

## CHAPTER VII : MINISTRY OF LABOUR

### Employees' Provident Fund Organisation

#### 7.1 Mismanagement in acquisition of land and construction of office and residential buildings

##### **Financial irregularities to the tune of Rs 14.27 crore in acquisition of land and construction.**

With a view to providing accommodation to the staff and the offices located all over India, EPFO<sup>1</sup> has acquired land at various places.

For proper management of the land and construction, EPFO has its own Physical Facilities Division (formerly Construction Wing ), the organisational structure of which includes a Chief Engineer, an Executive Engineer, two Assistant Engineers and Junior Engineers at the Head Office and Junior Engineers at 16 different regions.

##### 7.1.1 Results of Audit

A test check of the relevant records of seven Regional Offices was conducted between June and September 2000 which revealed that the land acquired had not been put to use at several places for the purpose for which it was acquired.

##### 7.1.2 Andhra Pradesh region

###### *Idle investment on unalienated site*

In June 1988 the SRO<sup>2</sup> Guntur obtained allotment of land measuring 7063 square yards from District Collector, Guntur at Gujjanagundla tank, for construction of office building and quarters for the staff at a cost of Rs 36.72 lakh which was finally decided in March 1998. This amount was paid by the SRO to District Collector, Guntur in March 1998 even without alienation of the land. EPFO also spent a sum of Rs 3.00 lakh on the development of the site.

In June 1998 when the SRO submitted the building plans for approval, the Municipal Corporation, Guntur declined to approve the drawings as the site was proposed for a public utility service.

<sup>1</sup> Employees' Provident Fund Organisation

<sup>2</sup> Sub-Regional Officer

The alienation of the land in favour of EPFO is pending as of December 2000 and the SRO continues to be located in a private building at a monthly rent of Rs 39930. Thus, due to failure of the SRO to get the land alienated even after 12 years, which was allotted to it way back in 1988 resulted in the idle investment of Rs 39.72 lakh since March 1998. Besides, a sum of Rs 12.37 lakh was paid as rent from April 1998 to October 2000.

### **7.1.3 Assam region**

#### **(a) Avoidable expenditure**

For construction of office building and staff quarters, the RPFC<sup>3</sup>, Guwahati was allotted in district Kamrup by Government of Assam a plot of land measuring 16000 square yards at a cost of Rs 6.18 lakh. The land was taken over in June 1986 by EPFO and an expenditure of Rs 0.90 lakh was incurred towards barbed wire fencing around the plot of land. As such a total of Rs 7.08 lakh was spent upto 1987-88.

Due to abnormal delay in construction works (1986-1995) and non-engagement of watch and ward staff on the site, the entire plot was encroached. As a result in February 1994, the RPFC had to be allotted another plot of land valued at Rs 46.79 lakh for the same purpose.

#### **(b) Extra cost**

On being approached by the SRO, Agartala for allotment of land for construction of its own office building and staff quarters, the District Magistrate (West Tripura) conveyed in October 1988 finalisation of acquisition of a private land measuring 1.21 acres. An amount of Rs 11.36 lakh being the decreed value of the land, which was demanded by the District Magistrate and Collector in December 1988, was deposited on 12 May 1989. Reasons for this delayed payment which were not on record, resulted in further levy of Rs 2.60 lakh (Rs 1.40 lakh as solatium and Rs 1.20 lakh as penal interest) which was paid. Thus due to non-payment of the value of land in time, EPFO had to bear an avoidable additional burden of Rs 2.60 lakh.

Though the land was occupied in May 1989, the construction works of office building and staff quarters were not commenced till March 1993 and the Sub-Regional Office was accommodated in a private house at a monthly rent of Rs 13717 till October 1994. It was further noticed that the original estimate of Rs 148.48 lakh had been revised thrice to Rs 197.31 lakh as prepared by the NBCC<sup>4</sup>. None of the revised estimates were approved by the Central Provident Fund Commissioner till July 2000 with the result that the expenditure of Rs 48.83 lakh (i.e. Rs 197.31 lakh –

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<sup>3</sup> Regional Provident Fund Commissioner

<sup>4</sup> M/s. National Building Construction Corporation

Rs 148.48 lakh) which was in excess of the sanctioned amount remained unauthorised. Besides an amount of Rs 9.05 lakh was paid as rent for the period from May 1989 to October 1994.

