

CHAPTER-II

AUDIT OF TRANSACTIONS

HOME (POLICE) DEPARTMENT

2.1 Fraudulent drawal of funds

The Director General of Police, Nagaland, Kohima drew ₹4 crore for procurement of 1750 Fire Extinguishers on the basis of fictitious bills.

The Government accorded Expenditure Sanction and Drawal Authority (31 July 2007) for ₹4 crore under Major Head 2055-00-001(1) Arms and Ammunitions on the basis of the proposal submitted (June 2007) by the office of the Director General of Police (DGP) for procurement of 1750 numbers of fire extinguishers. Accordingly, the office of the DGP drew (31 July 2007) the entire amount on a fully vouched contingent bill¹ from Kohima Treasury (South) enclosing a bill submitted (29 July 2007) by M/s SDS Electronics Pvt. Ltd. Haryana.

A Line Committee constituted (28.11.2007) by the DGP physically verified the fire extinguishers supplied by M/s SDS Electronics Pvt. Ltd. and submitted a report stating that they had conducted physical verification of stock on 30 November 2007. The Committee had also certified that all the 1750 fire extinguishers were received from the supplier M/s SDS Electronics Pvt. Ltd.

Scrutiny of the Cash Book of the DGP's office revealed that payment of ₹4 crore was made to M/s SDS Electronics Pvt. Ltd. as detailed in the table below:

Table No.2.1

Name of the payee	Amount paid (₹ in crore)
M/s SDS Electronics Pvt. Ltd Haryana through MTO PHQ on 2.8.2007 against their bill No 327 dated 31.7.2007	0.63
M/s SDS Electronics Pvt. Ltd Haryana through MTO PHQ on 5.11.2007	0.30
M/s SDS Electronics Pvt. Ltd Haryana through MTO PHQ on 14.8.2008	0.35
M/s SDS Electronics Pvt. Ltd Haryana on 15.9.2008	2.72
Total	4.00

¹ Bill No 327 dated 31-7-2007

The above table reveals that an amount of ₹1.28 crore was paid to the firm through Departmental Officers.

To ascertain the genuineness of the payments a letter was issued (May 2011) by audit to M/s SDS Electronics Ltd, Haryana. In response, the firm stated (May 2011) that they have neither supplied the fire extinguishers nor had they ever dealt with fire fighting equipment since its inception in the year 1993.

On this being pointed out, the Government stated (August 2011) that Proforma bill of M/s SDS Electronics, Ltd., Haryana was obtained from a local dealer as the same was required for obtaining expenditure sanction from the Government. Though the amount was drawn in advance against the bill of M/s SDS Electronics, Ltd., Haryana, supply order was given to a local firm M/s International Trading Company, Dimapur as they were ready to supply materials as per Government approved rate. While furnishing the replies, the Department submitted Actual Payee Receipts (APRs) of the entire amount from M/s International Trading Company, a local firm based in Dimapur. It was further stated that the material was supplied in part by the firm and accordingly part payments were made for quantity actually supplied.

The reply of the Department is not acceptable as all the records including the Line Committee Report² indicated that the supply was made by M/s SDS Electronics and the entire payments were made to the firm. Therefore, the reply of the Department stating that the supply order was issued to M/s International Trading Company, Dimapur and submission of APRs from the same Company is misleading. Further, the contention of the Department that material was received in part and payments were also made in part is not convincing and contrary to the Line Committee Report which certified that material was received in full in November 2007 itself while ₹3.07 crore out of ₹4 crore was actually paid to the firm only in August/September 2008, as recorded in the Cash Book.

Thus, it is evident that office of the DGP, Nagaland drew an amount of ₹4 crore for procurement of 1750 fire extinguishers on the basis of fictitious bill.

TREASURIES AND ACCOUNTS DEPARTMENT

2.2 Fraudulent drawal

Failure to exercise statutory checks envisaged in Receipts & Payments Rules on the part of 8 Treasury Officers and 25 Drawing & Disbursing Officers resulted in fraudulent drawal of ₹21.58 lakh.

Sub-clause 3 of Rule 66 of the Receipts and Payments Rules, 1983 stipulates that entries in all money columns of the pay bills are to be totaled separately under each section and part to

² November 2007

arrive at the total entitlements as well as net payable after the statutory deductions in red ink. Section wise totalling of the pay bills must be checked by the Drawing Officer himself or by some responsible official other than the person preparing the bill. Treasury Rules further prescribe various checks to be exercised by the Treasury Officer before accepting the claim and to record the omission or correction and to limit the payment admissible in respect of each bill presented by the Drawing and Disbursing Officers of the establishments.

