CHAPTER III

COMPLIANCE AUDIT

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Compliance Audit of Departments of the Government and their field formations as well as autonomous bodies brought out several lapses in management of resources and failures in observance of norms of regularity, propriety and economy. These have been presented in the succeeding paragraphs.

MUNICIPAL ADMINISTRATION AND WATER SUPPLY DEPARTMENT

3.1 Implementation of 'Hogenakkal Water Supply and Fluorosis Mitigation Project'

3.1.1 Introduction

The towns and villages of Dharmapuri and Krishnagiri districts, being drought prone, relied more on ground water for drinking purpose. The fluoride content of the ground water ranged from 1.5 to 12.4 milligram/litre (mg/l) against the permissible limit of 1.5 mg/l[1]. As a result, 11.94 lakh out of a total population of 33.87 lakh (2011 census) in the two districts, were affected by dental, skeletal and non-skeletal[2] Fluorosis. With a view to mitigate Fluorosis and to provide sustainable and protected drinking water to both the districts, GoTN sanctioned (February 2008) 'Hogenakkal Water Supply and Fluorosis Mitigation Project' (Project) at an estimated cost of ₹ 1,334 crore, which was revised (January 2010) to ₹ 1,928.80 crore.

The project involved tapping of surface water from Cauvery river near Hogenakkal in Dharmapuri District and included construction of head works, treatment plants, Master Balance Reservoirs (561), laying of gravity and pumping mains, distribution mains, etc., (10,169 kms), overhead tanks (OHT), sumps, etc., (1,067). It carried treated water to three municipalities, 17 Town Panchayats and 7,639 Rural Habitations (**Exhibit 3.1**).

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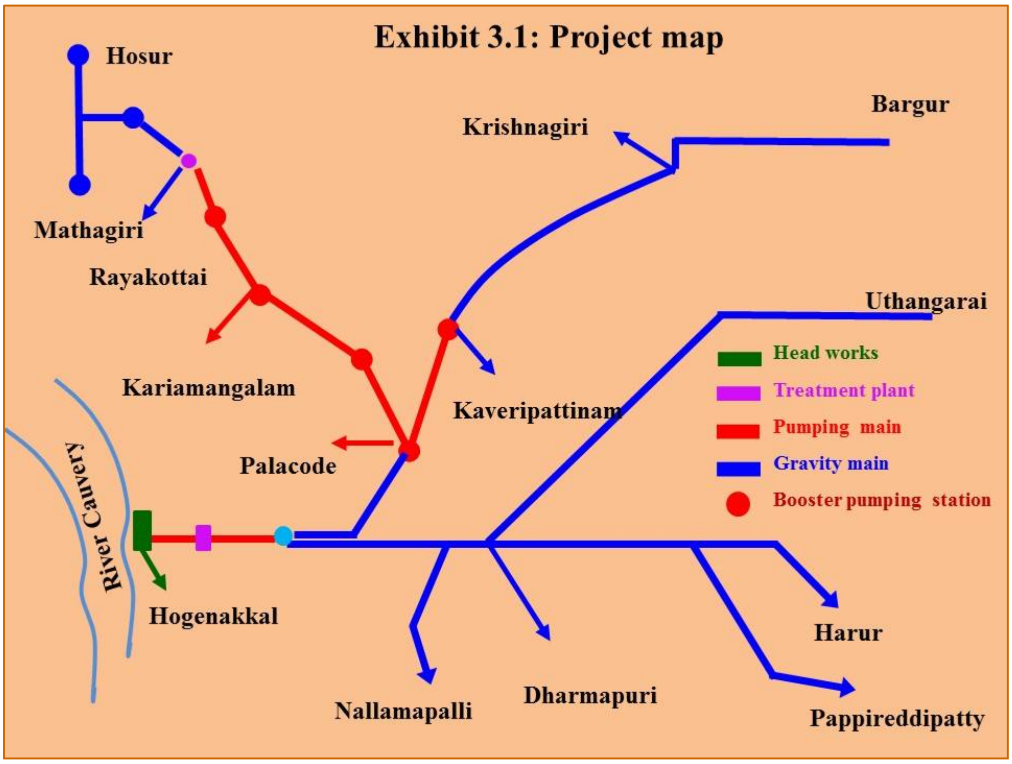
1 World Health Organisation's (WHO) Guideline values for drinking water quality. The desirable limit of fluoride as per Bureau of Indian Standards is 1 mg/l.

2 Non-skeletal Fluorosis has gastro-intestinal, muscular and neurological manifestations, which develop long before the onset of Dental and Skeletal Fluorosis.



(Source: TWAD Board)

The Project Chief Engineer (PCE) of the Tamil Nadu Water Supply and Drainage Board (TWAD Board) headed implementation of the project. He was assisted by Superintending Engineer, Project Management Cell (SE, PMC). TWAD Board completed the project at a total cost of ₹ 1,846.86 crore between July 2013 and January 2014. The project was funded by loan assistance from Japan International Co-operation Agency (JICA), the financial support of GoTN and the local bodies' contribution[3].

The audit was conducted from April to July 2018, covering the period from December 2010 to July 2018 to ascertain whether the objectives of the project were achieved. An Entry Conference was held with the Principal Secretary to Government, Municipal Administration and Water Supply Department on 28 June 2018 wherein the audit scope and methodology were discussed. Audit methodology included scrutiny of the project records at the Secretariat and the TWAD Board. Audit test-checked records at the project implementing offices, one municipality, five town panchayats (TPs) and five panchayat unions (PUs) along with 17 village panchayats therein **(Appendix 3.1)**, which were selected randomly using a sampling software. An Exit Conference was held with the Principal Secretary to Government, Municipal Administration and Water Supply Department on 05 October 2018 to discuss the audit findings. Reply of the Government has been considered while finalising the report.

[3] Loan from JICA - ₹ 1,444.27 crore; GoTN Grant - ₹ 366.87 crore (including ₹ 94.23 crore towards interest paid to JICA during construction and commitment charges) and local body contribution - ₹ 35.72 crore.

Audit findings

3.1.2 Financial Management

The funds committed by various sources and utilised for execution of the Project by the implementing agency (TWAD Board) were as given in **Table 3.1**.

Table 3.1: Project finances

(₹ in crore)

Source of fund	Amount committed by the source for the Project	Amount drawn by TWAD Board	Excess (+)/ Short (-) drawal by TWAD Board	Amount utilised for Project implementation
Loan from JICA	1,585.60	1,444.27	(-) 141.33	1,444.27
Grant from GoTN	307.48	378.12	(+) 70.64	272.64
Contribution from Urban Local bodies	35.72	35.72	0.00	35.72
Total	**1,928.80**	**1,858.11**		**1,752.63**

(Source: Details furnished by TWAD Board)

The Project was completed well within the estimated cost mainly due to partial implementation of Fluorosis Mitigation and non-implementation of Capacity Building components.

TWAD Board held an unspent balance of ₹ 105.48 crore out of the funds released by GoTN for the Project, which was utilised for operation and maintenance (O&M) expenses during 2015-18 due to higher cost of O&M as discussed in **Paragraph 3.1.6**.

3.1.3 Water Supply

3.1.3.1 Project outcome

The Project envisaged water supply of 90 litres per capita per day (LPCD) for High Income Group (HIG[4]) and 40 LPCD for Low Income Group (LIG[5]) in the municipalities, 70 LPCD for HIG and 40 LPCD for LIG in town panchayats and 30 LPCD for rural habitations. Based on the per capita norms and population as per 2011 census, the total drinking water requirement of the project area was worked out as 167.21 Million litres per day (MLD). It was, however, decided to supply only 126.54 MLD (76 *per cent)* through the project and to meet the balance of 40.67 MLD (24 *per* cent) by mixing water from existing local sources, including ground water, which was sustaining an existing level of 12 to 50 LPCD of water supply in the municipalities and an average of 10 LPCD in villages.

4 70 *per cent* of population was considered coming under High Income Group (HIG).
5 30 *per cent* of population was considered coming under Low Income Group (LIG).

Against the target to supply 126.54 MLD, the average supply during 2015-16, 2016-17 and 2017-18 was only 116.86 MLD, 118.54 MLD and 103.32 MLD respectively, which worked out to 92, 94 and 82 *per cent* of the requirement. It was also observed that if the growth in population is considered, the average quantity of water available from the project was only 81, 80 and 68 *per cent* of the projected requirements during 2015-16, 2016-17 and 2017-18 respectively. It was also observed that in the absence of metering at consumers' end, only the quantity of water available for supply could be ascertained and compared. Further, Audit also noticed disparity in supply among different towns and villages as given in **Table 3.2**.

Table 3.2: Status of water supply

Local bodies	Number of local bodies with Excess / Short supply											
	2015-16				2016-17				2017-18			
	Excess supply	Short supply			Excess supply	Short supply			Excess supply	Short supply		
		Up to 25 *per cent*	25 to 50 *per cent*	Above 50 *per cent*		Up to 25 *per cent*	25 to 50 *per cent*	Above 50 *per cent*		Up to 25 *per cent*	25 to 50 *per cent*	Above 50 *per cent*
Municipalities (3)	2	0	1	0	2	0	1	0	1	0	2	0
Town Panchayats (16)	9	5	1	1	10	4	2	0	6	7	3	0
Panchayat Unions (18)	4	11	1	2	6	8	4	0	1	11	6	0
Total (37)	**15**	**16**	**3**	**3**	**18**	**12**	**7**	**0**	**8**	**18**	**11**	**0**

* Data pertains to Hogenakkal water alone. Towns and villages had nominal quantity from existing ground water and other sources

(Source: Details furnished by TWAD Board)

During 2015-16, one municipality, two town panchayats and three panchayat unions faced more than 25 *per cent* short supply of water, which rose to two municipalities, three town panchayats and six panchayat unions during 2017-18.

While the project succeeded in terms of coverage of all the planned (7,639) habitations, in terms of quantity of water available, there was an aggregate shortage of 6.32 to 18.36 *per cent* during 2015-18 with reference to 2011 census population. The shortage was the highest in Bargur Town Panchayat (78.31 *per cent*). Analysis of reasons disclosed the following:

- Audit found that during 2015-18 the local bodies[6] served by pumping mains had an average short supply of 23.48 *per cent* and those[7] receiving water through gravity mains had an annual average shortfall of 5.41 *per cent* (**Appendix 3.2**). The SE, PMC, Dharmapuri, *inter alia,* attributed (July 2018) the short supply to pumping constraints due to low electric voltages at the booster

6 Two municipalities, eight town panchayats and ten panchayat unions.

7 One municipality, eight town panchayats and eight panchayat unions.

pumping stations. Audit observed that the proposed separate feeder arrangements for power supply to Booster pumping stations were not provided leading to disruptions in power supply.

- Damages caused to pipelines by other line departments, *viz.,* PWD, Highways, Electricity Board, etc., resulted in non-supply of Hogenakkal water to 412 habitations for periods ranging from1 to 25 months. Audit observed that this was a result of failure on the part of the line departments to coordinate with TWAD Board before commencement of digging.
- The reduction in the quantity supplied during 2017-18 was mainly due to shortage of water at the source. During April, May and June 2017, pumping from the head works near Hogenakkal fell to 69.74 MLD, 85.30 MLD and 79.84 MLD respectively, against the previous year's average pumping of 118.54 MLD.

Regarding short availability of water from Hogenakkal Water Scheme (HWS), GoTN replied (November 2018) that Dharmapuri Municipality had other source and Hosur Municipality did not have adequate infrastructure to receive water leading to short supply. GoTN also stated that the receiving infrastructure of Hosur Municipality was being expanded under 'Atal Mission for Rejuvenation and Urban Transformation' (AMRUT) scheme. Further, GoTN stated that the pumping constraints due to power supply issue were being addressed and shortage of water at source was a '*force majeure*' event.

3.1.3.2 Defective planning leading to supply of contaminated water

The Project envisaged provision of water supplied of 30 LPCD for rural habitations as against the then existing GoI norms of 40 LPCD. The balance 10 LPCD was proposed to be met from ground water sources. Considering the level of contamination of ground water in these districts, the proposal to mix the high fluoride ground water with river water, was against the objective of the Project to mitigate Fluorosis. During field visits to sampled habitations, it was noticed that the rural local bodies were supplying water to the habitations by mixing higher than the planned 10 LPCD of local source water with the water supplied through the Project due to short supply of Hogenakkal water as commented in **Paragraph 3.1.3.1**.

It was noticed that in 66[8] out of 195 habitations in the sampled panchayat unions, the fluoride content in the supplied water was above the WHO prescribed ceiling of 1.5 mg/l. In order to overcome the mixing of ground water with river water, TWAD Board provided one additional 5,000 litre overhead tank in each of the 156 out of the 3,245 habitations in Dharmapuri District between January 2015 and April 2017. It was, however, noticed that only group public fountains were provided in the vicinity of the OHT, thereby denying

[8] Fluoride range and number of habitations - 1.51 to 2 mg/l - 37 habitations; 2.01 to 3 mg/l - 21 habitations and above 3 mg/l - 8 habitations.

benefits to people living away from the site of the OHT. In Krishnagiri District, no such attempt was made to provide separate OHTs to avoid mixing. Further, in January 2018, the SE, PMC, Dharmapuri proposed for supplying additional quantity of 2.76 MLD to the 999 habitations facing the problem of contamination due to mixing. The proposal was approved by the Joint Managing Director, TWAD Board in March 2018. But no action was taken till June 2018.

Thus, despite implementing the Project, 999 out of the 7,639 habitations continued to have the problem of higher fluoride content in the drinking water.

GoTN replied (November 2018) that subsequent tests of water samples indicated fluoride levels within permissible limits and the number of persons affected by Non-Skeletal Fluorosis in the 999 villages pointed out by Audit had been coming down.

Audit could not independently verify the reply, but the risk of fluorosis was likely to be prevalent, given the short availability of water from the project, and mixing of local water with higher fluoride content.