The original estimate included provision of Rs 11.08 lakh for source of water. However, the revised estimate submitted on 22 June 1994 disclosed that apart from Rs11.08 lakh already spent for provision of sources of water, an additional amount of Rs 11.10 lakh which included escalation charges of Rs 4.00 lakh was spent on providing “Deep Tube Wells”. The reasons for such additional expenditure were not furnished by the RPFC, Agartala (July 2000).

#### **7.1.4 Gujarat region**

##### **(a) Locking up of funds**

A plot measuring 3692 sq. metres was acquired by EPFO on lease for 99 years from the Corporation<sup>5</sup> for construction of staff quarters/Zonal Training Institute at Ahmedabad in May 1988 on premium of Rs 36.92 lakh without executing any agreement deed with the Corporation. Though the payment was made in May 1988, the possession of the land was handed over by the Corporation in May 1997 after a lapse of nine years. The delay was attributed by EPFO to the change in utilisation of the land in question by the Corporation. Besides, EPFO also paid Rs 2.99 lakh in June 1998 for construction of compound wall to CPWD<sup>6</sup>. However, the work of construction of compound wall could not be started by CPWD due to illegal occupation of land and hindrance by local people with the result that the amount of Rs 2.99 lakh was lying unspent with CPWD since June 1998. This resulted in locking up of fund to the tune of Rs36.92 lakh for twelve years and the purpose for which the land was acquired could not be served.

##### **(b) Idle investment**

A plot measuring 1296 sq. metres was acquired on lease for 99 years from the Corporation<sup>7</sup> for the purpose of construction of office building at Vadodra in December 1992 on premium of Rs 28.71 lakh. In addition to the premium on land, lease rent was also payable at the rate of Re one per 100 sq. metres *per annum*. The payment was made without executing any agreement deed with the Vadodara Corporation. It was stated in July 2000 by the RPFC Vadodra that lease deed could not be executed as the draft lease deed was lying with Head Office for approval since February 1995. The work of construction of compound wall was entrusted in March 1993

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<sup>5</sup> Ahmedabad Municipal Corporation, Ahmedabad

<sup>6</sup> Central Public Works Department

<sup>7</sup> Vadodara Municipal Corporation, Vadodara

to CPWD which was completed in January 1994 at a cost of Rs 1.31 lakh. The plan and estimates for construction of office building were approved by Head Office only in December 1998 i.e. after six years from the date of taking over possession of land.

Subsequently, an amount of Rs 59.66 lakh (August 1999 : Rs 35.96 lakh , February 2000 : Rs 23.70 lakh )being 33.18 *per cent* of the estimated cost of Rs 179.78 lakh was also released as an advance to CPWD for construction of office building.

The construction work was, however, not started by CPWD as of August 2000. The reasons for not starting the work by CPWD were not made available to Audit. Thus Rs 59.66 lakh remained blocked with CPWD, besides idle investment for eight years of Rs 28.71 lakh on purchase of land.

**(c) *Delay in approving the project***

Two plots measuring 817.12 sq. metres at Raiya, Rajkot and 480 sq. metres at Nana Mava, Rajkot were acquired for construction of office building and staff quarters at a total cost of Rs 5.26 lakh in September 1990. Allotment of land under Urban Ceilings and Regulation Act, 1976 was made in October 1990 and the possession of land was obtained in November 1990. Construction of compound wall at both the sites was completed in February 1993 at a total cost of Rs 1.71 lakh. The plan and estimates for construction of office building and staff quarters were approved by the CPFC only in December 1998 i.e. after five years from taking over the possession of land. Further, an advance of Rs 52 lakh (December 1999: Rs 31.24 lakh, May 2000:Rs 20.76 lakh) being 33.33 *per cent* of the estimated cost of Rs 156.20 lakh was also released to CPWD for the construction of office building and staff quarters. The construction work was yet to be started by CPWD as of July 2000. This resulted in idle investment of funds to the extent of Rs 5.26 lakh on purchase of land for 10 years besides Rs 52 lakh deposited with CPWD.

