CHAPTER IV
MAJOR FINDINGS IN TRANSACTION AUDIT

(A) Loss/over payment/short recovery/other recoveries at the instance of Audit

4.1 Excess payment of customs duty

BSNL failed to consider the reduction in customs duty while finalising a WLL tender resulting in excess payment of customs duty of Rs 16.29 crore.

BSNL placed purchase orders for 500.35 k lines of WLL equipment between December 2002 and January 2003

Bharat Sanchar Nigam Limited (BSNL) floated a tender in May 2002 for procurement of 3.5 lakh line Wireless in Local Loop (WLL) CDMA equipment with V 5.2 connectivity. The tender was opened on 1 August 2002 and purchase orders were placed on M/s United Telecom Limited (UTL) and M/s Advance Radio Masts (ARM) (now ICCOM) between December 2002 and January 2003 for 245.35 k[1] lines and 105 k lines respectively. In addition, purchase orders for 150 k lines were placed on M/s Indian Telephone Industries (ITI) under reservation quota.

The Company failed to take into account the reduction in customs duty

Audit scrutiny of the tender revealed that two major items i.e., Base Station Controller (BSC) and Base Transreceiver Station (BTS) forming part of WLL equipment contained an import content and the lowest quote of M/s UTL had 87 *per cent* import content in the above two items. M/s UTL had shown customs duty as 39 *per cent* in its bid. The rate of customs duty on BSC and BTS was reduced from 39 *per cent* to 21.8 *per cent* from 1 April 2002 for the year 2002-03. Audit observed that the Committee for evaluation of tender (CET) failed to take cognizance of the reduction in customs duty from 39 *per cent* to 21.8 *per cent* while evaluating the tender and submitted its report recommending the lowest itemised prices of BSC and BTS as quoted by M/s UTL. The proposal was also seen by the Material Management (MM) Cell of the Company in October 2002 and approved by the Management in November 2002. This was done despite the fact that for another tender of WLL expansion equipment opened in May 2002, the MM cell, just two months earlier in August 2002, had considered the reduction in customs duty for the year 2002-03 and finalised the prices.

Excess payment of Rs 16.29 crore was made to suppliers

Thus failure of CET and Management to apply reduced customs duty while finalising the itemised prices of WLL equipment resulted in excess payment of Rs 16.29 crore as shown in Appendix 15. Out of this, Rs 3.39 crore was for the supply of equipment received after the scheduled delivery period as shown in Appendix 16.

[1] k = 1000 lines

On this being pointed out, the Management in their interim reply, stated that (i) the CET had decided the ranking based on the composite prices in the bids of the vendors, (ii) the prices approved by BSNL vide clause 9.6 under section II of bid document would be inclusive of levies and taxes, packing, insurance, freight etc. The details of levies and taxes provided under clause 9.2 was for information of the purchaser (i.e., BSNL) and any change in these would have no effect on the price during the scheduled period of delivery. Owing to these reasons the CET recommended the prices without considering the 39 *per cent* customs duty quoted by M/s UTL. However, the information was used to get price advantage, if any, during the extended delivery period and (iii) M/s ICOMM had supplied the material in extended delivery period and excess payment, if any, made to them could be considered for recovery.

The Management has partially agreed to the audit contention and agreed to recover any excess payment arising out of supplies made during extended delivery period. But the Management's contention of ignoring the downward revision in customs duty as per provisions of bid document at the time of finalisation of prices is not tenable as the relevant provisions do not prohibit BSNL from taking cognizance of reduction in the rates of levies and taxes before finalisation of tenders. Clause 9.6 of the bid document provides that once BSNL approves the price inclusive of levies and taxes, any change in levies and taxes would not have effect on price during the scheduled delivery period. Audit has pointed out that BSNL failed to consider the reduced rate of customs duty at the time of finalisation of price and not after the prices were approved. Hence quoting of clause 9.6 by the Management as a reason for failure to consider reduced customs duty is not relevant. Also BSNL, in a similar tender finalised during the same period, gave due consideration to reduction in the rates of customs duty by reducing the prices. Hence, failure of the Company to consider the reduced rates of customs duty led to excess payment of Rs 16.29 crore.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

4.2 Negligence leading to loss in fire

Chief General Manager Telecommunications, Bihar Circle, circulated the instructions of the Department of Telecommunications regarding precautions/preventive measures to be taken against fire incidents, after a delay of five years. Failure to take necessary precautions resulted in loss of Rs 2.12 crore.

DoT issued instructions on preventive measures to be taken against fire in telephone exchanges

The Department of Telecommunications (DoT) issued detailed instructions to all heads of telecom circles (March 1998) on precautions/preventive measures to be taken against fire incidents in telephone exchange buildings. Taking a serious note of non-compliance of these instructions, BSNL reiterated (September 2001) the aforesaid instructions for strict adherence. The instructions mainly emphasised proper maintenance of fire fighting devices by BSNL's Electrical Wing that was to work in tandem with the exchange authorities. The instructions, *inter alia*, stated that (i) power cables, both AC and DC, intersuit wiring and subscriber cables should be laid separately, (ii) fire barriers should be provided at all floor/wall crossings of all cables and (iii) hazardous materials such as old files, wooden cases etc., should not be dumped near the exchange building. DoT also issued (September 2000) instructions to circles to get proper insurance cover for their assets.

CGMT, Bihar Circle circulated the instructions after a delay of five years

Audit scrutiny of records during November/December 2003 revealed that the instructions of March 1998 were circulated (March 2003) by the Chief General Manager Telecommunications (CGMT), Bihar Circle, to his staff after a delay of five years. The Electrical Wing of the circle did not take up the maintenance of the automatic fire detection and alarm system as well as fire extinguishers on different floors of the exchange building although these systems were installed between December 2000 and October 2001. Fire drills were not conducted at regular intervals and Assistant Engineer (AE) Electrical did not furnish the required certificate in this respect. No round the clock watch and ward was provided in Electronic Wheeler System of Digital Trunk Automatic Exchange (EWSD TAX) and guarding was provided from 6 am to 9 pm only. AE, Electrical intimated (December 2003) to Audit that preventive measures against fire accidents were not taken up as the instructions in this regard had not been received.

Fire broke out in the main telephone exchange at Darbhanga and equipment worth Rs 2.12 crore was burnt

A fire broke out in the main telephone exchange at Darbhanga on the night of 29/30 November 2003 and the 8.5K EWSD TAX equipment, along with accessories valuing Rs 2.12 crore, was burnt. The report given by the Committee enquiring into the fire accident revealed serious lapses and violation of instructions like dumping of inflammable material like old files, wooden cases etc., in the store shed just beside the battery room, cables hanging from ceiling to floor near the window in the battery room, the power cable and the subscriber cable being laid through the same hole in the battery room and the automatic fire and smoke detection system not being in working condition. Had the DoT's instructions on fire safety measures been circulated in time and preventive measures taken, the loss could have been avoided/minimised. Moreover, in the absence of insurance cover of the exchange building, the possibility of making good the loss was also ruled out.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

4.3 Non recovery of Sales Tax

Failure of tax deducting authorities in six Telecom Districts in the Orissa Circle to follow statutory provisions of the Orissa Sales Tax Act led to non-recovery of Sales Tax to the tune of Rs 50.97 lakh, besides inviting the risk of imposition of penalty to the tune of Rs 1.02 crore.

Orissa Sales Tax Act 1947 stipulates deduction of 4 *per cent* Sales Tax at source from a contractor where the value of a works contract exceeds Rupees one lakh

The Act also provides for imposition of penalty in the case of non-recovery of Sales Tax

The Orissa Sales Tax Act, 1947 provides for deduction of 4 *per cent* Sales Tax at source from a contractor where the value of a works contract exceeds Rupees one lakh. It further stipulates that with respect to any works contract involving both transfer of property in goods and labour or services, if the Commissioner is satisfied about justification of deduction of tax on a part of the sum, or no deduction of tax, he shall grant a certificate as may be appropriate. The deducting authority shall either make deduction or no deduction of tax, as the case may be according to that certificate. It will be the responsibility of the contractor to apply and obtain such a certificate from the Sales Tax Authority (STA) and produce the same before the tax deducting authority for claiming the justified amount of deduction. The Act also provides for imposition of penalty not exceeding twice the amount required to be deducted in the case of non-recovery of Sales Tax.

In six Telecom Districts under the Orissa Circle, deducting authorities did not deduct Sales Tax of Rs 50.97 lakh on the value of works contracts exceeding Rupees one lakh in 89 cases

BSNL was liable for penalty of Rs 1.02 crore

Audit scrutiny (September 2002 to June 2003) in six Telecom Districts under the Orissa Circle viz., Baripada, Balasore, Berhampur, Koraput, Bolangir and Phulbani revealed that the tax deducting authorities did not deduct Sales Tax amounting to Rs 50.97 1akh in 89 cases during the period 2001-03, on the value of the works contract (estimates/work orders/bills) exceeding Rupees one lakh. Certificates, from the STA had also not been produced by the contractors for not deducting the Sales Tax. Consequently, the Company would also be liable to pay penalty upto Rs 1.02 crore to the State authorities for violation of the Sales Tax Act.

On this being pointed out by Audit, five Telecom Districts replied (September 2002 to June 2003) that ST had been recovered wherever the work orders exceeded Rupees one lakh. The reply is not tenable as the works contract estimates/work orders/bills exceeding Rupees one lakh, were split up into number of bills with a view to restricting the amount to less than Rupees one lakh. The General Manager, Telecom District, Berhampur, contended (June 2003) that cable laying work did not involve transfer of property in goods. The reply is not tenable because (i) Sales Tax is leviable on the value of the works contracts and (ii) cable laying works come under the purview of works contracts, as opined by the Commercial Tax authorities of the State of Orissa.

The matter was referred to the Ministry in June 2004; its reply was awaited as of November 2004.

4.4 Non-recovery of compensation for damage to underground cables

Failure of four SSAs in the West Bengal and Uttar Pradesh Telecom circles to issue demand notes for carrying out repair work estimated at Rs 1.10 crore resulted in non-recovery of compensation for damage caused to underground cables by outside agencies.

Rules, as adopted by BSNL, provide that when any of its property is damaged by an outside agency compensation should be claimed from the party concerned. Further, the compensation claim should be levied as per the provisions, taking into account the actual cash outlay and value of stores utilised in repairing the damage, along with overheads.

Mention was made in para 18 of Audit Report No. 6 of 2002 of the Comptroller and Auditor General of India (Union Government) Posts and Telecommunications for the year ended 31 March 2001 regarding non-recovery of compensation of Rs 55.17 lakh for damage caused to departmental property. The Ministry in its Action Taken Note stated that the compensation recoverable was Rs 7.84 lakh and the same was yet to be recovered. The difference in the figures was stated to be due to wrong bookings which were subsequently reconciled.

