

CHAPTER-III DEPARTMENT OF POSTS

3.1 Internal Control in Postal Accounts Offices of Department of Posts (DoP)

3.1.1 Introduction

Department of Posts (DoP) has a network of more than 1.54 lakh Post Offices throughout the country. It discharges core functions of providing Postal Services as well as Transport Services (Parcel and Logistics). DoP also provides Financial Services viz., Savings Bank Scheme, issue of Cash Certificates, Money Order and Insurance and several value added services such as Speed Post, Business Post, Express Parcel Post, Bill Mail etc. Besides management of Public Provident Fund, DoP is also engaged in disbursement of pension to Military, Railways, Coal Mines pensioners etc. on behalf of Ministry of Finance. DoP has also been disbursing MGNREGA wages through the post offices since year 2008 onwards.

The Secretary, DoP is the Chief Accounting Authority and also the Chairperson of Postal Services Board (PSB). The Joint Secretary and Financial Advisor to the Department render financial advice to the PSB.

There are 22 Postal Circles across the country, each headed by a Chief Post Master General (CPMG). For one or more Postal Circles, there is a Postal Accounts Office (PAO), headed by an officer of the rank of General Manager/Director/Deputy Director of Accounts. The PAO is under the administrative control of CPMG and under the functional control of the Deputy Director General-Postal Accounts and Finance (DDG (PAF)) located at Postal Directorate.

3.1.2 Function and Control of PAOs

As per Para 1.08 of Postal Accounts Manual Volume-I, at the Circle level PAOs receive, on the 1st day of each month, the Cash Account¹ accompanied by Cash Balance Report as well as vouchers and schedules from the Head Post Offices (HPOs) for the previous month. On the basis of the cash account, a Classified Abstract² is prepared depicting the receipts and payments under each head of account. The Classified Abstracts of all the

¹ Cash account is the receipts and disbursements of HPOs and the subordinate offices

² The Classified Abstract depicts monthly receipts and payments under various heads of account prescribed for the purpose of appropriation

HPOs are then compiled in the PAO and a Circle Abstract is prepared that is submitted to Postal Directorate for preparing the General Abstract. The Accounts of DoP are prepared on the basis of General Abstract. The PAOs also conduct the internal check and inspection of the postal units to rule out any irregularities like loss, misappropriation, defalcation etc.

3.1.3 Internal control to be exercised by PAOs

In order to ensure effective internal controls of the working of various postal units, PAOs exercise the following checks:

- Expenditure incurred is duly approved and sanctioned by the competent authority.
- Each item of receipt and expenditure is properly classified so that amounts under suspense heads are bare minimum.
- Timely reconciliation of Cash Certificates (CCs) and Money Orders (MOs).
- Timely dues claimed for services rendered to other department on their behalf and timely recovery thereof.

3.1.4 Scope of audit

We conducted the audit (June 2012 to August 2012) in 15 out of 22 randomly selected Postal Circles with a view to examine the efficiency and effectiveness of the internal controls in PAOs. Records, for the period 2009-10 to 2011-12, relating to Contingent Expenses, reconciliation of Post Office Schedules with Bank Scrolls, Cash Certificates, Money Orders and recoveries effected from other departments maintained in PAOs, were test checked. Audit findings were issued to the Ministry in November 2012 and the reply of Ministry was received in April 2013.

3.1.5 Audit Objectives

The audit was conducted to examine whether;

- existing internal control mechanisms ensure the proper checking and compilation of accounts as per the provisions of Postal Accounts Manuals,
- organisation responsible for internal check was working effectively and efficiently,
- existing internal control mechanisms are adequate amongst other factors to detect the cases of fraud, misappropriation,
- dues from other departments were being realised timely.

3.1.6 Sources of Audit Criteria

The sources of criteria used for audit scrutiny were Postal Accounts Manuals instructions, orders and circulars issued from time to time by the Competent Authorities.

3.1.7 Audit Findings

Audit findings relating to Internal Controls in PAOs highlighted significant deficiencies in the working of PAOs and instances of weak and ineffective internal control which are discussed below:

3.1.7.1 Compilation of accounts with respect to existing codal provisions

Rules relating to compilation of accounts are prescribed in P&T Financial Hand Book (FHB) Volume-I, Postal Accounts Manual Volume-I of 2006 and 2007 respectively and instructions issued by DoP from time to time. The relevant rules pertaining to compilation of accounts and deviations therefrom are discussed in the succeeding paragraphs.

(i) Non-adjustment of Contingent Expenses

Rule 364 to 367 of P&T FHB Volume-I, inter alia prescribe that Post Offices are required to prepare Abstract Contingent (AC)³ Bills on the 10th and on the last working day of the month and send it to the PAO along with the monthly Cash Account. Monthly Detailed Contingent (DC)⁴ Bills are prepared by Post Offices and sent to the Controlling Officer for countersignature along with all sub vouchers not later than 10th of the following month to which the charges relate. After countersignatures, these are sent to the PAO on or before 5th of the second month to which the charges relate. The PAO is then required to review the bills to bring to notice irregular use of AC Bills, if any, and issue reminders to Heads of Circles for prompt submission of DC Bills.

Audit scrutiny of records of 15 PAOs from 2009-10 to 2011-12 revealed that DC Bills amounting to ₹367.40 crore remained unadjusted as shown in **Annexure-II**. An analysis of data indicated in Annexure-II, showed the increasing trend in non-adjusted AC Bills from ₹84.57 crore in 2009-10 to ₹182.93 crore in 2011-12. The non-adjustment of outstanding Contingent Bills was fraught with the risk of misappropriation of Government money. Audit observed one such case where departmental authorities of

³ Abstract Contingent charges includes all incidental and other expenses of contingent nature incurred for the management of an office which require the approval of the competent authority before they can be admitted as legitimate expenditure.

