

CHAPTER-III

AUDIT OF TRANSACTIONS

Audit of transactions of Government departments and their field formations brought out several instances of defalcation, misappropriation, lapses in management of resources and failures in the observance of the norms of regularity, propriety and economy. These have been presented in the succeeding paragraphs under broad objective heads.

3.1 Defalcation/misappropriation/embezzlement

RURAL DEVELOPMENT DEPARTMENT

3.1.1 *Defalcation of Government money*

Violation of codal provisions led to defalcation of ₹ 10.37 lakh.

Rule 86 (ii), (iii), (iv) and (v) of the Jharkhand Treasury Code (Vol. I) provides that all monetary transactions should be entered into the cash book as soon as they occur and be attested by the Head of the Office. The cash book should be balanced, closed and checked daily by the Drawing and Disbursing Officer (DDO). Further, the cash balance at the end of every month is required to be physically verified by the DDO in order to ensure that the cash balance shown in the cash book tallies with the physical balance. The Deputy Commissioner (DC), Ranchi issued (February 2008) an order that funds relating to Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) were to be withdrawn from the bank under joint signatures of the Panchayat Sevak/Village Level Worker (VLW) and the Rojgar Sevak.

Scrutiny (September 2010) of the records of the Block Development Officer (BDO), Tamar, Ranchi revealed that an amount of ₹ 10.37 lakh of MGNREGS was irregularly drawn (between February 2009 and April 2010) from the bank (Punjab National Bank, Parasi branch A/c No.-2844000100023000) by the VLW, Lungtu Panchayat (Tamar, Ranchi) as there was no Rojgar Sevak posted in the said Panchayat during the period of withdrawals. Further, the amount was kept outside the Government Account as no cash book was maintained by the VLW.

On this being pointed out, the BDO, Tamar accepted the facts and stated (September 2010 and June 2011) that instructions had been issued to the bank that funds relating to MGNREGS were to be drawn under joint signatures. The BDO further stated that the amounts were drawn by the VLW by putting fake signatures of the Rojgar Sevak and no cash book was maintained by him for the period.

Thus, non-adherence to codal provisions and the orders of the DC by the then VLW/BDO and lack of monitoring by the then BDO in ensuring that the cash book was actually maintained by the VLW, resulted in defalcation of Government money of ₹ 10.37 lakh.

In reply, the Government accepted (November 2011) the audit observation and stated that the VLW concerned had been suspended (May 2011) and departmental proceedings had been initiated against him.

ROAD CONSTRUCTION DEPARTMENT

3.1.2 Misappropriation of Government money

Fake invoices submitted by a contractor towards the cost of bitumen, resulted in misappropriation of ₹ 98.11 lakh and sub-standard roadwork of ₹ 5.23 crore.

According to a Government order¹ dated 21 March 2001, contractors engaged in road works were to procure bitumen from Government oil companies directly. On award of the works, the Executive Engineers (EE) of the concerned divisions were to issue authority letters to the oil companies, specifying the names of the contractors, the names of the works, quantities required and the quality and specification of bitumen. The oil companies were to sell bitumen to the contractors against the authority letters only and intimate the concerned divisions which awarded the works. The contractors were also required to intimate the EE about the receipt of bitumen within 48 hours of receipt and submit the invoices issued to them by the oil companies against such purchases, as documentary proof for procurement of bitumen from the oil companies. After the bitumen was brought to the work sites, the EEs or their authorised representatives, *i.e.* Junior Engineers (JEs)/Assistant Engineers (AEs) were to conduct physical verification of the quantities, qualities and specifications of the bitumen as mentioned in the invoices *vis-à-vis* the authorisation letters issued by the department.

Based on the administrative approval (September 2002) of the Secretary, Road Construction Department, Ranchi, the EE, Road Construction Division (RCD), Deoghar executed (July 2003) an agreement with a contractor for the work “Widening and strengthening of Bartand-Jarmundi road (32.85 km)” at a total cost of ₹ 7.27 crore against a technically sanctioned estimate of ₹ 8.96 crore. The work was scheduled to be completed by April 2004, which was extended up to March 2005.

Scrutiny (January 2011) of the records of EE, RCD, Deoghar revealed that the contractor was paid (March 2007) ₹ 5.23 crore for the work done and was shown to have utilised 1,675.05 MT bitumen as against the estimated quantity of 1,764.14 MT. During verification in audit of the bitumen invoices, it was noticed that out of 68 invoices issued by Indian Oil Corporation Limited (IOCL), Haldia, for 798.78 MT of bitumen, submitted by the contractor as proof of procurement of bitumen, 13 invoices for 136.16 MT bitumen worth ₹ 22.20 lakh were issued by IOCL and were genuine; three invoices for 54.46 MT of bitumen worth ₹ 8.95 lakh could not be verified as they were illegible and the balance 52 invoices relating to supply of 608.16 MT of bitumen valued at ₹ 98.11 lakh had not been issued by the company and therefore, were fake

¹ Letter issued by the Secretary, Public Works (Road & Building) and Transport Department, Ranchi vide No- 718(5) dated 21 March 2001.

(*Appendix 3.1*). Physical verification reports of the AE/JE to ascertain the quantity, quality and specification of the bitumen were also not found on record.

Thus, at least ₹ 98.11 lakh (cost of 608.16 MT of bitumen) was misappropriated by the contractor through submission of fake invoices for bitumen, shown as utilised in the work, aided by laxity in verification of the genuineness of the purchase of bitumen by the officials of the divisions. Besides, possibility of execution of sub-standard road work worth ₹ 5.23 crore could not be ruled out.

The Government accepted (November 2011) the audit observation and stated that the contractor was directed to deposit the recoverable amount, failing which necessary legal action would be taken.