Management did not prefer recovery claims of Rs 1.10 crore on agencies responsible for damaging cables

Audit scrutiny (December 2002 to November 2003) in four SSAs in West Bengal and Uttar Pradesh Circles revealed cases of damage to underground cables by local agencies and optical fibre cable contractors on 14 occasions during 2001-02. Subsequently, the Management replaced the damaged cables at their own expense by sanctioning estimates for Rs 1.10 crore but the claim for recovery of compensation was not preferred on the agencies concerned.

On this being pointed out, the Management (December 2002 – November 2003) agreed to issue demand notes for recovery.

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.

4.5 Excess payment to supplier

Chief General Manager, Southern Telecom Project, Chennai failed to restrict payment to a supplier to 90 *per cent* of the provisional price of the purchase order and released 100 *per cent* payment pending finalisation of the price. This resulted in excess payment of Rs 66.40 lakh to the supplier.

BSNL placed a purchase order in March 2001 for supply of DWDM and OLA

Bharat Sanchar Nigam Limited (BSNL) placed a purchase order in March 2001 on M/s Siemens Public Communications Network Limited, Gurgaon for the supply of Dense Wavelength Multiplexing Terminal Equipment (DWDM) and Optical Line Amplifiers (OLA) with spares. The provisional value of equipment under the purchase order was Rs 7.40 crore. This was to be finalised after taking into consideration the duties/taxes for the budget year 2001-02.

The supplier failed to supply the equipment within the original delivery schedule of six months of placement of purchase order. BSNL, in January 2002, agreed to extend the delivery schedule upto 28 March 2002 subject to the following conditions:

The delivery period was extended with LD and 90 *per cent* payment

- extension of delivery period would be with levy of liquidated damage (LD) charges as per tender conditions;
- the supplies made during the extended delivery period would be paid for at 90 *per cent* of the provisional prices as indicated in the purchase order. These would be finalised based on the purchase order price with budgetary reduction and/or approved prices in the new tender opened on 19 July 2001, whichever were lower;
- all other terms and conditions of the purchase order would remain unaltered.

The supplies were completed in the last week of March 2002 and a payment of Rs 6.52 crore was released to the supplier in May 2002.

BSNL after finalising the prices in September 2003 and fixing the value of equipment under the purchase order at Rs 6.66 crore asked the heads of the circles to recover excess payment made, if any, from the supplier.

Audit scrutiny of the records of Chief General Manager (CGM), Southern Telecom Project (STP), Chennai during October/November 2003, revealed that:

BSNL made 100 per cent payment leading to excess payment of Rs 66.40 lakh, besides loss of interest

- in spite of BSNL's directions of January 2002, CGM made payment of Rs 6.52 crore to the supplier (May 2002) at 100 *per cent* of the provisional price of the purchase order placed in March 2001, instead of 90 *per cent* after adjustment of 12 *per cent* LD charges amounting to Rs 88.84 lakh;
- as per the rate finalised by BSNL in September 2003, the payment due to the supplier was only Rs 5.86 crore. This resulted in excess payment of Rs 66.40 lakh besides loss of interest thereon of Rs 6.74 lakh.

The excess payment was recovered at the instance of Audit

The Management, while confirming the facts and figures, stated (October 2004) that 100 *per cent* payment of the provisional bill was made by oversight and the excess payment had been recovered. The recovery was made at the instance of Audit. It was further stated that the interest would be recovered from the 5 *per cent* payment still due to the supplier.

The matter was referred to the Ministry in May 2004; its reply was awaited as of November 2004.

(B) Infructuous expenditure

4.6 Irregularities in the execution of cable duct works

Violation of instructions in the execution of cable duct works by the General Manager Telecom, Aligarh Secondary Switching Area under the Uttar Pradesh (West) Circle led to unauthorised expenditure of Rs 3.60 crore, besides blocking of funds of Rs 1.27 crore due to idling of four duct routes.

The Chief General Manager Telecommunications (CGMT), Uttar Pradesh (West) Circle prescribed in August 1999 for the year 1999-2000, targets for duct construction in Secondary Switching Areas (SSAs) falling under his jurisdiction. The target for Aligarh SSA was fixed as 3.20 km. Subsequently it was decided that duct work of 4.60 km for which work was in progress should be completed. On being brought to the notice of the CGMT by the Civil wing that work was allotted to them by the SSA head without his approval, the CGMT issued specific instructions to GMT, Aligarh and Ghaziabad in January 2001 that no duct work should be undertaken without his approval. This included duct works in Hathras.

GMT, Aligarh sanctioned 15 duct routes of 16.15 km in violation of instructions

Test check of the records of General Manager Telecom (GMT), Aligarh SSA, during May 2002 and May 2003, revealed that the GMT sanctioned a project estimate for Rs 4.17 crore (November 2000) for the construction of 10.95 km cement concrete cable duct on 10 routes in Aligarh city and another project estimate for Rs 1.64 crore (December 2000) for construction of 5.20 km of similar work on five routes in Hathras.

Unauthorised construction led to irregular expenditure of Rs 3.60 crore

The construction of 6.35 km* cable duct work in the case of Aligarh city at a cost of Rs 2.25 crore and 5.20 km in Hathras at a cost of Rs 1.35 crore was therefore in contravention of the instructions of CGMT leading to unauthorised expenditure of Rs 3.60 crore.

Rupees 1.27 crore were blocked due to idling of four duct routes

Further, out of 15 duct routes, four routes handed over to project authorities between March and September 2002 were lying idle as of May 2004. This resulted in blocking of funds of Rs 1.27 crore.

The GMT stated (May 2002) that the cable ducts were essential for laying of underground cables immediately for achievement of DELs. The cable duct routes were being used for laying of cable as per the necessity of cable for different areas. He further stated (May 2004) that cable would be pulled as per availability of cable on the remaining four routes.

The reply is not acceptable as this does not explain the violation of instructions issued by the CGMT. This rendered the expenditure of Rs 3.60 crore incurred on cable ducting irregular and unauthorised.

* The difference between the authorisation of 4.60 km and what was actually undertaken viz., 10.95 km

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.

4.7 Unfruitful expenditure

Chief General Manager, Telecommunications, Rajasthan Circle, failed to indicate the locational utility (rural/urban) in the requisition for supply of Switch Mode Power Supply power plants, leading to unfruitful expenditure of Rs 1.52 crore.

The Telecommunication Engineering Centre (TEC), New Delhi, specified (February 2001) the input voltage range for Generic Requirement (GR) for Switch Mode Power Supply (SMPS) power plants for rural and urban application as below:

	Rural application	Urban application
Single phase (Nominal 230V)	150V to 275V	165V to 260V
Three phase/4 wire (Nominal 400 V)	320V to 480V	340V to 440V

CGMTS Kolkata allotted 86 power plants to the Rajasthan Circle

The Chief General Manager, Telecom Stores (CGMTS) Kolkata placed purchase orders in November 2002 on M/s Infinity EV Motors Private Limited, Hyderabad, for supply of SMPS power plants of different types. The CGMTS, allotted 60 power plants of (3+1) x 100 A with u/c 600 A at Rs 1,76,580 per unit based on the requirement of Rajasthan circle. The supplies were received between December 2002 and January 2003. The CGMTS, Kolkata, issued additional purchase order for 26 power plants in March 2003 based on the Circle's requirement on the same vendor for the same type. The supplies against additional order were received in April 2003.

All the plants failed to work due to non-conformity with AC input specifications

CGMT Rajasthan failed to indicate the nature of application (rural or urban) resulting in unfruitful expenditure of Rs 1.52 crore

Audit scrutiny of records of CGMTS, Kolkata, (May 2004) revealed that all the 86 power plants which were mostly used for commissioning in rural areas failed to work since these power plants could work only in the AC input voltage range 340V to 440V. As most of the Single Base Modules (SBMs)/0.5K Remote Switching Units (RSUs) were installed in rural areas, these power plants could operate in the input voltage range 320V to 480V applicable for rural areas. It was further noticed that as per GR the systems using basic modules of rating upto 50 A were envisaged for rural application and systems using basic modules of rating 50A, 100A and 200A were envisaged for urban application. But while placing requirement (September 2002 and February 2003) CGMT, Rajasthan Circle, failed to indicate the nature of application (rural or urban) of power plants. Thus due to non conformity with the AC input specifications the power plants could not be put to use in the Rajasthan Circle where the AC supply voltage goes beyond 440V and upto 480V. This resulted in unfruitful expenditure of Rs 1.52 crore.

Rajasthan Circle requested the vendor in October 2003 to replace or modify the AC supply voltage to suit rural areas i.e., input range 320V to 480V so that the power plants could be utilised in rural areas. The vendor replied that power plants were in conformity with TEC specification and the systems using basic modules of rating 100A were envisaged for urban application. Quality Assurance, BSNL, Hyderabad, also tested and cleared for urban application only.

Thus failure of CGMT, Rajasthan Circle, to indicate the nature of application (rural or urban) in the requisition for power plants resulted in unfruitful expenditure of Rs 1.52 crore on procurement of power plants.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

4.8 Irregular expenditure and payment of penalty due to delay

General Manager Telecom District, Ghaziabad, under the Uttar Pradesh (West) Circle incurred irregular expenditure of Rs 51.84 lakh during 1996-2003 on unauthorised construction. He also failed to construct the administrative building on it within the stipulated period of two years from the date of allotment leading to a penalty of Rs 32.19 lakh imposed by the Authority.

Rules provide that the commencement of construction work should be started only after getting the land registered in the name of the Company and receipt of approval to the building plan from the local authorities.

GDA allotted a plot to GMTD Ghaziabad for a telephone exchange

Ghaziabad Development Authority (GDA) allotted (August 1988) a plot of land measuring 4052.22 sq.m. at a cost of Rs 21.17 lakh to the General Manager, Telecom District (GMTD), Ghaziabad for construction of telephone exchange building with the condition that the construction work should be completed within two years from the date of allotment after getting the drawings/building plan approved by GDA. The GMTD made the payment in January 1989 and took possession of the land in March 1990.

GMTD failed to get the land registered in the name of the Company

Audit scrutiny (November/December 2003) revealed that the GMTD failed to take action to get the land registered in the name of the Company, which was a pre-requisite for getting approval of drawings from the local authorities and to complete the construction of the building within the stipulated period of two years.

Delay in submission of drawings to GDA led to levy of penalty of Rs 32.19 lakh

The GMTD took more than six years for finalising the schedule of accommodation (SOA) for construction of an administrative building which was approved by the DoT in May 1997 although originally a telephone exchange was planned. He submitted (September 1999) the architectural drawings to GDA for clearance after delay of more than two years of approval of SOA. But, the GDA rejected (February 2000) the drawings due to non-compliance of its requirements intimated to GMTD in December 1999 and levied a penalty of Rs 27.51 lakh for the period August 1990 to April 2002 due to non construction of building within the stipulated period of two years. Upto April 2004 the total amount of penalty worked out to Rs 32.19 lakh.

The approval of drawings was still awaited (July 2004) due to non-payment of penalty and non-registration of land in the name of the Company.

