2008-09 alone which is a significant part of the total subsidy of Rs 1,681 crore (to end of February 2009). Government replied (June 2009) that cases of generation of null iris cards by the incharges of DPL centres by misusing the provisions were found and that penalties were being levied on the service providers for these deficiencies. The reply is not acceptable. The system as adopted and operated lacked basic and vital control for prevention of issue of ration cards without capture of critical data such as iris images.</p>

Iris Database: The main objective of adoption of the iris technology was to prevent issue of more than one card to a family. The iris technology as adopted and operated cannot prevent issue of more than one card to a family at any DPL centre. There is inherent technological limitation to establish the family relationship by comparing the iris images of the family members. Further, since the data of iris images captured at various DPL centres are not available in an integrated database with an arrangement to access the same from each DPL centre the issue of further cards to the members of the same family at other DPL centres is also not prevented.

Thus, the Government lost sight of the fact that the issue of ration cards is not individual based but the focus is a family as a unit as the entitlements are linked to the family and that the iris technology is useful for establishing the bonafides of an individual.

Thus, the methodology of iris based issue of ration cards as adopted and operated which involved an expenditure of Rs 106.88 crore was inappropriate as it offers no solutions superior to the conventional method with regard to the vulnerability concerns mentioned above.

**MUNICIPAL ADMINISTRATION AND URBAN
DEVELOPMENT DEPARTMENT
(Hyderabad Metropolitan Water Supply and Sewerage Board)**

2.1.2 Excess payment to the contractors

Incorrect regulation of payments for earthwork excavation involving blasting component resulted in excess payment to the contractors to the extent of Rs 83.77 lakh which needs to be recovered.

Hyderabad Metropolitan Water Supply and Sewerage Board (Board), awarded contract of “Krishna Drinking Water Supply Project – Phase II” to four different contractors in four packages.

As per para 4(II) of preamble to SSR 2004-05 and Note (2) thereto read with Government Memo of May 2004, for earthwork excavation for laying pipelines in restricted places where the depth is less than 1.5 times the width, an extra 75 per cent on the rate of earthwork is allowed. However, the above extra percentage in respect of excavation in restricted places is not to be allowed for items involving blasting component which may be taken as 1/3 of the cost. In other words, for excavation involving blasting component the extra percentage of 75 per cent is to be allowed after deduction of 1/3 rate towards blasting component.

Audit scrutiny (August and September 2008) of the records of the General Managers (Engineering), Project Division III, Project Division V and Project Division VI of the Board revealed that the rate for earthwork excavation involving blasting as per SSR 2004-05 was Rs 96.72/cum. The Divisions V & VI while making payments towards earthwork excavation in areas where the depth is less than 1.5 times the width, allowed the extra 75 per cent on the full rate of the earthwork instead of on 2/3 rate in violation of existing provisions. As against the rate of Rs 151/cum to be allowed the Divisions allowed Rs 176.10/cum. A total quantity of 3,58,946.47 cum of earthwork involving blasting was executed in the three packages. Thus, the Divisions⁴ V and VI made an excess payment of Rs 83.77 lakh to the contractors in the three packages⁵ on earthwork as follows:

⁴ Project Division III had applied the correct rate while making payment

⁵ Package I – M/s NCC-SMC-IVRCL (JV) at 7.02 per cent less than estimated contract value (ECV); Package II – M/s TAIPPL-IHP-KCCPL-BRCPL (JV) at 7.07 per cent less than ECV; Package III – M/s L&T Ltd at 7 per cent less than ECV

(Rupees in lakh)

Package	Quantity of earthwork executed where blasting is involved (cubic metres)	Amount paid (at the rate of Rs 176.10/cum)	Amount admissible (at the rate of Rs 151.00/cum)	Excess payment to contractors
I	208332.12	341.12	292.50	48.62
II	67659.31	110.72	94.94	15.78
III	82955.04	135.86	116.49	19.37
Total	358946.47	587.70	503.93	83.77

The excess payment of Rs 83.77 lakh needs to be recovered from the contractors.

The matter was reported to Government in March 2009 (also reminded in May 2009); reply had not been received (August 2009).

INFORMATION TECHNOLOGY AND COMMUNICATIONS DEPARTMENT (Electronically Deliverable Services)

2.1.3 Unifie-X Gateway Project

Lack of in-depth project appraisal at the initial stage led to a Unifie-X Gateway Project setup at a cost of Rs 6.36 crore being shelved.

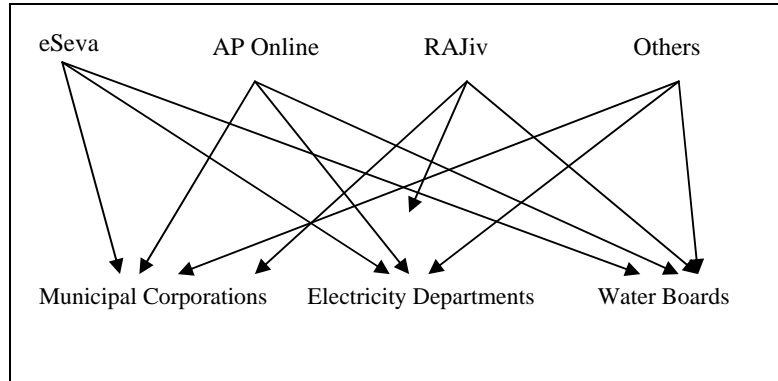
The State Government as part of its IT initiatives took up a project named 'Unifie-X Gateway Project' in March 2004. The project was felt necessary as different service providers like eSeva, AP Online, RAJiv, etc. have to access different databases separately, liaise with the departmental officials and enter into Service Level Agreement (SLA) with each Government Department in the absence of a Gateway.

M/s Intel Solutions Services Ltd., Bangalore was engaged to provide the services for designing, developing, integrating, testing, deploying and development of connectors as per the specifications laid down by a consultant⁶ to the Department of IT&C. M/s. Ram Informatics Ltd., Hyderabad was engaged in April 2006 for migration of eSeva services to Unifie-X Gateway and maintenance of application server. A total amount of Rs 6.36 crore (Rs 5.43 crore for creation of Unifie-X Gateway and consultation + Rs 0.93 crore for development of Software) was spent on the project implementation from March 2004 to December 2007. The Project was, however shelved in December 2007.

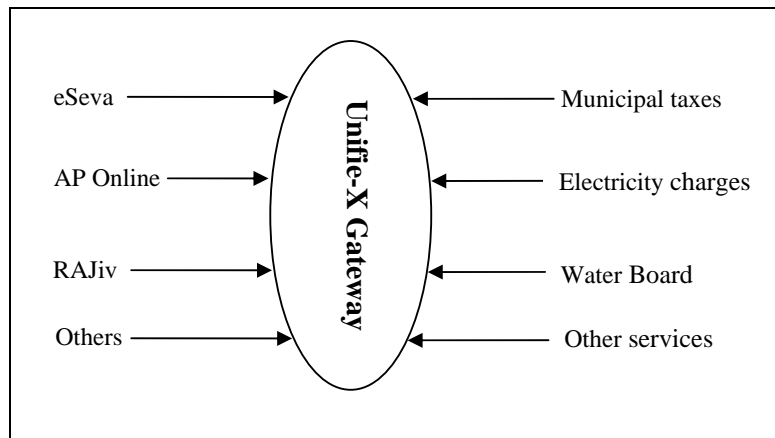
During the course of audit scrutiny of the office of the Commissioner, Electronically Deliverable Services (EDS) in January 2009 audit evaluated the merits/demerits of shelving the project. Audit examination revealed that the following benefits accrued from the project:

⁶M/s Hasselfree, consultant to Department of IT&C for the project

Schematic diagram of existing system:



Schematic diagram of Gateway System:



- Department can give a single access permission to the Gateway, which ensures data integrity, security and management.
- A point of integration between service seekers and service providers is facilitated. The service providers need not approach various Government Departments.
- A standardised, secure and reliable conduit of message transfer between service seekers and service providers is facilitated.
- As there is a single point of access for common services, an efficient fault tolerant mechanism with alternate routings can be put in place.