AGRICULTURE AND SUGARCANE DEVELOPMENT DEPARTMENT

3.1.3 *Embezzlement and wasteful expenditure*

Purchase and distribution of dolomite without soil testing and without imparting training to the farmers resulted in a wasteful expenditure of ₹ 60 lakh besides embezzlement of ₹ 48 lakh.

Rule 300 of the Jharkhand Treasury Code, Volume-I stipulates that no money should be withdrawn from the treasury unless it is required for immediate payment. The Rule also stipulates that it is not permissible to draw advances in anticipation of demands from the treasury, either for prosecution of works, the completion of which is likely to take a considerable time or to prevent the lapse of appropriations.

The Government of Jharkhand sanctioned (19 March 2007) and allotted (26 March 2007) ₹ 1.26 crore to the Department of Agriculture under the Resource Management Scheme² (RMS) for 10³ districts. The RMS included two components of activities viz. (i) imparting training to farmers with training kits (₹ 18 lakh) and (ii) purchasing dolomite for distribution among trained farmers (₹ 1.08 crore). Dolomite was to be distributed to needy farmers to treat the acidity of the soil in 10 districts, covering an area of 0.18 lakh hectares. It was confirmed (May 2008) by the Birsa Agricultural University, Ranchi that soil tests were necessary to ascertain Ph value in order to determine the quantity of dolomite to be added to the soil and the frequency of its application.

According to the sanction order, the Deputy Director (DD), Soil Conservation Research and Training Institute (SCRTI), Hazaribag was the Drawing and Disbursing Officer (DDO) for purchase of dolomite whereas the concerned District Agriculture Officers (DAOs) were declared DDOs for imparting training to the farmers. The DAOs were also required to purchase training kits for supply to the trained farmers, only under the control and supervision of the Director of Agriculture and Joint Directors of Agriculture.

Scrutiny (July 2009) of records and information collected (July 2011) from the Director of Agriculture, the DD, SCRTI and concerned DAOs revealed that

² Resource Management Scheme included training to farmers for fighting acidity in the soil, creation of database of available lands of farmers.

³ Chatra, Deoghar, Dumka, East Singhbhum, Gumla, Hazaribag, Koderma, Sahebganj, Saraikela and Simdega.

the DD, SCRTI drew (31 March 2007) the allotted funds, marked for purchase of dolomite. Despite the fact that dolomite was available with the Jharkhand Mineral Development Corporation Ltd. (JMDC) at the rate of ₹ 880 per MT, the DD, SCRTI arbitrarily purchased (between May and July 2007) 2,250 MT of dolomite from two organisations (North Eastern Regional Agricultural Marketing Corporation Ltd., Agartala and National Agricultural Co-Operative Marketing Federation of India Ltd. (NAFED), Ludhiana) at the rate of ₹ 4,800 per MT, at a total cost of ₹ 1.08 crore. The payment was made (July and August 2007) on the basis of receipts of dolomite submitted by the concerned DAOs. The DAOs could not draw the funds earmarked for training and purchase and supply of training kits under RMS because the funds were allotted in favour of the Director of Agriculture as per the allotment order. Hence, training under RMS could not be imparted even though it was required to be done before distribution of the dolomite.

Further scrutiny and replies furnished between July 2009 and July 2011 by the DAOs revealed that out of 2,250 MT of dolomite valued at ₹ 1.08 crore, only 1,250 MT of dolomite valued at ₹ 60 lakh, was received by six⁴ DAOs under RMS. These DAOs distributed the dolomite to farmers on an ad-hoc basis without imparting training under RMS. Even the soil tests, which were a pre-requisite before administering dolomite, were not conducted before distribution. Thus, the distribution of dolomite without conducting soil tests was irregular.

For the balance 1,000 MT of dolomite amounting to ₹ 48 lakh, the records of DD, SCRTI showed acknowledgement of receipts of dolomite by the DAOs of Chatra, Gumla and Koderma districts, as furnished by the suppliers. On this being verified, the concerned DAOs intimated (between June 2009 and July 2011) that the dolomite had not been received. Thus, an amount of ₹ 48 lakh was embezzled by furnishing fake acknowledgement receipts of dolomite by the DAOs as proof of receipt of dolomite by them. Further, Saraikela district was not included in the list of districts which received the dolomite though it was included under RMS.

Thus, sanction and allotment of funds at the fag end of the financial year, declaring two DDOs for an integrated work, non-procurement of dolomite from JMDC, Ranchi and distributing dolomite without conducting soil tests and without imparting training to the farmers resulted in wasteful expenditure of ₹ 60 lakh, besides embezzlement of ₹ 48 lakh.

In reply, the Government stated (November 2011) that keeping in view the seriousness of the case, a departmental enquiry would be set up and action would be taken against the erring officers.

3.2 Non-Compliance with the rules

For sound financial administration and financial control, it is essential that expenditure conforms to financial rules, regulations and orders issued by the competent authority. This not only prevents irregularities, misappropriation and frauds, but also helps in maintaining good financial discipline. Some of the audit findings on non-compliance with rules are as under.

⁴ Deoghar, Dumka, East Singhbhum, Hazaribag, Sahebganj and Simdega.

WATER RESOURCES DEPARTMENT

3.2.1 *Loss to the Government*

Inclusion of a price escalation clause in tender documents in violation of a Government order resulted in loss of ₹ 21.03 crore to the Government.

In unified Bihar, clauses of agreements entered into with contractors for execution of works did not contain the provision of price escalation. In an order⁵, the Water Resources Department, Government of Bihar, decided (July 1998) to provide price escalation in cases of increase in the scheduled rates of the various components of the estimate, if the work was scheduled to be completed in more than a year. The department reversed⁶ (August 1999) the earlier order and decided that henceforth, price escalation would not be paid. On creation of Jharkhand, the above orders were adopted by the Government of Jharkhand with effect from November 2000.

