

CHAPTER II

Audit of Transactions

2.1 Fraud/Embezzlement/Losses

Scheduled Tribes and Scheduled Castes Welfare Department

2.1.1 Suspected embezzlement/ misappropriation of Government money

Failure to observe the codal provisions and Government orders facilitated embezzlement/ misappropriation of ₹ 1.35 crore in the office of the Commissioner, Scheduled Caste Development, Bhopal.

The Madhya Pradesh Treasury Code, Volume I provides that all money transactions should be entered in the cash book as soon as they occur and got attested by the officer in charge of the cash book in token of check. To prevent fraudulent drawals from the treasury, the Government had issued (December 2000) further orders that a list of all cheques drawn during the month should be sent by the Treasury Officer to the Drawing and Disbursing Officer (DDO) by the 10th of the following month and the DDO after recording the certificate of verification, should return the list to the Treasury Officer by the 20th of the same month. Further, the Finance Department had issued (November 2003) instructions that bills in respect of payments to semi/non-government institutions should be endorsed in their favour so that cheques could be issued by the treasury officer in favour of concerned institutions.

During audit scrutiny (April 2010) of the records and cash book of the Commissioner, Scheduled Castes Development, it was noticed that three drawals amounting to ₹ 1.22 crore were neither entered into the bill register nor in the cash book. Further examination (April 2010) of vouchers received in the Accountant General (Accounts & Entitlement)'s office showed double drawal of ₹ 80 lakh in one case against a sanction issued in December 2009.

On this being pointed out (June 2010), the Commissioner, confirmed (July 2010) the double drawal of ₹ 80 lakh and informed Audit of similar double drawals of ₹ 42 lakh (₹ 29,42,885 + ₹ 12,51,300) in two other cases for which sanctions were issued in May 2009. Details of drawals made from the treasury are shown in Table 2.1.

Table 2.1: Details of drawal of ₹ 2.44 crore

| Sl. No. | Sanction No. and date | Bill No. and date | Treasury Voucher No. and date | Cheque No. and date issued by the Treasury | Amount (₹) |
|--------------|-----------------------------------------------------------|-------------------------|-------------------------------|--------------------------------------------|---------------------|
| 1. | No. Shiksha - 3/2009 - 10/8635 Dated 15 December 2009 | 351 16 December 2009 | 62 07 January 2010 | 285064/ 07 January 2010 | 80,00,000 |
| 2 | No. Shiksha - 3/2009 - 10/8635 Dated 15 December 2009 | 493 26 March 2010 | 402 31 March 2010 | 297911/ 31 March 2010 | 80,00,000 |
| 3 | No. Shiksha-4/2008-09/808 Dated 1 May 2009 | 61 11 May 2009 | 72 18 May 2009 | 248943/ 18 May 2009 | 29,42,885 |
| 4 | No. Shiksha-4/Prashikchan /2008 - 09/828 Dated 4 May 2009 | 51 04 May 2009 | 139 29 June 2009 | 257823/ 29 June 2009 | 29,42,885 |
| 5 | No. Shiksha-4/2009-10/800 Dated 1 May 2009 | 56 11 May 2009 | 67 18 May 2009 | 248938/ 18 May 2009 | 12,51,300 |
| 6 | No. Shiksha-4/Prakshikchan/2008-09/860 Dated 7 May 2009 | 88 04 June 2009 | 168 31 July 2009 | 262067/ 31 July 2009 | 12,51,300 |
| Total | | | | | 2,43,88,370 |
| Say | | | | | ₹ 2.44 crore |

The Commissioner further stated that a proposal had been submitted (June 2010) to the Government for referring the case to the Economic Offences Investigation Bureau which was still under consideration (September 2010). The cashier and two DDOs had been placed under suspension.

The modus operandi adopted in these cases involved tampering with the despatch number and date of sanctions (in two cases involving ₹ 29,42,885 and ₹ 12,51,300) and change of minor head of account (in one case involving ₹ 80,00,000). Further, out of the total drawal of ₹ 2.44 crore, payment of ₹ 1.09 crore (₹ 80,00,000 + ₹ 29,42,885) was made to eligible grantees and for the remaining amount of ₹ 1.35 crore, bankers cheques were got prepared in favour of unconcerned parties. Had the bills for payments of semi/non-government organisations been endorsed by the DDO in favour of these organisations, there would have been no scope for getting banker's cheques in favour of the unconcerned parties.

Thus, non-adherence to codal provisions and related government instructions facilitated embezzlement/ misappropriation of ₹ 1.35 crore.

The matter was referred (June 2010) to the Government. The Principal Secretary, while confirming (October 2010) the embezzlement, informed that the concerned officers/officials had been placed under suspension and departmental inquiries were being conducted against them.

Medical Education Department

2.1.2 Embezzlement of user charges

Interpolations in the records coupled with lack of supervision led to embezzlement of ₹ 12.32 lakh in the radio diagnosis department of Shyam Shah Medical College, Rewa.

Shyam Shah Medical College, Rewa, an autonomous society, collects user charges for the services provided to patients and deposits the money in a bank account of the society. According to Rule 53 of the Madhya Pradesh Treasury Code, where the details of cash transactions are also recorded in separate revenue registers, the entries in such registers should be tallied with the entries in the cash book by a responsible official who should record a certificate to this effect in the relevant revenue registers.

Scrutiny (April 2010) of records of the radio diagnosis department of the Medical College, for the period from January 2004 to December 2009 and further information collected (August 2010) revealed several interpolations/overwriting and cuttings on carbon copies of receipts issued to patients for collecting user charges of radio diagnosis. Though the medical college collected ₹ 25.68 lakh from users during January 2004 to March 2008, the amounts of receipts collected was shown as ₹ 23.40 lakh only, out of which an amount of ₹ 10.04 lakh had not been remitted to the Accounts Section as shown in Appendix 2.1. Also, the officer responsible did not tally the total amount of the receipt book with the money receipt register and recorded certificates.

Thus, failure of the department in proper maintenance of accounts of user charges/ timely remittance into the society accounts and non-checking of receipt books with the register by superiors of the department led to embezzlement of ₹ 12.32 lakh.

On this being pointed out (August 2010), the Director Medical Education intimated (November 2010) that the matter was got investigated (August 2010) by the Dean of the medical college, through a five-member committee and a chargesheet against the delinquent official was under process. The delinquent official reportedly deposited ₹ 2.50 lakh in the accounts of autonomous society and gave his consent for recovery of the remaining amount.

The matter was referred to the Government (August 2010). Their reply had not been received (November 2010).

Animal Husbandry Department

2.1.3 Loss due to non-providing of training to beneficiaries

Due to lack of proper training to beneficiaries about reporting of deaths of cows, the Government was put to a loss of ₹ 75.74 lakh.

Under the Integrated Tribal Dairy Development Project (ITDDP), Chhindwara of the Madhya Pradesh, State Cooperative Dairy Federation, Bhopal, establishment of 350 small dairy units in 17 villages was contemplated (May 2005). Special Central assistance of ₹0.72 lakh was admissible to per unit BPL beneficiaries belonging to Scheduled Tribes (₹ 50,000 for providing three milch cows; ₹10,000 for construction of a cattle shed; ₹ 10,000 for cattle feed for the first 90 days and ₹ 2,200 for training to beneficiary). Beneficiaries interested in dairy business were to be selected by *Gram Sabhas* and for establishment of the dairy units, availability of sufficient space and drinking water for cows was to be ensured. The selected beneficiaries were required to be trained by the *Dugdh Sangh*¹.

Test check (February 2010) of the records of the Deputy Director, Veterinary Services, Chhindwara (DDVS) and further information collected (June and September 2010) from DDVS, Chhindwara and Project Officer, ITDDP, Chhindwara revealed that 1,050 cows were provided to beneficiaries in 17 villages during 2006-10. Of these, 489 cows purchased at a cost of ₹81.50 lakh died. Insurance claims for 284 cows only were submitted to the insurance company, out of which, only 66 claims amounting to ₹5.76 lakh had been partly admitted so far by the insurance company. In the remaining cases, the claims could not be lodged with the insurance company as the beneficiaries failed to report the deaths of cows to veterinary officials, along with death certificates of the cows and *panchnamas*².

On this being pointed out in audit, the DDVS attributed (February 2010) the large scale death of cows to shortage of cattle feed and lack of proper care. Further, the Project Officer, ITDDP Chhindwara replied (June 2010) that inadequate veterinary services including insemination of cows and insufficient feed as well as improper care by beneficiaries led to the high rate of mortality. The replies of the DDVS and the Project Officer, ITDDP Chhindwara were not acceptable as failure of beneficiaries in reporting death of cows to veterinary officials with required documents indicated that the *Dugdh Sangh* failed to train the beneficiaries about the procedure to be followed after deaths of cows.