3.1.3.3 Non-provision of water connections to houses and schools

(i) The Project envisaged water connection to 100 *per cent* households in the urban areas and 70 *per cent* households in the rural areas. It was, however, noticed that in the three municipalities and 17 town panchayats, only 66,167 out of 1,86,360 households (35.5 *per cent*) were provided with house connections. In rural areas, out of the 18 PUs, no connections were provided to the entire 4,54,229 households in 13 PUs and in five other PUs out of the total of 1,32,099 households, only 9,285 households (7.02 *per cent)* were provided with house connections. In February 2016, TWAD Board decided to provide house connections to all houses in one TP in each district using Project funds. The proposal was, however, dropped as the Project period came to an end in July 2017 and the target of providing 100 *per cent* house connection was not achieved.

The Commissioners of sampled PUs generally attributed inadequate water availability, provision of sufficient number of public fountains and reluctance of residents to pay water charges, to non-provision of house connections. Audit, however, observed that the sampled PUs did not initiate any actions, for providing house connections.

GoTN replied (November 2018) that public fountains in rural areas were within 50 metres of residents.

Availability of treated water only at public fountains would result in usage of contaminated water in households. Thus last mile connectivity as envisaged in the project was not achieved.

(ii) A lump sum provision was provided in the Project agreement of Packages II to V for extending water supply to all the 3,409 schools in both districts of the Project area at a cost of ₹ 3.84 crore. No expenditure was incurred from the above provision till July 2018.

Audit scrutiny revealed that three years after commissioning the Project, TWAD Board initiated (December 2016) action to provide potable water to 1,096 schools. The PCE addressed (December 2016) the District Collectors of both the districts requesting to prepare the detailed estimates and accord administrative sanction for provision of Hogenakkal Water to the 1,096 schools. Two separate estimates for providing water supply to the schools in the two districts were prepared in April 2017 (₹ 1.06 crore for Dharmapuri and ₹ 8.41 crore for Krishnagiri). The works were not started even by June 2018 as the works were not technically sanctioned pending detailed survey.

GoTN replied (November 2018) that the plan to provide direct connection to schools was not carried forward as that would hamper the entire design and create maintenance issues.

The reply was not tenable as provision of 100 *per cent* house connections in urban areas, 70 *per cent* in rural areas and direct connection to schools were the objectives of the Project to ensure better living standards and health to the population.

3.1.4 Fluorosis Mitigation

The Fluorosis mitigation component was implemented through three approaches *viz*., (i) Community-based approach, (ii) School-based approach and (iii) Hospital-based approach. The budget provided for these activities, between May 2010 and March 2015, was not utilised in full as detailed in **Table 3.3**.

Table 3.3: Fluorosis mitigation expenditure

(₹ in crore)

Description	Estimated	Expenditure	Unspent
Community-based approach	8.47	5.33	3.14
School-based approach	1.40	0.74	0.66
Hospital-based approach	12.50	2.69	9.81
Technical Support	3.42	2.90	0.52
Contingencies and Centage	2.64	1.52	1.12
Total	**28.43**	**13.18**	**15.25**

(Source: Details furnished by TWAD Board)

The reasons for short-utilisation of the funds, which impacted the objectives of the project are discussed below:

(i) The Project envisaged 100 *per cent* survey of all households to assess the prevalence of Fluorosis, provide counseling and arrange for medical and surgical interventions to control and rehabilitate Fluorosis affected persons. Audit, however, noticed that the survey covered only 26.62 lakh out of the total population of 33.87 lakh in the Project area (78.6 *per cent*). Specific reasons for the shortfall were not given.

(ii) The surveys identified 11.94 lakh Fluorosis affected persons in the two districts, including 1.69 lakh school students. PCE arrived at (January 2013) a figure of 2.05 lakh severely and moderately affected persons requiring treatment by supplying micronutrients. The Project envisaged supply of Calcium, Vitamin-C, Folic Acid etc., to the affected people for a period of 90 days. Audit found that against 2.05 lakh persons identified for supply of micronutrients, only 0.36 lakh were benefitted. The SE/PMC replied (July 2018) that the budget available was sufficient to procure micronutrients for only 0.36 lakh persons. Audit observed that in the context of the overall savings of ₹ 15.25 crore under Fluorosis mitigation component, efficient budgeting and implementation could have ensured funds for micronutrients for the entire affected population.

Thus, 1.69 lakh out of 2.05 lakh severely and moderately affected persons (82 *per cent*) were deprived of treatment to correct the damage caused by consuming water with higher fluoride content.

(iii) The Project envisaged medical intervention to treat identified patients. Though the Project started in 2012, the identification of school students requiring medical intervention was started only in the fourth year of the Project (2016-17). The school survey, which included both genders, identified 1,68,617 students affected with Dental Fluorosis. Out of them, 13,469 girl students studying in classes 8 to 12 standard during 2016-17 were chosen for surgical dental procedures. Audit, however, noticed that only 65 girl students, who were identified through a pilot study, were provided surgical treatment to remedy the effect of Dental Fluorosis and no further surgical treatment was carried out as the scheme came to a close. SE, PMC replied (July 2018) that efforts made to sign a Memorandum of understanding with the Health department to carry out this activity did not materialise. Thus, there were delays and omissions in provision of medical treatment to Fluorosis affected children.

Exhibit 3.2: Photographs of Fluorosis affected children

Dental Fluorosis

Skeletal Fluorosis

(Source: TWAD Board-Fluorosis mitigation component completion report)

(iv) 'Ion Meters' are specialised equipment for clinical diagnosis of Fluorosis using blood and urine samples. Under the Project, 10 Ion Meters and consumable costing ₹ 48,05,600 were supplied (July 2011) to 10 Government Hospitals in the Project area. Funding was also provided for regular operation of the equipment. The hospitals carried out diagnosis using the equipment during the project period. On completion of the project, the equipment were taken back (March 2017) by TWAD Board from the hospitals. No effort was made to provide funds to the hospitals to continue with this activity beyond the project period, despite availability of funds under the component 'Hospital based approach'.

(v) Based on the proposal of Deputy Director of Health Services and Joint Director of Health Services of the two districts to provide dental care in designated health facilities, PCE procured (May 2015) 17 Dental Chairs through Tamil Nadu Medical Services Corporation at a total cost of ₹ 22.20 lakh. Two[9] out of the three Dental Chairs supplied to the three sampled hospitals were not put to use since supply in June 2015 due to non-availability of Dentists in the hospitals. Supply of Dental Chairs to hospitals without Dentists had resulted in idling of equipment costing ₹ 2.61 lakh, and non-achievement of scheme objectives.

(vi) In February 2012, it was decided to procure a 'C-Arm Mobile Image Intensifier'[10] for performing surgery on patients affected by skeletal fluorosis. The equipment was procured at a cost of ₹ 15.43 lakh after five years and supplied to Government Dharmapuri Medical College Hospital only at the fag end of the project period, in April 2017. The equipment was not utilised for performing any corrective surgery till July 2018. Thus, along with abnormal delay in procuring the equipment, no action was taken to utilise the machinery.

In their reply (November 2018), GoTN stated that 98.5 *per cent* of households were surveyed. GoTN also stated that micronutrients were supplied only to assess its impact. Regarding Ion meters, Dental Chairs, and C-arm Mobile Image intensifier being kept unutilised, GoTN stated that action was being taken to put them into proper use.

The reply on survey achievements was not tenable as the persons covered under the survey was only 78.6 *per cent* of the total affected population of 33.87 lakhs. The reply on micronutrient supply was also not tenable as only 17.5 *per cent* of identified persons benefited. The objective to provide medical and surgical interventions to control Fluorosis and rehabilitate the Fluorosis affected persons was not achieved and the funds were exhausted. The department made no efforts to augment the funds to ensure interventions for identified beneficiaries.

3.1.5 Project implementation

The Project was divided in to five packages and TWAD Board engaged five different contractors through international bidding. Audit scrutiny of contract management disclosed the following.

3.1.5.1 Excess payment of ₹ 1.39 crore due to adoption of higher rates

Primarily, the payment for various items of works was to be based on the agreement rates. As per clause 52.2 of the agreement signed with the contractor, no change in the price for any item contained in the contract shall be considered

9 One each in Government Hospital, Harur and Government Hospital, Pennagaram.
10 An equipment used in orthopaedic surgeries.

for variation in the quantity of work executed, unless such items accounts for more than two *per cent* of the contracted price and the actual quantity of work executed under the item exceeded or fell short of the tendered quantity by more than 25 *per cent.*

Audit noticed that in Package V (₹ 366.80 crore), higher rates, in excess of the agreement rates, were approved (July 2012) and paid for additional quantity of pipe line laying work executed by the contractor. The incorrect adoption of rates resulted in excess payment of ₹ 1.39 crore as detailed in **Appendix 3.3**.

On this being pointed out, the Executive Engineer (EE), Project Maintenance Division, Krishnagiri justified (June 2018) that the payment was based on sub clause 52.1 and 52.2 of agreement for Package V. The reply was not acceptable, as clause 52.1 of the agreement was related to execution of work not provided in the agreement and clause 52.2 was related to quantity of works executed in excess or short by 25 *per cent* of the agreed quantity.

As the quantity executed did not exceed or fell short of the limit of 25 *per cent* of the agreed quantity, payment of ₹ 1.39 crore, at a rate in excess of agreement rate, was irregular.

3.1.5.2 Avoidable expenditure of ₹ 1.13 crore due to provision of separate item for jointing Ductile Iron pipes

Ductile Iron (DI) pipes of different sizes were used in transmission mains, feeder mains, internal transmission mains and internal networks. Laying of DI pipelines included conveying, lowering, laying and jointing.

In Packages III, IV and V, while 'conveying, lowering, laying and jointing of DI pipes' were tendered as a single item of work in respect of transmission mains and feeder mains, these items were tendered as two separate items in internal transmission mains i.e., (a) 'conveying, lowering and laying' and (b) 'jointing of DI pipes'. Audit noticed that the total of the unit rates agreed for (a) 'conveying, lowering and laying' and (b) jointing of DI pipes in internal transmission mains and internal networks were higher than the unit rates agreed for 'conveying, lowering, laying and jointing of DI pipes' of same sizes in transmission mains and feeder mains.

Audit worked out an excess expenditure of ₹ 1.13 crore **(Appendix 3.4)** due to calling for separate rates for (a) 'conveying, lowering and laying' and (b) 'jointing of DI pipes' instead of 'conveying, lowering, laying and jointing of DI pipes'**.**

EE, Project Maintenance Division, Krishnagiri, in his reply (June 2018) stated that the payment was made to the contractors only at the agreed rates and no extra payment was made. The reply was not to the point raised that calling for separate rates for 'jointing of DI pipes' in internal transmission mains and internal networks, rather than calling for combined rates for 'conveying, lowering, laying and jointing as in the case of transmission mains and feeder mains had resulted in quoting and accepting of higher rates and consequent avoidable payment.

3.1.5.3 Deficiencies in the working of Project Management Consultant

(i) The consultant prepared estimates including the Central Excise Duty (CED) even though the project was exempt from CED. Inclusion of CED inflated the estimate by ₹ 37.81 crore.

(ii) HDPE pipes of diameter not exceeding 63 mm were available in coils of length 100 metres. Estimates were, however, prepared by adopting pipes of length of six metres, involving joints at every six metre. This had resulted in inflating the estimates by ₹ 7.05 crore.

(iii) Instances of shifting of telephone cables, local body pipelines and other utilities, trenchless boring in 50 places for Railways and NH crossing, etc., necessitated by inadequate review of the DPR of Package V contributed to avoidable payment of ₹ 2.69 crore towards staff cost etc., to the contractor during period of extension of time.

(iv) Uniformity was not ensured in tendering for laying DI pipes, as pointed out in **Paragraph 3.1.5.2**.

The above deficiencies on the part of the Consultant impacted the project in terms of cost and scope of the work. Audit, however, found that no penalty was levied on the contractor as the agreement conditions did not provide for levy of such penalty. In the absence of penalty/compensation clause the accountability of the consultant for the Project Management could not be ensured. The monitoring of the working of the Consultant also suffered from laxity, thus affecting the Project.

GoTN replied (November 2018) that action will be taken on the audit findings on Project implementation. The Government must fix responsibility for the lapses.

3.1.6 Non-sustainable O&M expenditure

The cost of O&M of the Project during 2013-18, revenue collected by TWAD Board by bulk sale of water to local bodies and the shortfall in revenue made good by GoTN were as given in **Table 3.4**.

Table 3.4: O&M expenditure of the Project

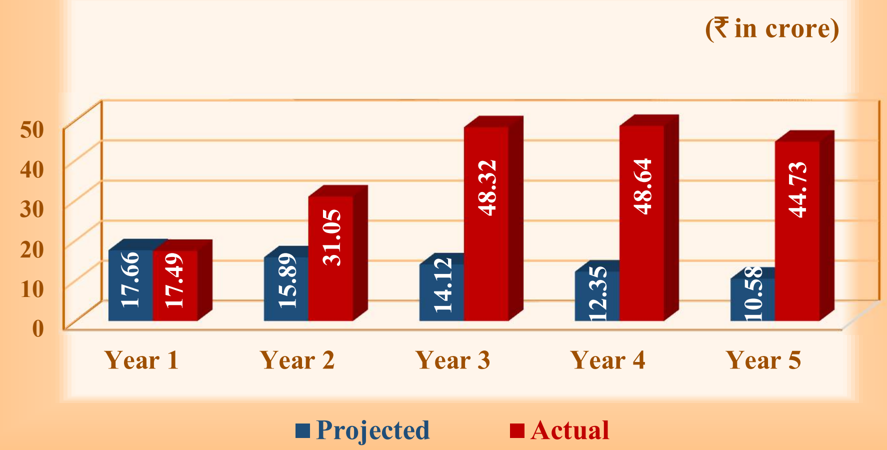
O&M Expenditure	Revenue generated by TWAD Board	Deficit met by GoTN
₹ 310.86 crore	₹ 120.62 crore	₹ 190.24 crore

(Source: Details furnished by TWAD Board)

The project proposal envisaged 100 *per cent* recovery of O&M cost so as to ensure the sustainability of the Project. The policy of GoTN was also in favour of 100 *per cent* recovery of O&M cost. With this objective in mind, the Project Consultant envisaged (2008) the tariff for bulk supply to urban and rural local bodies to be increased from ₹ 4.50 and ₹ 3 per kilo litre respectively as of 2008 to ₹ 7.88 and ₹ 5.25 per kilo litre respectively in 2012 and to hike it by five *per cent* every year so as to fully meet the O&M cost by 2022. TWAD

Board, with the approval of GoTN increased the water tariff to local bodies as proposed by the Project Consultant. Despite that, the deficit in O&M cost kept increasing as against the target to reduce it gradually to zero by 2022. The projected and actual deficit in O&M cost was as depicted in **Exhibit 3.3**.