⁴ Detailed Contingency Bills are those bills which is submitted with the approval of competent authority after expenditure incurred against the AC Bill drawn.

Bihar Circle in September 2010 found that entry of 3534 vouchers, relating to non-submission of DC Bills for the period February 2010 to September 2010 were fake. These bore false signatures of the countersigning authorities thereby facilitating fraudulent payment of ₹3.60 lakh for which action is being taken by the Department.

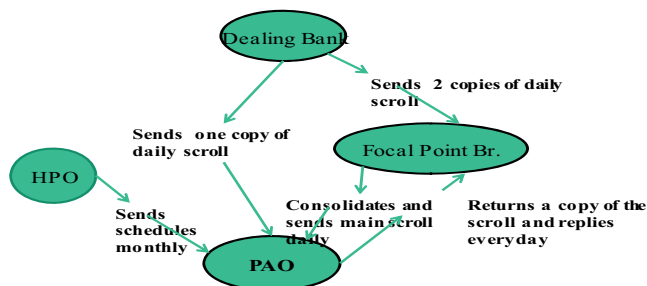
On this being pointed out by Audit, the Ministry stated (April 2013) that an amount of ₹70.57 crore out of ₹367.40 crore has been adjusted by the Circles. It also stated that matter was being pursued vigorously to adjust the remaining amount. However, the facts remain that concerted efforts are to be made by the Department to ensure that AC/DC Bills were adjusted without delay.

(ii) Non-reconciliation of Post Office Schedules with Bank Scrolls

Rule 5.27 of Postal Accounts Manual Volume-I, stipulates that the items appearing in the Postal Schedule should be paired item-wise, with the Bank Scroll. The items remaining unlinked in the Bank Scroll or Postal Schedules should be transcribed with full details in two separate registers.

The procedure of reporting and accounting of transactions of DoP introduced from October 1993 involves the daily scrolls of drawings from/remittances into Bank being prepared by the dealing Bank separately in quadruplicate and one copy is sent to the PAO while another is retained as office copy. Two copies are sent to the 'Focal Point Bank'⁵ with challan/cheques. The 'Focal Point Bank' then consolidates the scrolls received from various branches and prepares a main scroll and sends it to the Postal Accounts Office. The Postal Accounts Office is required to verify the duplicate copy of the main scroll with the daily scroll sent by dealing Bank and point out discrepancies every day to the Bank. One copy is sent to the HPO. A flow chart depicting the above procedure is shown below:

Flow chart depicting procedure of reporting and accounting of transactions



⁵ Focal point bank is the bank which is responsible for accounting of transactions reported to it by all the linked dealing branches.

Audit observed that, in eight⁶ out of 15 PAOs, the reconciliation was not completed on time by the PAOs due to non-receipt of Monthly Schedules from the dealing HPOs. Some of these Schedules were found pending since 2004. An amount of ₹5136.17 crore and ₹14218.72 crore towards drawings from Bank and remittances to the extent of ₹8071.69 crore and ₹18566.14 crore remained unlinked in Bank Scrolls and Post Office Schedules respectively. The amount and remittance remaining unlinked from 01 April 2009 to 31 March 2012 is shown in the **Annexure -III**.

On this being pointed out by Audit, the Ministry stated (May 2013) that matter has been taken up with the concerned PAOs to pursue the matter regarding obtaining all the wanting schedule to complete the pairing/reconciliation work up to date.

The reply of Ministry is not convincing as in view of the associated risk of fraud, neither was any time frame fixed to complete the reconciliation work in arrears nor any assurance given to establish a system of timely reconciliation. One such case was detected by bank authorities in Kolkata where fraudulent encashment of ₹86 lakh was made during March 2011. In this case, forged cheques were deposited to the personal account of the offender using the cheque numbers of the cancelled cheques. Such frauds can only be prevented when the HPOs intimate the PAO as well as the Bank in time about all their cancelled cheques. Had the reconciliation work been done in time, the fraudulent encashment could have been prevented.

The above instance is indicative of the fact that the mechanism prevalent in PAOs, to keep a check on reconciliation of Post Office Schedules with Bank Scrolls, is inadequate and ineffective.

(iii) Pending Suspense balances

Para 1.1 of Controller General of Accounts' Manual on Suspense heads prescribes that items of receipts and payments which cannot at once be taken to a final head of receipt or expenditure owing to lack of information as to the nature or for any other reasons, are to be booked temporarily under the Major Head 8658—Suspense Accounts. The Suspense heads are to be cleared immediately on receipt of the relevant details/information as receipts and expenditure cannot be reflected accurately if amounts remain un-cleared under the Suspense heads.

Scrutiny of records of 14 PAOs revealed that during 2009-10 to 2011-12 substantial amounts were lying under Credit and Debit Suspense as shown in the Table-1 below:

⁶ PAO Ahmedabad, Bangalore, Cuttack, Chennai, Delhi, Hyderabad, Jaipur and Kapurthala

Table-1
Statement showing amount lying under Suspense head during 2009-10 to 2011-12

(₹ in crore)

Sl. No.	Name of PAO	Credit Suspense			Debit Suspense		
		2009-10	2010-11	2011-12	2009-10	2010-11	2011-12
1	Ahmedabad	9.69	3.58	18.24	59.53	-15.71	-727.67
2	Bangalore	9.13	10.08	3.7	49.35	46.51	42.94
3	Bhopal	0.72	9.77	10.52	1.99	3.81	12.58
4	Cuttack	6.94	15.54	17.49	6.25	5.26	5.75
5	Chennai	44.73	17.08	35.29	40.23	8.73	21.14
6	Raipur	36.21	19.75	25.09	43.71	5.60	7.62
7	Hyderabad	24.88	32.49	86.12	0.07	0.03	0.02
8	Jaipur	0.24	2.94	4.34	2.85	2.74	3.59
9	Kapurthala	2.17	1.5	1.16	0.09	0.02	0.02
10	Kolkata	174.68	170.95	202.72	285.83	282.21	194.98
11	Lucknow	93.14	25.94	94.96	40.92	21.22	49.09
12	Nagpur	621.90	15.43	-7.53	249.16	162.14	186.91
13	Patna	65.3	61.22	36.22	213.86	131.02	88.42
14	Thiruvananthapuram	-1.3	0.53	13.42	-2.91	-0.23	0.16