Scrutiny (February 2010) of records of the Executive Engineer (EE), Auranga Construction Division, Panki, Palamau (now Medininagar) revealed that the EE executed (2002-09) agreements for four works with two contractors for ₹ 101.33 crore. The agreed values for all the works were more than ₹ one crore and they were scheduled to be completed between 18 and 36 months. It was noticed that in violation of the decision of the Government, the Chief Engineer, Water Resources Department, Medininagar included a clause in the tender document allowing price escalation on labour, construction materials and lubricant components (POL). Accordingly, agreements were signed with the contractors. As a result, the EE paid (between December 2008 and December 2009) escalated cost on labour, construction materials and POL worth ₹ 21.03 crore to the contractors (*Appendix 3.2*).

Thus, inclusion of the provision of price escalation in the agreements in violation of the Government order resulted in loss of ₹ 21.03 crore to the Government.

The Government accepted (November 2011) the audit observation and stated following the audit objection, a high level committee had been constituted to enquire into the matter. On the basis of their findings, proper action would be taken against the guilty persons.

RURAL DEVELOPMENT DEPARTMENT

3.2.2 *Non-recovery of Government money*

Non-adherence to codal provisions in granting advances and their adjustments led to non-recovery of Government money worth ₹ 4.05 crore.

Rule 100 of the Jharkhand Public Works Account Code provides that when a disbursing officer makes a remittance to a subordinate officer for making petty payments on muster rolls or other vouchers, it should be treated as a temporary advance and should be accounted for in Form 2 (Schedule XLV- form no. 113). The accounts of temporary advances should be closed, as soon as

⁵ Letter no. Con.4 Work-10-1203/98-963, Patna, Dated 30 July 1998.

⁶ Letter no. Con.4 Work-10-1203/98Part-960, Patna, Dated 18 August 1999.

possible. Further, as per a Government order⁷ of December 1983, the accounts of temporary advances should be rendered within one month from the date of drawal of such advances and subsequent advances should be granted only after assessing the progress of the work done and adjustment of the previous advances.

Audit scrutiny (between May 2010 and July 2011) of the records of the Executive Engineer (EE), Rural Development Special Division, Medininagar revealed that the EE irregularly advanced (between August 2000 and September 2010) ₹ 4.05 crore to 18 officials for execution of departmental works like *Pul-Pulia*, check dams, repairing of block offices and construction of high schools, without adjusting previous advances which remained outstanding as on July 2011 (*Appendix-3.3*). In addition, the following were observed:

- Advances of ₹ 3.15 crore granted between August 2000 and September 2010 were outstanding against 10 officials, of which seven officials had been transferred/ had retired without adjustment of the advances.
- Advances of ₹ 2.76 lakh granted between July 2001 and August 2007 to seven officials became difficult to recover as their present places of posting were not known to the division.
- Advances of ₹ 87.93 lakh were given between December 2001 and September 2003 to an Assistant Engineer (AE) who was under suspension since July 2003. It was also noticed that out of ₹ 87.93 lakh, ₹ 25.27 lakh was granted (September 2003) during his suspension period. Though the department directed (October 2003) the EE to declare all works which were executed by the AE during his suspension period as null and void, no action was taken by the EE to recover the said advance from the suspended AE.

Thus, non-adherence to the codal provisions by the EE regarding grant of advances and their adjustments led to non-recovery of Government money worth ₹ 4.05 crore.

On this being pointed out in audit, the EE accepted (May 2011) the facts and stated that action had been taken to intimate the concerned officials to deposit the unutilised amounts.

The matter was reported to the Government (June 2011). Their reply had not been received (October 2011).

ROAD CONSTRUCTION DEPARTMENT

3.2.3 Loss to the Government

Non-adherence to the provision of agreement resulted in a loss of ₹ 1.13 crore.

The Executive Engineer (EE), Road Construction Division, Manoharpur executed (December 2007) an agreement for ₹ 11.76 crore against the estimated cost of ₹ 11.26 crore for widening and strengthening of two lanes of the Baraiburu-Saidal Road (length 7 km) along with construction of side drainage and culverts with

⁷ Letter No-1/Est/27/83-2347 dated 31 December 1983 of Technical Vigilance Cell, Cabinet (Vigilance) Department, Government of Bihar.

a stipulation that the work was to be completed by October 2008. Subsequently, the completion time was extended to June 2010.

Scrutiny (March 2011) of the records of the division revealed that the contractor completed the road work by September 2010 at a cost of ₹ 9.10 crore against the agreed value of ₹ 11.76 crore and the final bill for the same was paid in January 2011. Side drainage and culverts of the road work valuing ₹ 2.66 crore could not be executed due to non-availability of the required clearance from the forest department and other reasons as stated by the contractor. Though the District Forest Officer, Saranda Forest Division, Chaibasa conditionally permitted (September 2008) the execution of the work, it could not be executed by the contractor even after the granting of time extension up to June 2010. It was noticed that as per the final bill, out of ₹ 9.10 crore, work valued at ₹ 7.94 crore only was completed by June 2010 i.e. the stipulated period of completion. Thus, the contractor was liable to pay compensation amounting to ₹ 1.13 crore⁸ at the rate of 10 *per cent* of the estimated cost of the work due to non-completion of the work in time.

In the 14th on account bill of the contractor, it was noticed that against the initial measurement of semi-dense bituminous concrete of 798.75 cum, the EE disallowed 88.75 cum and paid the contractor for work up to the execution of 710 cum amounting to ₹ 37.52 lakh. However, in the 15th on-account bill and also in the final on-account bill⁹, a quantity of 798.75 cum instead of 710 cum was carried forward and payment of ₹ 42.21 lakh was made to the contractor. Thus, an excess payment of ₹ 4.77 lakh¹⁰ for 88.75 cum was made to the contractor.