1 *Madhya Pradesh State Cooperative Dairy Federation Limited, an organisation which promotes production, procurement, processing, manufacturing and marketing of milk and milk products.*

2 *An on spot investigation report prepared by a group of persons explaining factual position.*

Thus, the lackadaisical approach of the department and the *Dugdh Sangh* in making beneficiaries aware of the procedure for properly reporting of death of cows led to loss of ₹ 75.74³ lakh to the Government.

The matter was referred to the Government (April 2010). The Principal Secretary intimated (November 2010) that a high level committee had been constituted and the investigation by the committee was in process.

Higher Education Department

2.1.4 Loss due to non-recovery of fees as per the revised fee structure

Non-recovery of fees of the Master of Business Administration Course (Distance Education) as per the revised fee structure led to loss of ₹ 70.36 lakh to Devi Ahilya University, Indore.

The Executive Council of the Devi Ahilya University, Indore revised the fee structure in May 2006 and July 2007 for students enrolled in courses run by the university during the academic sessions 2006-07 and 2007-08 respectively. The fee structure for the Master of Business Administration (Distance Education) course during the academic sessions 2006-08 was as indicated in **Table No 2.2** below.

Table No 2.2 : Details of the fee structure

| Sl. No | Academic session | Academic fee (Per Annum) (₹) | Development /maintenance fee (Per Annum) (₹) | Other miscellaneous fee (Per Annum) (₹) | Total (₹) |
|--------|------------------|------------------------------|----------------------------------------------|-----------------------------------------|-----------|
| 1. | 2006-07 | 14,000 | 2,000 | 2,000 | 18,000 |
| 2. | 2007-08 | 14,000 | 2,000 | 2,000 | 18,000 |

Scrutiny (April 2010) of the records and further information collected (August and September 2010) from university revealed that out of the above fee structure, development / maintenance fees and other miscellaneous fees were not collected from the students enrolled during academic sessions 2006-07 and 2007-08. This resulted in a loss of ₹ 70.36 lakh to the university as detailed in **Table No 2.3** below:-

Table No 2.3 : Details of loss to the university

(₹ In lakh)

| Sl. No | Academic session | Number of students | Semester | Development and maintenance fee @ ₹ 2000 per annum | Other Miscellaneous fee @ ₹ 2000 per annum | Total |
|--------|------------------|--------------------|-----------------|----------------------------------------------------|--------------------------------------------|--------------|
| 1 | 2006-07 | 795 | 1 st | 15.90 | 15.90 | 31.80 |
| 2 | 2007-08 | 653 | 1 st | 13.06 | 13.06 | 26.12 |
| | | 311 | 3 rd | 6.22 | 6.22 | 12.44 |
| | | | | | Total | 70.36 |

3 Cost of 489 cows @ ₹ 50,000 for three cows = ₹ 81.50 lakh – insurance claims admitted ₹ 5.76 lakh.

On this being pointed out (April 2010) in audit, the Director, Distance Education stated (August 2010) that the revised fee structure order for charging the development/ maintenance fees and other miscellaneous fees from the students, had not been received in the directorate of distance education of the university.

The reply is not acceptable because the fee structure was sent to all the Head of Departments/ Directors of the university in May 2006 and July 2007. Thus, non-collection of fees as per the revised fee structure led to a loss of ₹ 70.36 lakh to the university.

The matter was reported to the Government (June 2010). Their reply had not been received (November 2010).

Labour Department

2.1.5 Loss due to non-recovery of cess

Due to failure of the Labour Department to implement the provisions of the Building and Other Construction Workers Welfare Cess Rules, the Building and Other Construction Workers Welfare Board suffered a loss of ₹ 45.17 lakh and the beneficiaries were deprived of the intended benefits to that extent.

In exercise of the powers conferred under the Building and Other Construction Workers Welfare Cess Act, 1996, the Central Government framed the Building and Other Construction Workers Welfare Cess Rules, 1998. According to Rules 3 to 5 of the Rules, an employer was required to deduct cess at the notified rates from the bills paid for construction works and transfer the proceeds to the 'Building and Other Construction Workers Welfare Board' constituted by the Government. The GOI had notified (September 1996) the rate of cess as one *per cent* of the cost of work with effect from 26 September 1996. Further, Rule 6 required every employer to furnish the information to the Assessing Officer within 30 days of commencement of the work or payment of cess as the case may be. The Government nominated (February 2001 and June 2003) designated officers of the Labour Department as Cess Collectors and Assessing Officers for the purpose of implementation of the provisions of the Act, 1996.

Test check (January 2009) of records of the Director, Atal Bihari Vajpayee Indian Institute of Information Technology and Management (ABV-IIITM), Gwalior (a Government of India Autonomous Body) revealed that the institute had appointed (March 2000) Educational Consultants India Limited (Ed.CIL) as the Project Manager Agency for carrying out the construction works of the institute. The institute had paid ₹ 52.64 crore to the contractors for carrying out the construction works during 2005-06 to 2007-08 through Ed.CIL but failed to submit information to Labour Department and recover ₹ 52.64 lakh from the contractors. Ed.CIL, however, deposited (March 2009) ₹ 7.47 lakh only with the Labour Department

from the other funds of the institute. The Assistant Commissioner, Labour Department, Gwalior had also issued (July 2005) a notice to the institute regarding non-submission of information and non-payment of cess but did not pursue the case any further. Thus, non-observance of the prescribed procedure for deducting the amount of welfare cess from the running account bills of the contractors led to a loss of ₹ 45.17 lakh to the Board and undue benefit of ₹ 52.64 lakh to the contractors. The beneficiaries were deprived of the intended benefits to that extent.

On being pointed out (January 2009), the Director ABV-IIITM, Gwalior stated (July 2010) that Ed.CIL was responsible for making the payment of cess. The reply is not convincing as clause 6.3.4 of the agreement between Ed.CIL and the institute required Ed.CIL to make deductions from contractors' payments under intimation to the Institute. In cases of failure to deduct the cess, the Institute was required to pursue Ed.CIL for deduction of cess. The Assistant Commissioner, Labour Department, Gwalior stated (August 2010) that due to non-receipt of information about construction works from the institute, the assessment of cess could not be made and assured action on the notice issued in July 2005. He also stated that efforts would be made to obtain the information and assess the cess in future. The reply of the Assistant Commissioner, Labour Department was not convincing as he failed to implement the provisions of the Act and could not impose recovery action even after lapse of five years on the notice issued to the institute.

The matter was referred (August 2010) to the Government. Their reply had not been received (November 2010).

Public Health and Family Welfare Department

2.1.6 Loss due to non-consumption of medicines before expiry date

Non-observance of instructions regarding consumption/distribution of excess medicines and medicines which had short shelf life left led to loss of ₹ 56.26 lakh on expired medicines.

The Government of Madhya Pradesh, Public Health and Family Welfare Department approved (June 2006)⁴ a New Drug Policy (NDP), under which medicines up to 80 per cent of the total requirement were required to be procured centrally by the Director Health Services (DHS) for the entire State and consigned to 27 district level medical stores managed by private companies. The annual requirement of essential medicines listed for District/Civil Hospitals, Community Health Centres/Primary Health Centres, etc was to be assessed for first year on the basis of last three years' budgets and expenditure and in subsequent years, on the basis of the previous year's consumption and actual requirement of the departments. The DHS was required to

⁴ New drug policy approved by Government of Madhya Pradesh Public Health and Family Welfare Department vide their order No./F-12-66/2000/seventeen/med-3 date 6th June 2006.

place the supply orders with the firms quarterly. The health units in the districts were to lift the medicines according to their requirement from their respective district level medical stores. The Government decided (May 2009) to close the district level medical stores managed by private companies with effect from 1 June 2009. Consequently, the DHS instructed (May 2009) the private companies to hand over the possession and records of these stores to the Chief Medical and Health Officers (CMHOs) of the concerning districts along with the balance stock of medicines. The DHS also instructed (January to April 2009) all Joint Directors, Health Services (JDHS), CMHOs and Civil Surgeons (CS) to arrange redistribution of excess medicines and the medicines with short shelf life left to needy health units so that the medicines could be utilised before the expiry dates.

Test check (August 2009 to February 2010) of the records of CMHO Harda, Indore, Sehore and Surgical Specialist Nehru Hospital, Burhanpur and further information collected (July 2010) from these units and DHS Bhopal revealed that the balance stock of medicines was transferred by the district level stores to the CMHOs concerned, in compliance of the instructions (May 2009). The medicines transferred included medicines costing ₹ 27.49⁵ lakh which had already expired and the medicines costing ₹ 28.77⁶ lakh which expired between July 2009 and June 2010.

On this being pointed out in audit, the CMHOs, Harda, Indore, Sehore and Surgical Specialist Nehru Hospital, Burhanpur stated (August 2009 to July 2010) that medicines with short shelf life left were received in huge quantities and hence, could not be distributed before their expiry dates.