GMTD incurred unauthorised expenditure of Rs 51.84 lakh on construction of exchange building, staff quarters and other structures

Meanwhile, however, the GMTD unauthorisedly constructed a building for installation of 3K Remote Switching Unit exchange, staff quarters and other civil structures such as conference hall, store shed and DOTSOFT customer service centre between 1995-96 and 2003-04 at a total cost of Rs 51.84 lakh though the schedule of accommodation approved by DoT in May 1997 was for administrative building and its drawings awaited the approval of GDA. Thus the entire expenditure of Rs 51.84 lakh, incurred on construction of civil structures in violation of rules and contrary to approved SOA was irregular.

The Management stated in April 2004 that the proposal for payment of levy imposed by GDA amounting to Rs 32.19 lakh was under active consideration for which the necessary formalities such as allotment of funds/financial approval were being completed. They added that after making the payment of penalty the land would be registered in the name of BSNL. Only then the drawings would be approved by GDA. Further, the Assistant General Manager (SP) stated (July 2004) that the construction was started as there was immediate requirement of building for telephone exchange.

Thus the failure of the Management to get the land registered in the name of the Company even after a lapse of about 16 years of allotment and to commence the construction work after getting the drawings approved by GDA within two years from the date of allotment of land led to levy of penalty amounting to Rs 32.19 lakh. The penalty of Rs 32.19 lakh would further increase till the construction is authorised. Further, the entire expenditure of Rs 51.84 lakh incurred on construction of civil structures in violation of rules was irregular. The Company should ascertain the reasons for non-registration of the land and fix responsibility for the construction of the unauthorised structures.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

(C) Idle/Unproductive expenditure

4.9 Idling of Digital Loop Carrier equipment

Chief General Managers, Tamil Nadu and Himachal Pradesh Circles procured Digital Loop Carrier systems without assessing the actual requirement. This led to idling of equipment worth Rs 19.26 crore.

Digital Loop Carrier (DLC) on optical fibre is a system used in access network to provide reliable and latest type of services to the customers. This is also economical as compared to conventional cable.

BSNL placed purchase orders on four firms for procurement of 500 DLC systems

Bharat Sanchar Nigam Limited (BSNL) placed purchase orders on four firms between June 2001 and August 2002 for procurement of 500 DLC systems to meet the requirement of various circles for the years 2001-02 and 2002-03. BSNL allotted 44 systems to Chief General Manager Telecom (CGMT), Tamil Nadu Circle, against his requirement for 2001-02. The systems were received in Tamil Nadu Circle between March 2002 and March 2003. CGMT, Himachal Pradesh Circle, received two systems in January 2003.

Test-check of records between June and December 2003 in Salem, Tuticorin and Pondicherry Secondary Switching Areas (SSAs) under the Tamil Nadu Circle revealed that CGMT allotted 13 DLC systems to these SSAs without ascertaining their actual requirement. No indent had been placed by these SSAs and there was no demand for new connections. Out of the 13 systems, six were installed and seven were lying unutilised since their receipt (September 2002/January 2003) out of which four were in Salem SSA where chances of their utilisation were remote, considering the availability of spare capacity in all the exchanges and the absence of demand for new connections.

Further review of records of CGMT, Tamil Nadu Circle, to ascertain the utilisation of the systems in the Circle as a whole revealed that in all 29 systems were lying idle in the Circle. The CGMT (May 2003) proposed diversion of the systems to Corporate Office on the ground that the deployment of DLC systems was not financially viable in the Circle as (i) in most of the areas, the demand was scattered and there would not be much savings from the cable component and (ii) most of the skipped-over connections and pending waiting lists were being cleared by deploying Wireless in Local Loop (WLL) technology.

Audit scrutiny (January – March 2004) of records of Solan and Mandi SSAs under Himachal Pradesh Circle revealed that in the Solan SSA the systems were not installed as these were not found technically suitable for ‘ring deployment’. The systems were diverted (May 2003) to Mandi SSA where they could not be installed due to coverage of the proposed area through WLL technology and were lying in store (January 2004).

31 DLC Systems worth Rs 19.26 crore were lying unutilised due to procurement without assessing the requirement

Thus, the procurement and allotment of DLC systems without assessing the actual requirement and technical suitability at the places of installation resulted in idling of 31 DLC systems worth Rs 19.26 crore with remote prospects of future utilisation because of fast changing technology.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

4.10 Injudicious procurement

Chief General Manager, Telecom, Maharashtra Circle injudiciously procured galvanised tapered steel tubes in excess of the actual requirement leading to blocking of funds of Rs 15.22 crore.

The Department of Telecommunications (DoT) decided in April/July 2000 to lay 5 pair cable since it was more economical than erecting a new alignment for giving new telephone connections (NTC) and instructed the circles not to procure overhead material to the full extent as per norms.

Guidelines stipulated disciplined procurement and expeditious utilisation of material

Guidelines on decentralised procurement stipulate that circles should ensure proper and expeditious utilisation of the material ordered by them and that they should also exercise utmost discipline in their procurement to ensure that there was no unnecessary piling up of inventory.

CGMT invited tenders for galvanised tapered steel tubes

The prices finalised were 30 to 36 *per cent* higher than the prices of 1999-2000

The Chief General Manager, Telecom, Maharashtra Circle, invited tender (March 2000) for procurement of galvanised tapered steel tubes required for erecting poles in order to provide NTCs for the year 2000-01. Out of 61 bidders who participated, 60 bidders had quoted the same price and one bid was cancelled for want of validity. As the prices offered by the bidders were much higher than the prices of tubes procured during the previous year (1999-2000), the Stores Purchase Committee (SPC), after negotiating with the bidders, finalised the price at 30 to 36 *per cent* higher than the prices of 1999-2000. The SPC did not consider the option of re-tendering as it felt that the target of provisioning of NTCs would be affected and it was unlikely to receive lower prices. Purchase orders were placed on 55 bidders and the total quantity to be procured was evenly distributed among them.

While finalising the tender, CGMT had a stock equal to 3 to 11 months' consumption

Audit scrutiny (March 2003) revealed that the CGMT, at the time of finalisation of tender, had a stock balance of A8/B8 types of tubes equal to three month's consumption and of C8 type equal to 11 months' consumption based on average monthly consumption of previous year. As the prices quoted by all the 60 bidders were the same and were higher than the prices of previous year by 30 to 36 *per cent* even after negotiation, the CGMT could have gone for re-tendering for competitive rate thereby breaking the possibility of cartel.

CGMT utilised only 55 to 58 *per cent* of the stock during 2000-01. C 8 tubes were not utilised

The CGMT could utilise only 55 to 58 *per cent* of the stock of A8/B8 tubes available during the year 2000-01 including the quantities procured during 2000-01. The C8 tubes procured were not at all utilised as the previous stock was more than sufficient to meet the requirement. Despite this, the CGMT procured nearly the full quantity (84 to 92 *per cent*) as per norm ignoring the instructions of April/July 2000 not to procure overhead material to the full extent as per norm.

Thus, the failure of the CGMT to assess the actual requirement as per instructions of April/July 2000 and to follow the guidelines on procurement resulted in blocking of funds of Rs 15.22 crore.

Rates obtained in 2001-02 were lower than the rates of 2000-01

The Management stated (September 2003) that though the bidders did not accept the counter offer prices, the SPC succeeded in finalising the price 12 *per cent* lower than the price offered by the bidders, which was considered reasonable at that time. The option of retendering was examined but it was unlikely to receive lower prices and retendering would have delayed procurement by two months. The reply is not acceptable as the prices finalised during 1998-99, 1999-2000 and 2001-02 showed a declining trend, whereas the prices of 2000-01 were much higher than the prices of previous years as also of succeeding year. The option of retendering was possible. This would not have caused difficulty as the Circle had a stock of three months' consumption at the time of finalisation of tender and the utilisation was only between 55 and 58 *per cent* during 2000-01.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

4.11 Idling of equipment

Excess procurement of Synchronous Transfer Mode equipment during 2001-02 by Maharashtra Circle resulted in idling of equipment and resultant blocking of capital of Rs 6.03 crore.

BSNL allotted 158 STM-4 terminals to the Maharashtra Circle

Bharat Sanchar Nigam Limited (BSNL) placed (December 2001) three purchase orders on two firms for procurement of 189 terminals of Synchronous Transfer Mode-4 (STM–4) equipment at a unit price of Rs 7.26 lakh to meet the requirements of Maharashtra, North East, Madhya Pradesh, Uttar Pradesh (East) Telecom Circles and Northern Telecom Project for the year 2001-02. BSNL allotted 158 terminals to Maharashtra Circle against its requirement of 158 for 2001-02. The Circle received the equipment by June 2002. It also had a stock of 20 terminals diverted by Kolkata Telephones in May 2001.

25 terminals worth Rs 1.95 crore were lying idle in Kalyan SSA

Maharashtra Circle had 110 surplus terminals

Scrutiny of the records of Principal General Manager, Telecom District (PGMTD), Kalyan (July 2003) revealed that 25 terminals of STM-4 equipment received in June and August 2002 worth Rs 1.95 crore were lying idle (March 2004). On further review of utilisation of the equipment in Maharashtra Circle as a whole, it was noticed from the records of Principal General Manager (Development), Mumbai that the Circle had a balance of 172 terminals as of August 2002. The Circle proposed (October 2002) to utilise 62 terminals for the year 2002-03 and the balance 110 terminals were identified as surplus. BSNL Corporate Office decided (December 2002) that STM-4 equipment available in Maharashtra Circle should be converted into Add/Drop Multiplexers (ADM 4) equipment before diverting these equipment to Western Telecom Project (WTP), Madhya Pradesh and Chattisgarh Circles so that these equipment could be utilised during 2002-03. However, out of 110 terminals, 16 were diverted (June 2003) to WTP Madhya Pradesh without converting them into ADM-4 and 11 were commissioned during 2003-04. Since planning of STM-4 had been stopped being a linear system and ring system with ADM-4 was planned for the future, the chances of uilisation of STM-4 equipment seemed to be remote.

83 STM-4 terminals worth Rs 6.03 crore were lying idle since receipt

The proposal to float tenders for conversion of STM-4 into ADM-4 was still under process (March 2004). The Circle still had a balance of 83 terminals worth Rs 6.03 crore in stock as of April 2004 which remained idle since their receipt in June 2002 as shown in Appendix 17.

Thus due to improper forecast of requirement and injudicious purchase of STM-4 terminals, the Company incurred wasteful expenditure of Rs 6.03 crore. Besides, conversion of STM-4 terminals to ADM-4 would further cost the Company Rs 83 lakh i.e. Rs 1.00 lakh per terminal (approximately).

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.

4.12 Idle investment

Chief General Manager, Chennai Telephones, failed to follow the instructions regarding plan approval from the Municipal Corporation prior to commencement of construction. This resulted in idle investment of Rs 3.62 crore.

Instructions prescribe that building plans should be prepared as per bye-laws of local bodies and actual construction works should be started only after receipt of approval of the building plans from these bodies.