During audit, the following irregularities were also noticed:

- As per the Bill of Quantities and the agreement, bitumen was to be procured from Bokaro and carriage for transportation of bitumen was indicated as 460 km. However, the invoices submitted by the contractor revealed that the contractor actually procured 378.71 MT of bitumen from Ranchi (distance: 264 km) at the rate of ₹ 3.26 per km per MT for which they should have been paid ₹ 3.26 lakh. The contractor was paid ₹ 5.67 lakh for carriage of 378.71 MT bitumen by assuming that carriage for the bitumen was 460 km as provided in the agreement. This resulted in excess payment for ₹ 2.41 lakh to the contractor.
- Against the total recoverable amount of ₹ 1.20 crore (₹ 1.13 crore *plus* ₹ 0.05 crore *plus* ₹ 0.02 crore), the total amount available with the division was only ₹ 1.16 crore (Bank Guarantee/Security Deposit: ₹ 1.04 crore, time extension ₹ 0.12 crore).

⁸ 10 *per cent* of ₹ 11.26 crore (estimated cost) = ₹ 1.13 crore.

⁹ Measurement Book no.365, pages 38 and 56 respectively.

¹⁰ 798.75cum -710.00 cum=88.75cum at the rate of ₹ 5,284.57 per cum = ₹ 4.69 lakh

| | | |
|---|---|--------------------------------|
| Less 5 <i>per cent</i> excluding the cost of bitumen 10.244 MT at the rate of ₹ 29,675 per cum | = | (-) ₹ 3.04 lakh ₹ 1.65 lakh |
| Add 5 <i>per cent</i> agreemental value | = | ₹ 0.08 lakh ₹ 1.73 lakh |
| Add cost of bitumen | = | ₹ 3.04 lakh ₹ 4.77 lakh |

The Government accepted (November 2011) the audit observation and stated that the work was not completed in the extended time. Ten *per cent* penalty had already been deducted from the final bill. The balance amount would be recovered from the contractor by encashing the Bank Guarantees.

3.2.4 Loss due to excess payment

Non-adherence to Government orders resulted in loss due to excess payment of ₹ 1.08 crore as differential cost of bitumen.

According to Government notification no. 405(S) clause 2(ii) dated 31 January 2004, the differential cost of bitumen between the “accepted rate as per the agreement” and “the price based on original invoices against actual purchases” was to be reimbursed only when the bitumen was purchased and consumed within the scheduled programme for bituminous work.

Based on the approval (November 2006) of the Chief Engineer (CE), Road Construction Department, Ranchi, the Executive Engineer (EE), Road Construction Division (RCD), Koderma executed (December 2006) an agreement with a contractor for the work of “Widening and strengthening of Dhab-Pihra-Kalidih road (20.57 km)” at a total cost of ₹ 10.85 crore against a technically sanctioned estimate of ₹ 10.74 crore. The work was scheduled to be completed by December 2008.

Scrutiny (April 2010) of the records of the EE, RCD, Koderma revealed that the contractor was paid (March 2010) ₹ 12.03 crore for work done in which 583.15 MT bitumen was consumed. According to the work programme, bituminous work (levelling course, bituminous macadam and semi-dense bituminous carpet) was to be executed between July 2007 and August 2008. However, bituminous work was actually executed between 10 August 2008 and 16 December 2008, whereas according to the measurement book, the first invoice of bitumen was issued to the contractor on 9 September 2008. Thus, despite the fact that the contractor failed to execute the bituminous work according to the work programme, payment of the differential cost of bitumen amounting to ₹ 1.08 crore was made (March 2010) in contravention of the Government order mentioned above.

On this being pointed out in audit, the department stated (October 2011) that the payment was made as per consumption of bitumen duly sanctioned by the Engineer-in-Chief, Road Construction Department. Moreover, the Engineer-in-Chief, Road Construction Department allowed (December 2008) the payment of differential cost on bitumen on the basis of Government notification no. 405 dated 31 January 2004.

The reply of the department is not acceptable because bitumen was neither purchased nor consumed within the scheduled programme for bituminous work as per the Government notification mentioned above. The EE was also aware of the slow progress of the work and accepted the actual date of the bituminous work. Thus, non-adherence to the Government orders resulted in excess payment of ₹ 1.08 crore.

DEPARTMENT OF ART, CULTURE, SPORTS & YOUTH AFFAIRS

3.2.5 *Loss to the Government*

The Government sustained a loss of ₹ 96.97 lakh due to non-inclusion of a clause for realisation of professional fees.

To organise the 34th National Games in the month of February-March 2007, the Department of Art, Culture, Sports & Youth Affairs decided (August 2004) to provide accommodation for around 7,000 sportspersons and officials. For this purpose, as per the Cabinet decision, the Government appointed (February 2005) IL&FS Infrastructure Development Corporation Ltd, New Delhi (consultant) on nomination basis without inviting tenders for preparation of a feasibility report¹¹.

Scrutiny (February 2011) of the records of the Secretary of the department revealed that the department had signed (February 2005) a Memorandum of Agreement (MoA)¹² with the consultant and had agreed to pay professional fees of ₹ 88 lakh for Stage-I (for processing purposes) and ₹ 34 lakh equal to 0.4 *per cent* of the landed project cost of ₹ 85 crore for Stage-II (for monitoring purposes), which were to be recovered from the successful developer. The department entered (January 2006) into an agreement with a developer, M/s Nagarjuna Construction Company Limited, without inserting any clause in the agreement for recovery of the consultant's professional fees from the developer. The department paid (between April 2005 and March 2006) ₹ 96.97 lakh¹³ to the consultant as professional fees for Stage-I. Since the consultant had prepared a faulty agreement, the amount could not be recovered from the developer as the clause for recovery had not been included in the agreement with the developer.

Thus, the Government sustained a loss of ₹ 96.97 lakh due to non-inclusion of the clause in the agreement prepared by the consultant and executed between the department and the developer. The Secretary of the department also failed to notice the flaw in the agreement signed with the developer.

The department accepted (June 2011) the audit observation and stated that recovery of ₹ 96.97 lakh would be made from the consultant.

