CHAPTER II : MINISTRY OF COAL AND MINES

2.1 Coal Mines Provident Fund Organisation, Dhanbad

The Coal Mines Provident Fund Organisation (CMPFO) is responsible for administering the Coal Mines Provident Fund and Miscellaneous Provisions Act, 1948 (Act) and Schemes framed there under i.e. Coal Mines Provident Fund Scheme, 1948, Coal Mines Pension Scheme, 1998 and Coal Mines Deposit Linked Insurance Scheme, 1976.

The CMPFO was unable to extend the schemes to all eligible employees, especially workers employed by contractors. The Organisation failed to determine dues and exercise its powers to realise from the employers the outstanding dues of its members. Its accounting for fund and pension contributions had major shortcomings. As a result, 83 per cent of member's passbooks were not updated and postings of individual ledger accounts of members were in arrears. The returns on fresh investments by the organisation were falling. Several attempts were made to introduce a computerized system of accounting. The measures failed because the CMPFO was unable to provide error free input data. The grievance redressal mechanism was also in deep arrears.

Collections on account of administrative charges from the employers were misused and internal control was weak.

Senior Management of the CMPFO were seconded from coal companies, resulting in a potential conflict of corporate interests of the CMPFO and the employer coal company on matters relating to enforcement of the Act.

Highlights

- Coverage of contractor's workers remained very poor. Out of 83,304 workers engaged by contractors 52,304 (63 *per cent)* remained uncovered upto March 2003.

- CMPFO failed to exercise its power to realize outstanding dues amounting to Rs. 314.22 crore on account of PF and Pension arrears. Arrears of damages recoverable amounted to Rs. 207.60 crore as on March 2004.

- Balances under "Interest Suspense Account" had risen from Rs. 4805.06 crore in March 1999 to Rs. 9233.52 crore (192.16 *per* *cent*) by the end of March 2003 indicating that Provident Fund member accounts were not updated.

- The project on computerization of Provident Fund Accounts failed due to CMPFO's failure to supply error free input data.
- Proceeds of administrative charges were misused in acquiring household effects for CMPFO officials.
- Despite establishing a separate cell for redressal of grievances, pendency of complaints rose from 435 in March 1999 to 1382 by the end of March 2004 (317.70 *per cent*).
- The rate of interest earned on investments on the funds of CMPFO showed a declining trend and during the years 2002-03 and 2003-04, was even less than the interest payable to the subscribers.
- CMPFO withdrew an excess amount of Rs. 75 crore from Special Deposit Scheme (SDS) resulting in loss of interest of Rs. 1.24 crore, indicating poor financial management.

Recommendations

- The Board of Trustees should develop and implement a mechanism that would ensure that all eligible "coal mine workers" are covered by the Act.
- The CMPFO should appoint adequate number of Inspectors to discharge the functions provided for in the Act.
- A computerized system of accounting for contributions should be urgently established.
- The CMPFO should develop an accounting, internal audit and office procedure manual.
- The rate of administrative charge should be reviewed periodically so that it matches administrative expenses.
- Secured investment avenues should be found so that assured returns can be guaranteed and rates of interest on PF can be sustained.
- An effective system of internal control should be designed and implemented.

- The CMPFO should review its policy of appointing its senior officers on deputation basis from coal companies to avoid conflict of interest.

2.2 Introduction

The Coal Mines Provident Fund Organisation (CMPFO) was established under the Coal Mines Provident Fund and Miscellaneous Provisions Act, 1948. Its main function was to administer schemes to provide social security, inculcate a spirit of savings and make provision for the future of coalmine workers on retirement, or for their dependents, in case of early death.

The CMPFO is under the administrative control of the Ministry of Coal and Mines.

2.2.1 The Legal mandate

The Coal Mines Provident Fund and Miscellaneous Provisions Act, 1948 (Act) was enacted to make provisions for the framing of a Provident Fund Scheme, a Family Pension Scheme and a Deposit Linked Insurance Scheme for persons employed in coal mines. Under the schemes, the benefits provided are lump sum retirement benefits, monthly pension/family pension and an amount not exceeding Rs. 10,000 to nominees in case of early death.

