

## CHAPTER IV

### AUDIT OF TRANSACTIONS

#### 4.1 Fraud/misappropriation/embezzlement/losses detected in audit

##### EDUCATION DEPARTMENT Dr. B. R. Ambedkar Open University

#### 4.1.1 Fraud in accounting of tuition fees and examination fees from students

The fraud in collection and improper accounting of tuition fees and other receipts from students of Dr. B. R. Ambedkar Open University resulted in short account of tuition fees/examination fees of Rs 4.54 lakh in test-checked cases.

Dr. B. R. Ambedkar Open University (University), Hyderabad offers different courses through distance education. Study centres (193) of the University situated in different localities in the State provide learning support and information to the students. The University collects tuition fee/examination fee from students in the form of demand drafts. In addition to demand drafts, the University started (2002-03) collecting fees through special postal stickers. As per Memorandum of Understanding entered with the Department of Posts, designated post offices would issue postal stickers in duplicate to each candidate on payment of the required amount of fee. The candidate would affix one copy of the self-adhesive postal sticker on the Computerised Data Sheet (CDS) of fee remittance form/examination registration form, and submit the filled in form to the Study Centre concerned. The Study Centre would forward the CDS forms along with Admission Registration List (ARL) to the University. The amounts of fee collected would be paid by the Department of Posts, centrally through cheques.

A test-check of records (November 2005 - July 2006) showed in 279 out of 1162 cases test-checked (862 cases of 2003-05 and 300 cases of 2005-06) irregularities as detailed below:

Irregularity noticed	Number of cases	Amount involved (Rs in lakh)
(i) A single Postal receipt number repeated for multiple candidates	59	0.68
(ii) Fee remittance Forms accepted without postal stickers	18	0.30
(iii) Fee particulars either absent or made manually (found to be fictitious) in the Student Fee Ledger	142	2.54
(iv) Same Demand Draft number used for more than one candidate	35	0.84
(v) Postal stickers affixed towards examination fee (2005-06) belonged to some other candidate and the amount of sticker was not relevant to the actual fee payable	25	0.18
Total	279	4.54

Thus, the tuition fee/examination fee in the above cases amounting to Rs 4.54 lakh was possibly fraudulent and had not been accounted for. Since Audit had conducted test-check of only a small sample of cases, the actual misappropriation of tuition fees and other receipts and consequential loss to the University could be enormous.

This was possible due to (i) non-observance of procedures laid down in the Administrative and Accounts Manual for accounting and reconciliation of receipts; (ii) improper accounting of postal stickers and non-reconciliation of the actual fees collected with those remitted by the Department of Posts; and (iii) non-maintenance of Daily Collection Register.

Besides, the CDS forms were not verified with ARLs received from Study Centres to ensure that all those sitting for an examination had paid the requisite fees. The CDS forms, ARL and the Student fee ledger also did not bear signatures of designated personnel at various levels. Further, the internal audit system as contemplated in the University Act, 1982 was not in place.

Government stated (June 2006) that based on the aforementioned audit findings a departmental enquiry committee was constituted (May 2006) and the committee had confirmed (July 2006) the misappropriation detected by Audit. The Committee *inter alia* found repeated use of the same postal stickers, tampering of amounts on postal stickers in 1503 cases. They also found large-scale fraud in the despatch of study material to the students; in 83 *per cent* cases material was shown as despatched a multiple number of times to the same students. Based on the enquiry report, 14 staff members<sup>1</sup> had been placed under suspension in July 2006. Government also informed that action was being taken to entrust the whole issue to the AP Vigilance Commission. Further developments were awaited (August 2006).

## MUNICIPAL ADMINISTRATION AND URBAN DEVELOPMENT DEPARTMENT

### Hyderabad Metropolitan Water Supply and Sewerage Board

#### 4.1.2 Loss due to short recovery of Excise Duty on MS pipes

**Hyderabad Metropolitan Water Supply and Sewerage Board sustained a loss of Rs 18.33 crore due to short recovery of Central Excise Duty on MS pipes from firms consequent on exemption of the same by GOI.**

For execution of the Scheme “Krishna Drinking Water Supply Project-Phase-I”, the works relating to four packages for manufacturing, laying and commissioning of 2200 mm diameter MS pipes along the Nagarajunasagar-

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<sup>1</sup> Deputy Registrar (1), Assistant Registrar (1), Superintendents (5), JACTs (5), Data Entry Operator (1), Office Attender (1)

Hyderabad road were awarded (November 2002) to three firms<sup>2</sup> by the Hyderabad Metropolitan Water Supply and Sewerage Board.

As per the tender conditions the amount quoted by the contractor shall be deemed to be inclusive of all taxes and duties on all the materials that the contractor has to purchase for the performance of the contract. It was stipulated that the break-up price of rates quoted for MS Pipes should indicate separately the excise duty and other taxes that were leviable at the rates then prevailing. The central excise duty payable at 16 *per cent* on the basic value of MS pipes was shown by the firms as Rs 1589/ Rs 1550 per Running Metre (RMT) (for MS plates and consumables) plus Rs 169/ Rs 150 (for MS pipes and specials considering the MODVAT (CENVAT) credit available on inputs) for the packages 1 & 2 and the packages 3 & 4 respectively. The Board, however, failed to obtain the detailed break-up of the price quoted by the firms for the basic value and the excise duty payable thereon, and accepted the break-up of price without ensuring the correctness of the excise duty payable.

Government of India issued (September 2002) notification exempting Central excise duty in full for the pipes needed for delivery of water from its source to the water treatment plant and from there to the storage facility subject to certification by the District Collector concerned. However, the Board entered into agreements (November 2002) with the firms without excluding the excise duty component in the estimates. The total length of pipeline laid by the three firms was 116631 RMT. The works were completed but the final bills were not paid as of June 2006.

Scrutiny of the records of the divisions<sup>3</sup> of the Board, however, disclosed (July 2005) that the Board arranged (May 2003) all the required certificates to the firms for claiming the excise duty exemption on MS pipes in full in terms of the GOI's notification of September 2002. The Board, however, made recovery on excise duty element only at the rate of Rs 150/Rs 169 per RMT instead of Rs 1700/Rs 1758 per RMT, thus ignoring the excise duty component of Rs 1550/Rs 1589 per RMT on MS plates and consumables. As against the total recoverable amount of Rs 20.17 crore towards excise duty component, a sum of Rs 1.84 crore only was recovered. This led to unintended benefit to the firms and consequential loss of Rs.18.33 crore to the Board on that account.

Government while accepting the audit point stated (June 2006) that the Board initiated necessary steps to recover any amount of price paid to the contractors representing the excise duty component and not paid by the contractors to the Central Excise Department. Government also assured that actual excise duty component would be recovered from the contractors. Final reply as to the actual recovery from the contractors had not been received (August 2006).

<sup>2</sup> Package 1 - M/s. Koya & Co, Hyderabad, Package 2 - M/s. Booratnam & Co., Hyderabad and Package 3&4 - M/s. NCC-SMC & Co., Hyderabad

<sup>3</sup> Adikmet (Division III); Sanjeeva Reddy Nagar (Division IV) and Saheb Nagar (Division V) of HMWS&SB, Hyderabad

#### 4.1.3 Loss due to short levy of water charges

**Short levy of water charges by different divisions of Hyderabad Metropolitan Water Supply and Sewerage Board resulted in loss of revenue of Rs 4.81 crore.**

According to Section 8 of the Hyderabad Metropolitan Water Supply and Sewerage (HMWS&S) Act 1989, the HMWS&S Board (Board) shall levy water rates, tariffs, fees and other charges and may revise such rates from time to time in order to provide sufficient revenues to cover its operating expenses, depreciation, debt servicing, etc. The Board was to collect the water supply charges under three categories<sup>4</sup>. The Board revised *inter alia* water supply tariff in June 2002 and in February 2005 in view of the fact that the existing tariffs were no longer sufficient to meet the fixed and operational costs. The General Managers (GMs-Engineering) of the respective Operation and Maintenance Divisions would raise demands and ensure collection of water charges. Short levy of water charges amounting to Rs 4.81 crore was noticed as detailed below:

(a) As per the tariff fixed by the Board in accordance with the provisions of the Act, water supply charges for multi-storeyed residential apartment complexes (MSBs) are to be levied under Category 2 (Group Housing) at Rs 6 per kl up to agreed quantity and Rs 35 per Kl (Rs 25 per kl during June 2002 to January 2005) above the agreed quantity. The agreed quantity is deemed to be 15 kl (30 kl during June 2002 to January 2005) multiplied by the number of residential apartments in the complex, as per the construction plan approved by the municipal authorities.

Scrutiny of the customer ledgers pertaining to 129 MSBs (three *per cent*) out of 3751 in five<sup>5</sup> out of 12 (42 *per cent*) divisions (5985 MSBs in all divisions) relating to the demands raised by the Board for the period June 2002 – March 2006 showed that:

- (i) Where the consumption was less than the deemed agreed quantity, demands for 129 MSBs test-checked, were raised on actual consumption at Rs 6 per kl instead of levying minimum charges for deemed agreed quantity i.e., 30 Kl/15 kl as envisaged in the tariff resulting in short levy of Rs 2.67 crore.
- (ii) The consumption exceeding the deemed agreed quantity was also being charged by the Board at Rs 6 per kl instead of at Rs 35 / Rs 25 per kl as envisaged in the tariff resulting in short levy of Rs 29.34 lakh<sup>6</sup> in 29 cases of 129 MSBs test-checked. Government did not offer any remarks on this while replying (May 2006) to the points raised by Audit.