Scrutiny (July 2010) of the paid vouchers in respect of 25 establishments (**Appendix-2.1**) for the period from October 2007 to June 2009 revealed that the Drawing and Disbursing Officers of these establishments drew ₹388.30 lakh in 150 pay bills against the admissible net salary of ₹366.72 lakh by drawing two bills for the same employees for the period (5 cases for ₹8.20 lakh) and inflating the total of the net drawals (20 cases for ₹13.38 lakh) resulting in fraudulent drawal of ₹21.58 lakh.

Thus, failure on the part of 8 Treasury Officers³ and 25 DDOs to exercise the prescribed statutory checks to prevent double drawal and inflating the total of the net drawals of pay resulted in fraudulent drawal of ₹21.58 lakh.

In reply (July and August 2011) four DDOs intimated recovery of ₹8.67 lakh. However, an amount of ₹2.82 lakh stated to be recovered by the CDPO, Chozuba do not bear any stamp of the bank to justify the claim of remittance. No replies were received from the remaining 21 DDOs till finalisation of this report inspite of issuing reminders.

Thus, failure in exercise of internal controls/non-adherence to prescribed rules and procedures resulted in fraudulent drawal of ₹21.58 lakh out of which a sum of only ₹8.67 lakh⁴ was stated to be recovered at the instance of audit.

The matter was reported to the Government (August 2011). Reply is yet to be received (February 2012).

³ Kohima, Dimapur, Mokokchung, Tuensang, Mon, Phek, Wokha and Zunheboto

⁴ Out of ₹8.67 lakh recovered, an amount of ₹2.82 lakh stated to be recovered by the CDPO, Chozuba do not bear any stamp of the bank and hence the claim of remittance is doubtful.

DEPARTMENT OF SCHOOL EDUCATION

2.3 Fraudulent drawal

Failure of the Treasury officer in exercising prescribed checks before accepting the bill allowed the Deputy Inspector of Schools, Longleng to fraudulently draw ₹14 lakh by inflating the pay scales and the percentage of Additional Dearness Allowances in respect of 48 employees.

Sub-clause 3 of Rule 66 of the Receipts and Payment Rule, 1983 stipulates that entries in all money columns of the pay bill are to be totalled separately, under each section and part to indicate the total entitlements as well as net payable after the statutory deductions, in red ink. Section wise totalling of the pay bill must be checked by the Drawing Officer himself or by some responsible official other than the person preparing the bill. Treasury Rules further prescribe various checks to be exercised by the Treasury Officer before accepting the claim and to record the omission or correction to limit the payment admissible in respect of each bill presented by the Drawing and Disbursing Officers of various establishments.

The Deputy Inspector of Schools (DIS), Longleng drew (March 2009 to March 2010) ₹1.16 crore as arrears of pay and additional dearness allowances (ADA) in eight bills.

Scrutiny of the paid vouchers (March 2011) revealed that a sum of ₹14 lakh out of ₹1.16 crore was drawn on the basis of false claims as detailed below:-

(i) One arrear pay bill in respect of 56 teachers for the period from March 2007 to February 2008 for ₹68.35 lakh was drawn (April 2009). Cross verification of these bills with the regular pay bills of the preceding and succeeding period revealed that the basic pay of 19 employees taken for calculation of arrears was inflated resulting in fraudulent drawal of ₹8.94 lakh (**Appendix-2.2**).

(ii) Government of Nagaland raised the rate of ADA from 195 *per cent* to 203 *per cent* from January 2006, 217 *per cent* in July 2006, 233 *per cent* in January 2007, 249 *per cent* in July 2007, 265 *per cent* in January 2008, 283 *per cent* in July 2008 and 308 *per cent* in January 2009. The DIS, Longleng drew (August 2009 to March 2010) ₹1.15 crore in seven bills being the ADA arrear bills for the period from July 2006 to November 2008 at the uniform rate of 308 *per cent* instead of the applicable rates in force in respect of 27 teachers and two sweepers resulting in excess drawal of ₹5.06 lakh.

Thus, failure of the DDO in checking the pay bills and failure on the part of the Treasury Officer in exercising the prescribed checks resulted in fraudulent drawal of ₹14 lakh by DIS, Longleng by inflating the pay scales and drawal of ADA in excess of applicable percentage.

The matter was reported to the Government and the Department (August 2011). Reply is yet to be received (February 2012).

2.4 Fraudulent drawal

Deputy Inspector of Schools, Mongkolemba fraudulently drew ₹12.05 lakh by manipulating the pay bills of 92 employees.

