

CHAPTER V: COAST GUARD

5.1 Avoidable payment of late fee by Indian Coast Guard

Coast Guard did not reconcile the payment terms offered by Maharashtra Housing and Area Development Authority with the terms sanctioned by the Ministry, in its acquisition of flats, which resulted in payment of late fees of ₹3.74 crore including ₹0.98 crore of the late fees due to delay in processing the payment of balance amount of ₹3.97 crore. Payment of interest of ₹0.45 crore due to delay in payment of service charges of ₹0.33 crore was also avoidable. Besides sanction from Competent Financial Authority (CFA) was not obtained for these payments totalling to ₹4.19 crore.

The General Financial Rules, stipulate that no authority may incur any expenditure or enter into any liability involving expenditure from government account unless the same has been sanctioned by a competent authority. Also, Financial Regulations exist which stipulate that the terms of contracts must be precise and definite and there must be no room for ambiguity or misconstruction therein. The general principles further stipulate that even in cases where a formal written contract is not made, no order for the supplies etc. should be placed without at least a written agreement as to the price.

Based on the proposal for acquisition of 224 flats submitted by the Coast Guard in March 1997, Ministry of Defence (Ministry) accorded two sanctions in September 1997 and March 1999 for the purchase of 79 and 144 flats at a total cost of ₹19.13 crore and ₹15.90 crore respectively. The sanctions also stipulated payment of lease rent of the land, Non Agriculture assessment charges etc. payable to the State Government as per rates mentioned in the sanction or as per rates revised by Mumbai Housing and Area Development Board, a unit under Maharashtra Housing & Area Development Authority (MHADA) from time to time. Accordingly, Coast Guard purchased these flats and took over 79 flats in December 1997 and 144 flats in May 1999.

Our scrutiny (June 2012 and May 2014) revealed that non-observance of the above mentioned financial principles led to the avoidable payment of late fee and interest by Coast Guard:

1) Avoidable payment of late fee without obtaining approval of CFA

In the first instance, Coast Guard initiated (June 1998) a proposal for purchase of 144 flats at a net cost of ₹17.89 crore after deducting 10 *per cent* discount offered on the price of ₹19.87 crore. After receipt of the proposal for approval in the Ministry, a committee was formed (November 1998) by Ministry for verifying the reasonableness of the prices. The committee recommended (March 1999) that as the prices of properties were falling in Mumbai, MHADA should be asked to provide at least 20 *per cent* discount on the flats. It was also decided (March 1999) by the Ministry to make payment in two instalments *i.e.* 50 *per cent* payment during the year 1998-1999 and balance payment during next financial year after all the defects in the flat were rectified. Accordingly, Coast Guard requested (March 1999) MHADA for the 20 *per cent* discount on the quoted price. However, the condition laid down by the Ministry relating to the payment terms *i.e.* second instalment of 50 *per cent* would be payable only after defect rectification in the flats was carried out by MHADA was not communicated to MHADA.

In March 1999, MHADA agreed to offer a discount of 20 *per cent* on the total price of ₹19.87 crore subject to the condition that the entire payment towards the flats was made before 31 March 1999. MHADA also specifically stated that to avail the discount of 20 *per cent*, Coast Guard might not wait till the completion of defect rectification. On the basis of this final offer (March 1999) of MHADA, the case was submitted (March 1999) in the Ministry for approval of the Defence Secretary as CFA. However, the CFA was not apprised of the payment conditions stipulated by MHADA for availing the 20 *per cent* discount. The CFA approved (March 1999) the proposal and sanction was accorded (March 1999) for purchase of 144 flats at a cost of ₹15.90 crore, with payment terms of 75 *per cent* of cost at the time of handing over of flats and balance 25 *per cent* in next financial year, after rectification of defects.