The project functioned from July 2005 to December 2007. HMWS&SB⁷, APCPDCL⁸, RTC⁹, BSNL¹⁰, etc. were provided connectivity through Unifie-X Gateway and more than 1.6 lakh number of transactions have taken place up to January 2007 (as per reports available up to January 2007).

⁷ Hyderabad Metropolitan Water Supply & Sewerage Board

⁸ AP Central Power Distribution Company Limited

⁹ Road Transport Corporation

¹⁰ Bharat Sanchar Nigam Limited

The reasons cited by the Government for shelving the project in December 2007 and the audit remarks are tabulated below:

Reasons cited by the Government	Audit remarks
The design makes a single point failure.	Any integrated system suffers from these kind of vulnerabilities/risks. If this was considered as an unacceptable risk, the project should not have been taken up in the first place.
Scalability of Unifie-X Gateway was designed with augmenting the infrastructure, which requires additional investments.	Any up-gradation of a system requires additional investment.
The processes require continuous support.	Any IT system requires support.

The reasons advanced for shelving the project lack substance and if these were considered to be *bonafide* problems, the initial investment should have been avoided altogether. Thus, lack of indepth project appraisal at the initial stage led to the project setup at a cost of Rs 6.36 crore being shelved.

The matter was reported to Government in July 2009; reply had not been received (August 2009).

IRRIGATION AND COMMAND AREA DEVELOPMENT DEPARTMENT (Irrigation Wing)

2.1.4 Incomplete lift irrigation project

Failure to firm up specifications before award of works and delay in approval of the revised estimates resulted in non-completion of the Vontimitta lift irrigation scheme in Kadapa District even after ten years and the expenditure of Rs 2.24 crore incurred thereon remained unfruitful.

With a view to providing irrigation facility to 493 acres in Vontimitta Mandal of Kadapa District, Government accorded (March 1999) administrative approval for a lift irrigation scheme on Pennar River to feed Vontimitta Tank. Chief Engineer, Minor Irrigation accorded technical sanction (April 1999) for Rs 3.16 crore. Various components of the scheme were entrusted to different agencies for completion by the end of 2004. Audit observed that, the scheme has not been put into operation even after ten years from March 1999 due to failure of the department to complete some of the major components, as follows:

Component/Sub-work	Deficiency noticed
<p>Name of the work: Construction of pressure main from sump well to cistern at the head of gravity channel.</p> <p>Agreement: 22 SE/2003-04 dated 12 December 2003</p> <p>Agreement value: Rs 96.49 lakh</p> <p>Expenditure: Rs 1.18 lakh</p>	<p>Work was entrusted without firming up the specifications of the pipes in advance. Initially non-pressure (NP) pipes were proposed for gravity mains. After award of work, the department realised that the NP class pipes were not suitable and changed (March 2004) their classification to MS (Mild Steel) and concrete pressure pipes. Meanwhile, the contractor stopped the work pending approval of the revised estimate with revised designs. The revised estimate was approved only in May 2006. The contractor did not take up the work and the work was terminated.</p> <p>The department has again changed (March 2004 and May 2008) the specifications of the pressure mains to GI pipes and that of gravity mains to MS pipes. The cost of the work has increased by Rs 3.63 crore and the revised estimate is yet to be approved.</p>
<p>Name of the work: Excavation of supply channel including CM & CD works</p> <p>Agreement: 1 SE/1999-2000 dated 03 June 1999</p> <p>Agreement value: Rs 96.70 lakh</p> <p>Expenditure: Rs 102.24 lakh</p>	<p>The work was taken up under 'Janmabhoomi' programme, even before construction of infiltration wells, collection sump, pressure mains etc. In June 2004, Government decided to discontinue the 'Janmabhoomi' programme and the contract was closed after executing work costing Rs 1.02 crore. The balance work, estimated to cost Rs 0.26 crore, has not been taken up so far.</p>
<p>Name of the work: Supply and erection of Machinery</p> <p>Agreement: 2 SE/2004-05 dated 22 May 2004</p> <p>Agreement value: Rs 28.01 lakh</p> <p>Expenditure: Rs 28.59 lakh</p>	<p>The contractor supplied nine HP motors and the cable. The motors were not installed. The utility of the cable is doubtful as the department has now proposed to use 25 sq. mm. cable instead of 16 sq. mm. already procured. It was further observed that a cable costing Rs 2 lakh was stolen and an enquiry was on. The balance work of installation of motors and laying of cables, now estimated to cost Rs 33 lakh, has not been taken up so far.</p>

It is clear that the department failed to properly investigate the site conditions and to finalise the appropriate specification of pipes for pressure mains and gravity mains before commencing the work. This led to alteration of initial designs in March 2004 and again in May 2008.

Laying of pressure mains and gravity mains and installation of motors is essential for pumping water from the infiltration wells to the sump well and from sump well to the Vontimitta Tank for releasing water to the ayacut. Non completion of these core items left the scheme incomplete.

The revised estimate for the balance works has not yet been approved. As per the latest estimate the total cost of the scheme has increased by Rs 4.48 crore

(Revised cost of Rs 7.64 crore minus Original cost of Rs 3.16 crore). Thus, due to failure of the department to firm up the specifications before award of the works and delay in approval of the revised estimates resulted in non-completion of the scheme till date. The expenditure of Rs 2.24 crore¹¹ incurred during 1999-2005 remained unfruitful and the objective of providing irrigation facility to 493 acres of the poor and marginal farmers remained unfulfilled even after ten years.

Government replied (May 2009) that the specifications of the works were changed as per the suggestions of the technical experts to suit the requirements of the scheme as per the site conditions and that the revised estimate was under examination of the Government.

The requirements of the scheme and the specifications should have been assessed properly before commencing the work. Further, abnormal delay in approval of revised estimates and taking up the balance works indicates lack of seriousness in the expeditious completion of the scheme.

IRRIGATION & COMMAND AREA DEVELOPMENT DEPARTMENT (Projects Wing)

2.1.5 Excess payment due to improper fixation of market value of land

Adoption of market rates of lands in contravention of Land Acquisition Act provisions resulted in excess payment of Rs 2.06 crore.

As per Section 23 of Land Acquisition (LA) Act, the key parameters for fixation of market value of land to be acquired shall be (i) market value of land prevailing on the date of publication of notification and (ii) the sale value of lands in the vicinity of the land proposed to be acquired.

Special Collector (LA), Sripadasagar Project (SSP), Hyderabad acquired 554.27 acres of land during 2006-08 in the limits of Potyala village for submergence under SSP (Yellampally). The market value of the land in the village ranged between Rs 0.30 lakh to Rs 0.60 lakh per acre as per registered sale particulars. Instead of adopting these values, the sale values of lands of neighbouring Murmoor village, which ranged from Rs 0.46 lakh to Rs 0.82 lakh per acre were taken into consideration for fixation of market value of land in Potyala village and awards were passed accordingly on the plea that the value of lands in the same village under acquisition were under-assessed to avoid stamp duty and registration fee and as such the transactions were not considered.

¹¹Including: Rs 61.25 lakh on construction of infiltration wells, Rs 17.01 lakh on power supply arrangements, Rs 6.00 lakh on land acquisition, Rs 0.60 lakh on inspection track, Rs 4.69 lakh on erection of transformers, Rs 2.62 lakh on switch room

The reasons put forth are basically a plea to give higher compensation to land owners. The procedure followed in adopting values of neighbouring village Murmoor instead of Potyala village is not in accordance with the laid down procedure. The LA Act does not provide for deviation from the stipulated procedure. The values as recorded in the transactions have to be considered as market values. If these were understated, the Registration Department should not have registered them. If the transaction values are ignored on the logic of understatement to avoid payment of higher registration fee, such an interpretation can lead to excessive land compensation and is also not in consonance with LA Act.

