CHAPTER X : MINISTRY OF LABOUR

Employees' Provident Fund Organisation

Regional Provident Fund Commissioner, Kolkata

10.1 Shortcomings in the Computerised Employees' Pension System resulted in incorrect payment of pensionary benefits.

- **The Employees' Provident Fund Organization, in 1995, introduced countrywide Computerised Employees' Pension System for computation of pensionary benefits under the Employees' Pension Scheme.**
- **Analysis of data revealed that due to deficiency in design, the computations made by the application were in contradiction with the Scheme provisions. This led to short payment of commuted value of pension to the extent of Rs. 34.51 lakh in 910 cases and overpayment of Rs. 51.78 lakh in 1462 cases.**
- **The Return of Capital (ROC) was also calculated short by Rs. 95.46 lakh in 968 cases and excess by Rs 1.41 crore in 1581 cases.**
- **There was short payment of pension amounting to Rs. 3.93 lakh per month in 4645 cases and overpayment of pension amounting to Rs. 5.36 lakh per month in 5893 cases (as of January 2005).**
- **The application accepted wrong beneficiaries for the ROC scheme in 235 cases involving an amount of Rs. 1.25 crore.**

10.1.1 Introduction

The Employees' Provident Fund Organisation (EPFO) came into being following the enactment of the Employees' Provident Funds & Miscellaneous Provisions Act, 1952. In 1995, EPFO introduced countrywide Computerised Employees' Pension System (CEPS), an application developed by the National Informatics Centre for computation of pensionary benefits under the Employees' Pension Scheme[1], 1995 (Scheme) and generation of Pension Payment Orders. The operating system for the application is SCO-UNIX open server 5.0.5 and the software works on SCO-FOXBASE package.

Audit of the application was conducted using sample data pertaining to Office of the Regional Provident Fund Commissioner, Salt Lake, Kolkata. Out of a total of 24,534 records 17,900 records relating to the period 3 April 2000 to 14 January 2005, was selected for audit. This data was analysed using MS Excel for assessing its reliability and consistency and compliance of the information

[1] This Scheme replaced the Employees' Family Pension Scheme, 1971 w.e.f. 16 November 1995.

processing function with the rules governing the scheme. The audit findings are elaborated in succeeding paragraphs.

10.1.2 System Design Deficiency

Audit observed that there were a number of deficiencies in the system design of the application software leading to nonconformity with the provisions of the scheme. It was also found lacking in essential validation checks which help in keeping the data within the prescribed ranges. The observations are as follows:

(a) Incorrect computation of pensionary benefits

According to the Employees Pension Scheme 1995, the pension is payable to employees depending on whether they were members of the Family Pension Scheme 1971, which ceased in November 1995 or of the new Scheme. Further, for the employees joining before 16 November 1995, pension also depended on their age i.e. (i) less than 48 years; (ii) 48 years but less than 53 years; and (iii) 53 years or more, as on 16 November 1995.

Test check of the pension files and analysis of data revealed a number of deviations from the provisions of the Scheme, in computation of the pensionary benefits. The CEPS application did not correctly categorise the members of the Employees' Family Pension Scheme, 1971 according to the age groups prescribed in the Scheme. Further, the provision of the Scheme required proportionate reduction of the pension for employees with less than 24 years eligible service on the date of superannuation (58 yrs). However, the application did not contain this feature. Further, for employees opting for both commutation and Return of Capital (ROC)[2] , the ROC should be worked out on the amount remaining after deducting the sum commuted from payable pension. However, the software application deducted 10/12.5 *per cent* of the original pension payable and not the entire commuted amount.

These deficiencies and consequent incorrect computations by the CEPS application resulted in short payment of commuted value of pension to the extent of Rs. 34.51 lakh in 910 cases and overpayment of Rs. 51.78 lakh in 1462 cases during the period from April 2000 to January 2005. The Return of Capital (ROC) was also calculated short by Rs. 95.46 lakh in 968 cases and calculated in excess by Rs. 1.41 crore in 1581 cases during the same period. It also led to short payment of pension amounting to Rs.3.93 lakh per month in 4645 cases and overpayment of pension amounting to Rs.5.36 lakh per month in 5893 cases (as on January 2005).

The Regional Office noted the observations and stated (March 2005) that the matter was required to be taken up with the EPFO Head Office, New Delhi.

[2] ROC is a lump sum amount payable if a member opts to draw reduced pension in lieu of the pension normally admissible.