The replies of CMHOs indicate that the instructions (January - April 2009) issued by the DHS to utilise the medicines before their expiry date were not followed as the JDHS, CMHOs etc failed to identify the health units requiring such medicines.

Had the instructions been followed, non-utilisation of the medicines before the expiry dates could have been avoided. Thus, the lackadaisical approach of the department not only led to loss of ₹ 56.26 lakh due to non-utilisation of medicines before their expiry date but also deprived needy patients at other places.

The matter was referred (March 2010) to the Government. Their reply had not been received (November 2010).

5 *Surgical Specialist Nehru Hospital, Burhanpur-₹ 0.24 lakh, CMHO Harda-₹ 2.78 lakh, CMHO Indore-₹ 22.85 lakh and CMHO Sehore-₹ 1.62 lakh*

6 *Surgical Specialist Nehru Hospital, Burhanpur-₹ 3.32 lakh, CMHO Harda-₹ 23.52 lakh, and CMHO Sehore-₹ 1.93 lakh*

Urban Administration and Development Department

2.1.7 Loss due to insolvency of bank

Loss of scheme funds of ₹ 30.98 lakh due to insolvency of a bank resulting in non-implementation of schemes.

According to instructions issued by the Government from time to time, scheme funds received were to be kept in nationalised banks only. Further in a scheme review meeting held (May 1998) under the chairmanship of Secretary, Urban Welfare Department, it was reiterated that money belonging to schemes should not be credited to any co-operative or rural banks.

Scrutiny (September 2007) of records revealed that the Nagar Nigam, Burhanpur deposited (upto September 2004) funds pertaining to various Central schemes and Nigam funds in the Citizen Co-operative Bank, Burhanpur. Since functioning of the Citizen Co-operative Bank was found unreliable and doubtful, the Reserve Bank of India had precluded the bank with effect from 15th January 2005 from carrying out banking business. As a result, the banking transactions of the Citizen Co-operative Bank, Burhanpur were stopped and ₹ 30.98 lakh (scheme funds ₹ 22.48 lakh⁷ and Nigam fund ₹ 8.50 lakh) lying deposited in bank could not be withdrawn for the purposes for which funds were meant.

RBI cancelled (May 2009) the licence granted to the bank for carrying on banking business, *inter alia*, on the ground that the bank was not in a position to pay its depositors in full. As such, recovery of the funds, partly or fully, became doubtful.

Thus, non-observance of departmental instructions regarding depositing scheme funds in nationalised banks led to a loss of ₹ 30.98 lakh and also in non-implementation of schemes, depriving the beneficiaries of intended benefits.

The Commissioner, while accepting (August and December 2010) the fact that scheme funds were required to be deposited in nationalised banks, stated that since accounts already existed in the Citizen Co-operative bank, the funds were deposited in those bank accounts. He also accepted the fact that due to the ban imposed by RBI on the Citizen Co-operative Bank on conducting banking business, the money could not be withdrawn, as a result of which the implementation of Government schemes was badly affected.

The matter was reported (July 2010) to the Government. Their reply had not been received (November 2010).

7 National Slum Development Programme ₹ 13.81 lakh, Mid-day-meal programme ₹ 4.95 lakh and Swarn Jayanti Shahari Rojgar ₹ 3.72 lakh.

**Water Resources Department and Panchayat and Rural Development
Department**

2.1.8 Submission of fake fixed deposit receipts by the contractors

Work costing ₹ 107 crore was awarded to an ineligible contractor in Pench Diversion Project, Chourai by accepting a fake FDR of ₹ 47 lakh towards earnest money deposit. Similarly, loss of ₹ 1.08 crore in Pradhan Mantri Gram Sadak Yojana works executed in Ashoknagar district by release of security deposit against fake FDR submitted by a contractor was noticed.

For construction of an earthen dam in RD 0 m to RD 1400 m and RD 1800 m to 6376 m of Pench Diversion Project, Chourai in district Chhindwada, tenders were invited (August 2008) by the Executive Engineer (EE). The value of work put to tender was ₹ 92.99 crore and the lowest tender of a contractor for ₹ 106.87 crore {evaluated at 14.92 per cent above Unified Schedule of Rates (USR) -2007} was accepted (September 2008) by the Government. The work order, stipulating completion period of 24 months including the rainy season, was issued by the EE in October 2008. The work was in progress and the 10th running account bill of ₹ 9.48 crore had been paid to the contractor in May 2010. As per a condition of the Notice Inviting Tenders, fixed deposit receipts (FDR) issued by nationalised banks/scheduled banks payable at Chhindwara were only acceptable as earnest money deposit (EMD). Further, as per the tender processing criteria, the department was required to verify the authenticity of FDRs from the issuing banks before acceptance of FDR.

Audit scrutiny (May 2010) revealed that the contractor had submitted an FDR (No. 1804013 dated 27 August 2008) of ₹ 47 lakh purported to be issued by the HDFC Bank, Bhopal in place of Chhindwara. This was overlooked by the EE. Further, the EE requested (11 September 2008) the bank which had issued the FDR, to verify the authenticity of the FDR. The EE, without waiting for the confirmation from the FDR issuing bank, recommended (May 2008) the tender which was eventually accepted (September 2008) by the Government. Scrutiny further revealed that the contractor managed to get the said FDR replaced by another FDR (No. 29312) dated 20 January 2010 amounting to ₹ 47 lakh by the EE. In response to the audit observation (May 2010), the EE again requested (20 May 2010) the bank to confirm the genuineness of the FDR No. 1804013. The bank intimated (22 May 2010) that the said FDR was fake and not issued by them.

On this being pointed out (May 2010) in audit, the EE replied that the FDR had been replaced by another FDR on the request of the contractor. He further stated (July 2010) that the contractor had admitted (July 2010) to have submitted a fake FDR of ₹ 47 lakh and the contract had been rescinded (July 2010). The contractor was blacklisted (April 2010) and an FIR was lodged (November 2010) against him at Chourai Police Station.

Audit, however, noticed that no departmental action had been initiated against the officer responsible for not verifying the genuineness of the FDR before acceptance of tender.

Thus due to acceptance a fake FDR, work costing ₹ 107 crore was awarded to an ineligible contractor.

Similarly, the work of construction of six rural roads under the Pradhan Mantri Gram Sadak Yojana (PMGSY) package No. 4752 in Ashoknagar district was awarded (October 2006) to a contractor at a contract amount of ₹ 4.83 crore on the item rate tender. The work order was issued in October 2006, stipulating a completion period of 12 months including the rainy season. The contractor commenced the work on 5 October 2006 and an aggregate payment of ₹ 2.68 crore was made to him as of January 2009 for executing approximately 50 per cent work. The contract was terminated (March 2009) by the General Manager (GM) Project Implementation Unit (PIU), Ashoknagar under clause 52.1 of the General Conditions of Contract on account of fundamental breach of contract (slow progress of work etc) by the contractor.

As required under the provisions of the contract, after signing the agreement, the contractor deposited initial performance security amounting to ₹ 69.70 lakh through four FDRs (No. 886846 and 886847 dated 5 October 2006, 539983 dated 17 October 2006, 539997 dated 18 November 2006, for ₹ six lakh, ₹ 18.21 lakh, ₹ 24 lakh and ₹ 21.50 lakh respectively). The GM, on the contractor's request (26 March 2007), replaced two FDRs (No 886846 and 886847 amounting to ₹ 24.20 lakh) with a fresh FDR (No. 643535 dated 26 March 2007) for ₹. 24.20 lakh.

Audit observed (April 2010) that the GM, PIU had requested (October/November 2006 and March 2007) the Central Bank of India, Sheopurkalan branch (Bank) for verification of genuineness of FDRs No. 643535 of ₹ 24.20 lakh, No. 539983 of ₹ 24 lakh and No. 539997 of ₹ 21.50 lakh without indicating the name of the contractor for the above FDRs. As per a reply furnished (September 2010) to Audit by the Chief General Manager (CGM), Madhya Pradesh Rural Roads Development Authority (MPRRDA), Bhopal, the bank had initially confirmed (October / November 2006 and March 2007) that all the abovementioned FDRs were issued by their branch. When the GM deputed (March 2009) an official to the bank, the bank refused to encash the FDRs and intimated (March 2009) the GM that the FDRs presented to the bank were fake and not issued by them. Thus ₹ 1.08 crore recoverable from the contractor on different counts⁸ against the three FDRs amounting to ₹ 69.70 lakh could not be recovered, resulting in a loss to the Government.

| | | |
|---|--------------------------------------------------------------------------------------------------------------|------------------|
| 8 | (i) debitable cost towards risk and cost of the contract (20 per cent of cost of balance work [*]) | ₹. 43,03,873.00 |
| | (ii) Liquidated damage (10 per cent of contract amount) | ₹. 48,34,179.00 |
| | (iii) Consultancy charges (October 2007 to October 2008) | ₹ 6,95,247.00 |
| | (iv) Balance Machinery advance | ₹. 10,10,000.00 |
| | | ₹. 108,43,299.00 |

♣ Balance work = Contract amount ₹ 483,41,792.00 (-) Work done ₹ 268,22,430.00 = ₹ 215,19,363.00

On this being pointed out in audit, the GM stated (April 2010) that the FDRs were replaced on the request of the contractor and the matter was reported (21 March 2009) to the police for investigation. However, no departmental action was initiated (September 2010) for fixing the responsibility.

