

CHAPTER IV

AUDIT OF TRANSACTIONS

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

4.1 Wasteful/unfruitful expenditure and excess payment

PUBLIC WORKS DEPARTMENT

4.1.1 Unfruitful expenditure on excavation of branch canals

Excavation of branch canals to irrigate 4,191 acres of new ayacut, even when there was insufficient water to irrigate the existing ayacut resulted in expenditure of Rs 12.45 crore remaining unfruitful.

Water losses up to 10 *per cent* occurred when water for irrigating the ayacut of Periyar System¹ was carried through Vaigai river between Vaigai dam and Peranai regulator (32.4 km). To reduce this transmission loss, a lined link canal from Vaigai dam to Peranai regulator was constructed (August 1995) at a cost of Rs 35.12 crore. To utilise the water thus saved, excavation of 12 unlined branch canals from the link canal to irrigate 4,191 acres of land was proposed (March 1996) under the World Bank aided Tamil Nadu Water Resources Consolidation Project. The new ayacut was to get last priority for irrigation after supply to the original and extended ayacuts of the Periyar System.

The work was split into two packages and awarded to the contractors in May and June 1999. While 10 branch canals were completed by November 2002 and another in March 2003, the last canal was not completed (March 2005) due to non-acquisition of land over some portion. A total expenditure of Rs 12.45 crore was incurred by July 2005.

As mentioned in paragraph 4.1.7.3(i) of the Report of the Comptroller and Auditor General of India (Civil) for the year ended 31 March 2001², only 14 to 58 *per cent* of water realised in Periyar System at Vaigai dam during 1995-99 was diverted through the link canal thereby defeating the objective of forming the link canal. Besides, only 0.32 to 12 *per cent* of the extended ayacut of Periyar System were provided with water during 1993-99 (no water was supplied during 1996-97).

Though there was neither any savings in the water due to diversion through link canal as expected nor excess water in the Periyar System after irrigating the extended ayacut, the Department had not considered these facts before

¹ Water realised from Mullai Periyar Dam.

² Awaiting discussion in the Public Accounts Committee (July 2005).

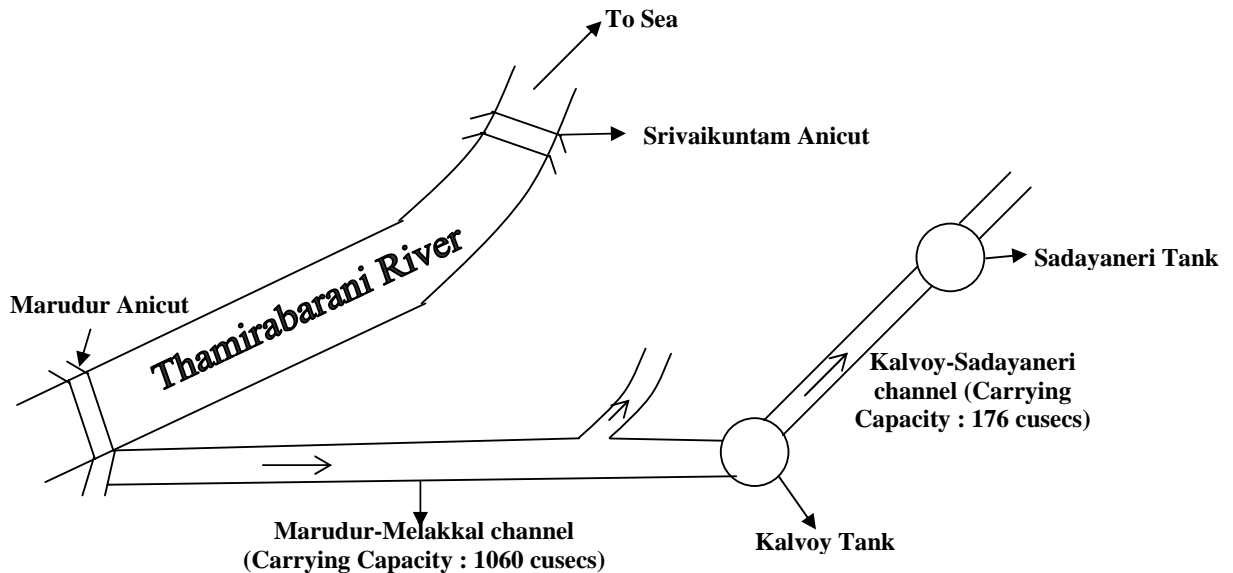
taking up the work of the branch canals in 1999. Even after excavating 11 branch canals in the link canal, no water was released through these canals during 2002-05. Thus, poor planning without considering the ground realities, resulted in the expenditure of Rs 12.45 crore incurred on excavating branch canals remaining unfruitful.

Government stated (November 2005) that water could not be supplied through the branch canals due to reduction in storage level of Periyar dam from 152 to 136 feet and erratic monsoon. This reply was not tenable because the World Bank had suggested in December 1991 that distribution network for link canal be taken up only after observing the performance of the system for a few years. As the system performed poorly during 1993 to 1999 and only a quantity of 14 to 58 per cent was diverted through link canal during 1995-99, excavation of branch canals was not justified. Moreover, the reduction of storage level of Periyar dam was known to the Department in 1992 itself.

4.1.2 Wasteful expenditure due to improper planning

Lining of a channel without considering the necessity of increasing its carrying capacity due to augmentation of its downstream channel resulted in estimated wasteful expenditure of Rs 85.81 lakh.

The original carrying capacity of Marudur - Melakkal (MM) channel which receives water from Thamirabarani river was 1,060 cubic feet per second (cusecs) and Kalvoy - Sadayaneri (KS) channel, which receives water from MM channel, had a carrying capacity of 176 cusecs. Both these channels were proposed (March 1995) for rehabilitation and restoration to their original capacity. The alignment of the channels are depicted below:



Before taking up the two works, the Chief Engineer, Madurai region (CE) proposed (June 1997) increasing the carrying capacity of KS channel to 500 cusecs so as to utilise flood water of Thamirabarani river otherwise discharged into sea from Srivaikuntam Anicut and obtained sanction from the Government in October 1997. Though KS channel could receive additional

water only if the carrying capacity of MM channel was correspondingly increased, the CE omitted to make such a proposal. The rehabilitation works of MM channel included lining its bed and sides with cement concrete. The works of MM channel and KS channel were taken up in November 1999 and December 1999 and completed in June 2002 and March 2004 respectively.

Considering the insufficient capacity of MM channel to feed 500 cusecs of water to KS channel, the CE belatedly proposed (December 2003) increasing its capacity to 1,560 cusecs. The work sanctioned by the Government in June 2004 included an estimate of Rs 2.07 lakh for dismantling the lining already laid at a cost of Rs 83.74 lakh. This work commenced in March 2005 and was in progress (July 2005).

Thus, the negligent action of the CE in lining the MM channel without considering its widening necessitated by the additional requirement of KS channel resulted in wasteful expenditure of Rs 85.81 lakh.

Government stated (November 2005) that the necessity of increasing the capacity of MM channel became clear only during the floods caused by North East monsoon of 2004. This reply is not factually correct as the proposal to increase the capacity of MM channel to 1,560 cusecs was made in December 2003 itself.

MUNICIPAL ADMINISTRATION AND WATER SUPPLY DEPARTMENT

TAMIL NADU WATER SUPPLY AND DRAINAGE BOARD

4.1.3 Lapses in construction of a sewage treatment plant

Defective design resulted in failure to achieve the benefits of a sewage treatment plant constructed at a cost of Rs 5.22 crore. Besides, the Board failed to recover Rs 17.05 lakh from the contractor towards cost of rubble.

The scheme of interception and diversion of sewage and construction of a new sewage treatment plant (STP) at Erode was taken up by the Tamil Nadu Water Supply and Drainage Board (Board) under National River Action Plan (NRAP) in April 1997. The various components of the scheme were entrusted to different contractors between February 1998 and June 2002 and completed in August 2003 at a cost of Rs 4.17 crore. Scrutiny of the records (November 2004 - March 2005) relating to execution of these works in NRAP Division, Erode revealed the following:

Before taking up the work of construction of STP in June 2002, the Board had a soil test conducted (December 2001). As the test indicated that the permeability of the soil was high, the Chief Engineer, Western Region, Coimbatore (CE) approved construction of a Random Rubble (RR) masonry wall around the waste stabilisation pond (WSP) instead of forming a bund with excavated earth. Though the location of WSP was at elevated level and the permeability of soil at its bed surface was high, the CE did not provide

works like cement mortar or plastic membrane or low permeable soil of adequate thickness to prevent seepage through the bed. On completion (August 2003), sewage was found leaking through the bed of WSP. Based on the advice of a technical consultant (March 2004), the Board laid a layer of Low Density Polyethylene (LDPE) membrane on the tank bed and Controlled Low Strength Material (CLSM) mixture over it at a cost of Rs 92.09 lakh (February 2005). Even then, seepage continued to occur. To stop this, the Principal, Government College of Technology, Coimbatore (Principal) advised (March 2005) that the LDPE layer be extended into the RR masonry wall.

The agreement for the construction of RR masonry wall for the WSP covered a guarantee for 24 months during which any leakage was required to be repaired by the contractor at his own cost. On storing sewage after completion of the work, seepage occurred through the wall (October 2003). Instead of invoking the contractual guarantee, the Division spent Rs 12.62 lakh for arresting the seepage. Even after this, cracks appeared in the wall (March 2005) and the Principal suggested grouting work in seepage points.