CGMT completed construction of buildings between December 2001 and April 2003 at a cost of Rs 3.62 crore

The Chief General Manager, Chennai Telephones, accorded administrative approval and expenditure sanction for construction of staff quarters at Poonamallee, Perungudi and Korattur and a telephone exchange building at Korattur between February 1998 and January 2000. The civil wing of Bharat Sanchar Nigam Limited (BSNL) commenced construction of the buildings between August 1999 and November 2001 and completed the construction between December 2001 and April 2003 at a total cost of Rs 3.62 crore.

Chennai Telephones had not obtained approval of building plans from CMDA

Audit scrutiny in March and November 2003, revealed that Chennai Telephones had not obtained approval of the building plans from the Chennai Metropolitan Development Authority (CMDA). Hence, electricity connections could not be obtained as the Tamil Nadu Electricity Board (TNEB) insisted on planning clearance and completion certificates from the CMDA which were pre-requisites for applying for electricity connections. As a result, the completed buildings could not be taken over by Chennai Telephones. Planning clearance and permission for construction of the Perungudi and Poonamallee staff quarters which were completed in December 2001 and May 2002 respectively were applied for only in February 2004. Construction of the Korattur staff quarters and the exchange building was completed in November 2002 and April 2003 respectively, but planning permission had not been applied for till April 2004. Thus, due to disregard of the rules and procedures of the Company, an expenditure of Rs 3.62 crore incurred on the construction of staff quarters/exchange building remained blocked and the buildings could not be put to their intended use.

Expenditure of Rs 3.62 crore remained blocked and the buildings could not be used

On this being pointed out, the Management replied (June 2003) that till the previous year, the TNEB authorities had been extending power supplies to buildings owned or hired by BSNL without much problems. However, they started insisting upon submission of applications for planning clearance and completion certificates for construction of buildings, before processing electricity connections, which was a change from the normal procedure. The Management further stated that a Remote Line Unit was functioning in two Type C quarters using HT connection taken for Poonamallee Exchange since no power supply connection had been obtained so far.

The reply is not tenable since rules clearly specified that building plans should be prepared as per the bye-laws of local bodies. The construction works should have been started only after receipt of approval of the building plans from these bodies.

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.

4.13 Blocking of Capital of Rs 3.11 crore

Telecom District Manager, Khagaria, failed to commission Base Transreceiver Stations under the Wireless-in-Local Loop system at Saharbani and Beldaur in Bihar Circle, resulting in blocking of capital of Rs 3.11 crore.

Telecom District Manager (TDM), Khagaria under the Bihar Circle, sanctioned (August 2001/June 2002) detailed estimates for installation of Base Transreceiver Stations (BTSs) under the Wireless-in-Local Loop (WLL) system at Saharbani and Beldaur in order to provide better telecom facilities by replacing the existing analogue system and to provide village public telephones (VPTs) to connect the villages. The estimates further stated that no technical difficulties were anticipated.

BTSs were installed in July 2001/February 2002 before sanction of estimates

The BTSs were not commissioned as the area was not feasible for want of power supply/road communication

Audit scrutiny (March and April 2004) of records of TDM Khagaria revealed that BTSs at Saharbani and Beldaur were installed in July 2001/February 2002 even prior to sanction of the estimates. However, these BTSs were not commissioned since installation, as the area was not feasible for want of power supply/road communication as observed by the Sub-divisional Engineer. Ten and 46 telephone connections were shown to have been provided through Saharbani and Beldaur BTSs respectively since March 2004 as per the Net and Gross statements of the SSA, despite the fact that the said BTSs had not been actually commissioned. In fact, these telephone connections stated to have been working by receiving signals from other nearby BTSs, indicated not only distortion of facts in order to show commissioning of BTSs at Saharbani and Beldaur but also raised doubt on justification for installing BTSs at these places.

In reply, the Executive stated (April 2004) that the BTSs were installed as per instructions of the circle office (CO).

BTSs worth Rs 3.11 crore were lying idle for over two to three years

The purpose of connecting villages through VPTs was defeated

The reply is not tenable as the Circle failed to assess the requirement of the WLL system and make a detailed study of coverage by other BTSs installed in adjoining areas. The TDM, instead of identifying the infrastructural requirement for successful installation of the system in the villages identified, sanctioned the estimates merely stating that no difficulties were anticipated. This indicated that TDM, Khagaria merely complied with the CO's instructions without ascertaining the actual need and feasibility of the area to be covered under the WLL system. As a result, not only were BTSs worth Rs 3.11 crore lying idle for over two to three years, but also the purpose of connecting the villages through VPTs stood defeated.

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.

4.14 Injudicious expansion of exchanges

Injudicious expansion of exchanges in Darbhanga, Vadodara and Noida under the Bihar, Gujarat and Uttar Pradesh (West) circles, respectively, led to unproductive expenditure of Rs 2.69 crore.

The Department of Telecommunications (DoT), while issuing (September 1997) guidelines for optimum utilisation of telephone exchanges, re-fixed the average capacity utilisation as 75 *per cent* for exchanges having capacity between 1001 and 5000 lines.

There was injudicious expansion of exchanges without proper forecasting of demand

Audit scrutiny of the records of Principal General Manager, Telecom (PGMT), Vadodara, under the Gujarat Circle and General Managers, Telecom (GMsT), Darbhanga and Noida under the Bihar and Uttar Pradesh (West) circles, respectively, between December 2002 and January 2004, revealed that four exchanges were expanded during the period from May 2002 to April 2003. Out of these, three exchanges viz., G.R.Plot (23.30 *per cent*) under Vadodara Secondary Switching Area (SSA), Bela (59.27 *per cent*) under Darbhanga SSA and Greater Noida (64 *per cent*) under Noida SSA, were utilised below the DoT norm of 75 *per cent* at the time of expansion as shown in Appendix-18. The number of applicants waitlisted for these exchanges was one, 80, and nil, respectively, at the time of expansion. In view of this, the expansion of these exchanges without judicious forecasting of demand was not justified.

It was further observed that in Vasana exchange under Vadodara SSA, against the equipped capacity of 4500 lines, only 3530 connections (78.44 *per cent*) with a waiting list of eight applicants were utilised as of August 2002 and expansion was done in accordance with DoT norms. However, after expansion (September 2002) the total working connections were 3555 with waiting list of nine applications which declined to 3057 with nil waiting list (March 2004). Hence, there was no immediate need for expansion of the exchange.

Under utilisation of exchanges due to meagre demand for new connections resulted in unproductive expenditure of Rs 2.69 crore

The justification for expansion of these exchanges was made on the basis of average growth, policy of providing connection on demand, anticipated future demand and in compliance with the target fixed by the Circle. However, review of the records relating to the equipped capacity, working connections, waiting list etc., indicated that the justification was not based on factual details and data of utilisation and waiting list/demand available with the SSAs. The expanded capacities of these exchanges could not be utilised (March 2004) as there was meagre demand in these areas as shown in Appendix-18. This resulted in unproductive expenditure of Rs 2.69 crore.

PGMTD, Vadodra and Deputy General Manager (TD), Darbhanga stated in December 2002 and June 2004 that the planning for installation/expansion of exchanges was made purely on estimation, taking into account the future average growth and anticipated public demand. The GMTD, Noida stated (March 2004) that the exchange was installed/expanded keeping in view that Noida SSA, being a part of the National Capital Region, was a fast developing area.

The replies are not acceptable as there was either nil or meagre demand for new telephone connections and there was no immediate need for expansion which was done just to achieve the target fixed by the Circle without actual requirement. Moreover, after expansion of these exchanges, the growth rate of demand was inadequate to utilise even the pre-expansion capacity.

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.

4.15 Idle investment on construction of staff quarters

Construction of staff quarters by Chief General Manager, Rajasthan Telecom Circle, in excess of norms and actual demand led to idle investment of Rs 1.68 crore.

CGMT, Rajasthan constructed 39 staff quarters

The Ninth Plan target for construction of staff quarters for the Department of Telecommunications (DoT) was fixed at a minimum of 20 *per cent* of the staff strength. This target was reduced to 18 *per cent* in August 1999 with directions to fix the targets on a realistic basis, keeping in view the anticipated demand by the staff side. Contrary to the above, staff quarters were constructed by the Chief General Manager (CGMT) Rajasthan Telecom Circle without properly assessing the demand.

DoT accorded approval (June 1988) for the Schedule of Accommodation (SoA) for the construction of 73 staff quarters including Regional Telecom Training Centre (RTTC) at Jaipur. Subsequently, in a co-ordination meeting of Telecom Directorate held in March 1998 a decision was taken to reduce the number of quarters from 73 to 39. However, 12 quarters were constructed in January 1994 at a cost of Rs 60 lakh and remaining 27 staff quarters were constructed in November 2000 at a cost of Rs 1.27 crore.

As per the Ninth Plan target, six staff quarters were to be constructed

35 quarters were lying vacant as of March 2004, resulting in idle investment of Rs 1.68 crore.

Audit scrutiny of the records of the Divisional Engineer, RTTC Jaipur, Chief Engineer (Civil) and Executive Engineer Telecom, Civil Division-I between September 2000 and April 2003 revealed that the re-assessed projected demand for 39 quarters in March 1998 was not realistic as RTTC functioned on diverted posts which varied from 7 to 12 since its formation in January 1997 till March 1998 when the decision was taken to reduce the staff quarters. Thereafter, also the strength varied only from 25 to 31 during the period March 1999 to March 2004. As per revised target of 18 *per cent* (March 1998) of staff quarters for the Ninth Plan, the target for construction of staff quarters worked out to six quarters instead of 39 quarters considering the staff strength at the maximum level of 31 officials. Out of these 39 quarters constructed, four quarters were utilised for inspection, store and office purposes while the remaining 35 quarters were lying vacant as of March 2004. Thus, the construction of 35 staff quarters without demand from staff side resulted in idle investment of Rs 1.68 crore.

In reply, the Management stated (October 2003) that the construction of quarters was planned as probable need for RTTC staff at that time and that the reluctance of staff to opt for Government accommodation due to revision of pay scales and consequent lucrative HRA rates was also the probable cause. The reply is not acceptable as (i) not a single quarter was utilised for the purpose for which it was intended and (ii) the total number of quarters constructed was much more than the sanctioned strength even after seven years of functioning of the RTTC.

Thus, construction of quarters, far in excess of prescribed norms and actual requirement led to an idle investment of Rs 1.68 crore on the construction of staff quarters in Rajasthan circle.

The matter was referred to the Ministry in June 2004; its reply was awaited as of November 2004.

4.16 Blocking of capital of Rs 1.55 crore

Issue of a defective site suitability certificate in purchase of land resulted in blocking of capital of Rs 1.55 crore for over two years.

Site to be purchased should have a clear title, should be free from all encumbrances and encroachments and should not fall within a green belt

Rules, as adopted by the Company provide that a site to be purchased should have a clear title and should be free from all encumbrances and encroachments. The rules also stipulate that consultation with the proper authorities should be made to make sure that the site does not fall within a green belt area and is within the zoning plan of the area. The rules further provide that the officers should visit the site to adjudge its suitability and issue a site suitability certificate.