2.2.2 The Schemes

The schemes are briefly outlined below:

a) The Coal Mines Provident Fund Scheme, 1948 (CMPFS) provides for establishing a Provident Fund comprising of contributions from both employees and employers.

b) The Coal Mines Pension Scheme, 1998 (CMPS) establishes a Pension Fund. This Scheme's predecessor was the Coal Mines Family Pension Scheme, 1971 (introduced to create a Family Pension Fund by diverting a portion of employees' and employers' contributions to the Provident Fund). The entire corpus of the Coal Mines Family Pension Fund was transferred to Pension Fund.

c) A social security scheme entitled Coal Mines Deposit Linked Insurance Scheme, 1976 (CMDLI) was introduced to provide insurance cover to the members of the provident fund.

2.3 Organisational set up

The Board of Trustees (BoT) a tripartite Board, is the administrative agency for the schemes, and consists of representatives of Central/State Government, employers and employees. The Coal Mines Provident Fund Commissioner is the ex-officio member of the Board and over all in-charge of the Organisation. At the state level, the schemes are implemented through 23 regional offices detailed in **Annex-I**. A Regional Commissioner heads each regional office. While the regional offices are located in different states, the headquarters of CMPFO is at Dhanbad (Jharkhand).

2.4 Audit Objectives

The performance audit of the CMPFO was conducted with a view to assess whether:

- all eligible employees were actually covered by the schemes;
- outstanding dues were recovered systematically;
- an effective mechanism for accounting for contributions existed;
- the quantum of administrative charge recovered from employers to defray administrative expenses was appropriate;
- investments made could sustain obligations of payment to be made to subscribers;
- a suitable grievance redressal mechanism existed;
- the internal controls were adequate.

2.4.1 Scope of audit

The performance audit was conducted by test check of records of the headquarters' of CMPFO and five out of 23 regional offices. The audit covers the activities of CMPFO from 1999-2000 to 2003-2004.

2.5 Audit findings

2.5.1 Coverage of the Act

The Act is applicable to all coal companies. The provisions of the Act, as on 31 March 2003, are applicable to 971 establishments, excluding coke plants and cover over 6.50 lakh employees. Figures for the year ending March 2004 were not provided by the CMPFO.

The expression "coal mine" implies any excavation where any operation for the purpose of searching for or obtaining coal has been or is being carried on. This also includes support services in the nature of hospitals and canteens maintained for the benefit of the employees of the coalmines. An "employee" means any person who is employed for wages in connection with a coal mine and includes any person employed by or through a contractor. Hence, the Act also covers labourers employed by contractors in coalmines.

2.5.2 Inspection and Survey

The primary responsibility of the CMPFO is to ensure compliance of the relevant legal provisions by the management of coalmines. To discharge this function it is necessary to identify the coal mines and all categories of employees employed in the mines through periodic surveys. However, CMPFO did not carry out any such survey.

Under the Act, the PF Inspector, in respect of any coalmine within his jurisdiction, can ask for any records of any scheme, framed under the Act, from the employer. Hence, the inspectors play an important function in identifying eligible employees. However it was seen in audit that against the sanctioned strength of 30 Inspectors, there was shortage of 16 Inspectors as of 31 March 2004. Further, no target of inspections for these inspectors was fixed.

Audit ascertained from the records of Coal India Limited (CIL) that the coverage of contracted labour under the CMPF Scheme during the years 2000-01 and 2002-03 was poor with only 6,622 (out of 43,923) and 30,621 (out of 83,304) workers covered under the scheme. This worked out to 15 *per cent* and 37 *per cent* only. This shortfall was not detected through inspections. The figures of 2001-02 were not made available to audit.

Thus, the shortage of Inspectors and the absence of surveys prevented effective enforcement of the Act.

Management replied (October 2004) that for want of sufficient staff, inspection could not be carried out. Further, the matter was placed before the Board of Trustees in July 2004 and it was decided that Director (Personnel), CIL would monitor the enlistment of contractor workers under CMPF Scheme.

