CHAPTER II : MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGY

Department of Posts

2.1 Organisational set-up and Financial Management

2.1.1 Functions of the Department

The postal system in India has a history of handling communications infrastructure for the country for almost 150 years and currently has the largest network in the world.

The primary services rendered by the Department of Posts (DoP) are as follows:

- Communication services – Letters, Post Cards,
- Transport services – Parcel, Logistics,
- Financial services – Savings Bank, Money Order, Insurance,
- Value added services – Speed Post Service, Business Post, Direct Post,

As part of its Universal Service Obligation, the postal system is expected to ensure provision of efficient postal services at affordable prices to users all across the country. Transmission and delivery of mail is the core traditional business of the Postal Department. Over the years several value added services like bulk mail, business post and speed post have been introduced by DoP.

The Post Office Savings Bank Scheme is an agency function performed by the DoP on behalf of the Ministry of Finance, Government of India for which the Ministry of Finance remunerates the DoP at rates fixed from time-to-time. In discharge of its agency functions, DoP represents the oldest and largest banking network in the country and plays a critical role in mobilizing small savings, primarily in rural areas.

The Department of Posts also provides life insurance. Postal Life Insurance (PLI) has been providing life insurance coverage since 1884 to Government employees. Since 1995 PLI has been extended to the rural population of the country under a new scheme Rural Postal Life Insurance.

DoP is also engaged in disbursement of pension and family pension to military and railway pensioners, family pension to families of coal mine employees and industries covered by the Employees Provident Fund Scheme.

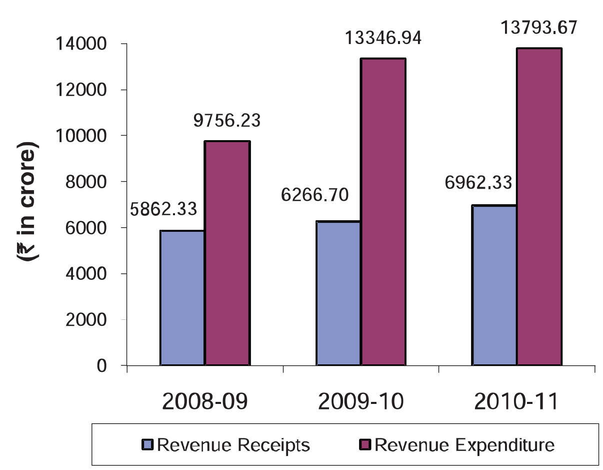
2.1.2 Organisational set-up

The Department of Posts is part of the Ministry of Communications and Information Technology, Government of India. The Secretary, Department of Posts, as the Chief Executive of the Department, is also the Chairperson of the Postal Services Board and Director General, India Post. The Board has six Members for the portfolios of Personnel, Operations, Technology, Postal Life Insurance and Chairman Investment Board, Human Resource Development and Planning.

The Board directs and supervises the management of postal services throughout the country with the assistance of Chief Postmasters General in 22 Circles and Senior/Deputy Directors General in the Directorate General of Posts. A Business Development Directorate (BDD) was set up in DoP in 1996 to ensure focused management of value added services viz., Speed Post, Speed Post Passport Service, Business Post, Express Parcel Post, Media Post, Meghdoot Post Card, Greetings Post, Data Post, E-Bill Post and E-Post. Postal Life Insurance (PLI) and Rural Postal Life Insurance (RPLI) Schemes are monitored by PLI Directorate headed by the Chief General Manager, PLI.

2.1.3 Financial Performance

The total revenue receipts during 2010-11 showed an increase of 11.10 *per cent* over the previous year whereas the revenue expenditure increased by 3.34 *per cent* over the same period. The revenue receipts and revenue expenditure for the last three years is shown in the chart below**:**



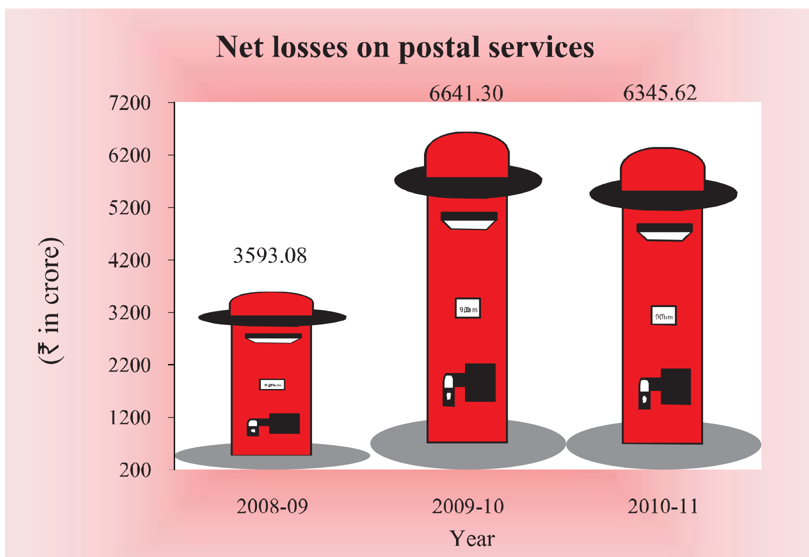
The total revenue receipts and revenue expenditure of the Department of Posts is given in the table below and the details are given in **Annex-I**.

(₹ in crore)

Year	Revenue Receipts	Recoveries	Revenue Expenditure	Deficit (2)+(3)-(4)
(1)	(2)	(3)	(4)	(5)
2008-09	5862.33	300.82	9756.23	3593.08
2009-10	6266.70	438.94	13346.94	6641.30
2010-11	6962.33	485.72	13793.67	6345.62

The earning of the Department during the years was in the form of 'Revenue Receipts' and 'Recoveries' which was less compared to the expenditure. The reasons for deficit were mainly due to the expenditure on Pay & Allowances, Dearness Allowance, Contingencies and Pensionary Charges etc.

There was a net loss of ₹ 6345.62 crore on postal services[1] in 2010-11. The comparative position for the period 2008-09 to 2010-11 is as under:



2.1.4 Role of Audit

The audit was primarily conducted with a view to examine and assess whether the established systems were functioning effectively, stipulated procedures were adhered to and whether financial propriety was observed. Subjects for compliance audit were selected on the basis of an assessment of the risk

[1] * Net loss was calculated as the difference between revenue receipts & recoveries and revenue expenditure, i.e., {(₹ 6962.33+₹ 485.72)-₹ 13793.67}.

associated with various activities carried out by postal units. The audit process helps the auditee to identify areas of financial and management controls that need attention for efficient and effective management. Audit has also proved to be an aid in effective revenue recoveries.

Some of persistent deficiencies that have appeared in the audit reports relating to DoP in the last five years include:

1. Non-realization of pension/family pension dues from other departments
2. Irregular payment of interest
3. Irregular payment of commission
4. Failure to levy service tax

2.1.5 Results of Audit

During the year, audit observed that Head Post Office (HPO), Aizwal under the North East Postal Circle issued Kisan Vikas Patra (KVPs) to an Institute in January – February 2003 in contravention of the rules which were effective from 1 April 1995 and made payment of ₹ 1.12 crore towards interest besides irregular payment of commission to the agents. At the instance of audit, Postmaster, HPO Aizwal refunded the principal amount of ₹ 1.12 crore. The amount of interest irregularly paid to the investor was treated as void and the re-investment of the amount cancelled.

2.2 Disbursement of National Rural Employment Guarantee Scheme (NREGS) Wages through Post Offices

2.2.1 Introduction

National Rural Employment Guarantee Act (NREGA) came into force on February 2, 2006 with the aim of enhancing livelihood security of rural households by providing at least one hundred days of guaranteed employment in a financial year to every household whose adult members volunteer to do unskilled manual work. State Governments were made responsible to make National Rural Employment Guarantee Schemes (NREGS) for giving effect to the Act.