(Source: Suspense broadsheets and reconciliation register)

An analysis of the outstanding Suspense balances revealed that in PAOs Kolkata, Nagpur, Patna, Ahmedabad and Lucknow, there were substantial Suspense balances both under Credit and Debit Suspense. Analysis further revealed that in Ahmedabad PAO, there was substantial minus Suspense balance of ₹727.67 crore during the year 2011-12. The above balances under Suspense heads do not depict the nature of transaction and as such the receipt and expenditure cannot be reflected accurately.

The Ministry replied (April 2013) that out of ₹162.47 crore, an amount of ₹4.46 crore under Credit Suspense and out of ₹433.30 crore an amount of ₹9.84 crore under Debit Suspense have been adjusted by the Circles. It was further stated that matter was being pursued vigorously to adjust the remaining Suspense balances.

DoP needs to evolve a time bound programme for reducing the substantial suspense balance as outstanding amounts under suspense (debit) balance for a long time is fraught with the risk of misappropriation of Government money which may go unnoticed. Further, if these amounts remain un-cleared, the balances under Suspense heads would accumulate year after year and would not reflect Government receipts and expenditure accurately.

3.1.7.2 Issues relating to Post Office Cash Certificates (CC)

To encourage the Savings, the Government of India has instituted a series of Certificates which can be purchased from the Post Offices doing Saving Bank business. Rules relating to Post Office Cash Certificates are prescribed in Postal Accounts Manual Volume-II. The main check in the PAOs with regard to Cash Certificates is conducted through a Stock and Issue Register (S&I). The details viz. number of the Post Office Cash Certificate, month and year of issue of each Certificate is entered into the S&I Register. Similarly when a Cash Certificate is discharged and received in the PAO, the interest paid on maturity of Certificate is checked with reference to the date of issue and discharge as mentioned on the Certificate and is noted in the S&I Register against the number of the respective Cash Certificate. The total amounts of issues and discharges are verified each month with the figures in the Detail Book⁷.

The relevant rules pertaining to Cash Certificates and deviations there from are discussed in the succeeding paragraphs.

(i) Arrear in Post Office Cash Certificate work

Para 2.4 of Postal Accounts Manual Volume-II stipulates that HPO-wise detail of stock and issue of Cash Certificates is to be maintained by the PAO in a register and should be verified each month with the figures in the Detail Book. Secretary, DoP in April 2007 taking note of a huge fraud of ₹104 crore in West Bengal Circle made the Head of Circles personally responsible to ensure that Cash Certificate work should not remain pending in any circumstances.

Audit observed that 2790228 Cash Certificates valuing ₹1420.92 crore remained un-posted in the Stock and Issue Register in 13 out of 15 PAOs as on 31 March 2012 as shown in **Annexure-IV**. Further, in eight out of 13 PAOs⁸, posting of Cash Certificates were not done for more than 10 years and in four PAOs i.e. Hyderabad, Chennai, Lucknow and Bhopal, more than one lakh un-posted items in each PAO were found.

On this being pointed out by Audit, the Ministry stated that concerned Heads of Circles have been reminded at regular intervals to issue necessary instructions to their Subordinate Offices for sending the long pending and wanting Cash Certificate returns. It was further stated that latest reminder was issued in February 2013.

⁷ Detail book contains consolidated accounts for each Circle showing Receipts and Expenditure under each Head of Account

⁸ PAOs Ahmedbad, Bangalore, Hyderabad, Kapurthala, Kolkata, Chennai, Delhi and Lucknow

The reply is not convincing as mere issue of instructions and reminder would not be effective. The Ministry needs to ensure that Cash Certificates are posted and verified regularly and monitoring of the same is also done.

(ii) Non-receipt of the list of unsold Post Office Cash Certificates

As per Para 2.47 of Postal Accounts Manual Volume-II, a list of Post Office Cash Certificates remaining unsold in HPOs on the 31st March of each year are to be received in the PAO annually. The entries in the list should be compared with those in the Stock and Issue Registers and any discrepancies noticed should be settled with the Post Master concerned. A Register is maintained in the PAOs to keep a watch over receipt of lists of unsold Cash Certificates. This check is an important means of detecting fraudulent issues within one year of the transactions.

Audit scrutiny of records revealed that in eleven PAOs the list of unsold Certificates were not submitted by HPOs within one year of the transactions taking place as detailed in Table-2 below:

Table-2
Statement showing non-submission of list of unsold Cash Certificates by HPOs

Sl. No.	Name of PAO	Period from which due
1	Ahmedabad	1998-99
2	Bangalore	2009-10
3	Bhopal	2009-10
4	Cuttack	2003-04
5	Delhi	2010-11
6	Jaipur	2009-10
7	Kapurthala	2009-10
8	Kolkata	2009-10
9	Lucknow	2009-10
10	Nagpur	2007-08
11	Thiruvananthapuram	2009-10

(Source: Stock and Issue register)

The above Table is indicative of the fact that PAOs do not have an effective control over the monitoring of submission of list of unsold Certificates which is an important tool for detecting fraudulent issues within one year of the transactions. In Ahmedabad PAO the list was pending since 1998-99.