2.6 Contribution to the Funds

The rates of contributions payable under different schemes and actual contributions collected from employees/employers and the Central Government as well as the corpus fund as on 31 March 2003 are given in the following tables:

(a) Rate of contribution

	Rate of contributions *(in per cent)*		
	Employees	**Employers**	**Central Government**
1. Coal Mines Provident Fund Schemes, 1948	12 of total emoluments of employee	12 of total emoluments of employee	Nil
2. Coal Mines Pension Scheme, 1998	1.16 of salary (Basic + Dearness Allowance) 2 of salary (Basic + Dearness Allowance Notional salary) and an amount equal to one increment	1.16 of salary (Basic + Dearness Allowance)	1.67 of salary (Maximum salary Rs. 1600/- per month)
3. Deposit Linked Insurance Scheme, 1976	Nil	0.5 of aggregative wages	0.25 of employer's contribution
4. Administrative charges	Nil	3 of total amount of compulsory PF contributions of both employees and employers.	All expenses on administration of Pension scheme are excluding benefits payable by the Central Government

(b) Contributions collected

(Rupees in crore)

1. Provident Fund	**1999-2000**	**2000-01**	**2001-02**	**2002-03**	**2003-04**
Employees and employers contributions	1278.98	971.03	1858.29	1758.81	NA
2. Pension Fund					
a) Employees & employers contributions	433.38	281.02	420.36	381.61	NA
b) Govt. contributions	27.93	Nil	42.57	30.75	NA
Total	**461.31**	**281.02**	**462.02**	**412.36**	
3. Deposit Linked Insurance Scheme					
a) Employers contribution	1.50	1.59	2.62	2.36	NA
b) Govt. contribution	0.69	0.95	1.01	1.55	NA
Total	**2.19**	**2.54**	**3.63**	**3.91**	

NA: Annual Account for the year 2003-04 was not made available.

The contributions increased substantially in 2001-02 over the previous year on account of delay in communicating the revised rate of PF contributions from 10 to 12 *per cent* from May 2000. As a result, some of the coal companies revised their contributions only in 2001-02.

Corpus Fund

(Rupees in crore)

Fund	1999-00	2000-01	2001-02	2002-03	2003-04
Provident Fund	11962.83	12601.06	14079.06	14948.70	NA
Pension Fund	1982.90	2194.74	2466.88	2795.51	NA
Deposit Linked Insurance Fund	53.93	60.57	68.68	72.58	NA

2.7 Arrears of contributions

2.7.1 The Coal Mines Provident Fund Scheme

The Act provides for damages and criminal prosecution for default or delay in the deposit of contributions by employers.

Audit noticed that Bharat Coking Coal Limited (BCCL) and J&K Minerals defaulted or delayed in making the deposits. PF/Pension contributions amounting to Rs. 314.22 crore were outstanding from BCCL and J&K Minerals till March 2004. BCCL remitted PF contribution of Rs. 689.67 crore and Pension contribution of Rs. 146.30 crore during June 2000 to March 2003, after delays ranging from three months to one year. However, the CMPFO did not levy damages of Rs. 207.60 crore (at prescribed rate) for delayed payment of contributions.

Management replied (October 2004) that a demand for Rs. 79.79 crore representing interest for delayed payment of PF/Pension contributions was raised against the company in response to the audit comments. However, Audit observed that there is no provision in the Act for levy of interest and an amount of Rs. 207.60 crore is still outstanding from the company.

Hence, the CMPFO did not exercise the statutory options available under section 10F, 10A and 9 of the Act to recover arrears of contributions and damages from these companies.

2.7.2 The Coal Mines Pension Scheme

The Coal Mines Pension Scheme, 1998, replaced Coal Mines Family Pension Scheme, 1971. According to para 3 (c) and 3 (d) of the new scheme, payment of two *per cent* of basic pay and dearness allowance/notional salary of the employee from 1 April 1989 onwards and an amount equivalent to one increment to be calculated on the basis of the salary of the employee as on 1 July 1995, was to be transferred to the Pension Fund. According to the provisions of the scheme, these arrears were to be recovered and remitted to the Organisation by 29 July 1998.

