

## CHAPTER IV

### AUDIT OF TRANSACTIONS

#### Fraudulent drawal/misappropriation/embezzlement/loss

#### EDUCATION DEPARTMENT

##### 4.1 Suspected embezzlement

#### **In the absence of financial controls, Rs. 10.70 lakh was embezzled in a Government school.**

The Principal of a Government school, who is also the Drawing & Disbursing Officer (DDO) receives funds for administrative expenses through the Finance and Accounts Officer (FAO) of the Education Department while fee collected from students is deposited monthly in the Treasury. Funds for disbursement of scholarship to students are received from the Social Welfare Department.

Scrutiny (April 2008) of the records of FAO, Madhyamik Shiksha, Haridwar and Rajkiya Uchchar Madhyamik Vidhyalaya (Vidhyalaya), Aithal, Haridwar, revealed that the funds received from the FAO were deposited in the account of the Principal with the State Bank of India (SBI), Jwalapur and the scholarship money was deposited in Indian Overseas Bank (IOB) and Punjab National Bank (PNB). The general duties of a cashier were being performed by a Group D employee posted (August 2004) on ad-hoc basis against the vacancy of a junior clerk.

Further scrutiny revealed the following:

- **Register of cheques issued by the DDO, required to be maintained under Financial Rules, was not maintained. The DDO did not verify the cash balance at the end of each month during February 2006 to March 2008.**
- **There were no supporting bills or documents sanctioning 28 withdrawals during February 2006 to March 2008 totaling Rs. 10,23,520. These withdrawals<sup>1</sup> were also not entered in the cash book.**
- **The 28 cheques mentioned above were issued under a signature different from that of the serving principals. The SBI branch honoured the cheques under different signatures at the same time, indicating a collusion at the bank level.**

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<sup>1</sup> Except for an amount of Rs. 1950 vide cheque no: 780950 dated 23.11.2006.

- **Of the above withdrawals, three amounting to Rs. 7.5 lakh related to GPF withdrawals (June 2006 & May 2007) of three employees. It was on receipt of the GPF account slips<sup>2</sup>, that these employees complained to the Director of Education that they had not submitted any application for the withdrawal. Audit then investigated into the *modus operandi* and found that the name of the employee on the cheque issued by the Treasury Officer was modified marginally with attestation of the Treasury officer and thereafter the name of the employee was struck off completely to be replaced by “Principal”. The cheque was deposited in the Principal’s account in SBI branch and thereafter the money was withdrawn.**

**In addition, it was found that Rs. 1,03,585 was collected (2004-08) as fee by the school, but guard file of challans showed that only Rs. 64,393 was deposited in the Treasury resulting in a short deposit of Rs. 39,192. Similarly, an amount of Rs. 7,072 collected as Boys Fund was also not deposited in IOB account during the above period.**

After the fraud was reported by Audit, a Departmental inquiry was ordered (7 May 2008) to investigate into it. In reply to the audit findings, the Principal stated (April 2008) that the cheques were kept in the custody of the Group D employee, who had forged the signatures and fraudulently withdrew money. The Principal is equally accountable for the fraud, since the Financial Hand Book clearly lays down that cheque books must be kept under lock and key in the personal custody of the DDO, who, on demitting office, should take a receipt for the correct number of cheques made over to the relieving officer. The Rules also provide that employment of peons to fetch or carry money should be discouraged, in exceptional cases when they are deputed, the responsible authority should take adequate precautions for the safety of money. It is the responsibility of the DDO to verify each entry in the cash book and cause the cash book to be closed on daily/monthly basis.

Flagrant disregard of norms of internal controls resulted in embezzlement of Rs. 10, 69,784<sup>3</sup>.

The matter was reported to the Directorate and the Government (June 2008); reply is awaited (November, 2008).

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<sup>2</sup> When news reports of the arrest of the Group D employee in a case of impersonation and forgery in a school in Bageshwar were received, the employees of the Aithal school demanded GPF account slips from the Office of the Accountant General (A&E), Uttarakhand at Dehradun.

<sup>3</sup> Rs. 10, 23,520 + Rs. 39,192 + Rs. 7,072 = Rs. 10,69,784 says Rs. 10.70 lakh.

**Infructuous/wasteful expenditure and over payment**

**MEDICAL, HEALTH AND FAMILY WELFARE DEPARTMENT**

**4.2 Substandard construction of CHC**

**Inadequate controls by the Department at every stage of work led to substandard and incomplete construction of a CHC at a cost of Rs. 1.55 crore.**

The State Government accorded (March 2003) administrative and financial sanction of Rs. 1.61 crore for the construction of a Community Health Centre (CHC) at Deoprayag in district Tehri. The CHC was to cater, in addition to the local populace, to pilgrims enroute the Char-Dham yatra. The work was entrusted to the Uttar Pradesh Samaj Kalyan Nirman Nigam (Nigam) and was scheduled to be completed by June 2006. The first installment of Rs. 90.14 lakh was released in April 2003.

Scrutiny of the records (January 2008) of the Chief Medical Officer (CMO), Tehri revealed that the Medical Department did not assess the availability of free hold land at the time of formulation of the project. Out of the 40 nalis (8,000 sq.m) required for the CHC, 10 nalis were in private possession and were disputed and 30 nalis belonged to the Forest Department, which did not transfer the land. Consequently, the site was changed and the Nigam began (November 2003) the work without preparation of detailed estimates or technical sanction (TS) and without a detailed geological inspection<sup>4</sup> of the new site.

Initial tests on the site showed that keeping in view the bearing capacity of the soil, a framed structure would be required, which did not feature in the preliminary estimates. The Nigam did not have detailed drawings and designs of the framed structure and it failed to testify its safety *vis-à-vis* earthquakes and wind forces. In the absence of detailed designs, substantial changes were made during the construction. The room sizes were changed after laying the grid/beams. A joint inspection by the Departmental and the Nigam's representatives found (July 2005) that the deviations from the original directions rendered the work substandard. This matter was brought to the notice of the Government (August 2005) through the Director General (DG), Medical & Health Department following which, a detailed investigation by the Technical Audit Committee (TAC) was ordered by the Secretary, Medical & Health Department. In the meanwhile, the Department released (October 2005) the second installment of Rs. 30 lakh despite the adverse findings. The TAC in its report (May 2006) confirmed that the quality of work was poor and indicted the Departmental officers for their failure to exercise the mandatory checks and for allowing the work to begin without the technical sanction.

<sup>4</sup> Geological inspection was conducted in September 2005, two years after commencing the work.

The work on the CHC was stalled as of March 2008. The CMO stated (January 2008) that further action will be taken on the directions of the Government.

Thus, inadequate controls by the Department at every stage of the work which was taken up without a clear title to the land and was executed without complete drawings or technical sanction and perfunctory monitoring, resulted in substandard construction of the CHC at a cost of Rs. 1.55 crore<sup>5</sup> that remains incomplete depriving the targeted population of the anticipated medical facilities.

The matter was reported to the Government (March 2008); reply is awaited (November, 2008).

## **PUBLIC WORKS DEPARTMENT**

### **4.3 Substandard road work**

#### **Substandard construction of road costing Rs. 5.36 crore led to damage of the road soon after its completion.**

The State Government sanctioned (March 2003) Rs. 7.02 crore for reconstruction and improvement of the 46.34 km long Chakrata - Lakha Mandal Road.

Scrutiny (March 2008) of the records of the Executive Engineer (EE), Temporary Division, Public Works Department (PWD), Chakrata (Dehradun) revealed that, the Division took note of the problem of water logging in the area and had provided in the detailed estimates, drainage measures like construction of drains, catch pit, a causeway and scuppers<sup>6</sup>. However, these items were excluded while according TS for Rs. 5.86 crore by the Chief Engineer (CE) in February 2004.

An inspection (July 2005) by the Superintending Engineer (SE) soon after the completion of the work disclosed that the road was damaged due to water logging and poor quality of reconstruction along its entire length. The poor quality of the road was also pointed out (November 2005) by the District Magistrate (DM) in his report. Audit scrutiny revealed that the road work was substandard on several counts as listed below:

- Although the Division was aware of the problem of heavy precipitation and water logging in the area and funds were available for the remedial works, cross-drainage measures were excluded from the work. Specifications of the Indian Road Congress (IRC) prescribe that drainage measures are important in such places, which if provided, can significantly reduce the brunt of seasonal rains;

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<sup>5</sup> In addition to Rs. 120.14 lakh (two installments: Rs. 90.14 lakh and Rs. 30 lakh) released by the Department, Nigam used its own funds amounting to Rs. 34.73 lakh. Thus, total cost of the CHC as of date is Rs. 154.87 lakh.