Haryana Urban Development Authority (HUDA) offered (December 2000) a plot of land measuring 8,000 sq. m. valuing to Rs 1.55 crore to General Manager Telecommunications (GMT), Ambala for construction of a telephone exchange at Ambala. In compliance with the company rules regarding purchase of land, the officers of the Company visited the site and issued a site suitability certificate in February/March 2001. Thereafter, the Company deposited (March 2001), 10 *per cent* cost of the plot amounting to Rs 14.03 lakh as earnest money to HUDA. The land was allotted to the Company on freehold basis in August 2001 and the balance payment of Rs 1.41 crore was made to HUDA in September 2001.

Audit scrutiny revealed (May 2002) that a team consisting of Assistant Engineer (Civil), Assistant Surveyor of Works and Executive Engineer (Civil) in their site suitability certificate, erroneously pointed out that there was green land on the back along the Amritsar-Delhi Railway line. The team also failed to notice that there was shortage in the site area. The Divisional Engineer in February 2001 also gave a suitability certificate for construction of a telephone exchange building. These deficiencies came to light only when the site was jointly visited in October 2001 by the Company and HUDA officials after full payment had been made to HUDA.

Issuance of a defective site suitability certificate by GMT Ambala, ignoring green land and short measurement of the plot, resulted in blocking of capital of Rs 1.55 crore

The Company requested (November 2001) HUDA to allot the balance land from an adjoining vacant plot, but the request was turned down (January 2002) by the latter with the intimation that the 2,400 sq. m. of green land was included in the site earmarked for telecommunication department and this area could not be deleted from the total area of the plot, and requested the Company to take over possession of the area measuring 7,750 sq. m. (including green land). The cost of the short provided area would be refunded. Accordingly, the amount of Rs 6.10 lakh in respect of short measurement of area measuring 250 sq. m. was refunded (March 2004) by HUDA. The sequence of events reveals issuance of a defective site suitability certificate on account of failure to highlight the facts regarding the green land and short measurement of the plot by GMT, Ambala. Further, failure to verify the master plan before making payment towards cost of land resulted in blocking of capital of Rs 1.55 crore for over two years. The very purpose of construction of the telephone exchange building for which the site was being purchased was defeated. It was observed that no action had been taken by the Company to fix responsibility for these lapses.

In reply, the Management stated (June 2004) that the broad dimensions of the plot were all approximate until the final demarcation was given by HUDA at the time of giving possession of the same. Therefore, it was not practically possible to check the actual dimensions and boundaries of the plots at the time of issuing the site suitability certificate. The reply is not acceptable since the site suitability certificate is expected to take into account municipal restrictions like zoning, green area and height of the building. Failure to take cognizance of the restriction reflected negligence on the part of the officers issuing suitability certificate.

The matter was referred to the Ministry in June 2004; its reply was awaited as of November 2004.

4.17 Idle investment on construction of staff quarters

General Managers Telecom (GMsT), Noida and Mathura constructed staff quarters during 1996-2000 without proper assessment of basic amenities. These quarters remained vacant, resulting in idle investment of Rs 1.01 crore.

Rules, as adopted by Bharat Sanchar Nigam Limited (BSNL), stipulate that the type of locality, nearness to offices, shopping centres and schools should be considered before construction of staff quarters. The rules further stipulate that staff representatives should be consulted as far as possible and their opinion should be obtained in writing.

Out of 85 quarters constructed in Mathura and Noida SSAs, 36 were lying vacant due to non-availability of basic amenities

Scrutiny of the records of General Managers Telecom (GMsT), Mathura and Noida under Uttar Pradesh (West) Circle in July 2002 and March 2003 revealed that 85 quarters of Type II, III and IV were constructed in Radhapuram, Sadabad, Chatta and Govardhan under the Mathura SSA and Tilpatta under the Noida SSA during 1996 to 2000. These quarters were handed over to the concerned GMsT during 1997 to 2000. It was observed that there was no demand for these quarters from the staff side due to non-availability of basic amenities like market, school, transport, etc. in the area. As a result, 36 out of the 85 quarters constructed were lying vacant for periods ranging from 42 to 75 months (March 2004).

There was idle investment of Rs 1.01 crore, besides avoidable payment of HRA and potential loss of licence fee

This resulted in idle investment of Rs 1.01 crore besides avoidable expenditure of Rs 16.96 lakh towards payment of House Rent Allowance (HRA) to the eligible category of staff posted in areas where quarters were constructed and potential loss of Rs 3.82 lakh towards licence fees recoverable from the occupants.

On this being pointed out by Audit, GMT Noida stated (May 2003) that the staff members had not applied for quarters located at Tilpatta, as the area was remote and basic facilities like market, school and transport were not available. GMT Mathura replied (July 2002) that the staff quarters had been constructed to provide residential facilities to the working staff, but could not be occupied due to insecurity.

Thus, construction of staff quarters without proper assessment of demand and non-availability of basic amenities resulted in idle investment, besides avoidable payment of HRA and loss of licence fee.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

4.18 Premature expansion of TAX exchanges

Premature expansion of two Trunk Automatic Exchanges under the Kerala Telecom Circle led to avoidable expenditure of Rs 73.91 lakh.

Instructions as adopted by Bharat Sanchar Nigam Limited (BSNL) stipulate that expansion of Trunk Automatic Exchange (TAX) should be planned as and when 70 *per cent* capacity is utilised.

Injudicious expansion of TAX resulted in avoidable expenditure of Rs 73.91 lakh

Audit scrutiny of records of the General Manager Telecom (GMT) Kollam (February 2003 and July 2004) and Tiruvalla Secondary Switching Areas (SSAs) (October 2003) under the Kerala Telecom Circle revealed that the expansion of TAX from 21 KC[2] (circuits) to 25 KC and 17 KC to 18 KC respectively, at a total cost of Rs 73.91 lakh was undertaken in 2003. The utilisation in Kollam and Tiruvalla exchanges was only 64.22 *per cent* (June

[2] 1 KC- thousand circuits

2003) and 62.98 *per cent* (July 2003) respectively. After expansion, the spare capacity in Kollam and Tiruvalla exchanges increased to 12 KC and 7 KC. The additional circuits that were used (Appendix-19) could have been easily met with the pre-expansion capacity. Thus, injudicious expansion of TAX in these SSAs resulted in avoidable expenditure of Rs 73.91 lakh.

On this being pointed out by Audit (March 2004), the General Manager (Development), Kerala Telecom Circle stated (July 2004) that the TAX capacity requirement was assessed based on the anticipated growth in equipped capacity of local lines/wireless in local loop/cellular mobile telephone service etc, increase in traffic due to increase in number of direct exchange lines and reduction in long distance traffic. He further stated that loading of TAX upto 70 *per cent* was only envisaged in normal circumstances and the present loading of 60 to 65 *per cent* was considered satisfactory.

The Management's reply that capacity requirement was based on anticipated growth is not tenable as the utilisation in respect of Kollam TAX ranged from 10KC in November 2001 to 14 KC in March 2004 while the equipped capacity was 19 KC in November 2001 itself. In the case of Tiruvalla TAX, the actual utilisation was between 10.80 KC to 11 KC between December 2002 and March 2004 and the equipped capacity was 17 KC in December 2002 itself. Hence, based on utilisation trends there was no justification for expansion of Kollam TAX from 21 KC to 25 KC and Tiruvalla TAX from 17 KC to 18 KC during 2003.

The matter was referred to the Ministry in September 2004; its reply was awaited as of November 2004.

4.19 Blocking of capital of Rs 72 lakh

Calcutta Telephones failed to utilise the land procured at a cost of Rs 72 lakh even after 15 years of acquisition and to protect the same from encroachment, resulting in blocking of capital.

The Department of Telecommunications issued (September 1991) instructions that departmental land should not be kept unutilised for a long period to avoid the possibility of any encroachment. They also stressed the need for inspection of sites at least once in six months followed by action to remove encroachments, if any.

Calcutta Improvement Trust leased (June 1986) a plot measuring 4815.94 sq. m. under CIT scheme No. VIII-M, block 50 at Ultadanga to the Chief General Manager Telecommunications (CGMT), West Bengal Circle, for construction of staff quarters at a premium of Rs 72 lakh. The CGMT took possession of the land in December 1988, but after one year, the same was handed over (December 1989) to Calcutta Telephones, which constructed (1998) a telephone exchange covering an area of 172 sq. m. inside the plot.

Periodic inspections of the site were not conducted till August 2002

The land was encroached upon from all sides

Audit scrutiny (January 2004) of the records of Calcutta Telephones revealed that periodic inspections of the site had not been conducted till August 2002. During a special inspection in August 2002, the Assistant Architect noticed that the plot had been encroached upon by local people. A review of the site plan prepared on the basis of site inspection by the Assistant Architect indicated that the land was encroached upon from all sides. A temple, a mosque and some temporary huts had also been constructed. The Senior Architect reported this fact to the General Manager (Planning), Calcutta Telephones (August 2002), with the request to evict the outsiders as it was felt that taking up of a proper survey of the site plan without eviction was quite impossible. However, even though nearly two years had passed, no action had been taken to clear the encroachments. The Management in their reply (January 2004) stated that construction of staff quarters was being expedited to curb further possibility of encroachment.

The land remained unutilised for over 15 years, resulting in blocking of capital of Rs 72 lakh

Thus, the failure of the Company (i) to protect the land from encroachments by carrying out periodical inspections, (ii) to take suitable preventive measures and (iii) to utilise the land for over 15 years, resulted in blocking of capital of Rs 72 lakh as well as encroachment.

The matter was brought to the notice of the Ministry in July 2004; its reply was awaited as of November 2004.

4.20 Blocking of funds

General Manager Telecommunications, Belgaum indented stores on dummy estimates resulting in blocking of funds of Rs 69.80 lakh.

Rules, as adopted by Bharat Sanchar Nigam Limited (BSNL) envisage that the stores required for works are to be obtained on indents passed by the authorities, provided the project estimate for which stores are required, has been sanctioned by the competent authority.

GMT Belgaum received stores worth Rs 69.80 lakh, against dummy estimates, which remained idle for over one to three years

Audit scrutiny (October 2003) revealed that General Manager Telecom (GMT), Belgaum under Karnataka Circle, received stores (cables and Centre for Development of Telematics accessories) worth Rs 69.80 lakh during 2000-03 against dummy estimates merely sanctioned for the purpose of stores transaction. These stores received on indents from Circle Telecom Store Depot (CTSD), remained idle over one to three years. Non-utilisation of stores over one to three years indicated that these stores were indented without ascertaining actual requirement. Since these stores were not utilised immediately they could have been diverted to other Circles/Secondary Switching Areas (SSAs) where there was possibility of utilisation.