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<sup>4</sup> Category 1: All water supply connections other than covered by Category 2; Category 2: Group Housing; Category 3: Other Services like supply through tankers, etc.

<sup>5</sup> Red Hills, Gosha Mahal, East Marredpally, SR Nagar and Narayanaguda Divisions

<sup>6</sup> Red Hills Division: Rs 0.90 lakh, Gosha Mahal: Rs 1.69 lakh; East Marredpally: Rs 0.22 lakh; Sanjeeva Reddy Nagar: Rs.3.61 lakh and Narayanaguda: Rs.22.92 lakh

(b) In Patancheru Division the Board had entered into agreement in January 1998 for bulk supply of 2.00 LGPD water with BHEL MIG Employees Co-operative Housing Society which was valid for a period of three years i.e., up to December 2000. The Board had not taken any action to renew the agreement on its expiry. However, the Board continued the water supply and was levying the charges at the rates applicable to the quantity agreed at Rs 4 per kl up to May 2002 and Rs 6 per kl thereafter as if the agreement was valid all along. It was also noticed that even for consumption exceeding the agreed quantity also, the charges were levied at the rate of Rs 4/Rs 6 per kl instead of Rs 14 per kl (subsequently revised to Rs 25 per kl, in June 2002 and again to Rs 35 per kl in February 2005). This resulted in short levy of water charges amounting to Rs 1.85 crore for the period October 1998 – March 2006.

Thus the demands raised by the GMs of the Board were in total disregard of the provisions/orders issued under the Act. This resulted in short levy of water charges and consequential loss of Rs 4.81 crore to the Board. The short levy would be enormous if computed for all MSBs and housing colonies in all the divisions. The envisaged objective of revising the tariff in view of the increasing operating costs had thus not accrued to the Board adversely affecting the Board's financial position. Final reply from the Government had not been received (September 2006).

#### **YOUTH ADVANCEMENT, TOURISM AND CULTURE DEPARTMENT**

##### **4.1.4 Loss on account of excess payment to firms in procurement of cricket kits**

**Excess payment of Rs 25.43 lakh was made to three firms on account of incorrect adoption of sales tax rate in the procurement of cricket kits.**

Government accorded (January 2004) administrative sanction for purchasing sports material for supply to Youth Associations/Youth clubs and Education institutions. The Director of Youth Services placed (December 2003) purchase orders *inter alia* for 34000 cricket kits @ Rs 2500 per kit (comprising of ten items)<sup>7</sup> with four firms<sup>8</sup> (three from within Andhra Pradesh and one from outside the State) on completion of due process of tender notification and negotiation of rates with the dealers and in accordance with the recommendations of the purchase committee.

The orders issued (January 2000) by the Government in Revenue Department envisaged concessional rate of sales tax leviable under APGST Act, 1957 on

<sup>7</sup> Cricket bats (2 nos.), Balls (6 nos.), Stumps (6 nos.), Wicket keeping gloves (1 pair), Batting gloves (2 pairs), Inner gloves (1 pair), Wicket keeping pads (1 pair), Batting pads (2 pairs), Abdominal guards (3 nos.), Kit bag (1 no.)

<sup>8</sup> (a) M/s. Sachadev Sports, Secunderabad (10500 kits), (b) M/s. Regal Sports, Secunderabad (10500 kits), (c) M/s. S.A. Sports Co., Hyderabad (10500 kits), (d) M/s. Em Cee Cee Sports Agencies, Jalandhar (2500 kits)

the purchases made by Government departments at a reduced rate of four *per cent* against issue of Form 'N' by the purchasing departments.

A test-check of records showed (April 2005) that the Director had considered and finalised the said price of Rs 2500 per kit as being inclusive of tax of eight *per cent* (at Rs 185) over the uniform basic price of Rs 2315 per kit which ought to have been at the rate of four *per cent* (at Rs 92.50) against the issue of form 'N' to the dealers in the State as envisaged in the government orders of January 2000, except in respect of the firm 'M/s. Em Cee Cee Sports' Agencies, Jalandhar. It was also observed that the Director while placing the purchase orders with the dealers had reckoned the tax component as above and without however, indicating rates of tax payable and whether the department would avail the concession rates payable by furnishing form 'N'. But on the other hand the department had also issued Form 'N' to these firms subsequently in respect of 27500 (out of 34000) kits besides payment of sales tax at eight *per cent*, which in the process paved the way for the firms to claim concessional rate of tax. In all, the department had paid to the four firms an amount of Rs 8.50 crore for supply of 34000 kits @ Rs 2500 per kit which included sales tax component of eight *per cent* (for the three dealers in the State) and 4.4 *per cent* (for the dealer outside the State). There was thus excess payment of Rs 25.43 lakh<sup>9</sup> resulting in loss to exchequer to that extent.

Government while confirming the excess payments to the firms as pointed out by Audit stated (July 2006) that the Commissioner, Youth Services had been directed to confiscate the entire Earnest Money Deposits of Rs 30 lakh (paid by the firms) towards the excess payment, including the interest plus penalty as they had resorted to unfair practices. Government on the other hand, also informed that disciplinary action had been initiated against the Deputy Director concerned for the irregularity. Further developments were awaited (September 2006).

## **4.2 Excess payment; wasteful/infructuous expenditure**

### **ANIMAL HUSBANDRY AND FISHERIES DEPARTMENT AP Livestock Development Agency**

#### **4.2.1 Unfruitful expenditure on Computerisation project**

**Improper planning and poor monitoring of the computerisation project by the CEO, APLDA resulted in inordinate delay of over four and half years in the implementation of the project. The whole outlay of Rs 1.02 crore remained unfruitful.**

Andhra Pradesh Livestock Development Agency (APLDA) called for tenders in March 2001, for developing a software for computerisation of artificial

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<sup>9</sup> M/s. Sachadev Sports (10300 kits - Rs 9.53 lakh), M/s. Regal Sports (8100 kits - Rs 7.49 lakh) and M/s. S.A. Sports Co.(9100 kits - Rs 8.41 lakh)

insemination (AI) data from various districts (estimated cost: Rs 1.10 crore), and particulars of breedable livestock population belonging to 35 lakh farmers. The software would generate Management Information System (MIS) reports for the Centrally sponsored scheme, 'National Project for Cattle and Buffalo Breeding'. The work was awarded (December 2001) to M/s. SPRY Resources India Private Limited, Hyderabad (Developer) for Rs 53 lakh<sup>10</sup>. An MIS committee was formed for scrutiny and interaction with the developer.

GOI sanctioned/released Rs 1 crore in March 2002 for implementation of the project. The conditions of the agreement stipulated that the entire work should be completed and the software put to use within five months from the effective date (December 2001) of agreement i.e., by May 2002; also it has to be maintained by the contractor for a period of 12 months thereafter. As per the extended time schedule accepted by APLDA, development and testing of software for addendum scope<sup>11</sup> was to be completed and the implementation commenced by September 2003.

Scrutiny, however, revealed that the project had not been implemented even as of June 2006 after incurring an expenditure up to Rs 1.02 crore<sup>12</sup>. The following points were noticed:

- The basic data in respect of only 14 districts was entered as of June 2006. To generate reports for AI and distribution of FS among institutions it is essential that data relating to the remaining eight districts is collected and entered.
- Software, including addendum software has yet to be fully tested and installed. Problems identified so far, have not been rectified, so the final acceptance certificate of the department to the developer, has not been issued.
- At present the software is functional to the extent of data input from the input screens. However, certain errors in MIS report generation were to be rectified.
- The reports relating to AI and semen generated by the application do not reflect correct figures.
- Non-adherence to phased deliverables in the development of the system had led to inordinate delay in development and implementation.

This has resulted in the inordinate delay of over four and half years in the implementation, adversely affecting the intended objective of the computerization rendering the entire outlay of Rs 1.02 crore unfruitful.

Government attributed (May 2006) the delay in implementation of the project to (a) the delay in approval of Software Requirement Specification document,

<sup>10</sup> Application development: Rs 26.28 lakh, Data entry of breedable population: Rs 21 lakh and Software supply: Rs 5.72 lakh

<sup>11</sup> Extension of software for incorporating particulars of three more items and covering the entire Animal Husbandry Department instead of units of APLDA as per the initial scope

<sup>12</sup> Hardware: Rs 35.90 lakh, Software: Rs 35.08 lakh, Data Entry: Rs 19.50 lakh, Addendum scope: Rs 10.75 lakh, Internet and Training: Rs 0.69 lakh

design documents, etc. (b) delay in hosting of the application software, (c) organisation of large data, (d) inclusion of addendum scope of work for the project and (e) lack of manpower with required expertise. The above factors are indicative of lack of proper planning, control, poor evaluation and monitoring of the project by the CEO, APLDA as well as by the MIS committee.

## EDUCATION DEPARTMENT

### 4.2.2 Excess release of grants to municipalities

**Release of grant-in-aid to the five municipalities without deducting the educational cess collected/ collectable by the municipalities resulted in excess release of Rs 3.23 crore.**

According to the Government orders (January 1975), grants to municipalities both for elementary and secondary education were to be paid after setting off the educational cess collectable by the municipalities, during the year.