According to Sub-section 5 of Rule 11 of Receipts and Payments Rules, 1983, an Accounts Officer or Cheque-drawing D.D.O. shall obtain sufficient information as to the nature of every payment he is making and shall not accept a claim which does not formally present that information, unless there are specific orders of Government against disclosure of the nature, on any individual claim or type of claims in the public interest.

The Deputy Inspector of Schools (DIS), Mongkolemba, Mokokchung drew ₹418.49 lakh in 21 bills as pay and allowances of the teachers under his jurisdiction during February 2009 to February 2010.

Scrutiny of pay bill vouchers (March 2011) by audit revealed that the DIS had drawn the bills by fraudulently inserting separate amount under Dearness Allowance, House Rent Allowance, Special Pay Allowance and Special Compensatory Allowance etc. in addition to the normal entitlements in the pay bills of 92 employees. Thus, the DIS fraudulently drew ₹12.05 lakh (**Appendix -2.3**).

On being pointed out by audit the DIS in his reply (July 2011) stated that out of the amount of ₹12.05 lakh, an amount of ₹5.52 lakh had been deposited into Government account and the remaining amount of ₹6.53 lakh was paid as ACP arrear. The reply is not acceptable and the amount of ₹6.53 lakh stands recoverable as the amount was drawn in regular monthly pay bill in Form T.R.22 and not as an arrear payment. The Department subsequently, in August 2011 deposited ₹6.53 lakh also into Government account.

However, the fact remains that the DIS, Mongkolemba had drawn an amount of ₹12.05 lakh fraudulently against the provisions of Receipts and Payments Rules with an intention of misappropriation of Government money.

PUBLIC WORKS DEPARTMENT

2.5. Fraudulent drawal

Failure on the part of the Drawing & Disbursing Officer and the Treasury Officer in exercising the statutory checks as envisaged by Rules resulted in fraudulent drawal of ₹11.51 lakh by the Executive Engineer, Tseminyu for the period from April 2010 to August 2010.

Sub-clause 3 of Rule 66 of the Receipts and Payments Rules, 1983 stipulates that entries in all money columns of the pay bill are to be totalled separately, under each section and part to indicate the total entitlements as well as net payable after the statutory deductions, in red ink. Section wise totalling of the pay bill must be checked by the Drawing Officer himself or by some responsible official other than the person preparing the bill. Treasury Rules further prescribe various checks to be exercised by the Treasury Officer before accepting the claim and to record the omission or correction to limit the payment admissible in respect of each bill presented by the Drawing and Disbursing Officers of various establishments.

Scrutiny (July 2011) of 8 paid vouchers in respect of the Executive Engineer, PWD (R&B), Tseminyu for the period from April 2010 to August 2010 revealed that the establishment drew ₹44.95 lakh in 18 pay bills against the admissible net salary of ₹33.43 lakh by inflating the gross total of the pay bills resulting in fraudulent drawal of ₹11.51 lakh as detailed in **Appendix-2.4.**

On being pointed out, the Department accepted the facts and stated (September 2011) that ₹11.49 lakh had been deposited to the Treasury (September 2011). However, the treasury deposit challan do not bear any stamp of the bank authority to justify the claim of remittance which needs further investigation.

Thus, failure of the DDO in checking the totals and failure of the Treasury Officer in limiting the claim to admissible amounts as envisaged by the Rules resulted in fraudulent withdrawal of ₹11.51 lakh.

HOME DEPARTMENT

2.6 Double drawal of Ration Allowances

Additional Deputy Commissioner (HQ), office of the Commissioner, Nagaland drew a double claim of ₹10.01 lakh towards Ration Allowance for the month of February 2010 in respect of Village Guards of Kiphire based on a Non-Drawal Certificate furnished by the Sub-Treasury Officer, Kiphire.

Rule 22 of Central Treasury Rules (CTR) provides that the Treasury Officer shall be responsible to the Accountant General for acceptance of the validity of a claim against which he has permitted withdrawal and for evidence that the payee has actually received the sum withdrawn.

Besides, Rule 23 of the CTR provides that the Treasury Officer shall obtain sufficient information as to the nature of every payment he is making and shall not accept a claim which does not formally present that information unless there are valid reasons which he shall record in writing.