(b) Wrong beneficiary for ROC

According to Para 13(1) of the Scheme three alternatives are available to a member to avail of the benefits of the ROC. Under alternative two, an amount equal to 90 times the original monthly pension is payable to the nominee of the deceased member on the remarriage/death of the widow (spouse). In such cases, the beneficiary of the ROC should be a person (nominee) other than the widow/spouse.

However, analysis of data in respect of 555 cases, where the second alternative of ROC was exercised, revealed that in 235 cases involving an amount of Rs. 1.25 crore, the spouse (wife/husband) had been shown as beneficiary of the ROC, in complete contravention of the Scheme. As a consequence, in two cases the ROC was actually shown as credited to the widow.

While accepting the observation, the Regional Office stated (March 2005) that the cases of the deceased members would be settled with the approval of the EPFO Head Office, New Delhi.

10.1.3 Absence of validation checks

Audit noted that validation checks were not incorporated, to keep the data within acceptable range for important parameters such as pensionable salary and date of exit. Further, the field of the date of opting for pension before attaining the age of 58 years was left blank in certain cases. Details are given in **Annexure-A.**

10.1.4 System Implementation

Audit found that the pace of capture of data in electronic form was slow and a few manual processes were still in place as the application software was not capable of processing the same. The observations are given below:

Poor progress of electronic data capture

The Manual of Accounting Procedure (Part-III) of EPFO provided for creation of an Employees' Master File in the application software, containing particulars in respect of each member of the Scheme so that the period of non-contributory service as well as the period out of employment between two spells of employment could be ascertained at the time of issue of worksheet and Pension Payment Order (PPO).

Audit scrutiny revealed that out of a total of 6,91,781 members of the Scheme, data in respect of only 2,21,549 members (representing 32 *per* cent) had been entered in the Employees' Master till January 2005. The Regional Office stated (February 2005) that steps were being taken to capture the full data in the members' database file and on completion of the same automatic generation of the worksheet showing pension computation would be possible.

10.1.5 Conclusion and recommendations

Due to deficiency in system design, the computations in many cases made by the application were found to be in contradiction with the provisions of the scheme leading to short/overpayment of pensionary benefits. Moreover, the application also lacked essential validation checks. Thus, the application failed to stabilise even after ten years of its implementation.

The organisation should review the CEPS application and incorporate necessary changes wherever there is deviation from the Scheme and appropriate validation controls should be incorporated.

The matter was referred to the Ministry in March 2005; their reply was awaited as of December 2005.

10.2 Irregular expenditure on gold medallions

The EPFO in contravention of Government of India's economy instructions and the Fundamental Rules, spent Rs. 9.32 crore on distribution of gold medallion to its staff.

The Employees' Provident Fund Organisation (EPFO) was established in 1952. To commemorate its Golden Jubilee Year (2002), the Central Board of Trustees, Employees' Provident Fund (Board), in its Special Meeting (December 2002) decided to allow each employee a lump sum financial benefit equal to the amount of one increment for a year. The total estimated expenditure involved was Rs. 4.05 crore. However, when the decision of the Board was placed before the Chairman, he desired that the possibility of giving a permanent token of like value in gold or silver may be explored which would be uniform for all employees. Accordingly, the Board in its 160th Meeting, held on 28 March 2003, decided to give a gold medallion of 8 grams to each employee on its rolls during 2002-2003 and also to the members of Board of Trustees, as on 31 March 2003. A supply order was placed on MMTC Ltd. on 26 June 2003 and 19461 gold medallions were purchased at a cost of Rs. 9.32 crore which were distributed through the EPFO's regional offices and Headquarters. The expenditure was booked under the head 'Publicity/advertisement charges'.

Audit noted (July 2004) that the decision of the EPFO to grant an advance increment or its equivalent in value to its employees was ab initio against the Fundamental Rule 27 (5) which, *inter alia*, states that advance increments cannot be granted as reward for meritorious work or in lieu of certain perquisites allowed. Also, the action of the EPFO in spending Rs. 9.32 crore on procuring and distributing gold medallions to its staff and members of Board of Trustees was in violation of the Ministry of Finance, Department of Expenditure's instructions of October 1992 reiterated in March 2002 for effecting economy in government expenditure. Further, the decision of the

EPFO to cover members of the Board under the eligibility criteria for grant of gold medallion was also against standards of financial propriety especially as the scheme was intended to be in the nature of an incentive to the employees. The booking of this expenditure under the head 'Publicity/advertisement charges' was irregular as this head is meant for booking expenditure incurred on making people aware of the activities of the EPFO.