PAOs while accepting the fact have also stated that the matter has been taken up with Senior Superintendent of Post Offices/ Superintendent of Post Offices and Post Masters to submit the pending statements.

The reply of PAOs is however not satisfactory as this list is an important means of detecting fraudulent issues and failure to receive this list may result in non-detection of fraudulent issues of Cash Certificates over a period of time.

(iii) Outstanding amount in the Objection Book of Cash Certificate

Para 2.58 to 2.61 of the Postal Accounts Manual Volume-II, stipulate that the Objection Statement⁹ should be filled up and copied in the Circle Objection Book. A reference should be made into the register of refunds and recoveries from the Cash Accounts to watch whether any item appearing in the P.O. Certificates Objection Statement has been recovered or refunded. If any recovery or refund is traceable, the corresponding entry in the Objection Statement should be cancelled. The Objection Statements should then be forwarded to the Postmaster concerned to return the Objection Statement with their explanations, not later than a fortnight from the date on which it is received. A watch over the pending objections should be kept through the Objection Book and reminders should be issued whenever the return of an Objection Statement is delayed by 4 days beyond the scheduled time.

It was noticed in Objection Books of 7 out of 15 PAOs that an amount of ₹19433.97 crore was pending for settlement as on 31 March 2012 in respect of Certificates issued and discharged as detailed in the Table-3 below. Further, out of total of ₹19433.97 crore, an amount of ₹18996 crore, which constitutes 98 *per cent* was outstanding against Kolkata PAO.

Table-3
Statement showing amount outstanding in Objection Book of CCs

(₹ in crore)

Sl No.	Name of the PAO	Amount Outstanding
1	Cuttack	2.17
2	Hyderabad	335.72
3	Kolkata	18996.00
4	Nagpur	6.87
5	Thiruvananthapuram	1.59
6	Kapurthala	91.45
7	Chennai	0.17
Total		19433.97

(Source: Objection book for cash certificates)

⁹ Objection Statement contains irregularities such as incompleteness of vouchers, excess payment or short credits, excess recoveries from or short payment to investors

On this being pointed out by Audit, PAO Kolkata against whom 98 *per cent* of the total amount was outstanding stated that the posting work was held up due to acute shortage of staff. It was further stated by PAOs that correspondence was being made regularly with concerned Post Masters and SSPO's for clearance of outstanding items in Objection Book. Further, PAO Ahmedabad, Delhi and Bangalore stated that the Objection Book was not being maintained at all.

The reply itself indicates ineffective monitoring by the PAOs for clearance of outstanding amounts in Objection Book and also for non-maintenance of Objection Book.

3.1.7.3 Issues relating to Money Orders (MOs)

Rules relating to Money Orders (MOs) as stipulated in Postal Accounts Manual Volume-II prescribe that Money Order should be checked to see that for every paid Money Order, there is credit, in Post Office for an equivalent amount and that Commission is correctly realised. The relevant rules pertaining to Money Orders and deviations there from are discussed in the succeeding paragraphs.

(i) Backlog in pairing

Para 3.5 of Postal Accounts Manual Volume-II, stipulates that each PAO receives list of MOs, issued from the HPOs situated within their jurisdiction. The PAOs also receive lists of MOs paid together with the paid MOs from all HPOs whether within their jurisdiction or outside.

Audit scrutiny of records in ten¹⁰ out of 15 PAOs for the years 2009-10 to 2011-12 revealed that due to non-receipt of list of MOs issued and paid from the HPOs, the work of pairing was in arrears for the last 3 to 4 years and in the case of Hyderabad PAO, the pairing work was pending since year 2005 as shown in the **Annexure -V**.

On this being pointed out by Audit, the Ministry while agreeing to the facts stated that various references have been issued to concerned PAOs to clear/reduce the pending arrear/pairing work in a time bound manner. It was further stated that latest reference in this regard was issued to the concerned PAOs in March 2013.

¹⁰ Gujarat, Maharashtra, Thiruvananthapuram, Bhopal, Chennai, Hyderabad, Cuttack, Raipur, Lucknow and Kolkata

(ii) Outstanding in the Objection Book maintained for MOs

As per Para 3.22 of Postal Accounts Manual Volume-II, if any discrepancy is found by PAOs in the totals of the lists of MOs, issued and brought out in the summary or discovered between the total of the summary and the credit in the Cash Account, the same should be brought to the notice of the Postmaster in the form of an Objection Statement for adjustment.

While verifying the Objection Book of six PAOs, Audit noticed that an amount of ₹19.34 crore was outstanding for the last seven to 12 years and in the case of Lucknow PAO, the outstanding was since 1972-73 as detailed in Table-4 below:

Table-4
Statement showing amount outstanding in Objection Book of MOs

(₹ in crore)

Name of PAO	Pending from	Amount
Kapurthala	2001-02	0.02
Nagpur	2003-04	14.48
Hyderabad	2005-06	2.68
Lucknow	1972-73	0.66
Jaipur	1999-2000	0.01
Thiruvananthapuram	1991-1992	1.49
Total		19.34

(Source: Objection book for MOs)

On this being pointed out by Audit, PAOs stated that the matter is being taken up with higher authorities for clearance of the outstanding amount.

However the fact remains that no concrete effort has been made by DoP to ensure clearance of outstanding amounts in Objection Book.

3.1.7.4 Recovery of dues from other Departments**(i) Delay in recovery of penal interest from Public Sector Banks for delayed remittances**

Instructions issued by Reserve Bank of India in April 2005 provided for recovery of interest on delayed remittances by Public Sector Banks. The instructions further stipulated that for the total amount which was not remitted in time, the penalty due along with the

details of individual cases should be intimated by the concerned Ministry/Department to the Head Office of the Bank concerned. This should be done on a quarterly basis by the 15th of the following month. In case of the DoP, the Circle Postal Accounts Offices are mandated to raise the penal interest claim on behalf of Post Offices in a concerned Circle.