The Executive Engineer informed (August 2005) that additional works for preventing the seepage through bottom and side wall had been completed and trial run was in progress. Thus, wrong selection of site and approval of a defective design at the initial stage resulted in the objective of the scheme not being achieved and Rs 4.17 crore spent on the scheme remained unproductive from August 2003 onwards.

Government stated (October 2005) that (a) low permeability soil was not provided at the bottom of WSP in view of its high cost and (b) the rectification work in the RR masonry wall was carried by the Department as the leakages occurred only after completion of the work by the contractor. These contentions were not tenable as (a) the Department should have designed the WSP to prevent seepage at the bed and (b) the leakage from the side wall occurred during the guarantee period and should have been rectified at the cost of the contractor.

It was also observed in audit that the general conditions of contract stipulated that (i) the contractor should make his own arrangement in connection with the access to the site and (ii) blasted rubble, etc. shall be deposited in departmental land as directed by the Engineer-in-charge. However, 9,470 cubic metre of blasted rubble removed from the site was utilised by the contractor for forming approach road. This resulted in non-recovery of Rs 17.05 lakh³ representing the cost of the rubble.

Government stated (October 2005) that the value of blasted rubble would be arrived at and recovered from the final bill of the contractor.

³ Worked out based on the PWD Schedule of Rates (2001-02) of Rs 180 per cubic metre.

HEALTH AND FAMILY WELFARE DEPARTMENT

4.1.4 Non-fulfilment of achievement due to non-utilisation of Accident and Emergency Wards

Despite Public Accounts Committee's recommendation the Government failed to ensure coordinated action for providing equipment and staff while approving construction of three Accident and Emergency wards. As a result expenditure of Rs 1.21 crore on construction of these wards failed to fulfil the desired objectives.

Public Accounts Committee had from time to time⁴, expressed serious concern over delay in creation of medical facilities in hospitals after completion of civil works and stressed that proposals submitted to the Government for sanction should cover all requirements *viz.* buildings, staff and equipment. Government assured⁵ as early as in September 1985 that the Committee's recommendation for simultaneous coordinated action for commissioning medical facilities without loss of time would be followed in future.

For extending Accident and Emergency (A&E) services, the Government sanctioned (June 1998 and June 1999) construction of 10 bedded A&E wards at three hospitals. While sanctioning the construction, the Government directed the Director of Medical and Rural Health Services (Director) to propose sufficiently in advance of completion of construction, sanction of staff after identifying posts for redeployment or surrender.

The A&E ward at Jayamkondam, Perambalur District was constructed at a cost of Rs 28.40 lakh in February 2001. Though the Joint Director of Health Services sought (August 2000) sanction of 14 posts, which was revised to 24 posts in July 2004, no posts were sanctioned till September 2005. No equipment was supplied to the ward though proposal for these was submitted in November 2001.

The A&E ward at Kangeyam, Karur District was constructed at a cost of Rs 43.53 lakh in April 2001. Director sent proposals (August 2001) to the Government for sanction of 17 posts. Despite repeated reminders, no sanction had been issued by the Government and no equipment was also supplied to the A&E ward (September 2005).

The A&E ward at Paramakudi, Ramanathapuram District was constructed at a cost of Rs 49 lakh in May 2000. Director sent proposal to the Government in August 2001 for sanction of 11 new posts. Despite protracted correspondence with the Government, sanction of the Government was awaited (September 2005). No equipment was supplied till September 2005.

⁴ Para 10.2.3, 33rd Report (VII Assembly) - 1984-85; Para 6.4, 50th Report (X Assembly) - 1991-92; Para 8.1.5, 60th Report (X Assembly) - 1991-92; Para 4.4, 230th Report (X Assembly) - 1995-96; Para 6.4, 322nd Report (XI Assembly) - 2000-01; Para 3.9, 324th Report (XI Assembly) - 2000-01 and Para 4.9, 141st Report (XII Assembly) - 2002-03.

⁵ Serial Number 2 of 69th Report (X Assembly) – 1991-92 presented to the Legislature on 28 April 1992.

Audit scrutiny (November 2004 to January 2005) revealed that 7,017 accidents and emergency cases between May 2000 and December 2004 had been referred by the aforesaid three hospitals to other hospitals evidently because of lack of specialists and requisite equipment.

Audit noted that new posts for the wards were not created due to ban on recruitment since May 1991. In the face of the ban, the proposals for the aforesaid A&E wards should have either identified the specific posts that would be transferred for them or relaxation of ban orders obtained at the proposal stage itself. If neither of this was possible, the proposal for construction of A&E wards should not have been approved *ab initio* instead of relegating deployment of staff to the stage of completion of construction. In August 2000, the Director apprised the Government that it was not possible to identify/surrender posts for redeployment and stressed the need for creation of new posts. However, no relaxation was accorded in these cases.

Thus inappropriate planning despite incurring of expenditure Rs 1.21 crore on construction of three A&E wards did not achieve the intended objective of providing prompt and effective treatment for accident victims was defeated.

These points were referred to the Government in August 2005; reply had not been received (December 2005).

HOME, PUBLIC AND ENVIRONMENT AND FORESTS DEPARTMENTS

4.1.5 Unfruitful expenditure due to delay in issue of posting orders

Delay of more than a month in issue of orders of posting to officials in 64 instances resulted in unfruitful expenditure of Rs 55.36 lakh.

According to Ruling (3) under Rule 9 (6) (b) of Fundamental Rules of the State Government, the period during which a Government servant has compulsorily to wait for orders of posting is treated as duty. Accordingly, he draws his entitled pay and allowances during such period.

The Committee on Public Accounts, had recommended (12 February 1981 – Sixth Report) that the Government should make concerted efforts and take effective steps to keep the delays in the issue of posting orders to the minimum. In this context, the Government in Personnel and Administrative Reforms (P&AR) Department issued instructions (20 February 1981) to all the Secretaries to avoid compulsory wait.

Despite the above instructions, a review of Audit Register maintained by Office of the Accountant General (Accounts and Entitlements) and test check of records at Pay and Accounts Office (PAO) (Secretariat) revealed 64 cases of compulsory wait of more than 30 days during 1999-2005 in three departments as tabulated below:

Period of compulsory wait (days)	Environment and Forests Department		Home Department		Public Department	
	Number of instances	Salary paid (Rs in lakh)	Number of instances	Salary paid (Rs in lakh)	Number of instances	Salary paid (Rs in lakh)
31-60	5	1.92	8	2.81	18	6.94
61-90	-	-	2	1.96	7	3.96
91-180	4	5.40	3	3.78	14	19.26
181-365	-	-	1	1.95	1	1.96
More than 365	-	-	-	-	1	5.42
Total	9	7.32	14	10.50	41	37.54

Thus, delay in issue of posting orders resulted in unfruitful expenditure of Rs 55.36 lakh. The aforesaid 64 cases included 29 IAS officers, 13 IPS officers and nine IFS officers.

Government in Personnel and Administrative Reforms and Public departments stated (July and September 2005) that (a) necessary instructions had been issued in August 1994 and August 1995 to avoid delay in giving postings to officials, (b) most of the officers were on compulsory wait due to non-availability of suitable posts in the respective grades, (c) some posts are sensitive in nature and require suitable officers and (d) every effort is taken to minimise the period of giving postings to the officers.

The reply of the Government was not tenable because (a) a large number of officers were on compulsory wait for more than three months and (b) advance planning regarding posting of officers on repatriation could have reduced period of compulsory wait especially since their dates of joining were known well in advance.

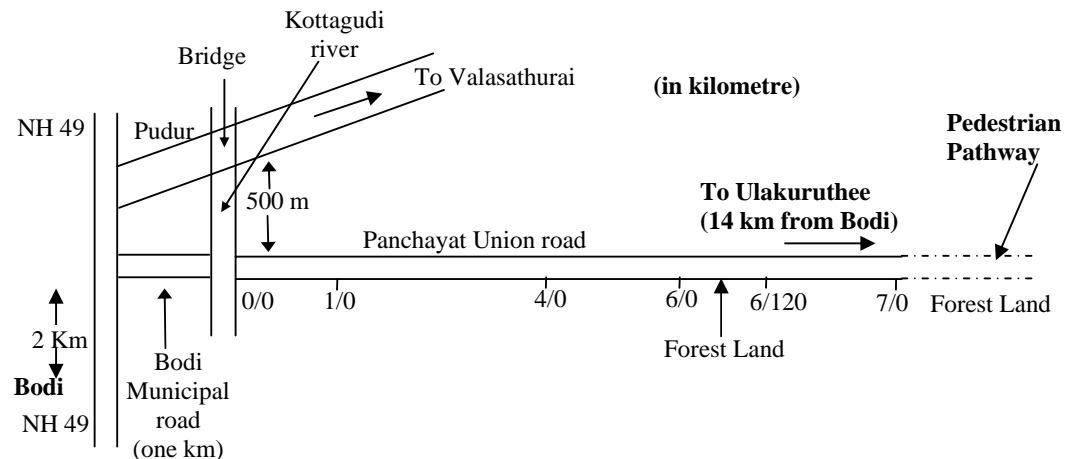
HIGHWAYS DEPARTMENT

4.1.6 Unfruitful expenditure on improvement of a road

Rupees 53.14 lakh were spent on improving an unconnected and isolated rural road in an uninhabited area.