In response to the audit observation (July 2004) the EPFO stated (August 2004) that the expenditure on purchase of the gold coins was within the competence of the Board and distribution of gold medallions was a part of publicity. The Ministry (October 2005) also endorsed the views of the EPFO. However, Audit noted that this reply was not tenable as the distribution of gold medallions to EPFO staff was in outright violation of the basic principles of financial propriety.

Regional Provident Fund Commissioner

Sub-Regional Officer, Nagpur

10.3 Idle capital investment on account of vacant quarters

Improper judgement in assessing actual demand for staff quarters resulted in idle capital investment of Rs. 3.08 crore.

The Executive Committee of the Employees Provident Fund Organisation (EPFO) accorded approval for the construction of 159 Staff Quarters and a Community Centre in Nagpur in November 1995. Subsequently, in October 1996 the number of quarters to be constructed was reduced to 119 on the basis of willingness obtained from the officials for acceptance of quarters. Accordingly an agreement was executed in January 1997 with the National Building Construction Corporation limited (NBCC) for construction of 119 quarters. NBCC constructed 119 quarters at a cost of Rs. 6.95 crore and handed them over to EPFO in May 2000.

Audit noted (June 2005), that 54 out of 119 quarters were lying vacant since the date of possession due to lack of demand as per details given below:

Sr. No.	Type	Entitled Scale (Rs.)	No. of Tenements	Allotted	Vacant
1.	I	2550-3049	8	6	2
2.	II	3050-5499	72	39	33
3.	III	5500-8499	32	15	17
4.	IV	8500-11999	6	4	2
5.	V	12000-15099	1	1	-
		Total	119	65	54

As a result, capital investment of Rs. 3.08 crore remained idle till June 2005 because the demand for the quarter was not assessed with due care.

The Regional Provident Commissioner (Maharashtra) replied (July 2003) that a proposal had been submitted to the Central Provident Fund Commissioner (CPFC) New Delhi in September 2002 seeking permission to sell 40 quarters on an outright basis to the employees of SRO and to allot a few vacant quarters to employees of other organisations. Ministry replied in December 2003 that a proper review was conducted prior to the construction of quarters and accordingly the number of quarters was reduced to 119. However, during the four years i.e. from 1996 to 2000, that elapsed for the completion of the construction work, many employees took House Building Advance and constructed their own houses which also led to vacant quarters. CPFC, New Delhi replied in September 2004 that no proposal to sell the quarters was under consideration. Ministry further replied in November 2005 that nearly 70 posts would be filled up shortly and vacant quarters would be on demand.

The reply of the Ministry was not acceptable as the decision for constructing 119 Quarters were taken in September 1997. By then, the contents of the V Pay Commission providing for a percentage on the basic pay as the base for calculation of House Rent Allowance was known. At this juncture EPFO should have reviewed the demand for housing.

Thus absence of due care in assessing the actual demand for staff quarters by the EPFO resulted in idle capital investment of Rs. 3.08 crore.

Further, the Ministry has not yet taken any decision to utilise these vacant quarters. Consequently 54 quarters have been lying vacant after May 2000.

Annexure-A

(Referred to in para 10.3.1)

Audit Observation	Organisation's reply	Audit Remarks
Absence of validation check over pensionable salary and wage: the system depicted (in four cases) both pensionable salary and wage of the member on date of exit as zero even though the pensionable service was not zero.	Though the pensionable salary was shown as zero, computer calculated the minimum pension correctly with reference to date of commencement of pension.	The application should not have accepted pensionable salary of a member as zero if the pensionable service is greater than zero.
Absence of validation over date of exit: in 11 cases the age of the member on the date of exit (i.e. cessation of membership from the Scheme) was more than 58 years. Besides, in one case the application accepted an invalid date of exit of a member (10/23/9872).	The members had attained 58 years and pension was computed accordingly. Further, the pension of the member had been computed correctly with reference to his actual date of exit i.e. 23/10/1998 instead of the invalid date.	CEPS application should not have accepted a later date than on which a member attains 58 years or a later date as the date of exit.
Important Fields left blank: the field for the date of opting for pension before attaining 58 years was left blank in 306 relevant cases; the same field contained dates in 10 cases where the member did not choose the option of retiring before 58 years.	The field remained inactive for superannuation pension cases as the date of attainment of 58 years is automatically taken. In reduced pension cases, the field is activated after entering the option "Y".	The field was left blank although none of the cases were superannuation pension case.