**7.1.5 Karnataka region**

**(a) *Locking up of Rs 7.76 lakh for two decades***

The RPFC in Karnataka purchased a piece of land measuring two acres and thirty nine guntas from a private land holder and eleven other members of his family for a consideration of Rs 7.76 lakh in 1978 at M.R. Palya on the outskirts of Bangalore.

Due to dispute in ownership rights the deal resulted in a series of appeals between the affected parties which reached the stage where the RPFC had to file two writ petitions in the High Court of Karnataka.

The writ petitions (2166/90 and 2929/91) so filed were dismissed and the CPFC filed special leave petition (Certificate No.2352-53/96) before the Honourable Supreme Court of India which is pending. Thus, failure on the part of the RPFC to verify the ownership rights had not only resulted in the EPFO being a party in a prolonged legal battle but also locking up of funds to the tune of Rs 7.76 lakh for a period exceeding two decades.

**(b) Construction of staff quarters at Hubli**

Land measuring 3 acres and 11 guntas was allotted by Government of Karnataka for Rs 0.89 lakh at M.T. Sagar, Hubli for the construction of staff quarters for the staff of the Sub-Regional Office Hubli during 1984.

It was observed that the original estimate prepared for Rs 77.62 lakh in 1990 was revised to Rs145.10 lakh in February 1993 and Rs 191.16 lakh in March 1997.

The quarters were handed over by CPWD to RPFC in July 1999. However, due to delay in releasing money by the CPFC to CPWD and also due to protracted correspondence with the revenue authorities, the work of completion of staff quarters was delayed by over a period of 2 years (1997 to 1999) which resulted in cost escalation of Rs 46.06 lakh (Rs 191.16 lakh in 1997 minus Rs 145.10 lakh in 1993).

**7.1.6 Madhya Pradesh region**

***Idle investment in land due to delay in commencement of construction work***

The RPFC, Madhya Pradesh acquired land for SRO Raipur and SRO Ujjain at the cost of Rs 96.76 lakh and Rs 60.15 respectively lakh in 1998-99. The construction works namely (i) construction of office building at SRO Raipur and (ii) construction of office building and Staff quarters of SRO Ujjain could not commence till March 2000 due to non-award of works. Therefore, funds to the tune of Rs 96.76 lakh and Rs 60.15 lakh respectively invested in purchase of land in 1998-99 remained idle as of March 2000. Non-commencement of works was attributed to conceptual drawing of works being under approval.

**7.1.7 Maharashtra region**

**(a) Infructuous expenditure**

EPFO acquired on lease 2125 sq. metres of land at a premium cost of Rs 38.25 lakh from Economic Development Corporation of Goa, Daman and Diu Limited in July 1990 for construction of office building and staff quarters. In 1993, the matter regarding construction was referred to CPWD. It was decided by RPFC, Mumbai that the work of construction of office building may be awarded to NBCC. Though, CPWD also furnished the estimates for both office building and the staff quarters in

August and November 1995 respectively, the work of construction of office building was finally awarded to NBCC at a cost of Rs 269.51 lakh and that of the staff quarters to CPWD at a cost of Rs 259.16 lakh in September 1997. Whereas the construction of office building was completed in January 2000, that of the staff quarters has not been completed so far.

It was noticed during audit that though the plot was acquired in July 1990, it took more than seven years for awarding the work. Meanwhile, the office continued to function in a rental premises. Had the work been awarded in July 1990 itself after acquisition of land and completed in two years i.e. by July 1992, the expenditure incurred on rent since then could have been avoided. Lack of wisdom on the part of EPFO in awarding the work at the appropriate time resulted in infructuous expenditure of Rs 38.34 lakh on account of rent from August 1992 to March 2000.

**(b) *Delay in occupation of office building resulting in avoidable payment of rent***

The work of construction of office building and staff quarters of SRO, Nasik was awarded to Hindustan Prefab Ltd. at a cost of Rs 208.37 lakh in April 1993. As per agreement, the work was to be completed within 24 months after payment of deposit of 15 *per cent* of the project cost. The payment was made in March 1994 and accordingly the stipulated date of completion was March 1996. Though the work was almost complete in July 1996 after a delay of four months from the stipulated date, the possession of the building was not taken for the following reasons.

- (i) A transformer was required to be installed and a compound wall constructed.
- (ii) Certain defects in construction required to be rectified.