With a view to provide connectivity to the remote village of Ulakuruthee with the marketing centre at Bodi, the Chief Engineer, Rural Roads, Chennai (CE) improved six out of 11.5 kilometre (km) of the Panchayat Union (PU) road from Bodi municipal limit to Ulakuruthee in three phases commencing from January 1998, February 2000 and August 2004 and spent Rs 53.14 lakh till October 2004.

The PU road lies on one side of the river on which there is no bridge to link with the Bodi Municipal road on the opposite bank. Though the Pudur - Valasathurai road, located just 500 metre away to the PU road had a bridge to connect Bodi, they were not linked. A pictorial presentation of the layout is given below:



A proposal to construct a bridge to connect the PU road with the Bodi Municipal road forwarded by the Divisional Engineer, Madurai (DE) in August 2001, was not approved by the CE on considerations of cost and

existence of a bridge on the nearby road. However, the DE did not initiate a proposal to lay the link road. Thus, the PU road was not connected to Bodi marketing centre.

Further, the improvement of the road between km 4/0 and km 7/0, taken up in February 2000 was foreclosed in October 2004 due to existence of forest land for 120 metre. The DE sought permission for work on this portion belatedly in September 2002 which the Forest Department refused in March 2004. Consequently, the road improvement was limited to km 0/0 to 6/0 only. As Forest Department refused permission to form the road beyond km 7/0, the road was not connected to Ulakuruthee village.

The CE stated (20 July 2005) that the improved road would be beneficial for transporting the agricultural produce from fields lying on both sides of the road. This reply was not tenable as there was no habitation adjoining the improved stretch. Nevertheless, the CE simultaneously requested (20 July 2005) the Director, Rural Development Department to form the link road to provide connectivity to Bodi. Thus, the expenditure of Rs 53.14 lakh incurred remained unfruitful as the improved stretch of the road remained unconnected to Bodi marketing centre and Ulakuruthee village defeating the objective.

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

HIGHER EDUCATION DEPARTMENT

4.1.7 Unproductive expenditure in procurement of an image setter

Due to non-purchase of a film processor, an image setter costing Rs 27.43 lakh remained unused.
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An image setter along with accessories costing Rs 27.43 lakh was procured and installed (May 1999) in the Institute of Printing Technology (IPT), Chennai under World Bank Assisted Second Technician Education Project for imparting training to its students. However, the equipment had not been used as of January 2005. A scrutiny of the records of IPT revealed the following:

Before installation of the equipment, the Principal, IPT, requested (May 1999) the Directorate of Technical Education (DTE) for procurement of an auto film processor costing Rs three lakh approximately on the ground that the image setter and the film processor are complementary and the purpose of purchasing the former would not be achieved fully without the latter. While the matter was in pursuance, the World Bank Project was wound up and the film processor was not procured. Accordingly, the image setter could not be used for instructional and production purposes.

Inspections by the supplier (March 2003 and October 2004) revealed that some rubber rollers, a motor belt and a motor bush had melted as the image setter had not been kept in an air-conditioned environment despite his recommendations and that of the Tender Committee (December 1997). The machine was yet to be repaired (March 2005).

The expenditure of Rs 27.43 lakh for purchase of image setter became unproductive due to failure to procure a film processor besides improper maintenance and non-repair of defects of the image setter.

The matter was referred to the Government in April 2005. Government stated (November 2005) that the affected components of the image setter had since been handed over to the supplier for repair at the cost of supplier. However, Government reply was silent on procurement of film processor.

4.2 Avoidable/excess expenditure

PUBLIC WORKS DEPARTMENT

4.2.1 Extra expenditure due to defective agreements

Failure to unambiguously state in four contracts that the losses due to natural calamities be at the risk of the contractor resulted in avoidable extra payment of Rs 3.67 crore.

Till April 1988, the General Conditions of Contract (GCC) used in the Department stipulated that the contractor was not liable for any loss or damage on account of natural calamities. Based on a suggestion from the Government, the Chief Engineer (General) (CE) issued instruction (April 1988) that the GCC be amended to the effect that the contractor would meet the loss, if any, on account of natural calamities during the period of contract and the option to take insurance be left to his discretion. This amendment had to be built into all contracts entered thereafter.

Audit scrutiny of seven agreements concluded by the Superintending Engineer, Thamirabarani Basin Circle, Tirunelveli (SE) during July 2003 to September 2003 for construction of groynes to protect the coastal villages in Kanniyakumari district against sea erosion disclosed (April 2005) that only three agreements contained the amended clause. Nevertheless, these three agreements, like the other four, contained a contradictory clause in the Special Specifications to the contract providing that any damage by natural causes would have to be brought up to standard profile as extra work at the accepted contract rates.

While the seven works were in progress, a cyclonic storm hit the coastline during May 2004 causing damages to four groynes. The agreements of three of the four affected groynes contained the amended clause in the GCC. The contractors restored the damaged portions and citing the Special Specifications, informed the Executive Engineer, Anti Sea Erosion Division, Nagercoil (EE), that this has to be treated as an extra work. Initially, the EE cited the clause in the GCC against making the payment but subsequently paid Rs 3.67 crore to the contractors treating it as extra work. Though the payment was necessitated by non-inclusion of the amended version of GCC in one work and inclusion of a contradictory clause in the agreements of all the four affected groyne works, the Department did not disclose it in the proposal sent (January 2005) to the Government for sanction of additional quantities and items necessitated by the cyclone. Accordingly, the Government ratified (March 2005) the payment. To prevent such unintended payment in future, the SE deleted the contradictory clause in Special Specifications of an agreement for another groyne work entered into in October 2004.

Thus, the execution of faulty contracts by the SE resulted in an avoidable extra expenditure of Rs 3.67 crore.

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

4.2.2 Additional expenditure due to provision of higher thickness of cement concrete

Provision of higher thickness of cement concrete lining of side walls of field channels resulted in additional expenditure/liability of Rs 1.37 crore.

The Code of Practice for lining of field channels published by the Bureau of Indian Standards, New Delhi (BIS) prescribes lining of side walls of field channels with cement concrete or stones or bricks. The prescribed thickness of lining in the first two cases is 75 millimetre (mm) and 150 mm respectively.

Test check of the approved estimates of 31 works taken up by the four divisions⁶ disclosed (March and August 2005) that the thickness of the cement concrete lining on the side walls of field channels (total length 50.5 km) was 200 mm or 230 mm instead of 75 mm. The works were contracted out for execution during December 2004 to April 2005. At the end of August 2005, all the 31 works were under execution and lining of side walls had commenced in 22 of them. The provision of additional thickness of lining in these 22 works resulted in additional expenditure of Rs 98.40 lakh; besides, additional liability of Rs 38.13 lakh accrued in respect of works pending execution.

On being pointed out in audit, the Government stated (September 2005) that higher thickness was adopted to prevent damage to the field channels due to crossing of tractors and other farm equipment. Government added that despite the higher thickness adopted, the cost incurred was less than the option of lining with stones (random rubble masonry) according to BIS.

Government's contention regarding damage to field channel was not tenable as the Department could have strengthened only the portions of channels where movement of tractors, etc. occurs and not the entire length of channels aggregating 50.5 km. The other argument regarding cost was untenable as the Department had to, subject to fulfilment of technical requirement, choose the least cost option.

4.2.3 Avoidable expenditure on procurement of Digital Water Level Recorders

In spite of large scale failures of imported Digital Water Level Recorders supplied by a firm, the Chief Engineer procured additional quantities at a cost of Rs 1.01 crore. Seventy five per cent of such Recorders supplied by this firm failed and could not be repaired.

The Hydrology Project, aided by the World Bank in seven States, included installation of Automatic Water Level Recorders (AWLRs) in major reservoirs/tanks and also in the borewells/tubewells to strengthen the institutional capability of the State to measure, collect, transmit, analyse,

⁶ Upper Vaippar Basin Division, Rajapalayam, Vaippar Basin Division, Virudhunagar, Nanganjiyar Basin Division, Palani, Vaigai Special Division, Manamadurai.

disseminate and use surface and ground water data for hydrology design and river basin planning. In a technical meeting, the Commissioner, Water Management and Minor Irrigation, the Government of India (GOI) had cautioned (May 1997) the Chief Engineer, State Ground and Surface Water Resources Centre (CE) that Digital Water Level Recorders (DWLRs), the most sophisticated of AWLRs, are difficult to repair and may require replacement in case of failure. In spite of this warning, the CE decided to purchase DWLRs; as these were not manufactured indigenously, the bids were invited from foreign suppliers.

Out of 98 DWLRs procured from two foreign firms between October 1997 and May 1998, data could not be retrieved from all the 48 DWLRs supplied by one firm. As these 48 DWLRs could not be rectified, the supplier firm replaced them in May 2002. In the meantime, orders for supply of 515 DWLRs at a cost of Rs 1.88 crore were placed on a third firm (firm 'A') between April 1998 and April 1999 and installed between September 1999 and May 2000.

Test check of performance of 149 DWLRs supplied up to January 2000 by firm 'A' in ten divisions revealed that 102 DWLRs failed between December 1999 and May 2001. Nevertheless, the CE placed two further orders for supply of 235 DWLRs at a cost of Rs 1.01 crore with firm 'A' in January 2001 and March 2001, which were received during June and July 2001. Out of total 750 DWLRs supplied by firm 'A', 229 failed by 2001 and another 219 failed between 2002 and 2004. By March 2005, 563 out of 750 (75 per cent) DWLRs were not functioning. DWLRs could not be repaired by local agencies as the circuit diagram had not been provided by the supplier.