Scrutiny of vouchers (April - 2009 March 2010) revealed that the Additional Deputy Commissioner (HQ), office of the Commissioner, Home Department, Nagaland drew ₹10.01 lakh⁵, on 30.3.2010 on account of Ration Allowance (RA) for 1914 Village Guard (VG) personnel of 68 Villages (**Appendix-2.5**) under Deputy Commandant, Kiphire for performing duties in connection with VVIP/ VIP visits during the period from 2nd to 23rd of February 2010 from Kohima North Treasury based on a certificate furnished by the Sub-Treasury Officer, Kiphire that the bill had not been drawn from Kiphire Sub-Treasury due to non-availability of funds during 2009-10.

Further scrutiny however, revealed that the Deputy Commandant, Village Guard, Kiphire had drawn⁶ ₹13.33 lakh on 11.3.2010 from Kiphire Sub Treasury towards ration allowance for 1915 VGs of the same villages (including the 1914 VGs) for the period from 1st February 2010 to 28th February 2010.

Thus, it is evident that the Sub-Treasury Officer, Kiphire furnished a false certificate of non-drawal of ration allowance in respect of VGs of Kiphire, for the month of February 2010

⁵ Bill No. 611 dated 29 March 2010 (TV No. 26 dated 30/03/2010 of Kohima North Treasury) against sanction order No. VG/32/2004 (Pt), dated 29 March 2010

⁶ Bill No. 121 dated Nil, from Kiphire Sub-Treasury on 9 March 2010

facilitating the Additional Deputy Commissioner (HQ) to draw an amount of ₹10.01 lakh⁷ resulting in double drawal of ration allowance of ₹10.01 lakh.

While accepting the facts the Department stated (October 2011) that efforts will be made to ascertain the circumstances leading to the double drawal of ration allowance and to fix responsibility. It was also stated that appropriate action will be taken to deposit the double drawal of ₹10.01 lakh to Government account.

PLANNING & CO-ORDINATION DEPARTMENT

2.7 Payments made for unexecuted work

Development Commissioner, Planning & Co-ordination paid an amount of ₹51.20 lakh to a society for unexecuted work based on fictitious completion certificates.

Government of Nagaland released ₹7.47 crore to Keviru Multipurpose Co-op Society Ltd.⁸, Kohima from the funds received (November 2007) from Government of India, Ministry of Tribal Affairs under Article 275 (1) of Constitution of India. The Department drew the entire grant and paid the amount to the Co-operative Society (April 2008-July 2008) based on the physical verification report submitted by the Executive Engineer of the Department (February 2008) and a claim for release of payment by the Society (April 2008) stating that all the projects are completed as per specifications.

Scrutiny of the records by Audit (September 2008) of the Development Commissioner, Planning & Co-ordination Department revealed that out of ₹7.47 crore paid to Keviru Multipurpose Co-op Society, an amount of ₹51.20 lakh was allocated for Electrification of Theza village. A joint physical verification (June 26.06.2009) of Electrification of Theza village was conducted by Audit along with representatives of the Department and the Society which revealed that the work of electrification had not commenced.

On being pointed out by Audit, the Government stated (August 2011) that the payments were made to the Society on the basis of report submitted by the Executive Engineer of the Department and completion certificate furnished by the said Society. To ascertain the replies of the Department another joint physical verification was conducted in February 2012 which revealed that the work of 'Electrification of Theza' is still to be taken up.

⁷ Period for which the amount drawn by Add. Deputy Commissioner(HQ) Kohima – 2/2/2010 to 21/2/2010
Period for which the amount drawn by Deputy Commandant Village Guard, Kiphire.- 01/02/2010 to 28/02/10.

⁸ Keviru Multipurpose Co-op Society whose objective is to improve economic conditions of its members through providing facilities for better farming, business, common economic interest, welfare, etc.

Government stated (February 2012) that on the representation made by the Society the Department approved Diesel Generator instead of transmission line and that the same would be intimated after completion.

It is clear from the above that the entire action of releasing funds to the Society against false certificate furnished by Society was in complete violation of established codal procedures. Thus it is evident that an amount of ₹51.20 lakh was paid (April-July 2008) to the Society for the work which was never executed.

HEALTH AND FAMILY WELFARE DEPARTMENT

2.8 Avoidable excess payment

The Director of Health and Family Welfare Department made an avoidable excess payment of ₹2.26 crore to a contractor by ignoring the recommendation of the Technical and Steering Committee coupled with faulty estimation of cost escalation.

The work for setting up of two Regional Diagnostic Centres (RDCs) at Civil Hospital Mokokchung and Tuensang was awarded (February 2002) to M/s Sarkar Diagnostic and Research Centre, Kolkata on Turn Key Basis at the total cost of ₹6 crore to be released in three equal installments (from the first year following the Contract Deed Agreement). Both the RDCs were stipulated for completion during 2002-03. Out of the amount, the contractor was paid ₹4.65 crore (₹4.29 crore up to February 2004 and ₹4.65 crore up to March 2007) leaving a liability of ₹1.35 crore.