<sup>6</sup> Causeways are raised roadways that allow run-off of surface water and scuppers provide an outlet for drainage of excess water.

- Against the required thickness of 10 cm of loose stone ballasts, only 8 cm thickness was approved in the TS. SE pointed out (July 2005) that the consolidation of stone ballasts was inadequate;
- In place of screening material (stone dust), soil was used on the top coat of the pavement course, which does not provide adhesion. Bituminous layer was then laid over the top coat without cleaning, further impacting on the adhesion between layers;
- While the IRC specifications and the detailed estimates provided for laying 20 mm thick Premix Carpet (PC) layer, the reports of SE and DM showed that the thickness was less than this requirement (10 mm as per DM's report) along the length inspected.



Chakrata-Lakhamandal Road (Km. 24)



Chakrata-Lakhamandal Road (Km. 36)

The road remained damaged as of April 2008 as is evident from the photographs above. No responsibility, either departmental or on the contractors, had been fixed for the damage. Part payments amounting to Rs. 3.79 crore had been made to the contractors against the value of the work done for Rs. 5.36 crore.

In the meanwhile, a new work for construction of drainage measures- scuppers and causeways was sanctioned (March 2006) by the CE for Rs. 72.70 lakh and the work is in progress (March 2008). However, there was no progress in respect of damaged road.

The division's reply (March 2008) that the work was executed in accordance with PWD specifications, is contrary to the facts.

Thus, inadequate planning and ineffective supervision resulted in substandard work costing Rs. 5.36 crore, besides depriving the target population of proper road connectivity.

The matter was reported to the Government (April 2008); reply is awaited (November, 2008).

#### **4.4 Loss due to defective road work**

**Road constructed at a cost of Rs. 1.25 crore without proper crust design was damaged within a year of its construction and patch repairs done thereon worth Rs. 48.10 lakh also proved wasteful.**

Guidelines of the IRC provide that crust thickness of a road should be designed on the basis of CBR<sup>7</sup> value of the soil and projected traffic volume during the design life of the road. Specific drainage measures which significantly reduce the impact of seasonal heaves and damage caused by sub-soil moisture should also be incorporated.

Construction of 2 km long Niranjapur Bend to Shimla by-pass Road (Radial Ring Road) was undertaken in March 2003 and completed (November 2004) at a cost of Rs. 1.25 crore. The road was constructed after diverting an existing canal, which previously passed through the central line of the road.

Scrutiny (September 2007) of the records of the EE, Construction Division (CD), PWD, Dehradun and information collected (December 2007) from the Provincial Division<sup>8</sup> (PD), PWD, Dehradun revealed that the crust thickness of the road was not designed with reference to CBR value of the soil and traffic volume. The projection of traffic was grossly underestimated. Against the actual traffic of 1965 cvpd<sup>9</sup> (traffic survey of November 2006), the design factored in traffic density of only 45-150 cvpd. Thus, the road was damaged within a year of its construction, whereas, the designed life of the road was 10 years. The special features of the road like high moisture content in the sub-soil and the possibility of leakage of water from the underlying canal pipe, were also not factored in the design.



Niranjapur Bend to Shimla by-pass(KM 0.7)



Niranjapur Bend to Shimla by-pass Road (KM 1.2)

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<sup>7</sup> California Bearing Ratio: a unit to measure the strength and plasticity of the soil.

<sup>8</sup> The work was transferred to CD in April 2006.

<sup>9</sup> cvpd: commercial vehicles per day. The EE, CD in his letter dated 15.5.08 intimated that the original estimates are not available with him in the absence of which audit could not comment on the methodology adopted for assessing future traffic estimations.



Despite the substantial damage to the road, PWD did not investigate into the causes and instead embarked (March 2006) on patch repairs, on which Rs. 48.10 lakh was spent. The work was stopped in December 2006 when it was realised that without changes in the crust design, the entire effort would be rendered futile.

A fresh estimate was prepared for Rs. 2.85 crore by the Division which was awaiting sanction of the Government (May 2008). Audit found that despite recommendations of IIT, Roorkee (November 2006) this estimate too was prepared without examining possible leakage of canal system and moisture content of the sub-soil.

Thus, due to non-adherence to specifications, the road constructed at a cost of Rs.1.25 crore was damaged within a year and patch repairs done at a cost of Rs. 48.10 lakh proved futile.

The matter was reported to the Government (January 2008); reply is awaited (November, 2008).

#### **4.5 Excess expenditure**

##### **Rates of bituminous works were arbitrarily increased, resulting in excess expenditure of Rs. 19.61 lakh.**

The Government accorded (September 2006) administrative and financial sanction of Rs. 10.59 crore for strengthening and improvement of the 32.6 km. long Lansdowne-Gumkhal-Chaulusain motor road. The work was awarded to a contractor (November 2006) at Rs. 9.47 crore with April 2008 as the targeted date of completion.

Scrutiny of the records (November 2007) of the EE, Provincial Division, PWD, Lansdowne revealed that Notice Inviting Tender (NIT) was published in July 2006 without the administrative sanction as well as the TS. The TS for Rs. 10.59 crore was accorded (October 2006) by the EE whereas the competent authority was the CE.

Further, the rates of bituminous works floated in the bill of quantity (BOQ) with the NIT were higher than the rates sanctioned in the TS. By raising the cost of the work in the NIT, the Division in effect raised the floor level at which the bids were being invited. Finally, the accepted bid was 2 *per cent* higher than the rate quoted in the NIT across all items of work, including the bituminous work.

This raised the total cost of work by Rs. 21.77 lakh<sup>10</sup>. The work was in progress and the amount of excess expenditure against the quantity executed upto March 2008 was Rs. 19.61 lakh.

The EE replied (April 2008) that the higher rate was accepted by the Tender Advisory Committee in view of the increasing trend of cost of the maxphalt<sup>11</sup> to be used in these works.

Rate analysis in Audit showed that the rate of maxphalt adopted by the Division for the NIT was not only higher than the sanctioned cost (in TS), but was also higher than the market rates and rates adopted by other PWD Divisions during the same period as shown in the table below:

**Table-4.1**

Items	Rate* (per MT)
1. Estimated rate (Oct. 2006)	Rs. 25,573
<b>2. Rate adopted for the NIT (July 2006)</b>	<b>Rs. 27,708</b>
<b>3. Market rate (Oct. 2006)</b>	<b>Rs. 24,966</b>
4. Estimated rates in CD, Chamba (Nov. 2006)	Rs. 25,370

\*Basic rate exclusive of cartage.

The above rate analysis shows that the increase in rates in NIT solely on the basis of maxphalt rates was unjustified and arbitrary and resulted in an excess expenditure of Rs. 19.61 lakh.

The matter was reported to the Government (January 2008); reply is awaited (November, 2008).

<sup>10</sup>

Sl. No.	Item of Work	Estimated rate in the TS (September 2006) (Rs./Unit)	Rates given in the BOQ of NIT (June 2006)	Difference (Rs./Unit)	Quantity	Excess amount (Rs. in lakh)
1.	Tack coat	7.05/sqm	7.50/sqm	0.45/sqm	268950 sqm	1.21
2.	Bituminous Macadam (BM)	5958/Cum	6120/Cum	162/Cum	8069 Cum	13.07
3.	Semi Dense Bituminous Concrete (SDBC)	7670/Cum	7880/Cum	210/Cum	3362 Cum	7.06
<b>Total</b>						<b>21.34</b>
Add 2% above (tendered rate)						0.43
<b>Grand Total</b>						<b>21.77</b>

<sup>11</sup> Maxphalt is a petroleum product used as a binder in bituminous work. It is one of the most important and one of the costliest items in such works.



#### 4.6 Substandard work

**Quality of work was compromised causing damage to the road, work on which was suspended after spending Rs. 2.43 crore.**

Government sanctioned (March 2006) Rs. 4.05 crore for strengthening and widening (from 3 metre to 5.5 metre) of 8.960 km Shimla-Pistaur-Kuraiya Road in Udhm Singh Nagar.