Ministry of Rural Development (MoRD) in consultation with Department of Post (DoP) prepared a model Memorandum of Understanding (MoU) in 2008 to be entered into between State Governments and DoP for timely and transparent disbursement of NREGS wage through post offices. The MoUs were signed in 18 Postal Circles with 20 State Governments between 2008 and

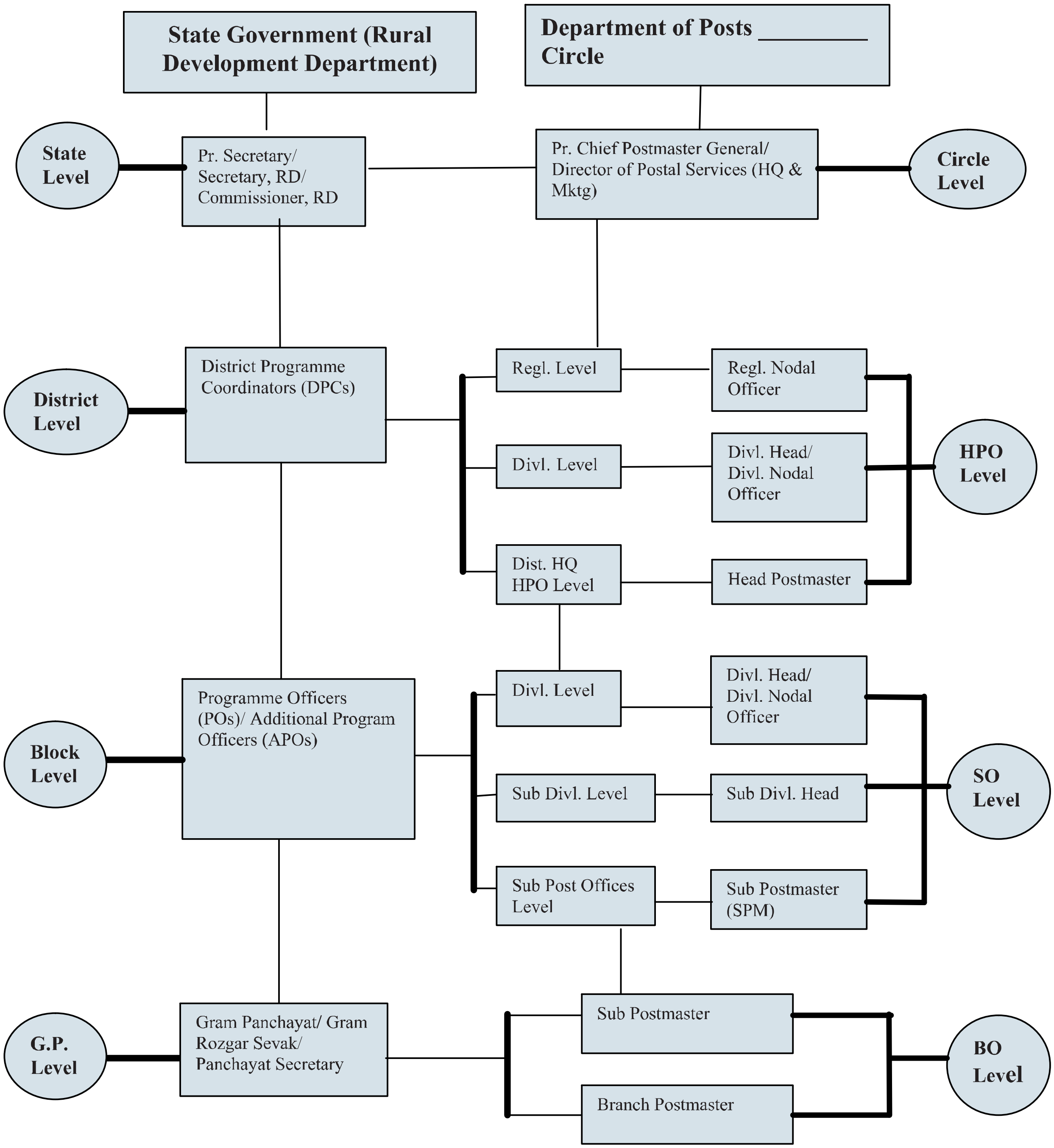
2009. No MoUs were signed with the State Governments of West Bengal, Tamil Nadu, Jammu & Kashmir, Arunachal Pradesh, Tripura, Nagaland and Delhi. In the North East Circle the MoUs were signed with three State Governments viz. Meghalaya, Mizoram, and Manipur. In Assam Circle, though MoUs were signed only at the district level, these were actually signed in only four districts. In the States of West Bengal, Arunachal Pradesh and Tripura, NREGS wage was disbursed through post offices without signing the MoU.

The central objective of the MoU was to ensure payment of due wages earned by the NREGA workers in a timely and transparent manner through special saving accounts to be operated in their name in the post offices. In order to achieve the objectives of the MoU and to make the implementation of NREG Scheme through post offices successful, DoP issued (April 2008) the Model Operating Procedure (MOP) and other instructions from time to time, to all Heads of Circles. The MOP and the instructions in that connection, envisaged inter-alia, guidelines relative to cash flow arrangement, adherence to time line, monitoring and coordination between representatives of the State Government Departments and DoP, as also procedures for disbursement of wages under NREGS through Post Office Savings Banks.

2.2.2 Organizational Set-up

The Organizational Structure of both the parties to this arrangement i.e. State Government and the Department of Posts (DoP), at State/Circle, District/Head Post Office, Block/Sub Office and Gram Panchayat/Branch Office level, is indicated by chart given below:

Chart showing organizational structure of State Government and DoP



With a view to review the implementation of the scheme, identify the problems and find out appropriate solutions, and for smooth functioning of the Scheme, the organizational components of both the State Governments and the DoP were required to participate in the periodical coordination meetings to be arranged at State, District and Block level. At the State level, Principal Secretary/Secretary, Rural Development was to convene coordination meeting with the Chief Post Master General (CPMG) on monthly basis or as and when required. At the district level, District Programme Coordinators (DPCs) of the districts were to hold monthly meetings with the identified Nodal Officers in the Postal Divisions. Programme Officers/Additional Programme Officers (POs/APOs) also were required to convene coordination meetings on fortnightly basis with the Sub Postmasters/Branch Postmaster (SO/BO) at Block level. The State Governments were further responsible for maintaining average monthly NREGS wages as a One Time Deposit (OTD) for each quarter in the Head Post Offices (HPOs) located at each district Headquarter.

The details of number of accounts operated for NREGS workers, amount deposited, withdrawn and balance amount in those accounts in various Post Offices in all Postal Circles in the country for the period 2008-09 to 2010-11, given in the table below indicated that the number of accounts, amount deposited and withdrawn under NREGS increased significantly during the period.

Table: 1

(₹ in crore)

Year	Number of Accounts (in crore)	Amount Deposited in the year	Amount Withdrawn during the year	Balance Amount in Accounts as of 31 March	%age of Balance Amount in Accounts
2008-09	2.92	N/A	3863	-	-
2009-10	4.25	8448	7900	548	6.49
2010-11	4.90	13463	9179	4284	31.82

(Source: The Data collected from DoP Head Quarters)

The balance amount in accounts which represents amount not withdrawn by the beneficiaries grew manifold from ₹ 548 crore in 2009-10 to ₹ 4284 crore in 2010-11.

2.2.3 Scope of Audit

We conducted the audit during May to July 2011 selecting one Postal Region in each of eight Postal Circles[2] except Karnataka Circle[3] where two Postal Regions were selected. Postal Divisions under each Postal Region were selected on the basis of volume of transactions. The transactions of randomly selected post offices under Postal Divisions as given below were test checked for the period 2008-09 to 2010-11.

Table: 2

Postal Circles	Postal Regions	Postal Divisions	Head Post Offices (HPOs)	Sub-Post Offices (SOs)	Branch Post Offices (BOs)
8	9	18	29	57	233

2.2.4 Audit Objectives

We conducted audit to examine whether:

- disbursement of wages under the NREGA Scheme through postal network was generally made as per the terms of the model MoU between the DoP and the MoRD at the Centre and between the Heads of Postal Circles and State Governments at the field level
- the provisions of Model Operating Procedure (MOP) as issued by the DoP to Postal Circles for opening of NREGA Accounts and disbursal of wages were complied with
- overall reporting monitoring and management of the implementation of the scheme was adequate

2.2.5 Audit Criteria

The sources of criteria used for audit scrutiny were

- ➢ the MoUs entered into between State Governments and the respective Postal Circles
- ➢ MOP and other instructions issued by DoP for implementation of the scheme and Post Office Savings Account Rules 1981.

[2] Andhra Pradesh, Bihar, Chhattisgarh, Gujarat, Orissa, Rajasthan, Karnataka and West Bengal
[3] Volume of transactions in one Postal Region was not adequate thus two regions were selected by the Audit.

2.2.6 Audit Findings

Our scrutiny of disbursement of NREGS wages through Post Offices highlighted a number of deficiencies in the overall operation of the scheme. It also brought out instances of a weak and ineffective monitoring mechanism.

2.2.6.1 Fund-flow arrangements for timely payment to NREGS workers

As per the scheme DoP was required to maintain adequate availability of funds at all SOs and BOs to ensure timely payment to NREGS workers as per agreed time lines under the MoU and MOP. This pre-supposed timely flow of necessary fund from HPOs to BOs through SOs. However the desired steps required to meet the fund requirements at the levels of SOs/BOs were not taken by HPOs leading to delays in payment of wages as discussed in the following sub-paras:

2.2.6.2 Non/short deposit of One Time Deposits (OTD) by State Governments at HPOs

As per the MoU and the MOP, the Divisional Nodal Officer (DNO) of DoP was required to approach the District Programme Coordinator (DPC) of Rural Development Department of State Government, and obtain One Time Deposit (OTD), being the amount equal to one month's approximate wages payable to NREGS workers in the district plus the minimum amount required for opening of new accounts in the District Headquarters. The purpose of making a one time deposit with the HPOs at the district level was to enable the post offices to disburse the NREGS wages without waiting for realization of wages cheque/demand drafts received with wages list. The DNO was also required to review the position of wages paid every quarter to ensure that the DPC supplements the one time deposit to the extent necessary as per the latest monthly average of wages actually paid.

