OVERVIEW

This Report contains the results of one Performance Audit and one Information Technology Audit pertaining to the Department of Posts under the Ministry of Communications and Information Technology and one Performance Audit pertaining to the Department of Science and Technology under the Ministry of Science and Technology.

Ministry of Communications and Information Technology

Performance Audit of Very Small Aperture Terminal (VSAT) based Money Order System

The VSAT based money order (MO) system was introduced by the Department of Posts (DoP) in 1995 to transmit MO advices through satellite to enable the poorer sections of society to send MOs quickly at no extra cost. The project was to be implemented in two phases. In Phase I, 77 Satellite Money Order (SMO) stations were installed during 1995-96 along with 610 Extended Satellite Money Order (ESMO) stations. Against the target of nine crore MOs, DoP transmitted only 2.48 crore MOs during 1997-2000. In Phase II, 150 VSATs and 1132 ESMO stations were installed in 2000-01.The main objective of Phase II was to bring the entire traffic of 10 crore MOs on the network at an average 2.73 lakh MOs per day.

Some of the major deficiencies observed by Audit in respect of implementation and functioning of the system were as follows:

- As against the target of 100 percent transmission of money orders through VSATs, only 13.54 per cent transmission could be achieved till 2004-05. The low transmission of money orders through VSAT indicated that DoP was still heavily relying on the manual system.

- Specifications of the host server at the planning stage were not worked out which resulted in procurement of a host server of lower configuration, leading to its clogging. DoP finally had to make use of servers of the National Informatics Centre from August 2003 to operate its VSAT money order system.

- Systems study and software development, the most critical components of the project, were not considered in the first instance, contrary to the instructions of the Expenditure Finance Committee.

- DoP diluted the terms of payment in the purchase order placed on HECL from 90 per cent payment on commissioning to payment on proof of delivery. DoP stipulated performance bank guarantees of only 5 per cent of the contract value as against the codal provision for 10 percent .DoP did not recover penalty of Rs. 2.13 crore from HECL for defective software.

- DoP paid telecom licence fees at old rates up to December 2003 to HECL for ultimate payment to DoT. This led to excess payment of Rs. 1.54 crore to HECL, which had not been recovered till October 2005.

(Chapter 1)

Information Technology (IT) Audit of Sanchay Post Software in the Department of Posts (DoP)

The DoP runs the Post Office Saving Bank (POSB) in the country, the oldest and largest banking institution, as an agency on behalf of the Ministry of Finance (MoF), Government of India. In order to modernize its services and computerize the entire work of the savings bank branch including activities such as interest calculation, transfer and closure of accounts, M/s Datanet Corporation developed the 'Sanchay Post' software. The software was upgraded from time to time and the latest version was introduced in January 2003. The software handled schemes relating to Savings Bank, Recurring Deposits, Time Deposits, National Savings Certificates, Public Fund Accounts and Monthly Income Account.

Some of the major deficiencies observed by Audit in the implementation and functioning of the package were as follows:

- Even after seven years of its introduction, operations were computerized in only five *per cent* of the post offices.

- Sample checks revealed that insufficient validation controls and inadequate monitoring resulted in minus balances in individual savings bank accounts to the tune of Rs 12.26 crore.

- Sample checks also revealed that the software permitted deposits amounting to Rs 7.14 crore under the Monthly Income scheme and Rs 5.08 crore under the Public Provident Fund scheme in excess of the prescribed maximum limits. Interest amounting to Rs 39.35 lakh was allowed on such irregular deposits under the Public Provident Fund scheme.

- The software did not calculate service charges amounting to Rs 6.51 lakh in respect of silent accounts.

- DoP did not pay adequate attention to the various stages of system development such as user requirement specification, testing and implementation. As a result, the deficiencies in the software could not be removed at the development stage itself.

- Neither were the IT security controls adequate nor DoP did have a business continuity and disaster recovery plan which put the business operations to the risk of system failure and disruption of services.

- DoP did not have a proper change management procedure in place, resulting in non-incorporation of new schemes and changes in business rules.

- The software lacked customer friendly features like automatic transfer of funds from one savings scheme to another, which were available in the software used in banks.

(Chapter 2)

Ministry of Science and Technology

Performance Audit of Functioning of Technology Development Board

The Government of India constituted the Technology Development Board (TDB) in September 1996, under TDB Act, 1995 with the objective to provide financial assistance including equity capital to research and development institutions, industrial concerns and other agencies attempting commercial application of indigenous technology or adapting imported technology for wider domestic application.

- During 1997-2005, TDB had sanctioned 131 projects under 11 sectors. The total cost of 131 projects and the TDB's commitments (towards loan, equity and grants) for these projects were Rs 2043.89 crore and Rs 662.94 crore respectively. TDB had disbursed Rs 526.41 crore during 1997-2005. Audit was carried out in respect of 26 selected projects that were implemented during 1999-2005 with TDB's loan assistance of Rs 165.51 crore.

- Audit revealed that TDB had funded six projects in contravention of its own project funding guidelines. Project proposals were inadequately assessed. The production and sales projections were invariably found to be inflated. In 15 completed projects, the production and sales projected in the proposals were in between zero to 62 *per cent*. TDB was unable to check these projections while appraising the proposal and sanctioning the projects.

- TDB had released loan installments of Rs 44.67 crore under 12 projects without fulfillment of some of the prescribed milestones as per the loan agreement. TDB did not verify that the collaterals taken as security adequately covered the loan amount and the claims of the borrower were not checked from independent sources before release of funds.

- Regular monitoring was not done in 17 projects. There were lapses in implementation of recommendations of monitoring committee in five projects. Prescribed returns including project reports and audited accounts were not received or received late. Moreover, often the companies did not insure the assets naming TDB as a sole beneficiary as required under the loan agreement.

- In 19 projects the companies had defaulted on repayment but prompt legal action was not taken. Repayment including interest amounting to Rs 48.97 crore due as on 31 October 2005 was still outstanding. In 13 cases of default, TDB revised the schedule of repayment but the same were not honoured by nine companies.

(Chapter 3)