To ascertain the actual arrears required to be remitted by the employer, the CMPFO was required to carry out a detailed exercise of reconciling prescribed statements. This exercise was not undertaken; as a result, the arrears payable were not determined.

Meanwhile, BCCL deposited Rs. 80.58 crore against full settlement of arrears, though a preliminary estimate by the organisation indicated that the company's arrear liability was atleast Rs. 299.70 crore.

In response to audit observations, the CMPFO replied (October 2004) that the estimate of Rs. 299.70 crore was an un-reconciled figure. However, the CMPFO did not state the reasons for its failure to undertake this reconciliation exercise and thus protect the financial interests of its members.

2.7.3 Accounting for the contributions

The CMPF Scheme provides that each employer must submit a monthly abstract of contributions towards Provident and Pension Fund (form PS-5). Further, the employers should also submit subscriber-wise annual statement of contributions (form V.V). Information from these statements are used to update the account of each subscriber.

Information from form PS-5 (monthly abstract) is used to credit “Suspense General Account”. On receipt of Form "V.V" (subscriber wise annual statement) and after reconciliation with PS-5, the amount is credited to the “Provident Fund Account” and the Suspense General Account is correspondingly reduced.

Similarly, the scheme provides that all interest and other income, excluding the transactions of Administration Fund, should be credited to an "Interest Suspense Account". After similar reconciliation between the V.V. and PS-5 forms, the account of each subscriber is updated with the accrued interest, while the Interest Suspense Account balance is correspondingly reduced. Hence, the balance on this account would indicate whether the interest and other income earned are adequate to meet the interest declared payable to its members.

Audit scrutiny of these two accounts revealed the following:

2.7.4 Huge increase of Suspense General Account and Interest Suspense Account balances

Suspense General Account balances increased from Rs. 1903.02 crore during 1999-2000 to Rs. 4300.20 crore (225.97 *per cent*) during 2002-03. This showed that individual accounts of subscribers were not updated which defeated the scheme objectives.

Similarly, the closing balance under Interest Suspense Account increased from Rs. 4805.06 crore during 1999-2000 to Rs. 9,233.52 crore (192.16 *per cent*) as on 31 March 2003 as accrued interest was not credited timely to the individual member accounts' defeating the scheme objective.

Further, in the absence of an accurately updated interest suspense balance, it was also not possible for the organisation to ascertain whether the interest earned on the PF accretions was adequate to cover the interest declared payable to the employees from time to time.

Management replied (October 2004) that non-receipt of PS-5 and V.V. statement from the employers was responsible for the mounting balances in these accounts.

The reply was untenable as according to the provisions of the Act, CMPFO inspectors are empowered to obtain any information relating to the employment of persons in coal mines. Further, the employer is bound to provide this information. This obligation also falls within Section 175 of the Indian Penal Code 1860. Hence, the CMPFO is fully empowered to obtain the information contained in statements PS-5 and V.V., yet the CMPFO failed to protect the interest of its members. Hence, CMPFO's reply regarding its inability to carry out these tasks in view of non-receipt of the statements was not valid.

2.7.5 Updating of Pass Books

Timely updating of subscriber passbooks is a core activity of the organisation. The updating of passbooks was in heavy arrears as detailed below:

Year	Total No. of members	No. of Pass Books updated	Balance not done	Percentage of posting not done
1999-2000	510786	84454	426328	83.46
2000-01	481761	441270	40491	8.40
2001-02	497836	84458	413378	83.03
2002-03	NA	NA	NA	NA
2003-04	NA	NA	NA	NA

NA: Figures not supplied by the Organisation

These arrears increased from 8.40 *per cent* during 2000-01 to 83.03 *per cent* during 2001-02. The Organisation stated that passbooks could not be updated due to incomplete information provided to CMPFO by the employers. The reply was untenable as according to para 67 of CMPF scheme, the Regional Commissioner is required to send teams to each Coal Mine, from time to time, in order to update the Pass Books already in possession of the members. Hence complete information could have been collected by the Organisation. This matter was also reiterated by the National Productivity Council (NPC) in it's report on CMPFO which stated that the updating of Pass Books was seriously affected due to the lack of coordination and enforcement in the field.