It was observed that the District Educational Officer (DEO), Chittoor, had been releasing grants to the five municipalities<sup>13</sup> to meet the expenditure on salaries of teaching staff of the municipal elementary and secondary schools without setting off the educational cess collected/collectable by the municipalities, for the last two and half decades. During the period 2000-06 the DEO had released Rs 56.73 crore to the five municipalities without deducting the educational cess collected/collectable to the extent of Rs 3.23 crore<sup>14</sup>. This was despite the fact that the matter was pointed out by Audit regularly in the inspection reports (IRs) issued in September 1999, April 2001, September 2002 and August 2004.

The DEO admitted the mistake and stated (July 2005) that the matter would be pursued with the Municipal Commissioners concerned for settlement of excess release of grant. Director of School Education assured (August 2006) that action would be taken to realise educational cess from the municipalities concerned and remit the same to the Government account.

The matter was referred to Government in January 2006; reply had not been received (September 2006).

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<sup>13</sup> Chittoor, Punganoor, Madanapalli, Tirupati and Srikalahasti

<sup>14</sup> Chittoor: Rs 1.71 crore; Punganoor: Rs 0.12 crore; Madanapalli: Rs 0.57 crore (cess amounting to Rs 0.31 crore for the period 2002-06 not collected); Tirupati: Rs 0.53 crore; Srikalahasti: Rs 0.30 crore



**ENVIRONMENT, FOREST, SCIENCE AND TECHNOLOGY  
DEPARTMENT (Forests Wing)**

**4.2.3 Infertuous expenditure on plantation**

**Acceptance of non-forest land from a user agency by the Divisional Forest Officer, Bhadrachalam (North) despite knowledge about the unsuitability for plantation purposes resulted in infertuous expenditure of Rs 69.43 lakh on plantation.**

Government of India approved (October 1997) the proposal of the State Government for diversion of 286.25 ha of forest land in the jurisdiction of Territorial Forest division, Paloncha in Khammam District to M/s Singareni Collieries Company Limited (Company) on lease basis for open cast mining subject to the State Government raising compensatory afforestation (CA) at the cost of user agency over equivalent non-forest land. The State Government ordered (November 1997) the leasing of the said land in favour of the Company with the aforesaid conditions. The Company handed over 286.95 ha of non-forest land in Alubaka and Edjarlapalli villages and deposited (July 1997) Rs 1.15 crore with the Divisional Forest Officer, Territorial division, Bhadrachalam North (DFO) for raising CA. The non-forest land handed over by the Company was mutated by the Revenue Department in favour of the Forest Department in the same month.

The implementation of the CA was suspended in March 2003 after covering an area of 81.00 ha at a cost of Rs 69.43 lakh.

Scrutiny in audit (October 2005) showed that the plantation raised in the area covered already failed, the survival percentage was only eight. The DFO attributed the poor survival to adverse seasonal conditions. This reply was not acceptable as the rainfall recorded during the three year period 1999-2002 in the area was well above normal levels, and only a little less in 2002-03.

Scrutiny further revealed that the DFO while inspecting the area in March 1997 had observed that 164.79 ha of non-forest land in Alubaka village consisted of two hillocks covered with broken red stone and that 7.36 ha was covered with sheet rock where digging of trenches and transportation of soils was not practicable. According to him there was no scope for continuous plantation in the area. The land was, nevertheless, accepted by the DFO certifying it as suitable for raising plantation.

Thus acceptance of the non-forest land from the user agency by the DFO despite knowledge about the unsuitability of large portion of the land for CA has resulted in infertuous expenditure of Rs 69.43 lakh.

The matter was referred to Government (March 2006); reply had not been received (September 2006).

**IRRIGATION AND COMMAND AREA DEVELOPMENT  
DEPARTMENT (Projects Wing)**

**4.2.4 Excess payment on land acquisition**

**Payment of compensation to land acquired for a public purpose in terms of the provisions of the Land Acquisition Act which was not applicable, resulted in excess payment of Rs 29.77 lakh.**

The Executive Engineer, Telugu Ganga Project Division No.1, Kadapa (EE) sent a requisition to the Mandal Revenue Officer, Kalasapadu (MRO) in December 1988 for acquisition of 91.18 acres of private patta land for being handed over to Forest Department in lieu of certain reserve forest lands diverted for Telugu Ganga Project (TGP) works. The Revenue Divisional Officer, Rajampet (RDO) who was the Land Acquisition Officer, without issue of notification under section 4(1) as prescribed in the Land Acquisition (Amendment) Act, 1984 (Act), gave the Forest Department possession of the lands in April 1991. It was only in August 2002, after a lapse of more than 13 years since requisition for the lands was placed by the EE, that the Special Deputy Collector, LA, TGP Unit-1, Kadapa (SDC) the then authority for acquisition of the lands in question published the Section 4(1) Notification for 90.74 acres. He passed the award in June 2004 for Rs 53.21 lakh considering the market value that prevailed in 2000. The compensation awarded included 'Additional Market Value' (Rs 3.43 lakh) calculated from the date of taking possession of land to the date of passing award, solatium (Rs 4.63 lakh) and interest (Rs 29.72 lakh) on market value from the date of taking possession of land in April 1991 to the date of passing Award in June 2004. This award of compensation was contrary to the provisions of the Act, which lays down that for acquisition of private lands for public purposes, in all cases, the issue of Notification under Section 4 is a pre-requisite.

In the instant case possession of lands was taken before issue of Notification under Section 4. Such possession would not, therefore, fall within the purview of the Act so as to make the land owners eligible for payment of interest from the date of taking possession. For the same reason, the land owners were not eligible for Additional Market Value also which was admissible only for the period from the date of Notification to the date of Award or date of taking possession whichever was earlier. The State Government, following a judgement (March 2004) of the Supreme Court, issued (March 2005) instructions to all concerned not to allow interest and Additional Market Value in cases where possession was taken prior to the issue of Section 4 Notification as it was outside the purview of the Act.

Government replied (June 2006) that the compensation was allowed by the competent authority (SDC, LA) at the rates fixed by him and hence there was no excess payment. The reply was not tenable as it was not the competency of the SDC, LA that was questioned in audit, but the method adopted in working out the compensation which was contrary to the provisions of the Act and the instructions of the State Government.

Thus, the action of the SDC in awarding ‘Additional Market Value’ and in allowing interest from the date of taking possession of land resulted in excess payment of Rs 29.77 lakh.

#### **4.2.5 Infertuous expenditure on purchase of boats and launches**

**Action of SE in having purchased three boats at a cost of Rs 32.98 lakh for use during the Krishna Pushkaram festival that lasted for only 12 days, has rendered the expenditure infertuous, as there are no prospects of their future use.**

Government accorded (February 2004) administrative approval for Rs 10.16 crore for works related to the 12 day “Krishna Pushkaram festival”. An amount of Rs 42.86 lakh was earmarked for safety measures. The Superintending Engineer, Dam Maintenance Circle, Neelam Sanjeeva Reddy Sagar (NSRS) Project, Srisailam (SE) purchased (September 2004) one fast rescue boat and two launches at a cost of Rs 32.98 lakh for carrying out rescue operations, if required during the festival period.

The crew to operate the three boats during the festival period were hired as the department did not have the crew. The three boats were not put to use thereafter and had been lying idle in the Camps and Buildings division, NSRS Project, Srisailam ever since then.

The Department ought to have considered the economics of hiring the boats for the festival from the Andhra Pradesh Tourism Development Corporation or from any other private agency, before resorting to their outright purchase, which is also in keeping with Government's policy of minimising recurring expenditure. The imprudent decision of the department in purchasing the boats for use for only 12 days, without examining the prospects of their future use as they did not even have crew to run them, has rendered the expenditure of Rs 32.98 lakh on their procurement infertuous.

Government to whom the matter was referred replied (July 2006) that it was proposed to use the boats for purposes such as conducting hydraulic surveys in the river. The reply is not convincing and is obviously an after thought, as the boats have been lying unused for more than two years. Moreover, conducting hydraulic survey was not the objective for which the boats were purchased from funds earmarked for Pushkaram festival.

### **IRRIGATION AND COMMAND AREA DEVELOPMENT DEPARTMENT (Irrigation Wing)**

#### **4.2.6 Infertuous expenditure on formation of a tank**

**Failure of the Chief Engineer, Minor Irrigation to assess the needs of the ayacudars beforehand resulted in infertuous expenditure of Rs 1.28 crore on a incomplete irrigation tank.**

Government accorded (June 2001) administrative approval for the work “Formation of a new tank across Payavanka near Maddimadugu village in

Kadapa District” at a cost of Rs 1.95 crore. The Chief Engineer, Minor Irrigation (CE) technically sanctioned the work in April 2002 for Rs 2.17 crore. The irrigation potential proposed to be created under the scheme was 300 ha each for Khariff and Rabi with a canal network of 10.4 km (7.4 km main canal and 3 km branch canal). The Superintending Engineer, Irrigation Circle, Kadapa (SE) awarded the work to the lowest tenderer in May 2003 for Rs 1.25 crore. The entire work except excavation of canal beyond 1.7 km was completed by June 2004.

The farmers in the lands beyond 1.7 km of the main canal represented (December 2003) to the District Collector, Kadapa not to permit further excavation of the canal stating that sufficient ground water was available for cultivation. They preferred check dams for recharging the ground water.