ROAD CONSTRUCTION DEPARTMENT

3.2.6 *Wasteful expenditure*

There was a loss of ₹ 1.22 crore due to sub-standard work executed by a contractor in connivance with officials besides loss of penalty of ₹ 1.07 crore on account of liquidated damages.

The work of widening and strengthening of the Madhupur-Leharjori road (21.64 km) was administratively approved (August 2007) by the Road Construction

¹¹ This includes appropriate mix of saleable housing units, requirement of essential civic supporting infrastructure, master plan and prioritisation and phasing of facilities etc and preparation of terms and conditions of agreement in the first stage and monitoring of implementation of 'Khel Gaon' project in the second stage.

¹² Para.7.2.1 of the MOA.

¹³ Includes professional fee of ₹ 88 lakh, service tax of ₹ 8.80 lakh and educational cess of ₹ 0.17 lakh.

Department (RCD) and technically sanctioned (February 2008) by the Chief Engineer (CE), Central Design Organisation, RCD. It was awarded (January 2008) by the CE to a contractor at ₹ 13.08 crore and was to be completed by March 2009.

According to clause 13 of the terms and conditions of the contract, the contractor was liable to re-execute/rectify the whole or part of the work at his own cost or pay compensation for damaged work/imperfect or unskillful workmanship. If the contractor failed to rectify/reconstruct the work, such works were to be got executed through other agencies at the risk and cost of the contractor. Further, according to clause 2 of the terms and conditions of the contract, if the contractor failed to complete the work within the stipulated period, compensation (liquidated damages) at the rate of 0.5 *per cent* of the estimated cost per day, subject to a maximum of 10 *per cent* of the total estimated cost, was leviable on the contractor. Moreover, Clause 22 of the terms and conditions of the contract, stipulated that all work to be executed under the contract was to be executed under the direction of the Superintending Engineer (SE) of the Circle and was subject to his approval in all respects.

Audit scrutiny (February 2011) of records of the Executive Engineer (EE), Road Construction Division, Deoghar revealed that the EE executed (March 2008) an agreement with a contractor viz. M/s Neo Built Corporation, Kolkata without physical verification of the availability of plant and machinery, hot mix plants and the wherewithal to operate a laboratory at the site. Genuineness of the bank guarantees (BGs)¹⁴ submitted by the contractor was also not verified by the EE as out of the total BGs for ₹ 49 lakh, BG No. 12 dated 22 February 2008 for ₹ 21 lakh was in the name of M/s Baidyanath Construction instead of M/s Neo Built Corporation, Kolkata.

Further scrutiny of records revealed that the contractor did not install plant and machinery; utilised local sand in place of stone chips; used defective water bound macadam and did not construct culverts and guard walls as per the specifications. However, despite the poor quality of the work and non-adherence to the design and specifications by the contractor, the EE paid (September 2008) ₹ 1.27 crore to them. The fact that the work was sub-standard was also confirmed (May 2010) by an Inspection Committee¹⁵ in its report. On the basis of the report, the Engineer-in-Chief directed (June 2010), the EE to rescind the contract after taking final measurements. Accordingly, work valued at ₹ 1.22 crore was rejected and the amount was to be recovered from the contractor. The department rescinded (June 2010) the agreement but no action was taken to get the remaining work executed at the risk and cost of the erring contractor. Thus, the Government sustained a loss of ₹ 1.22 crore owing to execution of sub-standard work by the contractor due to failure of Junior Engineer (JE), Assistant Engineer (AE), EE and the SE to monitor the quality of the work during the construction period. Besides, the Government

¹⁴ BG Nos. 18107 for ₹ 28,00,000, 12 for ₹ 21,00,000 and Post Office TD Passbook No. 550280378-386 for ₹ 17,00,000.

¹⁵ Comprising:-Superintending Engineer, Road Construction Department (RCD), Road Circle, Dumka, EE, RCD, Road Division, Dumka and EE, RCD, Road Division, Sahebganj.

sustained a loss of ₹ 1.07 crore¹⁶ as penalty had not been recovered.

The Government accepted (November 2011) the audit observation and stated that the work had been rescinded and fresh tenders had been invited (January 2011). Appropriate steps would be taken to recover the amount of ₹ 2.29 crore (₹ 1.22 crore *plus* ₹ 1.07 crore) from the contractor who was engaged in other works under the same division.

3.3 Audit against propriety/Expenditure without justification

Authorisation of expenditure from public funds is to be guided by the principles of propriety and efficiency of public expenditure. Authorities empowered to incur expenditure are expected to enforce the same vigilance as a person of ordinary prudence would exercise in respect of his own money and should enforce financial order and strict economy at every step. Audit detected instances of impropriety and extra expenditure, some of which are given hereunder:

RURAL WORKS DEPARTMENT

3.3.1 Wasteful expenditure and loss to the Government

Failure of the department to take timely action against a contractor resulted in wasteful expenditure of ₹ 63.69 lakh, non-recovery of liquidated damages of ₹ 14.40 lakh and non-encashing of security deposit of ₹ 7.21 lakh.

According to clause 13 of the terms and conditions of contracts, a contractor is liable to re-execute/rectify the whole or part of the work at his own cost or pay compensation for the damaged work/imperfect or unskillful workmanship. If the contractor fails to rectify/reconstruct the work, such works are to be got executed through other agencies at the risk and cost of the contractor. Further, according to clause 2 of the terms and conditions of contracts, if a contractor fails to complete the work within the stipulated period, compensation (liquidated damages) at the rate of 0.5 *per cent* of the cost of the remaining work per day subject to a maximum 10 *per cent* of the total estimated cost was leviable.