Thus, the method followed was in contravention of the provisions of the LA Act and resulted in excess payment of Rs 2.06 crore.

The matter was reported to Government (March 2009); reply had not been received (August 2009).

2.2 Violation of contractual obligations, undue favour to contractors and avoidable expenditure

GENERAL ADMINISTRATION (Information and Public Relations) DEPARTMENT

2.2.1 Violation of rules, etc. in releasing advertisements

Government violated the norms in releasing advertisements to newspapers and failed to observe economy principles and disregarded propriety requirements resulting in additional/avoidable expenditure of Rs 34 crore.

Empanelment of newspapers

Release of advertisements by the Special Commissioner, Information and Public Relations (CIPR) is covered under the Government orders of July 1984, May 1989, July 1992 and January 1994.

The expenditure incurred by the Government on 'Advertisements' during the years 2007-08 and 2008-09 was scrutinised in Audit. Apart from compliance with rules and regulations, Audit examined whether the expenditure meets the requirement of transparency, propriety and Article 14 (equality before law) and Article 16 (equality of opportunity) of the Constitution.

As per Government orders (May 1989), advertisements were to be released only to those newspapers with a minimum paid circulation of 5,000 copies having uninterrupted and regular publication for a period of six months.

Audit scrutiny revealed that during 2007-09, two newspapers of vernacular press were added to the empanelment list. In both the cases, Government, in violation of the norms laid down, empanelled two newspapers before completion

of six months from the date of launching of these newspapers and gave advertisements as detailed below:

Name of the Newspaper	Date of launching	Date of empanelment	Value of advertisement (Rs in crore)
P1	22-10-2007	27-12-2007	0.81
P2	23-03-2008	25-04-2008	6.90

Even prior to their empanelment, sixteen display advertisements worth Rs 91.45 lakh were released to the two newspapers (P1: 9/Rs 31.79 lakh during October 2007 and March 2008; P2: 7/Rs 59.66 lakh during March 2008 and June 2008).

Government replied (July 2009) that it gave exemption of six months continuous period of publication as they were launched with heavy circulation. The Government waived the condition with regard to six months period by way of ‘relaxing’ the condition. The period of stipulation of six months is vital as it tests the capacity of the newspaper to survive on its own for at least six months without Government support.

Release of advertisement on rotation basis

As per Government orders (May 1989), advertisements were to be issued to small and big newspapers on rotation basis by maintaining a roster. It was, however, noticed that rotation principle was not followed for release of advertisements. The department attributed (February 2009) the non-following of the roster system to urgency requirements. ‘Rotation’ principle was important to ensure equality of opportunity to all the parties. The plea of urgency was basically to favour selected parties to the detriment of other parties.

Economy in space/expenditure

Economy of space is the fundamental criterion for controlling the expenditure. The advertisement should be restricted to the minimum size required for communicating the message. However, the following were observed:

- In 29 out of 32 display advertisements scrutinised in audit, it was noticed that advertisements were released without observing the principle of economy of space. Comparison of sizes of the same advertisement in different newspapers revealed that, nine newspapers were favoured with larger size advertisements indicating non-observance of economy and undue benefits to a few favoured newspapers. Additional expenditure incurred on advertisements in sizes higher than the minimum size required worked out to Rs 10.41 crore.
- In 11 out of 97 release orders issued during 2007-08 and in 21 out of 134 release orders issued during 2008-09, advertisements were issued to various newspapers for insertion at selective spots which are charged at rates higher than the normal rates resulting in avoidable expenditure of Rs 23.61 crore.

Government while admitting the lapse sought to justify it by stating that bigger advertisements were given to newspapers having higher circulation. The party P2 was able to come up with high circulation right from inception as the six months limit was waived and business worth Rs 6.90 crore was given to it in a span of just six months. In fact, the party was assured of support even before empanelment. Non-following of the rules given resulted in the party P2 being favoured and business denied to the other parties.

Compliance with propriety requirements

Canons of financial propriety require that public money shall not be utilised for the benefit of a particular person or section of the community. Conclusions about compliance with requirement is arrived at by scrutinising the contents of the advertisement. The expenditure on advertisements highlighting the achievements of the Government of its departments increased from Rs 18.75 crore in 2004-05 to Rs 55.04 crore in 2007-08 and Rs 81.07 crore (up to January 2009) in 2008-09.

Advertisements on behalf of Government Companies/Corporations

The department of Information and Public Relations (I&PR) is the nodal agency for release of advertisements. It was observed that I&PR issued advertisements on behalf of Government companies and corporations without ensuring whether they had funds available to meet the cost of advertisements. Consequently, these organisations expressed funds constraints resulting in the expenditure being borne by the Government ultimately.

Scheme/Subject to which the advertisement relates to	Name of Organisation on behalf of which the advertisement was released	Date of insertion of advertisement	Cost involved (Rs in lakh)
Indiramma Gruhapravesalu	AP Sate Housing Corporation	9 October 2007 and 22 October 2007	78.07
Water supply to Hyderabad	Hyderabad Metropolitan Water Supply and Sewerage Board	14 November 2008	15.44
Indira Kranthi Patham	Society for Elimination of Rural Poverty	17 July 2008	6.70
Amalgamation of BHPV industry	Commissioner, Industries and Commerce Department	10 May 2008	206.00

The Government in its reply stated that it did not matter who paid the money as the expenditure was to be finally borne by the Government. The reply is not acceptable. The non-availability of funds with the Companies/Corporations indicates that this was not a normal item of expenditure and was also substantial in nature making it unaffordable to be met from their regular budgets.

INFORMATION TECHNOLOGY AND COMMUNICATIONS AND REVENUE DEPARTMENTS

2.2.2 Undue benefit to a Company in allotment of land

Government passed on undue benefit of Rs 165.75 crore to a private firm in allotment of 50 acres of land.

Government in Information Technology and Communications (IT&C) Department declared (March 2005) Information and Communication Technology (ICT) Policy and offered to alienate land for developing Information Technology (IT).

Government allotted (December 2008) 50 acres of land belonging to the Police department (25 acres), and Visakhapatnam Urban Development Authority (25 acres) in the Kapuluppada village of Visakhapatnam District to M/s Satyam Computers Limited (Company) on the basis of an application received from the firm. As ascertained by the Department from the District Collector, the prevailing value realised through auction varied from Rs 4.00 crore to Rs 4.55 crore per acre.

Audit scrutinised (February 2009) the records relating to allotment of land by the Revenue Department and found that the Revenue Department allotted the land

- (i) without giving wide publicity prescribing the starting date and last date for receipt of applications
- (ii) by not selecting the allottees in a fair manner from the applications so received.

Thus, the transaction was violative of the Constitutional provisions of equality of opportunity and did not meet the requirement of transparency.

As per the conditions of the allotment of land for IT policy stipulated by Government in IT& C Department, the Company selected was entitled to 0.30 acres of land for every 100 jobs created at concessional price and no concession was applicable to areas allotted in excess of this limit. The Company was therefore entitled to a rebate of Rs 5 crore or 7.5 acres¹² of land at concessional price (which was fixed by the Government at Rs 10 lakh per acre for such allotments) and market value of the land was payable for the remaining land. However, as against 7.5 acres of land entitled at concessional rate of Rs 10 lakh per acre, Government allotted 50 acres of land at a concessional price of Rs 10 lakh per acre. As against Rs 170 crore (Rs 4 crore X 42.5 acres) payable, the Company paid a meagre amount of Rs 4.25 crore (42.5 acres X Rs 10 lakh) towards cost of the land allotted in excess (i.e. 42.5 acres) of the limit prescribed in ICT policy.

¹²Rs 20,000 X 2,500 jobs (promised by the Company) or 0.30 acres of land X 2500/100 whichever is less

Thus, allotment of land in excess of the limits prescribed in ICT policy resulted in an undue benefit of at least Rs 165.75 crore¹³ to the Company.