2.8 Final payment from the Funds

Under the CMPF Scheme the amount standing to the credit of a member upto the end of the penultimate year of his service is to be paid to him at least three months in advance of his impending date of retirement. To enable timely payment, employers are required to submit a return containing details of members whose employments have ceased and employees who will retire in the next six months.

Audit test checked 485 cases of PF refund claims of five Regional Offices at Dhanbad and Ranchi and noted that the payments were made after delays ranging from six months to 14 years. As a result, the employees were subjected to undue hardship and the Organisation paid interest of Rs. 23.81 lakh in 69 cases for holding the balances after the due date. The Organisation attributed this delay in payment of PF claims to incomplete information and wanting documents. The reply was untenable as according to the provisions of the Act, CMPFO has full powers to obtain any information from the employers. Further, delay in timely settlement of claims resulted in denial of timely statutory benefits to the subscribers which defeats the very purpose for which the organisation was created.

2.9 Grievance Redressal

A separate cell was established in the Headquarters at Dhanbad to monitor and redress grievances of members. Usually, these grievances relate to delay in settlements of claims and updating individual member accounts.

As on 31 March 2004, 1382 cases were pending disposal as detailed below. The outstanding cases mounted by 317.70 *per cent* during the period 1999-2004 indicating that the grievance settlement mechanism was unsatisfactory.

Year	Grievances pending at the beginning of the year	Received during the year	Total	Disposal during the year	Balance at the end of the year	Percentage of non-disposal
1999-00	435	299	734	291	443	60
2000-01	443	239	682	293	389	57
2001-02	389	192	581	225	356	61
2002-03	356	386	742	338	404	54
2003-04	404	1232	1636	254	1382	84

Management replied (October 2004) that the pendency would come down shortly as the grievances were continuously being redressed. However, it stated that there was no specific programme for expediting the redressal of grievances.

2.10 Administrative Charges

2.10.1 The CMPF Scheme prescribes an administrative charge, payable by the employer. This charge is levied at the rate of three *per cent* of the total amount of compulsory contribution. The proceeds of this charge can only be used to defray the cost of administration. Hence, all revenue expenses are met from the proceeds of this charge.

Income and expenditure of Administration Fund during 1999-2000 to 2003-04 were as under: -

(Rupees in crore)

Income	1999-2000	2000-01	2001-02	2002-03	2003-04**
Administrative charge	34.40	31.52	56.79	52.90	NA
Interest on investment	28.94	84.14	61.62	86.53	NA
Other Income	01.04	01.24	0.90	0.08	NA
Total Income	64.38	116.90	119.31	139.51	NA
		(81.58)	*(85.32)*	*(116.70)*	
Total Expenditure	18.22	45.18	28.25	19.75	NA
		(147.97)	*(55.05)*	*(8.40)*	
Surplus	46.16	71.72	91.06	119.76	NA
		(55.37)	*(97.27)*	*(159.45)*	

(Figures in bracket indicate percentage of cumulative growth over base year 1999-2000)

During 1999-2003, income on this account increased by 117 *per cent*, while expenditure grew by eight *per cent*. As a result, the surplus increased by 159 *per cent* over this period.

Since the administrative charge was not a source of income, collections on this account should approximate administrative expenditure. However, the rate was not reviewed or reduced after 1981. Further, the CMPFO had misutilised administrative charge proceeds on items of capital expenditure. This violated para 55(3) of the CMPF Scheme which required that expenses on acquiring

** Due to non-finalisation of Annual Accounts figures for 2003-04 were not available.

tangible assets, having an estimated life of over five years, should be met from the balances in the Reserve Account. The CMPFO incurred capital expenditure of Rs. 5.17 crore during 1999-2004, out of the Administration Fund, that was irregular.