Scrutiny (February 2008) of the records of the EE, Provincial Division, PWD, Rudrapur (U.S. Nagar) revealed the following:

- The work was awarded (July 2006) at Rs. 3.89 crore i.e at 22 *per cent* above the estimated rate (Rs. 3.19 crore) across all the items under the contract. In order to keep the tendered cost within the sanction, the scope of work (thickness of pavement and length of road) was reduced. Evidently, the quality of work was compromised. The details are as under:

Table-4.2

Item	Drainage Layer (cm)	WBM Gr-I (cm)	WBM Gr-II (cm)	WBM Gr-III (cm)	BM (Length in km)	SDBC (Length in km)
(a) Provision in estimate	10	15	12	10	8.960	8.960
(b) Provision in agreement	8	12	8	8	7.400	7.400

- Soil was used for consolidation of stone ballasts in the top coat in place of screening material (stone dust) thus adversely affecting the adhesion between layers in the pavement.
- The work, stipulated for completion by April 2007, was stopped in January 2007 when Rs. 2.43 crore had been paid against 63 *per cent* completion. An inspection (December 2007) by the CE, showed that the drainage layer had not been laid. However, measurement of 1349.53 cum of this item had been reported by the Division, apparently fictitious, against which Rs. 8.41 lakh was paid to the contractor.
- Physical verification by the Audit team (May 2008) showed that the road was badly damaged as is evident from the photographs below:



Shimla-Pistaur-Kuraiya Road (KM - 4)



Shimla-Pistaur-Kuraiya Road (KM - 4)

The EE could not provide reasons for the damage but replied (February 2008) that drainage layer was laid. The reply was misleading and contradicts the findings of the CE during the site inspection.

Thus the Division not only reduced the scope of the work to keep the tendered cost within the sanction, but further compromised the quality of the work during execution, leading to substandard and incomplete work of Rs. 2.43 crore.

The matter was reported to the Government (May 2008); reply is awaited (November, 2008).

#### **4.7 Poor quality of work**

##### **Road strengthened at a cost of Rs. 2.56 crore got damaged prematurely because the requisite specifications were not adhered to.**

The IRC specifications governing strengthening of a road require that the overlay<sup>12</sup> thickness should be determined after taking into account the nature of soil, ground water table, submergence level of the area and traffic density.

Government sanctioned (November 2005) the work for strengthening and widening of 16 km Gadarpur-Dineshpur-Matkota road at a total cost of Rs. 3.26 crore to cater to the increased traffic to the newly developed industrial area at Rudrapur. Scrutiny (February 2008) of the records of the EE, Provincial Division, PWD, Rudrapur revealed the following:

- On the specific request of the division, IIT Roorkee suggested<sup>13</sup> (January 2006) a pavement thickness of 66 cm for the road. Since the crust thickness of the existing road was 27 cm, the thickness of the overlay recommended was 39 cm. However, the Division decided on an overlay thickness only at 21 cm;
- The scope of work was reduced from the original sanction for 16 km to 12.6 km at the time of TS (February 2006) and further to 10 km while awarding the work. The work was awarded (March 2006) at Rs. 3.10 crore and was scheduled for completion by August 2006;
- When the work was in progress and Rs. 2.56 crore had already been spent on the work, the EE found that the road was showing signs of severe distress and work was stopped (December 2006). The matter was referred (March 2007) to IIT, Roorkee, which identified (April 2007) low crust thickness and poor drainage measures as the cause of distress. It was also found that the actual traffic density (3607 cvpd) was twice that estimated originally (1799 cvpd), in view of which the thickness of the pavement was recommended for increase

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<sup>12</sup> Layer laid over the existing pavement for strengthening.

<sup>13</sup> IIT, Roorkee recommended the overlay of 39 cms based on the average traffic density of 1799 commercial vehicles per day (cvpd) as surveyed by PWD in November 2005.

upto 94 cm. Thus, the division was at fault because traffic census was wrongly assessed which resulted in improper design. Moreover, the recommended design was also not adhered to. The work on 10 km stretch of the road remained damaged and incomplete as of June 2008 as can be seen in the photograph;



Gadarpur-Dineshpur-Matkota Road (KM 5)

- Subsequently, the Government sanctioned Rs. 3.68<sup>14</sup> crore for the remaining 6 km, but the Division took up work only on 3.5 km of the road in two spells<sup>15</sup>. The two works were scheduled for completion by December 2007 and May 2008 and as of March 2008, Rs. 1.12 crore and Rs. 0.97 crore respectively had been spent. However, thickness of the pavement was much lower than the revised recommended thickness of 94 cm, except for a stretch of 2 km, as tabulated below:

Table-4.3

Length (Km)	Thickness of existing crust (cm)	Overlay thickness (cm)	Total Crust (cm)
10	27	21	48
2	27	67	94
1.5	27	31.50	58.5

On this being pointed out in audit, the EE replied (February 2008) that the recommended design could not be adopted due to shortage of funds. The reply is not justified, as the execution of work below par resulted in damage to the road, financial loss and disruption in smooth traffic.

The matter was reported to the Government (April 2008); reply is awaited (November, 2008).

<sup>14</sup> Rs. 2.54 crore (September 2006) and Rs. 1.14 crore (November 2006).

<sup>15</sup> 2 km and 1.5 km in November and December 2006 respectively for Rs. 2.52 crore and Rs. 1.17 crore.

**Undue favour to contractor/avoidable excess expenditure**

**INFORMATION AND PUBLIC RELATION DEPARTMENT**

**4.8 Undue benefit to publishers**

**Three publications with limited circulation and ineligible for payment for advertisement at commercial rates, were paid Rs. 61 lakh in excess of prescribed norms.**

Uttaranchal Vigyan Manyta Niyamavali (Niyamavali) 2001 [Clause 12 (3)] lays down that advertisements of the State Government may be published in newspapers outside the State only in special circumstances. The newspapers should necessarily be registered with the Department of Advertisement and Visual Publicity (DAVP), Government of India, but, if they are not, they will be paid at rates prescribed by the State Information Department. Clause 14(4) provides that commercial rates may be allowed, as an exception, to a national newspaper with high circulation.

Scrutiny (January 2008) of the records of Joint Director, Information and Public Relation Department (JD/IPRD), Dehradun revealed that the Department issued advertisements worth Rs. 86.38 lakh between June 2002 and September 2006 to two Bhopal-based newspapers<sup>16</sup> and a magazine, with circulation limited to Madhya Pradesh only. The three publications were not registered with DAVP and the basis for their selection was not on record. The policy laid down that the Department will notify the list of the national newspapers and commercial rates could be paid for the advertisement. However, no such list was prepared.

The publishers of the three publications were paid (between September 2002 and January 2007) at commercial rates of advertisement ranging between Rs. 10,000 to Rs. 50,000 per page. Commercial rates were not prescribed by the Department, only an upper limit of Rs. 9,000 per page (colour page at the rate of Rs. 18,000) to news papers with circulation above one lakh was prescribed. Payment at rates in excess of this prescribed limit resulted in excess expenditure of Rs. 61 lakh (details are in the *Appendix-4.1*).

The JD/IPRD stated (January 2008) that the advertisements were issued in compliance with the orders/approval of the apex level authorities of the Government for publicity of the welfare projects and their achievements in the State. The reply is not acceptable because the objective of the Government to publicise its achievement at national level did not materialise by publishing them in publications with circulation limited only to Madhya Pradesh. Moreover, there were no recorded reasons for payment at substantially higher rates than the prescribed rates.

Thus, excess payment of Rs. 61 lakh was made to three ineligible publications.

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<sup>16</sup> One daily and one weekly with a common publisher.

The matter was reported to the Government (March 2008); reply is awaited (November, 2008).