Our scrutiny revealed that in 19 HPOs under eight test checked circles[4], either OTD was not insisted upon by the Postal Circles or was received short in different HPOs to the extent of ₹ 12 lakh to ₹ 401 lakh. The DNOs had not conducted the quarterly review of OTD to enable them to get these deposits appropriately supplemented from the Programme Coordinators. This is evident from the fact that in 19 HPOs in eight Circles the aggregate deficiency in funds as on 31 March 2011 worked out to ₹ 1920 lakh which averaged at 59.48 *per cent.* In eight HPOs under three Circles, no OTD was made by the DPCs and in five HPOs under two Circles it was either around or more than

[4] Andhra Pradesh, Bihar, Chhattisgarh, Gujarat, Karnataka, Orissa, Rajasthan and West Bengal

50 *per cent* **(Annex-II).** It was also observed that in four Circles[5] , follow up with the State Government authorities was not done regularly.

On this being pointed out by us, six Circles[6] accepted that the required OTD was not provided by the respective State Governments. The Ministry in its reply stated that MoRD was requested at regular intervals to ensure availability of rolling funds and to advise the State Governments to provide rolling funds at each HPO. Further, this issue was also raised by the Secretary, DoP in a meeting with the Hon'ble Minister of MoRD.

Thus, insufficient OTD in HPOs could lead to non availability of sufficient funds resulting in either delayed payment of wages or in case of delayed realization of wage cheques, temporary outflow of DoP fund.

2.2.6.3 Delay in crediting NREGS cheques into bank accounts of HPOs due to weak monitoring over remittances of cheques

Timely realization of NREGS wage cheques was a pre-requisite for smooth flow of funds to BOs and to ensure timely payment of wages. To ensure this, the Divisional Head/Divisional Nodal Officer and the Head Postmaster concerned were required to keep a close watch over, timely remittance of all NREGS cheques into the bank accounts and crediting of the proceeds thereof in the post office accounts without any delay. Clearance of each cheque was to be watched by Head Postmaster through a register to be maintained for recording dates on which cheques were received and sent for clearance.

Our scrutiny in seven[7] out of eight test checked circles revealed deficiencies in monitoring and control over realization of cheques in the Head Post Offices as explained below:

- As per the Scheme, each HPO was required to maintain a separate register of NREGS cheques received and cleared. However, three HPOs one each in Bihar[8], Karnataka[9] and Rajasthan[10] Circles and two HPOs of Chhattisgarh[11] Circle did not maintain a separate register of NREGS cheques received and cleared. Consequently, we could not ascertain age wise break up and details of un-cleared NREGS cheques.

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[5] Bihar, Odisha, Chhattisgarh and West Bengal
[6] Andhra Pradesh, Bihar, Chhattisgarh, Gujarat, Karnataka and Orissa
[7] Andhra Pradesh, Bihar, Chhattisgarh, Gujarat, Karnataka, Orissa and Rajasthan. In West Bengal, money is received through demand draft.
[8] Purnea, Katihar and Saharsa
[9] Chitradurga, Gulbarga, Kolar
[10] Jodhpur, Nagaur and Didwana
[11] Raipur and Bilaspur

- In three Circles[12], as of 30 September 2011, 371 unrealized cheques amounting to ₹ 234.51 lakh and 150 dishonored cheques amounting to ₹ 150.18 lakh had not been recouped by DoP from the State Governments authorities. (**Annex–III & IV)**
- There was delay ranging from 7 to 52 days in clearance of 217 NREGS cheques valuing ₹ 156 lakh in two HPOs[13] and three SOs[14] of Rajasthan Circle.

In the absence of availability of total number of cheques and amounts thereof received and realized from all Circles, the percentage of un-cleared cheques and dishonored cheques as well as delay could not be ascertained.

On this being pointed out by us, postal circles replied that necessary action was being taken for clearance of all pending cheques. PMG Western Region Jodhpur under Rajasthan Circle replied that the delay in clearance was due to mistake in account numbers, differences in cheque amount and wage list and also due to delay in clearance by banks. CPMsG Karnataka, Bihar and Chhattisgarh Circles replied that necessary action was being taken.

The reply of Circles was not convincing. Considering the shortfall in one time deposit and delay in encashment of NREGA fund cheques, the monitoring mechanism was evidently not effective enough.

2.2.6.4 Problems in managing cash flow

The DNOs were responsible for arranging sufficient cash to meet the requirements of the Sub Postmasters and the Branch Postmasters with the assumption that 100 percent of the weekly/fortnightly wages will be withdrawn within two or three days of receipt of the wage lists. Sub Postmasters were to credit the wages to the accounts of the individual workers immediately on receipt of wage list and send intimation to the Branch Postmaster concerned. In any case, as per the MOP, all payments were to be completed within three days from the date of receipt of the wage list.

Test check revealed that during the period 2008-09 to 2010-11 there was considerable delay in disbursement of wages in respect of 3457 wage lists in seven circles[15]. The delay ranged from 15 to 30 days and above as detailed below:

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[12] Bihar, Chhattisgarh and Orissa
[13] Jaisalmer & Deedwana
[14] Pokhran, Borawar & Kuchaman
[15] Bihar, Gujarat, Orissa, Rajasthan, Karnataka, Chattisgarh and West Bengal

Table: 3

Delay in disbursement of wage to NREGS workers

Sl. No.	Postal Circles	Number of days of delay			Total number of wage lists delayed
		1 to 15	16 to 30	Above 30	
		Number of delayed wage lists			
1.	Bihar	310	80	43	433
2.	Gujarat	238	217	35	490
3.	Orissa	287	34	12	333
4.	West Bengal	148	8	2	158
5.	Karnataka	573	19	92	684
6.	Chhattisgarh	865	313	128	1306
7.	Rajasthan	38	12	3	53
Total		**2459**	**683**	**315**	**3457**

(Source: The data collected from post offices)

Main reasons for the delay, as cited by postal offices, were as follows:

- Lack of mechanism for handling huge cash flow from SOs to BOs (CPMG Orissa)
- Shortage of staff for making payment under wage lists received in bulk (CPMG Gujarat).
- Delay in receipt of cash and short supply of cash (BOs of Bihar and West Bengal).
- Delay in receipt of wage list, opening of accounts & issue of passbook etc., large number of accounts and contradictory instructions on time limit by Circle office. (Chhattisgarh Circle).

The reply given by Circles was not acceptable since disbursement of wages was to be regularly reviewed by the DoP Directorate which had to ensure that there was availability of sufficient cash balance in the post offices. Moreover wage list registers were invariably found not to be maintained in some post offices under Chitradurga and Koppal HPOs of Karnataka Circle checked by audit. The Ministry had accepted the audit findings.

2.2.7 NREGS Wage Payments through Post Offices

Post Offices were required to open workers wage accounts, credit wage amounts and allow withdrawals as per POSB Rules which inter alia prescribe the procedures to be followed while opening the SB Account as well as its operation. Complete verification of the identity of the wage earners through job card, application forms, complete data entry, data accuracy and timely credit of interest into accounts were some of the critical aspects for which DoP staff had to take action. Further, MoU signed with respective State Governments and Model Operating Procedure provided for immediate credit of wage amount to the workers account.

We observed the following serious deficiencies in the operations of NREGS wage accounts:

2.2.7.1 Accounts opened without verifying of particulars of job cards

Post Office Savings Account Rules and other orders issued by DoP on the subject stipulate that while opening NREGS accounts, particulars of the NREGS workers as indicated in the application forms (SB-3) were to be verified by the concerned Post Master from the original job card of the applicant. The Post Master was also required to certify this fact under his own signature.

However, our scrutiny revealed that in four[16] out of eight test checked circles, 78602 NREGS accounts were opened without verification of application forms (SB-3) with reference to job cards as detailed below:

Table: 4

Accounts opened without verification of application form (SB-3 Form) with job cards

Sl. No.	Postal Circle	Number of SB-3 Forms not cross checked with job cards
1.	Chhattisgarh	45229
2.	Gujarat	31182
3.	Bihar	1278
4.	Orissa	913
Total		**78602**

(Source: The data collected from post offices)

Non adherence with relevant procedures by the Post Masters was fraught with the risk of irregular/ fraudulent payments through accounts the bona-fides of which were suspect.

On this being pointed out, the Postmasters of Chhattisgarh Circle stated that verification of SB-3 forms was not done due to heavy work load; the Postmasters of Gujarat Circle attributed the laxity to non-availability of job cards at the time of opening of accounts and as also absence of clear

[16] Bihar, Chhattisgarh, Gujarat, and Orissa

instructions on the subjects. Postal Circles[17] replied that necessary instructions would be issued to the post offices to follow the standard operating procedures. The Ministry replied that all concerned had been instructed to collect job cards in Gujarat and Orissa Circles.

The replies of the Ministry and the Circle Offices confirm our observation that due diligence was not observed by the post offices in opening of the accounts which could have facilitated irregular/ fraudulent payments.