Thus due to acceptance of fake FDRs from the contractor, the Government was put to a loss of ₹1.08 crore.

The matter was referred (May and June 2010) to the Government. Their reply had not been received (November 2010).

2.2 Excess/Wasteful/Infructuous/Unfruitful expenditure

Public Health and Family Welfare Department

2.2.1 Irregular purchase and unfruitful expenditure on display medium with mobile charger units

Expenditure of ₹ 71.77 lakh incurred on purchase of display medium with mobile charger units without verification of specification and installation in working condition was rendered unfruitful.

With a view to acquaint the general public with various schemes of health department, display medium with mobile charger units were proposed to be installed at health institutions and public places such as Collectorate, Zila Panchayat, Nagar Nigam, Bus stand etc. in each district in Madhya Pradesh. Accordingly Director State Health Information Education Communication (IEC) Bureau issued (July 2007) purchase orders on Madhya Pradesh Laghu Udyog Nigam (MPLUN) for supply and installation of 940 units (533 units wall mounted and 407 units with floor stands). According to the condition of supply orders, the units were to be demonstrated by MPLUN at IEC Bureau Headquarters before supply to the districts. MPLUN, in turn, issued (July 2007) orders to four suppliers. As per Clauses 8 and 9 of the agreement with the supplier firms, the units were to be installed within 15 days of the supply order at specified places in working condition and in case of their non-working, the suppliers were required to get the units repaired within seven days of complaint.

Test check (July 2008) of records of the Director, IEC Bureau, Bhopal and further information collected (August 2010) from 15 district Chief Medical and Health Officers revealed that 284 units (160 wall mounted and 124 with floor stand) were supplied in these districts during August to October 2007. Out of these, 181 units (100 wall mounted and 81 with floor stands) costing ₹ 71.77 lakh were reported to be not working upto 31 March 2010 as per details given in **Appendix 2.2**. Though MPLUN conducted (October 2007) quality checks of 281 randomly selected pieces at IEC Bureau headquarters in the presence of the officials of the IEC Bureau and

found some deviations in the overall size, outer body and stands of these units, payments were made (August to October 2007) to the suppliers prior to installation of all the units and also before the rectification of defects. Thus purchase of 181 units became irregular and unfruitful.

On this being pointed out in audit, the Director, IEC Bureau stated (July 2008) that the supplier was being asked for installation and repair of the units. Regarding not supplying units as per specifications, the Director stated (August 2010) that information would be furnished after verification of facts.

The reply is not acceptable as the payments were made without verification of quality/installation of all the units in working condition and no efforts were made to get the defective units replaced and other units repaired. Besides, no funds were provided for annual maintenance of these units. Thus, the expenditure of ₹ 71.77 lakh on purchase of these 181 units was rendered unfruitful.

The matter was referred (October 2008) to the Government. Their reply had not been received (November 2010).

Public Works Department

2.2.2 Unauthorised expenditure on additional work

Unauthorised expenditure of ₹61.35 lakh was incurred on a road work without administrative approval and technical sanctions. Later, the work was abandoned for want of funds.

The Works Department Manual (Manual) envisages that before commencement of a work, the officer responsible for executing the work should obtain administrative approval (AA) and technical sanction (TS) of the competent authority. No work should be commenced or liability incurred until the work is approved and funds are available. The Manual further provides inviting of tenders for all works costing above ₹ 15,000, if the works are proposed to be given on contract.

The administrative approval for the construction of the 18 km long Jamna- Bilaw Road including culverts was accorded (September 2006) by the Government and technical sanction was given (October 2006) by the Chief Engineer (CE), PWD, North Zone, Gwalior for ₹ 4.19 crore. The work was awarded (March 2007) to the lowest tenderer, M/s Tomar Builders & contractor Private Limited, Gwalior, by the Executive Engineer (EE), PWD Division, Bhind, for ₹ 4.21 crore, with a stipulation to complete the work within 12 months (March 2008) including the rainy season. However, the work was abandoned (June 2007) and ₹ 5.13 crore was paid to the contractor in March 2009.

Audit scrutiny (August 2009) revealed that while the work was in progress, the EE, in violation of the provisions of the Manual, issued (May 2007) an order to the

contractor to execute the additional work of three roads⁹ beyond the scope of the existing agreement, with the condition that the payment for the additional roads would be made to him only after receiving sanction of the Government. A proposal for AA and TS for the additional work was sent (September 2007) by the EE but was not approved by the Superintending Engineer (SE), Public Works Circle, Gwalior (March 2010). In the meantime, the AE intimated (August 2008) to the EE that the contractor had executed the additional work of ₹ 61.35 lakh¹⁰ after the lapse of one year. Accordingly, the EE made payment of ₹ 61.35 lakh to the contractor in August 2008 by diverting the funds without completion of the additional road (10 June 2007). This resulted in an unauthorised execution of additional road work of ₹ 61.35 lakh by violating the provisions of the Manual.

On this being pointed out (August 2009) in audit, the Engineer-in-Chief (E-in-C) admitted (September 2010), the unauthorised execution and stated that departmental action had been initiated against the delinquent officers.

The matter was reported to the Government (May 2010). Their reply had not been received (November 2010).

2.3 Violation of contractual obligation/ Undue favour to contractors/ Avoidable expenditure

Culture Department

2.3.1 Avoidable expenditure on electricity charges

Due to execution of an agreement for higher contract demand in anticipation of Government sanction for air-conditioning and delay in reduction in contract demand, apart from non-maintaining of the average monthly power factor, the State Museum at Bhopal incurred avoidable expenditure of ₹ 54.59 lakh on electricity charges.

The Deputy Director, State Museum Bhopal signed an agreement in March 2004 with the Madhya Pradesh Electricity Board (Board) for supply of 456 KVA High Tension (HT) power to the State Museum. As per the agreement, the consumer was required to pay for energy charges as per the tariff applicable from time to time. According to the tariff applicable upto 2005-06, the billing demand for the month was to be the actual power consumed during the month or 75 per cent of the contract demand or 60 KVA whichever was higher. As per the revised tariff applicable during 2006-07, the billing demand was equal to the contract demand. From 2007-08 onwards, the same was to be the actual power consumption or 90 per

⁹ (i) Hawaldar Singh Ka Pura to Raja ka Pura (Three km.) (ii) Hawaldar Singh Ka pura to Nunhata (One km) and (iii) Bilao to Kishor Singh ka Pura (Two km.) Total = Six km.

¹⁰ Excavation of 57,973.45 cu.m for ₹29.19 lakh and construction of embankment for ₹ 32.16 lakh.

cent of the contract demand, whichever was higher. Similarly, the consumer was also required to maintain a minimum average monthly power factor of 90 per cent and the failure in maintaining the required power factor would attract levy of additional charges¹¹ by way of penalty.

A supplementary agreement was made (May 2008) by the curator of the museum with the Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited (MPMKVVCL) for reduction in the contract demand with effect from 1 April 2008 for supply of 225 KVA HT power instead of 456 KVA HT power supply.

Scrutiny (November 2009) of the records of the Curator, State Museum, Bhopal and further information collected (February 2010) revealed that during July 2005 to January 2010, the consumption of power as well as the level of power factor was below the agreed norms as shown in the **Appendix 2.3**.

Due to less power consumption, the museum had to pay an additional amount of ₹ 18.19 lakh during the above period towards the difference between the actual power consumed and the actual energy charges, together with an amount of ₹ 36.40 lakh towards penalty for not maintaining the average monthly power factor. This indicated that the revised agreement was also not based on actual past consumption because the penalty was paid even after revision of the agreement. No action was taken to maintain the average monthly power factor.

On this being pointed out, the Curator, State Museum stated (February 2010) that for establishment of a national level museum at Bhopal, a building with 17 corridors, an auditorium, an exhibition hall, a library and a canteen was proposed to be air-conditioned. Since the Government had not accorded the sanction for air-conditioning of corridors, etc, the power could not be consumed as per the contract demand. It was also stated that correspondence would be made with MPMKVVCL for installation of a capacitor for maintaining the monthly power factor and the energy to the extent provided in the agreement, would be consumed when all the 17 corridors were air-conditioned.

