5 Financial Management

5.1 Prescribed Procedures

- As per the Act, GoI will bear the entire cost of wages for unskilled manual workers, and 75 *per cent* of the cost of material and wages for skilled/semi-skilled labour, while the State Government will bear 25 *per cent* of the cost of material and skilled/semi-skilled wages as well as unemployment allowance, expenses on SEGC, etc.
- State Government may establish a State Employment Guarantee Fund as a revolving fund, as also similar revolving funds at the District, Block and GP levels. State Government should design a complete Financial Management System for the transfer and use of funds, to ensure transparency, efficiency and accountability and tracking the use of funds towards the final outcomes. Funds allocated to MGNREGA should not be used for other purposes under any other circumstances.
- Funds would be released in two tranches – the first tranche would be proportional to the percentage of persondays projected for the first six months of the year in the District Labour Budget; and the second tranche would be based on at least 60 *per cent* utilisation of funds (including opening balance), submission of UCs and certificate regarding release/receipt of State share, conformity to 60:40 wage-material ratio, actual physical performance, and other administrative and transparency/public accountability-related parameters.
- Funds from the MGNREGA account should be spent on MGNREGA works, only after these had received the required administrative and technical sanctions. Further, monthly squaring of accounts should be introduced, so as to verify that all money released under MGNREGA was accounted for under three heads – money held in bank accounts at various levels, advances to implementing/payment agencies, and vouchers of actual expenses.
- Financial audit would be carried out at the end of each year either by Local Fund Auditors or Chartered Accountants appointed by the State Government. The Audit Report of the Chartered Accountant and the UC for the previous year must be submitted latest by September next year. The DPC shall ensure that the Opening and Closing Balances included in both the Audit Report and the UC tally.

The audit findings in respect of release, accounting and utilisation of MGNREGA funds are summarised below:

5.2 State Employment Guarantee Fund (SEGF)

In August 2008, State Government constituted the AP State Employment Guarantee Fund and notified the Andhra Pradesh State Employment Guarantee Fund Rules, 2008. The Fund pools the amounts released by both GoI and State Government. It is managed by a Management Committee headed by Principal Secretary, Rural Development.

5.3 Financial Management System

5.3.1 Arrangements

Until 2010, separate bank accounts were maintained at the District level (District Watershed Management Agency) and Mandal level (MPDO). Project Directors, DWMAs released funds in advance to the MPDOs for implementation of the scheme at Mandal and GP level. The funds were kept in separate bank accounts opened for operating the Scheme.

With effect from 15 February 2010, a centralised Electronic Fund Management System (eFMS) was introduced and integrated as part of the AP MGNREGS MIS Software:

- Selected banks[20] were identified as nodal banks on a district-wise basis, and MoUs entered into with these banks to enable online transfer of funds on a seamless basis.
- Designated drawing officers (at the State, District and Mandal levels) are required to issue, through the AP MGNREGS MIS, electronic pay orders, which are grouped into Fund Transfer Requisitions (FTRs) (also referred to as Fund Transfer Orders – FTOs). For wage payments, FTRs/FTOs are issued for transfer of funds to the Smart Card Banker or Head Post Master (where payments are made through Post Offices), while for supplier payments, FTRs/FTOs are generated for transfer of funds directly to the supplier's account[21].
- FTRs are transferred to the Central Server, which cumulates FTRs received from various mandals bank-wise, and transmits the same to the nodal bank server electronically without a manual interface. District level pooling accounts are maintained at the nodal bank, through which amounts are then transferred to Business Correspondents[22]/Post Offices (for wage payments) and suppliers in respect of material payments.

5.3.2 Audit Findings

The eFMS had reports for FTO comparison and monthly FTO reconciliation, rejected FTOs, FTO status monitoring, as well as smart card payments. Audit examination revealed that the Smart Card Delay Analysis Report (as of 12 September 2012) indicated that ₹10.56 crore in respect of 67,774 wage seekers was undisbursed for more than three months, for which, however, no analysis of reasons was available. Likewise, the FTO reconciliation report did not indicate the reasons for debit/credit variations in respect of individual FTOs.