Whereas the sanction for construction of compound wall was obtained in August 1996, the sanction for installation of transformer was received only in February 1998. The defects were, thereafter, rectified by the agency in May 1999 after protracted correspondence, and finally the possession of the office building was taken in June 1999.

It was noticed during audit that the work was delayed by more than three years mainly on account of (i) the non-inclusion of estimate for installation of transformer and construction of compound wall in the original estimate, and (ii) the deficiency of a 'penalty' clause in the agreement for recovery of liquidated damages from the agency in the event of delay in completion of the work.

The office had all along been functioning in a rental premises. Had there been proper land/work management on the part of EPFO, the expenditure

of Rs 44.23 lakh incurred on rent for the period from April 1996 to June 1999 could have been avoided.

### 7.1.8 Orissa region

To meet the increasing demand for office accommodation in Regional Office at Bhubaneswar, and staff quarters and office accommodation for SRO Rourkela, the following construction works were undertaken during 1993-94 to 1999-2000.

- Construction of additional floors of existing building at Regional Office Bhubhaneshwar
- Construction of staff quarters at SRO Rourkela
- Construction of office building of SRO Rourkela

Test check of the records revealed the following:

**(a) *Abnormal increase in cost of construction of additional floors in existing building at Regional Office, Bhubhaneshwar***

- The work relating to construction of additional floors in the existing of Regional Office, Bhubhaneshwar was awarded to BDA<sup>8</sup> prior to July 1996. The original estimate of November 1992 for Rs 149.87 lakh was finally revised to Rs 227.39 lakh in December 1997. The overall rise in cost was Rs 77.52 lakh which was 52 *per cent* of the original estimate. It was intimated by the CPFC<sup>9</sup> in January 1995 that the Finance Sub-Committee was not satisfied with the enhanced estimate and observed that BDA had awarded the work to the contractor at much higher rate. The revised estimate was accepted by the CPFC without obtaining full justification from BDA. The RPFC did not examine the matter in the light of observations of the Central Office resulting in escalation in cost by 52 *per cent*.
- The Surveyor of works, CPWD opined in September 1990 that further vertical extension over the existing buildings was not feasible on the point of view of safety. Though the matter was taken up with BDA in the meeting held in August 1993 to ensure structural stability, no such certificate was obtained from the construction agency before starting the construction.
- No certificate for quality control tests was obtained though a sum of Rs 0.91 lakh was paid for the quality control tests.

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<sup>8</sup> Bhubaneswar Development Authority

<sup>9</sup> Central Provident Fund Commissioner

- As per clause 8 of the agreement relating to delay in execution of work by BDA beyond the stipulated time of 26 months from the date of commencement of work, compensation @ 0.25 per cent of the estimated cost per week subject to a maximum of 5 per cent of estimated cost would be levied by EPFO. In view of delay in release of funds, the stipulated date of completion was relaxed upto 31 December 1997 to which BDA had given specific assurance in a meeting held in July 1997. As the work was completed and handed over in February 2000, BDA was liable to pay compensation amounting to Rs 11.37 lakh for the period of delay from January 1998 to January 2000 which was not levied.
- It was observed by the Building Sub-Committee which inspected the work in November 1997 that the cement used was 33 grade instead of 43 grade which was not suitable as per construction norms. The construction work was not sound as seepage marks were found on both sides of wall, granite tiles flooring was damaged to a great extent, water proofing treatment was not done, RCC joints were filled with cement mortar instead of with cement mix, which would not have long life. These defects were not rectified though the Executive Engineer and the Member (Engineering), BDA admitted the defects.

**(b) Construction of staff quarters of SRO, Rourkela**

The original estimate and the revised estimate was sanctioned for Rs 144.43 lakh in July 1992 and Rs 214.56 lakh in May 1998 respectively resulting in an increase in cost by Rs 70.13 lakh which was higher by 49 per cent than the original estimate. No work order stipulating the date of commencement, date of completion and other terms and conditions were issued to CPWD. As a result of this the construction agency took their own time for execution of work which ultimately led to time overrun of more than five years and cost overrun amounting to Rs 70.13 lakh.