Exhibit 3.3: Projected and actual deficit in O&M cost



(Source: Details furnished by TWAD Board)

On analysis, it was observed that:

- The quantity of water supplied under the Project was much less than the projection as commented in **Paragraph 3.1.3.1**, leading to higher variable cost and consequent continuous increase in O&M cost deficit.
- TWAD Board was not prompt in assessing the charges payable by local bodies. Audit observed that the TWAD Board did not even have a proper system to measure the quantity of water supplied to local bodies as the water meters provided were non-functional and no efforts were taken to rectify them. In the absence of water meters, the charges were levied on approximation basis. It was further noticed that Urban Local Bodies were not prompt in settling the water supply bills of TWAD Board. As of September 2018, the accumulated arrears in respect of Urban Local Bodies was ₹ 11.73 crore.
- The Deficit towards O&M expenses were met from Government grants.

Regarding the widening gap between the O&M expenditure and revenue, GoTN replied (November 2018) that the increase in electricity tariff was the main reason. Audit recommends that the TWAD must concentrate on mopping the revenues by ensuring installation of functional meters and levy charges. This would ensure financial viability of the project and reduce dependence on Government grants.

3.1.7 System to detect and prevent errors/omissions

The errors/omissions pointed out are on the basis of a test audit. The Department/Government may, therefore, undertake a thorough review of all units to check whether similar errors/omissions have taken place elsewhere, and if so, to rectify them; and to put a system in place that would prevent such errors/omissions.

3.1.8 Conclusion

The short supply of protected water through the "Hogenakkal Water Supply and Fluorosis Mitigation Project", coupled with mixing of ground water with the river water resulted in non-achievement of the objective of supplying safe and potable drinking water. The Project did not adequately address the impact already caused by Fluorosis because of underperformance and deficiencies in household survey, inadequate micronutrient supply and corrective dental and orthopedic surgeries. Fluorosis mitigation activities require active co-ordination with the Public Health Department. Issues in execution of civil works resulted in avoidable expenditure of ₹ 2.51 crore and the widening gap between O&M expenditure and revenue posed threat to proper maintenance of the project and its financial viability.

3.2 Avoidable/Unfruitful expenditure

HEALTH AND FAMILY WELFARE DEPARTMENT

3.2.1 Irregular procurement and idling of medical equipment

Irregular procurement resulted in an avoidable expenditure of ₹ 4.29 crore in respect of medical kits supplied to the seven sampled Medical College Hospitals as the equipment procured were neither required nor put to use. This raised a question on the entire procurement at a cost of ₹ 10.60 crore.

Director of Medical Education (DME) annually incurs an expenditure of about ₹ 78 crore on procurement of machineries and equipment. Audits conducted at the DME and seven out of 21 Medical College Hospitals (MCHs) during 2017-18 brought out the following in respect of purchase of machineries and equipment.

With a view to provide effective and preventive treatments during infectious seasons of dengue, H1N1 and Ebola, the DME procured and supplied (February 2015) 5 types of portable diagnostic kits to 19 MCHs in the State at a cost of ₹ 10.60 crore.

As per delegation of powers (October 1994), the DME was vested with financial powers of not more than ₹ 10 lakh for procurement of medical equipment and machinery on each occasion. Procurements costing above ₹ 10 lakh, but not exceeding ₹ 50 lakh were within the powers of Central Purchase Committee/High Power Committee and those costing above ₹ 50 lakh were to be sanctioned by GoTN. The usual practice followed by DME in procurement of equipment and medicines was to call for requirements from MCHs before deciding the procurement quantity.

In November 2014, Tamil Nadu Medical Services Corporation[11] (TNMSC) entered in to a rate contract with a Hyderabad based importer of Swedish make rapid test equipment *viz.,* (a) Blood Glucose analyser, (b) HbA1c analyser, (c) Urine Albumin analyser, (d) Hemoglobinometer and (e) WBC analyser. Following this, DME addressed (January 2015) all MCHs to procure these medical equipment as per need, within the funds available and simultaneously cautioned that MCHs having auto/semi auto analysers (**Exhibit 3.4**) should place further orders only on need basis.

Exhibit 3.4: Diagnostic equipment for clinical biochemistry (Illustration)

Rapid test kits are portable equipment for faster bio-chemical test results with higher operational cost. Separate equipment is needed for each type of test.

Fully automated/ Semi automated analysers are lab mounted equipment which can perform multiple bio-chemical tests simultaneously. They combine higher volume with lower operational cost. Medical Council of India has made it mandatory for biochemical laboratories in all MCHs.

Field inspection (February 2015) was carried out by the Health Minister, Health Secretary and the DME. Post the field inspection, the DME ordered that "*purchase order may be placed at directorate level to save the delay during the infectious season of Dengue, H1N1 and Ebola*". Audit noticed that even though, no MCHs had sent a requisition for the rapid test equipment, DME recorded (06 February 2015) a note that "*needs were high*" for the rapid test

[11] Tamil Nadu Medical Services Corporation (TNMSC) functions as an agency to procure medicines and equipment for government hospitals in the State.

equipment "*for effective and preventive treatment of patients*". The purchase order was placed on the same date for 235 *HemoCue* rapid test equipment[12] at a total cost of ₹ 10.60 crore. The vendor supplied (February 2015) the equipment to 19 MCHs. Test check in the randomly selected seven of the 19 MCHs *viz.,* (a) Government Kilpauk MCH, Chennai, (b) Government Mohan Kumaramangalam MCH, Salem, (c) Government Rajaji Hospital, Madurai, (d) Government Dharmapuri MCH, (e) Government Theni MCH, (f) Tirunelveli MCH and (g) Government Stanley Hospital, Chennai revealed that the equipment were not put to use even after a lapse of more than three years (June 2018). **Exhibit 3.5** depicts the non-utilisation of the rapid test equipment in Government Mohan Kumaramangalam MCH (GMKMCH), Salem.

Exhibit 3.5: Equipment kept unutilised

Test cartridges not opened at GMKMCH, Salem

(Joint physical verification conducted in May 2018)

Equipment boxes not opened at GMKMCH, Salem

(Joint physical verification conducted in May 2018)

Audit observed that:

(i) The decision on procuring rapid test equipment was a clear departure from the established procedure and DME's own instruction of January 2015. DME circumvented the established system of assessing the requirement by the heads of MCHs concerned and obtaining administrative approval and financial sanction from Government after due consideration of its merits *vis-à-vis* the budgetary position. None of the sampled MCHs had sought for this equipment. Audit noticed that the decision on procurement of rapid test equipment overlooked the availability of auto/semi auto analysers in MCHs. Audit found that all the sampled hospitals had auto/semi auto analysers with much higher capacity to handle everyday needs for blood testing and even to face spikes due to epidemics, which was evident from the data on blood tests conducted in Salem and Dharmapuri Government MCHs (**Appendix 3.5**).

12 15 sets each for 9 MCHs and 10 sets each for 10 MCHs at ₹ 4.51 lakh per set comprising equipment for five tests.

(ii) DME violated the delegated financial powers by procuring equipment worth ₹ 10.60 crore although she had been delegated with powers to sanction procurements costing only upto ₹ 10 lakh.

(iii) DME placed the order without following the due process on the pretext of *"avoiding delay during the infectious season of Dengue, H1N1 and Ebola infections"*. These kits were originally proposed (2014) by State Health Society for diagnosis of non-communicable diseases. The Government reply (September 2018) also attested the fact that four of the five types of kits procured were not relevant for diagnosing communicable diseases and the remaining kit also was capable of only screening of infections, as against the tests stipulated in WHO protocols for Dengue, H1N1 and Ebola infections. Thus, the reasoning put forth by DME for the hasty large scale purchase of rapid test equipment, without following, due process was unjustified.

(iv) Another reasoning given by DME for this procurement was *"curtailment of spent on drugs and treatment procedure"*. The Deans of the test-checked hospitals, however, stated (May 2018) that the recurring costs of consumables for conducting the tests with the rapid test equipment were very high when compared with testing using auto/semi auto analysers already available in the hospitals.

(v) Moreover, non-utilisation of the purchased equipment for more than three years in the test-checked hospitals had rendered the three year warranty of the equipment meaningless.

Thus, the decision of the DME to procure rapid test equipment by circumventing the established procedure of assessing requirement, without due diligence and without obtaining Government's sanction resulted in an avoidable expenditure of ₹ 4.29 crore in all the seven sampled MCHs. This raised a question on the entire procurement amount of ₹ 10.60 crore. The government may consider fixing the accountability of the persons concerned for the loss and unjustified purchase after conducting necessary investigation in the matter.

The Government replied (September 2018) that there was error in judgment on the part of the DME in assessing the requirement of rapid test kits and that steps were taken to relocate them to needy areas within the hospitals and/or to other district hospitals apart from utilising them in medical camps and field and mobile medical units. However, it has contended that (i) Point of Care Testing (POCT) is a fast growing technology with advantages in providing care at patient level, (ii) the equipment procured are of good quality and (iii) the DME was not required to get permission from the Government to procure the equipment as the rate contract was already fixed by TNMSC.

The contentions of the government are not acceptable as (i) the technology adopted or the quality of equipment procured was not questioned by Audit and only the manner of assessment for procuring the equipment and instructions issued *viz.,* that institutions having full/semi auto analysers should procure only on need basis, have been overlooked was pointed out and (ii) DME's monetary power for procurement is ₹ 10 lakh and Government's sanction should have been obtained as the value of the procurement is more than ₹ 10 crore. It was noticed that in other procurements where the value exceeded DME's powers, the sanction of the Government was obtained.

Moreover, the non-utilisation of the medical equipment procured points to the lack of necessity of such equipment and the action of the Government in relocating the procured rapid test kits to needy areas is only an afterthought and reinforces the Audit observation.

HIGHER EDUCATION DEPARTMENT

3.2.2 Unfruitful expenditure due to poor planning

Failure of the University of Madras to assess the demand for new hostel facility resulted in non-utilisation of newly constructed hostel building for more than three years and consequent unfruitful expenditure of ₹ 10.10 crore.

Thirteen Government universities are functioning under the control of the Higher Education Department of GoTN. During 2016-18, six universities were audited. Scrutiny of records relating to the period 2010-17 in the University of Madras and the Higher Education Department during February to March 2018 disclosed the following lapses of the University which resulted in unfruitful expenditure:

In October 2010, the University of Madras (University) planned to construct an International students hostel (Hostel) with 193 rooms in its Taramani Campus, Chennai for foreign students enrolled in all the four campuses[13] of the University. The University's Building Committee and its Syndicate approved the project in February 2011. The University, through tender process, awarded the work to a contractor in April 2012. The Hostel building was completed in April 2015, at a total cost of ₹ 10.10 crore[14], but not put into use (April 2018) due to lack of demand from foreign students for campus accommodation.

(i) During the three academic years (i.e. 2007-08 to 2009-10) preceding the proposal to construct the Hostel, the number of international students enrolled in the University ranged from 31 to 46. In the succeeding academic years, 2010-11 to 2014-15, the enrolment ranged from 47 to 82. During this period, the number of students availing hostel facilities ranged from 4 to 14 only. But the University, failed to factor in the number of international students and the trend of negligible number of international students seeking hostel accommodation. It was further observed that all the international students were not enrolled in courses conducted in the Taramani Campus as the University

[13] Chepauk, Guindy, Marina and Taramani.

[14] Civil Works: ₹ 8,24,74,319; Water supply and sanitary works: ₹ 86,46,500; Electrical works: ₹ 98,71,708.

had three other campuses in the city. It was also noticed that during 2009-18, even the meagre number of foreign students who resided in hostels preferred to stay in the Chepauk Campus of the University, which was located 12 kms away from the Taramani Campus. This indicated that the very proposal to locate the Hostel at Taramani was flawed. The University admitted (April 2018) that no survey was conducted to assess the demand for accommodation from foreign students. Only after the building was structurally completed, the University's Building Committee realised (June 2013) the lack of demand, but nothing could be done at that stage.

(ii) It was also observed that simultaneously the University had constructed (April 2015) two other hostel buildings *viz.,* (a) Post Graduate Students' Hostel with 246 rooms and (b) Research Scholar Hostel with 143 rooms in the same campus at a total cost of ₹ 21.27 crore. After completion in April 2015, these two hostels started functioning with an average occupancy rate of about 45 *per cent* during September 2015 to June 2017. Had the University conducted a comprehensive assessment of the need for hostel accommodation in Taramani Campus, it would have been possible to avoid altogether the construction of international students hostel by earmarking rooms for international students in either of these hostels.

(iii) Audit also observed that the unutilised Hostel building invited the attention of anti-social elements resulting in burglaries (in December 2015 and September 2016) wherein electrical and sanitary fittings in the building valuing ₹ 22.30 lakh were stolen despite security arrangements in place.

Thus, construction of the Hostel without assessing the need resulted in the new building not being put into use for more than three years and consequent unfruitful expenditure of ₹ 10.10 crore.

The Government replied (August 2018) that the construction of the hostel was taken up based on the request of international students (enrolled during 2010-11) to have individual rooms with attached kitchen and toilet facilities and with a view to attract more international students by providing such facilities. It further replied that as enough number of international students were not enrolled due to external and unknown reasons, it was now proposed to use the entire international students hostel for the increasing number of women students of the University and that the existing women's hostel in Chepauk Campus was to undergo renovation. The reply is not acceptable as it glosses over the lapses in assessing the demand for accommodation from foreign students. Besides, the viability of the proposal to shift women students of Chepauk Campus hostel to Taramani Campus hostel was also questionable as it involved commuting 12 km each way.