Test check of records of 13 out of 15 PAOs revealed that the PAOs did not take action to raise the claims for recovery of penal interest of ₹8.86 crore from various Public Sector Banks (as on 31 March 2012) as shown in the **Annexure-VI**. It was further observed that in Bangalore PAO, an amount of ₹2.74 crore was outstanding since 2003-04 onwards.

On this being pointed out by Audit, the Ministry stated (April 2013) that out of ₹8.86 crore, ₹0.36 crore has been adjusted by Post Offices. It was further stated that the matter was being pursued vigorously to recover the remaining amount.

(ii) Non-recovery of amount of pension paid to pensioners of other Organisations

DoP discharges the agency function of disbursement of pension/family pension on behalf of other Departments and in return, receives commission at rates fixed by DoP from time to time. The payment of pension/family pension is made through HPOs. The HPOs are required to send Monthly Cash Accounts along with relevant payment vouchers/schedules to the PAO for effecting recovery from the concerned Departments/ Undertakings.

Scrutiny of records of 13 PAOs revealed that an amount of ₹38.04 crore was outstanding against Railways, EPFO, CMPF and DoT/BSNL for the pension paid by Post Offices and Commission due as shown in **Annexure-VII**. It was further observed that an amount of ₹15.61 crore which constituted 41 *per cent* of total outstanding amount was to be recovered by PAO Patna alone since 2002-03.

On this being pointed out by Audit, Ministry stated (April 2013) that an amount of ₹6.41 crore has been recovered. It was further stated that PAOs have been asked to recover the remaining amount.

(iii) Non/Short realization of dues from BSNL/DoT

Audit scrutiny of records relating to recovery of dues from other Departments revealed that dues to the extent of ₹15.50 crore to be realized from other Departments were outstanding as on 31.03.2012 as shown in the Table-5 below. It was further observed that out of total outstanding dues, an amount of ₹7.33 crore was to be realized by Chennai PAO towards rent, electricity and water charges.

Table-5
Statement showing amount outstanding against BSNL/DoT

(₹in crore)

Sl. No.	Name of PAO	Amount outstanding	Remarks
1.	Chennai	5.67	Commission on handling of telegraph charges
2.	Thiruvananthapuram	1.34	
3.	Chennai	0.71	Share of P& T Dispensary from 2000-01 to 2011-12
4.	Nagpur	0.45	
5.	Chennai	7.33	Rent, electricity charges and water charges from 01.01.1974
Total		15.50	

On this being pointed out by Audit, Ministry stated (April 2013) that matter was being pursued with the Circles to realize the amount.

3.1.7.5 Internal control mechanism

Rules regarding Internal Check Inspection are prescribed in Postal Accounts Manual Volume-I. The relevant rules pertaining to internal check and deviations therefrom are discussed in the succeeding paragraphs.

(i) Internal check work in arrears

Para 15.01 of Postal Accounts Manual Volume-I provide that the Director of PAO should arrange for internal check of the accounts of all the Postal units under their accounting jurisdiction. Internal Check Section should see whether the various process of accounting checks are being correctly followed by the different sections of the PAO. Defects in the procedure and financial irregularities which may lead to fraud or misappropriation or defalcation should be included in the Inspection Report with full facts. Inspection Reports are to be issued within one month from the date of completion of inspection.

Audit scrutiny of records of four out of 15 PAOs revealed that the work of internal check of 170 units was in arrears as on 31 March 2012 as shown in the Table-6 below:

Table-6
Statement showing number of units pending for inspection

Sl. No.	Name of PAO	No. of units pending for internal check
1.	Cuttack	45
2.	Kolkata	80
3.	Jaipur	15
4.	Thiruvananthapuram	30
	Total	170

(Source: Internal Check registers)

On this being pointed out by Audit, the Ministry stated (April 2013) that internal check of Postal units could not be completed within the time frame due to acute shortage of staff. It was further stated that inspection of all the pending units have been completed by Jaipur and Thiruvananthapuram PAOs.

Since internal check is an important tool to see whether the various process of accounting checks are being correctly followed, the arrears in internal check work may delay the detection of shortfall in procedure which may lead to financial irregularities.

(ii) Delay in issue of Inspection Reports

Para 15.01 & 15.16 of Postal Accounts Manual Volume-I provide that inspection reports be issued within one month from the date of completion of inspection. Further, the units inspected are required to reply promptly within one month for the settlement of observation to correct the system deficiency, if any.

Scrutiny of records of 12 PAOs revealed that the IRs was issued with delay ranging from 1 to 365 days as shown in **Annexure-VIII**.

On this being pointed out by Audit, the Ministry stated (April 2013) that Inspection Reports could not be issued within the prescribed time due to shortage of staff and issue of special internal audit report pertaining to VIth CPC and 100 *per cent* verification of Time Related Continuity Allowance for Gramin Dak Sewaks.

It was also noticed that in six PAOs, the units inspected either did not give any reply or the same were received late as detailed in Table-7 given below.

Table-7
Statement showing non/late receipt of reply to IRs

Sl. No.	Name of PAO	Total IRs issued	No. of IRs	
			in which reply received late	in which reply not received at all
1.	Ahmedabad	101	76	7
2.	Cuttack	N/A	40	8
3.	Kolkata	111	Nil	75
4.	Delhi	97	51	34
5.	Jaipur	156	138	Nil
6	Nagpur	185	132	35

(Source: Internal Check registers)

On this being pointed out by Audit, the Ministry stated (April 2013) that reminders have been issued to the defaulting field units for early submission of replies to the pending paras. It was further stated that replies have been received from all field units in respect of Cuttack PAO.