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[20] SBH, Axis Bank, Andhra Bank, and Union Bank of India

[21] Except in respect of Work Executing Members (WEMs), in respect of which audit comments are reflected separately

[22] Intermediary agencies working on behalf of designated banks for delivering financial services for wage payments to MGNREGA beneficiaries

State Government stated (December 2012) that the system adopted by the banks in sharing the disbursement data in respect of the wage payments made through POS machines was in the FIFO[23] method. However, the banks and service providers were informed to stop the existing system, as it involved manual intervention, which was fraught with the danger of manipulating the data. Banks were requested to capture the disbursements in the field from the POS machine, based on the e-pay order number and share it with the AP MGNREGS MIS Server immediately. Also, notices would be issued for the banks where the manual interventions are noticed. Further, it was proposed to conduct IT Audit to identify manual interventions and replace with automatic system of capturing the data.

Further, field audit scrutiny revealed the following:

- Scrutiny of certain acquittances in Kotarautla mandal of Visakhapatnam district as well as Raptadu and Bukkarayasamudram mandals of Anantapur district revealed that actual dates of payment of wages were not indicated in the acquittances, in the absence of which, their reconciliation with pay orders issued by MPDO could not be ensured in Audit.

  In response (August 2012/February 2013), the State Government indicated that the deficiency of non-capture of actual dates of pay order acquittances by the Banking Correspondent had been noticed, and the IT Services Provider was asked to incorporate the dates of pay orders with effect from April 2012.

- DPC, Ranga Reddy district placed funds in many banks, which were 100 kms away (Yalal, Karanakote, Mohammadabad, etc.) and other interior places, contrary to the provisions of the APREGS Accounting Handbook which stipulated maintenance of only one bank account. At the end of 2008-09, ₹10.80 crore was transferred from the State Bank of Hyderabad, Ranga Reddy district Collectorate Branch bank account to 28 bank branches on the order of the District Collector – ₹4.85 crore in the form of 16 Saving Bank (SB) Accounts and ₹5.95 crore in the form of Term Deposit Receipts. Similarly, DPC, Ranga Reddy district asked Union Bank of India (UBI), Secunderabad on 31 March 2009 to transfer ₹2 crore from his NREGS Account to SBH Main Branch, Medchal. DWMA, Ranga Reddy district had also not maintained any ledger to oversee the prior/post transactions (i.e., withdrawals and deposits from the concerned bank branches).

  In response (August 2012), the State Government stated that this was done as per the orders of the District Collector 'to promote rural Government banks to provide economic support to the villages'. State Government, further, stated (August 2012) that the introduction of eFMS had eliminated parking of funds in the form of deposits at the District and Mandal levels. The reply is not acceptable in view of the fact that the Executive Engineer, PRED, Vikarabad, Ranga Reddy district withdrew ₹50 lakh on 31 March 2011 i.e., after introduction of eFMS from their SB Account with SBH and kept it in Grameen Bank and on Audit pointing it out,

[23] First-In-First-Out

the amount was withdrawn and deposited in the regular account. However, reasons for keeping the amount in the regular account were not furnished.

- A review of the Bank Reconciliation Statement of MPDO's Bank account of Chintapalli mandal (Nalgonda district) revealed a discrepancy of an amount of ₹34.88 lakh in August 2011, which was not reconciled (August 2012).

  In response (August 2012), State Government stated that ₹29.04 lakh had been reconciled and credited to the MPDO's AP MGNREGS Account as on 31 July 2012; however, the reconciliation statement was not enclosed. Further, an amount of ₹5.78 lakh was stated to have been reconciled and under process for credit to the AP MGNREGS Account; details thereof were, however, not submitted to audit.

- Assistant Director Horticulture, Vikarabad's (Ranga Reddy district) bank account with SBH, Vikarabad showed balances of ₹14.74 lakh as on 15 March 2012. Of this amount, ₹9.24 lakh was lying in the account as of 3 October 2011, and ₹5.54 lakh was credited to this account through 85 FTOs, offset by payments of just ₹4,492 during this period.

  Government stated (August 2012) that the Horticulture Department was addressed for initiating disciplinary action, and action taken thereon would be intimated shortly.

5.4 Smart Card Payments through Business Correspondent Model

5.4.1 Arrangements

After several pilot projects, the State Government entered into MoUs in November 2009 with identified banks for payment of MGNREGA wages (and social security pensions) using Smart Card technology:

- Banks were to engage 'Business Correspondents' (BCs), who would act as technology providers, and also act as banking correspondents on behalf of the bank by opening and operating bank accounts in every GP and delivering financial services to people.
- Beneficiaries would be enrolled at the village levels, and smart cards, including finger prints of the account holder and bearing photo of the beneficiary, issued to them.
- The 'Business Correspondent' would appoint and train 'Customer Service Providers' (CSPs)[24] at the village;
- Payments would be made by the CSPs to the beneficiaries using hand-held Point-of-Sale/Point-of-Terminal (POS/POT) devices with associated hardware like finger-print reader, printer, mobile phone, etc. Latest details of account balances

[24] The BCs would also generally have Mandal level Co-ordinators (MCs) for interaction with the CSPs

would be downloaded by the CSPs from the bank server for enabling payments. Authentication of beneficiaries would be through smart card and fingerprints, with manual payments in exigencies.