HEALTH AND FAMILY WELFARE DEPARTMENT

3.2.3 Irregular purchase of medicines leading to avoidable expenditure

Irregular purchase of two Ayurvedic medicines by Employees' State Insurance (ESI) hospitals and Director of Medical and Rural Health Services (ESI) resulted in an avoidable expenditure of ₹ 2.67 crore.

Government of Tamil Nadu administers eight hospitals and 216 dispensaries exclusively for the beneficiaries of Employees' State Insurance (ESI) scheme. The Director of Medical and Rural Health Services (ESI) (DMRHS (ESI)) heads the network of ESI medical institutions[15]. According to established procedures, ESI medical institutions procure medicines from the firms having Running Rate Contract (RRC) with ESI Corporation, New Delhi. Medicines are also procured from Tamil Nadu Medical Services Corporation (TNMSC), a Public Sector Undertaking (PSU) of GoTN, wherever the prices are cheaper than the RRC prices. A Purchase Committee headed by the Managing Director (MD), TNMSC reviews the medicine indents and coordinates the medicine procurement. In respect of Ayurvedic medicines, GoTN nominated (December 2013) Tamil Nadu Medicinal Plant Farms and Herbal Medicine Corporation Limited (TAMPCOL) as the agency for procurement. In case of non-availability of required medicine in RRC/TNMSC/TAMPCOL, the 'Manual on Purchase Procedure of ESI Corporation' envisages local purchase, costing up to a maximum of ₹ 1 lakh, with the approval of a Local Purchase Committee constituted at every institution.

During 2013-17, DMRHS (ESI) procured Ayurvedic medicines costing ₹ 4.55 crore through local purchase. Test check (April 2018) of records for the period from 2013-17 conducted at DMRHS (ESI) disclosed that in violation of the established procedures, DMRHS (ESI) and three hospitals resorted to local purchases of two Ayurvedic medicines in large quantities as given in **Table 3.5**.

Table 3.5: Local purchase of Ayurvedic medicines

Name of medicines	Period of purchase	Number of units purchased	Cost (₹ in crore)	Remarks
(1)	(2)	(3)	(4)	(5)
Rub N Run oil	2013-14	60,000	1.21	Purchased and payment made by DMRHS (ESI)
	2014-15	9,500	0.18	
	2015-16	50,600	1.07	Purchased by ESI Hospitals, Madurai, Coimbatore and Trichy. Payment by DMRHS (ESI)
	2016-17	7,500	0.15	
Liver Tonic	2013-14	55,000	0.98	Purchased and payment made by DMRHS (ESI)
	2015-16	22,000	0.40	Purchased by ESI Hospitals Madurai and Trichy. Payment by DMRHS (ESI)
	2016-17	7,500	0.14	
		Total	**4.13**	

(Source: Data obtained from DMRHS (ESI))

[15] Except ESI Medical College Hospital, Coimbatore, which comes under Director of Medical Education.

Audit observed that:

- The Drug Purchase Committee, while reviewing (December 2010) the issue of the purchase of *Rub N Run Oil*, decided to obtain the efficacy and utilisation of this medicine. After getting a positive utilisation report from four institutions, the Committee again discussed (February 2011) the issue and decided against the procurement of the medicines as it was not included in the RRC. The DMRHS (ESI), however, procured *Rub N Run oil* in limited quantities in 2011-12 and 2012-13 for various hospitals.
- During 2013-14 and 2014-15, in violation of the established procurement framework involving RRC, TNMSC and TAMPCOL, DMRHS (ESI) procured 69,500 bottles of *Rub N Run oil* at a total cost of ₹ 1.39 crore. On being pointed out by Audit (June 2015), DMRHS (ESI) stated (July 2016) that the purchase was authorised by the Principal Secretary to Government, H&FW Department. The fact, however, was that the Principal Secretary had only sent a letter allowing procurement of *Rub N Run oil*, with a caution to procure on need basis by following the rules in force. He had also instructed to take steps to include *Rub N Run oil* in the RRC list, but no such action was taken.
- During 2015-16 and 2016-17, *Rub N Run oil* was procured by Medical Superintendents of three ESI hospitals and the bills were sanctioned by DMRHS (ESI). The bill values in 12 out of 36 procurements were in the range of ₹ 3.89 lakh to ₹ 19.43 lakh as against the ceiling of ₹ 1 lakh prescribed for local purchase as per ESI Corporation's Manual on Purchase Procedure. In terms of value, procurements costing more than ₹ 1 lakh constituted ₹ 1.20 crore. The Local Purchase Committee contemplated in the Manual had not been constituted in any of these cases.
- Further, DMRHS (ESI) procured (2013-14 and 2015-17) 84,500 bottles *of Liver Tonic*, another Ayurvedic medicine for liver protection, from the same supplier at a cost of ₹ 1.52 crore, by deviating from the established procedure of sourcing from RRC firms/TNMSC/TAMPCOL.
- The circumstances leading to large scale centralised procurement of *Rub N Run oil* and *Liver Tonic* during 2013-15 were not studied in depth as DMRHS (ESI) reported (June 2018) to Audit missing of procurement files. GoTN constituted (June 2017) a special team to verify the records and procurement procedure and submit the report within two months. The team conducted enquiries in August 2017 but no action was taken based on that enquiry.

Rub N Run oil and *Liver Tonic* were proprietary preparations. According to written replies furnished to Audit (July 2016 and April 2018) by Medical Officers and DMRHS (ESI), medicines equivalent to *Rub N Run oil* and *Liver Tonic* were available in RRC list and with TAMPCOL and the same[16] were frequently prescribed in place of these two medicines. Audit found that *Rub N Run oil* and *Liver Tonic,* which were procured in violation of purchase procedures, were exorbitantly priced in comparison with the equivalent medicines in RRC list/TAMPCOL. The avoidable extra expenditure on account of purchase of *Rub N Run oil* and *Liver Tonic* worked out to ₹ 2.67 crore (**Appendix 3.6**).

On being pointed out by Audit, Government, in their reply (December 2019), admitted to 'procedural lapses' in the procurements and informed that disciplinary cases were initiated against the officers including former DMRHS (ESI). Further, GoTN contended that the medicines taken up for comparison were having different ingredients and it would not be possible to conclude which one was a better medicine. The reply on comparison of the medicines procurement with the medicines available in RRC was untenable as these medicines were prescribed interchangeably, which proved that they were comparable. Further, they were considered equivalent by the Department itself.

MUNICIPAL ADMINISTRATION AND WATER SUPPLY DEPARTMENT

TAMIL NADU WATER SUPPLY AND DRAINAGE BOARD

3.2.4 Avoidable expenditure on laying of pipes without prior permission from National Highways Authority of India

TWAD Board laid pipes without obtaining the mandatory permission from National Highways Authorities of India, leading to avoidable expenditure of ₹ 2.42 crore.

Tamil Nadu Water Supply and Drainage (TWAD) Board is entrusted with the development of Water Supply and Sewerage facilities in the State except Chennai Metropolitan Areas. TWAD Board executes and maintains water supply schemes for urban and rural areas, including combined water supply schemes (CWSS), which are meant for more than one local body. During 2017-18, 26 Divisions of TWAD Board were audited. Scrutiny (November and December 2017) of records in office of the Executive Engineer, TWAD Board, Coimbatore revealed the following:

16 RRC had Rhuvamin Oil, which was an equivalent medicine of *Rub N Run oil* and Livejon syrup, which was an equivalent of *Liver Tonic.* TAMPCOL had Pinda Thailam which was equivalent medicine of *Rub N Run oil* and Liv 2000 syrup, which was an equivalent medicine of *Liver Tonic*.

Government of Tamil Nadu sanctioned (August 2010) ₹ 224.92 crore for the work of 'Augmentation of water supply to Palladam Municipality, 23 Town Panchayats and 965 rural habitations in Coimbatore and Tiruppur districts with Pillur Reservoir as source'. Under the scheme, TWAD Board, *inter alia*, planned to lay clear water transmission pipes along the National Highway (NH 67) for a length of 36.30 kms.

The EE, TWAD Board addressed (April 2011) the Project Director, National Highways Authority of India (NHAI), Karur, seeking permission under Section 38 of the Control of National Highways (Land and Traffic) Act, 2002, for laying pipes in NHAI land.

The TWAD Board's proposal was returned (June 2012) by NHAI, as TWAD Board had planned to lay the pipes within 15 metres of the centerline of the road, which was against the existing instructions of Ministry of Road Transport and Highways (MORTH). The Secretary, Municipal Administration and Water Supply Department took up (August 2013) the matter with MORTH, which in turn, requested (December 2013) NHAI to reconsider the request as a rarest case. NHAI, however, did not give the mandatory permission (January 2014).

In the meantime, TWAD Board awarded tender for ₹ 152 crore with a schedule for completion in January 2014. An agreement was entered into with a contractor (February 2012) and pipes were laid for 7.9 km at a cost of ₹ 26.40 lakh along the NH as per original plan, without prior permission from NHAI.

Taking objection to laying of pipes without permission, NHAI instructed (February 2014) TWAD Board to immediately remove the pipes laid. Accordingly, TWAD Board planned the pipelines in the new alignment at an additional cost of ₹ 23.48 crore. Pipes already laid in the original alignment in NH 67 (laying cost excluding cost of pipes - ₹ 26.40 lakh) were retrieved/ repaired and were transported along with the pipes stacked at site to the site of the revised alignment at a cost of ₹ 2.16 crore[17]. The entire work in new alignment was completed in December 2015.

When pointed out by Audit, the Government replied (July 2018) that the pipe laying works was commenced on the basis of the recommendation of the MORTH to NHAI.

The reply was not tenable as EE, TWAD Board had no authority to execute the work merely on the basis of MORTH's recommendation to NHAI to reconsider the request of TWAD Board. Clear cut approval was needed for carrying out the work. The hasty decision of TWAD Board to go ahead with the work without the mandatory approval of NHAI had resulted in an avoidable expenditure of ₹ 2.42 crore.

[17] Retrieving and transporting of pipes already laid - ₹ 1.03 crore; transporting pipes staked in the original alignment along NH 67 - ₹ 0.67 crore; repairing the retrieved pipes ₹ 0.46 crore.

HEALTH & FAMILY WELFARE AND PUBLIC WORKS DEPARTMENTS

3.2.5 Unfruitful expenditure on construction of cafeterias and common rooms

Cafeterias and common rooms constructed at a cost of ₹ 1.35 crore remained idle for more than six years at Chengalpattu Medical College, Chengalpattu and more than two years at Mohan Kumaramangalam Medical College, Salem, for want of basic amenities and Rent Reasonableness Certificate from Public Works Department.

In Tamil Nadu, there were 21 Government Medical Colleges as of March 2018. Out of which, 10 Medical Colleges were audited during 2017-18. Audit conducted at Chengalpattu Medical College (CMC) and Government Mohan Kumaramangalam Medical College (GMKMC) revealed the following:

Medical Council of India's (MCI) norms (April 1999) stipulated provision of separate common rooms for male and female students and a cafeteria in all medical colleges with an annual intake of 100 and above students. With a view to meet the MCI stipulation, GoTN accorded administrative and financial sanction for construction of cafeterias and common rooms at CMC and GMKMC in October 2008 and December 2014 respectively. The constructions were carried out by Public Works Department. The status of the projects at the CMC and GMKMC (August 2018) were as given in **Table 3.6**.

Table 3.6: Status of project at CMC and GMKMC

Name of the institution	Month of sanction	Month of handing over to College	Expenditure incurred so far (₹ in lakh)	Status
CMC	October 2008	August 2018	44.90	Yet to be commissioned
GMKMC	December 2014	December 2015	89.84	
Total			**134.74**	

(Source: data collected from respective colleges)

- After the building was structurally completed (**Exhibit 3.6**), the Dean, CMC inspected the building in July 2010 and observed several deficiencies, such as, non-provision of approach road, dish washing facility, air-conditioning, locker for students etc. The Dean continued to remind (April 2013 to January 2015) PWD. PWD did not attend to the deficiencies pointed out by the Dean. Despite that, the Dean took over the building from PWD in August 2018, after more than six years since its structural completion. In this connection, Audit observed that the requirement of air conditioner, dish washing facility and locker were not mentioned in the estimate countersigned by the Dean.

Exhibit 3.6 Cafeteria and common room at CMC, Chengalpattu

(Source: Photograph taken by Audit Team during joint physical verification in January 2018)

- Pending rectification of the deficiencies pointed out, the Dean, CMC, approached PWD in April 2013 to call for tender to lease out the building to a contractor. Later in January 2015, the Dean changed this plan and requested PWD for Rent Reasonableness Certificate[18] (rent certificate) so as to let out the building to a selected person/body for running the cafeteria. Though the request for rent certificate was made, no effective steps were initiated by PWD.
- Similarly, the Dean, GMKMC, Salem also approached the PWD in April 2016 for rent certificate. The Dean followed it up with PWD through letter correspondence. PWD did not respond for more than two years. Executive Engineer, Buildings (Construction & Maintenance), Salem replied (May 2018) that no request for rent certificate was received from GMKMC. The reply indicated the complete lack of coordination between the two departments.
- Both the colleges, in their responses to MCI's questionnaire (March 2017 and March 2018) on availability of infrastructure in the College, made a mention that their Colleges had Cafeterias and Common rooms as per requirement. The fact, however, was that these facilities required to be provided as per MCI's norms were not made available to the students of the CMC and GMKMC despite incurring an expenditure of ₹ 1.35 crore.

18 As per Para 275 of PWD 'D' code, when any Government building is let out to a private person, rent should be regularly recovered for the same at the rates prevailing in the locality for similar accommodation belonging to private owners.

Failure to resolve the issue on the part of the Medical College authorities and PWD resulted in the cafeteria and common room facilities remaining idle, besides depriving 3,202 students of these facilities in the two medical colleges. The entire expenditure of ₹ 1.35 crore has remained unfruitful.