Further, though maintenance of DWLRs for four years was one of the tender conditions, the firm had not entered into maintenance contract in respect of the 430 DWLRs and had not performed the contractual obligations of repairing the instrument within 72 hours in respect of the remaining 320 DWLRs. In December 2002, the management of the firm changed and the CE could not get the DWLRs repaired.

On being pointed out in audit, the Government contended (October 2005) that (a) at the time of placing orders for 235 DWLRs, all DWLRs in field received earlier from firm 'A' were functioning satisfactorily, (b) minor defects that were noticed were attended to by the firm 'A' and (c) the DWLRs could not be repaired by firm 'A' as it was taken over by a new firm in December 2002 and the new firm did not fulfil the contractual obligations of firm 'A'.

These contentions were not tenable as (a) the working condition of DWLRs were not monitored by the CE and the field records indicated that none of the DWLRs which failed till May 2001 were repaired, (b) firm 'A' had not fulfilled the contractual obligation even before December 2002 and maintenance contract was signed only for 320 out of 750 DWLRs and (c) in August 2001, the CE had informed the GOI that all the DWLRs purchased were working satisfactorily whereas all the 149 DWLRs in the ten divisions test checked by Audit had failed by that time. This indicates that the CE compounded his bad judgment of further procurement by presenting a factually incorrect picture of the performance of DWLRs.

Thus, the action of the CE in procuring 235 DWLRs in 2001 at a cost of Rs 1.01 crore even after large scale failures were noticed from previous supplies was injudicious.

4.3 Idle investment/blockage of funds

MUNICIPAL ADMINISTRATION AND WATER SUPPLY DEPARTMENT

TAMIL NADU WATER SUPPLY AND DRAINAGE BOARD

4.3.1 Blockage of funds due to creation of assets far ahead of requirements

Deviation from the prescribed norms in the design of pumping mains, pumps, motors and reservoirs resulted in blockage of funds to the tune of Rs 16.54 crore.

Scrutiny of records relating to execution of 22 Comprehensive /Combined Water Supply Schemes (CWSSs) and six Water Supply Schemes (WSSs) (Appendix XXI) by the Tamil Nadu Water Supply and Drainage Board (Board) during 2000-05 revealed the following deficiencies:

(i) Central Public Health and Environmental Engineering Organisation (CPHEEO) Manual prescribed design period of 15 years for electric motors and pumps to conform to their expected life. However, pumping mains were provided with motors and pumps required for the ultimate requirement of 30 years in three CWSSs⁷ by the Chief Engineer (CE), Coimbatore. Consequently, the additional expenditure of Rs 1.45 crore incurred on erecting pumps and motors for ultimate stage (30 years) was avoidable.

Government stated (December 2004) that the conditions stipulated in the CPHEEO Manual were followed only in urban schemes and not in rural schemes. This contention was not tenable as the other three regions followed the manual in all CWSSs and even in Coimbatore region, motors and pumps were designed for 15 years in three other CWSSs⁸.

(ii) As per the CPHEEO Manual, the storage capacity of the service reservoirs has to be designed for intermediate stage only. According to the instructions of Public Works Department issued in 1971 and of the Board issued in December 1982, the capacity of service reservoir should be one third of a day's supply in urban areas and half of the day's supply in rural areas of CWSSs. Instead of constructing the service reservoirs at one third and one half of requirement for intermediate stage, the CE constructed service reservoirs for the full day's capacity required for ultimate stage in respect of 18 CWSSs/Urban WSSs⁹. This resulted in construction of service reservoir of higher capacity resulting in extra cost of Rs 6.27 crore.

The Government however did not give any reply to the contention of the Audit that the norms of capacity of half and one-third of service reservoirs had not been followed and instead stated (December 2004) that the service reservoirs

⁷ Serial numbers 1, 2 and 5 of Appendix XXI.

⁸ Serial numbers 3, 4 and 6 of Appendix XXI.

⁹ Serial numbers 1 to 7, 9, 10, 13, 14, 16 to 19, 21, 24 and 27 of Appendix XXI.

were designed for ultimate capacity in all WSSs as construction of additional structures for the additional quantity after 15 years would cost more. Besides, problems of site and redesigning components like pumping main and distribution system could be avoided. The issue here is not of designing for 15 years but disregarding norms for the capacity for construction as have been laid down.

(iii) CPHEEO Manual stipulated that the pumping main should be designed for 23 hours of pumping considering loss of one hour due to minor interruptions. However, in five CWSSs¹⁰ having river source and provided with uninterrupted power supply with separate feeder line, the pumping mains, pump sets, motors and treatment plants were designed for 16 hours of pumping instead of 23 hours resulting in estimated extra cost of Rs 8.82 crore on these components.

On being pointed out in audit, the Government stated (December 2004) that lesser hours of pumping was adopted to provide time for recuperation of water in infiltration wells and minor repairs and to provide water to additional habitations by increasing the pumping hours. These contentions were not tenable as

- (a) the sources for four CWSSs¹¹ mentioned in the audit observation were not infiltration wells but intake wells. Even in one CWSS¹² where there was infiltration well, drawal of water for 23 hours would reduce the quantum of water to be drawn per minute thereby providing time for recuperation,
- (b) standby pumps and motors were provided under the schemes for attending to repairs and
- (c) no details of meeting future requirement of additional habitations was also forwarded.

HEALTH AND FAMILY WELFARE DEPARTMENT

4.3.2 Operation theatres lying idle

The completion of a new surgical block at a Government College was delayed by two years due to delay in completion of electrical works. Moreover, it has not been functioning optimally due to non-sanction of staff and delay in procurement of essential equipment.

State Government sanctioned (July 1999) the construction of a new surgical block at the Government Mohan Kumaramangalam Medical College Hospital, Salem at an estimated cost of Rs four crore comprising Rs three crore for civil works (including electrical works) for which public donation of Rs one crore was to be used and Rs one crore for equipment and furniture.

The District Collector, Salem deposited (August 1999) Rs one crore of public contribution with the Executive Engineer, Public Works Department (PWD), Buildings (Construction and Maintenance) Division, Salem. Though the civil

¹⁰ Serial numbers 5, 21, 22, 26 and 28 of Appendix XXI.

¹¹ Serial numbers 5, 21, 22 and 26 of Appendix XXI.

¹² Serial number 28 of Appendix XXI.

works were completed in all respects at a cost of Rs 2.50 crore by November 2001, the building was not taken over by the Hospital due to non-completion of electrical works, for want of Letter of Credit (LOC). The electrical works were completed in June 2003 at a cost of Rs 44.15 lakh and the building was taken over in November 2003. Thus, there was delay of two years in handing over the building due to non-completion of electrical works.

Further, the Government sanctioned (July 2002) Rs one crore towards the purchase of equipment (Rs 92.47 lakh) and furniture (Rs 7.53 lakh) and subsequently directed (November 2003) that the purchase of equipment should be through the Tamil Nadu Medical Services Corporation (Corporation) Limited, Chennai. Accordingly, the Director of Medical Education (DME) drew Rs one crore and credited (March 2004) the amount into the Deposit account of the Corporation. However, the Dean, in consultation with DME, revised the requirement of equipment frequently. The final requirement of equipment valuing Rs 92 lakh was submitted to the DME in October/November 2004 by the Dean. The Corporation supplied (November 2004) 60 items of equipment costing Rs 32.06 lakh and was yet to supply the remaining 117 items (June 2005) including essential items such as (a) generator and (b) Centralised Oxygen System. The Dean of the hospital also procured (June 2005) equipment costing Rs 26.35 lakh and furniture costing Rs 5.46 lakh.

Meanwhile, the Dean of the College had requested for 72 additional staff for the new surgery block (November 2001 and October 2002). Despite protracted correspondence no additional posts specifically for manning the new surgical block had been sanctioned (June 2005). Even the Government approval for manning 23 posts through recruitment rather than redeployment that were sanctioned (June 2002) by the Government consequent to enhancing the intake of the college from 75 to 150 students had not been issued (June 2005).

It was observed in Audit that though the new surgical block was functioning from January 2004, only minor surgeries were performed in its Minor Surgery Operation Theatre (OT) due to shortage of staff and essential equipment. The three other OTs in the new block for major surgeries had remained unused since inception (June 2005).

Thus, due to failure in providing essential equipment and additional staff, the new surgical block established at a cost of Rs 3.57 crore had not been put to optimal use (June 2005).

In its reply, the Government generally accepted (November 2005) the facts and stated that no additional posts were sanctioned by the Government due to the ban on creation of new posts. It further stated that major surgeries would be performed in the new surgical block after the installation of generator and Centralised Oxygen System, orders for which had been placed.

4.3.3 Unused building

Despite expenditure of Rs 91.61 lakh, the objective of providing better health facilities by upgrading a Primary Health Centre was not achieved due to non-provision of required equipment and posting of medical staff.

In response to a demand from the people of Velayuthampalyam (Karur District), who donated Rs 40 lakh and 2.5 acres of land in September 1999 for upgrading the Primary Health Centre (PHC) there, the Government sanctioned

(March 2001) construction of new buildings for a non-taluk Government Hospital (Hospital). Public Works Department completed these buildings at a cost of Rs 91.61 lakh and handed them over to the Medical Officer, PHC, Velayuthampalyam between November 2003 and February 2004.