We observed (May 2014) that even though, the payment terms sanctioned by the Ministry were at variance with the terms offered by MHADA, Coast Guard neither brought the fact to the notice of MHADA nor did it deliberate and negotiate the sanctioned terms of payment with MHADA. The terms and conditions of MHADA with regard to the payment of sale price were also reiterated by MHADA to the Coast Guard while the flats were handed over to Coast Guard in May 1999. Further, the terms and conditions of sale of flats stipulated that *“for delay in payment of any instalment over due date as per time schedule given in offer letter, the allottee shall be liable to pay interest at the rate of 16 per cent per annum for the period of delay in payment of particular instalment”*.

Thereafter, in accordance with the Ministry’s sanction, Coast Guard released the first instalment of *75 per cent* of sale price amounting to ₹11.92 crore in March 1999 and withheld the balance amount of ₹3.97 crore to be paid after the completion of defect rectification ignoring the stipulation of MHADA. After completion of defect rectification in August 2003 by MHADA, the works officer (LA&O) of CGHQ requested to release the balance amount to MHADA in September 2003 and the same was approved by the DG Coast Guard in October 2003. The sanction for release of the second instalment of ₹3.97 crore could be obtained from the Ministry only in March 2004 and the balance amount was paid to MHADA in February 2005. Further no correspondence from MHADA for demanding release of remaining amount during March 1999 to February 2005 was found on record.

In April 2006, however, MHADA demanded late fee of ₹3.74 crore *i.e. @ 16 per cent per annum* on the balance amount of ₹3.97 crore for the period from 02 April 1999 to 17 February 2005. Coast Guard, in November 2007, requested MHADA for waiver of the late fee on the grounds of being a defence organisation. Defence Estate Officer (DEO) Mumbai also requested MHADA (February 2008) for waiver of the late fee on similar grounds. However, MHADA did not agree to waive this late fee. Finally, in March 2008, on the basis of funds released by Coast Guard Headquarters in March 2008, DEO made a payment of late fee of ₹3.74 crore to MHADA. Further, no sale deed and lease deed was signed with MHADA for the flats purchased in 1997 and 1999, till July 2012 and December 2013 respectively. The present status of the lease deeds are

awaited (September 2014) from the Dte of Infra and Works at CGHQ, New Delhi.

We observed (May 2014) that differences in the offered and accepted terms of payment for purchase of these flats resulted in a committed liability for payment of the late fees leading to an avoidable payment of late fees. However, this was not done. Had the balance amount of ₹3.97 crore been released promptly when the flats were handed over after rectification of defects in August 2003, payment of ₹0.98 crore (included in ₹3.74 crore) could have been avoided. The payment of the balance amount of ₹3.97 crore was made to MHADA only in February 2005 *i.e.* 18 months after the completion of defect rectification, despite being aware of the provision of payment of late fees at a rate of 16 *per cent per annum*, Coast Guard took 18 months (from 02 August 2003 to 17 February 2005) in processing the payment of the second instalment which resulted in avoidable payment of late fees of ₹0.98 crore (part of ₹3.74 crore) to MHADA for the said period. Moreover, no sanction from the CFA was sought for payment of late fees of ₹3.74 crore to MHADA by Coast Guard. Since, the sanction as accorded by the CFA for acquisition of flats in March 1999 stood modified due to payment of late fees, a revised sanction of CFA was required.

2) Avoidable Payment of interest of ₹0.45 crore on Service Charges

Offer letter of MHADA for allotment of flats to Coast Guard had a provision of payment of Lease Rent and Non Agriculture Assessment Charges at prescribed rates or as per the rates revised by MHADA from time to time. The sanctions accorded by Ministry in 1997 and 1999 also provided for these payments.