**(c) Construction of office building of SRO, Rourkela**

- The matter relating to construction of office building of SRO, Rourkela was taken up with CPWD in 1991. Accordingly, soil testing was done, preparation of plan and estimate was completed and administrative approval issued in May 1994, but no work order stipulating the date of commencement and date of completion was issued. As a result CPWD took its own time for execution of work without adhering to any time schedule and the executing agency revised the original estimates of Rs 86.85 lakh to Rs 164.07 lakh resulting into cost overrun of Rs 77.22 lakh.
- As a result of delay in construction of office building, the Sub-Regional Office which was due to be shifted to the new premises in March 1998 continued to function in a rented building belonging to Rourkela



Improvement Trust. During the period from April 1998 to June 2000 EPFO incurred an expenditure of Rs 12.44 lakh towards payment of rent @ Rs 46065 per month which could have been avoided but for delay in construction of own office building.

**(d) Advance against CPWD and BDA**

Advances amounting to Rs 300.80 lakh and Rs 220.97 lakh pertaining to the period 1992-93 to 1999-2000 were outstanding against CPWD and BDA respectively.

**7.1.9 Conclusion**

Though EPFO was keen in acquiring its own office buildings/staff quarters, an analysis of foregoing audit observations demonstrates the unprofessional approach bordering on negligence in several cases of EPFO particularly its Physical Facility Division, which had all the key men in position right from the Chief Engineer down to the Junior Engineers and the RPFC in general. The disconcerted approach, lack of proper planning and coordination, unsound financial management led to financial irregularities amounting to Rs 1427.74 lakh as detailed below:

	<b>(Rs in lakh)</b>
1. Infertuous expenditure/expenditure on rent	Rs 124.42
2. Blocking of funds/idle investments	Rs 238.36
3. Funds tied up with CPWD	Rs 114.65
4. Escalation of cost	Rs 270.93
5. Loss due to encroachment of land	Rs 83.71
6. Avoidable expenditure	Rs 13.70
7. Non-levy of penalty	Rs 11.37
8. Unapproved expenditure	Rs 48.83
9. Advances Outstanding	<u>Rs 521.77</u>
<b>Total</b>	<u><b>Rs 1427.74</b></u>

## 7.2 Unauthorised expenditure

**Unauthorised diversion of Employees' Provident Fund Organisation resources amounting to Rs 18.61 lakh by the Ministry for a purpose not authorised by the legislature.**

The work regarding advertisements/publications highlighting achievements of Ministry of Labour on the eve of completion of 100 days by the Government was entrusted to a private contractor. As there was no budget provision for such type of expenditure during the year 1998-99, the Secretary, Ministry of Labour asked EPFO to make payment of the claims of the firm and the payment so made would be reimbursed by the Ministry after the budget for the next year was passed. Accordingly Rs 18.61 lakh was paid by EPFO between July 1998 and August 1999. EPFO did not claim reimbursement from the Ministry nor was any budget provision made by the Ministry in the subsequent year's budget to reimburse the payments made by EPFO. Thus Rs 18.61 lakh was expended by the EPFO for an object not authorised by its Act.

The matter was referred to the Ministry in November 2000; their reply was awaited as of February 2001.

**Employees' State Insurance Corporation**

## 7.3 Non-recovery of dues from Delhi Government

**Non-recovery of Rs 93.87 crore from Delhi Government on account of expenditure incurred on medical care by Employee's State Insurance Corporation.**

In accordance with the Employees State Insurance Act, 1948 the Corporation<sup>1</sup> may in consultation with the State Government, undertake the responsibility for providing medical benefit to insured persons and where such medical benefit is extended to their families, to the families of such insured persons in the State, subject to the condition that the State Government shall share the cost of such medical benefit in such proportion as may be agreed upon between the State Government and the Corporation. The Act further provides that for this purpose the Corporation may enter into an agreement with the State Government in regard to the nature and scale of the medical treatment that should be provided to the insured persons and their families.

<sup>1</sup> Employee's State Insurance Corporation

The understanding at the time of taking over of the administration of medical care under the ESI<sup>2</sup> scheme in Delhi in April 1962 was that the Delhi Administration would continue to meet the 1/8<sup>th</sup> share of the expenditure on provision of medical care under ESI scheme, but no formal written agreement to that effect was entered into. In accordance with the above procedure ESIC recovered expenditure beyond the ceiling along with 1/8<sup>th</sup> share from Delhi Administration regularly upto 1989-90. The Delhi Administration stopped payment w.e.f. 1990-91. After great persuasion by ESIC the Delhi Government made ad-hoc payment of Rs 1.63 crore *per annum* for the years 1993-94 to 1995-96, Rs 2.19 crore for 1996-97 and Rs two crore for 1997-98 which did not conform to the 1/8<sup>th</sup> share of expenditure.