The Joint Director of Health Service (JDHS), Karur sent a proposal for supply of equipment costing Rs 41.47 lakh and sanction of 35 additional staff for the Hospital in April 2003 to the Director of Medical and Rural Health Services (Director). However, for reasons not on record, the Director forwarded this proposal with minor modifications to the Government in October 2004, *i.e.* after a delay of about 18 months.

Government called for (March 2005) a detailed report of the Director on possibility of appointment of staff either on regular or on contract basis. Pending reply from the Director, sanction of the Government for the provision of equipment and staff was awaited (May 2005).

Thus, due to non-provision of staff and equipment, the objective of providing better health facilities to public of Velayuthampalyam was not achieved even as of May 2005 despite substantial contribution made by them in cash and kind more than five years earlier. The new buildings costing Rs 91.61 lakh continue to lie unutilised (May 2005).

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

PUBLIC WORKS DEPARTMENT

4.3.4 Laboratory equipment kept idle for want of staff

Failure to post staff required for two regional Quality Control Laboratories resulted in equipment costing Rs 85.62 lakh, purchased in July 2000 remaining idle.

With a view to strengthening the quality control mechanism to analyse the various parameters and properties of soil, water, cement, mortar, concrete and other construction materials, the Government accorded sanction (December 1998) to upgrade (a) the existing Soil Mechanics and Research Division, Chennai as Central Quality Control Laboratory (QCL) as well as Chennai regional laboratory, (b) the existing Quality Control Division at Madurai as Madurai regional laboratory and (c) the existing soil laboratory in the Irrigation Management Training Institute (IMTI) as Tiruchirappalli regional laboratory. In addition, the Government also ordered to establish a new laboratory for Pollachi region and eight field laboratories (two per each regional QCL).

The laboratory equipment required for upgrading the existing laboratories and for the new laboratories were purchased by the Superintending Engineer, Designs Circle during March 2000 and July 2000 and the Madurai and Central QCLs including their field laboratories started functioning by May 2001 with the existing staff. The equipment for the regional QCLs at Tiruchirappalli and Pollachi and for the four field QCLs under them, purchased at a cost of Rs 85.62 lakh remained idle due to non-posting of required staff. Scrutiny of records of regional Chief Engineers (CEs), Engineer-in-Chief, Chennai (EIC) and the CE, Design Research and Construction Support (DRCS), Chennai during January 2003 and June 2005 revealed the following:

Though the CE, DRCS sent proposals in July 1999 to the EIC for staff required for the regional and field QCLs, the EIC belatedly ordered (November 2004) the regional CEs to identify surplus posts for redeployment citing the orders of the Government banning the creation of posts. In spite of efforts, the regional CEs could not find qualified staff.

The Executive Engineer, Aliyar Basin Division, who was vested with the administrative control of Pollachi QCL accepted (October 2005) that the QCL was not functioning for want of qualified technical staff and stated that the required tests were conducted in the nearby institutions. Further, based on the request of the regional CE, the EIC had sent proposals to the Government (March 2005) for bringing this QCL under the technical and administrative control of Central Laboratory at Chennai to utilise the equipment. The orders of the Government were awaited (August 2005).

The regional CE, Tiruchirappalli informed audit (September 2005) that (a) the equipment relating to the regional QCL were kept in IMTI and were being used for training purpose only and (b) in order to carry out departmental and private tests, a retired Laboratory Assistant would be appointed. This reply was not tenable as according to the staff proposal of the CE, DRCS, four Laboratory Assistants and four Laboratory Attendants were required for carrying out of all the tests for which equipment were purchased.

The CE, Madurai also informed the EIC (May 2005) that Madurai QCL was functioning with skeleton staff and could not function as a full-fledged QCL. Further, all the four QCLs did not obtain recognition from the Central Pollution Control Board under Environment (Protection) Act, 1986 and Madurai QCL did not fulfil the criteria laid down for such recognition.

Though the EIC was aware that there was ban on recruitment since May 1991, he neither identified the specific posts that would be redeployed nor got the ban relaxed at the proposal stage itself to make the QCLs functional. Consequently, the two regional QCLs as well as the four field QCLs attached to them were not functioning till July 2005 and the equipment costing Rs 85.62 lakh remained idle from July 2000. Besides, the quality control tests were not carried out in the QCLs on works executed during 2000-05 in these regions.

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

SMALL INDUSTRIES DEPARTMENT

4.3.5 Failure of marketing service society set up for promoting synthetic gem stone industry

Rupees 65.75 lakh remained blocked for more than five years due to release of funds without comprehensive planning to overcome impediments.
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Mention was made in Para 3.20 of the Report of the Comptroller and Auditor General of India – Civil – for the year ended 31 March 1996 that efforts of the Department to establish a training institute for gem cutting at Bargur,

Dharmapuri District failed mainly because of poor marketability and poor quality. The Public Accounts Committee expressed¹³ its displeasure that even at the initial stage the scheme was launched hastily without analysing the market need and viability. A similar scheme sanctioned by the Government in September 1998 even after the aforesaid Report of the Comptroller and Auditor General had been presented (April 1997) also failed for similar reasons as discussed below:

Based on the proposals of the Industries Commissioner and the Director of Industries and Commerce (Commissioner), the Government sanctioned (September 1998) the setting up of a Marketing Service Society (Society) at a cost of Rs 1.24 crore¹⁴ and a Training-cum-Research and Development Institute at a cost of Rs 50.75 lakh at Tiruchirappalli. The Society was registered as a co-operative society in October 1998 and the Commissioner released Rs 81.50 lakh (Rs 30.75 lakh for the Society and Rs 50.75 lakh for the training institute) in April 1999 to the Society. Rupees 50.75 lakh sanctioned for the training institute remained unutilised and earned interest of Rs 26.60 lakh (February 2005) as a fixed deposit in a bank. The Society utilised Rs 15.75 lakh of the Government's contribution and the balance of Rs 15 lakh was kept in fixed deposit (February 2005). It incurred accumulated loss of Rs 7.78 lakh and had stock of finished gems valued at Rs 2.84 lakh as of July 2004.

Scrutiny revealed the following:

(i) No market survey on the possibility of marketing and exporting synthetic gems produced was conducted.

(ii) In April 2004, the Society apprised the Commissioner that the failure was due to high cost of raw materials, absence of interest amongst manufacturers in selling their gems to the Society, adverse market trend, availability of imported gems in the market at lower rates and inferior quality of gems manufactured by the Society compared to imported stones. The Society sought the orders of the Commissioner for abandoning the training scheme and remit back Rs 50.75 lakh with interest to the Government accounts as there was no possibility of manufacturing quality stones which would fetch good price in the market.

Records revealed that the Commissioner was aware in September 1998 itself that these reasons caused the failure of two similar co-operative societies formed in 1976 at Tiruchirappalli. However, without taking any action for overcoming these impediments, the Commissioner released Rs 81.50 lakh in April 1999 which resulted in blocking of Rs 65.75 lakh outside the Government accounts for more than five years.

On the matter being referred to it in March 2005, the Government generally accepted the facts (May 2005) and stated that the scheme failed mainly due to unfavourable market conditions, availability of imported gem in huge quantity

¹³ Para 2.4 of 250th Report (XII Assembly) presented to the Assembly on 22 November 2004.

¹⁴ Members share contribution: Rs 1 lakh; Loan to be raised by members: Rs 15 lakh; Government share participation (25 *per cent*): Rs 30.75 lakh and Loan from financial institutions: Rs 76.75 lakh.

in the market, etc. The reply was silent on not conducting any survey for ascertaining market need and viability of the scheme.

4.4 Regularity issues and other points

LABOUR AND EMPLOYMENT DEPARTMENT

4.4.1 Irregularities in purchase of medicines for Employees' State Insurance dispensaries

Introduction

The Employees' State Insurance (ESI) scheme is implemented in the State in accordance with the provisions of the ESI Act, 1948 and is administered by the Employees' State Insurance Corporation (ESIC), New Delhi. The benefits available under the scheme include providing medical benefits to the eligible employees of covered units and establishments, who are enrolled as Insured Persons (IPs) and their dependents. Expenditure on provision of medical benefits, subject to a ceiling of Rs 550 (upto March 2003), Rs 650 (up to March 2004) and Rs 700 (from April 2004) per IP per annum, is shared between the ESIC and the State Government in the ratio of 7:1. The expenditure in excess of the ceiling has to be met fully by the State Government. Director of Medical and Rural Health Services (ESI) (Director), assisted by four Regional Administrative Medical Officers (Regional Officers) at Chennai, Coimbatore, Madurai and Salem administers the dispensaries at State level.

Prescribed procedure for procurement

According to the instructions (January 1997) of the State Government, the medicines required were to be purchased from the Tamil Nadu Medical Services Corporation Limited (Corporation) and only items not available with it were to be procured from the firms that had been awarded Running Rate Contract (RRC) by the ESIC, New Delhi.

Funds for the projected requirement of drugs by the Regional Officers were consolidated and released by the Director to Corporation once in a quarter as advance. Director also allocated funds for each quarter of the year to the Regional Officers for purchase of medicines from RRC firms. Regional Officers were to obtain the requirement of medicines from the Medical Officers (MOs) of each dispensary and forward the consolidated indent to the Director who placed purchase orders with RRC firms.

Fall in procurement from TNMSC

The table below reflects the allotment of funds and expenditure on purchase of medicines and dressings for dispensaries during the period 1999-2000 to 2003-04.