Coast Guard did not pay these service charges till July 2007 to MHADA. Consequently, MHADA claimed (July 2007) unpaid service charges (Lease rent, NA Charges etc.) on 223 flats for period up to July 2007 amounting to ₹0.33 crore and interest on the unpaid amount *i.e.* ₹0.45 crore. Coast Guard again sent a request (November 2007) for waiver of interest on these service charges to MHADA but the request was not acceded to. Therefore, Coast Guard had to pay (March 2008) interest on service charges of ₹0.45 crore along with the late fee to MHADA. As the payment of these service charges was provided in the sanctions, delay in payment of the same resulting in levy of avoidable

interest charges was not justified and hence avoidable. Further no approval of CFA was taken for payment of this interest to MHADA.

To sum up, lapses in communication resulting in failure to reconcile the payment terms offered by MHADA and those sanctioned for purchase of flats resulted in the payment of late fee amounting to ₹3.74 crore on balance payment of second instalment of ₹3.97 crore. Payment of ₹0.98 crore of the late fee was avoidable as it was incurred due to delay in processing of payment of the second instalment. Further, non-observance of the sanctioned provisions relating to the payment of service charges by the Coast Guard resulted in avoidable payment of interest of ₹0.45 crore on service charges. In addition, sanction of the CFA was not taken for these payments of ₹4.19 crore.

The matter was referred to the Ministry in May 2014; their reply was awaited (September 2014).

5.2 Blocking of funds and recovery of interest from a Shipyard

In deviation of laid down policy, Indian Coast Guard Headquarters (ICGHQ) sought to procure additional On Board Spares (OBS) from M/s Goa Shipyard Ltd. (M/s GSL), after the delivery of the vessels in order to utilise unspent funds of ₹1.19 crore. M/s GSL could not supply the additional OBS and the ICGHQ instead of recovering the unspent balance, let the funds remain with the shipbuilder for almost five years, leading to blocking of funds of ₹1.19 crore. On being pointed out by Audit, an amount of ₹56.53 lakh was recovered towards interest on outstanding advances.

As per the extant procedure¹ for procurement of On Board Spares (OBS) for under construction Coast Guard Ships, the OBS, as recommended by the Original Equipment Manufacturer (OEM) and approved by the Indian Coast Guard Headquarters (ICGHQ), are to be procured by the shipbuilder. Further, the policy stipulates that OBS should be procured prior to delivery of each vessel. There is no provision for procurement of OBS, through the shipbuilder, after delivery of the vessel.

¹ As per procedure stipulated vide CGHQ No.SA/0100/B &D SPARES/GEN dated 25 October 2007

Audit scrutiny (July 2012) revealed that in deviation of this stipulation, ICGHQ requested (May 2007) the shipbuilder to procure additional OBS after delivery (September 2006) of the Fast Patrol Vessels (FPVs), as unspent funds remained with the shipbuilder. However, the shipbuilder did not procure and deliver/supply the spares, and the funds continued to remain outside the exchequer for inordinately long period *i.e.* May 2007 to February 2012. Details follow:

Ministry of Defence (MoD) accorded (March 2004) sanction for acquisition of five Fast Petrol Vessels (FPVs) from M/s Goa Shipyard Ltd. (M/s GSL) at a total cost of ₹222.86 crore, inclusive of Onboard Spares (OBS) and Base & Depot (B&D) Spares. Accordingly, ICGHQ concluded (March 2005) a contract with M/s. GSL for construction and delivery of five FPVs at a total cost of ₹194.28 crore, inclusive of OBS for ₹3.81 crore for the five vessels.

The contract provided, *inter alia*, that OBS shall be procured as per owner's (ICGHQ) requirement within the stipulated cost along with the equipment and would be delivered with the vessel and that the builder (M/s GSL) shall supply a comprehensive list of "On Board" spares at the time of commissioning.

The last of the FPVs was delivered in September 2006 and the contractual requirement to supply the OBS with the vessel was fully met by M/s GSL by September 2006. However, against the total amount of ₹3.81 crore available for OBS, only ₹ 2.61 crore were utilised, leaving an unspent amount of ₹1.19 crore with M/s GSL. We observed that, instead of recovering the unspent balance of ₹1.19 crore, ICGHQ decided (May 2007) to procure additional OBS items, in deviation of the procurement procedure of OBS and the contract. ICGHQ requested (May 2007) M/s. GSL Goa to procure additional OBS under the remaining budget limit against OBS ignoring the fact that the ship had already been delivered.