Government (in Revenue Department) in its reply stated (June 2009) that the land was allotted to the Company at concessional price of Rs 10 lakh per acre as decided by Government (in IT&C Department) in the year 2005. The reply overlooks the fact that Company was entitled to only 7.5 acres of land at concessional price (Rs 10 lakh per acre) and the remaining 42.5 acres of land should have been charged at the prevailing market value. Failure to do so resulted in undue benefit of Rs 165.75 crore to the Company.

INFRASTRUCTURE & INVESTMENT (PORTS -I) DEPARTMENT

2.2.3 Deficiencies in award of work relating to development of Machilipatnam Port

The contract for development of Port at location ‘Gilakaladinne’ near Machilipatnam of Krishna District was given to a party which did not initially submit bid for that location. Government is saddled with the payment of Rs 335 crore as against ‘nil’ investment initially contemplated.

The State Government decided to develop all weather, deep water multipurpose port at Machilipatnam. In response to the call of expression of interest (September 2005) nine firms responded, out of which five were short-listed for issue of bid documents. After issue of bids and a pre-bid meeting, only one party, a consortium of four companies (Consortium) which included M/s Maytas Infrastructure Pvt. Limited, submitted the bid for development of the port at ‘Gogileru’. The work was entrusted to the Consortium in January 2007 on ‘Build, Own, Operate and Transfer’ basis. Subsequently, after finalisation of the bid and after entrustment of the work Government decided (January 2008) to develop the port at ‘Gilakaladinne’. The Consortium demanded (January 2008) a payment of Rs 335 crore for change in the location and this was agreed to (January 2008) by the Government. Director of Ports also handed over (September 2008) Government land to the extent of 412.57 acres¹⁴.

Audit observed the following deficiencies with regard to award of work:

Pre-bid meeting was held on 12 January 2006. Given that the work involved was a complex task of construction of deep water port adequate time was required for the bidders to prepare their detailed estimates. The last date for submission was fixed as 20 February 2006 and piece-meal extensions were given from time to time up to 29 March 2006 initially and up to 22 April 2006 by which time only one bid was received. No further extensions were given to elicit bids from other parties to obtain competitive offers. Stipulation of

¹³(50 – 7.5) acres X Rs 4.00 crore = Rs 170.00 crore – amount received Rs 4.25 crore = Rs 165.75 crore

¹⁴Out of 6262 acres of land offered by Government in RFP document

submission of financial bids simultaneously with technical bids has the merit that the parties at this stage do not have knowledge of how many parties will be participating. This minimises the chances of collusion. Such a procedure was not adopted.

At the time of calling for tenders, the Government had not made up its mind as to the location to develop the Port. Yet, it failed to insist on submission of financial bids for both the locations. This was necessary so as to get the bids for both the locations through the competitive bid route and not after the price bids are opened. In the instant case, although Government specified in the NIT that the contractors quote bids for development of port at either of the locations – ‘Gogileru’ and ‘Gilakaladinne’, the Government did not insist on submission of financial bid for ‘Gilakaladinne’ before opening the bid. The additional cost of Rs 335 crore claimed by the Consortium suffers from a major deficiency of vitiating the tender process in that the port was to be developed on a revenue sharing basis with zero investment by the Government. The acceptance of bid from the firm was objectionable as it did not submit any bid originally for ‘Gilakaladinne’. If the undertaking of development of the port at the alternative location was to be made by financial contribution from Government then this would have been a major departure from the conditions initially stipulated while calling bids. Fresh bids should have been called as per the prescribed procedures.

The agreement clause (No. 3.6) facilitated the Consortium to raise loans not based on their financial capability but by mortgaging Government land and future revenue streams from the port activities. This was tantamount to Government standing guarantee for loans raised by a private party as Government land has been mortgaged. The contractual provision is beset with the risk of the party diverting the funds raised by mortgaging Government assets.

Audit also carried out a vulnerability assessment of the revenue sharing arrangement. The gross income can be adversely affected by understatement of revenue. The revenue is collected by the operator throughout the year. This requires that a Government representative be associated with this revenue collection throughout the period of operation on 24X7 basis to ensure that all the revenue collected by the operator is brought into books of accounts. The contract does not stipulate such a requirement and the omission can be considered as a major flaw providing an avenue to the operator to understate the revenue realised.

Although the stipulated date of financial closure elapsed on 21 April 2009 the Consortium was yet to fulfill the conditions prescribed (clause 3.2) and commence the work as of June 2009.

The Government stated (April 2009) that M/s MAYTAS submitted the proposal for development of the Port at Gogileru near Machilipatnam with an estimated cost of Rs 1,255 crore. Due to representations received from the public it was decided to develop the Port at Gilakaladinne and not at Gogileru. MAYTAS sought payment of Rs 335 crore for development of the Port at the new

location. It further stated that the payment of additional costs to the firm was certified by M/s WAPCOS¹⁵ (India) Limited, New Delhi. The reply is not acceptable. From the point of view of safeguarding Government's interest, competitive bidding procedure is prescribed. The benefit of calling for bids accrues only when sufficient number of parties participate in the bids and give their quotations. To ensure that enough number of people participate what was required was uninterrupted period of sufficiently long duration given the complexity of the project to be executed. Fixation of short duration for submission of bids and piecemeal extensions of again short duration deters potential bidders from making their own assessment of the magnitude of work for submission of price bid. In this case, piecemeal extensions were given till the firm MAYTAS submitted price bid. Participation of only a single party has gone against the very basic principle of participation of sufficient number of parties and competitive bidding. Once MAYTAS did not submit a financial bid for the other location at 'Gilakaladinne' it has to be treated at par with other firms which did not submit any price bid. Since no bids were received from any of the parties for the location 'Gilakaladinne' fresh bids should have been called giving adequate time in the initial stage itself instead of giving piecemeal extensions of short duration as was done earlier. The award of work involving payment (Rs 335 crore) was violative of the NIT conditions which stipulated no payment by Government.

2.2.4 Implementation of agreements relating to construction and operation of Kakinada Port

Government passed on undue benefit of Rs 52.52 crore to a Company entrusted with operations of the Kakinada Port as it failed to ensure compliance of agreement clauses and also by modifying the agreement clauses.

Government developed (1996-97) a deep-water port at Kakinada with three berths at a cost of Rs 293 crore and entrusted (March 1999) the work of operating the existing three berths, development and operation of one more berth and management of common facilities of the entire Kakinada port to International Seaports Pvt. Ltd. (Company) on 'Build, Operate, Maintain, Share and Transfer' basis. The duration of the contract was initially for 20 years.

Audit scrutiny (January and February 2009) of implementation of the agreements between the State Government and the Company revealed the following deficiencies:

Short collection of Lease Charges

As per clause 7.2 of the agreement, the lease charges shall be payable from the date of handing over of land at the existing rates.

¹⁵Water And Power Consultancy Services

The Government order of January 1994 regulates the computation of lease rentals. The steps involved are as follows:

- Step (1) Ascertain the registered market value at the time of handing over of the land
- Step (2) Reduce this land value to 40.30 *per cent*
- Step (3) Fix lease rent at 6 *per cent* of the reduced registered market value as computed in step (2).
- Step (4) Increase lease rental every three years on the base rent fixed in step (3) above.

The lease charges shall be payable from the date of handing over of the land at the rates existing. The lease charges in respect of reclaimed lands shall be as follows:

Period of lease	Lease charges
First 5 years	25 <i>per cent</i>
Next 5 years	50 <i>per cent</i>
Next 5 years	75 <i>per cent</i>
Next 5 years and beyond	100 <i>per cent</i>

Accordingly, Audit computed the rate payable by the party for different pieces of land as given in [Appendix-2.1](#). It was observed that the rates charged were far below these rates resulting in an undue benefit of Rs 3.52 crore to the party. The lease rent was fixed on the basis of lease rents prevailing in 1994 and extrapolating these figures by increasing them by 15 *per cent* every three years. The correct procedure would have been to adopt the registration value of land pertaining to the date of handing over of the land for the purpose of computation of lease rental. This was not done.