## PUBLIC WORKS DEPARTMENT

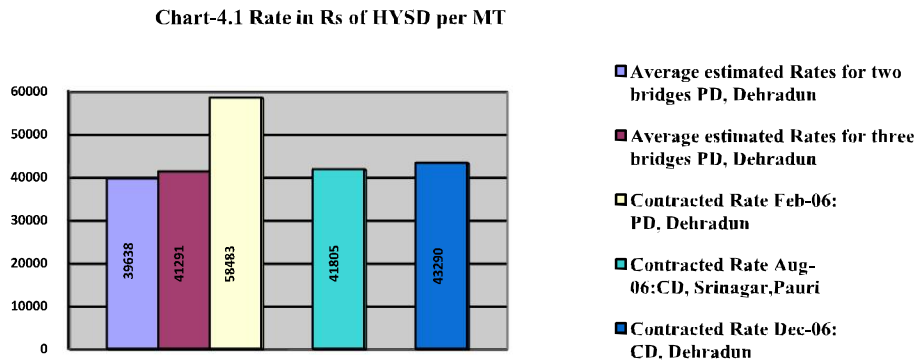
### 4.9 Undue benefit to contractor

#### **Steel rates contracted by the Division 42 per cent higher than the estimated cost, providing undue benefit of Rs. 1.41 crore to the contractor.**

The Government accorded administrative and financial sanctions (between March 2005 and January 2006) for six bridges and approach roads in Dehradun for a sum of Rs. 20.82 crore. TS was granted (between June 2005 and February 2006) by the CE, PWD, Pauri for Rs. 17.82 crore (details in *Appendix-4.2*).

Scrutiny (January 2008) of the records of the EE, Provincial Division, PWD, Dehradun revealed that work relating to six bridges was awarded (February 2006) to a contractor for Rs. 10.76 crore<sup>17</sup>. The Divisional records showed that the SE had sent (August 2005) a request to the Director of Information for publication of the Notice inviting tender (NIT), although by then the Government sanction had been received for only three bridges (March 2005). Proposals for the remaining three bridges were formulated only in December 2005.

Rate-analysis conducted in Audit showed that the contracted rate for HYSD<sup>18</sup> bar reinforcement was substantially higher than the sanctioned rates and indeed, higher than the rates at which other Divisions<sup>19</sup> awarded works during the same year as shown in the graph:

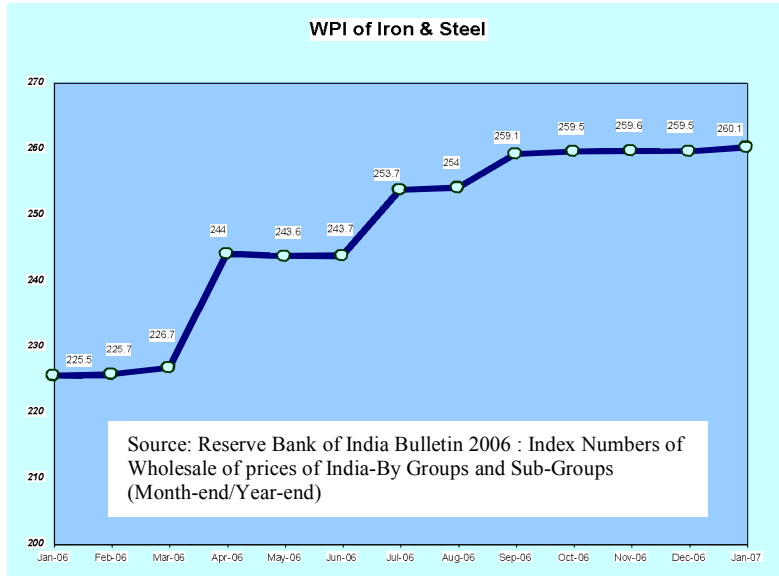


<sup>17</sup> Only work estimated to cost of Rs. 10.02 crore was awarded to this contractor; the remaining works given to other agencies/ contractors. While awarding the work the sanctioned rates of different items were modified (reduced in 88 items and enhanced in 45 items) and total estimated cost of the work was enhanced to Rs. 10.76 crore. Further, when the work was in progress extra items valued at Rs. 1.45 crore were added increasing the value of work to Rs. 12.21 crore.

<sup>18</sup> High Yield Strength Deformed Bar (Steel) used in construction of pillars and super structure in bridge work.

<sup>19</sup> CD, Srinagar, Pauri in agreement no. 06/SE-36/2006-07 dated 21.8.06 and CD, Dehradun in agreement no. 07/SE IX/2006-07 dated 28.12.06.

**Chart-4.2**



The contracted HYSD bar rate of the Provincial Division, Dehradun (February 2006) was 40 per cent and 35 per cent higher than the rates secured in bridge work agreements by Construction Division (CD), Srinagar, Pauri (August 2006) and CD, Dehradun (December 2006). Audit further analysed whether the two Divisions secured lower rates for HYSD because the price of steel fell

during one year. Report of RBI showed that instead of a fall, the steel prices were on a rising spiral in the Country as shown in the Chart 4.2.

The Tender Advisory Committee headed by the CE provided no justification or basis for the decision to accept higher<sup>20</sup> rates than the sanctioned rates, especially since these estimates were sanctioned only 17 days prior to the decision. The work scheduled to be completed by February 2007 was in progress as of January 2008. 94 per cent of the work had been completed for which 820.281 ton of HYSD bars reinforcement had been used and paid for at the contracted rate of Rs. 58,483 per ton.

The EE replied (February 2008) that the rate was sanctioned by the competent authority. The reply of EE does not address the core issues i.e. the work was awarded without competitive bidding; how it was awarded just after 17 days of TS at rates 42 per cent higher than the sanctioned rates even while other divisions fetched lower prices in subsequent months amidst spiraling steel prices.

The unjustified increase in rates by Rs. 17,192<sup>21</sup> per ton resulted in extra expenditure of Rs. 1.41 crore to the contractor.

The matter was reported to the Government (April 2008); reply is awaited (November, 2008).

<sup>20</sup> 42 per cent higher than the rates sanctioned for three bridges in the TS in February 2006.

<sup>21</sup> Difference between the average rates (Rs. 41291 per ton) sanctioned in February 2006 for three bridges and the contracted rates (Rs.58483 per ton).



#### 4.10 Loss due to irregular exemption

##### **Excess cost of Rs. 1 crore borne by the Government on completion of balance work abandoned by a contractor was not recovered from him.**

Government sanctioned (February 2004) widening and strengthening of two roads, Chakalua-Rooppur-Kaladungi road (11 Km) and Teen Pani to Yatayat Nagar road (1.90 Km) at a cost of Rs. 2.75 crore and Rs. 1.11 crore respectively. TS for the same amount was accorded (December 2004) by the CE (Kumaon Region), PWD, Almora.

Scrutiny of the records (February 2008) of the EE, Construction Division, PWD, Haldwani revealed that the work relating to these two roads<sup>22</sup> was awarded (February 2005) to a contractor and stipulated for completion by February 2006. The work continued beyond the stipulated date of completion and by November 2006, the contractor formally conveyed his refusal to complete the work on the ground that the rates of road construction materials had risen. The balance work<sup>23</sup> for which the contracted cost was Rs. 2.64 crore, was left incomplete.

A portion of the incomplete work (which at the rates contracted with the first contractor would amount to Rs. 1.37 crore) was awarded (December 2006) to another contractor at a cost of Rs. 2.37 crore. The tendered rate in the second agreement being higher than the original agreement, there was anticipated excess expenditure of Rs. 1 crore on the balance work.

The clauses<sup>24</sup> in the agreement provided that in addition to penalty for delays, extra cost borne by the Government for completion of incomplete works was to be recovered from the original contractor. The Division imposed a penalty of Rs. 29.92 lakh but did not recover the extra cost in spite of the fact that five other agreements with the same contractor were in currency in the division. This resulted in loss of Rs. 1 crore to the Government.

EE's reply (May 2008) that the contractor did not agree to complete the work, hence fresh agreement was executed, was evasive. The contract conditions clearly stipulated that the extra cost should be recovered from the delinquent contractor. Non-recovery of excess cost from the defaulting contractor and in the process loading the cost on the Government constituted undue benefit to the contractor.

The matter was reported to the Government (March 2008); reply is awaited (November, 2008).

<sup>22</sup> Along with 10 other road works.

<sup>23</sup> laying of Bituminous Macadam and Semi Dense Bituminous Concrete.

<sup>24</sup> Clause 3 (2) (iii) of GPW-9.