It was observed that the supply of OBS worth ₹1.19 crore was still pending (September 2011), when the ICGHQ decided, that since M/s GSL had not initiated any action for supply of these spares, as per the May 2007 rates, the amount be deducted from next payment of ongoing projects. Accordingly, Coast

Guard Refit and Production Team (CGRPT) Goa, requested (January 2012), Principal Controller of Defence Accounts (Navy) [PCDA (Navy)] Mumbai for recovery of ₹1.19 crore towards non-supply of additional OBS. The amount was finally recovered from M/s GSL only in February 2012. We observed (July 2012) that since the funds of ₹1.19 crore were lying with M/s GSL for a period of more than five years, an interest of ₹56.53 lakh² @ 10 per cent should be recovered from M/s. GSL. The same was recovered in April 2014 by the office of the Deputy Controller Defence Accounts (Navy), Goa.

Ministry, while acknowledging (June 2014) that the recovery (April 2014) of ₹56.53 lakh towards interest due from M/s GSL, was because of the Audit recommendation, also stated (June 2014) that the initial list of OBS was prepared based on the consumption pattern of the spares for two years of operational requirement and there could have been under estimation due to forecast limitations. Ministry further contended that, since the contract did not prevent procurement of additional OBS within the overall financial ceiling prescribed, there was therefore no deviation to the contractual provisions.

Ministry's contention is not pertinent since the ICGHQ procedure for procurement of OBS clearly specifies, that procurement of OBS is to be made prior to delivery of vessel. Therefore, ICGHQ's action to procure additional OBS, after delivery of the vessels was incorrect. Additionally, the contract required that at the time of commissioning, OBS should be supplied along with the vessel.

Thus, though ICGHQ had a specific policy which stipulated that OBS should be procured prior to delivery of each vessel, the ICGHQ deviated from the same to procure additional OBS, only to utilize the balance extra funds after delivery of all five contracted vessels besides allowing the public funds to remain parked with M/s GSL for nearly five years. It was only at the instance of audit that an interest of ₹56.53 lakh was recovered in April 2014.

² 10% of ₹1.19 crore = ₹ 1190000
₹ 1190000 for 4 years (May 2007 to April 2011) = ₹ 4760000
₹ 1190000 for 9 months (May 2011 to January 2012) = ₹ 892500
Total Interest to be recovered = ₹ 5652500

5.3 Lapses in recovery of advances to Coast Guard personnel

There were lapses in timely recovery of advances totaling to more than ₹1 crore granted to Coast Guard personnel. The lapses were attributable to systemic deficiency in the office of the Principal Controller Defence Accounts (Navy), Mumbai.

The Defence Accounts Department (DAD) is under the administrative control of the Ministry of Defence (Finance) and the office of the Principal Controller of Defence Accounts (Navy) Mumbai [PCDA (N)] is one of the field offices under the Controller General of Defence Accounts (CGDA) of the DAD.

As per the provisions of Defence Accounts Department Coast Guard Manual, office of Principal Controller of Defence Accounts (Navy) Mumbai, Coast Guard Section (CG Section) is responsible for the maintenance of the pay accounts of all Coast Guard Officers, Sub-ordinate Officers, Naviks and Coast Guard Civilians. Further, as per the *ibid* Manual, the Imprest Audit sub-section of Coast Guard Section in office of PCDA (N), Mumbai is responsible for payment of various advances viz. House Building Advance, Motor Car / Motor Cycle Advance, Personal Computer Advance etc. and the recovery thereof along with interest till the entire amount is liquidated.