Further scrutiny of the records revealed that:

As per clause 5 of the Terms and Conditions of the Contract executed in February 2002, price escalation shall not be entertained during the period of contract and only in case full payment is not made to the Contractor within the time schedule, the Department shall be liable to pay escalation of prices as per RBI Index.

In accordance with the terms and conditions of the Contract, the contractor submitted a representation (March 2009) for release of the liability of ₹1.35 crore along with the escalated cost of ₹2.61 crore (Calculated at the uniform interest rate of 7.5 per cent on ₹6 crore effective from February 2002) which was accepted by the Government. On the strength of the expenditure sanction, the Director drew ₹3.96 crore in a Fully Vouched Contingent Bill⁹ being the payment for construction of Regional Diagnostic Centres at Mokokchung and Tuensang and paid ₹3.80 crore to the contractor (March & April 2009) after deducting ₹15.85 lakh Work Contract Tax at source.

⁹ Bill No.643 Dated 13-3-2009

Further scrutiny of the records revealed that the Government paid ₹2.61 crore being the escalated cost reckoned from February 2002 without deducting the amount of ₹4.65 crore already paid up to March 2007 (₹4.29 crore up to February 2004 and ₹4.65 crore up to March 2007). Further, the Technical and Steering Committee had explicitly stated in April 2005 that equipment worth ₹2.53 crore was yet to be supplied to RDC, Tuensang and therefore the contractor shall not have the right to claim escalation bills for RDC, Tuensang. The Department paid inadmissible cost escalation on the amount of ₹4.65 crore already paid to the contractor (of which ₹4.29 crore was paid up to February 2004) at the uniform rate of 7.5 per cent, which is irregular.

Thus, the Department paid an excess amount of ₹2.26 crore¹⁰ to the contractor due to faulty estimation of cost escalation which needs to be recovered. The terms and condition of contract was also not specific as escalation if admissible should be based on predetermined payment schedule linked to the progress of the work as per specified timeframe.

The Department in reply (November 2011) stated that the firm claimed price escalation as per interest rate of RBI index and the amount was paid accordingly. The reply is not tenable as there was no need for cost escalation to be paid on the entire amount of ₹6 crore for the entire period as the works were not completed as stipulated. Besides, the Department also failed to invoke clause 14 of the Terms and Condition of the Contract for failure to complete the work as scheduled.

Thus, the Department made an avoidable excess payment of ₹2.26 crore¹¹ by ignoring the recommendation of the Technical and Steering Committee coupled with faulty estimation of cost escalation.

¹⁰ Penal Interest paid: ₹2.61 crore. Penal interest, if any, leviable: ₹0.35 crore.
Excess Paid = ₹2.61 crore - ₹0.35 crore = ₹2.26 crore (as given below):

Year	Supposed to be Paid	Actually paid	When paid	Calculation of Interest @ 7.5% Cumulative		
				Duration	Difference	Interest
2002-03	33000000	15,00,000	Jun-02	Four months	33000000	825000
2002-03		15,00,000	Dec-02	Six months	31500000	1181250
				Two months	30000000	375000
2003-04		5500000	Jun-03	Four months	30000000	750000
2003-04		13400000	Jun-03	Six months	11100000	416250
2003-04		21000000	Dec-03	Two months	Paid in excess 99,00,000	
Penalty, if any, leviable						3547500

¹¹ Cost escalation paid=₹2.61 crore. Cost escalation, if any, payable=₹0.35 crore. Therefore excess paid=₹2.61 crore *minus* ₹0.35 crore=₹2.26 crore.

HOME (GENERAL ADMINISTRATION) DEPARTMENT

2.9 Extra avoidable expenditure of ₹ 1.08 crore

The Executive Engineer, Civil Administrative Works Division incurred extra expenditure of ₹1.08 crore due to award of work to the bidder other than the lowest bidder.

Notice Inviting Tender (NIT) for construction of Deputy Commissioner's Office Complex at Peren for an estimated cost of ₹294.89 lakh was floated (February 2007) by the Executive Engineer, Civil Administrative Works Division (CAWD) on the basis of technical approval accorded by the Chief Engineer (Housing). In response to the NIT, 4 (four) bidders submitted their tenders and the work was awarded to the lowest bidder¹² (March 2007), as per the comparative statement approved by the Chief Engineer, at the quoted rate of ₹296.19 lakh on item rate basis (SOR 2004) which was 0.44 *per cent* above the overall tendered amount.