2.2.7.2 Disbursement of wages without attestation of Left Hand Thumb Impressions (LTI) of wage earners

Rule 33 (1) of POSB Rules provided that thumb impression or mark of the depositor on the application for withdrawal should be attested by a respectable witness in respect of a blind, illiterate or a depositor who is unable to write. This procedure for disbursement of wages was also reiterated in the Model Operating Procedure (MOP).

During test check in six Circles[18], we noticed 6811 cases of payments having been made without attestation of Left Hand Thumb Impressions of illiterate wage earners, which was in violation of the Post Office Savings Bank (POSB) Rules, as per details given in the table below:

Table: 5

Payment made without attesting Left Thumb Impression of Workers

Sl. No.	Postal Circles	Total No. of cases where LTI not attested (test checked by audit)
1.	Chhattisgarh	3999
2.	Gujarat	1294
3.	Orissa	897
4.	Bihar	553
5.	Rajasthan	36
6.	Karnataka	32
Total		**6811**

(Source: The data collected from post offices)

Failure of Post Offices to follow the codal provision left scope open for fraudulent payment under NREGS.

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[17] Bihar, Chhattisgarh, Gujarat and Orissa

[18] Bihar, Chhattisgarh, Gujarat, Karnataka, Orissa and Rajasthan

The Circle offices[19] did not contest the above facts and replied that remedial actions would be taken and stated that Post Offices were instructed to follow the codal provisions. The Ministry in their reply stated that necessary instructions had been issued to all concerned to invariably follow the payment procedure.

2.2.7.3 Ledgers in respect of Workers Wage Accounts not maintained

Ministry of Finance, Department of Economic Affairs in August 2008, had issued a gazette notification amending the Post Office Savings Accounts Rules 1981 for introduction of a special category of savings account i.e. Workers Wage Account under NREGS. In the same month, DoP introduced a separate block of account numbers for opening the new type of savings account under NREGS.

Just as maintenance of ledger cards for each savings account at Sub Post Office level was mandatory under Post Office Saving Bank Rules, ledgers for NREGS accounts were also to be maintained at Sub Post Office level. Further, on receipt of wage list and related cheques, the Sub Postmasters were required to send the cheques for realization to HPO and ensure credit of wage amounts to the accounts of individual workers. An intimation of credit was to be sent to each of the Branch Postmaster concerned.

Our scrutiny of the records revealed that in seven Circles[20] ledgers in respect of NREGS workers were either not maintained or not updated. Some of the SOs and HPOs[21] ascribed shortage of staff as one of the major causes for this situation. However, five Circle offices[22] replied that data entry work was under way and would be completed soon.

The reason cited for arrears in the work of maintenance and updating the ledgers of NREGS accounts were not convincing since DoP had provided to each Circle/HPO funds under NREG scheme for administrative expenditure. These funds could clearly have been used for data entry work and training of necessary manpower. Further, to ensure that the funds for wages received/disbursed were accounted for correctly in time, maintenance and updation of data in the ledgers was essential.

As per Clause 8.1 of MOP, the amount deposited under the Scheme can earn interest from time to time as applicable to all other POSB accounts. 'NREGS

[19] Bihar, Chhattisgarh, Gujarat, Karnataka and Orissa
[20] Andhra Pradesh, Chhattisgarh, Gujarat, Karnataka, Orissa, Rajasthan and West Bengal
[21] HPO- Bardoli, Suri and Barasat; SO- Jamankira, Echoda, Asifabad, Indervelly and Chennur
[22] Chhattisgarh, Andhra Pradesh, Gujarat, Karnataka and Orissa

workers accounts' were therefore entitled to earn interest as applicable to other savings accounts. It was seen that in Karnataka and Chhattisgarh Circles, incompleteness of ledgers had resulted in interest on balances in workers accounts not being credited. In Chhattisgarh Circle the work of crediting interest to wage accounts was incomplete for three years viz., 2008-09 to 2010-11. In HPO Koppal of Karnataka Circle, interest was not credited in 184091 accounts on closing balance of ₹ 260 lakh as on 31 March 2011. Though similar instances did not come to our notice in the post offices sampled by us in other Circles/HPOs, owing to generally poor monitoring of the scheme in all the Circles, the possibility of such irregularities having occurred elsewhere could not be entirely ruled out.

CPMsG Karnataka and Chhattisgarh Circles assured that remedial action would be taken. The Ministry in their reply stated that in Karnataka Circle the calculation of interest was under process.

2.2.7.4 Irregular payments on incomplete and xerox copies of wage lists

Test check of records in BOs and SOs under Bardoli HPO of Gujarat and three HPOs[23] of Karnataka Circles, revealed that wages amounting ₹ 95.21 lakh were disbursed on the basis of xerox copies of 145 wage lists received without indicating therein muster roll number, signature or stamp of any State Government authority.

CPMG Karnataka Circle replied that after making thorough enquiry, concerned Divisional Heads would be directed to initiate action against the officials responsible for the lapses and to take remedial action to ensure transparency in NREGS activities. The Ministry in their reply re-iterated the assurances given by the CPMG Karnataka Postal Circle.

Failure to ensure the mandatory checks in disbursement of wages enhanced the risk of wages being paid to ineligible persons and exposed the scheme to fraudulent practices. Weakness in monitoring the scheme was self evident.

2.2.7.5 Errors in data compilation

Model Operating Procedure (MOP) stipulated preparations of periodical statements of various kinds of data pertaining to SB accounts, credit/deposits made in accounts and withdrawals allowed etc., at Post Offices and maintenance of Deposit Register at Postal Account Offices and HPOs and their submission to higher authorities.

[23] Kolar, Gulbarga and Chitradurga

Test check of records in three Circles[24] showed that these instructions were largely ignored resulting in un-reconciled data amongst various postal offices of the concerned circles as also with State Governments as elaborated below:

- In Karnataka Circle figures of wages deposited and wages disbursed as maintained by CPMG Office and O/o Director of Accounts Postal (DAP) did not match. The wages deposited and disbursed for the period 2008-11 in four HPOs[25] under the circle as shown in the records of CPMG were more by ₹ 4696.60 lakh and ₹ 3954.62 lakh respectively than the figures booked by the DAP. CPMG Karnataka Circle stated that opening of normal SB accounts in the name of NREGS beneficiaries before the introduction of special type of SB Account (Workers' Wage Account) for NREGS had resulted in the differences in figures.
- In two Postal Divisions[26] of Chhattisgarh Circle the wages disbursed for the period April 2008 to October 2010 in Bilaspur and Raipur divisions were shown less by ₹ 7360.72 lakh and ₹ 1374.77 lakh, respectively, than the amount shown as disbursed in the State Government data. The discrepancy had arisen because instead of giving the figures of amount of wages credited in the NREGS accounts had shown only the withdrawals from NREGS account by the workers as wages disbursed which was obviously incorrect.
- In Andhra Pradesh Postal Circle, the amount of wages withdrawn by workers in the years 2008-09 and 2010-11 respectively was shown in excess by ₹ 23.52 crore and ₹ 2.56 crore than the amount of wages deposited by Andhra Pradesh State Government. CPMG Chhattisgarh & CPMG Andhra Pradesh Circles did not clarify the reasons for this discrepancy except stating that the data entry in the Sanchay Post Software was under way.

The Ministry in their reply stated that the necessary instructions had been issued to the circles for strict compliance of POSB Rules to avoid systemic failure in opening, operation and maintenance of workers accounts in ledgers.

The instances cited above clearly indicate that errors in data compilation were prevalent at all levels in the Department. Even the data collected from DoP Head Quarters' office revealed compilation errors. Moreover, the data compilation in the field offices of DoP was erroneous from the very beginning

[24] Andhra Pradesh, Chhattisgarh and Karnataka
[25] Chitradurga, Gulbarga, Kolar & Koppal
[26] Bilaspur & Raipur division

as Circle offices generally failed to differentiate actual withdrawals by the workers from NREGS account and treated it as wages disbursed to the worker ignoring the actual amount of wages credited in the NREGS accounts. It was only after the matter was clarified by DoP Headquarter in January 2011 that the amount of wages credited to the NREGS wagers' account was treated as wages disbursed.

2.2.8 Internal control and security for cash handled

Due to implementation of NREG Scheme, number of cash withdrawal transactions had increased substantially. These transactions were over and above the normal volume of postal transactions in savings accounts at BO level. This made it necessary for postal authorities to provide better security measures for safe transportation and custody of cash handled by the BOs.

Following deficiencies relate to internal controls and security arrangements were noticed in the test checked postal offices.

2.2.8.1 Withdrawals beyond sanction limit allowed by Branch Postmasters without sanction from Sub Postmasters

As notified by the DoP Headquarter from time to time, Branch Postmasters can allow on each occasion withdrawal from a NREGS account up to a maximum amount of ₹ 2000 per account up to 9 February 2010 and ₹ 5000 per account per occasion thereafter. Withdrawals beyond the said limit were required to be referred to the concerned Sub Postmaster for sanction.