The above lapses highlight the ineffective and inefficient working of the Internal Check Organization of PAOs.

Conclusion

The Department of Posts has an extensive, exhaustive and detailed mechanism for preparation and maintenance of accounts. There are also adequate checks and balances prescribed to ensure that the controls are effective and that accounts are prepared properly and submitted to the various authorized channels well in time. However, review of the Internal Control System revealed that due importance to the existing control mechanism was not given. The weakness and lack of internal control have been responded to by the Department primarily due to lack of manpower which resulted in delays in postings, non-reconciliation of accounts and non-maintenance of records/accounts. The argument put forth is not acceptable, since even though there was a system of computerization available to offset the problems of delays, this proved to be ineffective and non-operational. No action has been taken to address these issues either at the Circle or Directorate level. As such DoP needs to look into these issues urgently and effectively to strengthen the system of internal controls which has directly impacted the efficiency and effectiveness of the working of the Department.

Recommendations

- *A time bound programme may be evolved and implemented to clear the unlinked items in bank reconciliation work.*
- *DoP may take up yearly drive to clear suspense balances.*
- *DoP may take effective steps to ensure that Cash Certificate work which is in arrears in PAOs is cleared promptly in a time bound manner so that cases of fraud/loss/misappropriation do not remain undetected.*
- *DoP may ensure that Internal Check inspection are carried out within the stipulated time period and the action on reports thereto is monitored effectively.*

3.2 Irregular claim of remuneration from Ministry of Finance

Department of Posts irregularly claimed remuneration of ₹18.60 crore for the period from 2009-10 to 2012-13 from Ministry of Finance (MoF) on technically revived silent accounts without corresponding efforts by Gujarat, Tamil Nadu and Rajasthan Postal Circles

The Post Office Saving Bank (POSB) is the oldest and largest banking institution in the country. In order to encourage savings, the Government of India instituted Savings Bank Schemes at the Post Offices. The small savings schemes like Saving Bank (SB) Account, Recurring Deposit (RD), Time Deposit (TD), Cash Certificates (CC) etc are operated through the Department of Posts (DoP) for which Department is paid remuneration by the Ministry of Finance (MoF), Government of India on per account/per certificate basis.

According to Rule 2 (a) of the Post Office Savings Bank General Rules 1981, "Account" means a Savings Account, a Cumulative Time Deposit Account, a Recurring Deposit Account, a Time Deposit Account, NSS 1987 Account, MIS Account. Rule 8 of the Post Office Savings Accounts Rules 1981 states that an account in which a deposit or withdrawal has not taken place for three complete years, shall be treated as a silent account.

The Ministry of Finance (MoF) had prescribed the following rates of remuneration as given in Table-1 on live Saving Bank (SB) Account and silent account, during the period 2009-2013. The remuneration on silent accounts was introduced for the first time from 2011-12 by the MoF.

Table-1
Rates of Remuneration

(Amount in ₹)

Year	Rate per live SB Account per annum	Rate per silent account per annum
2009-10	129.49	-
2010-11	135.96	-
2011-12	151.76	20.93
2012-13	163.22	24.75

DoP in January 2010 issued the following instructions with regard to revival of silent accounts.

- All silent accounts as on 31 March 2002 (including those treated as silent at the time of interest calculation of 2001-02) were to be technically revived (without obtaining application from depositor) by the Savings Bank Control Organization (SBCO)¹¹. Service charge @ ₹20/- per account was to be deducted from the accounts having a balance below ₹50/- based on the balance at the time of treating the account silent. The accounts with a balance of ₹20/- or below were to be closed.
- On 31 March 2010, interest was to be calculated on all technically revived accounts and interest was to be charged along with normal interest statement.
- From 1 April 2010, all these accounts would be treated at par with the silent accounts of post 31 March 2002 which are already part of the office balance. All these accounts would then be entered into the Sanchay Post System of the concerned office through a data entry module.
- Revival of silent accounts could be made at any departmental post office where the account stood by transaction of either deposit or withdrawal but the depositor has to attend the post office personally for revival.
- The Postmaster was to take an application from the depositor for revival of account and the depositor had to reintroduce himself by following the same procedure as prescribed for opening of a new account.

¹¹ The Savings Bank Control Organisation (SBCO) has been set up in each Head Post Office to maintain control accounts of saving bank and carry out day-to-day checks of the work done by the SB Branch.

Audit scrutiny (November 2012 to July 2013) in Gujarat, Tamil Nadu and Rajasthan Postal Circles revealed irregular claim of remuneration from the MoF on account of revival of silent accounts as described in subsequent paragraph.

Scrutiny of records in 13 Post Offices under Gujarat Circle, eight Post Offices under Tamil Nadu Circle and four Post Offices under Rajasthan Circle revealed that 554740 silent accounts were technically revived during 2009-10 to 2012-13 and then entered into Sanchay Post Software. These accounts were however, treated as live accounts by these Post Offices without effecting any deposit and withdrawal from these accounts and also without any personal appearance of the depositor, in violation of the instructions issued by DoP in January 2010. Further, these technically revived silent accounts were taken for calculation of remuneration from MoF at higher rates i.e. at rates fixed for claiming remuneration on live accounts. This resulted in irregular claim of remuneration to the extent of ₹18.60 crore (**Annexure-IX**) on these technically revived silent accounts. Further test check of records in the Postal Directorate revealed that remuneration was claimed and received from MoF for all SB live accounts as submitted by the Gujarat, Tamil Nadu and Rajasthan Postal Circles.