On the direction (January 2004) of the Secretary to Government in Irrigation and Command Area Development Department and the District Collector, the Mandal Revenue Officer along with officials of the Irrigation Department conducted a meeting with the villagers in January 2004. The total value of the work (canal excavation, formation of bund and construction of sluice, etc) executed was Rs 1.41 crore and the contractor was paid Rs 1.28 crore. The farmers reiterated their stand and resolved against further excavation of the main canal. The SE reported the matter to CE in February 2004 seeking further orders. There was no progress in the matter even after expiry of more than two years. The work on the excavation of the canal beyond 1.7 km which had been suspended was not proceeded with. Thus, the failure of the department to assess the needs of the stakeholders even before obtaining the administrative approval for taking up the work has rendered the expenditure of Rs 1.28 crore incurred on the work so far executed unfruitful.

Government replied (July 2006) that an ayacut of 40 ha was developed under the canal upto 1.70 km and 300 ha under bore and irrigation wells which were claimed by the Government recharged due to formation of the tank and the expenditure was not infructuous. The reply was not acceptable as the tank was designed and formed to irrigate 300 ha under canal system. Supply of water to 40 ha was no achievement and the reservoir formed with an outlay of Rs 1.28 crore has remained as a percolation tank rendering the expenditure largely infructuous.

#### **4.2.7 Infructuous expenditure on a Spillway work**

**Finalisation of construction drawings of a Spillway work of a Balancing reservoir ignoring the recommendations of the Geological Survey of India resulted in infructuous expenditure of Rs 83.01 lakh.**

The Chief Engineer, Medium Irrigation (CE) accorded (December 2002) technical sanction for the work of construction of a spillway of the Sangam Banda Balancing Reservoir in Mahboobnagar District for Rs 21.75 crore. The work was entrusted to a contractor (May 2003) at a tendered amount of Rs 14.61 crore.

Preliminary investigations of the site carried out by the Geological Survey of India (GSI) in 1986-87 and later in 2001-03 suggested (September 2002) that the spillway be confined to between km 0.700 and km 0.850 as rock suitable for foundation was available at an appropriate depth only within this stretch. Construction drawings were, however, issued (May 2003) locating it between km 0.700 and km 0.862, which was beyond the limit suggested by the GSI.

After opening the foundations for entire length of 162 mts it was observed that there were no signs of rock at the appropriate levels for a suitable foundation in the extreme right where the 'abutment, wing and returns' were to be constructed. The Technical Committee recommended (April 2004) to reduce the length by one bay and, if possible, to reduce one vent. Based on these recommendations, the Chief Engineer, Central Designs Organisation revised the drawings and designs in May 2004 to construct the spillway in the reach from km 0.700 to km 0.847 by reducing the length to 147 mts from 162 mts and vents to 10 from 11. By this time the contractor had already excavated foundations as per the construction drawings, which had to be refilled necessitating an expenditure of Rs 83.01 lakh.

Government stated (June 2006) that the length was reduced based on considerations of economy, stability and safety of the structure. They further added that this had been recommended by a committee constituted to monitor, guide and support midterm corrections and which had opined that rock suitable for laying a foundation was available only at deeper depths. The reply of Government was not tenable, because the GSI during preliminary investigation of the site conducted as early as in 1986-87, had pointed out the same fact and opined that the reach beyond km 0.850 was unsuitable. Had this recommendation of GSI been given cognizance, the unnecessary expenditure towards excavation and refilling could have been avoided.

## **MUNICIPAL ADMINISTRATION AND URBAN DEVELOPMENT DEPARTMENT**

### **4.2.8 Unfruitful expenditure on construction of Truck Terminal**

**Due to improper selection of site the Truck Terminal constructed by VGTMUDA in January 2003 had not been operationalised even as of July 2006 resulting in unfruitful expenditure of Rs 16.83 crore and non-reduction of traffic congestion besides blocking Rs 1.89 crore.**

To prevent heavy goods vehicles entering Vijayawada city and to reduce traffic congestion, the Vijayawada-Guntur-Tenali-Mangalagiri Urban Development Authority (VGTMUDA) (Authority) proposed (July 2000) construction of a Truck Terminal at Ibrahimpatnam, 20 km. away from Vijayawada on NH 9 (Vijayawada-Hyderabad). The project also sought to provide infrastructural facilities such as loading and unloading facilities for goods operators and transport agencies. Government accorded (July 2001) administrative approval for the project with an estimated cost of Rs 14.60 crore. The cost was to be met from the resources of VGTMUDA.

The Authority had acquired (April 2001) 77.86 acres<sup>15</sup> of land for the purpose of constructing/developing 832 units<sup>16</sup>. The work was completed by January 2003 at a total expenditure of Rs 16.83 crore (excluding the cost of 70 acres of land). Of these, the Authority could sell only 786 units leaving 46 units<sup>17</sup> costing Rs 1.89 crore unallotted (July 2006).

It was also observed that though the project was completed in January 2003, none of the allottees (except one) had occupied the units as of July 2006 since the truck owners were reluctant to shift their trade to this Terminal owing to additional costs for transportation of goods to the place of consumption. The efforts of the VGTMUDA to operationalise the Truck Terminal in coordination with municipal and police authorities by prohibiting the entry of trucks into the city and to shift the wholesale trade to the Wholesale Commercial Complex nearer to the proposed Truck Terminal became futile as the truck operators and wholesale traders got interim orders (March and April 2005) from the court. It is therefore evident as admitted (January 2003) by the Vice Chairman, VGTMUDA that the project did not have the support of the transport / truck operators and wholesale traders.

Government while accepting the delay in operationalisation of the truck terminal stated (July 2006) that the truck terminal and the wholesale commercial complex nearer to it would come into full operation as and when the pending writ petition in the High Court is disposed off.

Thus, due to improper selection of the site, the Truck Terminal which was ready by January 2003 could not be operationalised even as of July 2006 rendering the expenditure of Rs 16.83 crore unfruitful. The objective of reducing the traffic congestion was therefore not achieved and the Authority's funds of Rs 1.89 crore also remained blocked.

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<sup>15</sup> 70 acres spared by Andhra Pradesh Power Generation Corporation Ltd. (APGENCO) at a cost of Rs two lakh per acre or alternatively in exchange of 45.62 acres of land in Kondapally village; and 7.86 acres private land purchased at a cost of Rs 55.02 lakh

<sup>16</sup> Shops: 532; Offices:120; Independent godowns: 91; plots: 65 and Row godowns: 24

<sup>17</sup> Offices: 22; Row godowns: 21 and plots: 3 (two plots of 500 Sq. yards in Block Q&M and one plot 1000 Sq. yards in Block P)

## REVENUE DEPARTMENT

### 4.2.9 Rehabilitation of fishermen

**Land acquired in February 2001 had not been distributed as pattas even as of May 2006 rendering the whole expenditure of Rs 40.60 lakh unfruitful besides non-rehabilitation of the fishermen at safer places.**

The Mandal Revenue Officer (MRO), Allur had submitted proposals (February 2001) to the Revenue Divisional Officer (RDO), Kavali (Nellore District) to acquire 36.91 acres of private land situated in Pattapupalem village for providing house sites to rehabilitate 768 families of fishermen living in Iskapalli-Pattapupalem (Nellore District) - a village abutting the sea. The purpose was to mitigate their hardship caused by frequent heavy rains, floods, cyclonic storms and tidal waves. Advance possession of the proposed land was taken by the MRO in February 2001 by invoking the urgency clause under section 17(4) of the Land Acquisition Act, for shifting of the entire village. The actual acquisition proceedings were initiated in March 2002 by the RDO and the Land Acquisition Officer, Kavali with the publication of notification under Section 4(1) of the Land Acquisition Act, 1894. Consent award was passed (November 2003) fixing the market value as Rs 1.10 lakh per acre (including all benefits) and the total land compensation of Rs 40.60 lakh was paid to the landowners in November 2003.

Scrutiny of the records of the Revenue Divisional Officer, Kavali however, showed (December 2005) that although the land was taken possession in February 2001, the pattas were made ready only in July 2003 and had not been distributed to the fishermen even as of May 2006. In April/July 2005 the Fishermen Co-operative Society and the village elders of Iskapalli-Pattapupalem represented to the District Collector that the pattas which had been handed over to them in a public function in July 2003 but taken back by the MRO on the assurance that they would be returned after sanctioning of houses, had not been returned even after they had been sanctioned houses.

On the above matter being pointed out, the RDO, while confirming that no pattas were distributed so far, stated (December 2005) that steps would be taken to distribute the pattas early.

Thus, the land-acquired in February 2001 by invoking the urgency clause of the Land Acquisition Act for rehabilitation of fishermen, remains undistributed even after five years of taking possession. This has not only resulted in the entire expenditure of Rs 40.60 lakh incurred on its acquisition remaining unfruitful but the much needed rehabilitation of the fishermen had not taken place (May 2006).

The matter was referred to Government in May 2006; reply had not been received (September 2006).