However, in four Sub Post Offices of the three circles[27] instances of withdrawals having been allowed beyond the prescribed limit by Branch Postmasters without the sanction of SPM were noticed.

Circle offices[28] stated that instructions to follow the prescribed procedures while allowing withdrawals from NREGS accounts had been since issued. The Ministry in their reply stated that necessary instructions had since been issued to the Circles for strict adherence to rules.

Non-compliance with rules increased the risk of fraudulent payments. An instance of fraud was noticed during audit in Andhra Pradesh Circle where a Branch Post Master (BPM) had allowed 326 bogus withdrawals of ₹ 3200 each in 187 accounts.

[27] Karnataka, Gujarat and Orissa
[28] Karnataka, Gujarat and Orissa

2.2.8.2 Improper security arrangements for conveyance of cash from Sub Offices to Branch Offices

Dynamic line limits[29] were introduced from August 2008 by DoP for the purpose of facilitating payments of wages to NREGS workers. This further enhanced the level of cash already being handled in the Post Offices.

In six Circles[30] it was noticed that Branch Postmasters were carrying high amounts of cash from Sub Post Offices at their own risk, without any security being provided to them. Lack of security arrangements was evident from robbery/theft cases involving ₹ 5.68 lakh in two postal offices[31] of Karnataka Circle.

Four circle offices[32] replied that instructions would be issued to divisional heads to ensure security during conveyance of cash.

The Ministry in their reply stated that arrangements were made for police escort for heavy cash conveyance from HPOs and that services of Home Guards were utilized for cash conveyance and security of post offices.

Conclusion

The Scheme of disbursal of wages under NREGA through the postal network was successfully implemented as evident from the fact that the number of accounts for disbursal of NREGA wages grew from almost three crore to almost five crore accounts during the period 2008-11. The amount disbursed (withdrawn) also grew from ₹ 3863 crore to ₹ 9179 crore. However, the undisbursed fund in workers accounts lying with DoP was significantly high at ₹ 4284 crore in 2010-11 constituting 32 *per cent* of the total funds received from the State Governments. In 19 HPOs of eight Circles, the one time deposit required to be received in the post offices by the District Programme Coordinator of State Governments was either not received or there was shortfall in deposit to the tune of ₹ 1920 lakh as on 31 March 2011. The shortfall reflected that in eight HPOs under three Circles no OTD was made by the DPCs and in five HPOs under two Circles it was either around or more than 50 *per cent*. The procedures for opening of accounts under MOP and POSB, were not followed by a significant number of test checked post offices as evident from accounts being opened without verification of SB-3 forms, incomplete data entry in ledgers, interest not credited and wages being

[29] Limit prescribed for conveyance of cash between post offices
[30] Andhra Pradesh, Bihar, Gujarat, Karnataka, Rajasthan and West Bengal
[31] BO Balla & SO Bewoor
[32] Andhra Pradesh, Bihar, Gujarat & Karnataka

disbursed without attestation of left hand thumb impression of illiterate wages earners, OTDs not being obtained and reviewed periodically, delay in disbursement of wages or in watching timely deposit of wages cheques, errors in data compilation etc. besides inadequate security arrangements for transportation/custody of cash, which had increased due to operation of NREGS through the postal Network. Most of the irregularities noticed were facilitated due to weak monitoring and insufficient internal controls.

Recommendations

- *DoP need to coordinate more effectively with MoRD at the one end and the State Governments at the other to fully operationalize MoUs already entered into.*
- *Monitoring of wage payments under MNREGS needs to be made regular, comprehensive and effective. This may be made a part of DoPs 'Result Framework Document'.*
- *Internal controls over the wage distribution under MNREGS through post offices need to be reviewed and strengthened.*
- *Appropriate disciplinary action may be taken against all officials found responsible for negligence in implementing the MoUs.*
- *Efforts may be made to enter into MoUs with all State Governments.*

2.3 Stocking of cash certificates, stamps and postal stationery

Failure of the Department to follow the prescribed procedure for indenting and forecasting and a weak internal control mechanism resulted in substantial overstocking of cash certificates, stamps and postal stationery thereby exposing these valuables to the risk of misuse/pilferage and damage.

Postal articles viz; stamps and postal stationery are sold through post offices spread across the country. Department of Posts (DoP) also discharges an agency function on behalf of Ministry of Finance (MoF) for sale of Cash Certificates through Post Offices. For this, the MoF remunerates the DoP at rates fixed from time-to-time.

The Cash Certificates (CCs), Stamps and other postal stationery are printed at India Security Press (ISP) Nasik and Security Printing Press (SPP) Hyderabad and are supplied to Circle Stamp Depots (CSDs) spread across in 22 Postal Circles. The CSDs are required to send to ISP Nasik/SPP Hyderabad the six monthly advance indents for the printing of Cash Certificates and quarterly indents for stamps based on the requirement received by them from Head Post

Offices (HPOs) taking into account their own requirement and that of Sub-Post Offices (SOs) under their jurisdiction.

Our scrutiny (June 2011 to August 2011) of records of CSDs and HPOs in seven Postal Circles selected randomly covering 20 *per cent* of the HPOs under each Circle revealed overstocking of Cash Certificates, Stamps, Postal Stationery, various deficiencies including inadequate internal control mechanism in the department as enumerated below:

2.3.1 Over-stocking of Cash Certificates in Circle Stamp Depots (CSDs) & Head Post Offices (HPOs)

Post Office Savings Bank (POSB) Manual Volume II stipulates that a quarterly indent to meet the requirements of Cash Certificates i.e. National Savings Certificates/Kisan Vikas Patras (NSCs/KVPs) shall be submitted by the HPOs to the CSD on 1st of June, September, December and March. The information to be given by the HPOs to CSDs would include types of certificate required, their denomination, the number of certificates sold during the last quarter, balance in hand, the number of certificates required and reasons for indenting more certificates than those sold during the last quarter as well as the balance in hand. The CSDs in turn are required to send six monthly advance indents for the printing of Cash Certificates to the ISP Nasik on due date. For correct assessment of the requirement, the CSDs are required to furnish to the printing press the information such as stock at the time of last indent, supply received since then, quantity issued during the previous half year/quarter, balance available on the date of submission of the present indent, quantity due from printing press against the previous indent and quantity required for the next six months in the prescribed proforma. Utmost care is required to be taken to ensure that excessive stocks are not held in the post offices to obviate any possibility of pilferage, misuse or damage to such value bearing stationery.

Our scrutiny of records in test checked HPOs and CSDs in the seven Circles revealed that indents in respect of Cash Certificates were placed without complying with the required procedures. This resulted in overstocking of cash certificates bearing face value of ₹ 3840.66 crore in the test checked CSDs and HPOs as on 31 March 2011, as has been indicated in the **Annex–V**. It was also observed that indents were placed by CSDs Delhi, Kerala, Tamil Nadu and Uttar Pradesh despite having sufficient stock in hand, without taking into account the past consumption patterns.

On this being pointed out by us, CSDs at Tamil Nadu and Maharashtra Circles accepted the facts and figures; CSD Kanpur stated that overstocking of KVPs and NSCs was due to irregular supply by the printing press; CSD Lucknow stated that overstocking was due to allotment of surplus stock by the Postal Directorate; CSD Ludhiana stated that blank NSCs of ₹ 5000/- held in stock carried no intrinsic value till these are actually issued; the Postmasters of selected HPOs accepted the facts and stated that corrective action would be taken and in future the indents would be placed as per the prescribed procedure.

The reply of CSD Ludhiana was not acceptable because despite having no intrinsic value, the possibility of misuse of blank certificates by fraudulent encashment did exist as was demonstrated by one case reported in Bihar Circle. In that case blank certificates worth ₹ 1.25 crore were lost in transit, fraudulently issued and en-cashed by a Sub-Postmaster under Munger HPO. The reply of CSD Kanpur was also not acceptable as departmental rules clearly envisage that quantity due from printing press against the previous indent should be taken into account while placing the present indent.

Thus omission on the part of CSDs and HPOs to scrupulously follow the prescribed procedures before placing indents for cash certificates as discussed above and absence of monitoring of stock position at supervisory levels resulted in overstocking of Cash Certificates worth face value of ₹ 3840.66 crore in CSDs and HPOs. Overstocking of cash certificates to such a huge level clearly carried risk of misuse by unscrupulous elements, besides damage/pilferage over a period of time.

2.3.1.1 Non-submission of Statement of unsold Cash Certificates to Postal Account Offices

Post Office Savings Certificate Rules provide that a statement in 'manuscript', indicating the total number of cash certificates along with the first and last serial numbers of certificates of each denomination and of each different series remaining unsold on 31st March of each year, shall be prepared by all post offices stocking the cash certificates. Utmost accuracy must be ensured in writing the serial numbers. The distinguishing letter prefixed to such serial numbers should on no account be omitted. A certificate should be endorsed on the statement under the personal and dated signature of the Postmaster that the balance as per the stock register had been verified with the actual balance in hand and found correct. The HPO should check the statements received from the SOs with the register maintained for the purpose in that office and send them to Postal Accounts Offices along with its own statement, positively by 30th April each year.