Scrutiny (September 2009) of records of the Executive Engineer (EE), Rural Works Division, Chaibasa, revealed that the EE executed (July 2004) an agreement with a contractor for upgradation of the Dudhbilla-Khas Jamda road (12.20 km) in Chaibasa, West Singhbhum district for ₹ 1.44 crore (15 *per cent* below the bill of quantities) for completion by July 2005. The contractor left (March 2006) the work after execution of work up to Grade¹⁷ I, II and partially Grade III, without executing premix carpeting, seal coat, culverts etc. and was paid (March 2006) ₹ 63.69 lakh, without giving any time extension. After nine months *i.e.* January 2007, the contractor expressed his inability to execute the remaining work on the ground of the plying of heavy vehicles on the road. The EE failed to take appropriate action against the contractor as per the agreement clause to recover liquidated damages amounting to ₹ 14.40 lakh¹⁸ for not executing the agreed works in time. Besides, two bank guarantees (BGs) for

¹⁶ 10 *per cent* of agreed value of ₹ 13.08 crore *i.e.* ₹ 1.30 crore (*minus*) ₹ 23 lakh forfeited amount of security deposit=₹ 1.07 crore.

¹⁷ Grade I, II and III are the initial stages of construction of a road and size of stone metal utilised in the work are 45mm to 90 mm, 45mm to 63 mm and 22.40 mm to 53 mm respectively.

¹⁸ 10 *per cent* of the total estimated cost.

₹ 7.21 lakh valid up to December 2004 and May 2005 deposited by the contractor, towards the initial security deposit, also lapsed due to the division's failure to revalidate the same in time.

Though the work was stopped by the contractor in March 2006, the department did not initiate any action for getting the remaining work executed at the risk and cost of the contractor by any other agency (May 2011). The partially constructed road was damaged due to rain water and plying of heavy vehicles. The previous work was not measured and the residual work was not commenced.

Thus, the failure of the department to initiate any action against the contractor by rescinding the work and getting the remaining work executed by another contractor at the risk and cost of the erring contractor resulted in wasteful expenditure of ₹ 63.69 lakh besides non-recovery of liquidated damages of ₹ 14.40 lakh and failure to encash security deposit of ₹ 7.21 lakh.

The matter was reported to the Government (June 2011). Their reply had not been received (October 2011).

DEPARTMENT OF FORESTS AND ENVIRONMENT

3.3.2 *Infructuous expenditure*

Infructuous expenditure of ₹ 7.85 crore incurred on idle staff.

The Department of Forests and Environment, Government of Jharkhand decided (November 2005) to transfer minor forest produce and trading activities¹⁹ to the Jharkhand State Forest Development Corporation (JSFDC) in order to limit the establishment expenditure of forest depots which were almost without any special work. Accordingly, the trading activities of the Chaibasa State Trading Division, No. II and the Chaibasa and Saranda State Trading Division, Chaibasa were transferred (April 2006) to JSFDC, but the staff of these divisions were not moved.

Scrutiny (February 2010) of the records of the office of the Conservator of Forests, Singhbhum State Trading Circle, Jamshedpur revealed that trading activities of the trading divisions had been closed with effect from April 2006, and their establishments became non-functional. Staff members of these two divisions were not accommodated to other offices/divisions despite the existence of 491 vacancies in the department. As a result, 26 staff members of the Chaibasa State Trading Division, No. II and 30 staff members of Saranda State Trading Division remained idle from 2006-07 to September 2011 and the entire establishment expenditure of ₹ 7.85 crore on their pay and allowances became infructuous. Moreover, the very purpose of limiting the establishment expenditure by transferring trading activities of forest produce was defeated.

On this being pointed out, the Conservator of Forests, Singhbhum State Trading Circle, Jamshedpur accepted (March 2010, February and March 2011) the fact

¹⁹ Logging operation, harvesting, marketing and sale of forest produce.

that the staff were idle, and stated that the matter had already been communicated to the higher authorities. On further query, the Conservator stated that proposals for re-organisation of the divisions had been sent time and again to the higher authorities.

The fact remained that the establishment of these two forest trading divisions were still in existence and the services of the staff were not gainfully utilised due to apathy of the Government.

The Government accepted (November 2011) the audit observation and stated that action was under way to adjust all the staff of the two State Trading Divisions against posts lying vacant in other forest establishments/offices.

RURAL DEVELOPMENT DEPARTMENT

3.3.3 Unfruitful expenditure

Houses sanctioned under the Indira Awaas Yojana remained incomplete even after the lapse of 10 to 120 months due to lack of monitoring by departmental officers, which resulted in unfruitful expenditure of ₹ 1.25 crore.

The Indira Awaas Yojana (IAY) was launched in 1996 to provide financial support for construction/renovation of houses to people living below the poverty line in rural areas. The financial support was to be limited to ₹ 20,000 upto 2003-04, ₹ 25,000 from 2004-08, ₹ 35,000 during 2008-09 and ₹ 45,000 during 2009-10 and was to be released to beneficiaries in instalments depending on the pace of construction. According to the guidelines of the scheme, officers dealing with the scheme at the district, sub-division and block levels were to closely monitor all aspects of IAY through visits to work sites.

Scrutiny (between September 2009 and July 2011) of the records of the offices of the Block Development Officer, Petarwar (Bokaro) and Tamar (Khunti) revealed that construction of houses of 874 out of a total of 3,422 beneficiaries, which were to be completed within a period of three to six months (*i.e.* between December 2001 and September 2010) from the release of the first instalment were still incomplete under IAY (**Appendix-3.4**). The beneficiaries were paid (between June 2001 and March 2010) ₹ 1.25 crore ranging from ₹ 5,000 to ₹ 20,000 per beneficiary as initial instalments. Proper monitoring was not done by the departmental officers as neither any schedule of inspection nor any records regarding the inspections made by the departmental officers were produced to Audit, though it was called for. Further, it was found that these houses remained incomplete even after the lapse of 10 to 120 months from the due dates of completion.