Short collection of Government’s share of operational income

As per clause 7.3 of the agreement, the Company shall share the income with the State Government on percentage sharing basis for various years as given in column (3) of Table 1 ([Appendix-2.2](#)). If for the years, amounts worked out on the basis of these percentages in column (3) are less than the minimum guarantee share amounts (MGA) stipulated in column (2) the Company shall pay the MGA.

For the years 1999-2000 and 2000-01, the Government collected an amount of Rs 27 crore towards MGA as per the agreement.

For the next three years i.e., 2001-02 to 2003-04 amount receivable was Rs 60 crore, i.e. the MGA fixed. As against this, the Company paid Rs 26.60 crore only. In 2003, the amounts stipulated in column (2) of Table-1 ([Appendix-2.2](#)) were revised as shown in column (2) of Table-2 ([Appendix-2.2](#)). The underlying principles in this modification were:

- (i) Adoption of amount already received for the years 2001-02 to 2003-04 as MGA legitimising the short collection.
- (ii) The short collection in the years 2001-02 to 2003-04 was to be compensated by MGA higher than originally stipulated so that the net present value of the total MGA amount discounted at a rate of 12 *per cent* remained the same.

This resulted in further short collection of MGA of Rs 15.60 crore for the years 2004-05 to 2006-07 as compared to what was initially stipulated in the agreement. For the year 2007-08 the amount paid i.e., Rs 30.50 crore as revenue shareable as per column (3) of Table-2 of [Appendix-2.2](#) was more than MGA (column 2) of Table-2 ([Appendix-2.2](#)). The clause relating to MGA was deleted (January 2009) from the year 2008-09 onwards.

Thus, the reduction of MGA for the period 2001-02 to 2006-07 and subsequent deletion of clause from the year 2008-09 relating to MGA after finalisation of selection process and during operation of the contract was detrimental to the Government interest. This only vitiated the sanctity of the tendering procedure resulting in undue benefit of Rs 49 crore¹⁶ to the Company for the period 2001-07.

The total undue benefit passed on to the Company in the collection of lease rentals (Rs 3.52 crore) and Government's share of revenue income (Rs 49 crore) amounted to Rs 52.52 crore as of March 2009. Apart from this the benefit will continue to accrue during the remaining years of the agreement.

Government in its reply (June 2009) stated that the lease charges were computed as per the Government order of 1994. It was also stated that there was rescheduling of un-escalated MGA and from the year 2009 the Government took decision to delete the MGA clause. The reply is not acceptable. The Government order of January 1994 was not correctly applied. While computing the lease rentals the latest registration value of the land was not adopted resulting in short collection of revenue. As regards the sharing of operational income, the stipulation of MGA was an important condition of the original agreement having substantial implication for the State Government to ensure that they get a minimum return from the investment made in the project. Any modification of this clause was violative of the sanctity of the original agreement and the terms and conditions on which the work was awarded.

¹⁶Rs 33.40 crore for 2001-02 to 2003-04; Rs 15.60 crore for 2004-05 to 2006-07

**IRRIGATION AND COMMAND AREA DEVELOPMENT
DEPARTMENT (Irrigation Wing)**

2.2.5 Avoidable extra expenditure due to inappropriate rejection of bids initially received

Incorrect decision to reject bids in the first call resulted in avoidable extra expenditure of Rs 49.11 crore besides delaying improved irrigation facilities to the farmers.

Government accorded (May 2006) administrative approval for modernisation of Pennar Delta System at a cost of Rs 340.50 crore. The works were divided into different packages.

Tenders were invited (August 2006) for the package works viz., ‘Package 34 – Kanigiri Reservoir and its canal system’, ‘Package 35 – Survepalli canal system’ and ‘Package 40 – Jaffer Saheb canal system’ and the bids received were as follows:

(Rs in crore)

Package No.	Name of the Party	Value of bid received	Estimate (IBM Value)	Percentage variation
34	A. Prabhakar Reddy & Co.	57.28	55.88	2.513
35	P. Venku Reddy, Sri Durga Chambers, Hyderabad	57.25	57.54	(-) 0.50
40	P. Venku Reddy, Sri Durga Chambers, Hyderabad	39.90	40.72	(-) 2.00

The bids received were very close to the Internal Bench Mark (IBM) value and within the upper ceiling limit of 5 *per cent* prescribed by Government. Despite this the bids were not accepted (March 2007) on the plea that only single bids were received.

When bids were reinvited, the response was poor and could be finalised only after repeated attempts as detailed below leading to extra expenditure of Rs 49.11 crore.

(Rs in crore)

Package No.	Name of the party	Tender call number	Agreement value (Date)	Lowest bid in 1st call	Extra expenditure
34	M/s. G.V.R Constructions Pvt. Ltd., Hyderabad	6th call	76.89 (19 May 2008)	57.28	19.61
35	M/s. G.S.R. & Co., Hyderabad	5th call	80.40 (25 April 2008)	57.25	23.15
40	M/s. Engineering Projects (India) Ltd., Hyderabad	3rd call	46.25 (4 February 2008)	39.90	6.35
Total			203.54	154.43	49.11

Non-acceptance of the initial bids received earlier resulted in those parties not taking part in further bidding process.

The initial rejection of bids on the basis that only single bids were received was inappropriate given that the values quoted were close to the IBM value and resulted in avoidable extra expenditure of Rs 49.11 crore. In fact, the subsequent award of work for the three packages were also on the basis of single bids. The delayed award of works (May, April and February of 2008) deprived the farmers of the benefit of early realisation of improved irrigation facilities.

The matter was reported to Government in February 2009; reply had not been received (August 2009).

IRRIGATION AND COMMAND AREA DEVELOPMENT DEPARTMENT (Projects Wing)

2.2.6 Avoidable extra expenditure due to non-finalisation of tenders within validity period

Failure to place order within the validity period of the first tender call resulted in placement of order on the same contractor in the second call for an additional value of Rs 2.68 crore.

Government accorded (July 1998 and January 2004) administrative approval for the 'Sangambanda Balancing Reservoir Project in Mahboobnagar District'. Construction of earth dam, spillway and canals of the project was completed by August 2006 at a cost of Rs 50 crore. The department invited tenders in January 2006 for the balance component of work 'Supply and erection of radial gates, hoist arrangements and stoplog gates to the spillway'. The bid evaluation committee recommended (March 2006) for acceptance of the single bid received with a quoted price of Rs 10.89 crore. The Government finalised the bid (February 2007) after a delay of more than ten months. The contractor backed out on the plea that the tender validity period of six months (up to September 2006) has expired and the rates of materials and labour have increased. When tenders were invited again the same contractor emerged as the lowest bidder but the bid value was Rs 13.57 crore, which was Rs 2.68 crore more than the price quoted by him in the earlier tender call. The work was entrusted to the contractor in September 2007.

Thus, non finalisation of tenders in the first call within the validity period resulted in avoidable extra expenditure of Rs 2.68 crore. Besides, due to delay of nearly 18 months in entrustment of the work, the dam and canals already constructed with an expenditure of Rs 50 crore were not put to use and there was delay in realising the objective of providing irrigation facilities to the targeted ayacut of 15,900 acres.

The matter was reported to Government in March 2009; reply had not been received (August 2009).

**REVENUE AND TRANSPORT, ROADS & BUILDINGS
(R&B Wing) DEPARTMENTS**

2.2.7 Undue benefit to a firm in formation of 40 feet wide road

Government conferred undue favour to a firm by allotting a valuable piece of land in exchange for disputed land of smaller size. Change in alignment of road resulted in Rs 31 lakh already incurred becoming wasteful.

As a part of the process for development of deep water port at Gangavaram (Visakhapatnam District) the EE (R&B) Division, Marripalem, Visakhapatnam (EE), requisitioned (March 2007) three acres of land in Yarada for formation of 40 ft. connectivity road from Hilltop road to Fish Landing Centre.