- CSP/Business Correspondent would upload data of disbursements daily, and update the bank's databases. MIS report on progress of disbursement would be submitted by the Banks electronically to the State Government; records of acquittances by CSPs would also be maintained and submitted to the designated State Government officials at the Mandal level.
- Service charges of 2 *per cent* on the disbursed amount would be payable, of which 1 *per cent* would be paid only after submission of acquittances and relevant records.

However, for identified GPs/mandals, payments continue to be made through Post Offices as per the old arrangements, without the intervention of Business Correspondents.

5.4.2 Audit Findings

Audit scrutiny of the details of the bank account of the Business Correspondent for Ranga Reddy district (FINO Finotech Foundation) with Axis Bank revealed that the opening balance of ₹2.54 lakh as of July 2009 increased to more than ₹2 crore by June 2010 and ₹4 crore by March 2012. This clearly indicates the maintenance of a substantial float by the Banking Correspondent, contrary to the objectives of immediate wage payments to the beneficiaries. In response (August 2012), the State Government stated that delays at various stages were being captured, and a delay compensation system was being formulated for levy of penalty on the bankers for wage payments after five days from the date of credit to the smart card bank.

In Raptadu mandal of Anantapur district, out of 24,001 job card holders, smart cards were issued to only 4,685 wage seekers (20 *per cent*). Similarly, in Bukkarayasamudram mandal, out of 15,811 job card holders, smart cards were issued to only 4,586 (29 *per cent*) job card holders.

Reconciliation of the full service commission payable of 2 *per cent* (after submission of full acquittances/records) vis-à-vis that actually paid was not produced to audit. State Government, while accepting the audit observation stated (February 2013) that the enrolment of smart cards was less due to some local issues in selection of CSPs.

5.5 Release of State Share

As per the Andhra Pradesh Rural Employment Guarantee Scheme framed by the State Government, the State Government's share has been set at 10 *per cent* (with 90 *per cent* from GoI). Further, the MoRD's Operational Guidelines stipulate release of the State share within 15 days of GoI release. However, audit scrutiny revealed that in many occasions, the State Government releases were not within 15 days of GoI release for 2009-10 to 2011-12. Further, there was shortfall in release of State matching share for the years 2009-10 to 2010-11 with an overall shortfall for ₹35.78 crore for the three years (2009-10 to 2011-12), as summarised in the following table.

Table 4 - Release of GoI and State Government shares

(₹ in crore)

Year	GoI release		Matching share (10 *per cent*) to be released by State Government	Actual release as reported by State Government		Shortfall (-)/ excess (+)
	Date of release	Amount		Date of release	Amount	
2009-10	01.05.09	914.38	101.60	17.04.09	3.78	
	14.07.09	50.00	5.55	17.04.09	6.63	
	28.07.09	453.77	50.42	17.04.09	3.07	
	06.08.09	413.95	46.00	23.04.09	42.82	
	16.09.09	151.21	16.80	02.05.09	8.64	
	07.12.09	1318.95	146.55	15.05.09	7.56	
	11.03.10	479.33	53.25	15.05.09	2.35	
				03.07.09	75.00	
				05.11.09	82.57	
				16.12.09	43.96	
				23.03.10	1.43	
		Total	420.17		277.81	(-)142.36
2010-11	15.04.10	1012.43	112.49	20.05.10	163.96	
	04.06.10	1118.91	124.32	03.06.10	165.75	
	04.08.10	1730.00	192.22	17.07.10	126.65	
	20.01.11	3556.73	395.19	18.09.10	12.69	
		Total	824.22		469.05	(-)355.17
2011-12	10.06.11	460.84	51.20	13.05.11	395.19	
	14.03.12	814.73	90.53	16.08.11	179.53	
	15.03.12	202.00	22.44	16.09.11	51.20	
		Total	164.17		625.92	(+)461.75
Grand total			**1408.56**		**1372.78**	**(-) 35.78**

Source: Utilisation certificates submitted by State Government to GoI

State Government responded (August 2012) that their total releases from 2007-08 to 2012-13 were more than required, with delays of more than 15 days. While audit notes this response, the release of State share should correspond to the GoI's release for that year, and not merely on an overall basis.