In contravention to the laid down provisions, our scrutiny (April 2013) of the records at the office of the PCDA (N) revealed a number of lapses in recovery of the advances granted/ recovery of the interest thereof in respect of Coast Guard Service personnel as well as Coast Guard Civilians. Lapses pertained to House Building Advance, Personal Computer Advance, Motor Car Advance, and Scooter Advance. We suggested (May 2013) the PCDA (N) that a review of such instances of non-recoveries be carried out to protect the interest of the Exchequer and results intimated to audit.

The office of the PCDA (N) in its reply (May/June 2013) agreed to our observations and assured full recovery of advances granted and interest thereof. Subsequently, office of the PCDA (N) intimated (December 2013) that review of all Statements of Entitlement (SOE) of CG section, regarding recovery of

interest against various advances taken by Officers / Naviks had been carried out and no lapses were found.

However, our further scrutiny (March-April 2014) revealed that the situation had not improved and the lapses in recovery of Advances and interest persisted as brought out in the following Table:

Table

Sl No.	Type of Advance	Quantum of advance where lapses were noticed	Audit Observation
1.	House Building Advance (HBA)	₹58.26 lakh involving 17 cases	<ul style="list-style-type: none">• Recovery of interest not effected. (last recovered in November 2003)• In 5 cases even the principal amount of HBA had not been recovered.
2.	Personal Computer Advance (PCA)	₹ 25.73 lakh in 49 cases	<ul style="list-style-type: none">• Non-recovery of interest on PCA, including one advance of November 1997.• In respect of 5 cases even the principal amount of PCA was not recovered.• The number of instalments to be recovered on interest on PCA was shown incorrectly. For e.g:<ul style="list-style-type: none">i) Instead of, 5th instalment it is shown as 8th instalment.ii) 18th instalment is shown as 21st instalment. <p>These lapses resulted in incorrect calculation of interest.</p>

3.	Motor Car Advance (MCA)	₹ 22.95 lakh in 19 cases	<ul style="list-style-type: none"> • Non-recovery of interest on MCA- where the advance was sanctioned in June 1999. • In respect of 7 cases, even the principal amount was not recovered. • The number of the instalment to be recovered is shown incorrectly: <ol style="list-style-type: none"> i) Instead of 165th instalment of MCA, it is shown as 168th instalment. ii) 21st instalment is shown as 24th instalment. <p>These lapses resulted in incorrect calculation of interest.</p>
4	Scooter Advance (SCA)	₹4.05 lakh in 17 cases	<ul style="list-style-type: none"> • Recovery of interest not effected. (oldest case pertains to May 2003)
	Total of Sl.No.1,2,3,4	₹1.10 crore approximately	

When the matter was taken up (May 2014) with the office of the PCDA (N), they admitted (May 2014) that there was no provision in the existing computer program wherein calculation as well as recovery on interest on HBA, PCA, MCA and SCA could be done and recovery be started after completion of recovery of principal amount. In addition, it was mentioned (May 2014) that review of the cases having outstanding amounts of advances, where recovery is not affected, would be carried out. The office of the PCDA (N) also acknowledged the flaw in their systems, and assured remedial action.

In fact, the system of recovery of principal amount and interest thereon suffered from inadequate internal control and lack of monitoring.

Thus even after a lapse of an year since initial Audit observation; no concrete action was taken by the office of PCDA (N). This resulted in persistence of lapses in recovery of advances totaling to ₹1.10 crore (approx) to Coast Guard personnel. It was only when Audit pointed out the issue again in March-April

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2014, that the office of PCDA (N) agreed (May 2014) to work on rectifying the systemic error. As on July 2014, an amount of ₹45.57 lakh remained to be recovered pointing to the need for early rectificatory measures.

The matter was referred to the Ministry in May 2014; their reply was awaited (September 2014).



New Delhi
Dated: 27 November 2014

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New Delhi
Dated: 27 November 2014 **Comptroller and Auditor General of India**

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