On this being pointed out, Accounts Officer (Works), GMT, Belgaum, while accepting non-utilisation, replied (January 2004) that the stores would be utilised as and when required. Further, DGM (Planning) stated (July 2004) that while preparing estimates the phrase 'dummy estimates' was used in specification only to ensure that this estimate was not for actual execution of works and booking expenditure, but it was only for collecting the stores from CTSD and for easy regulation of the transactions when store vouchers were received.

The reply is not tenable as rules and procedures do not provide for the sanctioning of dummy estimates and drawal of stores thereagainst.

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.

4.21 Blocking of capital

Delay in commissioning of an exchange as a result of failure to lay underground cables in time, led to blocking of funds of Rs 65.65 lakh, besides loss of interest of Rs 3.94 lakh and potential loss of revenue of Rs 16.69 lakh during February 2003 to February 2004.

Rules, as adopted by Bharat Sanchar Nigam Limited (BSNL), provide that while preparing a project for opening/expansion of an exchange, simultaneous action should be taken for preparation of component estimates for cable schemes, approval of the estimates, procurement of cable stores and laying of cables. The rules also stipulate that advance planning of cable network and procurement of stores need to be done to ensure that new connections are actually cleared to the maximum extent possible on the date of the cut-over. In any case, all the associated cable component works should be completed about three months in advance of the commissioning of the exchange.

GMTD, Muzaffarpur commissioned a C-DOT 512 exchange

General Manager Telecom District (GMTD), Muzaffarpur, sanctioned (May 2001) a project estimate for a 1 K SBM exchange, envisaging, a profit of 4.48 *per cent* per annum of capital cost of Rs 2.21 crore against which, a C-DOT 512 exchange at Basantpurpatti with an equipped capacity of 356 lines was technically commissioned (February 2003) at a cost of Rs 65.65 lakh.

The exchange could not be utilised despite a waiting list of 309 applicants

Audit scrutiny in March 2004 revealed that the exchange had not been utilised till February 2004 despite a waiting list of 309 applicants, as the external plant was not ready for want of underground cable-laying work.

Action was taken for procurement of cable after two years

The Management took action (May 2003) for procurement of cable after delay of over two years from the date of sanction of the project instead of taking simultaneous action for procurement and laying of cable during execution of the project. The work of cable-laying commenced in October 2003 i.e., eight months after technical commissioning of the exchange, but was stopped in between due to disturbance by anti-social elements.

The Management stated (March 2004) that due to non-availability of a regular General Manager, the tender could not be finalised and the cable-laying work started in October 2003 was stopped (November 2003) by anti-social elements. In a subsequent reply, Divisional Engineer (Planning) stated (July 2004) that the cable was short received from the circle office and a fresh requirement for Basantpurpatti was sent in May 2003.

The reply of the Management is not tenable because cable-laying and all associated cable component works should have been completed three months in advance of the commissioning of the exchange. Further, the chronology of events indicated delayed action in addressing the problems which led to stoppage of cable-laying work. The Company had taken action for procurement of cable only after commissioning of exchange. Further, non-availability of a General Manager was an administrative matter which should have been settled by the Company to ensure that the project work did not suffer.

The delay resulted in blocking of capital of Rs 65.65 lakh, besides loss of interest and potential loss of revenue

Thus, the failure of the Management resulted in blocking of capital of Rs 65.65 lakh, besides loss of interest of Rs 3.94 lakh (calculated at the borrowing rate of Government of India i.e. 6 *per cent*) and potential loss of revenue of Rs 16.69 lakh during February 2003 to February 2004.

The matter was referred to the Ministry in August 2004; its reply was awaited (November 2004).

4.22 Idling of stock

Procurement of Cable Distribution cabinets during 2000-01 and 2001-02 by Chief General Manager Telecom, Haryana Circle, without proper assessment of requirement led to idling of stock worth Rs 65.65 lakh as of March 2004.

Instructions of the Department of Telecommunications, stipulate that while assessing the requirement of telecom stores, the existing inventory, supplies in the pipeline and the past pattern of consumption should be taken into account.

Audit scrutiny of records of the Circle Telecom Stores Depot (CTSD) under Chief General Manager Telecom (CGMT), Haryana Circle, Ambala (September 2003) revealed the position of procurement and utilisation of cable distribution (CD) cabinets of 2000 pairs during the period 2000-01 to 2003-04 as given below:

Year	Opening balance	Quantity received	Total	Quantity issued	Closing balance
2000-01	Nil	152	152	19	133
2001-02	133	354	487	27	460
2002-03	460	Nil	460	16	444
2003-04 up to 31/8/03	444	Nil	444	11	433
1/9/03 to 31/3/04	433	Nil	433	62	371

In spite of sufficient stock of CD cabinets, CGMT Haryana procured 354 CD cabinets in 2001-02

From the above, it would be seen that the consumption of CD cabinets varied from 11 to 27 units during 2000-01 to 2003-04 (upto August 2003). The trend of consumption showed that the stock of 133 units at the beginning of 2001-02 could have met the requirement for the next few years. In spite of this, the circle procured another 354 units of CD cabinets during 2001-02, raising the total stock to 487 units. The consumption in 2001-02 was approximately 5 *per cent* of the stock. Even in the following year, i.e., 2002-03, the consumption of CD cabinets was 16 units only (approximately 3 *per cent* of stock). In 2003-04, when Audit scrutinised the stock of CD cabinets, it was found that 11 units had been issued till August 2003. After the matter was pointed out by Audit, 62 CD cabinets were issued to Secondary Switching Areas (SSAs) between September 2003 and March 2004. To assess the actual utilisation, Audit test checked one of the consignees of the stock i.e., Karnal SSA and noticed that out of 35 CD cabinets issued to the SSA, only six units had actually been utilised. This indicated that the procurement was not based on assessment of actual requirement, trend of consumption and supply in pipeline. Consequently, accumulated stock of 400 CD cabinets (including the unutilised stock of Karnal SSA) was lying unutilised (March 2004) resulting in blocking of capital of Rs 65.65 lakh (400 X Rs 16,414 per unit).

Procurement was not based on actual requirement, resulting in blocking of capital of Rs 65.65 lakh

The CGMT, while justifying the procurement of CD cabinets on the basis of norms, admitted (June 2004) that the full quantity could not be utilised in the field as there were sudden changes in outdoor network management due to introduction of Remote Line Unit (RLU)/Remote Switching Unit (RSU) technology, use of Optical Fibre Cable (OFC) technology etc. He further added that it was not possible for any organisation to fully visualise the impact of change of technology in every corner of the organisation. However, efforts were being made to utilise the balance stock by diverting it to other circles.

From the reply, it is evident that the circle had not assessed the requirements meticulously but made the assessment merely on norms instead of linking it with technological changes, trend of consumption, stock in hand etc. As RLU/RSU and OFC technology had been introduced in the telecom sector in the early nineties, it was not correct to state that due to sudden introduction of new technology, CD cabinets could not be utilised.

Thus, the procurement of CD cabinets of 2000 pairs by the circle, without visualising the likely requirement in the changed scenario and their non-utilisation resulted in blocking of funds of Rs 65.65 lakh.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

(D) Excess expenditure in violation of rules

4.23 Irregular expenditure on engaging contract labour

Failure of Chief General Managers Telecommunications of six circles to follow the instructions of the Corporate Office of Bharat Sanchar Nigam Limited led to irregular expenditure of Rs 6.30 crore on engagement of contract labour.

The Corporate Office conveyed instructions of DGR to obtain security services through them for sponsoring ex-servicemen, instead of through open tender

The Corporate Office of Bharat Sanchar Nigam Limited (BSNL) in July 2001 conveyed to all circles the instructions of the Directorate General of Resettlement (DGR) to obtain contract security services from them for sponsoring ex-servicemen security agencies on their panel without engaging security agencies on contract through open tender. The Ministry of Communications reiterated these instructions in August 2001.

Six circles failed to follow the instructions and incurred irregular expenditure of Rs 6.30 crore

Audit scrutiny between September 2001 and March 2004 revealed that Chief General Managers Telecom (CGMsT) of six circles failed to follow the above instructions and continued to allow their heads of units to engage labour for security purposes on contract through open tenders. This led to irregular expenditure of Rs 6.30 crore during the period from August 2001 to March 2004.

Ex-servicemen were denied the benefit of resettlement

In reply, GMT Vellore stated (August 2003) that the open tender for engagement of security guards in Vellore SSA had already been terminated with effect from June 2003 and DGR-approved agencies were being utilised. CGMT Bhopal, reiterated (January 2004) the instructions for compliance, while other heads of units stated (October 2003 to January 2004) that hiring security guards through open tender was cheaper than through DGR. Their reply is not acceptable as their action was contrary to the instructions of BSNL, besides denying ex-servicemen the benefit of resettlement.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

4.24 Irregular expenditure

Telecom District Manager Deoria, incurred irregular expenditure of Rs 5.26 crore. Also, failure to assess the projected demand before installing the exchange resulted in infructuous expenditure of Rs 60 lakh on cable laying works.

Guidelines on project planning stipulate that full reasons for the necessity of the project should be detailed in the justification attached to the project. They further envisage that in the case of new telephone exchanges, particulars should always be given for the number of connections which were anticipated to be taken immediately. As per the Company's Delegation of Financial Powers, the Telecom District Manager (TDM) and the Chief General Manager (CGM) have powers to sanction projects upto Rs 3 crore and Rs 15 crore respectively. The norm for laying cable is eight conductor kilo meter (ckm) per direct exchange line.

TDM Deoria prepared two estimates for installation and expansion of an exchange costing Rs 2.63 crore each on the same day by splitting the project

Telecom District Manager, now General Manager Telecom District Deoria, under Uttar Pradesh East Circle, took up a work of installation of 2 K C-DoT exchange at Ravindra Nagar (Padrauna). The estimated cost of the project was Rs 5.26 crore. However, two estimates were prepared on the same day i.e., 7 February 2002, viz., one for installation of 1K C-DoT exchange and another for expansion of the above exchange by 1K at Ravindra Nagar (Padrauna) costing Rs 2.63 crore each. TDM sanctioned both the project estimates in February 2002. The exchange was commissioned in March 2003 and expansion work was completed by March 2004. Only 98 connections could be provided since there was no waitlist and 87 connections were technically non-feasible. As demand for new connections was not forthcoming 1.2K capacity of the exchange was utilised for Trunk Automatic Exchange purpose and the balance capacity was proposed to be utilised for providing telephone connections in future.

Only 98 connections could be provided since there was no waitlist and 87 connections were technically non-feasible.

Audit scrutiny (May 2003/March 2004) revealed that the TDM had, in order to avoid seeking sanction of CGM, irregularly split up the project estimate and incurred expenditure when there existed no necessity for it. There was evidence of failure to assess the capacity requirement of the exchange to be installed with reference to the present demand and projected demand based on growth analysis resulting in non-utilisation of equipped capacity and consequent diversion of 1.2 K capacity.