Our scrutiny revealed that the statement of unsold cash certificates was not being sent by HPO Varanasi Cantt to Director of Accounts (Postal), Lucknow (DAP). If the prescribed procedure as described above had been scrupulously followed that would have prevented the fraudulent encashment of KVPs/NSCs worth ₹ 9.01 crore between 1996 and 2004.

The Office of the Director of Accounts (Postal) Lucknow stated that an internal enquiry in the case was in process. Had DAP Lucknow ensured receipt of the statement of unsold cash certificates from HPO Varanasi Cantt, as provided in the departmental rules, and reconciled it with the issue and discharge register of NSCs/KVPs maintained at DAP, Lucknow, such fraudulent encashment could perhaps have been avoided.

Further test check conducted by us in 55 HPOs of six Postal Circles for the period 2008-11 revealed that the statement of unsold certificates had not been submitted by 33 HPOs to their concerned Postal Accounts Offices within the prescribed time. This indicated that despite the cases of fraudulent encashment being known to the DoP, sufficient steps had, obviously, not been taken to tighten the internal controls to ensure timely submission and reconciliation of statements of unsold certificates in the HPOs and the Postal Accounts Offices.

2.3.1.2 Overstocking of Stamps and Postal Stationery in Circle Stamp Depots (CSDs)

"Stamps" include postal stamps, non-postal stamps, envelopes and post cards and "Postage Stamps" include postal stationery. Apart from the maximum authorized cash balance, every post office is required to keep stock of stamps as fixed by authorities. The HPOs are required to obtain from CSD supply of stamps not exceeding their respective maximum authorized stamp balances. The CSDs in turn are required to submit quarterly indents to the ISP Nasik/SPP Hyderabad to meet the estimated consumption of stamps for the ensuing quarter.

Test check of records of CSDs located in Uttar Pradesh, Maharashtra, Punjab and Kerala Circles revealed that CSDs placed indents for stamps and postal stationery without complying with the prescribed indenting procedure. Orders for these items were placed without taking into account the stock in hand and consumption pattern of previous quarter. This resulted in overstocking of stamps and postal stationery carrying face value of ₹ 498.52 crore as on 31

March 2011, as shown in the **Annex–VI**. It was also observed that apart from having sufficient stock in hand the indents were placed for stamps and postal stationery without analyzing the actual demand by CSDs.

CSDs Lucknow and Kanpur accepted the facts. They also stated that the indents were placed on the basis of increased demand and the Postal Directorate had been requested to divert these stamps to other CSDs. CSD Ludhiana stated that there was acute shortage of postage stamps in the circle during 2008 and 2009 and the indents for these periods were received only in 2010 resulting in overstocking of stamps.

These replies are not acceptable as before accepting first supply against indents placed in 2008 and 2009 the CSDs should have considered the existing consumption pattern in respect of stamps and postal stationery and taken into stock the material supplied by ISP Nasik/SPP Hyderabad. Since stamps do not require any authorization for sale, their overstocking exposed the department to the risk of fraudulent sale of stamps/postal stationery by unscrupulous elements.

The matter was referred to the DoP in February 2012. Their reply was awaited as of June 2012.

2.4 Irregular payment of interest

Post offices in six circles did not scrupulously follow the provisions relating to the Public Provident Fund (PPF) Scheme resulting in irregular payment of interest of ₹ 2.26 crore to the subscribers.

Departmental Rules provide that an individual may subscribe to the Public Provident Fund (PPF) Scheme on his/her own behalf or on behalf of a minor of whom he/she is a guardian subject to the condition that the deposits in all accounts taken together should not exceed ₹ 70,000[33] in a year. Contributions in excess of the limit should be treated as irregular subscription and the excess amount should be refunded to the subscriber without any interest. Further, declarations to the effect that the subscriber is not maintaining any other PPF Account and that the subscriber agrees to abide by the provisions of the PPF Scheme, 1968 and the amendments issued thereto from time to time are required to be obtained from the subscriber along with his/her application form at the time of opening of the account. The Department of Posts (DoP) had issued orders (May 2004) for detection of irregular opening of accounts by the depositors under PPF Scheme at the initial stages itself.

[33] ₹ 1,00,000/- with effect from 1/12/2011

Departmental Rules further stipulated that a subscriber may, on the expiry of 15 years from the end of the year in which the initial subscription was made but before the expiry of one year thereafter, may exercise an option (Form H) that he would continue to subscribe for a further period of a block of five years, failing which these deposits will be treated as irregular deposits and will not carry any interest and be disallowed for rebate under Section 80 C of IT Act.

Our scrutiny of the records (August 2009 to March 2011) of 28 Post Offices in Uttar Pradesh, Rajasthan, Andhra Pradesh, Tamil Nadu, Karnataka and Gujarat Postal Circles revealed that, deposits made by subscribers beyond the prescribed limit (₹ 70,000); multiple accounts in name of one subscriber and deposits continued after maturity of the accounts, led to incorrect payment of interest of ₹ 2.26 crore **(Annex-VII)** on these PPF accounts. These irregularities remained undetected by the PPF authorities until pointed out in audit.

On this being pointed out in audit, Post Office, Jaipur City under Rajasthan Circle recovered ₹ 14.97 lakh. Some Post Offices admitted opening of irregular accounts due to lack of knowledge of the Rules **(Annex-VII)**. Most of the Post Offices stated that the necessary action would be taken after verification of the records.

The matter was referred to the Ministry in January 2012; their reply was awaited as of May 2012.

2.5 Short deduction of commission on purchase of revenue stamps

Failure of the Chief Post Master General, Delhi to deduct commission in advance on purchase of revenue stamps from the State Government, led to short realization of revenue to the extent of ₹ 98.36 lakh.

All revenue stamps, both judicial and non-judicial, which form sources of central revenue, are printed at the Security Press at Nasik Road. The Press prints and supplies such revenue stamps as may be required by various States on such terms as the Government of India may determine from time to time.

The Department of Posts (DoP) through its post offices sells revenue stamps to the public on behalf of State Governments for which the commission at prescribed rates, fixed from time to time, is receivable by DoP from the respective State Governments. The prescribed commission is to be deducted in advance by Post Offices while purchasing revenue stamps from State Government Treasuries.

Ministry of Finance (MoF) in consultation with the State Governments fixed the following rates of commission to be charged by the DoP for sale of revenue stamps through post offices:

Period	Rate of Commission
From 01.10.2003	3%
From 01.10.2004	6%
From 01.10.2005	10%

DoP issued (February 2004) instructions to all Heads of Circles/Regions/Postal Accounts inter-alia stipulating that while purchasing stamps from the State Treasuries, the commission, as decided by MoF, will be deducted in advance by the Head Post Offices. These instructions were again reiterated by the DoP in October 2006, wherein Postal Circles were clearly advised to dispense with the sale of stamps if the State Governments are not inclined to pay commission at above rates.

A mention was made in Paragraph no. 4.1 of Report No. 16 of 2011-12, Compliance Audit Observations (Civil) regarding non-deduction of commission by the Postal Circles of DoP on purchase of revenue stamps in Gujarat, Maharashtra, North East and West Bengal Circles. The Ministry's reply in this regard is still awaited (April 2012).

Our scrutiny of records of three HPOs in Delhi Postal Circle (November 2010 - August 2011) however, revealed that despite the discrepancy having been brought to the notice of DoP at the highest level in January 2011 and the matter having been commented in C&AG's Audit Report, ibid, these post offices continued to purchase revenue stamps during the period October 2004 to June 2011 by deducting commission at three *per cent* that had ceased to be valid w.e.f. 1 October 2004. This lapse resulted in short-deduction of commission to the extent of ₹ 98.36 lakh as shown in the table below:

(₹ in lakh)

Name of HPO	Period of purchase of Revenue Stamps	Value of Revenue Stamps purchased	Actual commission due w.e.f. 1.10.2004 – (six *per cent*) 1.10.2005 – (10 *per cent*)	Commission deducted at the rate of three *per cent*	Commission short-deducted
GPO Delhi	October 2005 to October 2010	475.69	47.56	14.27	37.54*
HPO Parliament Street	May 2005	25.60	1.54	0.77	0.77
	November 2005 to May 2010	238.40	23.84	7.15	16.69
HPO Lodhi Road	October 2004 to September 2005	108.80	6.52	3.26	3.26
	October 2005 to June 2011	572.80	57.28	17.18	40.10
Total					**98.36**

(* As per CPMG, Delhi the amount is ₹ 37.54 lakh)

On this being pointed out by Audit, the Postmasters of the concerned Post Offices confirmed the facts and figures. The Chief Postmaster General (CPMG) Delhi Circle stated (January 2012) that the matter had been taken up with the Government of NCT Delhi several times, but the matter of revision of commission remained inconclusive.

The reply of CPMG, Delhi does not address the issue raised by audit because the instructions issued by DoP in February 2004 and October 2006 had clearly advised the Circle Offices to advise the Head Post Offices to deduct commission at the revised rates.