The Government replied (September 2018) that the common rooms were in use and action was being taken to commission the cafeteria buildings in both the colleges. Audit, however, found that common rooms in CMC was not even furnished and the common rooms in GMKMC was used only for 52 days at the time of college culturals and graduation ceremony and rooms were generally kept locked**.**

SOCIAL WELFARE AND NUTRITIOUS MEAL PROGRAMME DEPARTMENT

3.2.6 Avoidable expenditure and blocking of funds due to non-completion of hostel project for working women

Lack of concerted efforts in completing a hostel project for working women resulted in an avoidable expenditure of ₹ 1.05 crore and idling of central assistance of ₹ 2.48 crore in bank account. The objective of the scheme was also not achieved in full even after 10 years of its sanction, leading to estimated escalation of project cost by ₹ 20.54 crore.

Director of Social Welfare (DSW) runs 22 working women hostels all over Tamil Nadu. Of which, as of March 2018, 15 hostels were functioning from own building and seven were functioning from rented premises. Scrutiny (February and March 2017) of records pertaining to January to December 2016 at the Directorate of Social Welfare revealed the following:

Under a GoI funded scheme, in operation from 1972-73, Government of Tamil Nadu in October 2007 approved construction of a hostel complex with five blocks for working women with monthly income below ₹ 25,000 in Chennai. It was proposed to accommodate 500 working women and 60 pre-school children and other facilities such as crèche, library, computer centre, gymnasium, etc. The complex was intended to provide convenient and safe accommodation for working women. The project was estimated to cost ₹ 12.99 crore, which was to be met using GoI assistance of ₹ 5 crore and the balance of ₹ 7.99 crore was to be met by the State. GoTN also approved (June 2007) taking over of 5.46 acre[19] of land belonging to Arulmigu Vadapalani Andavar Temple (Temple) on a monthly lease rent of ₹ 1 lakh. Tamil Nadu Corporation for Development of Women (TNCDW) was nominated as the implementing agency. Pending approval of the project by GoI,

[19] GoTN ordered leasing of 5.96 acre of land. TNCDW, however, took possession of only 5.46 acres due to exclusion of a part of the proposed land.

GoTN released ₹ 2 crore[20] for construction of one block to accommodate 60 working women. In February 2008, TNCDW took over the land from the Temple and entrusted the construction work to Tamil Nadu Police Housing Corporation (TNPHC). Construction of the 60 bed block was completed in July 2010 at a cost of ₹ 2.47 crore[21] and started functioning in February 2013, after a delay of 31 months.

In the meantime, in December 2010, GoI approved the project at a cost of ₹ 6.61 crore, sanctioned ₹ 4.96 crore as their share (75 *per cent*) and released (February 2011) ₹ 2.48 crore, being 50 *per cent* of their share.

Audit observed the following:

- GoTN entrusted (January 2007) the project to TNCDW without assessing the expertise of the agency in this field. This resulted in a proposal, in January 2010, to shift the project implementation to DSW, who already had experience in running working women's hostels. Audit noticed delay in transferring the project from TNCDW to DSW, leading to a delay of 31 months in commissioning the first block of the hostel building.
- Against the proposal to construct five blocks to accommodate 500 working women and 60 pre-school children, only one block to accommodate 60 working women was completed. After completion of first block, DSW did not initiate any proposal to construct the remaining four blocks as the occupancy ranged from 6 to 37 during the initial six months (10 to 62 *per cent*). The occupancy rate, however, increased gradually and stood at 62 *per cent* in March 2018.
- The proposal to construct the remaining blocks gained momentum only in February 2018 after a visit by the Hon'ble Minister of Social Welfare. TNPHC prepared an estimate for ₹ 31.06 crore. Audit observed that GoI guidelines did not allow additional assistance over and above ₹ 4.96 crore sanctioned in December 2010. The delay in completing the first block and delay in proposal for the construction of remaining blocks resulted in increase of the estimated cost from ₹ 10.52 crore to ₹ 31.06 crore. The proposal has not been approved by GoTN (June 2018).
- Out of the total land of 5.46 acres (2.37 lakh sq.ft.), taken on lease from the Temple on a monthly lease rent of ₹ 1 lakh, only 17,632 sq.ft was used for construction of one block. Non-completion of the envisaged project with five blocks resulted in payment of ₹ 1.05 crore[22] towards lease rent, without the land being put to use. It was also noticed from Commissioner's letter (December 2013) to Secretary to Government, Tamil Development, Religious

[20] February 2008 - ₹ 0.8 crore and March 2008 - ₹ 1.20 crore.

[21] Building cost and administration - ₹ 1.94 crore + planning permission and other items - ₹ 0.53 crore.

[22] Calculated on the basis of the lease rent paid and due for the unutilised portion of the land for the period from February 2008 to February 2018.

Endowments and Information Department that the entire vacant land, was encroached by private transport operators for parking of their vehicle by breaking open a portion of the compound wall. The DSW has not taken any effective action to vacate the encroachment.

- The first instalment of GoI grant of ₹ 2.48 crore, received in February 2011, was kept in the bank account of TNCDW till March 2013 and later in the bank account of DSW. Further, ₹ 9.51 lakh out of the interest of ₹ 18.42 lakh earned by TNCDW and ₹ 47.42 lakh earned by DSW by depositing GoI grant in bank account was credited into Government account, and the balance was utilised towards foundation stone laying function, inauguration function, etc.

Thus, due to wrong identification of implementing agency and lack of concerted efforts on the part of DSW to increase the occupancy rate, the objective of the project was not achieved in full, leading to an estimated escalation of project cost by ₹ 20.54 crore. Poor implementation resulted in payment of lease rent of ₹ 1.05 crore, without the land being put to use. Keeping the land vacant resulted in the land being encroached. Further, the GoI assistance of ₹ 2.48 crore was kept idle in bank account and interest receipt of ₹ 0.66 crore earned by investing GoI assistance was diverted for expenditure not covered under the scheme.

On being pointed out by Audit, the Government replied (June 2018) that a fresh estimate for ₹ 31.06 crore was prepared (February 2018) for construction of the remaining four blocks and GoI assistance was being sought for. The fact, however, remained that the project sanctioned in 2007 was not completed even as of 2018 and the GoI assistance remained idle in bank account.

SCHOOL EDUCATION DEPARTMENT

3.2.7 Irregularities in annual maintenance contract

Irregular award of ₹ 5.12 crore Annual Maintenance Contract for computer systems and electronic devices by the Director of Public Libraries and lack of due diligence in contract management resulted in avoidable expenditure of ₹ 0.85 crore.

Director of Public Libraries (DPL) administers a vast network of libraries in the State. During 2016-18, one District Central Library and the Anna Centenary Library (ACL), Chennai, which come under the direct control of DPL, were audited. The audit of ACL disclosed lapses in award of Annual Maintenance Contract (AMC) as discussed below:

Tamil Nadu Transparency in Tenders Act, 1998 and Rules 2000 (TNTAR) govern the procurement of goods and services by public entities. In addition, for engaging service providers for AMC for computers and accessories, the

Government framed (March 2005) exclusive guidelines. These guidelines provide for, among other things, (i) maintenance of a proper complaint-call-registration procedure by the AMC supplier and (ii) payment to the AMC supplier in two equal instalments with pro rata deduction for downtime beyond stipulated period. As per the TNTAR, formal agreement is to be signed with contractors so as to have a legal hold in case of contractor's defaults.

The ACL installed (August 2010) an Integrated Book Monitoring, Networking and Security System (IBMS) in its premises at a cost of ₹ 23.25 crore. IBMS was under warranty for period of three years, ending in August 2013. On completion of the warranty period, the DPL awarded (October 2013) an AMC at a cost of ₹ 2.56 crore for maintaining the IBMS for a period of one year (upto October 2014) to the Firm that supplied the system. The Firm, however, engaged a sub-contractor[23] to execute the AMC.

At the end of the first year of the AMC period, the DPL without any tender, engaged the sub-contractor again for carrying out AMC of IBMS for a further period of one year, i.e., from November 2014 to October 2015 and paid ₹ 2.56 crore as AMC charges.

While the AMC was in force for the second year, based on a Public Interest Litigation on the poor quality of maintenance of assets in ACL, the Honourable Madras High Court appointed (July 2015) Court Commissioners to inspect and submit a report. The Court appointed Commissioners duly submitted (July 2015) a report. Based on the report ACL also served (July 2015) a show cause notice on the AMC provider bringing to their attention the non-functioning of several computers and CCTV cameras and also addressed (August 2015) the DPL regarding various faults in the IBMS *viz.,* (i) non-functioning of more than half the installed desktop PCs and CCTV cameras, (ii) reduced server storage capability of CCTV cameras (one day as against 15 days) and (iii) non-functioning of online catalogue, server and automated security[24] gateways. The AMC provider did not rectify the deficiencies pointed out before the end of the AMC period.

At the end of the second AMC period (October 2015), through open tender, the DPL engaged (March 2016) a contractor[25] to:

- undertake one-time rectification of the non-functional hardware and software components of the IBMS at a cost of ₹ 2.04 crore before commencement of the AMC. This included replacement of hardware worth ₹ 0.85 crore.
- take up the AMC for maintaining the IBMS in ACL for the next three years (2016-19) for a value of ₹ 6.16 crore. The new firm

23 M/s Netcom Computers Private Limited.

24 Radio-frequency identification (RFID) gateway to prevent books being carried away.

25 M/s Matrix Security and Surveillance Private Limited, Hyderabad.

completed (June 2016) the one-time rectification work and continued to maintain the IBMS till date (June 2018).

Scrutiny of records in this regard relating to the period 2010-18, in the ACL and DPL, during August 2017 and May 2018, disclosed the following:

- Although awarding AMC to the supplier without a separate tender was admissible under the existing guidelines, acceding to the proposal of the supplier to sub-contract the work to a third party was irregular as DPL had not done any due diligence to assess the credentials of the sub-contractor. The matter was further exacerbated when DPL directly entrusted the AMC for 2014-15 to the same unverified sub-contractor.

- This lapse was further compounded by paying the entire AMC charges (100 *per cent*) in advance to the contractor in contravention of extant orders. This resulted in ACL being unable to hold the service provider accountable by either withholding payments or making *pro rata* deductions for the AMC provider's non/delayed performance during the contract period. ACL was unable to penalise the contractor for defective maintenance which resulted in replacement of components worth ₹ 0.85 crore due to lack of maintenance. It was also observed that DPL failed to obtain the Bank Guarantee stipulated by GoTN to insulate against losses on account of deficiencies on the part of the AMC holder.

- ACL neither signed a detailed Service Level Agreement nor had any system in place for tracking the maintenance of the various hardware and software components of IBMS and to monitor the performance of the AMC provider.

Thus, from the above lapses of the DPL and Chief Librarian & Information Officer (CLIO), in engaging and managing the contract, Audit concluded that the expenditure of ₹ 5.12 crore[26] on AMC was irregular and the expenditure of ₹ 0.85 crore for one-time rectification of the faulty hardware components of the IBMS, which was under AMC with the unverified sub-contractor for two years, was avoidable.

To an Audit enquiry in this regard, the CLIO stated that the maintenance schedule records pertaining to the 2014-15 AMC period and complaints register were not available and that the breakdown call register was not maintained as all technical issues were resolved by orally communicating to the AMC provider. The reply strengthened the Audit conclusion that deficiency in contract management caused the avoidable additional expenditure of ₹ 0.85 crore towards one-time expenditure to replace faulty hardware components left in a defective state by the AMC provider.

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26 ₹ 2.56 crore per year for two years.

The Government replied (September 2018) that (i) recourse to tenders for AMC could not be taken in view of Court orders directing to provide all necessary infrastructure to readers and (ii) one-time rectification was necessitated as the computer systems and CCTV cameras were damaged due to unreliable power supply in ACL and unprecedented heavy rains during November and December 2015. The reply was not tenable as Court orders did not prevent inviting of tenders for AMC. Besides the reply does not address the issue of non-adherence to extant Government AMC guidelines.

3.3 Regularity issues and others

DEPARTMENT OF SPECIAL PROGRAMME IMPLEMENTATION AND REVENUE & DISASTER MANAGEMENT DEPARTMENT

3.3.1 Scheme for free distribution of electric fans, mixies and grinders to women beneficiaries in the State

3.3.1.1 Introduction

In June 2011, GoTN announced a scheme for free distribution of electric fans[27], mixies and grinders (FMG) to women beneficiaries in the State holding family cards with rice entitlement. One woman member of the households having rice card (as on 30 June 2011) was eligible for getting FMG free of cost under the scheme. In case, an eligible household did not have a woman member, the head of the family was the beneficiary. The Scheme was implemented in five phases during 2011-16. The objectives of the scheme were to (i) improve the standard of living of poor women, (ii) make women more effective participants in the economy by providing them some relief from strenuous domestic activities and (iii) provide women with equal opportunities. GoTN nominated Tamil Nadu Civil Supplies Corporation (TNCSC) as the agency for procurement of the appliances and the Revenue Department handled the task of distribution, except in Chennai, where the Commissioner, Greater Chennai Corporation handled this task. At the Government level, the Secretary to Government, Department of Special Programme Implementation, headed implementation of this Scheme.

The Scheme envisaged procuring and supplying FMGs meeting the standards prescribed by Bureau of Indian Standards. The phase-wise details of FMG distribution was as given in **Table 3.7**.

[27] In the hilly areas of The Nilgiris District and Kodaikanal area of Dindigul District, induction stoves were distributed in lieu of electric fans.

Table 3.7: Details of phase-wise distribution of FMG

Phase	Year	Distributed (in numbers)			Expenditure* (₹ in crore)
		Fan/ Induction stove	Mixie	Grinder	
I	2011-12	24,19,160	24,25,508	24,34,380	1,347.87
II	2012-13	34,54,590	34,72,270	34,62,223	1,533.82
III	2013-14	34,55,491	34,87,819	34,88,819	1,468.11
IV	2014-15	43,67,634	43,71,660	43,67,635	1,837.27
V	2015-16	37,59,295	37,33,788	37,37,729	1,529.57

* Includes expenditure incurred on procurement, storage, transport, insurance, etc.