### **4.3 Violation of contractual obligations, undue favour to contractors, avoidable expenditure**

#### **IRRIGATION AND COMMAND AREA DEVELOPMENT DEPARTMENT (Irrigation Wing)**

##### **4.3.1 Undue favour to contractors**

**The Superintending Engineer, Sripada Sagar Project Circle, Mancherial altered the performance security payable clause subsequent to the conclusion of agreements resulted in an undue benefit of Rs 14.01 crore to the contractors.**

The Superintending Engineer, Sripada Sagar Project Circle, Mancherial (SE) invited (January 2005) tenders for execution of Stage - II works<sup>18</sup> of Sripada Sagar Project - Phase - I under a single package on turn key basis. The lowest tender of 'A' for Rs 1737 crore was accepted and agreement concluded by SE in April 2005. The work to be executed under the agreement was divided into two parts - Part 'A' covering working items (Rs 1710 crore) and Part 'B' covering operation and maintenance (O&M) (Rs 27 crore). The notice inviting tenders (NIT) stipulated that successful tenderer should furnish to the Department performance security for amounts equal to 10 *per cent* of the contract prices of both Part 'A' and Part 'B' in the form of bank guarantees (BGs).

In August 2005, SE issued an amendment to the NIT altering the performance security payable in respect of both Part 'A' and Part 'B' to 2.5 *per cent* of the respective contract prices on the ground that 2.5 *per cent* of contract price towards performance security is being followed in other Engineering, Procurement and Construction (EPC) contracts all over the State and 10 *per cent* notified earlier in the NIT was incorrect. The Chief Engineer, Godavari Lift Irrigation Scheme as also Government approved (September 2005) the action of the SE in modifying the tender clause, notwithstanding the fact that the tenders were already finalised and agreement also concluded with the successful tenderer.

With the amendment issued by the SE, A's liability towards performance security was drastically reduced by 7.5 *per cent*. The action of SE tantamounted to extending undue favour to the contractor whose quoted bid would have taken into account the liability to produce BGs for 10 *per cent* of the contract price. While the performance security for Part 'B' was still not due, the contractor produced BGs for Rs 42.75 crore towards performance security on 2.5 *per cent* of the contract price of Part 'A'.

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<sup>18</sup> Investigation, soil exploration, designs, supply, installation, testing and commissioning of pumping machinery, transformers, sub-station, raising mains including construction of pump house, all civil structures, Cross Masonry & Cross Drainage works, channels without lining and delivery cistern, etc.



Reckoned at the bank commission of 0.55 *per cent* per quarter prevailing as on the date of conclusion of agreement, the undue benefit to the contractor for 19 quarters, by not producing BGs for the differential amount of Rs 128.25 crore, was of the order of Rs 13.40 crore.

A similar amendment to the NIT issued by the SE in respect of Stage-I works<sup>19</sup> (value: Rs 98.91 crore) of Phase-II of the Project which were entrusted (April 2005) to contractor 'B' under another single package conferred undue benefit of Rs. 0.61 crore to this contractor by not obtaining BGs for Rs 7.41 crore.

Government admitted (June 2006) the mistake of the department in incorrectly notifying the performance security payable at 10 *per cent*. According to them the mistake was inadvertent and was rectified before conclusion of the agreement. As the tenders had already been received and finalised by the time the mistake was rectified, the quoted price of the contractor was inclusive of the cost of obtaining BGs for amount equivalent to 10 *per cent* of the contract price. Therefore at the time of rectifying the mistake the value of the work should have been reduced by equivalent amount. Hence it is a clear case of unintended benefit to the contractor.

## REVENUE/SOCIAL WELFARE DEPARTMENT

### 4.3.2 Avoidable liability of interest on acquisition of land

**Land compensation at enhanced rate as ordered by the Hight Court in the year 1996 and upheld (May 2001) by the Supreme Court had not been paid to the land owner resulting in an unnecessary interest liability of Rs 33.37 lakh (upto March 2006).**

The Revenue Divisional Officer and the Land Acquisition Officer, Anantapur (LAO) acquired (December 1983) 11.51 acres of land situated in Thimmancherla village of Guntakal Mandal for providing house sites to weaker sections of the Society. LAO fixed (March 1985) the market value as Rs 0.28 lakh per acre which was later enhanced to Rs 1.21 lakh by the High Court (December 1996) in response to an appeal made by the land owner. Subsequently, the Special Leave Petition (SLP) filed in May 1998 (with a delay of 530 days) by the Department against the orders of the High Court, was dismissed (May 2001) by the Supreme Court on the grounds of delay as well as on merits of the case.

According to Section 31 of the Land Acquisition Act, 1894, the Collector, on making the award under Section 11, should tender payment of the compensation awarded by him to the persons entitled thereto. It was observed that the enhanced compensation was not deposited in the Court or paid to the

<sup>19</sup> Investigation, soil exploration, designs, supply, installation, testing and commissioning of pumping machinery, transformers, sub-station, raising mains including construction of pump house, all civil structures, Cross Masonry & Cross Drainage works, and delivery cistern etc.

land owner as of June 2006 in spite of the possession of land already being taken over in the year 1985. As against the decretal charges of Rs 53.73 lakh (including interest of Rs 33.37 lakh) payable to the land owner as of March 2006 only an amount of Rs 4.92 lakh has been paid. It was observed that the release of funds for depositing the decretal charges was unduly delayed mainly on account of the initial 530 days delay in filing the SLP in the Supreme Court and also due firstly to the wrong calculation made by the LAO as well as delay on his part in submitting revised calculation to the Commissioner/Government. Government also observed (June 2006) that certain questions raised by the Commissioner of Social Welfare as to the allotment of house sites to ineligible beneficiaries and the acquired land being given to one family, etc. were not a bar for payment of decretal charges to comply with the orders of the Supreme Court.

In June 2006, Government while sanctioning an amount of Rs 48.78 lakh (including interest amount of Rs 33.37 lakh) for payment of final decretal charges directed the Commissioner to initiate disciplinary action against the LAO who was responsible for the delay in paying the decretal charges to the awardee. The amount has yet to be paid to the awardee (June 2006). Thus, the undue delay in payment of land compensation to the awardee has resulted in unnecessary interest burden of Rs 33.37 lakh which could have been avoided.

The matter was referred to Government in March 2006; reply had not been received (September 2006).

**4.4 Idle investments/idle establishments/blocking of funds/  
delays in commissioning of equipment; diversion/  
misutilisation of funds**

**ANIMAL HUSBANDRY AND FISHERIES  
DEPARTMENT**

**4.4.1 Modernisation of Bacterial Vaccine Production laboratories did  
not take off**

**The delayed completion of the new building for the Bacterial Vaccine Production laboratory by more than five years, and its non-utilization thereafter, has rendered the expenditure of Rs 1.68 crore unfruitful. Meanwhile, vaccines continued to be produced in laboratories declared unfit without a DCA licence and in contravention of its 'stop production' orders.**

The Drug Control Authority (DCA) had objected (February 1998) that the old buildings were unfit for production of any quality vaccines and advised to 'stop production' of vaccines therein. The Director of Animal Husbandry proposed (February 1998) to construct a new building to house vaccine production laboratories at the Veterinary Biological Research Institute, Hyderabad (VBRI).

Though the building was required to be completed by September 2002 it was completed (cost of Rs 1.68 crore) in January 2005 after a delay of over two and half years. It was also noticed that the building had not been put to use as of August 2006 due to non-installation of machinery and equipment as per the specifications of Good Manufacturing Practices (GMP) standards. The additional infrastructure was tentatively estimated (December 2005) to cost another Rs 11 crore which has not been fully provided for (May 2006).

Government replied (April 2006) that the GMP standards had been made applicable only from July 2005 and that at the time of submission of original proposals the GMP standards had not been mandatory and that the DCA had not indicated the adoption of any specific standards. The reply is not tenable as the Director should have adopted the GMP standards as a good practice when conceiving such a large scale project in February 1998, irrespective of the fact whether the standards were mandatory or not, as it was already in existence.

Government also stated that Rs 4.95 crore out of Rs 11 crore now required for the modernisation of the new unit as per GMP standards, had been obtained (March 2006) from NABARD and placed with APSAIDC<sup>20</sup> and the balance funds would also be obtained from NABARD during 2006-07. The balance funds had not been pooled up and the works were not taken up by APSAIDC as of August 2006.

Further, the DCA clarified (May 2006) that it had revoked (July 1998) the 'stop production' orders only in respect of Anti Rabies Vaccine section and in respect of the other vaccines, the orders were still in vogue. The DCA also stated that it had not renewed the licence of VBRI for the period 2002-06.

Thus, failure on the part of the Director to consider the aspect of adopting GMP standards at the time of conceiving the project itself has led to non-utilisation of the new building for over a year rendering the whole outlay of Rs 1.68 crore unfruitful. Meanwhile, vaccines continued to be produced in the old buildings which the DCA had already declared as unfit for production, without a DCA licence and in contravention of its 'stop production' orders.

## **HEALTH, MEDICAL AND FAMILY WELFARE DEPARTMENT**

### **4.4.2 Cardiac Catheterisation lab equipment lying idle**

**The Cardiac Catheterisation lab equipment (cost : Rs 3.16 crore) provided to King George Hospital, Visakhapatnam remained idle since December 1998 and even after incurring a further expenditure (June 2003) of Rs 30 lakh on its repairs.**

King George Hospital, Visakhapatnam (KGH) was provided a set of Cardiac Catheterisation laboratory equipment along with accessories (cost : Rs 3.16 crore) for diagnosis and management of heart diseases.

<sup>20</sup> Andhra Pradesh State Agro Industries Development Corporation Limited

In March 2003, an amount of Rs 29.70 lakh, being the 90 per cent advance, against Rs 33 lakh, was paid to the supplying firm to carry out necessary repairs. The repairs were not done satisfactorily by the firm. The Professor and Head of Department, Cardiology, KGH did not certify the work, stating that several works (16 items) remained incomplete. These works were not attended to by the firm, and although this was reported to Government by the Superintendent, KGH in June 2003, the equipment was neither got repaired nor any penal action taken against the firm.