Thus out of total amount of Rs 102.94 crore due for payment by Delhi Government for the period from April 1990 to March 1999, only Rs 9.07 crore has been received thereby leaving a huge outstanding amount of Rs 93.87 crore. The blockage of funds has accumulated as the Delhi Government stopped payment of its share from 1990-91. The Corporation forwarded a draft deed of Agreement with the Government of Delhi in March 1997, the return of which was still awaited. Until March 1997, the matter remained under correspondence between the Medical Branch of ESIC and the Government of Delhi. Since no tangible results could be achieved through this routine correspondence, the matter regarding sharing of expenditure made on medical care of insured persons of ESIC was taken up for the first time at level of MOS<sup>3</sup> for Labour in October 1997. This was followed by a reference to Chief Secretary issued in January 1998, demi-official reminders at MOS level in May 1998 and December 1999 and June 2000 but the matter has not been settled so far.

Non-execution of agreement deed with the Delhi Government, which was mandatory under the Act had resulted in non-realisation of Rs 93.87 crore which if available could have been utilised to elevate the condition of the beneficiaries for whom the scheme was set up.

The Ministry while confirming the facts stated in December 2000 that a letter from Labour Ministry to Chief Minister of Delhi stressing urgent reimbursement of the dues of Rs 93.87 crore and finalisation of draft agreement submitted by ESIC was being sent.

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<sup>2</sup> Employee's State Insurance

<sup>3</sup> Minister of State

## 7.4 Loss of interest

**Loss of interest amounting to Rs 6.77 crore due to ineffective investment management.**

ESIC has been making investments in the SDA<sup>1</sup> with Reserve Bank of India from August 1988 at an interest rate of 12 *per cent per annum*, payable yearly as on 31 March of every year. As the rate of interest for fixed deposits in the majority of nationalised banks was higher as against 12 *per cent* interest available in SDA, ESIC requested the Government in March 1992 to increase the rate of interest on SDA with RBI but the Government in June 1992 did not agree with the proposal of ESIC. Instead, the Government permitted ESIC in June 1992 to keep its fresh savings with nationalised banks from 1992-93 and subsequently allowed ESIC in April 1994 to also withdraw interest accrued to SDA every year.

ESIC, however, did not take the advantage of these relaxations given by the Government and continued to keep its accrued interest in SDA, whereas higher rate of interest at a rate of 12.5 *per cent* (13.10 *per cent* when compounded quarterly) during 1998-99 was available with the SBI<sup>2</sup> and the OBC<sup>3</sup>.

Non-withdrawal of interest from SDA for investment at higher rate available with SBI and OBC resulted in avoidable loss of interest of Rs 6.77 crore for two years as detailed below:

**Table 7.4**

(Rs in crore)

Nature of non-withdrawn amount	Year	Amount	Loss of interest on not drawn amount @ 1.10 <i>per cent</i> (13.10 <i>per cent</i> - 12 <i>per cent</i> ) from 1.4.98 to 31.3.2000
Interest accrued with SDA	1998-1999	288.66	3.18
	1999-2000	323.31	3.59
		<b>Total</b>	<b>6.77</b>

A similar para (No 9.2) captioned "Loss of interest" also appeared in the CAG's Report for the year ended March 1999-No 4 of 2000. The Ministry in its Action Taken Note thereto contended that ESIC is not an investment organisation but a social security organisation and rate of interest had never been the only criterion for the ESIC investments but security of its funds was the paramount factor.

<sup>1</sup> Special Deposit Account

<sup>2</sup> State Bank of India

<sup>3</sup> Oriental Bank of Commerce

The concern of the Ministry for security is well marked but the reply is not tenable as deposits in other nationalised banks are also as secure as with RBI. The Government itself demonstrated this by permitting such changes after due consideration of the matter in the year 1994, but the ESIC failed to rectify their flawed investment decision.

The matter was referred to the Ministry in September 2000; their reply was awaited as of February 2001.