(Source: Compiled from details furnished by Commissioner of Revenue Administration)

During 2017-18, Audit scrutinised the records relating to the period 2011-16 at Department of Special Programme Implementation of GoTN, Commissioner of Revenue Administration (CRA), TNCSC and in 16 out of 32 districts and 64 out of 116 taluks in the sampled districts (**Appendix 3.7**), selected through simple random sampling. The deficiencies noticed are discussed in the succeeding paragraphs.

3.3.1.2 Procurement of FMGs

(i) Excess procurement of FMGs

In June 2011, GoTN estimated that 1.83 crore families would benefit under this scheme. Subsequently, after reworking the number of rice entitlement Family Cards[28] as on 30 June 2011, GoTN revised (May 2012) the target number of beneficiaries to 1.85 crore. The proposal was to cover 25 lakh beneficiaries in the first phase, 35 lakh beneficiaries each in the second and third phases and 45 lakh beneficiaries each in the fourth and fifth phases. In each phase, villages/wards were selected in rural/urban pockets of each of the 234 Assembly Constituencies and all rice card holders of the village/ward were covered that phase.

While working out the requirement of FMGs for the final phase, in October 2015, CRA cautioned the district collectors to carefully work out the requirement and to deduct the surplus stock of previous phase procurements, which were lying in stock. The district collectors worked out the requirements and after due approval by GoTN, TNCSC procured 36,97,879 fans/stoves, 37,55,963 mixies and 37,40,272 grinders. After distribution of FMGs to all eligible beneficiaries of the fifth and the final phase, as of March 2018, the Revenue Department held huge stock of FMGs in its storage points as given in **Tables 3.8 (a)** and **(b)**.

[28] The State follows Universal Public Distribution System with four types of Family cards *viz.,* (i) Green (Rice) Cards issued to families who opt for all commodities including rice; (ii) White (Sugar) Cards eligible for all commodities except rice, (iii) Khaki (Police) Cards eligible for all commodities and (iv) White (no commodity) Cards not eligible for any commodity.

Table 3.8 (a): Phase-wise details of FMGs procured and distributed

Phase		I	II	III	IV	V
Year		2011-12	2012-13	2013-14	2014-15	2015-16
(In numbers)						
Opening Balance	Fan/I.S.	0	84,361	1,26,250	1,70,759	3,03,125
	Mixie	0	74,492	1,02,222	1,14,403	2,42,743
	Grinder	0	65,620	1,03,397	1,14,578	2,46,943
Procured	Fan/I.S.	25,03,521	34,96,479	35,00,000	45,00,000	36,97,879
	Mixie	25,00,000	35,00,000	35,00,000	45,00,000	37,55,963
	Grinder	25,00,000	35,00,000	35,00,000	45,00,000	37,40,272
Total	**Fan/I.S.**	**25,03,521**	**35,80,840**	**36,26,250**	**46,70,759**	**40,01,004**
	Mixie	**25,00,000**	**35,74,492**	**36,02,222**	**46,14,403**	**39,98,706**
	Grinder	**25,00,000**	**35,65,620**	**36,03,397**	**46,14,578**	**39,87,215**
Distributed	Fan/I.S.	24,19,160	34,54,590	34,55,491	43,67,634	37,59,295
	Mixie	24,25,508	34,72,270	34,87,819	43,71,660	37,33,788
	Grinder	24,34,380	34,62,223	34,88,819	43,67,635	37,37,729
Closing Balance	Fan/I.S.	84,361	1,26,250	1,70,759	3,03,125	2,41,709
	Mixie	74,492	1,02,222	1,14,403	2,42,743	2,64,918
	Grinder	65,620	1,03,397	1,14,578	2,46,943	2,49,486

I.S Induction stove

Table 3.8 (b): Details of FMGs procured in excess at the end of Phase V

Sl. No.	Detail	Fan	Induction Stove	Mixie	Grinder	Total
1	Total number of FMGs procured for fifth phase*	39,55,862	45,142	39,98,706	39,87,215	**1,19,86,925**
2	Total number of FMGs distributed in fifth phase	37,16,293	43,002	37,33,788	37,37,729	**1,12,30,812**
3	**Excess procurement (in numbers)**	**2,39,569**	**2,140**	**2,64,918**	**2,49,486**	**7,56,113** (6.73 *per cent*)
4	Unit Cost@ (in ₹)	869.05	1,055.69	1,055.69	2,142.00	..
5	**Value of excess procured appliances (in ₹)**	**20,81,97,439**	**22,59,177**	**27,96,71,283**	**53,43,99,012**	**102,45,26,911**

* Includes old stocks from previous phases.

@ The least unit price among the five phases was adopted

(Source: Details furnished by CRA and TNCSC)

It was seen from **Table 3.8 (b)** that the excess procurement for the fifth phase was 6.73 *per cent* of the actual distribution in that phase and its value worked out to ₹ 102.45 crore. Faced with the issue of surplus stocks, GoTN ordered (April 2017) to distribute the surplus appliances free of cost to police personnel, schools, anganwadis, etc., in contravention of the Scheme guidelines. Further, GoTN did not assess the utility of domestic model mixies and grinders in school noon meal centres, anganwadis, etc., which did not have grinding needs for items on their menu.

In reply to an audit query, District Collectors (Tirunelveli, Dharmapuri and Perambalur districts) and Tahsildar, Dharmapuri stated (July and September 2017 and February and March 2018) that the surplus stocks arose on account of death, permanent shifting, migration, bogus cards and deletion of ineligible beneficiaries. While announcing the Scheme, GoTN decided to use the list of rice entitled Family Card holders as on 30 June 2011 as the basis for distribution in the first phase. In all subsequent phases, the beneficiary list with the same cutoff date of 30 June 2011 was used, which ultimately resulted in many beneficiaries present in the original list of 30 June 2011, not being available in the same address after four years at the time of fifth phase distribution due to death, permanent shifting, migration, etc.

Thus, the fact that surplus quantity arose in every phase and the same were utilised in the subsequent phases indicated that the actual requirement for each phase was less than the initial assessment as of 30 June 2011. The wrong adoption of 30 June 2011 data for procurement of FMGs, even for the final phase and failure in not verifying and weeding out those who had migrated/deceased or became ineligible subsequent to the initial assessment during 2011-12 resulted in avoidable procurement of FMGs in excess of actual requirement and consequent avoidable expenditure of ₹ 102.45 crore. GoTN replied (May 2018) to Audit that the excess was only about one *per cent* of the total procurement and action was being taken to distribute this to schools, anganwadis, etc.

GoTN replied (March 2019) that the number of eligible beneficiaries originally estimated as 1.85 crore, came down to 1.81 crore due to diligent monitoring of the distribution process and also due to elimination of bogus cards. The reply endorses the audit finding that the department should have taken measures to verify the June 2011 data especially in the view of surplus stock arising after distribution every year.

(ii) Avoidable extra expenditure on pre-delivery inspection

As per para 15.1 of tender conditions, the manufacturer should arrange for 'Acceptance Test' of finished products in the presence of purchaser's representative and TNCSC could engage a third party to carry out pre-delivery inspection (PDI) to ensure supply of quality products. PDI included (a) ensuring the quality of raw materials used in manufacturing, (b) supervising the manufacturing process and (c) selection of samples for 'Acceptance Test', supervising the tests and independently conducting 'Acceptance Test' of one unit from each batch of 2,500 appliances, etc.

In order to select an agency to carry out PDI, the Managing Director, TNCSC formed (September 2011) a Committee of Experts with four members[29]. The Committee suggested the appointment of Central Institute of Plastics Engineering and Technology (CIPET), Chennai, as third party inspecting agency. Accordingly, TNCSC appointed (January 2012) CIPET as third party agency for PDI on a fee of 0.25 *per cent* of total value of products for Phase I of the Scheme and the rate was reduced on mutual discussion to 0.2 *per cent* of total value of products for Phases II and III. TNCSC justified the appointment of CIPET, without calling for tenders, on the basis of Section 16 (b) of TN Transparency in Tenders Act, 1998, which facilitated award of contract without following tender procedures in the case of single source procurements. For Phases IV and V, through tender procedures, TNCSC engaged (October 2014) another agency *viz.,* Bharat Test House, New Delhi for PDI. As per the agreement with Bharat Test House, the agency would supply personnel for PDI on a fee of ₹ 16,776 per person per month.

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[29] Head of the Department, Electrical and Electronics Engineering, College of Engineering, Guindy; Senior Manager (QC), TNCSC; JD, Department of Industries and Commerce and Senior Vice President, ITCOT, Chennai.

Audit noticed that while the services rendered by both agencies were one and the same, the cost of the services of CIPET engaged without following tender procedure was much higher than that of Bharat Test House. This indicated that TNCSC failed to explore the availability of other agencies offering services at competitive rates for PDI services.

As a result of entrusting PDI services under Phases I, II and III to CIPET at higher rates, the Government ended up in incurring an estimated avoidable extra expenditure of ₹ 8.34 crore on PDI charges (**Appendix 3.8**).

GoTN replied (March 2019) that amongst the Central government labs available in Chennai, CIPET was the only aggregated lab for testing plastic items in home appliances. The reply was untenable as it was not mandatory to rely only on a Government establishment when similar services at economical rates were offered by other firms.

3.3.1.3 Distribution of FMGs

(i) Loss due to storage of FMGs in uninsured godowns

Para 11 of the scheme guidelines (August 2011) envisages insuring of FMGs in storage points (godowns) and in transit from storage points to distribution points. FMGs were to be supplied in one godown in each of the 234 Assembly Constituencies. TNCSC insured all these 234 godowns under the 5 phases[30] at a cost of ₹ 1.61 crore.

In contravention of the scheme guidelines and instructions of the Government, in four sampled districts[31], the district administration stored FMGs in several uninsured storage points, in addition to the insured godowns. The reasons therefor were not made available to Audit. Audit noticed that 97,831 FMGs valued at ₹ 13.64 crore, stored in uninsured storage points were damaged due to occurrence of fire and flood. The insurance company did not admit the claim made by TNCSC in a routine manner, for the loss of the above damaged goods as the godowns were not insured (**Appendix 3.9**).

Thus, non-adherence to guidelines and instructions on storage of FMGs and failure of the District Collectors and Tahsildars to get the additional storage points approved and insured had resulted in irrecoverable loss of ₹ 13.64 crore.

(ii) Loss due to deficiencies in ensuring quality and repairing faulty appliances

As per the tender conditions, 32 samples from every batch of 2,500 appliances were to be tested by the manufacturer, in the presence of TNCSC and the agency engaged for third party inspection. Further, one sample from every alternative batch (1 out of 5,000 appliances) was to be sent to an accredited laboratory for 'Type Test[32]'.

Audit noticed that 36 out of the 3,540 sampled fans/induction stoves, 385 out of the 3,551 sampled mixies and 418 out of the 3,548 sampled grinders did not

30 Only 232 storage points were insured under Phase I - two were not insured.

31 Chennai, Kancheepuram, Tiruvallur and Vellore.

32 Type test is an electrical test conducted in National Accreditation Board for Testing and Calibration or Bureau of Indian Standards accredited labs as per IS:555-2006 (Fan), IS:4250-2004 (Mixie) and IS:302-2-209(1994) (Grinder).

pass the test, but the entire batch of 5,000 appliances each, from which the failed samples were drawn, were taken into stock/distributed.

Audit observed that the tender conditions of Phase I had a warranty clause for two years, but did not have any provision to tackle the issue of test failure reports indicating manufacturing faults, received subsequent to receipt/ distribution. Therefore, in respect of Phase I supply, the MD, TNCSC decided to levy a penalty of three *per cent* of the available Security Deposit and recovered ₹ 1.78 crore in respect of failure of 21 samples of fans, 372 samples of mixies and 404 samples of grinders, which involved a total batch size of 1.05 lakh fans, 18.60 lakh mixies and 20.20 lakh grinders, valued at ₹ 874.38 crore.

In the subsequent phases, the tender conditions included a specific provision that the full value of the batch with sample failure would be withheld pending replacement of all identified defective pieces of the batch. Under this provision, during II, III, IV and V Phases, TNCSC withheld ₹ 29.55 crore, being the value of 42 batches that failed in tests subsequent to distribution. It was, however, noticed that the entire withheld amount were released to the suppliers based on confirmation from district collectors that no complaints were received from beneficiaries about the quality of the appliances. Audit, however, noticed that as of March 2018, damaged/faulty FMGs[33] valued at ₹ 14.20 crore were lying in storage points in 28 districts across the State after completion of the scheme. In addition, a study conducted by Department of Evaluation and Applied Research (DEAR), in six sampled districts covered under Phases I to III, revealed that out of a sample of 600 beneficiaries, 21 beneficiaries did not use the FMGs (Fan: 9, Mixie: 5 and Grinder: 7) as they were beyond repair.

Thus, the Phase I agreement lacked a suitable provision to cover sample failures noticed after receipt or distribution. In the subsequent phases, though a suitable provision was included in the agreement, the problem of faulty/damaged FMGs, coming to notice subsequent to receipt or distribution, was not addressed adequately. This had resulted in large number of defective pieces being received as well as distributed to beneficiaries, leading to a loss of ₹ 14.20 crore, being the value of damaged 1,13,861 FMGs lying in 28 storage points as detailed in **Appendix 3.10**.

GoTN replied (March 2019) that FMGs got damaged due to handling in godowns and were replaced by the suppliers during the warranty period. The reply, however, did not explain as to how 1,13,861 FMGs valued at ₹ 14.20 crore were not replaced by the suppliers.

Thus, non-compliance to applicable codal provisions and deviations from financial propriety resulted in loss of ₹ 124.43 crore[34] to the Government.

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33 Fan: 45,420; Induction Stove: 1,768; Mixie: 38,760 and Grinder: 27,913.