The reply is not acceptable inasmuch as the initial agreement was made on the basis of the proposal of air-conditioning without obtaining Government sanction and the museum failed to get the agreement revised promptly without ensuring the required arrangement for maintaining the power factor to the desired level and thus incurred an avoidable expenditure of ₹ 54.59 lakh.

The matter was referred to the Government (March 2010). The Government, in their reply (September 2010) confirmed payment against low power factor adjustment charges and stated that MPMKVVCL had been requested (May 2010) to reassess the electric load of the State museum and the agreement would be revised on receipt of the reassessment report.

¹¹ *If the average monthly power factor of the consumers falls below 90 per cent, the consumer shall, for each one per cent by which his average monthly power factor falls below 90 per cent, in addition pay one per cent on total amount of bill under the head of "Energy Charges."*

Medical Education Department

2.3.2 Avoidable expenditure on electricity charges due to non-revision of contracted demand

Failure to utilise power as per contract demand and to maintain the average monthly power factor by Sanjay Gandhi Memorial Hospital Rewa led to avoidable expenditure of ₹3.65 crore.

The Dean, Medical College (DMC), Rewa entered into an agreement with the Madhya Pradesh Electricity Board in September 1998 for supply of 3000 KVA High Tension (HT) power to the Sanjay Gandhi Memorial Hospital (SGMH) Rewa. However, the hospital was commissioned in January 2002 and billing of power supply under this agreement was started from June 2002.

As per the agreement, the consumer was required to pay for energy charges to the Board as per the tariffs applicable from time to time. According to the Boards' tariff applicable up to 2005-06, the billing demand for the month was to be based on the actual power consumed during the month or 75 *per cent* of the contract demand or 60 KVA, whichever was higher. As per the revised tariff applicable during 2006-07, the billing demand was to be equal to the contract demand. From 2007-08 onwards, the same was to be based on the actual power consumption or 90 *per cent* of the contract demand, whichever was higher. The consumer was also required to maintain a minimum average monthly power factor of 90 *per cent*. Failure in maintaining the required power factor would attract levy of additional charge by way of penalty.

Scrutiny (November 2009) of the records of SGMH, Rewa and further information collected (April 2010) revealed that during the period June 2002 to October 2009, the consumption of power was far below the agreed norms due to non-functioning of various equipment/machines because of shortage of requisite staff. SGMH, had therefore, to pay an additional amount of ₹2.86 crore during the above period towards the difference between the actual power consumed and the actual energy charges levied. Further, the average monthly power factor also fell short of the stipulated 90 *per cent* during the above period except for 11 months¹², for which payment of ₹ 78.64 lakh had to be made towards penalty for not maintaining the average monthly power factor as detailed in the **Appendix 2.4**.

12 September 2002, January, July, August, November -December 2006, January-2007, November and December 2008 and January - February 2009.

On this being pointed out in audit the Joint Director-cum-Superintendent, SGMH stated (November 2009 and April 2010) that the agreement was made as per the plan of the project. Non-utilisation of power as per the contract demand was due to non-functioning of the Cobalt 60 Tele-therapy unit, the Beki therapy unit, spiral C.T. Scan and colour doppler equipment/machines for want of trained staff and non-operation of the intensive care unit and burns unit. Further, due to non-availability of an anaesthetist, only 10 out of 17 operation theatres could be operationalised. Eight air-conditioners in the Paediatrics department and operation theatres were lying in unserviceable condition.

The reply is not acceptable as no efforts were made during 2002-2009 to get power controllers/capacitors installed and to get the contracted demand revised on the basis of the actual consumption. The unit requested the electricity distribution company to reduce the load in the month of April 2010 only. Thus, the department had to make avoidable payment of ₹.3.65 crore.

The matter was referred (January 2010) to the Government. Their reply had not been received (November 2010).

Narmada Valley Development Department

2.3.3 Excess payment due to determination of incorrect rate for extra item

Determination of incorrect rate of extra item for earthwork in Manjoli Branch Canal of Bargi Diversion Project resulted in excess payment of ₹ 35.25 lakh to a contractor.

The work of 'construction of earthwork, cement concrete lining and inline structures of the Majholi Branch Canal of Bargi Diversion Project in RD km 00.00 to RD km 16.50 and its distributory system' was awarded to a contractor at a contract amount of ₹ 40 crore i.e. 3.914 per cent above the Unified Schedule of Rates (USR) - 2003. The agreement was executed and a work order was issued (April 2005) by the Executive Engineer (EE), ND Division No. 8, Sehora which stipulated a completion period of 24 months, including the rainy season. The work was in progress and the 50th running account bill of ₹ 35.10 crore was paid (March 2010) to the contractor.

According to clause 4.3.13.3 (c) of the agreement, the rates for extra items were required to be determined from the rates of similar items in the USR in force on the date of invitation of the tender, after adding or subtracting the overall percentage of the accepted tender, as the case may be.

Audit noticed (October 2009) that as per the sanctioned estimates, 2,78,732 cu m hard soil and hard moorum were to be excavated, of which 2,34,420 cu m was to be utilised for construction of the canal embankment of the *Lamkana* distributory. During execution, the EE noticed (May 2007) that the required quantity of useful soil would not be encountered from the excavation.

Therefore, on the request (May and June 2008) of the Chief Engineer, Upper Narmada Zone, the Collector, Jabalpur allotted (October 2008) a Government quarry located seven km away from the canal site for excavating the required quantity of hard soil and hard moorum. Accordingly, a revised proposal for the extra item of ₹ 2.58 crore for execution of 2,39,749 cu m earthwork as per the dam specification was approved (February 2009) by the Vice Chairman¹³, Narmada Valley Development Authority (NVDA).

Scrutiny (October 2009) further revealed that the rate of ₹91.21 per cu m for the extra item of earth work was derived by adopting USR item No. 415 (c) and adding extra for the seven km lead for transportation of earth. However, the USR also contained an item (No. 415 (a) (iii)) which included rate of earthwork with all lead and lift beyond two km for construction of canal embankment as per dam specifications which was payable at the rate of only ₹44.48 per cu m as shown in **Appendix 2.5**.

Thus adoption of the incorrect extra item rate resulted in an excess payment of ₹ 54.82 lakh¹⁴ to the contractor for executing 1, 17,304.92 cu m earth work for the canal embankment.

On this being pointed out (October 2009) in audit, the Member (Finance), NVDA accepted (September 2010) the audit objection and stated that recovery of ₹ 19.57 lakh had been effected. The balance recovery of ₹ 35.25 lakh was awaited in audit (November 2010)

The matter was reported to the Government (June 2010). Their reply had not been received (November 2010).

Water Resources Department

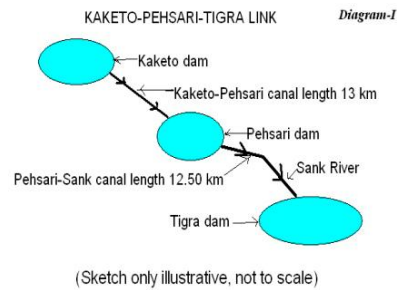
2.3.4 Inadmissible payment

In violation of Government sanction, an amount of ₹ 1.31 crore was paid to a contractor for pumping of 228 million cubic feet of live storage water into canals which could have flown out due to normal gravitational flow.

To meet the shortage of drinking water of Gwalior city during 2007-08, the Commissioner, Relief, Government of Madhya Pradesh, approved (October 2007) an emergency plan of ₹ 13 crore. The plan envisaged pumping the dead storage water of Kaketo and Pehsari (feeder) dams through intermediate canals to the Tigma dam (**Diagram -I**), which was the existing source of drinking water for the city.

13 Government, and not Vice Chairman- NVDA, is competent to sanction rates for extra items for amount exceeding ₹ 50 lakh vide GOMP- NVDD order dated 21/12/1995.

14 Excess payment for execution up to March 2010 = 117304.92 cu m x (₹ 91.21 – ₹ 44.48) ₹ 46.73 per cu m = ₹ 54,81,659 say ₹ 54.82 lakh.



The lowest tender for the work under the above plan, amounting to ₹ 13.25 crore, was accepted (January 2008) by the Government and the work order was issued (January 2008) by the Executive Engineer (EE), Water Resources Division, Gwalior stipulating completion in five months. The work was completed on 20 June 2008 and final payment of ₹11.50 crore was made to the contractor in July 2008.

The scope of work included the following:-

- i. Pumping out of 1260 million cubic feet (mcft) water from the dead storage of Kaketo dam for feeding the Pehsari dam through the Kaketo – Pehsari (KP) canal.
- ii. Dismantling of pumping arrangements at Kaketo, installation of the same at Pehsari dam and pumping out 630 mcft water from the dead storage of Pehsari dam for feeding the Tigrada dam through the Pehsari-Sank (PS) canal system.