When the draft notification and declarations for acquisition of land were published (June 2007) in the News Papers, M/s Brook Fields & Resorts Pvt. Ltd., Visakhapatnam represented (June 2007) that the alignment of the road proposed by the EE was passing through the land purchased by them, rendering other part of their land wasteful and, therefore, suggested alternative alignment along the boundary of their land. The firm offered to give 2.10 acres of their land required for the road in the alternative alignment in exchange of another piece of Government land admeasuring 3.00 acres. This request was acceded to and the orders were issued by the Government permitting allotment¹⁷ of land to the firm despite objections by Special Deputy Collector, Land Acquisition, SEZ-I, Visakhapatnam (LAO). This was a clear favour to the firm and detrimental to the Government in view of the following:

- The land offered by the firm was in the hilly track and the ownership was under dispute as the ownership of the land offered by the firm was not conferred on the original enjoyers from whom the firm claimed to have purchased the land as opined by the LAO.
- The Government land has commercial value for development of resorts business at the beach.
- The EE had already incurred an amount of Rs 30 lakh towards development of kutcha road falling in the original alignment.

Thus, the action of the Government in allotting a piece of 3.00 acres of land to the firm in exchange of a disputed land of a smaller size not only resulted in conferring undue favour to the firm but the expenditure of Rs 30 lakh (incurred by the EE) on the development of kutcha road and another Rs 1 lakh (incurred by the LAO) for publication of DN and DD was also rendered wasteful due to change in alignment of the road.

The matter was reported to Government in March 2009; reply had not been received (August 2009).

¹⁷ information regarding the date of actual handing over of the land to the firm awaited from the department

**YOUTH ADVANCEMENT, TOURISM AND CULTURE
(Youth Services) DEPARTMENT**

**2.2.8 Commencement of work of Multipurpose Cultural Centre
without ensuring sufficient funds**

The Multipurpose cultural centre at Hyderabad though conceived in December 2003 had not come up as of February 2009 mainly due to taking up of the project without ensuring in advance availability of funds. This resulted in the objective of promotion of culture not being achieved. The delay also led to cost escalation of about Rs 4 crore.

Government of India (GOI) released¹⁸ (October 2004) Rs one crore for construction of 'Multipurpose Cultural Centre (MPCC)' at Kavuri Hills in Hyderabad under the Centrally Sponsored Scheme for promotion of culture. The objectives for construction of MPCC are (i) Coordination of functions of various cultural fields, (ii) Protection, Preservation of Classical and Folk Art Forms, Art and Architecture and (iii) Library, indoor and open air theatres for performances, etc. The estimated cost of the project was Rs 6 crore to be shared by GOI and the State Government on 1:1 basis. The Director, State Gallery of Fine Arts was to monitor the project under supervision of the Director of Culture.

The work was entrusted (February 2005) to a contractor at an estimated contract value of Rs 4.39 crore with a stipulation to complete it within 12 months of handing over the site. The site was handed over to the contractor in April 2005 and the work was scheduled to be completed by April 2006. The construction of the MPCC building had not been completed (expenditure incurred as of March 2009: Rs 1.79 crore) and the work was stopped (July 2006) midway by the contractor at a stage where a mere structure with slab of ground floor was laid and pillars erected for first floor.

Audit scrutiny (February 2008) of the records in the office of the Director of Culture revealed the following:

- The work was taken up by the Director, State Gallery of Fine Arts without ensuring availability of adequate funds for the project. GOI released Rs 1 crore as part of its share in October 2004 itself. The State Government delayed the release of its share till the year 2006. The State Government released Rs 34 lakh in June 2006, i.e., after the scheduled date of completion of April 2006, Rs 50 lakh in June 2007 and another Rs 50 lakh in February 2008. Further, the amount of Rs 34 lakh released in June 2006 lapsed as the amount was not utilised on account of non-preferring of the bill in time by the Director, State Gallery of Fine Arts. This resulted in the contractor stopping (July 2006) the work for want of prompt payments.

¹⁸The State Government accorded administrative sanction for Rs 6 crore in December 2003

- The contractor expressed his inability to resume the work unless his demands for revision of cost, compensation of losses suffered by him and prompt payment on completion of works were agreed to and the contractor was advised (January 2009) to submit revised estimates for the balance work as per SSR 2008-09. The cost of balance works at SSR 2008-09 was estimated at Rs 6.36 crore (yet to be approved by the department).

Given that the scheduled period of completion of construction of the building was only one year, the Director should have ensured advance receipt of full funds required for the project by the time of commencement of the work in April 2005. Failure to do so resulted in the contractor backing out for want of prompt payments and the MPCC building remains incomplete even after four years of the release of funds by GOI. The objectives envisaged for promotion of culture also remained unachieved. The inordinate delay also resulted in cost escalation of about Rs 4 crore on the project.

Government in its reply (June 2009), while accepting the above audit points, stated that efforts would be made to complete the project at the earliest.

2.3 Idle investments/idle establishments/blocking of funds/delays in commissioning of equipment; diversion/misutilisation of funds

IRRIGATION AND COMMAND AREA DEVELOPMENT DEPARTMENT (Projects Wing)

2.3.1 Execution of work without obtaining prior clearance from Forest Department

Excavation of canal and distributaries under Somasila Project without obtaining prior clearance from Forest Department resulted in idle investment of Rs 5.48 crore.

According to Section 2 of the Forest (Conservation) Act, 1980 as amended in 1988, prior approval of the Central Government is required for use of forest land or any portion thereof for non-forest purpose.

The South Feeder Channel (SFC), one of the three main canals under the Somasila Project in Nellore District, runs for a length of 74.725 KM and was intended for creation of 25,000 acres of dry and 16,000 acres of wet ayacut through its 45 distributaries. At KM 58.720 of the SFC, an aqueduct was required to be constructed at Yeturu village in Chejerla Mandal of Nellore District. Part of the canal from KM 58.600 to 58.800 and from KM 70.500 to 71.950 including aqueduct at KM 58.720 fell in forest land. Irrigation facilities required to be provided for land beyond KM 58.720 was 5,500 acres and this was possible only if the aqueduct was constructed. As this location falls under forest area, approval of Central Government was a pre-requisite for construction of the aqueduct. The execution of work beyond KM 58.720 required forest clearance.

Audit scrutiny revealed that without obtaining forest clearance in advance, which is mandatory as per the Act, the department went ahead with the excavation of entire length of canal and 41 distributaries which includes works beyond KM 58.720 valuing Rs 5.48 crore executed between 1989-90 and 2004-05. The forest clearance for construction of the aqueduct has not been received so far and the aqueduct at KM 58.720 has not been constructed as of date (January 2009). Due to non-completion of the aqueduct, water was not being released beyond KM 58.720.

Thus, undertaking excavation of canal without obtaining forest clearance has resulted in blockage of funds to the tune of Rs 5.48 crore. Besides, the intended benefit of providing irrigation facilities to the ayacut of 5,500 acres has not been achieved so far.

The matter was reported to Government in February 2009; reply had not been received (August 2009).

YOUTH ADVANCEMENT, TOURISM AND CULTURE (Youth Services) DEPARTMENT

2.3.2 Non-implementation of a Tourism Project

Taking up of a tourism project in Visakhapatnam without ensuring the suitability of land and without firming up suitable drawings and designs attributable to non-involvement of APTDC at initial stage has led to non-starting of the work even after two years besides blocking of funds of Rs 2.80 crore with APTDC.

Government of India (GOI) sanctioned (December 2006) Rs 3.50 crore for establishment of a Dutch village at Bheemili¹⁹ and Thotlakonda beach circuit, in Visakhapatnam District, to depict past history of Dutch settlements, religious monuments spanning different eras, for attracting international tourists. The Dutch village was to include the components (1) A visitor centre-cum-restaurant, (2) Dutch Museum, (3) Dutch flavour to buildings and (4) Recreation of the Dutch lifestyle. GOI released (December 2006) an amount of Rs 2.80 crore towards first instalment with a condition that funds should not be kept unutilised for more than six months and that the project should be commissioned within 24 months i.e., by December 2008.