34 Excess procurement: ₹ 102.45 crore (+) Avoidable expenditure on PDI: ₹ 8.34 crore (+) loss due to storage in uninsured godowns: ₹ 13.64 crore.

LABOUR AND EMPLOYMENT DEPARTMENT

3.3.2 Diversion of Manual Workers General Welfare Fund

In violation of scheme guidelines and the directions of Hon'ble Supreme Court, Tamil Nadu Construction Workers Welfare Board diverted ₹ 44.24 crore from Manual Workers General Welfare Fund for construction of building to house Government offices.

Under Section 4 of the Tamil Nadu Manual Workers (Regulation of Employment and Conditions of Work) Act, 1982 (the Act), in 1994, GoTN formulated the Tamil Nadu Manual Workers (Construction Workers) Welfare Scheme. The objectives of the scheme were to provide for various welfare measures[35] to benefit the construction workers. The scheme was to be implemented by the Tamil Nadu Construction Workers Welfare Board (the Welfare Board), established under Section 6 of the Act. The Welfare Board has its Head Office in Chennai and covers the whole State through 32 district offices headed by Labour Officer (Social Security Scheme). Persons/agencies engaged in construction activities were to contribute one *per cent* of the estimated cost of the proposed construction works to the Manual Workers General Welfare Fund (Welfare Fund) of the Welfare Board for implementation of the scheme. Local bodies collect the amount at the time of according building permissions and remit it to the Fund. Hon'ble Supreme Court of India, in its judgment dated 07 February 2012 ordered that such funds should not be utilised for any other head of expenditure of the State Government.

Against the total income of ₹ 1,333.92 crore during 2015-18, the Welfare Board incurred expenditure of ₹ 224.69 crore towards awareness camps, marriage assistance, educational assistance, accidental death and funeral assistance etc. Scrutiny of records (August and September 2017) for the period from September 2016 to September 2017 relating to the Secretary, Welfare Board, revealed that in contravention of the scheme guidelines and the directions of the Hon'ble Supreme Court, the Welfare Board utilised the accumulations in the Welfare Fund to construct office complexes for Labour Department as discussed below:

In a Review Meeting of Labour and Employment Department of GoTN, held on 16 March 2012, it was decided to construct district labour office complexes for Labour Department in districts. Based on the decision, in August 2013, the Commissioner of Labour proposed to the Government to construct integrated office complexes in 20 districts for housing various offices of the Labour Department, including Labour Office (Social Security Scheme), which implements the Manual Workers (Construction Workers) Welfare Scheme in addition to other schemes. Suggesting that a substantial portion of the office

[35] (1) Running crèches, (2) Personal accident relief, (3) Provident fund scheme, (4) Employees state insurance scheme, (5) Pension scheme, (6) Assistance to meet the funeral expenses of the registered manual workers, (7) Educational assistance and marriage assistance for the children of workers, (8) Maternity assistance for registered female workers, etc.

complexes would be occupied by the Labour Office (Social Security Scheme), the Commissioner of Labour proposed to utilise the accumulations in the Welfare Fund to construct the complexes and sought the approval of the Government to utilise ₹ 40.50 crore from the Welfare Fund. GoTN, in violation of Hon'ble Supreme Court's judgement of February 2012 on utilisation of the balances in Welfare Fund, accorded approval in October 2013 for construction of labour office complexes in 20 districts at a cost of ₹ 40.50 crore to be met out by utilising the Welfare Fund. Subsequently, the Welfare Board in its meeting dated 28 February 2014 accorded approval and released a total of ₹ 44.24 crore to Public Works Department in four tranches between October 2015 and August 2017. As of May 2018, integrated labour office complexes in 10 districts were completed and occupied and works were in progress in the remaining districts.

Audit observed that the decision of GoTN and the Welfare Board to utilise Welfare Fund for construction of integrated labour office complexes for Labour Department amounted to diversion of the Welfare Fund as the money accumulated in the fund was meant only for implementing welfare schemes for construction workers. While it was true that the Labour Officer (Social Security Scheme), implemented welfare measures under Construction Workers Welfare Scheme, it was one of the many functions of Labour Officer (Social Security Scheme). Further, Labour Office (Social Security Scheme) was just one of the several offices of Labour Department housed in the integrated labour office complexes. For instance, in addition to the Labour Office (Social Security Scheme), the Integrated Labour office Complex, Tiruchirappalli, housed the offices of Zonal Joint Commissioner of Labour, Regional Deputy Commissioner of Labour, Assistant Commissioner of Labour, three offices of territorial Labour Inspectors, six offices of territorial Deputy/Assistant Inspectors of Labour, three offices of Stamping Inspectors (Legal Metrology) and one Legal Metrology Laboratory. It was also observed that all these building were constructed on Government owned land and hence ownership rights rested with GoTN.

On this being pointed out by Audit, the Government replied (July 2018) that the building was constructed to provide all facilities under one roof for the benefit of workers. It also stated that even though the land on which the buildings were constructed were not transferred to the Board, the buildings were deemed to be the assets of the Board.

The reply of the Government missed the crux of the issue that the Board was a separate legal entity with its own source of funds and well defined objectives. The Board was not entitled to construct its building on Government lands without transfer of title through sale or alienation free of cost. The claim of the Government that the buildings are deemed to be the assets of the Board was not tenable as the land belonged to the Government. The act of utilising the Welfare Fund for construction of Labour Office complex amounted to violation of the Act and the judgement of Hon'ble Supreme Court in this regard.

REVENUE AND DISASTER MANAGEMENT DEPARTMENT

3.3.3 Non-realisation of revenue due to non-revision of lease rent

Inordinate delay in revising and fixing lease rent resulted in non-realisation of revenue of ₹ 4.10 crore.

During 2017-18, 128 Taluk offices were audited. The audits brought out issues on non-renewal of leased land, short collection of lease rent, etc., in 58 Taluk offices. One of the issues, which involved serious lapse and substantial loss of revenue, is discussed below based on scrutiny of records of Sholinganallur Taluk and Secretariat during February and March 2018.

Revenue Standing Order 24-A, permits leasing of Government land for specified periods by individuals, private bodies, companies, etc., for non-agricultural purposes. It also stipulates that the lease may be for a period upto 20 years. The lease rent should be revised at the time of renewal or once in three years, whichever is earlier. The power to renew the lease of Government land valuing more than ₹ 10 lakh rests with the Commissioner of Land Administration/Government of Tamil Nadu. As per extant orders (June 1998), the lease rent for Government lands was required to be fixed at 14 *per cent* of the market value when let out for commercial purpose. The District Administration was responsible for initiating action to vacate the lessee on completion of the lease period or for renewal of lease periodically.

Government land[36] measuring 10,000 sq. ft. (23 cents) on Velacherry Road, Chennai was leased[37] (January 2001) to Indian Oil Corporation Limited (IOCL) for the purpose of establishing a retail outlet. The lease deed was for a period of 10 years, from 19 February 2001. The lease rent was fixed at 14 *per cent* of market value of land, to be revised once in every three years. The lease rent was initially fixed as ₹ 1.29 lakh per annum, payable in advance. IOCL paid lease rent (₹ 20.14 lakh) at the same rate for the period from February 2001 to September 2016.

Audit observed that:

- The Tahsildar, Sholinganallur did not take any action for periodical revision of lease rent due from 19 February 2004, 19 February 2007 and 19 February 2010. Further, no action was taken either to renew the lease in February 2011 or to vacate the lessee on completion of the lease period of 10 years.
- The District Collector, Kancheepuram sent four letters to the Tahsildar between August 2004 and June 2008, seeking information

[36] Survey Number 23/2B, Pallikaranai Village, Kancheepuram District.

[37] Lease deed between IOCL and the District Revenue Officer, Kancheepuram was executed in February 2001.

on collection of lease rent and instructing revision of lease rent. There was no response from the Tahsildar for non-revision of lease rent. The District Collector, however, did not initiate any further action and stopped reminding the Tahsildar after June 2008.

- Neither the Taluk office nor the Collectorate had a regularly updated database of Government lands leased out to private parties, companies, etc., with details of lease rent, due date for revision of rent, due date for renewal of lease, etc. Lack of a comprehensive system resulted in inadequate monitoring.

- On this being pointed out by Audit (October 2017), the Tahsildar, Sholinganallur, without following the due process of approaching the GoTN for revising and fixing the lease rent, raised (January 2018) a demand for revised lease rent and asked IOCL to pay ₹ 4.10 crore for the period upto February 2019 **(Table 3.9)**. IOCL did not pay the demand raised (May 2018).

Table 3.9: Details of revised lease rent raised by Tahsildar, Sholinganallur

Period of lease			Due date for revising lease rent	Guideline value* per square foot	Guideline value for 10,000 square feet (Col 5 X 10,000)	Lease rent leviable at 14 *per cent* of land cost (Guideline value) (Col. 3 x Col. 6 x 14 *per cent*)	Lease rent collected at old rate as per lease agreement	Non-realisation of revenue due to non-revision of lease rent (Col. 7 (-) Col. 8)
From	To	Duration						
				(in ₹)				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
19/02/2004	18/02/2007	3 years	19/02/2004	125	12,50,000	5,25,000	3,85,668	1,39,332
19/02/2007	18/02/2010	3 years	19/02/2007	125	12,50,000	5,25,000	3,85,668	1,39,332
19/02/2010	18/02/2013	3 years	19/02/2010	2,386	2,38,60,000	1,00,21,200	3,85,668	96,35,532
19/02/2013	18/02/2016	3 years	19/02/2013	4,500	4,50,00,000	1,89,00,000	3,85,668	1,85,14,332
19/02/2016	18/02/2019	3 years	19/02/2016	3,015	3,01,50,000	1,26,63,000	85,704 (upto September 2016)	1,25,77,296
					Total	4,26,34,200	16,28,376	4,10,05,824 or ₹ 4.10 crore

(Source: Details furnished by Tahsildar, Sholinganallur)

Thus, the failure on the part of Tahsildar, Sholinganallur and District Collector, Kancheepuram to initiate effective action for revision of lease rent once in every three years and the failure of the Commissioner of Land Administration and the Government in not ensuring a structured mechanism to monitor the renewal/revision of leases/lease rent and for accurate and timely collection of lease rent, resulted in non-realisation of revenue of ₹ 4.10 crore.

The matter was referred to the Government in June 2018; reply has not been received (January 2020).

MUNICIPAL ADMINISTRATION AND WATER SUPPLY DEPARTMENT

TIRUTTANI MUNICIPALITY

3.3.4 Under-utilisation of Bio-Methanation-cum-Power Generation Plant

The objective of establishing Bio-Methanation-cum-Power Generation Plant at a cost of ₹ 89.75 lakh in Tiruttani Municipality in Tiruvallur District remained unachieved for want of desired quantity of bio-degradable waste.

The Municipal Solid Waste (Management & Handling) Rules, 2000 and its Revised Rules, 2016 (Rules) demand local bodies to educate the waste generators to minimise generation of waste, reuse the waste to the extent possible, practise segregation of waste and home composting, store waste segregated at source in different bins, handover segregated waste to the waste collectors, etc. The Rules further demand the local bodies to collect and transport the wastes to the processing facilities to minimise the burden on landfill and set up waste processing and disposal facilities. The State Government shall enforce the provisions through periodical reviews and the State Pollution Control Board shall monitor compliance with the provisions so as to contain ground water pollution and global greenhouse gases, besides incidence of diseases. The Rules specify Bio-Methanation as a method to dispose municipal solid waste to produce methane-rich biogas and bio-manure. The method reduces emission of methane into the atmosphere thereby conserving the environment. Biogas is used for cooking and generating electricity. Bio-manure is a substitute for chemical fertiliser and sold as organic manure.

Tiruttani Municipality (Municipality) in Tiruvallur District proposed (December 2012) to establish a five Metric Tonne (MT) capacity Bio-Methanation-cum-Power Generation Plant (Plant) in the Municipality at a cost of ₹ 90 lakh. The Municipality estimated 14.36 MT of bio-degradable waste out of 25 MT of solid waste generated per day. Further, it anticipated an income of ₹ 5.25 lakh[38] per annum by sale of organic manure and savings of ₹ 17.99 lakh[39] per annum in the consumption of electricity by using biogas and transport charges of bio-degradable waste to the dumping yard. The Government of Tamil Nadu sanctioned (March 2013) the project under Integrated Urban Development Mission 2012-13.

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[38] Income by sale of organic manure: 175 MT per annum @ ₹ 3,000 per MT = ₹ 5.25 lakh.

[39] Savings in consumption of electricity: 480 units per day for 350 days @ ₹ 5.50 per unit = ₹ 9.24 lakh and savings in manpower and transport: 5 MT per day for 350 days @ ₹ 500 per MT = ₹ 8.75 lakh. Total anticipated savings: ₹ 9.24 lakh (+) ₹ 8.75 lakh = ₹ 17.99 lakh.

The Municipality invited tenders (May 2013) for the work on turn-key basis including operation and maintenance for seven years and awarded (July 2013) the work of establishment of the Plant at a cost of ₹ 89.75 lakh. The work scheduled for completion in six months was actually completed in December 2016. The delay was attributed to public protest against installing the Plant in the identified site leading to deferred commencement of work. The Municipality so far paid a sum of ₹ 72 lakh (December 2018) to the contractor.

Audit scrutiny (March and June 2018) of works-in-progress records of the Municipality for the period 2015-17 disclosed that despite generating 12 MT of solid waste per day, it supplied 0.50 MT of bio-degradable waste only, to feed the Plant. The Municipality failed to deliver even the reduced quantity (September 2017) of 2 to 2.5 MT of bio-degradable waste per day demanded by the contractor to conduct the trial run. As a result, the contractor handed over the Plant without generating biogas (September 2017). The Municipality did not agree (June 2018) to the handing over, on the plea that the contractor failed to hand over the plant in running condition.