Audit scrutiny (April 2009) of the work revealed following:-

- (a) On the date of start of the work i.e. 7 March 2008, the Kaketo dam contained 1624 mcft water storage, which included live storage of 235.82 mcft¹⁵. This live storage being above the sluice level was not required to be pumped out to the canal head because it was susceptible to natural gravitational flow to the KP canal by opening the canal sluice. Without availing of the facility of opening of the canal sluice to drain the water, the contractor pumped out 235.82 mcft water. The department paid ₹ 1.58 crore to the contractor at the tendered rate of ₹67,000 per mcft for pumping out the live storage of the dam.
- (b) After completing the pumping at Kaketo dam on 15 May 2008, the contractor commenced pumping of water at Pehsari dam from 5 June 2008, on which date it contained 1149 mcft water storage, including 156.5 mcft¹⁶ live storage. Audit noticed that despite pumping of 50 mcft of live storage water by contractor, the total storage at Pehsari never reached the dead storage level, indicating that the pumping was not necessary on account of its natural gravitational flow through the canal sluice. Still, the department paid ₹14.99 lakh at agreed rate of ₹ 30,000 per mcft to the contractor for pumping out 50 mcft water into the canal.

Thus the expenditure of ₹ 1.73 crore incurred by the department for pumping out live storage water from both the feeder dams, was inadmissible.

15 At reduced level (RL) 1108.90 ft storage was 1624 mcft less water at RL 1105.00ft of 1388.18 mcft = 235.82 mcft.

16 1149 mcft of storage at RL 1088.95 ft less 992.50 mcft of dead storage at RL 1086.50 ft = 156.5 mcft.

On this being pointed out (April 2009) by Audit, the Chief Engineer, Yamuna Basin Water Resources Department, Gwalior stated (February 2010) that due to the presence of a three feet high hard rock patch above the designed canal bed level of the KP canal in RD 480 m to RD 780 m, the canal bed level in this section was at RL 1108.90 ft., equivalent to the prevailing live storage level of the dam as on 7 March 2008, thus obstructing the natural gravitational flow of water beyond this reach. Regarding Pehsari dam, it was stated that for water discharge at 200 cusec; 2.5 to 3 feet water head was required. For this purpose, a temporary earthen bund at the canal head was constructed and therefore, natural gravitational flow of water from the reservoir through the canal sluice was not possible.

The reply is not tenable because (i) the Government's approval (January 2008) and the provisions of agreement with the contractor categorically stipulated pumping of only dead storage water into the canals of both the dams. Pumping of live storage was neither envisaged nor sanctioned; (ii) the complex of Kaketo and Pehsari dam and KP and PS lined canals were constructed with the objective of feeding the Tigr Dam through natural flow. (iii) the canal was constructed long back (1987) and was running, and in fact, irrigation of *rabi* crops exceeded the designed potential of 2025 hectares during last three years (2005-06 to 2008-09), which would not have been possible had the canal flow been obstructed by unexcavated rock in the canal bed (iv) there was no mention of existence of any hard rock patch on the canal bed in the proposal sent to Government.

However, even assuming existence of three feet high unexcavated hard rock patch between RD 480 m and 780 m of KP canal, the highest level with hard rock patch at RD 540 m was only 337.113 m, i.e. 1106 ft. but, the corresponding storage at Kaketo dam at that level worked out to 1446 mcft, which still contained 178 mcft of live storage.

Thus, the pumping of at least 228 mcft (178 mcft + 50 mcft) of live storage water amounting to ₹ 1.31 crore was inadmissible.

The matter was referred to the Government (November 2009). Their reply had not been received (November 2010).

2.3.5 Undue financial aid to a contractor

A contractor was paid interest free machinery advance despite the enabling clause in the agreement being deleted, resulting in unauthorised financial aid of ₹7.28 crore to the contractor and loss of interest of ₹94.68 lakh to the Government.

The Executive Engineer (EE), Water Resources Division, Sheopur awarded (November 2007) the work 'Rehabilitation of Chambal Right Bank Main Canal (CRMC) in RD km 0 to km 60' to a contractor for ₹ 145.69 crore at 58.87 per cent above the Unified Schedule of Rates-September 2003. The work order was issued in

November 2007 stipulating completion in 36 months, including the rainy season. The work was in progress and payment aggregating ₹ 97.36 crore was made to the contractor as of May 2010.

Para (a) of the sub clause 60.7 of the agreement dealt with advance payments and provided for interest-free mobilisation advance to the contractor equal to five *per cent* of the contract price. Audit noticed (June 2009 and June 2010) that part (b) of the sub-clause, which dealt with interest-free machinery advance against key construction equipment required for the work, was deleted from the agreement.

Scrutiny of records revealed (June 2009) that the contractor was paid interest-free mobilisation advance of ₹ 7.28 crore in December 2007 in conformity with part (a) of sub-clause 60.7 of the agreement. The scrutiny further revealed that the contractor was paid another interest-free advance amounting to ₹ 7.28 crore in March 2008 towards machinery advance although this advance was not permissible as the enabling clause (i.e. part (b)) of the agreement was deleted. This resulted in undue financial aid of ₹ 7.28 crore to the contractor and loss of interest of ₹ 94.68 lakh to the Government (calculated at 7.24 *per cent* per annum i.e. the average borrowing rate of Government) on the unrecovered balance amounts of the machinery advance as shown in **Appendix 2.6**.

On this being pointed out in audit, the Executive Engineer stated (June 2009) that the machinery advance was paid under clause 60.3 of the agreement by obtaining a bank guarantee.

The reply is not relevant because the machinery advance was not payable as the enabling clause was deleted in accordance with a Government order dated 23 October 2002.

Thus the irregular payment of interest-free machinery advance resulted in undue financial aid of ₹ 7.28 crore to the contractor and loss of interest of ₹ 94.68 lakh to the Government.

The matter was reported to the Government in (November 2009). Their reply had not been received (November 2010).

2.3.6 Payment to a contractor on doubtful and incorrect measurements

Recording measurements prior to execution of an agreement; execution of 58,437 cu m within two days and signing of an agreement prior to acceptance of a tender violated the provisions of the Madhya Pradesh Works Department Manual and rendered payment of ₹ 47.75 lakh to a contractor doubtful.

The Madhya Pradesh Works Department Manual (Manual) envisages that after acceptance of a tender by the competent authority, the Executive Engineer (EE) was required to execute an agreement on the prescribed form with the tenderer. The work site was to be handed over and the work order was to be issued to the contractor only

after he had executed the agreement with the department. Further, according to the specifications, earthwork for the dam embankment was required to be executed layer by layer in 15 cm thickness, compacted at optimum moisture content to the maximum dry density. The work was to be executed as per the construction programme submitted by the contractor.

Tenders for construction of an earthen dam of Sagoni tank in Damoh (estimated cost ₹ 2.36 crore) were invited (January 2008) and the lowest offer of contractor 'A' for ₹ 2.40 crore was accepted (12 August 2008) by the Chief Engineer (CE), Dhasan Ken Basin, Sagar. The agreement was executed on 15 December 2008 with the contractor and the work order, stipulating completion of the work within 11 months, was issued on the same day by the EE, Pancham Nagar Project Survey Division, Hatta. As per the agreement, the contractor was to execute, *inter alia*, 1.843 lakh cu m earthwork on the bund (including watering but excluding compaction). The construction programme provided commencement of earthwork from January 2008 and completion by September 2008.

Audit scrutiny (December 2009) revealed that the first running account bill amounting to ₹ 30.79 lakh was paid to the contractor on 16 December 2008 whereas the agreement was signed on 15 December 2008. Audit scrutiny further revealed that the quantity of earthwork and watering as recorded and checked on 20 January 2009 was only 9,308.82 cu m and on 22 January 2009, the quantity of these two items was recorded as 67,746.23 cu m in the measurement book, which was practically impossible to execute as per the specifications, thereby indicating doubtful execution of the quantity of 58,437.41 cu m (67746.23 cu m – 9308.82 cu m). Further, the second running account bill was paid on 23 January 2009 after payment of the third running account bill on 22 January 2009 which was not permissible. Verification of the records of the Electrical and Mechanical formation of the Water Resources Department by Audit showed that compaction of earthwork was carried out from October 2008 and continued till April 2009. Thus, the payment of ₹ 30.79 lakh on measurements of earthwork *prima-facie* appeared fictitious and the possibility of fraud could not be ruled out.

(b) Similarly, construction of another tank viz the Samdhan tank, was awarded (24 January 2009) to the same contractor at a price of ₹ 2.85 crore and a work order, stipulating completion of the work within 11 months, was issued by the EE on 25 January 2009. The work was in progress and payment of ₹ 69.11 lakh had been made to the contractor as of December, 2009.