#### **4.11 Unjust enrichment of contractors**

**Mobilisation advances amounting to Rs. 17.13 crore were paid, utilisation of which was not certified and the mode of recovery encouraged contractors to delay work and thus allow them possession of interest free funds for indeterminate periods.**

Mobilisation Advance (MA) is paid to contractors for procurement of plant & machinery (P&M) dedicated to the work and mobilised at the site, thus providing an impetus to start work. While the State Financial Rules do not provide for payment of mobilisation advance to contractors<sup>25</sup>, Central Public Works Account Code and the guidelines of Central Vigilance Commission (April 2007) stipulate that:

- The advance should be interest-bearing and should not exceed 10 *per cent* of the contracted value of the work. In the circumstances where MA is provided free of interest, its recovery should be time-based and not linked with the progress of work. The CPWD recovers interest bearing MA at the rate of 10 *per cent* of payments made to contractors against the running account bills submitted by them<sup>26</sup>;
- MA should be need-based and given in installments, based on utilisation certificate and hypothecation of the plant and machinery to the department;
- Bank guarantees equivalent to the MA should be taken.

Scrutiny (September 2007 to February 2008) of 12 works taken up by nine divisions during the period 2005-2006, revealed the following:

- Interest free MA amounting to Rs. 17.13 crore was paid to the contractors against 11 agreements executed for construction of roads and bridges (details are in *Appendix-4.3*);
- The advances were paid in one installment<sup>27</sup> at a flat rate of 10 *per cent* of the contracted value, without assessing the need or actual value of the machinery and plants to be procured or mobilized at site;
- In all cases<sup>28</sup>, neither the divisions demanded nor the contractors furnish any documentary evidence in support of proper utilisation of the MA paid to them;
- In a specific case of overpayment, the EE, Provincial Division, PWD, Lansdowne paid (January 2007) MA of Rs. 87 lakh twice (total: Rs. 1.74

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<sup>25</sup> Financial rules permit only Secured Advances against material brought to the site by the contractor and advances against works done but not measured.

<sup>26</sup> Initially 10%, then the recovery should be speeded up thereafter in such a way that the entire advance is recovered by the time 80 % of the gross value of the contract is executed and paid, together with interest.

<sup>27</sup> Only one division, Temporary Division, PWD Kirtinagar had released MA in three installments without obtaining utilization certificates against previous advances.

<sup>28</sup> In one case (Agreement no. 71/SE/2006-07) under Construction Division, PWD, Dehradun) the contractor was paid MA of Rs. 1.20 crore against which he furnished only a proforma invoice (estimated cost of machinery) which does not indicate that the machinery was actually purchased by the contractor.

crore) against two agreements<sup>29</sup> although it was executed by the same contractor and only one Hot Mix Plant was installed.

In 5 out of the 12 works, which were scheduled for completion by June 2008, the physical progress of work ranged from 26 to 53 *per cent*. Three works completed by Project Unit (SIDCUL) at Pantnagar were delayed by 6 to 10 months but MA amounting to Rs. 6.27 crore was recovered with a delay of 15 to 18 months.

In the current scenario where recovery of interest-free MA depended entirely on the contractors, delayed submission of bills actually benefited the contractors. This anomaly is evident particularly in the following instances:

- In the case of Temporary Division, Kirtinagar, it was found that the work scheduled to start in December 2006, was yet to start at the time of audit (February 2008) and no recovery of MA of Rs. 1.30 crore was made. After the matter was raised in Audit, the Division recovered (May 2008) the entire MA in one installment. The contractor held the amount for 15 months even as the objective of MA was defeated as only 26 *per cent* of the work was completed by the scheduled date of completion (June 2008);
- Similarly, National Highway Division at Haldwani had recovered only 45 *per cent* of the MA of Rs. 3 crore at the time of audit (February 2008), thus allowing the funds to remain with the contractor for 18 months. The Division reported 100 *per cent* recovery by June 2008; but only 50 *per cent* of the work was completed by the scheduled date of completion (June 2008);
- Recovery of MA of Rs. 98.39 lakh paid in September 2006 to a contractor through one agreement against two works relating to construction of two bridges<sup>30</sup> was pending even after 11 months of the scheduled date of completion (August 2007). Physical progress is 33 and 39 *per cent* respectively on both bridges.

The findings show that the current practice followed by the PWD divisions has made MA merely a source of enrichment of contractors. State Government has not laid down any guidelines on MA and the CVC guidelines are not being followed. The utilisation of funds is not known. It is interest free and the mode of recovery encourages the contractors to delay the work and submission of bills, and the purpose of the advance to mobilize the work is defeated in the light of delays in work.

The matter was reported to the Government in (June 2008); reply is awaited (November, 2008).

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<sup>29</sup> For two consecutive stretches of the Deriakhal-Chundai-Rikhnikal road: 1-25 km and 26-49 km.

<sup>30</sup> one at Garur Chatti, Lakshman Jhula under the jurisdiction of CD, Duggada and other over river Alaknanda to join Hemwati Nandan Bahuguna Garhwal University Campus at Srinagar under the jurisdiction of CD, Srinagar.

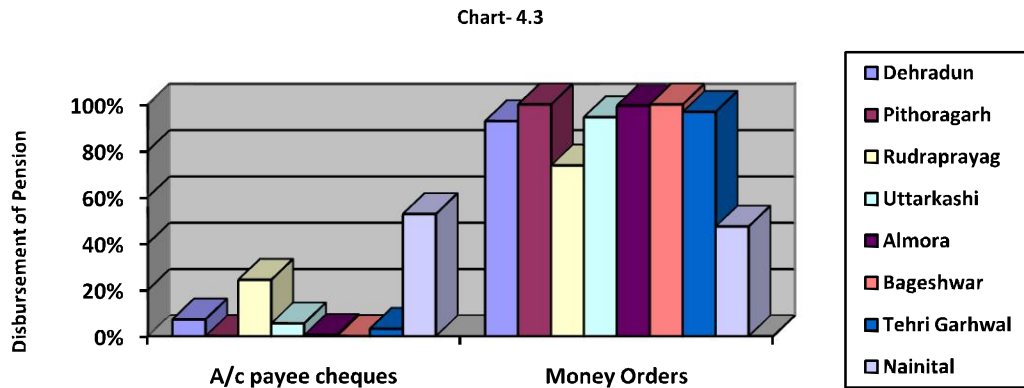
**SOCIAL WELFARE DEPARTMENT**

**4.12 Avoidable expenditure**

**Failure of District Social Welfare Officers in opening savings accounts of pensioners resulted in avoidable expenditure of Rs. 3.62 crore.**

State Government order of 22 April 1997 provided that pension to beneficiaries under social welfare schemes should be paid through account payee cheques and only in exceptional circumstances, should the payment be made through money orders. Chief Post Master General (CPMG), Uttarakhand offered (May 2006) that the old age, widow and disability pension may be disbursed through savings accounts of 2721 post offices (POs) covering the entire State, at a cost of Rs. 40 per account per annum instead of money orders<sup>31</sup>. This offer was followed up by the Social Welfare Department in its directions (May-June 2006) to all the District Social Welfare Officers (DSWO) in the State to examine the feasibility of payment through saving accounts of the POs.

Scrutiny (January & April - June 2008) of the records of DSWOs in nine<sup>32</sup> districts revealed that the DSWOs (except in Haridwar) were disbursing pensions mainly through money orders incurring extra expenditure of Rs. 3.62 crore (details in *Appendix-4.4*) during the years 2006-07 and 2007-08 as shown below:



On this being pointed out in Audit, DSWO, Rudraprayag stated (May 2008) that the payments were made as per the past practice and payments in 2008-09 will be made through savings accounts in POs. DSWO, Dehradun and Pithoragarh stated (April 2008) that the remittances were sent through money orders due to the constraints placed by the hilly terrain in the State and steps were being taken to open the pensioners' accounts in POs. The replies are not convincing because:

- The coverage of POs is extensive as pointed out by CPMG. Remittances through account payee cheques would have multiple benefits - in not only

<sup>31</sup> Charges of money order is 5 per cent.

<sup>32</sup> Dehradun, Rudraprayag, Pithoragarh, Nainital, Tehri, Bageshwar, Haridwar, Almora and Uttarkashi.

reducing the administrative expenses to the Government but more important, bringing the beneficiaries under the coverage of financial sector, which provides many opportunities and services.

- DSWOs have done little since the creation of the State (November 2000) to identify the POs/bank branches where payment could be made through account payee cheques.