The contractor commenced the work (July 2007) and 90 *per cent* of the work was completed till September 2010 for which an amount of ₹3.28 crore was paid (June 2010) up to 3rd Running Account Bill.

1. Avoidable expenditure of ₹9.29 lakh

A scrutiny (December 2010) of records of the Executive Engineer, CAWD revealed that the bidder who was awarded treating him as L1 bidder, was in fact, not L1 but L2 bidder. This was due to taking wrong rate of ₹630.92 in respect of brick work instead of ₹5053.93 while preparing the comparative statement and computation based on incorrect rate as given below:-

Table No.2.2

Details	Quantity (in cum)	Total Amount (₹ in lakh)
Rate as per SOR 2004 (as per NIT) ₹5053.93	657.90	33.25
Rate Taken into consideration while preparing the comparative statement (for M/s East West Construction) 630.92	657.90	4.15
Difference of amount due to wrong rate and computation		29.10

The second lowest tenderer whose rate was 10.31 *per cent* above SOR 2004 was selected, instead of the lowest bidder whose rate was 7.16 *per cent* above SOR 2004 as detailed below:

¹² M/s East West Construction

Table No.2.3

Sl No	Name of tenderer	Amount as per Comparative Statement (₹ in lakh)	Difference in calculation (₹ in lakh)	Actual Amount (₹ in lakh)	Actual position
1	Pfuduolhou Kense	340.29	0.00	340.29	L4
2	Lija Constructions	296.29	33.46	329.75	L3
3	East West Construction	296.19	29.10	325.28	L2
4	Trident Enterprises	315.99	0.00	315.99	L1

Thus, award of work order to the inadmissible bidder resulted in avoidable expenditure of ₹9.29 lakh.

2. Excess payment of ₹98.76 lakh

A scrutiny of MB and the Running Bills revealed that the contractor had executed works valued at ₹3.05 crore upto the 2nd running bill at the enhanced rate of 49 *per cent* above SOR 2004 as of July 2008, before submission of application for enhancement. Further scrutiny revealed that the contractor submitted an application (November 2008) requesting enhancement of rate to 84 *per cent* above SOR 2004. However, the Government approved the enhancement of rate¹³ to 49 *per cent* above SOR 2004 to complete the remaining works. But, the Chief Engineer allowed¹⁴ the enhanced rate of 49 *per cent* above SOR 2004 with effect from the date of issue of work order (23 March 2007).

The Department in its reply (September 2011) as forwarded by the Government stated (September 2011) that the building is almost complete and the delay in completion and enhancement of rate was attributable to delay in selection of the site and due to bad road condition leading to the site. The reply is not acceptable as these factors should have been considered during the planning stage. The Department further stated that technically the order for enhancement of rate might have been issued by the Chief Engineer (Housing) w.e.f. the date of issue of work order instead for the remaining work as the contractor applied for enhancement in November 2008 and the approval from the Government was obtained only in February 2009. The Department's reply is not tenable since enhancement of rate should be based only on the remaining works. Thus the reply of the Department as forwarded by the Government is incoherent and does not at all justify the retrospective enhancement of tender rates.

Thus, enhancement of tender rate without justifications and allowing enhancement from the date of commencement of work and irregular selection of contractor resulted in total extra

¹³ Vide letter No GAB-1/COM/CAWD/130/09 dated 27.2.09

¹⁴ Vide letter No CE/H/TB/CAWD/PEREN/2007 dated 31.03.09

avoidable expenditure of ₹1.08¹⁵ crore and undue financial benefit to the contractor to that extent.

VETERINARY AND ANIMAL HUSBANDRY DEPARTMENT

2.10 Avoidable excess expenditure

Arbitrary increase in quoted price by Government at the time of approval of tender resulted in avoidable excess expenditure of ₹59.34 lakh.

The Department of Animal Husbandry and Veterinary, Government of Nagaland sanctioned an amount of ₹5 crore in two installments¹⁶ during 2008-10 for implementation of Cattle Induction Community Dairy Project and White Revolution Promotion through setting up of organised dairy farms at village level to produce quality and clean milk to feed the Dairy Processing Plants to be implemented through the Nagaland State Dairy Co-operative Federation (NSDCF) Ltd., a registered Society under Nagaland Co-operative Societies Act. Out of the funds sanctioned, ₹3.34 crore was earmarked for procurement of milching cows and pregnant heifers.