It was also noticed that the equipment functioned only partially and intermittently since the date of purchase in 1998 and no concrete action was taken to repair the equipment. As the equipment became absolutely non-functional, Government decided (June 2006) to replace the unit by installing a new machine.

Thus, due to ineffective pursuance by the Superintendent of the hospital, the Cardiac Catheterisation lab equipment could not be used even after incurring an expenditure of Rs 29.70 lakh on repairs, rendering that expenditure wasteful. This also totally deprived needy patients of the benefits of the equipment for over seven years.

#### **4.4.3 Tardy implementation of District Mental Health Programme**

**District Mental Health Programme in Vizianagaram District could not be implemented as planned despite availability of funds depriving the benefit of basic mental health services to the community. This also resulted in non-receipt of balance grant of Rs 66 lakh from GOI.**

In order to provide sustainable basic mental health services to the community, Government of India sponsored the District Mental Health Programme (DMHP) under National Mental Health Programme (NMHP) on pilot basis in Vizianagaram District. The Superintendent, Government Hospital for Mental Care (GHMC), Visakhapatnam was the nodal officer for implementation of the programme.

The programme was to be implemented in two phases<sup>21</sup> over a period of five years commencing from 2000-01 with a proposed total outlay of Rs 1.16 crore<sup>22</sup>. Accordingly, GOI released Rs 28.50 lakh and Rs 21.50 lakh in April and October 2001 towards first and second year grant respectively. The State Government was required to submit utilisation certificate or in case if it was not in a position to utilise it, refund to GOI forthwith the entire amount of grant received. The balance grant of Rs 66 lakh was scheduled to be released by GOI during 2002-03 to 2004-05.

Scrutiny revealed (January 2006) that the programme was not implemented in the district and the entire amount was lying idle till November 2005 in the

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<sup>21</sup> Phase-I: first year; Phase-II: second to fifth year in the Ninth Plan period

<sup>22</sup> Staff: Rs 46.70 lakh; Medicines, stationery and contingencies: Rs 38 lakh; Equipment and vehicles: Rs 9 lakh; Training: Rs 12 lakh and IEC: Rs 10 lakh

Personal Deposit account of Nodal Officer despite repeated request of the Superintendent, GHMC to the Government for issuance of the guidelines. Due to the inaction of the State Government, no further funds (Rs 66 lakh) were released by GOI for the years 2002-03 to 2004-05 nor was the scheme extended to other districts.

The programme, however, was commenced only from November 2005. There has been little headway as of June 2006 as only a meagre amount of Rs 9.11 lakh was utilised on various components. The balance Rs 40.89 lakh was still lying unspent with the Nodal officer.

Government admitted the delay in implementation of the programme and agreed (June 2006) that the efforts to identify and treat mentally ill patients needed considerable acceleration, especially in view of the lost time. Government, however, did not indicate any plans for obtaining the balance grant from GOI for implementation of the programme.

## **IRRIGATION AND COMMAND AREA DEVELOPMENT DEPARTMENT (Projects Wing)**

### **4.4.4 Equipment lying idle**

**The non-installation and non-commissioning of the sprinkler irrigation system equipment by the EE, AMRP Division IV, Devarakonda even after two years of its procurement rendered the expenditure of Rs 1.15 crore unfruitful.**

Alimineti Madhavareddy Reservoir Project (AMRP) was identified (October 2002) for introduction of Sprinkler Irrigation System<sup>23</sup> in one of its distributaries with the objective of generating more ayacut<sup>24</sup> with minimum water usage. The scheme was estimated to cost Rs 1.52 crore. Superintending Engineer, AMRP Circle I, Nalgonda concluded agreement in June 2003 with an Austria based company for supply, installation and commissioning of Bauer Rainstar 90-270 Equipment<sup>25</sup> for a consideration of 141825 Euro (Rs 79.42 lakh<sup>26</sup>) which was exclusive of Customs duties and other taxes payable in India and to be borne by the Department. The company's obligation extended to installation and commissioning of the equipment in addition to providing the design, rendering advise on line works necessary and providing the technical knowhow to the departmental staff concerned. The entire job was to be completed within 22 weeks from the date of agreement (June 2003).

<sup>23</sup> A system of irrigation using sprinkler equipment which is aimed at generating more ayacut with minimum water usage and less application useful for dry crops

<sup>24</sup> Means an area irrigated or capable of being irrigated either by gravitational flow or by lift irrigation or by any other method under an irrigation system, project or source and includes every such area whether it is called 'ayacut' or by any other local name in any law in force in the State

<sup>25</sup> An equipment needed for implementation of sprinkler irrigation system

<sup>26</sup> Subject to variation depending on the fluctuations in the rate of exchange between Euro dollar and Indian rupee

Payment was made by means of an irrevocable and confirmed letter of credit (LOC). The EE, AMRP Division IV, Devarakonda<sup>27</sup> (EE) authorised (September 2003) the State Bank of Hyderabad, Nalgonda branch (Bank) to open LOC for the agreed amount. The company was entitled to draw therefrom 15 *per cent* within two weeks of signing the agreement, 70 *per cent* against shipping documents and the balance 15 *per cent* against issuance of job completion certificate but not later than four months after the date of bill of lading.

The company shipped the equipment from Austria in October 2003. The EE took delivery of the same from Chennai seaport in January 2004. The equipment was, however, not installed and commissioned even as of August 2006.

The stipulated period for completion of the job as also the warranty period had already expired. The company did not respond to the department's request to extend the period of performance under the contract. As such it is also doubtful how far the company would install, commission and ensure the proper functioning of the equipment at this distance of time.

Thus, non-installation and non-commissioning of the sprinkler irrigation system equipment even after two years of its procurement rendered the expenditure of Rs 1.15 crore unfruitful. Besides, delay of 60 days in taking delivery of the equipment from the seaport which necessitated additional expenditure of Rs 2.77 lakh towards demurrage charges was attributed by the Government to belated receipt of intimation of despatch from the company. The department should have chosen to pass on this additional liability to the company who was at fault.

Government replied (June 2006) that necessary action is being taken to install the equipment and that the delay was caused due to delay in receipt of detailed designs and approval of revised estimate (RE). It was also stated that having approved (April 2006) the RE, Government programmed to commission the system by the coming Khariff season and the firm was also addressed to extend the period of performance under the contract. The reply was not tenable as the final design was received in January 2004 along with the equipment and the company was not responding for extending the period of performance under the contract and the equipment remained idle (August 2006).

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<sup>27</sup> Presently situated at Angadipet X Road, Nalgonda District

## 4.5 Regularity issues and others

### EDUCATION (Higher Education) DEPARTMENT

#### 4.5.1 Mess charges in arrears

**Failure of the Chief Warden/Principals to collect mess charges from the inmates of the hostels of Osmania and Kakatiya Universities had resulted in accumulation of arrears amounting to Rs 2.35 crore.**

Universities in the State maintain hostels for providing board and lodging facilities to students. Rules require that all dues be collected by the Chief Warden of the University before issue of hall tickets for year-end examinations.

Scrutiny (August 2005) of the accounts of the Osmania and Kakatiya Universities and further information obtained thereon, however, showed that the Universities did not collect the mess and other charges from the students as envisaged. On the other, the students were issued "No Due Certificates" by the Chief Warden/Principals of the colleges permitting them to obtain hall tickets to attend examinations, without the outstanding dues being cleared by them, resulting in accumulation of arrears of Rs 2.35 crore. Scrutiny further showed that out of the arrears due, Rs 95.37 lakh (Osmania University: Rs 75 lakh + Kakatiya University: Rs 20.37 lakh) was irrecoverable as the students of 2002-03 and earlier batches had already left the University. The year-wise and college-wise (in case of Osmania University) details are given in *Appendix 4.1*.

Thus, failure of the Chief Warden/Principals of the colleges to collect mess charges from the inmates of the hostels before issuing No Due Certificates for issue of hall tickets had resulted in accumulation of arrears of Rs 2.35 crore of which at least Rs 0.95 crore can be deemed to be irrecoverable. While accepting the audit point, the Principal Secretary assured that a system would be put in place for effective recovery of mess charges, etc. from the students. Government's reply had not been received (September 2006).

#### 4.5.2 Non-utilisation of Working Women's Hostels for intended purpose

**Sri Venkateswara University and Kakatiya University had been utilising the working women's hostels in violation of the terms and conditions of the GOI grant and run the risk of recovery of GOI grant of Rs 79.80 lakh. In Sri Krishnadevaraya University, the building constructed with the GOI assistance of Rs 37.36 lakh had not been put to use even after three years of completion.**

Government of India (GOI), released Rs 37.80 lakh, Rs 42 lakh and Rs 37.36 lakh to Sri Venkateswara University (SVU), Tirupati, Kakatiya University (KU), Warangal and Sri Krishnadevaraya University (SKU), Anantapur

respectively for construction of working women's hostel and Day Care Centre at University campus. The objective was to provide accommodation for working women. The hostel building was built to accommodate 100 working women and 30 children. The sanction/release of grants-in-aid by the GOI was subject to the conditions *inter alia*, (a) in the event of any violation or breach of any provision of the scheme, all assets created out of Government grant should be reverted to GOI, (b) the University should execute a bond for recovery of grant amount if the building ceases to be used as a hostel for working women.