Thus the Department failed to opt for the economical option of payment through POs/bank accounts and incurred an avoidable expenditure of Rs. 3.62 crore.

The matter was reported to the Government (April 2008); reply is awaited (November, 2008).

### **Idle investment/idle establishment/blocking of funds/delay in commissioning equipments/diversions/misutilisation**

#### **EDUCATION DEPARTMENT**

#### **4.13 Non-achievement of objectives**

#### **Poor planning and monitoring resulted in non-achievement of objectives and avoidable blocking of Rs. 44.36 lakh.**

Government sanctioned (March 2006) Rs. 74.36 lakh for construction of a new building for Rajkiya Inter College, Kotachami at Almora, in place of the old building, which was in a state of disrepair. The work was scheduled to be completed within a year from the date of release of fund to the executing agency i.e., Uttar Pradesh Rajkiya Nirman Nigam Limited (UPRNN).

Scrutiny (February 2008) of the records of the Finance and Accounts Officer (FAO), Madhyamik Shiksha, Almora revealed that Rs. 44.36 lakh was released (July 2006) to UPRNN. Progress Reports submitted by UPRNN till October 2007 reported only 3 *per cent* physical progress on site development and foundation. However, in October 2007, UPRNN reported that the construction work could not start due to non-availability of land. The work had not begun as of April 2008.

The District Education Officer (DEO), Almora on behalf of FAO blamed (April 2008) the executing agency for misleading the Department by reporting false progress in work and for not initiating demolition of the old building and constructing the new building on the same site. The reply is not acceptable in view of the following:

- The fact that old building needed to be demolished for the new construction was not mentioned either in the estimates or the plans submitted (April 2006) by UPRNN and countersigned by the DEO;

- Government sanction laid down that the site would be inspected by higher authorities of the Department before start of work but the DEO admitted (April 2008) that the inspection was carried out only by the executing agency. Sanction further provided that in case sanctioned amount was insufficient, approval of Government should be obtained after preparing detailed estimate. This was also not done;
- The Department did not verify the physical progress of work through site inspection from July 2006 till October 2007, although the scheduled date of completion was July 2007;
- The Department did not also have any contingency plans for running the College once the existing building was pulled down. The project was ill-conceived and lacked planning due to which, it could not take-off.

Thus, slackness of the Department at every stage of work from planning to implementation and monitoring resulted in non-achievement of the objectives and avoidable blocking of fund of Rs. 44.36 lakh.

The matter was reported to the Government (June 2008); reply is awaited (November, 2008).

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

### **4.14 Blocking of funds**

#### **Central assistance of Rs. 50 lakh for population stabilisation in district Haridwar remained unutilised.**

In order to achieve the goal of population stabilisation expeditiously, the National Commission of Population (NCP) identified<sup>33</sup> high fertility regions in the country for targeted and area-specific action. Haridwar with a total fertility rate (TFR) of 3.9 and annual population growth of 2.63<sup>34</sup> *per cent* was one such district and the NCP sanctioned Additional Central Assistance (ACA) of Rs. 50 lakh (May 2002) for the purpose. A district action plan (DAP) was drawn up (September 2001) with the help of the NCP, in which, formation of women self help groups, conduct of awareness programmes and extension of services to address the needs through NGOs, were planned. The DAP was to be approved by the Director General, Medical, Health & Family Welfare. However, it was yet to be approved (April 2008).

Scrutiny of the records (June 2007) of the CMO, Haridwar revealed that the ACA of Rs. 50 lakh was released (March 2004) to the district authorities and the entire

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<sup>33</sup> On the basis of Census 2001.

<sup>34</sup> Against the State average of 1.92 *per cent*.

amount was deposited in a Nationalised Bank in a current account till February 2006 after which, it was moved to a savings account. The funds were neither utilised for the purpose, for which these were sanctioned nor surrendered.

The CMO stated (July 2007) that the population stabilisation programme could not be conducted because they were busy with the pulse polio programme. The reply is not justified, as the funds were provided for meeting what was identified as an urgent need, which remained unfulfilled even after the lapse of more than six years due to departmental inaction.

The matter was reported to the Government (July 2007); reply is awaited (November, 2008).

#### 4.15 Non-achievement of objectives

##### **CHC constructed at a cost of Rs. 1.45 crore in 2005 is yet to be put to use in the absence of an approach road.**

With a view to provide referral medical facilities in Tehri District, a Community Health Centre (CHC) was constructed (August 2005) at Thatyur at a cost of Rs. 1.45 crore. The implementing agency, Uttar Pradesh Rajkiya Nirman Nigam Limited, took six years for completion of the work.

Scrutiny of the records (January 2008) of the CMO, Tehri revealed that the CHC building was not taken over by the Department in the absence of an approach



*CHC building at Thatyur without approach road*

road. The CHC was around 1.5 km away from the main road, of which, a 1 km stretch needed to be reconstructed and a new road was required to be laid on the 500 metres stretch. The CMO confirmed (January 2008) that the medical equipment could not be transported to CHC and ambulance could also not be operated without a road. The CHC took up

the matter relating to the approach road with the PWD only in March 2005. PWD prepared (April 2005) an estimate for Rs. 32.75 lakh but the work was stalled due to dispute over land, which remains unresolved. Since, the road was not

constructed, the CHC is not-functional and the objectives of the investment remain unmet.

The Department felt the need for a road only when the construction had almost been completed and failed to resolve the issue or find an alternative solution to the stalled road work. In the meanwhile, the local public is being denied medical facilities even after the construction of the CHC at a cost of Rs. 1.45 crore.

The matter was reported to the Government (March 2008); reply is awaited (November, 2008).

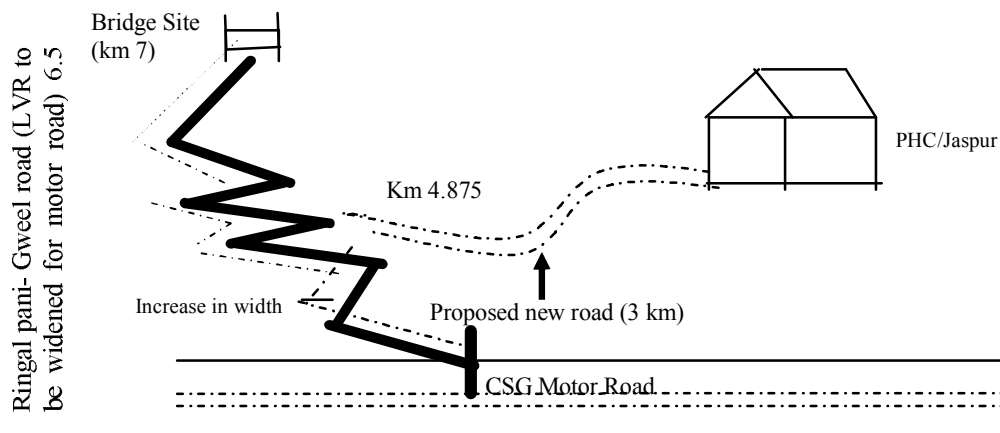
## **PUBLIC WORKS DEPARTMENT**

### **4.16 Fictitious debit to work**

#### **Fictitious debit to work and diversion of fund hampered progress of road work.**

Paragraph 196 of Financial Hand Book (Volume-VI) strictly prohibits fictitious stock adjustments in the form of either debiting to a work, the cost of material not required or writing back the value of materials used on a work, to avoid excess outlay over appropriation. Any breach of this rule constitutes a serious irregularity.

Scrutiny (August 2006) of the records of the EE, Provincial Division, PWD, Lansdowne (Pauri) and further information collected (June 2008) revealed that Government sanctioned (November 2005) Rs. 95.80 lakh for construction of Ringal Pani-Gweel-Jaspur Road and a 20 metre bridge. The road work included 3 km long fresh construction which would provide road connectivity to a Primary Health Centre (PHC) at Jaspur and conversion of an existing light vehicle road into a motorable road as depicted in the map below:



TS was given (June 2006) by the SE only for Rs. 78.35 lakh for initial works like hill cutting, construction of drains etc.