Accordingly, the Managing Director of NSDCF Ltd., called for tenders (July 2009) for supply of 80 milching cows and 828 pregnant heifers¹⁷. In response six firms submitted quotations. The Tender Board under the management of NSDCF Ltd. recommended M/s Ngulie Solo, Kohima and M/s Medo, Kohima being the lowest bidders as detailed below:

Table 2.4

Sl.No	Name of livestock	Name of the firm	Quoted rate per cow (in ₹)
1	Milching cows	M/s Ngulie Solo, Kohima	35000
2	Pregnant heifers	M/s Medo, Kohima	29800

Scrutiny (March 2010) of records revealed that contrary to the Tender Board recommendations the Department approved higher rates for supply of milching cows and pregnant heifers, as detailed below:

¹⁵ ₹0.99 crore + ₹0.09 crore

¹⁶ 31 March 2009 for ₹ 2.00 crore, out of which ₹ 80 lakh was credited to 8443-Civil Deposit and withdrawn on 25 June 2009 and 31 March 2010 for ₹ 3.00 crore

¹⁷ Milching cows and Pregnant Heifers have to be Holstein Friesian/Jersey Cross breeds

1. Milching cows

M/s Ngulie Solo, Kohima had quoted the lowest price of ₹35000 per cow as per the tender specifications. However, the supply order was issued for supply of 80 milching cows at the higher rate of ₹45000 to two suppliers (40 milching cows to M/s Ngulie Solo, Kohima and 40 milching cows to M/s Evergreen Trading Company, Dimapur). The reasons why M/s Ngulie Solo and M/s Evergreen Trading Company, Dimapur were given the supply order at rates higher than the lowest quoted rates is not on record. This action of giving part supply order to the lowest bidder at enhanced rates and to another bidder who was not the lowest bidder resulted in excess payment of ₹8 lakh.

2. Pregnant heifers

Similarly, M/s Medo, Kohima quoted the lowest price of ₹29800 for pregnant heifers. However, the supply order was issued for supply of 828 pregnant heifers at the higher rate of ₹36000 to two suppliers (414 each to M/s Ngulie Solo, Kohima and M/s Evergreen Trading Company, Dimapur). The reasons why the lowest bidder (M/s Medo) was not given the supply order and in place supply orders were issued to M/s Ngulie Solo, Kohima and M/s Evergreen Trading Company, Dimapur who had quoted rates higher than M/s Medo, is not on record. Thus, issue of supply orders at arbitrary rates to bidders other than the lowest bidder resulted in excess payment of ₹51.34 lakh.

As such the Department paid ₹3.34 crore (December 2009 and December 2010) being the cost for supply of 80 milching cows and 828 pregnant heifers at the rates approved by the GON instead of ₹2.75 crore as recommended by the Tender Board of the Management of Nagaland State Dairy Co-operative Federation Ltd., resulting in total excess expenditure of ₹59.34 lakh¹⁸.

On being pointed out, the Government stated (September 2011) that the rate was enhanced as the supplier at the time of delivery expressed its inability to supply the livestock at the approved rate due to hike in market price.

The reply of the Government is not factually correct and also not acceptable since the rates were enhanced at the time of approval of the tenders by the Government and not at the time of delivery of the cows and heifers. Besides, if the situation so warranted, fresh tenders should have been called and the supply awarded to the lowest bidder.

¹⁸ (₹45000x80+₹36000x828)-(₹35000x80+₹29800x828)= ₹59,33,600 say ₹59.34 lakh

HORTICULTURE DEPARTMENT

2.11 Financial irregularities

The Director of Horticulture paid ₹1.21 crore personal loan to three individuals by flouting financial rules and also without routing through the Cash Book.

Sub rule (ii) of Rule 13 of Central Government Account Receipts and Payments (R&P) Rules 1983, which is being followed in the State of Nagaland, provides that all monetary transactions should be entered in the Cash Book as soon as they occur and should be attested by the Head of the Office as a token of check.

With a view to enhance horticulture production, improve nutritional security and income support to farming households, the Government of India approved (2001-02) implementation of the Integrated Development of Horticulture in North Eastern States. During 2008-2010, the Small Farmers Agri-Consortium (SFAC), Delhi released ₹64 crore to the Horticulture Department, Government of Nagaland for implementation of various components of Mini Mission II under Horticulture Technology Mission (HTM).