Thus, failure of the CPMG, Delhi to ensure implementation of DoP instructions resulted in short-deduction of commission of ₹ 98.36 lakh.

The matter was referred to DoP in January 2012; their reply was awaited as of May 2012.

2.6 Infructuous expenditure due to delay in construction of postal complex

Failure of Department of Posts to construct a postal complex on a plot acquired in 1990 resulted in infructuous expenditure of ₹ 64.62 lakh.

The Department of Posts (DoP) acquired a plot measuring 1970 sq. meters in 1990 in Goa for construction of a Postal building. This land was acquired on lease basis from the Economic Development Corporation (EDC) of Goa, Daman & Diu Limited for which ₹ 14.38 lakh was paid as an advance. The lease agreement stipulated completion of the building within five years from the date of commencement of the lease or from the date of taking possession of the plot whichever happened to be earlier.

Our scrutiny (February 2011) of records of O/o Post Master General (PMG) Panjim, Goa revealed that the Schedule of Accommodation (SOA) required to kick start the process of seeking necessary approval for construction on the land was sent to Postal Directorate in September 1992 i.e., two years after the acquisition of plot. The project was approved by the Postal Directorate in December 1993. However, while seeking its approval, the Directorate was not informed about the time limitation of five year for completion of the building. This fact was intimated by CPMG, Mumbai to the Postal Directorate as late as in 1997 i.e. seven years after the date of acquisition of plot. A revised SOA was sent to the Directorate for approval in February 1997, was approved in May 1998. While conveying the approval for preliminary drawings in June 1998 the Directorate instructed Sr. Architect, Mumbai to have the preliminary estimates prepared by the civil wing and send the same for approval. The draft preliminary estimate for ₹ 5.47 crore was sent to the Directorate in October 1998. However, the necessary funds amounting to ₹ 3.50 crore were not allotted up till 2003-04. Administrative Approval and Expenditure Sanction for the work were issued in October 2005 for ₹ 4.40 crore.

It was also seen that tenders for the construction of the postal building were called for, nine times between December 2006 and September 2009. However, these were either rejected because bidders were ineligible or were cancelled on account of being a single tender. The notice inviting tender for pile foundation work was floated in January 2006 but the bids received in response were rejected because the lowest tender was much above the estimated cost. Tenders were again floated for pile foundation work in March 2006 and work was awarded in August 2006. Although the date of completion of pile foundation work was March 2007, it was actually completed in July 2008. Scrutiny further revealed (February 2011) that due to non-completion of building within the stipulated time period of five years; DoP had to pay extension fee and penalty to the extent of ₹ 40.95 lakh for the period from 1995 to 2010 and licence renewal fee of ₹ 6.99 lakh for the period up to March 2008 to EDC. Besides, an expenditure of ₹ 2.30 lakh was incurred on payment of ground rent up to June 2011.

On this being pointed out by Audit, the Assistant Director, Postal O/o PMG Goa while accepting the facts (August 2011) stated that the construction was delayed partly due to administrative reasons and partly due to inadequate funding by Directorate. It was further stated by Assistant Director, Postal O/o PMG Goa (February 2012) that no funds were allotted for construction of the project. On being pointed out to the Secretary, DoP in November 2011, she urged the authorities to expedite the construction work.

DoP replied (March 2012) that though there was no clause for seeking extension fee or penalty in the original lease deed, two extensions were granted by EDC authorities for construction of EDC complex only on payment of extension fee. The building is being constructed through the civil wing of the Bharat Sanchar Nigam Limited (BSNL), a Public Sector Undertaking.

Failure in planning and delay in decision making on construction of Postal complex at Goa by DoP on leased land even after 15 years of acquisition of land has resulted in infructuous expenditure of ₹ 64.62 lakh.

Department of Telecommunications (DoT)

2.7 Functioning of DoT

The Department of Telecommunications (DoT) is responsible for policy formulation, performance review, monitoring, international cooperation, Research & Development and grant of licences to operators for providing basic, mobile and value added services in various cities and telecom circles as per approved policy of the Government. In pursuance of the New Telecom Policy 1999, the Government of India decided to corporatise the service providing functions of the DoT. Accordingly, Bharat Sanchar Nigam Limited (BSNL) was incorporated as a wholly owned Central Government Company and the business of providing telecommunication services in the country was transferred to it with effect from 1 October 2000. The DoT is responsible for facilitating various activities for the growth and expansion of the telecom sector.

2.7.1 Main functions of DoT

- Policy formulation, licensing and coordination matters relating to telegraphs, telephones, wireless, data, facsimile and Telematics services and other similar forms of communications.
- Administration of Universal Obligation Fund.
- International cooperation in matters connected with telecommunications, including matters relating to all concerned international bodies such as International Telecommunication Union, its Radio Regulation Board, Radio Communication Sector, Telecommunication Standardization Sector, Development Sector, International Telecommunication Satellite Organization, International Mobile Satellite Organization, Asia Pacific Telecommunication.
- Promotion of standardization, research and development in telecommunications.
- Promotion of private investment in Telecommunications.

The revenue and expenditure of DoT for the last three years is given below:

(₹ in crore)

Year	Revenue	Expenditure
2008-09	12997.80	1685.00
2009-10	15879.49	5314.97
2010-11	120547.63	3421.00

2.7.2 The Telecom Scenario in India

The Indian Telecom sector has come a long way since liberalization started with New Telecom Policy, 1999. Telecom sector has witnessed exponential growth especially in the wireless segment in the last few years and has evolved as a basic infrastructure like electricity, roads, water etc. Further, it has emerged as one of the critical components of economic growth required for overall socio economic development of the country.

The Telecom sector continued to register an impressive growth during the last five years 2006-07 to 2010-11 and the details are in the table given below. During the period, the number of telephone subscribers increased from 206 million to 846 million, registering a growth of 310 *per cent*. While the wireless subscriber base increased by 647 million, the wireline base recorded a decline of 6 million. The wireless segment continued to dominate with a total base of 812 million connections as of March 2011. The overall teledensity in the country registered an increase from 18 at the end of March 2007 to 71 at the end of March 2011. The rural teledensity which was 6 as on 31st March 2007 increased to 34 at the end of March 2011, as compared to the urban teledensity of 47 and 157 respectively. However, the growth rate of subscribers in rural areas during the last five years was higher at 485 *per cent* compared to 233 *per cent* in urban areas. The internet and broadband subscribers had also gone up from 9.27 million in 2006-07 to 19.67 million in 2010-11.

2.7.3 Telecom sector performance indicators

Year	Subscribers (In Millions)					Teledensity (In percentage)			Internet & Broadband subscribers (in millions)
	Total	Rural	Urban	Wireline	Wireless	Overall	Rural	Urban	
2006-07	205.86	45.71	160.15	40.75	165.11	18.22	5.78	47.24	9.27
2007-08	300.48	73.92	226.56	39.41	261.07	25.64	9.34	63.67	11.09
2008-09	429.73	120.29	309.43	37.97	391.76	36.98	15.02	88.11	13.54
2009-10	621.28	200.81	420.47	36.96	584.32	52.74	24.29	119.73	16.18
2010-11	846.32	282.23	564.08	34.73	811.59	70.89	33.79	157.32	19.67

(Source: TRAI Annual Reports and TRAI's reply)

The capital employed in the sector also increased from ₹ 1,98,011 crore in 2006-07 to ₹ 3,37,683 crore in 2010-11 indicating a healthy growth of investment in the sector. Correspondingly the capital investment also grew from ₹ 2,40,711 crore in 2006-07 to ₹ 4,79,278 crore in 2010-11. The growth in subscriber base resulted in an increase in the gross revenue of telecom services as detailed below:

2.7.4 Telecom sector Financial Profile

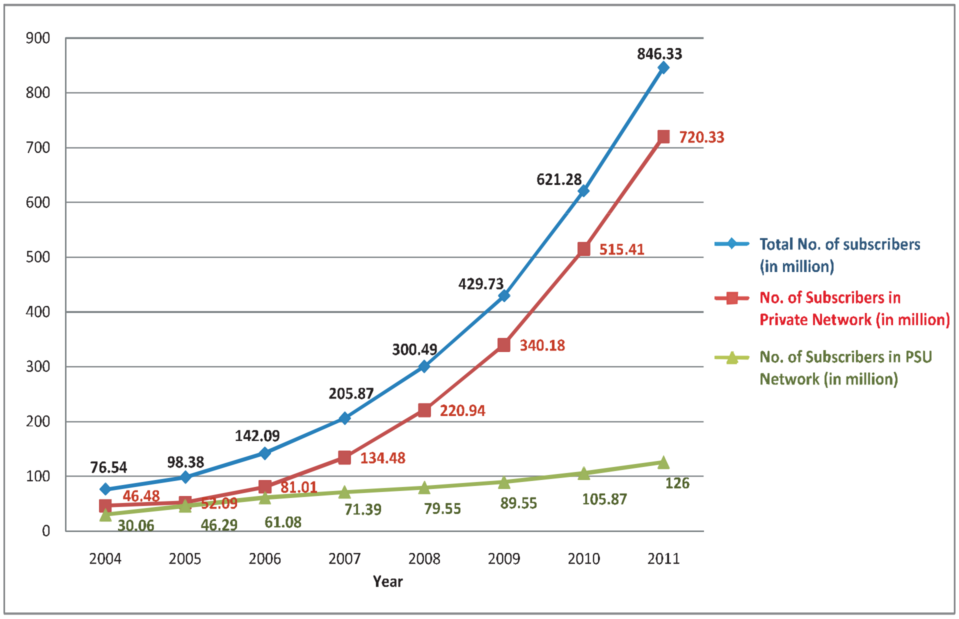
(₹ in crore)