Scrutiny (December 2009) revealed that the tender was accepted by the Engineer-in-Chief on 24 January 2009 and acceptance was communicated to the EE by the Superintending Engineer (SE) on 4 February 2009. The SE's order dated 4 February 2009 was indicated in the work order issued on 25 January 2009. The work order was, therefore, backdated. Moreover, the EE, in violation of the prescribed procedure, asked the contractor to execute and sign the agreement on 23 January 2009, i.e. on a date prior to the date of acceptance of the tender.

Measurements of various items of work amounting to ₹ 16.96 lakh were recorded within five days of issue of the work order, including on 26 January, which was Republic Day. Execution of the agreement prior to acceptance of the tender and recording measurement on a Gazetted holiday was in violation of the rules.

On this being pointed out (December 2009) in audit, the EE, while admitting the lapses, stated that the work had to be executed in haste in order to meet the target of 100 days in office of the Chief Minister. He further justified the payments stating that the measurements were recorded by the Sub-Engineer and checked by the Assistant Engineer.

The reply failed to explain why the normal system prescribed in the Manual was flouted. The EE also failed to furnish any justification for executing the agreement prior to acceptance of the tender and recording measurement of a massive quantity within a short period.

Thus the violation of the provisions of the Manual rendered execution of works and payment of ₹ 47.75 lakh thereof as doubtful.

The matter was referred to the Government in March 2010. Their reply had not been received (November 2010).

2.3.7 Irregular refund of deposits and payment to a defaulting contractor in violation of contractual provisions

Irregular refund to a defaulting contractor of forfeitable amount of ₹ 2.83 crore resulted in a loss to Government.

The work of construction of the balance earthwork and structures in RD km 0.10 to km 15.10 of the Mahan Main Canal of *Gulab Sagar* (Mahan) Project, estimated at ₹ 12.23 crore, was awarded (8 May 2005) to a contractor on an item rate agreement of ₹ 12.10 crore. The work was stipulated for completion within 18 months (including the rainy season) i.e., on or before 7 November 2006. Despite repeated notices, the contractor could not show proportionate progress. On the request of the contractor, three time extensions upto 30 June 2008 were sanctioned by the Chief Engineer (CE) by reserving the right to recover liquidated damages under clause 4.3.5.2 of the item rate agreement. Despite the time extensions, the contractor failed to complete the work. Ultimately, the EE rescinded (July 2008) the contract at the risk and cost of the contractor. Final payment of ₹ 11.51 crore for the incomplete work was made to the contractor in March 2009.

As per clause 4.3.3.2 of the item rate agreement, on rescission of a contract, all types of security deposit of the contractor available with the division are to be forfeited to the Government and nothing is payable to the contractor until finalisation of his total liabilities. Further as per clause 2.40.2, price adjustment is payable only for the work which is carried out within the stipulated time, including time extensions, due to reasons not attributable to the contractor. No price adjustment is payable if the delay is attributed to the contractor.

Scrutiny (May and October 2009) in audit revealed that on the date of rescission of the contract (July 2008) deposits of the contractor amounting to ₹ 1.59 crore as detailed in **Appendix 2.7** were available with the division. Instead of forfeiting the same, the amount was refunded to the contractor between October 2008 and January 2009 by the succeeding EE. Audit also noticed that the time extensions upto June 2008 were granted due to reasons attributable to the contractor, by reserving the right to levy liquidated damages under clause 4.3.5.2 of the agreement. However, the contractor was paid price escalation of ₹ 29.20 lakh for the period November 2006 to 30 June 2008 as shown in **Appendix 2.8** although price adjustment for the extended period was not admissible.

Further, the last bill of the contractor for ₹ 95.59 lakh was also unauthorisedly paid (March 2009) to him although his liabilities towards the Government on account of completion of the balance work at his risk and cost were still to be settled (June 2010).

Thus the unauthorised financial aid to the contractor resulted in a loss of ₹ 2.83 crore¹⁷.

On this being pointed out (May 2009) in audit, the EE stated that the additional security deposit and other payments were made to the contractor by the former EE but did not elaborate the circumstances under which the forfeitable amounts were released. No specific reply in the matter was given by the department despite eight reminders issued to the Engineer-in-Chief and the Government between March and October 2010.

The matter was referred to the Government (March 2010). Their reply had not been received (November 2010).

2.4 Idle investment/Idle establishment/Blocking of funds/Delay in commissioning equipment/Diversion of funds

Public Health and Family Welfare Department

2.4.1 Idle expenditure on establishment of a diagnostic centre

Wrong selection of a site to establish a diagnostic centre and non-provision of requisite staff resulted in idle expenditure of ₹ 1.98 crore on building and equipment.

The Government of Madhya Pradesh, Public Health and Family Welfare Department accorded (December 2001) administrative sanction of ₹ three crore¹⁸ for establishment of a diagnostic centre at Bhanpura in Mandsaur district out of the XI Finance Commission grants towards upgradation of administration.

17 *Irregular refund of security deposit ₹ 55.92 lakh + irregular refund of additional security deposit ₹ 1.03 crore + irregular payment of price escalation ₹ 29.20 lakh + irregular payment of final bill net ₹ 95.59 lakh = ₹ 2.83 crore.*

18 *₹ 0.47 crore for building and ₹ 2.53 crore for Machinery and equipment.*

Test check (September 2008) of the records of the Chief Medical and Health Officer, Mandsaur and further information collected (June 2010) from the Directorate, Health Services revealed that the District Collector (DC), Mandsaur had informed (July 2004) the Government that Bhanpura was a small place having a population of 16,494 only and was situated at a long distance from the district headquarters as well as other tehsil places of the district. Hence it would not be proper to establish the diagnostic centre at Bhanpura. The DC had recommended the establishment of the diagnostic centre at District Hospital, Mandsaur. The Civil Surgeon-cum- Hospital Superintendent, Mandsaur had also requested (April 2005) the Director, Health Services for transferring the instalation of CT scan Machine to the District Hospital Mandsaur instead of the diagnostic centre at Bhanpura. However, the building for the diagnostic centre was constructed at Bhanpura at a cost of ₹ 48 lakh and 41 pieces of equipment costing ₹ 1.63 crore were purchased (2004-05: ₹ 69.20 lakh and December 2007: ₹ 93.90 lakh) but were not installed for want of a Post-Graduate Medical Officer/Specialist, a Radiologist, a Radiographer, a Pathologist and a Sonologist. The guarantee period of the equipment had also expired.

On this being pointed out in audit, the Chief Medical and Health Officer, Mandsaur stated (September 2008, June and September 2010) that the posting of doctors was to be made at the Government level; the building was being used for outdoor and indoor patients in Civil Hospital, Bhanpura and out of 41 equipment, five pieces of equipment (cost: ₹ 0.90 lakh) were installed in the maternity ward of Civil Hospital, Bhanpura and two pieces of equipment (cost: ₹ 12.10 lakh) were transferred to District Hospital, Mandsaur and the rest of the equipment (cost: ₹ 1.50 crore) was lying unused for want of requisite staff, for which proposals had been sent from time to time, the latest proposal being one sent in May 2010. The reply is not convincing as the building was constructed without properly assessing the feasibility of the diagnostic centre at Bhanpura and the equipment were purchased without even sanctioning the requisite staff.

Thus, the injudicious decision to set up a diagnostic centre at Bhanpura and not provide requisite staff led to idle expenditure of ₹ 1.98 crore on building and equipment.

The matter was referred to the Government (June 2010). Their reply had not been received (November 2010).

Water Resources Department

2.4.2 Idle investment and non-recovery of additional security deposit

Exhibition of inadequate quantities in the agreement as against the technically sanctioned quantities resulted in idle investment of ₹ 81.19 lakh and loss of ₹ 38.26 lakh due to non-retention of additional security deposit of a contractor.

The Madhya Pradesh Works Department Manual (Manual) states that tenders for works should be invited after accord of administrative approval (AA), technical sanction (TS) and sanction to detailed estimates by the competent authorities. The

schedule of quantities in the tender document should truly represent the quantities mentioned in the TS. Further, clause 3.28 of the tender document provides that if the tenderer has quoted disproportionately high rates for some items, or the tender is unbalanced¹⁹, the payment of such items shall be limited to the estimated rates plus or minus the overall percentage. The balance payment of such items shall be retained as additional security deposit, which shall be released only after completion of the entire work. In case of failure on the part of the contractor to complete the work for any reason, the entire additional security deposit shall be forfeited

Technical sanction of ₹ 1.35 crore for construction of the Gawlan high level bridge was accorded (September 2007) by the Superintending Engineer (SE), WR circle, Khargone. The lowest item rate tender of a contractor at ₹ 1.08 crore (i.e, 10.61 *per cent* above unified schedule of rates (USR) - July 2007) was accepted (February 2008) by the Chief Engineer (CE), Narmada Tapti Basin, Indore. The work order issued (February 2008) by the EE, WR Division, Khargone, stipulated 12 months (including the rainy season) for completion of the work. The contractor, however, stopped (November 2008) the work midway after executing a work of ₹ 94.19 lakh. The division made payment of the fourth and final bill of ₹ 81.19 lakh to the contractor in July 2009.