The Management replied (October 2004) that to cope with the increased workload, the expenditure on computerization, accounting, management expenses, distribution of pension would increase and more appointments would take place. All these were to be met out of the Administrative Charges. The Organisation was not charging anything for additional work of pension distribution. NPC had recommended staff strength of 1700 against existing strength of 1161. This additional manpower would have to be funded with the same amount of Administrative Charges.

The reply was not tenable because a major portion of the computerization project had been completed. Further, only Rs. 3.77 crore was proposed for this activity. Expenses on administration of the pension scheme were reimbursed by the Central Government and net financial implication on 1700 staff was only Rs. 5.44 crore per year. This may be contrasted with the Administration Fund balance of Rs. 119.76 crore in March 2003.

Mounting balances of the Administration Fund also promoted irregular and wasteful expenditure on supply of household items to staff/officers, supply of electricity to staff quarters at Dhanbad on nominal charge, instances of which have been discussed in paragraphs 2.9.2 to 2.9.4.

2.10.2 Computerisation

The CMPFO took several measures to computerize the provident fund accounting system. The expenses were met out of the Administration Fund.

(a) The CMPFO entered into an agreement with M/s Computer Maintenance Corporation Ltd. Kolkata (CMC) in October 1994 for a turnkey project of computerizing CMPF accounts at a cost of Rs. 1.16 crore. The main components of the project were to design and develop application software for the PF Accounting System according to functionalities detailed in the Software Requirement Specification (SRS) and to install the application software at five locations covering 12 regional offices of the Organisation. The CMPFO was obliged to supply error free input data to the CMC. The Project was to be completed by February 1997.

The CMPFO made payments totaling Rs. 87 lakh during January 1995 to November 2003. However, the regional offices failed to provide error free data to CMC. As a result CMC was unable to commission the turnkey project.

The CMPFO admitted (October 2004) that the project could not progress due to supply of erroneous data at the stage of master data creation.

(b) The CMPFO engaged M/s D'Alasoft (September 2002), at a contracted value of Rs. 54.92 lakh, to carry out data entry and its verification for use in the project for computerizing PF accounts. CMPFO was to provide error free input data through its 23 regional offices for this exercise.

However, the regional offices were again unable to supply the required error free data. As a result M/s D'Alasoft could not perform its contractual obligations. Meanwhile, Rs. 24.74 lakh were paid to M/s D'Alasoft.

(c) In an attempt to revive the PF computerization project, the CMPFO purchased (July-October 2002) 92 personal computers at a cost of Rs. 57 lakh from M/s Wipro Infotech Ltd., Kolkata. These computers were delivered to the 23 regional offices but could not be utilised because the required application software had not been developed.

The Management replied (October 2004) that these computers were being used for pension work.

The reply of the Management was not tenable because the pension work had been outsourced to M/s IIT, Kharagpur. The hardware used by M/s IIT, Kharagpur was earlier acquired from ECIL for five locations covering 12 regional offices. In the other 11 regional offices, M/S IIT Kharagpur were using their own hardware/software.

Hence, all measures taken by the CMPFO to introduce a computerized system of PF Accounting failed principally because the Organisation was unable to provide error free primary data. This resulted in unfruitful expenditure of Rs. 1.68 crore. Further, balances from the Administration Fund were irregularly utilised for these activities.

2.10.3 Irregular supply of household items amounting to Rs. 54 lakh

The Organisation made a provision for supply of welfare amenities to staff for common use e.g. subsidy to canteen, club sports etc. However, household effects were purchased and distributed among staff/officers at a total cost of

Rs. 54 lakh during 1999-2004. These household amenities included woolen sheets, suitcases, dinner sets, fans etc.

2.10.4 Supply of electricity to staff quarters at Dhanbad on nominal charge

Electricity was provided to the office building and staff quarters at Dhanbad through two 100 KVA transformers by two HT connections. Total expenditure of Rs. 2.69 crore was incurred during 1999-2004 on supply of electricity to the office building and staff quarters. The power load was assessed as 19.41 *per cent* for the office building and 80.59 *per cent* for staff quarters.