5.6 State Government to bear cost of persondays exceeding 100 days in a financial year per household

The Act guarantees that the State Government shall provide not less than 100 days of unskilled manual work in a financial year on demand to every household in rural areas. While the State Government is free to provide more than 100 days of employment in a financial year to a household, the cost in excess of 100 days of employment should be borne by the State Government, and not GoI.

Audit analysis of electronic data for four districts (Ranga Reddy, Nalgonda, Anantapur and Vizianagaram) from the AP MGNREGS MIS revealed the following position:

Table 5 – Persondays exceeding 100 days in a financial year per houeshold

Year	Households	Actual Days	Entitled Days	Excess Days
2009-10	2,88,725	4,68,59,080	2,88,72,500	1,79,86,580
2010-11	2,25,823	3,26,79,181	2,25,82,300	1,00,96,881
2011-12	2,70,422	4,22,44,771	2,70,42,200	1,52,02,571
Grand Total	**7,84,970**	**12,17,83,032**	**7,84,97,000**	**4,32,86,032**

Source: Analysis of data provided by the Department

District-wise details are indicated in ***Appendix-2.***

Considering an average daily wage rate of ₹60, the excess amount reimbursable by the State Government to GoI for these four districts alone (for 4.33 crore persondays in excess of the statutory entitlement) works out ₹259.72 crore.

In response (August 2012), the State Government stated that, as suggested by audit, the excess State Government share contributed (in excess of the stipulated 25 *per cent* of material cost, semi-skilled/skilled wages and 100 *per cent* of unemployment allowance) had been calculated at ₹1,226.50 crore, and GoI had been addressed to set off the cost of persondays exceeding 100 days against this excess share contributed.

5.7 Advances to Post Offices remaining unadjusted

As per the MoU signed by the State Government with the Department of Posts, the State Government advanced an amount of ₹50 per wage-seeker account, which was to be adjusted in five instalments of ₹10 each from wage payments. As per the details of the State-wide position of adjustment furnished by the State Government, out of ₹40.89 crore to be adjusted by the concerned Head Post Offices, ₹27.59 crore was pending to be adjusted as of March 2011. According to the State Government, this has to be recovered either from the Post Offices or from the wage seekers, after receiving UCs from the Head Post Offices.

5.8 District level Audit Reports

Audit scrutiny revealed that the District level accounts (maintained by PD, DWMA) covered only the income/expenditure incurred by the PD, DWMA, and did not cover the transactions undertaken by the other implementing agencies. The Audit Reports on the District level accounts were similarly fragmented, with separate accounts/Audit Reports for different implementing agencies like PD/DWMA, ITDA, etc. The District level accounts maintained by PD/DWMA (and the Audit Reports thereon) must present a consolidated picture of all transactions undertaken, whether by PRIs or other implementing agencies.

State Government agreed (August 2012) with the audit recommendation and indicated that with effect from 2011-12, the statutory audit reports would be consolidated at the District level.

5.9 Other Findings

Further, audit scrutiny revealed that:

- ₹66.95 lakh was spent out of MGNREGA funds by PD, DWMA Anantapur in connection with the Chief Minister's visit during the month of October 2011 for inauguration of Indira Jala Prabha Project, which is a State Government sponsored programme. Government stated (February 2013) that the expenditure is for publicity and creating awareness among beneficiaries about convergence programme of Indira Jala Prabha and as such the expenditure has been incurred from the MGNREGA funds and there is no diversion of funds. Reply of the Government is not acceptable in view of the fact that the above expenditure was towards a State sponsored programme which should not have been met from MGNREGA funds.

- Even though the Act envisages subsuming the erstwhile schemes of National Food for Work Programme (NFFWP) and Sampoorna Grameena Rozgar Yojana (SGRY) into MGNREGA with effect from the date of its implementation in the district, NFFWP funds of ₹54.67 lakh were not transferred by PD, DWMA, Anantapur. Government, while accepting the audit observation stated (February 2013) that the amount relating to NFFWP funds would be recovered from the concerned.

- Interest accrued (₹3.93 lakh) on funds received from DPC by the PD, Integrated Tribal Development Agency (ITDA), Visakhapatnam was not remitted back. State Government responded (August 2012) that instructions had been issued by the District Collector for such remittance.