Scrutiny of records (May/June 2010) revealed that the funds released by the Central Government were credited into two bank accounts operated by the Department in Axis Bank, Kohima¹⁹ and Vijaya Bank, Kohima²⁰ as shown below:

Table 2.5

Sl. No	Date of Transaction	Cheque No & date	Amount (in ₹)	Particulars
Account No. 385010100036421 (Axis Bank)				
1	12/06/2008	3791 of 12/06/2008	800000	TRF to Ruslie Khing
2	02/03/2009	30707 of 02/03/2009	200000	Gwarno / to Cash
Account No. 16300 (Vijaya Bank)				
3	18/02/2009	285795 dated Nil	140000	To Rongsentemjen
4	03/03/2009	285804 dated Nil	200000	To Gwarno
Total			12140000	

Out of the funds received, the Department paid/transferred ₹1.21 crore to individual bank accounts without routing through the Cash Book. As these payments were not recorded in the Cash Book in violation of the financial rules, the system to track these transactions remained outside the purview of audit to vouch safe and authenticate the payments.

¹⁹ Current Account No. 385010200000550 till June 2008 and Saving Bank Account No. 385010100036421 (opened during May 2008).

²⁰ Current Account No. 1630

On this being pointed out, the Department while accepting the facts stated (August 2011) that the funds of ₹80 lakh was paid to the Parliamentary Secretary, Horticulture Department, as temporary personal loan. The Department stated that the loan had been repaid by the Parliamentary Secretary in two installments in June 2008²¹ and October 2008²² and that the remaining funds of ₹41 lakh were refunded in three installments²³.

It is observed that there are no provisions to advance personal loans from scheme funds. Diverting the Government of India Scheme funds towards temporary personal loan to an individual is highly irregular.

Further, it was observed that the funds transferred to the Parliamentary Secretary had not been credited back to the Government Account as stated by the Department which is evident from the Cash Book that ₹80 lakh was neither entered in the Cash Book of the Department nor credited in the Department bank account. The funds stated to have been refunded was drawn (March 2009) in fully vouched contingency bill being the maintenance cost for the year 2008-09 payable to six District Horticulture Officers and the funds were shown as paid through the Parliamentary Secretary in the Cash Book.

Thus, the Department of Horticulture by flouting the financial rules and the canons of financial propriety paid ₹1.21 crore without routing through the Cash Book and supporting documentary evidence. This also indicates complete absence of internal control mechanism in the Department. Needless to say that the procedure for sanction of personal loan was *prima facie* illegal/irregular and in blatant violation of the financial rules.

Based on audit observation, the Department issued Office Memorandum (August 2011) stopping such advances and loans, in future.

General

2.12 Outstanding Inspection Reports and Audit Committee meetings

The results of audit on financial irregularities and defects in maintenance of initial accounts noticed during local audit and not settled on the spot are communicated to the audited entity and to the higher authorities of the departments through Inspection Reports (IRs). The more serious irregularities are reported to the Chief Controlling Officers of the Department demiofficially to furnish replies within six weeks from the date of receipt.

²¹ ₹55 lakh

²² ₹25 lakh

²³ ₹20 lakh in July 2009, ₹1.4 lakh in August 2009 and ₹20 lakh in May 2010.

The position of outstanding Inspection Reports in respect of the Civil Departments (including Public Works Department) is discussed below.

Altogether 6233 paragraphs included in 1050 IRs issued upto 2010-11 were pending settlement as of March 2011. The year-wise break-up of the outstanding IRs and paragraphs is given below:

Table 2.6

Year	Number of outstanding	
	Inspection Reports	Paragraphs
Upto 2002-03	148	921
2003-04	98	632
2004-05	102	639
2005-06	193	1042
2006-07	143	715
2007-08	152	845
2008-09	89	592
2009-10	91	547
2010-11	34	300
Total	1050	6233

As the audited entity and the Departments failed to furnish replies to 1050 IRs, important irregularities commented upon in these IRs remained outstanding for settlement.

The position of major departments where a large number of IRs and paragraphs are outstanding are given in the table below:

Table 2.7

Name of the Department	Number of IRs	Number of paragraphs
Education	181	986
Police	178	945
Health & Family Welfare	110	661
Public Works (Roads & Bridges)	87	649
General Administration	68	487
Veterinary & Animal Husbandry	42	295
Horticulture	33	189
Total	699	4212

It is recommended that the Government look into the matter and streamline the system to ensure proper response to audit observations. Action may be taken against the officials who fail to send replies to IRs/paragraphs as per the prescribed time schedule and the losses/outstanding advances/overpayments may be recovered in a time bound manner.

No Audit Committee Meeting was held during the year 2010-11 to settle the outstanding IRs/paragraphs.