Laying of 7,472 ckm cable worth Rs 60 lakh was infructuous

Further, the revised capacity of 0.8 K for providing new telephone connections justified 6400 ckm cables as per norm whereas, 13,872 ckm of cables were laid between February and December 2002. Thus, laying of 7,472 ckm cable worth Rs 60 lakh was infructuous since chances of recovering the cables laid underground were remote.

Thus, the sanction of estimate for Rs 5.26 crore by the TDM by splitting it was highly irregular. In addition, lack of proper assessment of exchange capacity with reference to present and projected demand, resulted in infructuous expenditure of Rs 60 lakh incurred on laying of excess cable. The Company should fix responsibility for the irregularities committed, both by way of incurring expenditure without justification and undertaking cable-laying work in excess of norms.

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.

(E) Avoidable expenditure/payment

4.25 Avoidable excess payment

Bharat Sanchar Nigam Limited failed to restrict the rates of subsidiary items of WLL equipment to reasonable prevailing market rates. This resulted in avoidable excess payment of Rs 21.53 crore.

For the establishment of Wireless in Local Loop (WLL) system for rural application in various telecom circles, a tender was floated in May 2000. This tender included subsidiary item of patch panel antenna for remote stations. In April 2002 another tender was invited for supply of WLL equipment for expansion in rural areas. In the tender seeking expansion of WLL, DC-DC converter for expansion of Base Transreceiver Station was included. Based on the evaluation of tenders, in the case of initial tender of May 2000, purchase orders were placed on M/s LG Electronics Systems[1] in January and April 2001 for 191595 patch panel antennae at the lowest price of Rs 1761.57 per unit and against the tender of April 2002, purchase order was placed in November 2002 for 540 DC-DC converters at Rs 1,75,990 per unit. As per the provisions contained in the manual of procurement, the Committee for Evaluation of Tenders (CET), while deciding the ordering price of the equipment, should take into consideration the reasonableness of the price.

M/s LG Electronics Systems included an exorbitantly high profit margin while supplying WLL equipment to BSNL

Scrutiny of records (February/May 2004) of paying authority in the Gujarat Circle and in the Corporate Office revealed that M/s LG Electronics Systems had procured patch panel antenna and DC-DC converter from its sub-contractors who, in fact, supplied directly to the BSNL consignees in October 2001 and February 2003. It transpired from the records that the invoice price of the sub-contractors for patch panel antenna and DC-DC converter was Rs 990.99 and Rs 50668.75 per unit. The price paid to M/s LG Electronics System was higher by 77.76 *per cent* and 247.33 *per cent*, respectively, than the rates offered to LG Electronics by the sub-contractors.

Failure to assess reasonableness of the rates led to avoidable excess expenditure of Rs 21.53 crore

Scrutiny of records further revealed that the Chief General Manager (Telecom), Andhra Pradesh Circle, brought to the notice of the Company in November 2003 the issue of wide variation between the rates of sub-contractors for DC-DC converter and rates approved by the Company. However, BSNL failed to take cognizance of this fact and finalised the price per unit of DC-DC converter for the year 2003-04 to all the consignees in December 2003. The failure of the Company to assess reasonableness of rates of DC-DC converter and patch panel antenna in the purchase of 540 DC-DC converters and 191595 patch panel antennae, led to an avoidable excess expenditure of Rs 21.53 crore by way of accepting exorbitantly high rates of M/s LG Electronics.

[1] Formerly M/s Escorts Communications Limited.

On this being pointed out by Audit (May 2004), the Management stated (July 2004) that the CET had taken into consideration the configuration, capacity and specifications of the system and assessed the reasonableness by comparing the price of the items quoted in the previous approved tenders. The evaluation of the tenders was done on package basis and the lowest/negotiated rates were only offered as package, which were received after competitive bidding process.

The reply is not tenable because CET in its report stated that it could not compare the rates of the above items included in the package with the earlier approved tender due to non–availability of those items in the earlier approved tenders and that the configuration, capacity and specification of the system under the instant tender were different from earlier tender. CET should have, therefore, taken into account the market prices before finalising the prices.

The matter was referred to the Ministry in September 2004; its reply was awaited as of November 2004.

4.26 Avoidable expenditure on repair of faulty E-10 B cards

Twenty four Secondary Switching Areas (SSAs) in eight telecom circles incurred an avoidable expenditure of Rs 9.22 crore during the period 1999-2004 on repair of faulty E-10 B cards from M/s ITI at exorbitant rates.

Instructions were issued in August 1999 and September 2000 to the heads of Circles to get faulty E-10 B cards repaired either through department's own repair centre or through M/s ITI by entering into Annual Maintenance Contract (AMC) at the rates approved by DoT/BSNL from time to time. As per agreement entered into with ITI fixed annual per line charges were to be paid based on the total capacity/lines of the E-10B telephone exchange irrespective of number of E-10B cards actually repaired.

AMC with M/s ITI were entered into by 24 SSAs for repair of faulty E-10 B cards

Audit scrutiny of records of 24 SSAs in eight circles viz., Andhra Pradesh (2000-03), Gujarat (2001-04), Karnataka (2000-02), Kerala (2000-03), Maharashtra (2000-04), Rajasthan (2000-03), Uttar Pradesh (East) (2002-03) and Uttar Pradesh (West) (1999-2004) disclosed that SSAs entered into AMC with ITI for repair of faulty cards although there was one departmental repair centre each under Andhra Pradesh, Gujarat, Karnataka, Kerala, Rajasthan and Uttar Pradesh (East) circles and three centres in Maharashtra circle. Further, audit noticed that the percentage of faulty cards ranged between 0.65 and 6.80 of the equipped capacity and the average rate of repair of faulty cards by ITI ranged between Rs 1103 and Rs 13766 as shown in Appendix-20.

The Management failed to get the cards repaired on piece rate basis which resulted in avoidable expenditure of Rs 9.22 crore, when compared with the rates charged by ICSIL

Audit observed that General Managers Telecom Kolhapur (May 2001), Calicut (April 2002) and Principal General Manager Telecom Coimbatore (September 2001) entered into agreement with M/s Intelligent Communication System India Limited (ICSIL), also a Public Sector Undertaking (PSU), for repair of E-10B cards on per faulty card basis at the rate of Rs 900 for Line cards, Rs 1,900 for Control cards and Rs 4,000 for TIMIC cards, whereas the rate for repair of cards by ITI was quite uneconomical ranging between Rs 1,103 and Rs 13,766 per card. Thus, the Management failed to take the economics into consideration while entering into agreement with ITI for repair of cards on the basis of the total equipped capacity instead of fixing the rate on per card basis. This resulted in avoidable expenditure of Rs 9.22 crore during the period 1999-2000 to 2003-04 in the repair of 82,676 cards through M/s ITI as shown in Appendix-20.

On this being pointed out by Audit, the Ministry stated (January 2004) that instructions were issued to get the faulty E-10B cards repaired by M/s ITI to ensure reliable and continuous maintenance support to obtain the best services out of E-10 B system in DoT/BSNL network. Further it added that the matter of quality of repairs of sophisticated E-10 B equipment could not be entrusted to any agency without proven credentials.

The reply of the Ministry is not acceptable because BSNL failed to take into consideration the competitive cost before entering into AMCs with M/s ITI for total equipped capacity of the exchange instead of fixing the rate per faulty card. Moreover, the contention that E-10-B cards could not be entrusted to any agency without proven credentials is not borne out by fact as three SSAs where the contracts were entered into with M/s ICSIL, a PSU, for repair of faulty cards on per card basis from 2002 onwards were found to be satisfactory.

4.27 Avoidable expenditure in procurement of 12F optical fibre cable

Bharat Sanchar Nigam Limited (BSNL) procured 15,065 kms of 12 F Optical Fibre Cable during 2001-02 at higher rates than the market rate, resulting in avoidable extra expenditure of Rs 8.89 crore.

BSNL decided to purchase 12F OFC at Rs 57,402 per km in September 2001

In July 2001, a short notice tender was floated by BSNL for procurement of 60,000 km of 12 Fibre (F) optical fibre cable (OFC) and 12,000 km 24F OFC and purchase orders were placed in September 2001 for 55,399 km of 12F and 10,865 km of 24F OFC at a total cost of Rs 413 crore. The price of 12F OFC was Rs 57,402 per km.

In October 2001, BSNL decided to procure an additional quantity of 15,800 km of 12F OFC against the above-mentioned short notice tender. Before finalising the additional quantity, the BSNL Headquarters called for details of tenders floated by different circles for procurement of 12F OFC. The prices obtained by different circles showed a downward trend as below:

Rates of OFC showed a declining trend and in October 2001 it was Rs 51500 per km.

Circle	Month of opening the tender	L-1/approved rate (Rs per km)
Kerala	June 2001	103545
Uttar Pradesh	July 2001	86000
Tamil Nadu	August 2001	57402
Northern Telecom Project (NTP)	September 2001	53400
Northern Telecom Region (NTR)	October 2001	51500

BSNL decided to procure an additional quantity at the earlier rate

This price difference resulted in excess expenditure of Rs 8.89 crore

Although the prices of 12F OFC showed a declining trend and in October 2001 it was Rs 51500, the Board in November 2001 decided to procure additional quantity of 15800 km of 12F OFC at the earlier rate (August 2001) of Rs 57402, without even counter offering the current market rate of Rs 51500. This price difference resulted in excess expenditure of Rs 8.89 crore on the procurement of additional quantity of 15065 km of 12F OFC during 2001-02.

On this being pointed out (May 2004) the Management replied (July 2004) that BSNL Headquarters decided to procure 12F OFC at the rate of Rs 57402 for the following reasons:

- The tenders for NTR and NTP were just opened and yet to be finalised.
- The tenders for NTR and NTP were for a limited area whereas the BSNL Headquarters tender was for the whole country and the rates offered were inclusive of freight and insurance covering nationwide consignees.
- The firms quoting in NTR and NTP tenders had a limit for their production capacity and would not have been able to supply large quantities.

As such, taking into consideration the time left during that financial year and to meet the targets of that year it was not found worthwhile to wait any more and it was decided to order the quantity required immediately on the existing approved rate.

The reply is not tenable on account of the following reasons:

- Contrary to the argument, BSNL Headquarters itself had cancelled (July 2001) a global tender for procurement of OFC as the rates obtained in one of the circles was lower.
- The rates obtained in NTR and NTP were a fair index of the current market rate, which should have been counter offered by BSNL Headquarters to the vendors.

- BSNL, in another tender of PIJF cable had obtained the rates of MTNL, which were lower and adopted the same for its countrywide supply. Hence NTR/NTP rates could have been considered for negotiations.

- The production capacity of firms quoting in NTR and NTP tender was not relevant as supplies were to be made by the existing vendors of BSNL.

The BSNL Procurement Cell was aware on 4 October 2001 that the cost of OFC had come down to Rs 53000 and that the cost was on a downward trend. Further on 30 October 2001 NTR obtained a rate of Rs 51500. However, on 22 November 2001 BSNL Headquarters finalised the existing rate of Rs 57402. Hence, BSNL had ample time to negotiate the rate at Rs 51500 and procure the additional quantity.