The Organisation paid Rs. 2.17 crore on supply of electricity to staff/ officers quarters from April 1999 to March 2004 but recovered only Rs. 1.07 lakh at a nominal charge of Rs. 4/- to Rs. 15/- per month (depending on the type of quarters) as no electric meters were fixed in the quarters. This resulted in loss of Rs. 2.16 crore during this period.

In response to the Audit observation (May 2004), the Organisation stated (July 2004) that a committee was being formed to provide meters in each quarter or suggest revision of the fixed amount. No further reply was furnished (October 2004).

2.11 Investment

Under the provisions of para 54 of the CMPF Scheme and para 9(2) of the Coal Mines Pension Scheme all money belonging to CMPF/Pension fund were to be invested according to the guidelines prescribed by the Ministry of Finance. Reserve Bank of India handled the investment of the Organisation upto September 1995. The portfolio management of the surplus fund was transferred to Bank of India from October 1995 to March 1998. Industrial Development Bank of India (IDBI) was the fund manager of the Organisation after April 1998 till date.

Year-wise total investment under each category during the period under review is given below:

(a) Provident Fund Investment

(Rupees in crore)

Year	Special Deposit Scheme (SDS)	Central Govern-ment Bonds	State Government Bonds	Public Sector Undertaking Bonds	STDR	Treasury Bills	Total
1999-2000	12468.01	1317.32	1304.73	1546.14	---	42.85	16679.05
2000-01	13870.21	1503.07	1355.71	1968.11	---	---	18697.10
2001-02	15033.90	1831.25	1646.41	2387.93	200.00	---	21099.49
2002-03	16405.48	2332.08	1947.96	2272.70	100.00	---	23058.22
2003-04	NA	NA	NA	NA	NA	NA	NA

Pension Fund Investment

(Rupees in crore)

Year ending	Public Account	Central Government Securities	State Government Securities	PSU Bonds	Total
31-3-2000	1946.44	310.03	184.00	713.00	3153.47
31-3-2001	2111.89	401.86	239.14	918.06	3670.95
31-3-2002	2291.40	578.13	351.20	1295.86	4516.59
31-3-2003	2486.17	819.66	439.26	1554.75	5299.84
31-3-2004	NA	NA	NA	NA	NA

Audit scrutiny of investments made by IDBI on behalf of CMPFO revealed the following:

2.11.1 Declining rate of interest earned on investments year on year

The rates of interest earned on fresh investments by IDBI for Provdent Fund each year and the interest paid to subscribers by CMPFO during the period under review is as follows:

Year	Yield till Maturity (YTM) (%)	Interest paid to subscribers (%)
1999-00	12.11	12
2000-01	11.28	11
2001-02	9.89	9.5
2002-03	8.03	9
2003-04	6.21	8

Thus, the rates of interest earned by CMPFO was continuously declining and during the years 2002-03 and 2003-04 was even less than the interest payable to the subcribers. Audit analysis revealed that out of the total invested funds of Rs. 23558.22 crore as of 31 March 2002, Rs. 6475.55 crore had a return of eight *per cent* and above of which Rs. 4555.12 crore i.e. 70.34 *per cent* would have matured by 2012. Hence given the profile of returns on investment, it would not be financially sustainable for the Organisation to maintain the current rate of interest paid to subscribers after 2012. There was no investment committee in the Organisation to monitor the investments made. The National Productivity Council (NPC) in it's report on the functioning of the Organisation also commented that investment was a neglected are in the Organisation and that good investment opportunities were yet to be tapped by the Organisation.

2.11.2 Special Deposit Scheme (SDS)

The Ministry of Finance introduced (June 1975) a Special Deposit Scheme (SDS) for the benefit of non-Government provident, superannuating and gratuity funds. The scheme was effective from 1 July 1975. The eligible funds could invest up to twenty *per cent* of their monthly accretions in the form of interest bearing deposits under the SDS. Interest was payable on 31 December each year.

The CMPFO applied for premature withdrawal of Rs. 200 crore from SDS in December 2000 for discharging the liabilities of obligatory payments viz. Provident Fund and Pension. The withdrawal was permitted in October 2001.