(Rupees in crore)

Year	Allotment for RRC items	Funds released to TNMSC (% to total allotment)	Total allotment	Total expenditure
1999-2000	8.41	4.03 (32)	12.44	14.71
2000-2001	15.52	4.15 (21)	19.67	13.09 ¹⁵
2001-2002	21.71	4.76 (18)	26.47	24.20
2002-2003	20.27	1.10 (5)	21.37	21.20
2003-2004	20.23	1.33 (6)	21.56	21.53

The share of allotment of funds to TNMSC for procurement of medicines fell from 32 to 6 per cent during 1999-2004.

Excess expenditure of Rs 32.56 lakh due to purchase of medicines from RRC firms at high cost, in spite of availability with TNMSC.

Thus, the share of allotment of funds to the Corporation for procurement of medicines declined drastically from 32 per cent in 1999-2000 to 6 per cent in 2003-04 with corresponding increase for RRC firms.

Excess expenditure on procurement from RRC firms

Contrary to the Government orders, the Director purchased medicines from RRC firms at higher cost, though they had the same composition and were available with the Corporation. Purchase of 12 such medicines during 2002-04 at 10 to 509 per cent higher than the issue price of the Corporation resulted in avoidable excess expenditure of Rs 32.56 lakh (**Appendix XXII**).

Government stated (August 2005) that only drugs not available with the Corporation conforming to ESI pharmacopoeia were procured through the RRC approved firms. Government also stated that ESI insured persons preferred drugs supplied by RRC firms as against medicines supplied by the Corporation and that insured persons cannot be equated with general public. This reply was not tenable as drugs with the identical composition, despite being available with the Corporation were procured through RRC firms. Audit further observed that the Corporation supplied medicines during 2000-05 averaging more than Rs 90 crore per annum for various Government General and Teaching Hospitals.

Excess procurement of medicines

Director called for half-yearly requirement of medicines from the Regional Officers (April and November) with instructions to restrict the requirement at Rs 135 per IP per annum. However, test check revealed that Regional Officers, Chennai and Madurai increased the quantities projected by the MOs in their indents leading to purchase of medicines in excess of this norm¹⁶. An illustrative list of 11 medicines valuing Rs 3.01 crore purchased from the RRC firms in excess of quantities required by the MOs is given in **Appendix XXIII**.

Government stated (August 2005) that (a) the MOs of the dispensaries often did not assess their requirements properly, (b) drugs pointed out by audit are antibiotics and essential drugs which are frequently used and it was essential to fulfil the needs of the insured persons and over indenting by the Regional Officers would be curbed in future.

Purchase of medicines valuing Rs 3.01 crore in excess of requirement projected by the Medical Officers.

¹⁵ This decrease is due to payment of some bills of 2000-01 in 2001-02.

¹⁶ Madurai - 2002-03 : Rs 196.50; 2003-04 : Rs 282.06.
Chennai - 2002-03 : Rs 203.88; 2003-04 : Rs 169.89.

Test check in four dispensaries of utilisation of some of the medicines purchased in excess disclosed that the MOs reported huge utilisation of these medicines during the period immediately preceding the date of their expiry (**Appendix XXIV**). However, no justification for such steep increase in utilisation was given by the concerned MOs/Regional Officers.

Director stated (March 2005) that the increased utilisation was because (a) a few MOs were restrictive in prescribing the required medicines but increased prescribing them after suitable instructions were issued to them to increase usage before their expiry, (b) in future, the slow rate of prescription would be considered appropriately while consolidating requirement. Government reply (August 2005) did not address this issue.

Burden on the State Government due to purchase in excess of norms

Expenditure on medicines during 2001-03 exceeded the normative ceiling.

During the years 2001-02 and 2002-03, the expenditure on medicines in respect of dispensaries exceeded¹⁷ the Government's normative ceiling and ultimately contributed to expenditure on drugs and dressings exceeding overall ceiling (Rs 170/IP) by Rs 6.43 crore during 2001-02 and Rs 3.83 crore during 2002-03. These excesses were borne by State Government.

The above irregularities which went unchecked by the Government contributed significantly to increase in the financial burden of the State without any evidence of corresponding increase in benefit to the IPs.

FINANCE DEPARTMENT

4.4.2 Credit of pension to inoperative accounts

Failure to monitor the pension paying banks/Pension Drawing Officers by the Finance Department and to take the prescribed steps for stopping further drawal of pension in cases where bank accounts of pensioners were inoperative for more than six months.

In terms of the Pension Pilot scheme introduced by the State Government in 1970, Pension Drawing Officers (PDOs) *viz.* Treasury Officer/Sub-Treasury Officer in districts and Pension Pay Officer in Chennai draw pension bills and send a consolidated amount to the banks of the pensioners for credit into their account.

To mitigate the risk of payment of pension continuing even after the death of the pensioner, the Finance (Pension) Department ordered (September 2000) all banks that (a) where the pensioner's bank account remains inoperative continuously for a period of six months, the banking authorities shall intimate the fact to the PDOs concerned so that he can stop further drawal of his pension and (b) if subsequently, the pensioner neither produces life certificate nor appears in person for annual mustering, the banking authorities shall refund the undrawn pension along with interest.

Special Commissioner and Commissioner of Treasuries and Accounts (SC&CTA), based on a reference (January 2002) from the Principal

¹⁷ 2001-02: Rs 8.49 crore, 2002-03: Rs 6.03 crore.

Accountant General (PAG) instructed (July 2002) all the PDOs to periodically watch the compliance to the above instructions by pension disbursing banks.

Audit of pension payments by public sector banks after September 2000 repeatedly revealed cases where pension continued to be paid into bank accounts that had been inoperative for more than six consecutive months. Though such cases were brought to the notice of the banks and the SC & CTA soon after completion of each audit, as of May 2005, Rs 9.56 crore were lying in 976 inoperative accounts of pensioners as reflected in **Appendix XXV**.

SC & CTA stated (June 2005) that necessary instructions had been issued to the banks concerned in respect of each objection raised by PAG for rectification of the defects and to remit the pension amount undrawn for more than six months into the Government account. However, the fact of Rs 9.56 crore remaining locked up outside the Government account in public sector banks indicates that the follow-up action taken by SC & CTA and the concerned drawing officers requires strengthening.

Government, while accepting the facts, stated (August 2005) that necessary instructions had been issued urging the banks to promptly report all cases of non-operation of a pension savings account for more than six months to PDOs, so that timely action to stop payment of pension is taken.

4.4.3 Incorrect payment of pension by Public Sector Banks

Violation of relevant rules and instructions prescribed for crediting pension in pensioners account resulted in overpayment of Rs 18.73 lakh by public sector banks.

Government of Tamil Nadu introduced (October 1988) a scheme for payment of pension through Public Sector Banks (PSB) for the pensioners of the State Government. The guidelines issued by the Government stipulated that Reserve Bank/State Bank of India or its subsidiaries will check the scroll received in respect of pension disbursement from the PSBs and reimburse them by debit to the State Government Account. To detect over-payment, short-payment and non-payment, the Pension Pay Officer and Treasury Officers are required to post the details of pension payment in an audit register every month on receipt of pension payment scroll received from the reimbursing bank. The PSBs also indemnify the Government against any wrong or over-payment by executing an indemnity bond.

Test check of records in PSBs during 2003-04 and 2004-05 revealed excess/incorrect payment of pension, family pension, commuted value of pension and Dearness allowance/Medical allowance aggregating Rs 18.73 lakh to 72 pensioners in 36 PSBs (**Appendix XXVI**).

The matter was referred to the Government in August 2005; Government, while generally accepting the facts stated (September 2005) that necessary instructions had been issued urging the banks to follow guidelines/instructions issued in respect of payment of pension through PSB Scheme. Government also instructed Special Commissioner and Commissioner of Treasuries and Accounts to take action to recover the excess payment from banks invoking the indemnity bond furnished by them.

LABOUR AND EMPLOYMENT DEPARTMENT

4.4.4 Poor utilisation of Labour Welfare Fund

The very purpose of constituting the Labour Welfare Fund was defeated as employees benefited by various schemes under the Fund was less than one per cent and more than 75 per cent of the expenditure was on administering the Fund.

To promote welfare of employees¹⁸ and their dependants, the Government constituted the Tamil Nadu Labour Welfare Fund in 1972 to be administered by the Tamil Nadu Labour Welfare Board. The rate of contribution to the Fund per annum by employees, employers and the Government from 1998 onwards is Rs five, ten and five, respectively. The list of activities for which the Fund could be utilised by the Welfare Board is given in the **Appendix XXVII**.

Test check of records of the Tamil Nadu Labour Welfare Board, Chennai conducted in March and April 2005 revealed that the bulk of receipts of the Fund were consumed towards salary of staff engaged for administering the Fund. The relevant data is tabulated below:

Year	Total receipts	Expenditure on administrative staff	Amount spent on various schemes	Total expenditure	Percentage of expenditure on administrative staff with reference to receipts	No. of beneficiaries	Total number of employees covered under the Fund	Percentage of employees benefited
(Rupees in lakh)								
1999-2000	407.20	375.87	29.72 (7.3)	405.59	92.3	6,527	11,04,127	0.59
2000-2001	444.51	404.92	33.14 (7.6)	438.06	91.1	6,769	11,43,372	0.59
2001-2002	415.22	376.23	36.37 (8.8)	412.60	90.6	9,667	12,06,798	0.80
2002-2003	502.68	383.18	26.07 (6.4)	409.25	76.2	5,133	11,79,724	0.44
2003-2004	451.00	392.94	21.20 (5.1)	414.14	87.1	5,813	12,42,602	0.47

Figures in the bracket indicate the percentage of expenditure against the total expenditure.