The construction of the hostel buildings was completed in August 2003, September 2002 and March 2003 respectively at an expenditure of Rs 51.78 lakh, Rs 61.97 lakh and Rs 49.42 lakh. SVU and KU had occupied the buildings only in March 2004 and July 2003 respectively. The cost over and above that released by GOI is met by the respective Universities. In case of SKU, the hostel building though completed in March 2003, had not been put to use and even the Hostel Management Committee was not constituted as of June 2006.

Audit scrutiny revealed (September 2005/January 2006) that the hostel building was put to use for accommodating students and research scholars (in SVU) and girl students (in KU) instead of working women and children, thereby violating the GOI's terms and conditions. None of the three Universities had taken action to call for applications from working women though the buildings are intended for them as of May 2006.

The action of the SVU and KU would tantamount to breach of the conditions attached to the GOI grant, and the prime objective of providing accommodation to working women had been defeated in all the three Universities.

Government while accepting the points assured (May 2006) that the Working Women's Hostels would be put to use in accordance with the GOI instructions. The status of utilisation of these hostel buildings for the intended purpose had not been received (September 2006).

## HOME (Fire Services) DEPARTMENT

### 4.5.3 Unnecessary interest burden

**About 55 per cent of a GOI loan of Rs 6.50 crore meant for construction of fire stations and rescue equipment was diverted for other use. Besides, delay in utilisation of the loan amount, resulted in unnecessary interest burden of Rs 75 lakh.**

The Director General of Fire Services (DGFS) submitted (November 2002), proposals to Government of India seeking sanction of a loan of Rs 6.50 crore from the General Insurance Company (GIC) for construction of 30 fire station



buildings (Rs 4.50 crore) and rescue equipment for 20 districts (Rs 2 crore). GOI sanctioned (March 2003) the loan of Rs 6.50 crore at an interest of 11.5 *per cent* per annum, with clear instructions that the loan amount be used strictly for the intended purpose.

Scrutiny (December 2005), however, showed that although the loan amount of Rs 6.50 crore was received in March 2003, the State Government placed the amount at the disposal of AP State Police Housing Corporation (executing agency) only in March 2004. The delay of one year was mainly because the DGFS, after receipt of the loan amount from the GIC, sought for (April 2003) revised administrative sanction from the State Government for utilising the amount for construction of Fire Service State Training School (Rs 3 crore), construction of Fire Station Buildings and Offices for Southern, Central and Eastern Regions (Rs 3 crore), Training Vehicles (Rs 0.16 crore) and equipment (Rs 0.34 crore). The DGFS had again approached the Government in December 2003 seeking reallocation of Rs 0.50 crore for construction of 'Model Fire Station Building' (at State Training School area) in lieu of Training Vehicles and equipment. Due to the vacillation on the part of the DGFS in shifting the priorities from time to time, there was unnecessary interest burden of Rs 75 lakh (till March 2004) on the amount of loan lying unutilised for a year.

The DGFS stated (December 2005) that the construction of the training school was to improve the operational capacity of the department. This was endorsed (July 2006) by Government without, however, giving any specific remarks. This, however, confirms that the DGFS had no clear plan when seeking the loan and in deciding the priorities leading to unnecessary payment of interest of Rs 75 lakh on the unutilised amount for a year.

## **IRRIGATION AND COMMAND AREA DEVELOPMENT DEPARTMENT (Irrigation Wing)**

### **4.5.4 Avoidable extra commitment due to delay in tender process**

**Delay in transmitting additional information in respect of a recommended tender to the Commissionerate of Tenders led to the cancellation of tenders and extra commitment of Rs 2.60 crore in the acceptance of tender in the second call.**

The Superintending Engineer, Construction Circle, Hanamkonda (SE) invited (November 2003) tenders for the work “Improvements to Peddacheruvu of Parvathagiri (V), Warangal District – of conversion as a summer storage tank cum balancing reservoir with new OT at Km 7.535 R/s of DBM - 48 of Kakatiya Canal - Sriramsagar Project”. Tenders received were to be valid up to 21 March 2004. Of the five tenders received, the Administrator-cum-Chief Engineer, Sriramsagar Project (ACE) recommended (February 2004) the lowest tender of ‘A’ for Rs 4.50 crore to the Commissionerate of Tenders (COT) for acceptance. The COT called for (17 February 2004) certain additional information/documents in respect of the first lowest recommended tenderer.

SE furnished the additional information/documents to the ACE on 25 February 2004 and on 2 April 2004 for onward transmission to COT. As the tender was valid upto 21 March 2004 only, SE obtained extension of validity of the tender upto 21 May 2004. ACE, however, did not pass on the additional information and documents to the COT even during the extended validity period of tender. On a request for further extension of validity of the tender by another two months, 'A' demanded increase in the price bid by him. This was not accepted by the Department.

The ACE's recommendation (June/July 2004) to the COT for cancellation of the tenders was accepted and the tenders cancelled in November 2004 and re-invited in March 2005. One of the reasons adduced by the ACE for recommending the cancellation of first call tenders was non-receipt of the information/documents called for by the COT. This according to SE was already available with the Department who had in fact furnished the same to ACE for onward transmission to COT. The COT also mentioned in its letter (August 2004) to the ACE that the recommendation of the latter for cancellation of tenders was not convincing and expressed its serious concern over the abnormal delay on the part of the ACE.

In the second call COT accepted (September 2005) the lone tender of 'B' for Rs 7.10 crore, which was higher by Rs 2.60 crore than the lowest bid in the first call.

Government replied (June 2006) that there was no possibility of starting the work in any case in the year in which the tenders were finalised due to delay in finalisation of land acquisition, amendment to the administrative approval, etc. The reply was not relevant as the Government was well aware of these factors even at the time of calling tenders in the first call and there was no hindrance in accepting the first call lowest tender except the delay on the part of the ACE in submitting the required document sought by COT. This resulted in the expiry of even the extended bid validity period, cancellation of first call tenders and in extra commitment of Rs 2.60 crore in the second call.

#### **4.5.5 Avoidable extra commitment**

**ENC failed to refer in time to the COT when the first lowest backed out and thereby depriving the offer to second lowest tenderer. This resulted in avoidable extra commitment of Rs 45.40 lakh.**

Government accorded (April 2003) administrative approval for the work "Construction of under tunnel for Nallamada drain at km 21.200 for crossing of Commamur canal" for Rs 9.35 crore and Engineer-in-Chief, Irrigation (ENC) technically sanctioned the work in January 2004. The Superintending Engineer, Irrigation Circle, Guntur (SE) invited tenders in February 2004. Of the five bids received, the Commissionerate of Tenders (COT) accepted (10 March 2004) the lowest bid for Rs 7.29 crore at 19.08 *per cent* less than the estimated contract value (ECV) of Rs 9.01 crore. The validity period of tenders was to expire on 12 May 2004. The SE communicated the acceptance to the successful bidder on 2 April 2004 giving 15 days time to conclude the

agreement. The successful bidder did not turn up to conclude the agreement despite several reminders. The SE, after waiting for 33 days, cancelled the tender of first lowest on 6 May 2004 and recommended on the same day to the ENC for acceptance of the second lowest bid for Rs 8.11 crore which was at 9.99 *per cent* less than the ECV.

However, the ENC did not take any action during the remaining validity period of the tenders. On the ground that the difference between the amounts offered by the first lowest and the second lowest tenderers was very huge (Rs 81.89 lakh), the ENC suggested to Government on 17 May 2004 that fresh tenders be called. Tenders were accordingly re-invited (June 2004). The second lowest tenderer in the first call whose offer was not considered, became the lowest in the second call. COT accepted (September 2004) his offer for Rs 8.56 crore which was higher by Rs 45.40 lakh than the amount offered by the same tenderer in the first call. The SE concluded (October 2004) the agreement and work entrusted to the contractor.

Thus, the action of the ENC in recommending for second call instead of accepting the second lowest tender of first call resulted in avoidable extra commitment of Rs 45.40 lakh to Government.

Government replied (June 2006) that recall was preferred in view of the huge difference between the amounts offered by the first lowest and the second lowest tenderers. The reply was not acceptable in view of the fact that the first lowest tenderer prepared even to forego the deposit (Rs 9.01 lakh) was indicative of unworkability of the rates quoted by him. Action of the CE in not considering the second lowest discount tender and resorting to recall anticipating a still further discount was not justified.

## **TRANSPORT, ROADS AND BUILDINGS (Roads Wing) DEPARTMENT**

### **4.5.6 Avoidable extra commitment in awarding a work**

**Acceptance of a tender without ascertaining the tenderer's eligibility resulted in an extra commitment of Rs 1.40 crore to Government in the second call.**

The Superintending Engineer, Roads and Buildings Circle, Kadapa (SE) invited (November 2003) tenders for the work “Construction of High level bridge across Pennar River at Km 5/0-10 of Bhakarapet, Siddhoutam road” for an estimated contract value (ECV) of Rs 7.34 crore with Standard Schedule of Rates (SSR) 2003-04. As per the eligibility criteria specified in the Notice Inviting Tenders (NIT), only those who had satisfactorily completed, as prime contractors in the same name and style, similar works of values specified therein were eligible to tender for the work. A sub-contractor’s previous experience in his name would be taken into account in determining his eligibility to tender, if he had been so appointed by the main contractor and then approved by the tender accepting authority. Of two bids received, the lowest bid of Rs 6.92 crore (at a discount of 5.67 *per cent* of ECV) was from a

sub-contractor 'A'. The SE as well as the Chief Engineer, Roads and Buildings (CE) recommended the tender of 'A' to the Commissionerate of Tenders (COT) for acceptance, who accepted the tender in March 2004. The SE concluded the agreement in May 2004.