Audit scrutiny (July 2009) revealed that although the TS for the work was for ₹ 1.35 crore, the estimated quantities of some major items of works (viz. quantities of reinforced cement concrete for piers and steel reinforcement) included in the TS were not included fully in the schedule of quantities of the tender document as shown in **Appendix 2.9**. The tenders were invited with the probable amount of contract of only ₹ 98.01 lakh instead of ₹ 1.35 crore. As a result, after providing and laying cement concrete for the foundation and piers upto 'plus 10 *per cent*' of the agreed quantities, the contractor stopped the works and expressed (November 2008) his inability to execute the remaining work at the agreed rates. Thus the quantities put to tender was not commensurate with the estimated requirement of the work, which resulted in incomplete work. As of January 2009, the physical progress of the piers was 50 to 60 *per cent* of the designed height and the subsequent construction of the deck slab and the ridding surface of the bridge was not executed by the contractor. The SE directed (February 2009) the EE to foreclose the contract and release the entire dues of the contractor.

Neither had any departmental investigation been conducted nor had any responsibility been fixed for inviting tenders with the incomplete schedule of quantities. No action was taken (November 2009) to complete the incomplete work.

¹⁹ *Unbalanced tender is a tender in which the contractor has quoted disproportionately high rates against some items of work and low rates against some other items of works vis-à-vis the departmental estimated rates.*



Incomplete Gawlan Bridge

On this being pointed out (July 2009) in audit, the EE stated (January 2010) that the SE had approved the quantities in the tender by limiting the scope of work to ₹ 98.01 lakh and also stated that the tender for completion of the balance work remained undecided (July 2009) on the grounds of paucity of funds. The reply is not acceptable because as there was no

change in the designed and estimated cost of ₹ 1.35 crore, there was no justification in reducing the scope of work to ₹ 98.01 lakh.

Audit further noticed that the contractor, notwithstanding these contractual provisions, was paid for the unbalanced rates for cement concrete work at the tendered rates without limiting the amount to the estimated rates plus 10.61 per cent of the overall tender percentage. As the work was left incomplete, the payments not only resulted in undue financial aid to the contractor but also entailed a loss of ₹ 38.26 lakh to the Government as detailed in **Appendix 2.10**.

On this being pointed out in audit, the EE stated (January 2010) that the recovery on account of unbalanced rates was not effected in anticipation of proper and timely progress of work. The reply is not acceptable as the action of the EE was against the provisions of clause 3.28 of the agreement. Thus exhibition of inadequate quantities in the tender and non-recovery of additional security deposit for unbalanced rates resulted in unfruitful expenditure of ₹ 81.19 lakh on the incomplete structure and a loss of ₹ 38.26 lakh to the Government.

The matter was reported to the Government (December 2009). Their reply had not been received (November 2010).

2.5 Regulatory issues and other points

Forest Department

2.5.1 Non/short realisation of net present value

Net present value amounting ₹ 6.63 crore was short realised from five agencies towards diversion of 528 hectares of forest land for non-forest use.

The Government of Madhya Pradesh, Forest Department had prescribed (September 2008) rates for calculating the net present value (NPV) to be charged from the user agencies for forest land diverted for non-forest use. The rates were in accordance with the type and density of the forest (minimum ₹ 5.80 lakh per hectare and maximum ₹ 9.20 lakh per hectare)²⁰.

²⁰ As per guidelines issued vide No 5-1/98-FC (PT-II) dated 18 September 2003 issued by Government of India, Ministry of Environment and Forest.

Test check of records of six Divisional Forest Officers²¹ (DFO) and the Field Director, Panna National Park, (between July and October 2009) revealed that 528.016 hectare of forest land under jurisdiction of six divisions and one national park were diverted for non-forestry use for various projects²². However, NPV amounting to ₹ 30.52 crore was realised against the recoverable amount of ₹ 37.15 crore. This resulted in non/short recovery of ₹ 6.63 crore of NPV from the user agencies.

On this being pointed out in audit, the DFOs and the Field Director, Panna National Park, stated (between July and October 2009), that the amount would be recovered from the respective user agencies.

The matter was reported to the Principal Chief Conservator of Forest and the Government (April 2010). The Government replied (October 2010) that the remaining amount would be recovered.

General

2.5.2 Failure to enforce accountability and protect the interests of the Government

[A] Government response on Inspection Reports and Paragraphs

The Principal Accountant General (Civil and Commercial Audit), Madhya Pradesh, Gwalior (PAG) and the Accountant General (Works and Receipt Audit), Madhya Pradesh, Bhopal (AG) conduct periodical audit of the Government departments to test check, *inter-alia*, the transactions and verify the maintenance of important accounting and other records as per prescribed rules and procedures. Irregularities detected during audit are reported through Inspection Reports (IRs) to ensure rectificatory action in compliance of the prescribed rules and procedures and accountability for the deficiencies and lapses. As per the Regulations²³ on Audit and Accounts, the Heads of Offices and next higher authorities are required to comply with the observations contained in the IRs, promptly rectify the defects/ omissions and report their compliance to the PAG/AG within four weeks of their receipt. The PAG/AG also brings serious irregularities to the notice of the Heads of Departments. Half-yearly reports of pending IRs and paras are sent to the concerned Principal Secretaries/ Secretaries of the departments to facilitate monitoring of compliance to the audit observations in the pending IRs. Besides, annual public statements regarding pending audit observations are also to be made by the heads of departments.

21 *DFO (G) East Mandla, Vidisha, Raisen, Rajgarh, North Seoni, Narsinghpur.*

22 *Idea Cellular Ltd. Indore, Mudiya Khera reservoir; National Highway, Rani Avantibai Lodhi Sagar Pariyojna and Mining Project.*

23 *Regulations on Audit and Accounts framed by the Comptroller and Auditor General of India (As notified in the Gazette of India on November 20, 2007).*

A review of the IRs issued by the PAG upto March 2010 pertaining to Civil Departments disclosed that 22,437 paragraphs relating to 9,013 IRs remained outstanding as on 31 August 2010. This included 10,526 paragraphs of 5,112 IRs outstanding for more than five years. The department-wise and year-wise position of outstanding IRs and paragraphs is given in **Appendices 2.11 and 2.12.**

Similarly, review of the IRs issued by the AG upto March 2010 pertaining to Forest, Water Resources, Public Works, Public Health Engineering and other Works departments²⁴ disclosed that 15,583 paragraphs relating to 4,276 IRs were outstanding to the end of 30 June 2010. This included 6,679 paragraphs of 2,265 IRs outstanding for more than five years. The department-wise position of the outstanding IRs and paragraphs is given in **Appendix 2.13 and Appendix 2.14.**

The heads of offices whose records were audited and the heads of departments did not send any replies to a large number of IRs/paragraphs indicating their failure to initiate action with respect to the defects, omissions and irregularities pointed out in them. The Principal Secretaries/Secretaries of the departments who were informed of the position through half-yearly reports also did not ensure that the concerned offices of the Department take prompt and timely action.

Absence of any action against the defaulting officers facilitated the continuance of irregularities and losses to the Government despite these being pointed out in audit. It is recommended that Government should look into the procedure for fixing responsibility of the officials who failed to take corrective/remedial action on the audit observations and failed to send replies to IRs/paragraphs within a prescribed time. Action should be initiated to recover losses, outstanding advances, over-payments, etc. in a time-bound manner and enforce accountability to ensure proper and timely response to the issues brought out in audit.

[B] Government response on Audit Report paragraphs and reviews

As per instructions issued (November 1998) by the Madhya Pradesh Vidhan Sabha Secretariat, the departments are to intimate the Public Accounts Committee (PAC) and the PAG/AG about the action taken or any action proposed by them in respect of Audit Report paragraphs within three months of presentation of the Audit Report in the State Legislature.

A review of the audit paragraphs pertaining to the Audit Reports (Civil) disclosed that departmental replies on 64 paragraphs pertaining to six Audit Reports were still (August 2010) awaited as per details given in **Appendix-2.15.**

[C] Government response on PAC's recommendations

The Chief Secretary, Government of Madhya Pradesh issued (November 1994) instructions to all the departments to intimate the PAC about the action taken or the action proposed by them in respect of PAC's recommendations within six months of presentation of PAC's report in the State Legislature.

A review of the Action Taken Notes (ATNs) pertaining to departments under the audit jurisdictions of the PAG and AG disclosed that the departments did not furnish ATNs on the PAC recommendations on 624 Audit Report paragraphs upto 31 August 2010. Department-wise and year-wise details are given in **Appendix-2.16.**

²⁴ Other Works departments include Narmada Valley Development, Housing and Environment, Bhopal Gas Rahat (Relief and Rehabilitation) and Panchayat and Rural Development Department.