The Division, in order to report utilisation of the funds allotted (Rs. 70.59 lakh in year 2005-06) to the work and to prevent lapse of funds<sup>35</sup>, purchased (March 2006) maxphalt<sup>36</sup> worth Rs. 60 lakh. Audit noticed that the Division, prior to TS and award of the work<sup>37</sup>, had booked expenditure of Rs. 68.94<sup>38</sup> lakh irregularly in March 2006 on this road through stock (Maxphalt) which was not required for the initial works planned to be undertaken. The maxphalt purchased was in excess of the annual requirement of other works also, because only stock worth Rs. 30.31 lakh was written back to store in the next year 2006-07. Meanwhile, the progress of work (hill cutting) was only 76 per cent as of March 2008<sup>39</sup> whereas the stipulated period of completion was January 2007.

The CE, Pauri Region replied (September 2007) that maxphalt was procured for proper utilisation of the fund and that stock was subsequently written back to store. The reply is not reasonable because the act of fictitious debit was against the financial rules, led to purchase in excess of requirement and the diversion of funds hampered the progress of the work. Due to delay in execution, road connectivity to the PHC could not be provided even after lapse of two years. Besides, this was not an isolated case of fictitious debit to work; maxphalt worth Rs. 42.60 lakh was written back to stock from five other road works in 2006-07, showing this as a persistent trend in the Division.

The matter was reported to the Government (January 2008); reply is awaited (November, 2008).

## TECHNICAL EDUCATION DEPARTMENT

### 4.17 Injudicious capacity addition

#### **Projects costing Rs. 8.34 crore on construction of hostels were taken up in excess of requirement.**

Kumaon Engineering College (College), Dwarahat, Almora is a residential college that offers four-year programme in various branches of engineering.

Scrutiny of the records of the college (April 2008) revealed that against the maximum intake of 840 students, the College had nine hostels with a total capacity of 1092 slots resulting in excess capacity of 252, two hostels with 180 slots were completely unoccupied since 2005 and January 2008 respectively. Despite the already existing excess capacity, the College proposed (January 2005-2006) and the State Government sanctioned (March 2005 - 2006) Rs. 8.34 crore for construction of three more hostels, that would enhance the capacity by

<sup>35</sup> Budget and Cash Credit Limit (CCL) sanctioned to the Division lapses at the end of the financial year and the Division has to seek fresh releases thereafter.

<sup>36</sup> The consignment was received between May 2006 and July 2006.

<sup>37</sup> Four agreements (value Rs. 35.37 lakh) for hill cutting work were executed by the EE in July 2006.

<sup>38</sup> Rs. 60 lakh spent for procurement of Maxphalt, Rs. 7.18 lakh through stock and Rs. 1.76 lakh cash.

<sup>39</sup> The expenditure against 4 agreements was Rs. 27 lakh (March 2008) against Rs. 35.37 lakh, the value of work awarded.

365 slots. The works entrusted to Uttar Pradesh Rajkiya Nirman Nigam, were in various stages of completion with 60 *per cent* to 85 *per cent* physical progress and an expenditure of Rs. 6.27 crore had been incurred as of March 2008. Audit further noticed that the State Government sanctioned the proposals without the administrative approval of the Board of Governors (BOG)<sup>40</sup>.

Registrar of the college admitted (April 2008) the irregularity of by-passing BOG but justified the construction on the ground that two fresh branches of engineering are proposed to be introduced in the College. The reply does not reflect the following realities:

- The proposal (January 2003) for introduction of the two specific courses was not accepted by the BOG in August 2003 itself. The State Government also denied (November 2008) that any such proposal was pending for their consideration. The new courses could have been introduced only with approval of the All India Council for Technical Education (AICTE), New Delhi, to which the proposal had not been referred as yet (April 2008).
- Even if the two new branches, with a proposed intake of 60 students each, were introduced, it would have led to a demand for only 240<sup>41</sup> slots in the hostels. But the college already had excess hostel capacity of 252 that could have met such additional demand. Construction of the new hostels was thus unjustified.

Thus the construction work initiated by by-passing the laid down channels and costing Rs. 8.34 crore, was not only premature but also injudicious leading to idling of capital and capacity.

The matter was reported to the Government (October 2008); reply is awaited (November, 2008).

#### **4.18 Non-achievement of objectives**

##### **Apathy resulted in non-completion of work of a hostel seven years after its commencement even after incurring an expenditure of Rs. 87.52 lakh.**

The State Government accorded administrative and financial approval (March 2001) for the construction of a new 78 bedded hostel at the fully residential Rajkiya Mahila Polytechnic (RMP), Almora at a cost of Rs. 87.52 lakh. With increase in enrolment and addition of two new branches in the polytechnic, the new hostel was to enhance the capacity of the existing old hostel.

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<sup>40</sup> Memorandum of Association (Society rules), lays down that the BOG was responsible, inter-alia, for the affairs relating to property of the College. The BOG will be assisted by the Building Works Committee (BWC) which will make a comprehensive review of construction proposals. The BOG consists of 10 members including Minister and Secretary to the Government, Technical Education Department and the Principal of the College.

<sup>41</sup> The courses being for four years (60 x 4 = 240).

Scrutiny of the records (September 2007) of RMP, Almora revealed that Rs. 30 lakh was released (April 2001) to the executing agency, Uttar Pradesh Jal Nigam before obtaining the TS. The work was scheduled for completion by August 2002.



**Incomplete hostel building of RMP, Almora**

Despite slow progress of the work, the Directorate of Technical Education provided extension till March 2004 for completion of the work and also released (March 2003) the balance amount of Rs. 57.52 lakh to the Nigam. In April 2005, the Nigam stopped work after claiming 90 per cent physical progress and submitted (July 2005) a revised estimate of Rs. 1.12 crore which was not approved by the Government. The work

remains stalled as of date (June 2008). In the meanwhile, Rural Engineering Service, Uttarakhand submitted a revised estimate for the left-over works for Rs. 27.33 lakh which was awaiting approval (March 2008).

The apathy and inaction of the Directorate in monitoring the execution of work resulted in unfruitful expenditure of Rs. 87.52 lakh. The incomplete hostel could not be put to use, denying the students of residential facilities even as the structure was lying open for deterioration since April 2005. The Principal, RMP stated (June 2008) that 56 students were being accommodated in the 42-bedded old hostel and the remaining students were asked to make their own arrangement.

The matter was reported to the Government (February 2008); reply is awaited (November, 2008).

## **RURAL DEVELOPMENT DEPARTMENT**

### **4.19 Unfruitful expenditure**

#### **Inherent flaws in a mushroom production project for self-employment led to its failure and unfruitful expenditure of Rs. 2.13 crore.**

The State Government took up (January 2001) a revised project on mushroom production in three districts viz. Nainital, Almora and Udham Singh Nagar under

the Centrally Sponsored Scheme ‘Swarnjayanti Gram Swarajgar Yojna’. The features of the project, scheduled for completion in March 2005, were as follows:

- The total estimated cost of the project was Rs. 26.5 crore, of which, Rs. 10.25 crore was to be borne by the Central and the State Governments in the ratio of 75:25. By January 2002, Rs. 5.12 crore (Central share: Rs. 3.84 crore and State share: Rs. 1.28 crore) was released directly to the Nodal Agency i.e., District Rural Development Agency (DRDA), Nainital;
- The project was to benefit 10,000 beneficiaries. The annual production cost of Rs. 26,500 per beneficiary was to be met through a one-time subsidy to the extent of 50 *per cent* (for SC/ST beneficiaries) and 30 *per cent* (others)<sup>42</sup> under the scheme and the balance was to be met through bank loans raised by the beneficiaries;
- Infrastructural support was to be provided by the State by construction of four processing plants, cold storage rooms and hand pumps in the three districts, for which Rs. 2.48 crore was set aside. The beneficiaries were to be provided training and inputs<sup>43</sup> through four training centers<sup>44</sup> identified for the purpose.