Year	Capital employed			Investment			Gross Revenue
	Public	Private	Total	Public	Private	Total	
2006-07	1,04,595	93,416	1,98,011	1,34,552	1,06,159	2,40,711	1,07,832
2007-08	1,04,247	1,15,462	2,19,709	1,41,149	1,37,450	2,78,599	1,32,785
2008-09	1,03,856	1,70,651	2,74,507	1,49,201	1,88,587	3,37,788	1,51,693
2009-10	96,103	1,90,734	2,86,837	1,89,615	2,26,814	4,16,429	1,57,985
2010-11	89,040	2,48,643	3,37,683	1,97,332	2,81,946	4,79,278	1,71,719

(Source: TRAI Annual Reports and TRAI's reply)

It can be seen that the capital employed and the investments made by Private Telecom Companies is more than the share of Public Sector Telecom Companies. Further, the subscriber base of Private Telecom Companies has increased manifold as compared to Public Sector Telecom Companies as given below:

2.7.5 Growth in subscriber base – Private versus PSUs



(Source: DoT Annual Report)

2.7.6 Telecom Sector Policies and Programmes

The main guiding policy for the telecom sector in India is the New Telecom Policy 1999. The objectives of the policy are as follows:

- Make available affordable and effective communications for all citizens. This is at the core of the vision and goal of the telecom policy, as access to telecommunications is of utmost importance for achievement of the country's social and economic goals,
- Strive to provide a balance between the provision of universal service to all uncovered areas, including the rural areas, and the provision of high-level services capable of meeting the needs of the country's economy,
- Encourage development of telecommunication facilities in remote, hilly and tribal areas of the country,
- Create a modern and efficient telecommunications infrastructure taking into account the convergence of IT, media, telecom and consumer electronics and assist emergence of India as an IT superpower,
- Convert PCOs, wherever justified, into Public Tele-info Centres having multimedia capability like ISDN services, remote database access, and assist emergence of community information systems etc.,

- Transform the telecommunications sector in a time bound manner to a greater competitive environment in both urban and rural areas providing equal opportunities and level playing field for all players,
- Strengthen research and development efforts in the country and provide an impetus to build world-class manufacturing capabilities,
- Achieve efficiency and transparency in spectrum management,
- Protect defence and security interests of the country,
- Enable Indian telecom companies to become truly global players.

The Telecom sector policies and programmes are carried out by the following wings of DoT:

2.7.7 Telecom Commission

The Telecom Commission was set up by the Government of India vide Resolution dated April 11, 1989 with administrative and financial powers of the Government of India to deal with various aspects of Telecommunications. The Commission consists of a Chairman and four full time members, who are ex-officio Secretaries to the Government of India in the Department of Telecommunications, besides there are four part time members who are the Secretaries to the Government of India of the concerned Departments. The major functions of the Telecom Commission include policy formulation, review of performance, licensing, wireless spectrum management, administrative monitoring of PSUs, research and development, standardization/validation of equipment and International Relations.

2.7.8 Telecom Regulatory Authority of India

Telecom Regulatory Authority of India (TRAI)'s mission is to ensure that the interests of consumers are protected and at the same time to nurture conditions for growth of telecommunications services in the country in a manner and at a pace which will enable India to play a leading role in emerging global information society. One of the main objectives of TRAI is to provide a fair and transparent policy environment which promotes a level playing field and facilitates fair competition. It issues directions, orders and regulations covering a wide range of subjects including tariff, interconnection and quality of service as well as governance of the Authority.

2.7.9 Controller of Communication Accounts

Controller of Communication Accounts (CCA) is responsible for the assessment and collection of licence fee from all commercial licensees of Cellular, Basic, Unified Access Service, NLD, ILD, Commercial VSAT, PMRTS services, Internet Service Providers, New Licensees of Internet service and licences of Captive VSAT, CMRTS, Radio links, Microwave links and OFC links. Further, it performs the statutory functions such as Pension payments, Audit functions etc. USO Disbursement and the Administrative functions.

2.7.10 Wireless Planning & Coordination Wing

The Wireless Planning and Coordination (WPC) Wing in DoT, deals with the policy of spectrum management, wireless licensing, frequency assignments, international coordination for spectrum management and administration of Indian Telegraph Act 1885, (ITA, 1885), for radio communication systems and Indian Wireless Telegraphy Act 1933, (IWTA, 1933).

2.7.11 Telecom Engineering Centre

Telecommunications Engineering Centre (TEC) is the Technical wing of DoT. Its responsibilities include among other things; preparing Standards and Specifications for harmonious growth of the Indian Telecom Network, carrying out evaluation of equipment and services, according approvals for equipment, technology and services. Technical and advisory support to TRAI, TDSAT, USOF, BSNL and MTNL, drawing up Fundamental Technical Plans of DoT, interaction with multilateral agencies like APT, ETSI and ITU etc. through DoT and develop necessary expertise to imbibe the latest technologies and results of R & D.

2.7.12 Centre for Development of Telematics

Centre for Development of Telematics (C-DOT) is the telecom research and development centre of the Government of India under administrative control of the Department of Telecommunications. C-DOT develops total telecom solutions, technologies and applications for the fixed-line, mobile and packet-based converged networks and services. C-DOT has also developed technologies which are intensively based on Software and are useful to the service providers for provisioning of services, as also for operations and management of networks and services. C-DOT technologies have a significant presence in the Indian telecom network directly as well as through its licenses.

C-DOT's recent focus has been on development and deployment of Next Generation Networks, cost-effective rural wireless solutions, software based systems, optical and satellite transport and access technologies and solutions required for strategic sectors.

2.8 Recovery of excess subsidy paid at the instance of Audit

Subsidy of ₹ 2.17 crore to service providers for Rural Community Phones (RCP) was incorrectly paid by West Bengal and Uttar Pradesh (East) circles of which, ₹ 1.62 crore was recovered at the instance of Audit.

The New Telecom Policy (NTP) of 1999 laid emphasis on Universal Service Obligation (USO) which inter alia sought to achieve objective of increasing rural tele-density from the level of 0.4 to 4.0 per hundred population by 2010. As per the policy, the resources for meeting the USO would be raised through a 'universal access levy', which would be a percentage of the revenue earned by all the operators under various licenses, as decided by the Government. The implementation of the universal telephone services for rural/remote areas would be undertaken by all fixed service providers who would be reimbursed net cost of providing this service from the USO Fund. Accordingly, a USO Fund was formed with effect from April 2002. One of the activities to be subsidized from the USO Fund was provision of Rural Community Phones (RCPs) for promoting rural telephony.

As per Clause 30.15 of the Agreement for provision of RCPs, an RCP meant a public phone installed in a village with a population exceeding 2000 as per Census 1991 and where no Public Call Office (PCO) existed. Clause 18.13 of the agreement also envisaged that the Administrator, to ensure proper and correct verification of subsidy paid, could if deemed necessary, modify, alter or substitute and amend whatever was stated therein. Agreements were entered into (2004) with Bharat Sanchar Nigam Limited (BSNL) and Reliance Infocomm Limited (RIL) in different service areas for provision of 46253 RCPs.

Our scrutiny of records in the office of the Controller of Communication Accounts (CCA) West Bengal Circle, Kolkata in February 2010, and CCA, U.P. East Circle, Lucknow in October 2011 revealed that in violation of licence agreement conditions which stipulated proper verification of subsidy claims, an amount of ₹ 2.17 crore was paid in excess for the period March 2005 to December 2010, to M/s RIL and BSNL in respect of 836 RCPs though PCOs existed in these villages as shown in the following table:

(₹ in crore)

Name of CCA	Name of operator	No. of villages for which subsidy claims settled where PCOs existed	Amount paid towards subsidy
CCA, West Bengal Circle, Kolkata	RIL	595	1.62
CCA, U.P. East, Lucknow	RIL	215	0.48
	BSNL	26	0.07
Total		**836**	**2.17**

Thus, the CCAs did not scrupulously follow the licence conditions resulting in excess payment of subsidy to the extent of ₹ 2.17 crore.

On this being pointed out by us, the CCA, West Bengal Circle, Kolkata raised (July 2010) a claim for ₹ 1.62 crore against M/s RIL and recovered the entire amount (November 2011) at the instance of Audit. The CCA, U.P East, Lucknow stated that the matter was being investigated and a reply would follow.

The matter was referred to DoT in January 2012; their reply was awaited as of May 2012.