This resulted in unfruitful expenditure of ₹ 1.25 crore on incomplete houses due to lack of proper monitoring of the scheme by the departmental officers.

In reply, the Government stated (November 2011) that efforts would be made to complete the houses under the IAY scheme which remained incomplete during 2000-10.

AGRICULTURE AND SUGARCANE DEVELOPMENT DEPARTMENT

3.3.4 Irregular payment

Payment of ₹ 3.50 crore without technical sanction and measurement of the work.

Under Rules 126 and 244 of the Jharkhand Public Works Department (JPWD) Code and Government resolution issued in July 1986, preparation of detailed estimates for technical sanction of a proposed work was mandatory. The maintenance of a measurement book, being the most important document for recording all activities related to execution of a work, was also mandatory. Officers releasing funds for a work without technical sanction were to be held responsible for the lapse. Further, under Rule 207 of the Code, every endeavour was to be made to maintain a system of payments for the works actually executed.

The Agriculture and Sugarcane Development Department sanctioned (between May 2007 and July 2008) ₹ 3.50 crore for construction of an Agriculture Natural Resource Centre (ANRC) at Demotand, Hazaribag as an environmentally and culturally sustainable agro-tourism centre²⁰. The work awarded (March 2008) to M/s Environment Research and Consultancy Group (agency) was to be executed under the supervision of the Deputy Director, Soil Conservation Research and Training Centre (SCRTC), Hazaribag. Accordingly, a Memorandum of Understanding (MoU) was signed (March 2008) between the department and the agency.

Scrutiny (between April and May 2011) of records of the Deputy Director, SCRTC, Hazaribag revealed that the work was neither technically sanctioned by any competent authority²¹ nor were any measurement books were maintained. As such, the status of the work executed could not be ascertained. However, it was noticed that ₹ 3.50 crore was released by the Secretary and subsequently paid (between March 2008 and March 2009) to the agency on proforma invoices²². Out of ₹ 3.50 crore, bills for ₹ 1.50 crore were passed for payment on 28 March 2008, prior to the signing (31 March 2008) of the MoU. The work was incomplete as on May 2011. Audit further noticed that statutory deductions (sales tax, income tax and labour cess), though recoverable from the bills of the agency, were not made.

Thus, the action of the department to release funds of ₹ 3.50 crore and subsequent payment to the agency on the work, which was neither technically sanctioned nor

²⁰ The work consisted of civil construction such as construction of greenhouses, boundary wall, a visitor information centre, interpretation and natural resource centres, an aquifer reservoir, water conservation works, eco-parks and a cafeteria along with engravings, terracotta work, landscape development, canopy trails and allied activities including purchase of equipment which was necessary for construction and maintenance of the same.

²¹ By any technical department, as the Agriculture and Sugarcane Department has no Engineering Cell.

²² An abridged or estimated invoice sent by a seller to a buyer in advance of a shipment or delivery of goods. It notes the kind and quality of goods, their value and other important information such as weight and transportation charges. Proforma invoices are commonly used as preliminary invoices with a quotation or for customs purposes in importation. They differ from a normal invoice, not being a demand and request for a payment.

measured and payment of ₹ 1.50 crore passed before signing of the agreement was not only irregular but was also fraught with the risk of misappropriation of Government money. Besides, the Government incurred a loss of ₹ 18.34 lakh²³ due to non-deduction of statutory taxes, cess etc.

In reply, the Government stated (November 2011) that a departmental enquiry would be set up and action would be taken against the erring officers accordingly.

3.4 Failure of oversight/governance

The Government has an obligation to improve the quality of life of the people for which it works, towards fulfillment of certain goals in the areas of health, education, development and upgradation of infrastructure, public service etc. However, Audit noticed instances where the funds released by the Government for creating public assets for the benefit of the community remained unutilised/ blocked and/or proved unfruitful/ unproductive due to indecisiveness, lack of administrative oversight and concerted action at various levels. A few such cases have been discussed below:

TOURISM DEPARTMENT

3.4.1 Blocking of funds

Non-utilisation of funds and non-deposit of unspent balances into the treasury in time led to blockage of ₹ 50.30 crore, besides loss of interest of ₹ 9.49 crore.

Rule 300 of the Jharkhand Treasury Code Vol. I stipulates that no money should be withdrawn from the treasury unless it is required for immediate payment. It is not permissible to draw advances in anticipation of demands from the treasury either for prosecution of works, the completion of which is likely to take a considerable time or to prevent the lapse of appropriation. Further, money should not be drawn from the treasury simply on the ground that the charge has been sanctioned by the competent authority. It is not permissible to draw money from the treasury and then place it in deposit in order to avoid lapse of allotment. If under special circumstances, money is drawn in advance under orders of the competent authority, the unspent balance of the amount so drawn should be refunded to the treasury by short drawal in the next bill or with a challan at the earliest possible opportunity and in any case, before the end of the financial year in which the amount was drawn.

Further, according to Rule 542 of the Jharkhand Treasury Code and a decision taken thereagainst, if Personal Deposit Accounts are created by debit to the Consolidated Fund, the same should be automatically closed by the Treasury Officers at the end of the financial year by minus debit of the balance to the relevant service head in the Consolidated Fund. If necessary, Personal Deposit Accounts may be opened in the next financial year. However, the Treasury Officers were not empowered to close Personal Ledger Accounts.

Scrutiny (May 2010 and May 2011) of the records of the Secretary, Tourism Department and Director, Tourism Department, Government of Jharkhand and

²³ Sales Tax: ₹ 7.00 lakh, Income Tax: ₹ 7.84 lakh, Labour Cess: ₹ 3.50 lakh.

the information collected from the Jharkhand Tourism Development Corporation (JTDC) revealed that the department sanctioned (2003-09) a total amount of ₹ 67.71 crore for execution of 160 schemes to develop tourism in the State. The Director, Tourism Department drew (2003-09) the entire amount from the treasury as advances for implementation of the schemes.