Scrutiny of the records (April 2008) of the DRDA, Nainital revealed that only 42 *per cent* (Rs. 2.13 crore<sup>45</sup>) of the released funds were spent as of March 2005. Thereafter, the pace of implementation slackened and it was formally closed (May 2007) on the intervention of the GOI. Against the projected 10,000 unemployed beneficiaries, training was imparted only to 2726, out of which only 397 production units were setup. In Almora district, the project was virtually a non-starter as is evident from the table below:

**Table-4.4**

Name of District	Targeted beneficiaries	Trained	Benefited				Production units setup
			SC/ST	Women	Others	Total	
Nainital	3332	1056	56	13	102	171	158
Almora	3332	461	04	-	18	22	22
U.S.Nagar	3332	1209	109	16	98	223	217
<b>Total</b>	<b>9996</b>	<b>2726</b>	<b>169</b>	<b>29</b>	<b>218</b>	<b>416</b>	<b>397</b>

The project had inherent flaws in planning and implementation. In the initial plan, it was projected that the beneficiaries would produce 600 kg of mushroom per crop annually which was scaled down to 360 kg per crop in January 2001. In

<sup>42</sup> The subsidy was subject to a maximum of Rs. 10,000 per SC/ST beneficiary and Rs. 7,500 for others.

<sup>43</sup> Inputs included supply of spawn i.e., the mushroom propagating material containing mushroom spores; casing spoil which is specially prepared soil with peat moss spread over the compost to protect it from drying out and allow formation of the fruiting bodies; and compost.

<sup>44</sup> Indo-Dutch Mushroom Project, Jeolicote; Pragati Women Development Society, Jeolicote; KMVN, Bhowali and the Pantnagar University, Pantnagar.

<sup>45</sup> Break-up of expenditure being : Infrastructure: Rs. 1.33 crore; Training-Rs. 0.25 crore and subsidy: Rs. 0.32 crore; others: Rs. 0.23 crore.

2004, the DRDA estimated that a kilo of mushroom would fetch only Rs. 28 to Rs. 30 against the projected sale price of Rs. 40 per Kg (2001), at which rate, the farmer would incur a loss on the produce. Two crops of mushroom in a year could fetch a swarozgari a maximum of Rs. 28,800 annually, which could just about meet the recurring cost of production of Rs. 26,500 as assessed in March 2000. Mushroom being a perishable item, the meager earnings would be further eroded by storage and transit losses in the absence of cold storage and assured tie-ups for marketing of the produce. No cold storage was provided in any of the districts and it was only in 2003-04 that the DRDA signed a MOU for marketing<sup>46</sup> in Nainital district alone, leaving the other two districts uncovered.

In a survey conducted<sup>47</sup> by the Audit team covering 34 beneficiaries, it was found that 27 centres had abandoned the cultivation due to low yields and meager returns. All 34 beneficiaries had taken bank loans amounting to Rs. 6.50 lakh. The beneficiaries cited delays in disbursement of loan and absence of marketing arrangements as the reasons for failure of the scheme. The annual return earned by the swarozgaris, against an annual production cost of Rs. 26,500 is tabulated below:

Table-4.5

Annual Income (Rs.)	No. of beneficiaries
Nil	11
0 to 5,000	08
5,000 to 12,000	09
12,000 to 24,000	06

In the above circumstances, the project, intended to provide employment to the poor, not only failed to provide employment but further led to indebtedness amongst the beneficiaries on account of bank loans taken to start production.

Other impediments that further contributed to the project failure were:

- The total capacity of the compost producing units was only 1000 tons per year which could have catered to the needs of only 500 units of swarozgaris;
- Rs. 1.33 crore booked under infrastructure head, was mainly spent on renovation and extension of the four training centers; field-level infrastructure that would provide assured returns to the mushroom producer, was not provided;

<sup>46</sup> Tie-up was with a fruit processing KVIC unit based in Haldwani named Bliss Food Products.

<sup>47</sup> During September-2008 covering 34 beneficiaries (out of 223) in Udham Singh Nagar.

- Publicity of the scheme necessary to motivate BPLs for adopting mushroom cultivation and to create demand from the buyers, was not planned or provided for;
- Technical co-ordinator to provide on-site support was appointed only in February 2003, one for all three districts;
- A similar project (Indo-Dutch mushroom project) established at Nainital in 1990-91 had failed mainly due to lack of marketing arrangements but no lesson was drawn from past experience.

The Project Director of DRDA, Nainital accepted (April 2008) the audit observations and replied that the project could have succeeded if the extension of time was granted by the GOI. As is evident from the above, the project suffered due to inherent flaws which made it unviable, thus rendering Rs. 2.13 crore spent on it unfruitful.

The matter was reported to the Government (May 2008); reply is awaited (November, 2008).

## **Regularity issues**

### **PUBLIC WORKS DEPARTMENT**

#### **4.20 Irregular expenditure**

**The Department *suo moto* revised the designs resulting in irregular expenditure of Rs. 63.35 lakh even as the objectives of the expenditure remained unachieved.**

On the recommendation of the Eleventh Finance Commission, the Government sanctioned (October 2004) Rs. 3.75 crore for construction of a bus / taxi stand at Gyansu in Uttarkashi to boost tourism in the area. The work was awarded in June 2005 and was scheduled for completion by June 2006.

Scrutiny (April 2008) of the records of the EE, Provincial Division, PWD, Uttarkashi revealed that although the TS included a two metre depth for the foundation, during the excavation (January 2006), the Department realised that depth would have to be increased to eight metre to reach suitable soil strata. A fresh design was prepared (September 2006) by the Department on the basis of the new finding and a revised estimate of Rs. 17.84 crore was submitted (September 2006) in which other changes such as increase in capacity of the parking place and substitution of isolated column footing foundation by raft foundation, were included. The Government decided (May 2007) that the revised

work, instead of being funded by the exchequer would be executed through a public private partnership in a build-operate-transfer (BOT) mode.

The Division, in the meanwhile, continued the work (September 2006 - July 2007), without awaiting revised sanction and spent Rs. 63.35 lakh on construction. In August 2007 the work was stopped and the agreement with the contractor was rescinded in April 2008.

There was no progress on the proposal for BOT as of April 2008. The bus stand scheduled for completion in June 2006 was lying incomplete after incurring an expenditure of Rs. 1.06<sup>48</sup> crore. The EE replied (April 2008) that the contract was rescinded after the Government's decision for BOT was conveyed.

The Department's decision to continue the work on the altered designs that would cost more than four times the original sanction without the requisite approval from the Tourism Department / Government resulted in irregular expenditure of Rs. 63.35 lakh even as the objectives of the expenditure remained unachieved.

The matter was reported to the Government (April 2008); reply is awaited (November, 2008).

## General

### MISCELLANEOUS DEPARTMENTS

#### 4.21 Lack of responsiveness to audit findings and observations resulting in erosion of accountability

##### Inadequate response to Audit findings and observations resulted in erosion of accountability.

The Accountant General (Audit) conducts periodical inspection 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) to the Heads of offices inspected with a copy to the next higher authorities. The Heads of offices and the next higher authorities are required to report their compliance to the Accountant General (Audit) within four weeks of receipt of IRs.

<sup>48</sup> Payment to IIT, Roorkee for Architectural Consultancy etc.	= Rs. 24.85 lakh
Land acquisition	= Rs. 17.72 lakh
Expenditure on works	= Rs. 63.35 lakh
<b>Total</b>	<b>= Rs. 105.92 lakh</b>
	<b>Say Rs. 1.06 crore</b>



At the end of March 2008, 3436 IRs and 9571 paragraphs issued during the period 1990-91 to 2007-08 were outstanding for settlement. The department-wise break-up of these outstanding IRs and paragraphs are given below:

**Table: 4.6**

<b>Sl. No.</b>	<b>Name of Department</b>	<b>Number of IRs</b>	<b>Number of paragraphs</b>	<b>Period of pendency</b>
1.	Agriculture	74	205	1996-97
2.	Education	85	343	1991-92
3.	Irrigation	306	630	1990-91
4.	Medical, Health & Family Welfare	158	586	1994-95
5.	Minor Irrigation	40	96	1992-93
6.	Police	18	93	1990-91
7.	Public Works	680	1648	1990-91
8.	Rural Development	72	245	1997-98
9.	Rural Engineering Services	101	243	1990-91
10.	Social Welfare	47	215	1999-00
11.	State Autonomous Bodies	967	3743	1990-91
12.	Others	888	1524	1990-91
<b>Total</b>		<b>3436</b>	<b>9571</b>	

The departmental officers failed to take action on observations in IRs within the prescribed period resulting in erosion of accountability. The Government should look into the matter and ensure that procedures exist for (a) action against the officials who failed to send replies to IRs / paragraphs as per time schedule, (b) action to recover loss / outstanding advances / overpayment in a time bound manner and (c) revamping the system to ensure prompt and proper response to audit observations.