On this being pointed out by Audit (June 2013), DoP while accepting the audit findings, stated (July 2013), that it was never the intention of the DoP to treat the technically revived silent accounts as live accounts. It further directed the CPMGs of all Circles to take immediate action to mark such accounts as silent in the Sanchay Post and deduct these accounts from live accounts for 2013-14. The DoP also instructed the Circles to intimate them the effect of inclusion of these silent accounts in the live accounts so that amount of excess remuneration claimed for these silent accounts for the period 2010-11 to 2012-13 is adjusted from the claim to be raised for the financial year 2013-14.

Thus, failure of the Internal Control System of the Department to detect the irregular claim of live accounts submitted by Gujarat, Tamil Nadu and Rajasthan Postal Circles resulted in irregular claim of remuneration of ₹18.60 crore by DoP from MoF for four consecutive years. No responsibility has been fixed as yet by the Department.

3.3 Loss of Revenue

In violation of Departmental instructions, the Newspapers which were not registered with RNI, were allowed to avail of concessional tariff which resulted in short realization of revenue of ₹8.91 crore in Tamil Nadu Postal Circle

Rule 129 of Post Office Guide, Part-I relating to conditions for charging special rates for Book Packets containing Periodicals stipulates that the special rates of Postage in respect of a Book Packet containing Periodicals shall be applicable only if it is registered with the

Registrar of Newspapers in India (RNI) under the Press and Registration of Books Act, 1867 (25 of 1867) and the Periodical bears in print in any convenient place, either on the first or last page thereof, the superscription “Registered with the Registrar of Newspapers in India (RNI)” mentioning that number. After RNI Registration, the Newspaper has to separately register itself with the concerned authorized¹² Postal Authorities. Accordingly, a license is issued to the concerned publisher by the concerned Postal Authority, valid for a period of three years which requires to be renewed periodically. Further, Newspapers that fail to comply with the above conditions for availing concessional rates are to be treated as Book Packets and tariff¹³ is charged accordingly.

Comments regarding short realization of Postage charges by allowing concessional tariff to ineligible Publications were made in Paragraph 3.2 of Audit Report No. CA -1 of 2008 and Paragraph 2.8 of Audit Report No. 14 of 2008-09 of Comptroller and Auditor General of India. The Ministry in their Action Taken Notes (ATNs) submitted in April 2013, while accepting the audit conclusion stated that consolidated instructions on Registered Newspapers were issued in May 2008 to all the circles. It was also stated (April 2013) that after the issue of these instructions, grant of registration to ineligible Publications, under the category of Registered Newspaper have reduced. Audit noticed that the instructions issued in May 2008 were, however, not being complied with by the circles and the deficiency continued to persist as discussed below.

Audit scrutiny (July 2012 to March 2013) of records of 28 HPOs under 14 Divisions¹⁴ in Tamil Nadu Postal Circle, revealed that in violation of the above said rules, the Newspapers which were not registered with RNI, were irregularly accorded Postal Registration on the basis of title verification certificate, for the purpose of availing concessional tariff. Further, in violation of existing procedure, the Postal Registration was also renewed periodically without examining whether those Newspapers were registered with the RNI. In some of the cases, it was also observed that registration number written on the cover page of newspaper or in the documents furnished by the Publishers at the time of applying for Postal Registration were allotted to some other Newspapers by the RNI. Since, these newspapers did not have the certificate of registration from RNI, Book Packet rates should have been charged from them instead of giving them concessional tariff. This lapse on the part of Postal Authorities in Tamil Nadu Circle resulted in short realization of revenue to the extent of ₹8.91 crore (**Annexure-X**).

On this being pointed out by Audit, Director Postal Services (HQ), O/o the CPMG, Tamil Nadu Circle, Chennai stated (September 2013) that observation made by audit was

¹² Divisional Superintendent Offices and independent Gazetted Postmasters

¹³ The rates applicable for book packets were ₹ 2/- up to 31.5.2001 and ₹ 4/- from 1.6.2001 onward.

¹⁴ There are 93 HPOs under 43 Divisions in Tamil Nadu Postal circle. Audit was conducted in 28 HPOs under 14 divisions viz., Dharampuri, Dindigul, Erode, Kanchipuram, Kanyakumari, Karaikudi, Nagapatnam, Ramanathapuram, Salem (east), Theni, Tiruvannamalai, Madurai, Thanjavur and Trichy.

correct and the Divisions have now cancelled the irregular licenses and had initiated action to recover the amount as pointed out by audit.

Thus lapse on the part of Divisions and HPOs in Tamil Nadu Postal Circle to comply with the Departmental instructions resulted in short realization of revenue to the extent of ₹8.91 crore.

The matter was referred to DoP in July 2013; their reply was awaited as of September 2013.

3.4 Wasteful expenditure

Failure of DoP to take effective action for utilization of Bogies purchased in 2004 resulted in wasteful expenditure to the extent of ₹5.46 crore

Department of Posts (DoP) had been utilizing 97 full Bogie Railway Mail Service (RMS) Vans in 2002. Out of these 97 Bogies, 50 had Vacuum Break System (VBS) and 40 had Air Brake System (ABS). The 50 RMS Bogies with VBS manufactured in 1978-79 had almost completed their life span of 25 years. The Ministry of Railways had stated that only those Coaches which had a life span of over five years could be fitted with ABS. Therefore these Coaches could not be fitted with the ABS system. In 2002, the Department required 60 full Bogies with ABS system and 12 standby Coaches for carriage of Mails in different trains. DoP was of the view that if it did not go for new Coaches, Railways would be providing Second Class Coaches in various Mail carrying trains and the effective area of utilization in Second Class Coaches would be much less as compared to full Postal Bogies of the same size. Accordingly DoP placed a Purchase Order on Rail Coach Factory, Kapurthala in July, 2003 for supply of 25 Broad Gauge full Bogie RMS Coaches with ABS for ₹12.41 crore at an estimated unit cost of ₹49.63 lakh each. These Bogies were to be used in Southern (13), South Eastern (4), Eastern (5) and Western (3) Railways for carrying Postal Mails. Advance payment for the same was made to the Railways.