Audit scrutiny (February 2008) of the records of Tourist Information Officer, Visakhapatnam, revealed that the tourism project did not take off and the entire amount was lying unutilised with the AP Tourism Development Corporation (APTDC)²⁰, and as of February 2009, detailed drawings, designs and the estimates were not ready.

¹⁹ Bheemili is a coastal town with Dutch heritage

²⁰ in the savings bank account of the APTDC with IDBI

It was observed that the land²¹ originally selected was not suitable. It was not directly accessible from the Dutch cemetery and not suitable to connect to the theme of Dutch village. There is no record to show that APTDC which executes tourism projects was involved in preparation of initial proposals of the project. Non-selection of a suitable land for the project could be attributed to this deficiency. There was also initial delay of one and half years in release of funds to APTDC by the Director, Tourism.

The Director, Tourism, in reply (July 2009), while confirming the audit observation stated that the site was under finalisation for Bheemili Dutch village and final drawings and estimates were under preparation for the beach circuit.

Thus, submission of proposals to GOI without ensuring the suitability of land and without firming up the drawings and designs, etc. for the project has resulted in non-utilisation of funds within the stipulated time of two years besides blocking up of Rs 2.80 crore.

The matter was reported to Government in April 2009 (also reminded in June 2009); reply had not been received (August 2009).

2.4 Regularity issues and others

GENERAL ADMINISTRATION DEPARTMENT

2.4.1 Lack of follow-up action by the Government departments on Vigilance Reports

As of January 2009, 2966 action taken reports (ATRs) were pending for one to twelve years from various administrative departments on the Vigilance & Enforcement (V&E) reports.

Vigilance & Enforcement (V&E) Department was established in the year 1985 under the administrative control of the Director General, Vigilance & Enforcement. The department conducts enquiries into the complaints/petitions, etc. received from the citizens. The department also takes up *suo moto* enquiries, verification of engineering/development works after gathering primary evidence through its field units located region-wise²². The Headquarters Task Force comprising the four wings²³ scrutinises the reports received from the field units and sends final reports to the various administrative departments of the Government and the Heads of Departments concerned through the Vigilance Commission for taking action on the recommendations made by it. The annual budget of the V&E Department is around Rs 18 crore (2008-09).

²¹ The Buddhist site of Thotlakonda measuring about 120 acres

²² Designated as Regional Vigilance & Enforcement Officers

²³ Development Works, Engineering, Natural Resources and Revenue

Audit scrutiny (January/March 2009) of the records of the Director General, V&E Department revealed the following:

- As of January 2009, 2966 action taken reports²⁴ (ATRs) were pending from various administrative departments on the reports issued by the V&E Department. The year-wise details are given in [Appendix-2.3](#).
- Of these 1,987 reports were pending for 3 to 12 years.
- No action was initiated by the administrative departments on 757 reports (26 per cent) or no information was available with V&E regarding the action initiated, if any. Of these, 257 reports were pending for 3 to 12 years.
- In 2,209 cases, action though initiated was not complete. Again, of these, 1,730 reports pertain to 3 to 12 years old.
- The following five departments topped the list (with regard to huge pendency) of departments from whom the ATRs were pending:

Department	Total No. of reports pending as of January 2009		No. of reports on which action was initiated but not completed		No. of reports on which action yet to be initiated	
	Total	> 3 years	Total	> 3 years	Total	> 3 years
Municipal Administration and Urban Development	496	355	401	334	95	21
Revenue	455	264	359	247	96	17
Panchayati Raj and Rural Development	321	238	228	189	93	49
Irrigation & Command Area Development	275	182	226	162	49	20
Agriculture & Co-operation	185	117	125	102	60	15
Total	1732	1156	1339	1034	393	122

Audit observed that neither the Government nor the V&E Department fixed any time frame for submission of ATRs by the administrative departments resulting in huge pendency of V&E reports with the various administrative departments.

Non-submission of ATRs by the administrative departments for several years is a matter of serious concern. An effective utilisation of the V&E Department has the potential to yield benefits to Government several times the budget (Rs 18 crore) of V&E Department. However, the reports produced through laborious efforts of V&E Department have not been properly utilised by the Government. This had adverse implications by way of the officials involved getting promotions in the meanwhile or retiring besides diluting the deterrent effect on erring officials.

The matter was reported to Government in March 2009 (also reminded in April 2009); reply had not been received (August 2009).

²⁴ 1997 (5 reports); 1998 (7); 1999 (19); 2000 (28); 2001 (105); 2002 (133); 2003 (227); 2004 (396); 2005 (618); 2006 (449); 2007 (466), 2008 (492) and 2009 (21)

PLANNING DEPARTMENT

2.4.2 Member of Parliament Local Area Development Scheme

Irregularities like non-completion of works, diversions, irregular payments, etc. involving Rs 70.29 crore in implementation of MPLAD Scheme denied the envisaged benefits to the people at large.

The “Member of Parliament Local Area Development Scheme (MPLADS)” was designed to enable the Members of Parliament (MPs) to recommend works for provision of certain basic facilities with emphasis on the creation of durable community assets in their constituencies. The scheme is fully funded by Government of India. The District Collector is the Nodal officer at the district level and the works are executed by District Rural Development Agency (DRDA), District Water Management Agency (DWMA) and Chief Planning Officer of the district.

Scrutiny of the transactions of MPLAD Scheme and accounts of six²⁵ Chief Planning Officers (CPOs) (comprising²⁶ 18 MPs) for the period 2003-04 to 2008-09 revealed the following deficiencies:

Incomplete works

As per the scheme guidelines the works taken up under the scheme should generally be completed within one year. In the six districts, out of 7,940 works sanctioned during 2003-04 to 2006-07 (estimated cost: Rs 142.63 crore), only 5,283 works (estimated cost: Rs 89.57 crore) were completed leaving a balance of 2,657 works (33 *per cent*) (estimated cost: Rs 53.06 crore) (some of them taken up 5 years ago) not yet completed as detailed in [Appendix-2.4](#). The expenditure already incurred on these works amounted to Rs 9.07 crore.

Locking up of funds

Further, 1360 works (17 *per cent*) sanctioned during the years 2003-04 to 2006-07 costing Rs 23.37 crore were not even started resulting in locking up of funds of Rs 12.86 crore²⁷ already released to the executing agencies. Details are given in [Appendix-2.5](#). There was no justification in keeping the moneys unutilised with the executing agencies when the works could not even be started for several years. The Chief Planning Officers attributed the delays to site disputes and technical problems, etc. Therefore, without acquisition of land, sanctions should not have been accorded.

²⁵Vizianagaram, West Godavari, Krishna, Guntur, Prakasam and Medak

²⁶**Lok Sabha:** Bobbili, Eluru, Narsapuram, Vijayawada, Machilipatnam, Narsaraopet, Guntur, Tenali, Ongole, Bapatla, Siddipet and Medak

Rajyasabha: West Godavari, Krishna-I&II, Guntur-I&II and Medak

²⁷Information regarding the amounts released not furnished by the CPOs in respect of 216 works

Execution of inadmissible works

In all the six districts 33 inadmissible works (estimating Rs 0.38 crore²⁸) viz., repairs of roads, buildings and tank bunds which were prohibited under the scheme were sanctioned for execution during 2003-04 to 2008-09. Although initially recommended by the MP, it was the duty of the District Collector to bring it to the notice of the MP that the works were inadmissible so that the MP could recommend alternative works. The CPOs assured that the guidelines would be kept in view while issuing the sanctions in future.