It would be seen that the percentage of expenditure on various welfare schemes ranged between 5.1 and 8.8 during 1999-2004 whereas percentage of expenditure on staff for administering the Fund with reference to total receipts was between 76.2 and 92.3 during 1999-2004.

As per Rule 27 of the Tamil Nadu Labour Welfare Fund Rules, 1973, the expenses on the staff including the staff employed for carrying out the programmes of the Board and other administrative expenses should not exceed 50 per cent of the annual income of the Fund. However, the Government ratified the excess expenditure on staff upto 2000-01 in February 2003.

The very purpose of constituting the Fund was defeated as:

¹⁸ "Employee" means any person who is employed for hire or reward to do any skilled or unskilled work in an establishment for more than 30 days but does not include any person who is employed mainly in a managerial capacity.

- the administrative expenditure was more than 75 per cent of the total annual income against the prescribed limit of 50 per cent;
- the expenditure on welfare schemes was meagre (7 per cent on an average) during 1999-2004; and
- employees benefited through the welfare schemes was less than one per cent during 1999-2004.

In order that the administrative expenses are contained within the prescribed limit of 50 per cent, the Government should take steps to increase contribution from employers and/or employees and also explore possibility of reducing staff administering the Fund.

The matter was referred to the Government in July 2005. Government stated (October 2005) that action was being taken to contain the expenditure of the Board within 50 per cent of the income.

BACKWARD CLASSES, MOST BACKWARD CLASSES AND MINORITIES WELFARE DEPARTMENT

4.4.5 Functioning of Kallar Reclamation Schools

For the educational advancement of the people belonging to the Denotified Community “Piramalai Kallar” (PK), which is concentrated in Dindigul, Madurai and Theni districts, the Government has been running Kallar Reclamation (KR) schools since 1920. During 2003-04, there were 260 KR Schools¹⁹ with a strength of 51,829 students; besides, there were 48 hostels under the scheme with a strength of 4,875 students in these three districts. The students are supplied with slates, textbooks, notebooks and special guides, etc., free of cost. The annual expenditure on Kallar Reclamation (KR) schemes during 2001-04 ranged between Rs 20 crore and Rs 22 crore. All orders issued by the State Education Department are applicable to KR schools which are under the administrative control of a Special Deputy Collector (Kallar Reclamation) (SDC/KR). The information was collected from all the 260 schools through a *pro forma* and checked.

Absence of data on coverage of children

KR Schools have been under the control of Backward Classes, Most Backward Classes and Minorities Welfare Department since 1989-90. The Department and SDC/KR did not maintain any statistics to enable determination of the extent to which children belonging to KR Community get enrolled and their dropout rate in the three districts. Scrutiny of Admission Registers in the office of SDC/KR revealed that 51 per cent of the children admitted in KR schools belong to PK Community.

Government stated (November 2005) that efforts would be made to conduct the required survey.

Enrolment and dropout rates of children of PK Community were not known.

¹⁹ Primary Schools: 193; Middle Schools: 29; High Schools: 23; and Higher Secondary Schools: 15.

Primary Schools without minimum strength of students

Possibility of merging schools with low strength with other schools nearby was not explored.

The teacher pupil ratio as fixed (December 1997) by the Government was 1:40 with a minimum of two Secondary Grade (SG) Teachers for a primary school. In ten²⁰ out of 193 primary schools, the total strength of the students was in the range of 13 to 39 during the period 2001-05. The expenditure towards staff salary of these ten schools was Rs 70.75 lakh during 2001-05 up to December 2004.

Further, in seven²¹ other primary schools, the student’s strength, which was 42 to 50 during 2001-02, declined in the range 17 to 37 during 2004-05. The SDC/KR did not explore the possibility of merging these 17 schools with other schools run by the State Education Department nearby.

Government stated (November 2005) that if KR schools are merged with schools of Education Department (a) Children of PK community may not get the special care and attention as they will be treated on par with others, (b) in order to improve the standard of education in KR schools, post of SDC (KR) was upgraded as District Revenue Officer (KR) in August 2005 for effective administration of these schools and (c) it expected that the admitted strength of every KR schools will improve in the forthcoming academic year.

Expenditure on surplus teaching staff

Excess posting of SG Teachers resulted in avoidable expenditure of Rs 2.31 crore.

Though the norm of teacher pupil ratio of 1:20 was changed to 1:40 by the Government for all schools in December 1997, the SDC/KR did not implement this order till 2002. Recruitment of SG Teachers was made in May 1999 by the SDC/KR and 185 teachers joined the schools during 1999-2000. As tabulated below, due to incorrect deployment, some primary schools had a shortage of teachers despite overall excess with reference to the norm of 1:40 till 2003-04.

Year	Excess		Shortage	
	No. of schools	No. of teachers	No. of schools	No. of teachers
2001-02	89	152	14	19
2002-03	72	107	17	23
2003-04	26	27	18	26
2004-05	8	9	21	24

The excess and shortage ranged from one to five teachers during 2001-05 in above schools. Deployment of surplus SG teachers and their non-deployment in the schools having vacancies resulted in avoidable expenditure of Rs 2.31 crore²² during 2001-05.

Government stated (November 2005) that the excess/shortage in posting of SG teachers was due to various administrative difficulties initially experienced while adopting the 1:40 teacher pupil ratio.

²⁰ Madanampatti, Othaiyur, Pasukaranpatti, Peyampatti, Samiyarpatti, Santhamanaickenpatti, Sedapatti, S.Kurumbapatti, T.Karisalpatti and T.Pichampatti.

²¹ A.Mettupatti, Krishnapuram, Kumarampatti, Naickanur, Sukangalpatti, Urundaurappanur and Vilampatti.

²² Calculated at the minimum scale of pay till December 2004.

Instead of Graduate teachers, SG teachers were posted for teaching core subjects to VI-VIII classes.

Non-posting of graduate trained teachers

As SG Teachers could not handle core subjects like English, Mathematics and Science effectively at middle schools level, the Government ordered (June 2002) that the vacant posts of SG Teachers be filled by Graduates with B.Ed., qualification. However, classes in standards VI to VIII continue to be handled by SG teachers in the 29 middle schools. The proposal sent (November 2004) by the SDC/KR to the Commissioner of Most Backward Classes and Denotified Communities (Commissioner) to sanction 116 posts of Junior Grade Graduate Teachers for KR Schools was pending with the Department (December 2004). As of July 2004, 190 posts of SG teachers in middle, high and higher secondary school level were vacant.

The shortage of adequate graduate trained teachers for teaching core subjects in standards VI to VIII in the 29 middle schools contributed to high failure rate of students in subsequent examinations.

Government stated (November 2005) that orders have been issued to fill up the 116 vacant posts of Junior Grade Graduate Teachers.

Inspection and Internal Audit of SDC/KR

The prescribed biennial inspection of office of the SDC/KR by the Commissioner was not conducted after October 1999. Internal audit of this office was also in arrears from 2000-01 and onwards (December 2004).

Government stated (November 2005) that action is being taken for conducting of internal audit.

Inspection of Schools by SDC/KR

As against the prescribed inspection of each school once a year, the SDC/KR covered only 12 *per cent* of schools in 2002-03 and three *per cent* in 2003-04. During June to November 2004, 55 *per cent* of schools due²³ on *pro rata* basis were inspected.

Government stated (November 2005) that efforts would be made to inspect all schools annually.

MUNICIPAL ADMINISTRATION AND WATER SUPPLY DEPARTMENT

TAMIL NADU WATER SUPPLY AND DRAINAGE BOARD

4.4.6 Failure to avail Central Excise exemption

Delay by the Tamil Nadu Water Supply and Drainage Board in revising the tender conditions to avail Central Excise exemption resulted in a loss of Rs 23 lakh. Recommendation for exemption from Central Excise by Project Engineers for materials not eligible for it resulted in illegal exemption of Rs 58.27 lakh.

All items of machinery required for setting up of water treatment plants (WTP) and pipes for delivery of water from its source to WTP and therefrom

²³ Calculated with reference to academic year starting June.

to the storage facility were exempted from the Central Excise by the Government of India in September 2002. This exemption is subject to production of an 'intended use' certificate from the District Collector. The contracts awarded by the Tamil Nadu Water Supply and Drainage Board (Board) for various water supply schemes were based on fixed prices including all taxes and duties applicable till the completion of the entire work.

Despite the notification of September 2002, the Board continued to finalise tenders for execution of water supply schemes based on estimates which included Excise Duty on machinery and pipes since exempted. Belatedly in August 2003, the Board included a clause in the bid conditions to the effect that concession availed by the contractor due to the Central Excise Duty exemption should be passed on to the Board.

Records relating to 10 water supply schemes, which were under execution during September 2002 to May 2003, were scrutinised by Audit during April to June 2005 and October 2005 and the following observations are made:

(i) Due to delay in revision of tender conditions, the rates of materials for the work of Combined Water Supply Scheme (CWSS), Thenkarai in Theni district executed by the Urban Division, Madurai, (comprising a WTP and other components) and awarded in May 2003, included all taxes and duties. This resulted in payment of Excise Duty estimating Rs 23 lakh for materials eligible for exemption.