The matter was referred to the Ministry in July 2004; its reply was awaited as of November 2004.

4.28 Undue benefit to contractor and short levy of penalty

Chief General Manager, Chennai Telephones District and Principal General Manager Telecommunications, Kalyan under the Maharashtra Telecom Circle entered into a contract for printing of telephone directories and extended undue benefit to the contractors to the tune of Rs 5.72 crore.

Chief General Manager (CGM), Chennai Telephones District (CTD) and the Principal General Manager Telecom District (PGMTD), Kalyan under the Maharashtra Circle, entered into contracts for printing of telephone directories. They extended undue benefit of Rs 5.72 crore to the contractors as brought out below:

As per the agreement, the contractor was to supply 7.32 lakh copies of the directory for the 2002 issue

4.28.1 CGM, CTD entered into an agreement in June 1999 with M/s M&N Publications Limited, (later named M/s GETIT Limited) for printing and supplying telephone directories in five consecutive annual issues from the year 1999 onwards. The contract provided for printing and supply of required copies of directories of CTD each year, free of cost, by the contractor. As per the agreement, the contractor was to supply 7,32,050 copies of the directory of the 2002 issue.

As per Clause 33.7 of the agreement, in case of short supply of specified number of copies of the directory, a penalty at the rate of Rs 50 per copy was to be levied for the 1999 issue from the contractor. For subsequent years, CGM, CTD had the right to decide the penalty per copy. The rate of additional copy for the 2002 issue was fixed as Rs 125 per set.

Instructions were issued by CGM, CTD for supply of only five lakh copies of the main directory and 1.5 lakh free copies of CDs for the 2002 issue

As against the agreement for supply of 7.32 lakh copies of the directory, the CTD instructed the contractor (February 2003) for supply of 4.5 lakh copies of the main directory in the first phase and two sets of 25,000 copies each subsequently. The Management separately agreed to the proposal made by the contractor for supply of 1.5 lakh free copies of CDs.

The contractor supplied 4,46,439 hard copies and 1,38,403 CDs of the 2002 issue between July and December 2003. A committee formed by the CTD to decide the penalty for short supply, recommended a penalty of Rs 51.28 lakh at Rs 62.50 per copy for 82,050 unprinted copies being the difference between the supply as per the agreement (7.32 lakh) and the total of what was subsequently agreed for both the printed directory and the CD (5 lakh + 1.5 lakh = 6.5 lakh). Further, an amount of Rs 66.95 lakh was levied for short supply of 53,561 copies of the directory at Rs 125 per copy. Accordingly, an amount of Rs 1.18 crore was deducted from the share of white pages revenue of the contractor.

Undue benefit of Rs 5.48 crore was extended to the contractor

Audit scrutiny of records revealed (June 2004) that the approximate cost of production per directory was Rs 233 each. The short supply of 2.86 lakh copies thus entailed a benefit of Rs 6.66 crore to the contractor, at the given cost of production. Taking into account the levy of penalty of Rs 1.18 crore, the contractor was still given an undue benefit of Rs 5.48 crore by the Company.

The committee, while deciding the penalty, treated the free supply of CDs as hard copies in contravention of contractual terms and conditions. This decision was not in order.

On this being pointed out by Audit, the Deputy General Manager stated (June 2004) that the quantity of the directories was reduced to five lakh hard copies and 1.5 lakh CDs as out of 6.65 lakh copies of the printed issue of 2001 (agreed quantity), one lakh copies were lying without any takers.

The decision of the CGM to reduce the number of copies from 7.32 lakh to 5.00 lakh was not justifiable as the number of working connections in CTD as on 31 March 2002 was 10.3 lakh and therefore justified the requirement of 7.32 lakh copies.

An agreement was entered into by PGMTD Kalyan for three successive biennial issues

4.28.2 In July 2001, PGMTD, Kalyan under the Maharashtra Telecom Circle, entered into an agreement with M/s Karishma Associates for printing and supplying telephone directories of the Kalyan Telecom District for three successive main biennial issues commencing from September 2001 for three years i.e. 2001, 2003 and 2005. For the first issue of 2001, 3.5 lakh copies were to be supplied at Rs 65/- per directory. As per clause 21, the directory was to have a trimmed size of 200 mm x 287 mm with printed area of 180 mm x 267 mm and was to contain information pages in English and Marathi.

PGMTD placed a purchase order (January 2002) on the contractor for supply of 3.5 lakh copies of the 2001-02 issue of the directory. The contractor supplied 3.5 lakh directories between March and June 2002. A committee constituted to decide the penalties for omission with regard to two items as per the contract, recommended a penalty of Rs 2.27 lakh only for non-inclusion of information pages in Marathi.

Undue benefit was extended to the contractor through non-levy of penalty

Audit scrutiny revealed (December 2003) that the contractor was liable to pay Rs 15.19 lakh towards the cost of non-printing of the Marathi information pages in directories against which a token penalty of Rs 2.27 lakh was levied, thereby extending undue benefit of Rs 12.92 lakh to the contractor. Further, a penalty of Rs 11.20 lakh for not adhering to the specifications of directory size as envisaged in the contract was leviable on the contractor.

On this being pointed out by Audit, the Management accepted the audit observations (September 2004) and proposed to recover the amount from the contractor.

The matter was referred to the Ministry in September 2004; its reply was awaited as of November 2004.

4.29 Undue benefit to suppliers in procurement of WLL Cordect equipment

Bharat Sanchar Nigam Limited (BSNL) finalised two different rates for the same item in a tender resulting in undue benefit of Rs 5.06 crore to suppliers.

Bharat Sanchar Nigam Limited (BSNL) in May 2002 invited tenders for procurement of 3.85 lakh lines of Wireless in Local Loop (WLL) Cordect equipment with Internet access. Bids were received from four vendors i.e. M/s Hindustan Futuristic Communication Limited (HFCL), Indian Telephone Industries (ITI), Shyam Telecom Limited and Hindustan Teleprinters Limited (HTL).

The option of conversion of WLL Cordect supporting voice to voice with Internet was cheaper by Rs 2.56 lakh per unit than the option with supporting voice and Internet

After finalisation of bids, purchase orders were placed for procurement of 1.54 lakh lines of WLL Cordect supporting voice and Internet and 2.31 lakh lines of WLL Cordect supporting voice only equipment from M/s HFCL, ITI and Shyam Telecom between August 2002 and February 2003. In addition, 1.32 lakh lines were ordered from M/s HTL and M/s ITI on reservation quota.

An examination of records pertaining to above procurement revealed that the Company placed purchase orders under two options as below:

(Rs in lakh)

Type of Technology	OPTION-I	OPTION-II			Difference
	DIU with voice and Internet (Main item)	DIU with voice only (Main item)	Conversion of DIU to voice & Internet (Optional item)	Total DIU with voice & Internet on conversion (Col 3+4)	(Col 2-5)
(1)	(2)	(3)	(4)	(5)	(6)
V5.2 Connectivity	10.66	5.74	2.36	8.10	2.56
R2 Connectivity	10.76	5.84	2.36	8.20	2.56

Undue benefit of Rs 5.06 crore was given to suppliers due to difference in prices of the two options

From the above, it can be seen that BSNL counter-offered two different rates for the same equipment, which was accepted by the vendors. One rate was for DIU with voice and Internet Rs 10.66 lakh (V 5.2) and Rs 10.76 lakh (R2) and the other rate was for DIU with voice only convertible to voice and Internet Rs 8.10 lakh (V 5.2) and Rs 8.20 lakh (R2), which worked out cheaper than the first option by Rs 2.56 lakh per unit of DIU. This price difference resulted in undue benefit of Rs 5.06 crore to suppliers in the procurement of 198 DIU with voice and Internet at a higher price.

On this being pointed out by Audit in June 2004, the Management stated (August 2004) that if the prices of all the items i.e. main DIU as well as field upgradation were considered for L1 vendor i.e. M/s HFCL, then the unit prices for DIU with voice and Internet i.e. Rs 10.66 lakh would be lower than the sum of the DIU with voice only together with field upgradation i.e. Rs 11.39 lakh.

The reply is not tenable, as the Tender Evaluation Committee (TEC) considered and finalized the prices of L1 only for main items, and for optional items i.e. upgradation to voice and Internet, the lower price (Rs 2.36 lakh) of M/s ITI was considered. Accordingly the Management should have purchased DIU with voice only from the suppliers and upgraded it to DIU with voice and Internet using the optional items instead of ordering directly for DIU with voice and Internet.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.

4.30 Avoidable expenditure on procurement of jointing kits

Procurement of jointing kits at higher rates by Chief General Manager Telecom Stores, Kolkata, led to avoidable expenditure of Rs 57.42 lakh during 2001-02.

The Department of Telecommunications, while issuing guidelines in January 2000 for decentralised procurement of stores, emphasised that the heads of circles should examine the reasonableness of the rates obtained in the tenders by comparing them with the rates of product/items at which these were procured in the previous few years and the procurement should be done on reasonable rates.

The Chief General Managers (CGMs) Telecom Circles, Karnataka, Rajasthan and Chief General Manager, Telecom Stores (CGM,TS) Kolkata invited tenders for procurement of jointing kits during 2001-02. The tenders were opened between March and May 2001. The purchase orders were placed by the respective circles between July and December 2001. The bidders who participated in all the three tenders and those that were issued purchase orders were almost the same.

Against the ordered quantity of 1,07,506 jointing kits placed by CGM, TS, Kolkata, 1,07,501 jointing kits were received and an amount of Rs 6.23 crore was paid to the suppliers during 2001-02.

Failure to compare the rates of jointing kits with other circles resulted in avoidable extra expenditure of Rs 57.42 lakh

Examination of the records by Audit (November 2003) revealed that the rates fixed by CGM, TS, Kolkata for procurement of jointing kits (TSF I to VI) were much higher than those fixed by CGMsT, Karnataka and Rajasthan Telecom circles though the rates were fixed during the same time and the same suppliers participated in all the three tenders. Failure to compare the rates with other circles even after including freight element of 1 *per cent* resulted in avoidable extra expenditure to the tune of Rs 57.42 lakh as shown in Appendix -21.

On this being pointed out by Audit, the Management stated in February 2004 that the composite rates finalised were inclusive of freight element for delivery to consignees located in remote circles like Jammu and Kashmir, North East Telecom, Assam and Andaman and Nicobar Islands.

The reply of the Management is not acceptable because at the time of fixation of rate, the Stores Purchase Committee assumed freight element as 1 *per cent* in the composite price when compared with the previous tender of March 2000. However, even after inclusion of the freight element, the procurement rate of CGM, TS, Kolkata was still high.

Thus, procurement made without considering the reasonableness/non-comparison of rates with other circles led to avoidable extra expenditure of Rs 57.42 lakh during the year 2001-02.

The matter was referred to the Ministry in August 2004; its reply was awaited as of November 2004.