The Municipality replied (June 2018) that (a) with inadequate number of sanitary staff, the segregated waste fell short of the desired quantity of bio-degradable waste, (b) upon finalising the tender for outsourcing part of sanitary work, it could meet the desired requirement to run the plant and (c) after supplying the desired quantity on a regular basis, it would begin production of biogas to generate power. The reply was not tenable as the Municipality had proposed to establish the Plant after preparing detailed project report and ensuring adequate quantity of bio-degradable waste with the existing staff strength. Further, in accordance with the Rules, the Municipal Council enacted a bye-law effective from April 2017 enforcing responsibility on garbage generators to segregate and provide bio-degradable and non-biodegradable waste separately for disposal, failing which it shall levy fine on defaulters.

The Government replied (October 2018) that (i) the Municipality supplied two MT of bio-waste per day to the Plant from August 2018, (ii) the Plant generated 160 units power per day and (iii) the power was utilised for the crematorium, slaughter house and bore well. A scrutiny of records and joint physical verification of the Plant (January 2019) with the municipal officials revealed that the Plant was made operational from September 2018 by feeding 1.50 MT of bio-degradable waste per day. The Municipality, however, had no record for the quantum of power generated. The Government's claim regarding utilisation of power was not tenable as the slaughter house was not leased out and the gasifier crematorium was kept idle. Further, there was no reduction in the electricity consumption of bore well after the establishment of the Plant.

Thus, under-utilisation of the plant established at a cost of ₹ 89.75 lakh, led to environmental degradation, non-realisation of anticipated income from sale of organic manure and recurring expenditure on electricity and transport charges.

COIMBATORE CITY MUNICIPAL CORPORATION

3.3.5 Non-utilisation of artificial hockey turf

Improper planning and non-adherence to International Hockey Federation standards resulted in non-utilisation of artificial hockey turf created at a cost of ₹ 3.24 crore.

Section 100 (2) of the Coimbatore City Municipal Corporation Act, 1981 (Act), requires the Commissioner to seek Government's approval for a work or series of works, the entire estimated cost of which exceeds ₹ 1 crore through the Corporation Council.

The Coimbatore City Municipal Corporation (Corporation) had a Hockey Turf at a school campus[40] for conducting training to students. The turf became unusable due to lapse of time and the Corporation decided (July 2014) to establish an 'Artificial Hockey Turf[41] (Water Based) with cast *in-situ* Shock Pad[42]', in accordance with the International Hockey Federation (FIH) standards at a cost of ₹ 4.42 crore for conduct of tournaments and to provide training. FIH laid down the field standards for quality-assured artificial turfs for all levels of play which includes provision for fencing. The standards emphasise the need for security fence and a gate to control entry and exit in the design and pre-construction phase of installation to prevent damage by public trespass.

Audit scrutiny (June 2018) of works-in-progress records for the period 2014-18 in the Corporation disclosed that, even though the estimated cost of the work exceeded ₹ 1 crore and required Government's approval, the work was split into six parts to enable financial sanction within the powers of the Corporation Council and thereby avoid seeking Government's approval. The split up works were categorised as civil works consisting of construction of retaining wall (₹ 0.73 crore) and formation of black top surface (₹ 0.75 crore) and other component works consisting of supply of synthetic turf (two separate works at ₹ 0.75 crore each), supply of polyurethane binder, glue and seaming tape (₹ 0.75 crore) and supply of SBR granules and installation of rain-gun sprinklers, synthetic hockey turf and shock pad (₹ 0.69 crore).

By inviting tenders, the civil works were awarded in May 2015 and the other component works in September 2015 with the period of completion as six months. The civil works were completed (May 2016/October 2016)

40 Corporation Boys & Girls Higher Secondary School, Rathina Sabapathi Puram.

41 An artificial sports surface made of synthetic or textile fibres to look like natural grass, designed to provide the best possible conditions to play the game of hockey.

42 A spongy underlying layer made of rubber granules and polyurethane binder mixed on site and laid as a base for artificial turf to ensure soft landing when slips and falls happen.

incurring an expenditure of ₹ 1.53 crore. Against materials valued ₹ 2.61 crore[43] supplied under other component works, the Corporation paid (December 2016 - April 2018) ₹ 1.71 crore to the contractor. The Corporation met the expenditure out of its own funds.

Despite completion of civil works and supply of materials, the turf was not laid on account of damage to the shock pad laid at site. The Corporation issued (August 2017) show cause notice to the contractor for faulty installation and damage to the *in-situ* shock pad due to asymmetrical binding. The contractor contended that absence of safeguard to the work site resulted in public trespass on the ground including playing cricket in the hockey pitch area, inflicting damages to the shock pad. To an Audit query (June 2018), the Corporation stated (June 2018) that additional improvement works at a cost of ₹ 0.44 crore were sanctioned (June 2018) for fencing the hockey ground and action was initiated to repair the shock pad for laying the turf.

Audit observed that the Corporation violated the extant provisions of the Act to evade Government's approval by splitting the work. Further, the FIH standards emphasised the need for security fence in the pre-construction phase of installation. But the Corporation failed to incorporate the requirement of a fence in the proposed work, resulting in damage to the turf by public trespass. This prevented the laying of artificial turf over the shock pad and the turf valued ₹ 1.50 crore is lying idle in the open ground since supply (June 2017), making it susceptible to deterioration.

Thus, the Corporation failed to comply with the FIH standards in providing security fence at the initial stage of planning which resulted in damage to the asset created at an expenditure of ₹ 3.24 crore[44]. In order to provide fencing around the site and ensure utilisation of the asset, the Corporation was required to incur additional estimated expenditure of ₹ 0.44 crore.

GoTN replied (October 2019) that the project would be completed using Smart City funds. The fact, however, remained that due to improper planning the artificial hockey turf constructed at a cost of ₹ 3.24 crore was not utilised for about two years.

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43 Supply of SBR granules, polyurethane binder, glue and seaming tape (December 2015): ₹ 1.11 crore; synthetic turf (June 2017): ₹ 1.50 crore.

44 Amount paid to the contractors for civil works was ₹ 1.53 crore and for other component works was ₹ 1.71 crore.

3.4 Loss of revenue

MUNICIPAL ADMINISTRATION AND WATER SUPPLY DEPARTMENT

COIMBATORE CITY MUNICIPAL CORPORATION, GREATER CHENNAI CORPORATION AND PALANI MUNICIPALITY

3.4.1 Incorrect assessment of property tax

Incorrect assessment of property tax resulted in loss of revenue of ₹ 40.02 lakh and short levy of ₹ 67.51 lakh.

The Tamil Nadu District Municipalities Act, 1920 and Municipal Corporation Acts of respective City Municipal Corporations empower the municipalities and City Municipal Corporations to levy Property Tax (PT) on all buildings within the city at such percentage of Annual Value[45] (AV) as determined by the Council. PT on land and buildings is the mainstay of ULB's own revenue. During the year 2017-18, the accounts of 76 ULBs were audited. Audit came across 15 instances of incorrect assessment of property tax, involving a total money value of ₹ 5.64 crore. Major instances of incorrect assessment of PT are discussed in the following paragraphs.

(a) Coimbatore Municipal Corporation

Section 121 of the Coimbatore City Municipal Corporation Act, 1981 empowers the Coimbatore City Municipal Corporation (Corporation) to levy PT on all buildings within the city at such percentage of AV as determined by the Corporation Council.

GoTN ordered (November 2007) general revision of PT in all ULBs from April 2008 and issued (February 2008) guidelines for the revision. Accordingly, the Council resolved (May 2008) to revise the PT by increasing the Basic Value[46] of all categories of buildings. While conducting audit (January 2018) of the Corporation, PT assessments relating to eight out of the 35 Star-rated hotels within city limits were scrutinised. It was noticed that two PT assessments (81240820 and 81241033), in respect of a property on V.H. Road in Ward 81 of the Corporation, were incorrect due to wrong classification of the category of the building as commercial building instead of lodging house (hotel). The property was a lodging house since March 2005 and enjoyed the status of a Star Hotel during the period from September 2009 to August 2014. The Basic Value applicable and actually adopted in respect of hotels and commercial buildings during the period from April 2005 to March 2018 were as given in **Table 3.10**.

45 Annual value is the gross rental value the building is reasonably expected to fetch. It is determined by considering factors such as usage, location, type of construction and age of the building.

46 Basic Value is the monthly rental value of different categories of usage of buildings per sq.ft., as fixed by the Corporation Council.

Table 3.10: Wrong adoption of Basic Value for PT assessment

Period	To be adopted		Actually adopted	
	Category of the property	Basic Value (₹/sq.ft.)	Category of the property	Basic Value (₹/sq.ft.)
April 2005 to March 2008	Hotel	7.80	Commercial shop	6.50
April 2008 to March 2009	Hotel	8.58	Commercial shop	7.15
April 2009 to September 2014	Star Hotel	33.60	Commercial shop	7.15
October 2014 to March 2018	Hotel	8.58	Commercial shop	7.15

(Source: Council resolution of Coimbatore City Municipal Corporation)

Audit noticed that due to incorrect adoption of the category of the property, for the period from April 2005 to March 2018, the Corporation under-assessed PT to the tune of ₹ 73.57 lakh, of which ₹ 40.02 lakh would be a loss of revenue due to the embargo on collection of arrears in PT beyond a period of six years. The details of PT due and actually collected are given in **Appendix 3.11**.

On this being pointed out, the Corporation agreed (June 2018) to revise the PT assessment by adopting appropriate Basic Value after verifying the category of the building. This lapse indicated failure in updating accurate information on the building usage in the records of the Revenue Wing of the Corporation.

(b) Greater Chennai Corporation

The Annual Rental Value for assessment of PT by the Greater Chennai Corporation (GCC) is worked out based on factors such as location, building type, age of building, usage, etc. Audit scrutinised (October 2017) all the 3,758 new residential PT assessments of Zone V of GCC with reference to 7,066 trade licences issued by the Zone during 2016-17. It was noticed that buildings of four trade licence holders, using their premises for business purposes, were being assessed for PT as residential premises. This misclassification of four commercial buildings as residential buildings resulted in PT short levy of ₹ 23.20 lakh as detailed in **Table 3.11**.

Table 3.11: Short levy of Property Tax by GCC

Sl. No.	Assessment No.	Basic Rate applicable per sq.ft (In ₹)	Assessed area in sq.ft	Property tax per half year (₹ in lakh)				
				Due to be levied	Levied	Short levy	Period (No. of half years)	Total short levy
1	05-061-01167-000 (Tenant occupied)	7.50	13,800	1.40	0.17	1.23	2012-18 (11)	13.53
2	05-058-04356-000 (Owner occupied/ semi-permanent)[47]	4.80	25,017	1.21	0.41	0.80	2012-18 (11)	8.80
3	05-058-07457-000 (Owner/Tenant occupied)[48]	3.00	4,440	0.15	0.10	0.05	2012-18 (11)	0.55
4	05-056-02135-000 (Residential/Tenant occupied)[49]	1.00	3,050	0.08	0.04	0.04	2014-18 (8)	0.32
	(Tenant occupied)	3.30	900					
Total amount short levy				**2.84**	**0.72**	**2.12**		**23.20**

HY: Half Year

(Source: GCC's records)

The above short levy of PT indicated failure in the system of GCC to verify the correctness of the self-assessment returns of assessees. Further, there was no co-ordination within the Revenue Wing of GCC as properties classified as residential were issued trade licences to undertake commercial activities without revising PT.

GoTN replied (November 2018) that GCC took steps to collect the arrears and that a sum of ₹ 11.12 lakh had been collected so far. GoTN further stated that GCC has undertaken the project for preparation of base map, property and utility mapping and door to door survey through consultancy services.

Final report on the action taken to (a) recover the balance amount of ₹ 12.08 lakh (b) revisit the existing system for adopting checks at appropriate levels to verify the correctness of the self-assessment returns and (c) ensure co-ordination within the Revenue Wing of GCC, was awaited (February 2019).

(c) Palani Municipality

PT is assessed at prescribed percentage of the Annual Rental Value, worked out based on Basic Value of the building and other factors such as age and type of buildings and its utilisation. For the purpose of determining Basic Value, Palani Municipality (Municipality) was demarcated into four zones based on location, predominant usage, infrastructure availability etc. Basic Value per sq.ft. is fixed by the Municipal Council for residential properties in different zones. The Basic Value for industrial and commercial properties is taken at respectively twice and thrice the Basic Value of residential properties in the respective zones.

47 Permanent structure: 24,503 sq.ft (+) Semi-permanent structure: 514 sq.ft = Total assessed area: 25,017 sq.ft.

48 Owner occupied: 3,020 sq.ft (+) Tenant occupied: 1,420 sq.ft = Total assessed area: 4,440 sq.ft.

49 Residential area: 3,050 sq.ft (+) Commercial area: 900 sq.ft = Total assessed area: 3,950 sq.ft.

The guidelines also necessitate the Executive Authority to assess tax on property after verifying the correctness of the self-assessment returns filed by the assessees through officials of the municipality.

The Municipality revised (April 2008) the Basic Value of residential properties as ₹ 1.30, ₹ 1.10, ₹ 0.85 and ₹ 0.70 per sq.ft. for Zones A, B, C and D respectively.

Audit scrutiny (April 2018) of 110 out of the 1,060 new PT assessments during the audit period of 2014-18 revealed that in respect of a newly constructed (April 2014) commercial building (Assessment numbers: 21289, 21290, 21291 and 21292) measuring 44,856 sq.ft. falling under Zone A, the Municipality adopted the Basic Value applicable to Zone D at ₹ 0.70 per sq.ft. instead of at ₹ 1.30 per sq.ft., which is applicable to Zone A, in which the building was located. The short levy of PT on this account was ₹ 10.76 lakh for the period from April 2014 to March 2018, as indicated in **Appendix 3.12**.

GoTN replied (August 2018) that the assessments have been revised and action was being taken to collect the revised PT. The short levy, however, was not recovered (August 2018). Non-application of the correct Basic Value indicated failure to apply adequate checks at appropriate levels by superior officers to ensure correctness of the self assessments.

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(General and Social Sector Audit),
Tamil Nadu and Puducherry

Chennai
The 5 March 2020

Countersigned

(RAJIV MEHRISHI)
Comptroller and Auditor General of India

New Delhi
The 9 March 2020