The second lowest tenderer 'B' who quoted Rs 7.47 crore at 1.89 *per cent* excess over the ECV filed a writ petition in May 2004 in the High Court of Andhra Pradesh challenging the award of work to 'A' and also claiming that his was the only qualified tender. The High Court in its judgement held (November 2004), that the sub contractor 'A' did not meet the qualification contemplated in the tender notification.

By the time the judgement was received, the SE had already terminated (September 2004) the contract of 'A' with forfeiture of deposits (Rs 18.66 lakh) on the latter's failure to commence the work. Estimate of the work was recast with SSR 2004-05 and tenders re-invited in October 2004 with an ECV of Rs 8.45 crore. In response thereto a single tender for Rs 9.21 crore (working out to 8.90 *per cent* excess over ECV) was received from 'B'. The SE and CE, after obtaining Government pleader's opinion, recommended to COT for accepting the tender of 'B'.

The COT accepted (December 2004) the tender of 'B' for a negotiated value of Rs 8.87 crore (4.99 *per cent* excess over revised ECV). The amount was Rs 1.40 crore more than 'B's offer of Rs 7.47 crore in the first call.

Thus, injudicious action of the SE and the CE in recommending the tender and of the COT in accepting the same without ascertaining the eligibility of contractor specified in the NIT led to extra commitment of Rs 1.40 crore. This gave scope for litigation and contributed to the delay in finalisation of tenders.

The matter was referred to Government in December 2005; reply had not been received (September 2006).

## **4.6 General**

### **Follow-up on Audit Reports**

#### **4.6.1 Non-submission of Explanatory (Action taken) Notes**

As per the instructions issued by the Finance and Planning Department in November 1993, the administrative departments are required to submit explanatory notes on paragraphs and reviews included in the Audit Reports within three months of presentation of the Audit Reports to the Legislature, without waiting for any notice or call from the Public Accounts Committee, duly indicating the action taken or proposed to be taken.

It was noticed that 22 departments had not submitted explanatory notes, as of September 2006, in respect of 121 paragraphs/reviews for the years 1996-97 to 2004-05. The details are given in *Appendix 4.2*.

#### 4.6.2 Action taken by Government

Compliance of the action taken on the irregularities/system deficiencies in three<sup>28</sup> departments pointed out in the Audit Report for the year 2003-04 showed that the irregularity persisted in one case as discussed below:

##### **Release of funds to a Society without stipulating any conditions/guidelines**

Mention was made in para 4.4.1 of Audit Report (Civil) for 2003-04 about release of Rs 34 crore to AP Right to Sight Society (Society) by the Government under 'Vision 2020 - the Right to Sight' Programme of Health, Medical and Family Welfare Department, without stipulating any conditions/targets, and about large unspent balances (Rs 20.31 crore) lying with the Society.

Further scrutiny (August 2006) revealed that Government released (April 2005) another sum of Rs 12 crore once again without formulating any guidelines and without fixing any targets. Approval for the draft guidelines submitted (July 2005) by the Director of Health was pending with the Government (August 2006). Of Rs 46 crore released so far to the Society, Rs 36 crore<sup>29</sup> was utilised and Rs 10 crore was still lying with the Society as of August 2006. Though the Society was to raise 50 *per cent* of the estimated requirement (Rs 168 crore) of funds, it could mobilise only Rs 3.11 crore (two *per cent*) in kind during 2003-05 against Rs 46 crore (55 *per cent* of its agreed share) released by the Government.

Continued release of funds to the Society without immediate requirement and without stipulating any conditions/guidelines even after four and half years since the date of release (March 2002) of the first instalment, was not justified. This also resulted in locking up of funds with the Society.

#### 4.6.3 Action not taken on recommendations of the Public Accounts Committee

The Finance and Planning Department issued (May 1995) instructions to all administrative departments and the Heads of Departments to submit the Action Taken Notes (ATNs) on the recommendations of the Public Accounts Committee (PAC) within six months from the date(s) of receipt of recommendations. As of September 2006, 1220 recommendations of the PAC, made between 1962-63 to 2004-05 in regard to 23 departments remained outstanding. Of these, the PAC had discussed ATNs in respect of 299 (25 *per cent*) recommendations relating to 15 departments. Of the remaining 921 recommendations, the concerned administrative departments are yet to submit

<sup>28</sup> Irrigation and Command area Development Department (Irrigation Wing) (Para 4.3.6); Transport, Roads and Buildings Department (Roads and Buildings Wing) (Para 4.2.2); Health, Medical and Family Welfare Department (Para 4.4.1)

<sup>29</sup> Reimbursement of Cataract surgeries and providing free spectacles (Rs.24.28 crore), Infrastructure development (Rs. 10.14 crore), Office Maintenance (Rs. 0.64 crore), Training programmes and Workshops (Rs.0.54 crore), Information, Education and Communication Activities (Rs 0.32 crore), and Monitoring and Evaluation (Rs 0.02 crore)

ATNs for 459 (38 per cent) recommendations. Of these, 210 ATNs were due from Irrigation and Command Area Development Department alone. Details are given in *Appendix 4.3*.

#### 4.6.4 Lack of response to Audit

The Principal Accountant General (Civil Audit) (PAG) arranges to conduct periodical audit inspections of the government departments to test-check the transactions and verify the maintenance of important accounting and other records as per prescribed rules and procedures. These inspections are followed up with Inspection Reports (IRs). The Hand Book of Instructions for speedy settlement of audit observations/IRs issued (1995) by the Government in Finance and Planning Department also provides for prompt response by the executive to the IRs issued by the PAG to ensure rectificatory action in compliance of the prescribed rules and procedures and accountability for the deficiencies and lapses noticed during inspection. A half-yearly report of pending IRs is sent to the Secretary of the Department concerned to facilitate monitoring of the audit observations and its disposal. The Heads of offices and the next higher authorities are required to comply with the observations contained in the IRs and rectify the defects promptly and report their compliance to the PAG.

At the end of June 2006, 16489 IRs issued up to March 2006 were not settled as shown below:

	Pending as at the end of		
	June 2004	June 2005	June 2006
Number of IRs	18317	17771	16489
Number of Paragraphs	67459	62763	54676

Of the 54676 paragraphs pending as on 30 June 2006, even first replies had not been received in the case of 1132 IRs (5564 paragraphs). The year-wise and department-wise breakup of these IRs and paragraphs is indicated in *Appendix 4.4* and *4.5* respectively. The Principal Secretaries/Secretaries, who were also informed of the position through half yearly reports, could not ensure prompt and timely action by the concerned officers. Lack of action on audit IRs and paras facilitate continuation of serious financial irregularities and loss to Government.

#### Constitution of Audit Committees

Government while accepting the recommendations of Shakhder Committee (High Powered Committee) instructed (November 1993) all the departments to nominate a designated Officer within the department for monitoring the follow-up action on audit objections. For regular review at higher levels, the departments were instructed to ensure that there should be a monitoring committee consisting of the Secretary of the Department and the Finance Secretary. Government also reformulated (June 2004) comprehensively the orders issued in July 1986 for constitution of Audit Committees at three levels i.e., Apex level, Departmental level and District level for speedy settlement of audit objections. These three Committees are required to meet twice in a year

(i.e., January and July), once in three months and once in two months respectively.

The status of audit committee meetings held during 2005-06 is discussed below:

- (i) No meeting of the Apex level State Audit and Accounts Committee was held in 2005-06.
- (ii) No departmental level Audit and Accounts Committee meeting was held in 20 departments during 2005-06. This indicates lack of seriousness on the part of these departments in rectifying the deficiencies pointed out by Audit.

It is recommended that Government should (i) ensure timely and proper response to the IRs of the PAG, (ii) conduct Audit Committee Meetings regularly for speedy settlement of pending IRs and paras and (iii) effect recoveries pointed out in the inspection reports, promptly.

#### **4.6.5 Write off of losses, revenue, etc.**

Rupees 7.44 lakh representing losses due to death of 742 sheep in Large Scale Sheep Breeding Farm, Mamidipalli (RangaReddy District), evaporation of petrol and diesel and short receipt of judicial impressed stamps by the GSO Treasury, Hyderabad from Central Stamps Depot, Nasik were written off by the competent authorities during the year 2005-06.

#### **4.6.6 Audit arrangement for autonomous bodies**

Audit of Grandhalaya Samsthas and Universities is conducted by the Director, State Audit. Registrar of Co-operative Societies is the statutory auditor for Co-operative Societies. Audit of the District Rural Development Agencies (DRDAs), District Water Management Agencies (DWMAs) and Zilla Saksharatha Samithis is conducted by Chartered Accountants.

During 2005-06, audit by the Principal Accountant General was conducted under Section 14 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 covering nine Universities, 33 Educational institutions, one DRDA, two Zilla Grandhalaya Samsthas, one Zilla Saksharatha Samithi, eight DWMAs, seven District BC/SC Service Co-operative Societies and 51 other institutions.