Audit ascertained that on receipt of Rs. 200 crore, the CMPFO invested the entire amount in short-term deposits in three different Banks from October 2001 to June 2002. Subsequently, the CMPFO transferred Rs. 30 crore and Rs. 25 crore to Regional Office, Hyderabad in June 2002 and December 2003 respectively. It further transferred a sum of Rs. 50 crore and Rs. 20 crore to its Revenue Account (Account No. I) in September 2002 and December 2002 respectively. Hence, Rs. 125 crore was only utilized for obligatory payments. The remaining Rs. 75 crore remained in short term deposits up to December 2004.

The excess withdrawal of amount by Rs. 75 crore and its retention in short term deposits in scheduled banks, which offered a lower rate of interest than SDS deposits, resulted in loss of Rs. 1.24 crore. This loss occurred on account of poor financial management.

2.12 Internal Control

The following issues significantly weakened the internal control in the CMPFO.

(i) BCCL had committed several breaches of the Act, which attracted punitive measures. Under the Act, these measures, in the form of damages and criminal prosecution, were to be initiated by the CMPFO. Senior posts in CMPFO were however filled by employees from the subsidiaries of CIL[1]. Officers of BCCL (from April 1999 to January 2001) and MCL[2] (from April 2001 to December 2004) were appointed on deputation basis to the post of Commissioner while three officers on special duty (OSD) from CCL[3], BCCL and ECL[4] were posted on loan basis. One of the OSDs was in charge of Finance and Accounts from August 2001 to December 2004 and two were incharge of Pension from December 2000 to March 2004 and June 2002 to date respectively (December 2004). The salaries of these OSDs were also paid by their parent company. As a result there existed a conflict of interest, affecting the corporate interests of the CMPFO, particularly in matters of enforcement of the provisions of the Act. The NPC also unfavourably viewed this practice and suggested in its report that the Commissioner CMPFO should either be from the CMPF Organisation or the Central Services.

(ii) The Organisation had no accounting, internal audit and office procedure manual of its own.

(iii) No procedure for rotating duties of employees dealing with cash, valuables, stores and stock had been established.

(iv) In terms of form GFR-19, an Asset Register should be prepared containing information on the purchase of all assets, suppliers, cost, location, rate of depreciation, accumulation of depreciation, net value etc. However, this register was not maintained. As a result, the Management could not assure the existence and condition of assets.

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[1] Coal India Limited
[2] Mahanadi Coalfields Limited
[3] Central Coalfields Limited
[4] Eastern Coalfields Limited

(v) Ledger for contractors/suppliers advances and day to day transactions were not maintained.

(vi) The CMPFO headquarters did not carry out any inspection of the regional offices to ensure that they functioned in accordance with the prescribed procedures and practices.

In response, the CMPFO stated (October 2004) that these observations were noted. Management also stated that they would prepare their own accounting and auditing manual and inspection teams would also be constituted after appointment of additional staff through the Staff Selection Commission.

2.13 Conclusion

The CMPFO failed to ensure complete coverage of the schemes administered by it. It did not ensure full recovery of contributions of its members from the employers. The contributions actually received were not properly accounted in its books. Significantly, the CMPFO was unable to determine if the income earned each year on its provident fund investments actually matched the interest declared payable. Recoveries on account of administrative charges were misused. The internal control system and complaints redressal mechanism were weak and the CMPFO failed to effectively protect the interests of its members.

The matter was referred to the Ministry in October 2004 and November 2004; its reply was awaited as of December 2004

Annex –I

(Referred to in paragraph 2.3)

Details of Regional Offices of Coal Mines Provident Fund Organisation

1. Dhanbad I
2. Dhanbad II
3. Dhanbad III
4. Ranchi I
5. Ranchi II
6. Ranchi III
7. Deoghar
8. Asansol I
9. Asansol II
10. Asansol III
11. Asansol IV
12. Kolkata
13. Singrauli
14. Chhindwara
15. Jabalpur
16. Bilaspur
17. Nagpur
18. Hyderabad
19. Kothagudam
20. Talchar
21. Margerita
22. Jammu
23. Sambalpur