Instead of keeping the funds in a Personal Deposit Account opened by the department, they were irregularly kept in a bank account and a Personal Ledger Account of JTDC during the period 2003-06 and 2006-10 respectively, and only ₹ 17.41 crore was spent during 2003-10.

Thus, in violation of the above mentioned rules, an amount of ₹ 50.30 crore (₹ 67.71 crore *minus* ₹ 17.41 crore) was kept idle in the Personal Ledger Account of JTDC from 2003 to September 2010. The department did not take action to deposit the unspent balances at the close of each financial year in the Government account in accordance with the rules.

On this being pointed out in audit, the department stated (August 2011) that an unspent balance of ₹ 45.07 crore was deposited (October 2010) in the treasury and Detailed Contingent bills were submitted to the Accountant General (A&E), Jharkhand, Ranchi.

The reply is not acceptable as the failure of the department to utilise the funds and consequent non-refund of the unspent balances in the treasury on time led to blocking of Government money of ₹ 50.30 crore, for periods ranging between one to six years, entailing loss of interest of ₹ 9.49 crore calculated at the annual borrowing rates of the State (*Appendix 3.5*) besides non-implementation of the schemes for the proposed development of tourism in the State.

MINOR IRRIGATION DEPARTMENT

3.4.2 Idle expenditure

Commencement of schemes without ensuring electric supply resulted in idle expenditure of ₹ 82.04 lakh.

In order to increase the irrigation potential of 1,250 hectares of land in Chaibasa, West Singhbhum district, restoration of 25 lift irrigation schemes was administratively approved (September 2007) for ₹ 1.42 crore by the Joint Secretary, Water Resources Department and technically sanctioned (August 2008) for ₹ one crore by the Superintending Engineer, Minor Irrigation Circle, Chaibasa. It was stated in the administrative approval that the schemes would commence only when the works of electrification commenced simultaneously and that the schemes should be executed through committees of beneficiaries.

Scrutiny (June 2010) of the records of the Executive Engineer (EE), Minor Irrigation Division, Chaibasa revealed that agreements for ₹ one crore were executed (March 2008) with beneficiary committees. The Chief Engineer, Minor Irrigation Department, Ranchi directed (February 2008) the EE to complete the schemes during the year 2007-08.

All mechanical, civil and internal electrical works of the schemes were completed (March 2009) after incurring expenditure of ₹ 82.04 lakh. However, the schemes remained (May 2011) non-functional due to non-supply of electricity.

Though the Jharkhand State Electricity Board submitted (December 2007 and January 2008) estimates for ₹ 88.75 lakh to the EE for supply of electricity, the department did not initiate any action to provide the funds, get the whole things organized, idling for two years and co-ordination between the departments. As a result, the schemes remained non-functional as of May 2011.

Thus, failure of the department to provide the funds for electric supply prior to commencement of the work resulted in idle expenditure of ₹ 82.04 lakh, besides non-achievement of intended benefit of the scheme.

The Government accepted (November 2011) the audit observation and stated that matter was taken up with the Jharkhand State Electricity Board for supply of electricity which was yet to be complied by the department.

3.5 Persistent and pervasive irregularities

An irregularity is considered persistent if it occurs year after year. It becomes pervasive when it prevails in the entire system. Recurrence of irregularities, despite their being pointed out in earlier audits, is not only indicative of non-seriousness on the part of the Executive, but is also an indication of the lack of effective monitoring. This, in turn, encourages wilful deviations from the observance of rules/regulation and results in weakening of the administrative structure. A significant case noticed is described below:

ROAD CONSTRUCTION AND HEALTH, MEDICAL EDUCATION & FAMILY WELFARE DEPARTMENTS

3.5.1 Excess payment

Failure of the department to incorporate a Government decision in the terms and conditions of contracts resulted in excess payment of ₹ 2.72 crore to contractors.

Based on the approval of the Cabinet, the Road Construction Department, Government of Jharkhand, endorsed a resolution (26 March 2002) to all the heads of works departments. According to the resolution, all materials required for execution of works contracts over ₹ 10 lakh would be supplied by the concerned contractors and not by the department. It was also decided that the premium rates (approved percentage rates) over the tendered Bill of Quantities (BOQ) would not be payable to the contractors on the cost of construction materials like bitumen, cement, steel, rods, pipes etc supplied and utilised in the works, carriage charges and profit margin of the contractor. The reason was that the rates in the Schedule of Rates (SoR), prepared by the Rate Fixation Committee included 10 *per cent* of the rate of each item as contractor's profit.

Scrutiny (between February 2010 and February 2011) of the records of three divisions²⁴ revealed that the Executive Engineers entered (between 2007 and 2010) into nine agreements at a total cost of ₹ 64.96 crore. The agreements were executed at premium rates ranging from 4.97 to 9.98 *per cent* above the BOQ, contrary to the Government order mentioned above. Out of the nine

²⁴ Road Construction Divisions (RCDs), Giridih, Dumka and Engineering Cell, Health, Medical Education & Family Welfare Department, Kolhan Division, Chaibasa.

contracts, in one case²⁵, it was mentioned that the premium rate above the BOQ was not payable on the cost of bitumen. In the absence of suitable terms and conditions in contracts/agreements, premium rates of ₹ 2.72 crore (*Appendix-3.6*) were paid on the cost of materials utilised, carriage charges and profit element of the contractors amounting to ₹ 30.73 crore²⁶ in gross violation of the Government order.

Thus, failure of the department to incorporate the Government decision in the terms and conditions of contract resulted in excess payment of ₹ 2.72 crore to contractors.

The matter was referred to the Government (May 2011). Their reply had not been received (October 2011).

²⁵ RCD, Giridih.

²⁶ Cost of materials (₹ 18.87 crore) *plus* Carriage (₹ 9.66 crore) *plus* Contractor's Profit (₹ 2.20 crore).