Government stated (December 2005) that steps have been initiated to avail the Central Excise exemption foregone. This contention was not tenable as the claim had become time barred due to lapse of one year prescribed under the Central Excise Act, 1944 for claiming refund.

(ii) The occasion for availing Central Excise exemption arose only if the scheme for supply of water included a WTP. However, the Executive/ Project Engineers implementing the remaining nine schemes²⁴ which did not include WTP, recommended issue of certificates of exemption. The certificates were issued during November 2002 to March 2003 and the contractors availed an illegal exemption of Rs 2.11 crore. Though the Board recovered Rs 1.53 crore from the bills of seven contractors, the amount was not refunded to the Central Excise Department till June 2005. In respect of two schemes, Rs 58.27 lakh could not be recovered as the contractors obtained stay from the High Court.

Government stated (December 2005) that the recovered amount in respect of the seven cases would be remitted to Central Excise Department after confirming the actual amount of exemption availed by the contractors. The Government's reply, however, did not indicate the action taken, if any, against the officers who had recommended issuance of incorrect certificates facilitating claiming of exemption.

²⁴ CWSS to Gujiliyamparai – Rural Water Supply Division, Dindigul, CWSS to Andimadam – Project Division, Ariyalur, CWSS to Panangudi – Urban Project Division, Valliyur, Water Supply Improvement Schemes to Thirumangalam, Thirunagar and Usilampatti – Urban Division, Madurai, CWSS to Vedaranyam - Project Division, Mannargudi, CWSS to Uthiramerur and Sriperumpudur – Urban Division, Kancheepuram.

HEALTH AND FAMILY WELFARE DEPARTMENT**4.4.7 Irregularities in the utilisation of Miscellaneous Purpose Fund**

Expenditure of Rs 14.94 lakh was incurred from the Miscellaneous Purpose Fund on ineligible items such as office equipment, etc. Expenditure of Rs 52.91 lakh was irregularly met from the Fund for ex-gratia compensation towards sterilisation failure, death cases, etc.

A Miscellaneous Purpose Fund (MPF) was formed in 1977 on the Government of India (GOI) instructions by earmarking a portion of grants received from the GOI as compensation for sterilisation (tubectomy/vasectomy) cases. The Fund is to be used for meeting expenditure on ex-gratia relief, treatment of post-operative complications and providing facilities for recanalisation and for purposes related to implementation of Family Welfare Programme.

Since November 1997, Rs 10 per sterilisation earmarked from compensation grants, is being credited to the Fund. A sum of Rs 2.16 crore was credited to the Fund during 1999-2005 and Rs 2.12 crore were spent up to March 2005. Scrutiny of records relating to the Fund account maintained by the Director of Family Welfare revealed the following:

(i) Despite GOI instructions (May 1982) that extract of *pro forma* accounts showing accruals and payments be sent to them every year, only expenditure statement was being sent.

(ii) Contrary to codal provisions, the Fund balance was maintained in a bank account outside Government account. Government's reply (November 2005) that separate bank account was opened with a view to avoid delay in making payments from the Fund is not tenable as (a) such operation of the Fund would lead to absence of proper control over expenditure from the Fund and (b) maintaining the cash balance of the Fund within Government accounts was mandatory as per GOI instructions.

(iii) Between May 1999 and March 2005, Rs 14.94 lakh were incurred on items such as office equipment, hotel charges, etc. not directly related to implementation of Family Welfare Programme. Government stated (November 2005) that GOI guidelines permitted purchase of equipment and incidental expenses, etc. The reply is not tenable as equipment contemplated in the guidelines can be taken to mean only the medical equipment for Family Welfare Programme and, therefore, purchase of office equipment like copier, franking machine, television, etc. was not permissible. Further, the guidelines permitted only the incidental expenditure relating to provision of cold chain facilities.

(iv) Though the GOI did not allow use of MPF for payment of compensation in cases of sterilisation failure, the State Government, through an order (July 1998) allowed the payment of ex-gratia in such cases and paid Rs 42.64 lakh²⁵ during May 2000 to March 2005. Government stated

²⁵ Includes Rs 2.99 lakh paid as Court deposit in 5 cases during November 2004 to February 2005.

(November 2005) that the payment is well within GOI guidelines. This reply is not factually correct as the GOI guidelines of January 1996 modifying the scheme expressly prohibit payment of compensation out of the MPF in case of failure of sterilisation.

(v) Payments amounting to Rs 12.07 lakh were made from MPF as compensation in 5 cases²⁶ (ranging between Rs 1.50 lakh and Rs 3.91 lakh) of death during May 2001 to December 2004 under Court orders. Since the GOI had specifically directed that the payment of compensation awarded by the Courts in excess of the specified amount of Rs 50,000 in death cases has to be met by the State Government, incurring of Rs 9.57 lakh from MPF for this purpose in excess of the specified amount for each case of death was irregular and had to be reimbursed to MPF. In one case of incapacitation, Rs one lakh were paid as compensation during October 2000, as against the ceiling of Rs 30,000. Government stated (November 2005) that against the GOI ceiling of Rs 50,000 per case of death, compensation of Rs 25,000 only was paid generally and the savings were utilised for meeting the excess amount payable in the above five cases. This reply is not tenable as the ceiling of Rs 50,000 prescribed in the GOI guidelines had to be applied for each case separately. No reply was forwarded for the case of incapacitation and fact remains that excess expenditure was not met out from the State Government funds.

PUBLIC WORKS DEPARTMENT

4.4.8 Avoidable interest liability on belated payment of Service Tax

Unnecessary delay in payment of Service Tax resulted in avoidable interest liability of Rs 46.40 lakh.

The consultancy service for the Tamil Nadu Water Resources Consolidation Project entrusted to a foreign consultant in December 1997 was completed in March 2002 at a cost of Rs 26.07 crore.

In terms of the Finance Act, 1997, the services rendered by the consulting engineers attracted Service Tax (ST) from July 1997. As the administrative approval did not cover payment of ST, the Engineer-in-Chief, Public Works Department (EIC) sought (July 1999) permission of the Government for its payment. Government, after prolonged correspondence finally approved (March 2003) the payment of Rs 1.04 crore towards ST. As the consultant had by then completed his services and the bills were settled by the Chief Engineer, Institute of Water Studies (CE-IWS), the responsibility of payment of ST vested with the CE-IWS under ST Rules. Accordingly, the CE-IWS paid (March 2003) Rs 95.07 lakh as ST to the Central Excise Department (CED).

The CED demanded (June 2003) interest²⁷ of Rs 46.40 lakh for the delayed payment of ST but the CE-IWS requested (July 2003) for its waiver. This was, however, turned down (July 2003) by the CED on the ground that the levy of interest was mandatory. The proposal for payment of interest was

²⁶ Includes Rs 2.70 lakh paid as Court deposit in one case in August 2004.

²⁷ Calculated at 1.5 per cent per month till 15 July 2001, 24 per cent per annum from 16 July 2001 to 15 August 2002 and 15 per cent per annum thereafter.

approved belatedly by the Government in September 2004. Meanwhile, the CED also made (July 2003) an additional claim of Rs 35.31 lakh in respect of ST on the reimbursable expenditure paid to the consultant which was not considered for payment of ST by the CE-IWS. The CE-IWS made a pre-deposit of Rs 10 lakh to the CED for filing an appeal against the claim of Rs 35.31 lakh. As the appeal was rejected by the Commissioner of Central Excise (April 2005), the CE-IWS filed (August 2005) on this very matter another appeal before the Appellate Tribunal. Pending settlement of this issue, the CE-IWS had not paid the interest of Rs 46.40 lakh claimed by the CED (August 2005).

Thus, unnecessary delay in payment of the mandatory ST resulted in avoidable interest liability of Rs 46.40 lakh apart from penalty leviable at the discretion of the CED and expenses arising out of litigation.

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

GENERAL

4.4.9 Lack of responsiveness of Government to Audit

Important irregularities detected by Audit during periodical inspection of the Government offices through test check of the records are followed up through Inspection Reports (IRs) issued to the Heads of offices with a copy to the next higher authorities. Government issued orders in April 1967 fixing a time limit of four weeks for prompt response by the authorities to ensure corrective action in compliance of the prescribed rules and procedures and accountability for the deficiencies, lapses, etc. A half-yearly report of pending inspection reports is sent to the Secretary of the Department by the Accountant General to facilitate monitoring of action on the audit observations.

As of June 2005, out of the IRs issued upto December 2004, 13179 paragraphs relating to 4812 IRs remained to be settled for want of satisfactory replies. Of these, 269 IRs containing 674 paragraphs had not been replied to/settled for more than ten years. Year-wise position of the IRs and paragraphs outstanding is detailed in the **Appendix XXVIII**.

A review of the pendency in respect of Environment and Forests, Industries and Revenue Departments revealed the following:

- Even the initial replies had not been received as of June 2005 in respect of 229 paragraphs contained in 41 IRs issued between January and December 2004.
- As a result of the long pendency, serious irregularities as detailed in **Appendix XXIX** had not been settled as of June 2005.
- The Heads of Department did not reply to 1547 paragraphs contained in 563 IRs.

Government constituted at both State level and Department level, Audit and Accounts Committees for consideration and settlement of audit observations outstanding. 42 paragraphs were settled by convening the committee and further, at the instance of Audit, during joint sittings with departmental officers, 290 paragraphs were settled during 2004-05.