Audit scrutiny of records at Office of the Chief Postmaster General (CPMG), Chennai (March, 2012 and May, 2012) revealed that 13 Bogies intended for Southern Railways were received during July 2004. Out of these 13 Bogies, 11 Bogies valuing ₹5.46 crore were lying idle at Tondiarpet Marshalling Yard, Chennai. It was further observed that the CPMG Chennai took up the matter with DoP Headquarters only in March, 2012 for disposal of these 11 Bogies which were lying idle. The DoP Headquarters, in response sought (May, 2012) non-utilization report from the respective Postal Circles.

On this being pointed out by Audit, Director (Mail Management), DoP stated (January 2013) that these 11 coaches had not been put to use by the Railways. It was further stated that the Ministry of Railways had been requested to indicate the possibility of the use of these Coaches. DoP further replied that the current status of utilization of the remaining 12 Coaches placed at the disposal of Western, Eastern and South Eastern was being obtained from the concerned Circles.

The reply of DoP does not explain the reasons as to why these 11 Coaches were not put to use by the Railways. The reply is further contradicting as the Southern Railway, Chennai had specifically stated (June 2012) that none of these Coaches were fit for use. Further, it was the responsibility of DoP to ensure utilization of these Coaches on which substantial amount was invested and also to keep a strict vigil on its own assets. The reply of DoP that current status of utilization of the remaining 12 Coaches placed at the disposal of Western, Eastern and South Eastern was being obtained from the Circles further reflected the casual approach being adopted by DoP in ensuring the utilization of the valuable assets procured for smooth functioning of Railway Mail Services.

Thus inaction on the part of DoP to take effective steps for utilization of Railway Bogies purchased in 2004 resulted in wasteful expenditure to the extent of ₹5.46 crore.

3.5 Failure to realise service charge against disbursement of Old Age Pension in Jharkhand Postal Circle

In disregard of Postal Directorate instructions of December 2005, the Chief Postmaster General, Jharkhand Postal Circle failed to realise service charge of ₹1.52 crore during 2008-2013 against disbursement of Old Age Pension under Indira Gandhi National Pension Scheme

Under the National Old Age Pension Scheme renamed as Indira Gandhi National Pension Scheme¹⁵ (IGNPS) sponsored by Government of India, the Department of Posts (DoP) decided (December 2005) to offer the services for disbursement of Old Age Pension through Post Offices on payment of service charges mutually agreed to between Postal Department and the Competent Authority of the concerned State. Accordingly, all the Chief Postmaster Generals (CPMGs) were instructed by the Secretary (DoP) in December 2005 to follow up the matter with the concerned State Labour Secretaries for fixing of service charges after working out the costs of disbursement of pension. Pursuant to the DoP's instruction, CPMG Bihar Circle took up the case in December 2005 and April 2006 and signed a Memorandum of Understanding (MoU) with the State Government for

¹⁵ All persons of 60 years and above (revised downwards from 65 in 2011) and belonging to below the poverty line category according to the criteria prescribed by the Government of India from time to time, are eligible to be a beneficiary of the Scheme

payment of Old Age Pension. They also finalized service charge of ₹18/- per pension account per annum for disbursement of the same. The Bihar Circle realised service charge amounting to ₹25.79 crore¹⁶ for the year 2008-2013 (up to February 2013) from Government of Bihar. Jharkhand Postal Circle which came into being in the year 2001 after three new States were formed by the Government of India in 2000 was under the Bihar Postal Circle, before 2001.

Scrutiny of records of the CPMG, Jharkhand Postal Circle (March 2013) however, revealed that CPMG, Jharkhand Circle made payment of Old Age Pension under Indira Gandhi National Pension Scheme without signing any MoU with the State Government. In the absence of any MoU, Jharkhand Postal Circle also failed to claim service charge of ₹1.52 crore¹⁷ though it had disbursed Old Age Pension to the extent of ₹269.04 crore for 842701 accounts under IGNSP from 2008-2009 to 2012-13 (up to February 2013). Postal Directorate also failed to monitor the receipt of service charges from the various States and did not detect the non-receipt of service charges from the Govt of Jharkhand.

On this being pointed out by Audit, CPMG Jharkhand Circle replied (May 2013) that the Circle had not provided any special service to State Government for implementation and disbursal of Pensions under IGNSP. It was also stated that in the absence of any specific order from Postal Directorate, no service charge was claimed from the State Government against disbursement of Old Age Pension.

The reply of CPMG Jharkhand Circle is however not acceptable as the instructions of December 2005 by Secretary, Post impressed upon all Heads of Circles to contact the concerned State Governments so that DoP could get a share in the national activity and earn subsequent revenue from the same. It was also observed that other Postal Circles had also been realising service charge against disbursement of Old Age Pension. DoP should also have adopted a mechanism to ensure that service charge was being levied by all Postal Circles in consultation with the State Governments at mutually agreeable rates.

Thus, ineffective monitoring mechanism of the Postal Directorate coupled with non-compliance of instructions of Postal Directorate by CPMG, Jharkhand Circle, resulted in loss of revenue to the extent of ₹1.52 crore in Jharkhand Postal Circle for the year 2008-2013 (up to February 2013) as service charges on Old Age Pension disbursement under IGNSP.

The matter was referred to DoP in June 2013; their reply was awaited as of August 2013.

¹⁶ Booked under the head of account 1201008004000 - Postal Receipts by Postal Accounts Office, Patna

¹⁷ The service charge tentatively calculated at the rate of ₹18/- per account/per annum on the analogy of Bihar Circle