Irregular retention of balance funds of retired Rajya Sabha Members

As per the scheme guidelines, in respect of elected Members of Rajya Sabha the balance funds (funds not committed for the recommended and sanctioned works) left in the nodal district by the predecessor Members in a particular State were to be equally distributed by the State Government among the successor elected Rajya Sabha Members in that State. In respect of nominated Members of Rajya Sabha, the balance funds were to be distributed amongst the successor nominated Members of Rajya Sabha. It was however, observed that, an amount of Rs 0.75 crore being the unspent balances in respect of retired Members of Rajya Sabha were irregularly retained by the CPOs for over two to fourteen years in the five nodal districts, thereby violating the scheme guidelines. Details are given in [Appendix-2.6](#).

Non-remittance of unutilised balances and interest

The CPOs failed to obtain the unutilised amount of Rs 1.04 crore (West Godavari: Rs 0.51 crore, Guntur: Rs 0.03 crore, Krishna: Rs 0.25 crore, Prakasam: Rs 0.12 crore and Medak: Rs 0.13 crore) and accrued interest thereon in respect of completed works from the implementing agencies as of January 2009.

Parking of MPLADS funds in private banks

As per guidelines, MPLADS funds received by the district authority (from GOI) and the Implementing Agencies (from the district authority) shall be kept only in a nationalised bank. Contrary to this, in five out of the six districts and 4 implementing agencies²⁹ in three districts, the accounts were opened in private banks.

Non-furnishing of Utilisation Certificates by the Executing Agencies

Similarly, the implementing agencies are required to send utilisation certificates (UCs) to the district authority within one month of completion of works. Scrutiny revealed that UCs aggregating Rs 3.85 crore were not received by the district authorities as detailed in [Appendix-2.7](#).

²⁸Vizianagaram: 1 work Rs 0.02 crore, West Godavari: 2 works Rs 0.02 crore, Krishna: 18 works Rs 0.16 crore, Guntur: 8 works Rs 0.12 crore, Prakasam: 4 works Rs 0.06 crore

²⁹EEs, PR, Eluru, Machilipatnam, Narasaraopet and Guntur

Non-transfer of assets to user agencies

As per the guidelines, on completion of the work, the district authority and the implementing agency shall maintain asset register containing the details of assets created and their transfer to the user agencies. The CPOs in all the six districts except Krishna, did not maintain any such records. Though the assets were to be transferred to the user agencies, there was no record to show that assets were transferred to user agencies in all the six districts. During the period from 2003-04 to 2008-09, 7375 works were completed at a cost of Rs 130.21 crore in the six districts.

Other points of interest

(i) Though prescribed in the guidelines and also directed by the sanctioning authority, MP-wise cash books/bank accounts were not maintained by the Executing agencies³⁰. Further, CPOs in Vizianagaram, West Godavari, Krishna, Guntur and Medak Districts opened/operated more than one account (two to five) per MP in violation of the guidelines.

(ii) As per guidelines, funds can be converged with other scheme funds for execution of eligible works, which are otherwise permissible subject to the condition that the use of funds from MPLADS results in completion of the work. The funds from MPLADS are to be released only towards the end and the funds from other sources should be used first.

It was, however, observed that an amount of Rs 0.30 crore in Guntur (Rs 0.10 crore) and Prakasam (Rs 0.20 crore) Districts was released (October 2007 and June 2008) without ensuring the release/incurrence of funds from other sources. Those works were not completed as of January 2009.

(iii) As per guidelines, the balance funds (funds not committed for the recommended works) left by the predecessor MP in a Lok Sabha Constituency would be passed on to the successor MP from that constituency. Scrutiny revealed that an amount of Rs 1.90 crore was not passed on to the successor MPs³¹ in two districts (Vizianagaram: Rs 0.27 crore; West Godavari: Rs 1.63 crore) and left unspent as of January 2009. Due to this, the present MPs could not recommend the works to that extent.

(iv) It was noticed that, in Krishna District, during the year 2006-07, 14 works at an estimated cost of Rs 0.33 crore, were recommended by officer incharge of MP (LS), Machilipatnam, and the same were sanctioned by the District Collector, without insisting upon the recommendation by the MP concerned.

³⁰ EEs PR, Vizianagaram, Siddipet, Medak and Sangareddy; Rural Electrical Cooperative Society, Cheepurapalli; Municipal Commissioners, Bapatla, Mangalagiri and Tenali; EE, Irrigation, Tenali; EE, Rural Water Supply, Podili and EE, R&B, Ongole

³¹ Bobbili (LS): Rs 0.27 crore; Eluru (LS): Rs 0.31 crore; Narsapuram (LS): Rs 1.32 crore

- (v) Though specifically prescribed in the guidelines, the CPOs in all the six districts had not obtained the undertakings from the user agencies for operation, upkeep and maintenance of the proposed asset, which was required to be obtained before execution of the works.
- (vi) As per guidelines, the State Government is required to make arrangements for training of district officers concerned who are dealing with implementation of the scheme. It was noticed that, in all the six districts, no training was imparted to the district officers dealing with implementation of the scheme with adverse implications on the implementation of the scheme.

Poor Monitoring

Guidelines stipulated that the district authority shall visit and inspect at least 10 *per cent* of works under implementation every year. The CPOs of Vizianagaram and Medak have reported that the district authorities had not conducted the inspection of the works. Although the CPOs of West Godavari, Krishna, Guntur and Prakasam had conducted inspections during the period 2003-04 to 2008-09 no records were however maintained. Thus, monitoring by CPOs was poor in all the six districts and consequently there is no assurance that the works are properly executed. The irregularities/lapses discussed above show that there is no proper accounting and monitoring system for effective implementation and to watch the progress of the scheme.

Thus, the monetary value of various irregularities/deficiencies in the implementation of MPLAD Scheme meant for benefitting people at large worked out to Rs 70.29 crore.

The CPOs concerned while accepting the audit points promised to take immediate remedial action on the audit observations. Governments' reply had not been received (August 2009).

REVENUE DEPARTMENT

2.4.3 Unauthorised utilisation of Government receipts in violation of codal provisions

District Collector, Visakhapatnam, besides keeping the deposit amount received from land indenting agencies outside the Government account, unauthorisedly spent the interest amount of Rs 1.76 crore accrued thereon for office expenditure, expenditure on VIP visits, etc.

Financial Rules ³² stipulate that all moneys received by or tendered to Government servants in their official capacity should be paid in full into the treasury without undue delay. Further, such moneys should not be appropriated to meet departmental expenditure or otherwise kept apart from the Government account. AP Land Acquisition rules as also the AP Financial Code stipulated

³²Rule 7(1) of AP Treasury Code (Vol.I)

that all amounts rendered by the requisitioning department should be deposited in treasury under '8443 Civil Deposits'. Payment to awardees has to be made by way of bills presented to Treasury.

Audit scrutiny revealed (June 2008) that the District Collector, Visakhapatnam (DC), contrary to Financial Rules/Codal provisions, invested the deposit amounts which were received from the land indenting agencies towards compensation for land acquisition, in Fixed Deposit Receipts (FDRs) in various banks. The interest earned on these FDRs was also deposited in Savings Bank Accounts³³. The DC also appropriated (September 2006 to May 2008) the interest amount to the extent of Rs 1.76 crore to meet various departmental expenditure as detailed in the following table:

(Rs in lakh)

Renovation, repairs to the office buildings/structure; provision of infrastructure facilities in the office	39.95
Expenditure on account of VIP visits	36.27
Arrangement of Medical & Health Exhibition	30.00
Office expenditure including electrical and telephone bills, hire charges on rented vehicles, etc.	20.09
Payment to 'Apathbandhu'	20.00
Improvement of facilities to IAS Officers Association	10.00
Payment to 'Red Cross'	10.00
Office furniture, etc.	5.30
Miscellaneous expenditure	4.21
Total expenditure	175.82

The expenditure on the above items was to be met from the regular budget under the respective heads of account.

Thus, neither the receipts nor the expenditure were accounted for in the Government account by the DC and the expenditure was also completely without any legislative sanction. Thus, the action of the DC was a clear violation of codal provisions.

The matter was reported to Government in March 2009 (also reminded in April 2009); reply had not been received (August 2009).

³³Union Bank of India, Gitam Branch and Siripuram Branch respectively