Chapter 4 FINANCIAL MANAGEMENT

The Scheme is funded on cost sharing basis (90:10) between GoI and the State Government. The Employment Guarantee Funds were to be set up at the National level and at the State level. The first release to a district, when notified under MGNREGA was seed money. Subsequent releases were subject to submission of consolidated demands by the implementing agencies and the utilisation certificates in respect of 60 *per cent* of the available funds etc. Unspent balances of one year were to be adjusted by way of corresponding short releases in subsequent year.

Further, the District Programme Officer was required to prepare, every year in the month of December, a labour budget for the next financial year containing the details of anticipated demand for unskilled manual work in the district and the plan for engagement of labourers in the works covered under the scheme. The Government of India was to examine projections made in these labour budgets before sanctioning the funds.

4.1 Financing pattern

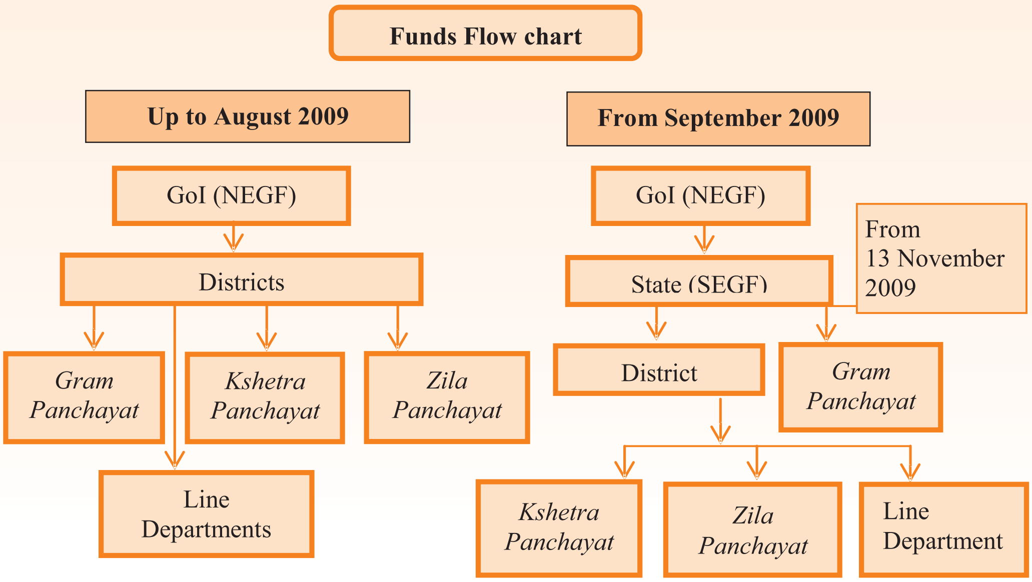
The funding pattern for the scheme is as tabulated below:

Table 4.1: Funding pattern between GoI and State Government

Government of India	State Government
Entire cost of wages for unskilled manual workers.	-
Seventy five *per cent* of the cost of material and wages for skilled and semi-skilled workers.	Twenty five *per cent* of the cost of material and wages for skilled and semi-skilled workers.
Administrative expenses as may be determined by the Central Government.	Unemployment allowance payable in case the Government does not provide employment within 15 days from the date of application.
Administrative expenses of the Central Employment Guarantee Council.	Administrative expenses of the State Employment Guarantee Council.

4.2 Employment Guarantee Fund

The GoI has set up National Employment Guarantee Fund. The State Government receives grants-in-aid from this fund against labour budget approved by MoRD after submission of consolidated demands raised by the implementing agencies and processed by MGNREGA Cell. Upto August 2009, GoI released funds from the National Employment Guarantee Fund directly to the implementing agencies[1]. With effect from September 2009, on the setting up of the State Employment Guarantee Fund (SEGF), the GoI released money to the SEGF for onward release to the implementing agencies and the line departments. The schematic diagram of funds flow is given below:



Audit findings

4.3 Overall financial position

A sum of ₹ 22,174.35 crore was spent during 2007-12 under the scheme against the total releases of ₹ 22,567.89 crore during the same period. The year wise overall position of releases and expenditure *vis-a-vis* the approved labour budget during 2007-12 is summarised in Table below:

Table 4.2: Releases and expenditure *vis-a-vis* the approved labour budget

(₹ in crore)

Year	Approved Labour Budget	Releases[2] of funds by		Total releases	Expenditure	Releases excess (+) / short (-) over expenditure
		GoI	State			
2007-08	2,500.00	1,648.31	200.00	1,848.31	1,898.25	(-) 49.94
2008-09	4,686.40	3,944.50	300.00	4,244.50	3,576.06	(+) 668.44
2009-10	7,380.10	5,318.88	550.00	5,868.88	5,906.04	(-) 37.16
2010-11	8,779.00	5,266.58	499.90	5,766.48	5,627.85	(+) 138.63
2011-12	8,787.24	4,355.75	483.97	4,839.72	5,166.15	(-) 326.43
Total	**32,132.74**	**20,534.02**	**2,033.87**	**22,567.89**	**22,174.35**	**(+) 393.54**

(**Source:** MGNREGS Cell, Lucknow)

[1] ***Gram Panchayats*:** are responsible for identification of projects in their areas as per recommendations of the *Gram Sabhas*, allocating employment and executing at least 50 *per cent* of the works in addition to supervising such works. The works relating to registration of households, issuing job cards, and providing time-bound employment at the village level also. ***Kshetra Panchayats*:** are also responsible for executing works from amongst those works which are not executed by the *Gram Panchayats*. ***Zila Panchayat***: approve the district plan and also execute the works which fall within the jurisdiction of two or more *Kshetra Panchayats*. **Other Implementing Agencies:** The line departments, Public Sector Undertakings of the Central and State Governments, Cooperative Societies with major shareholder of the State/Central Government, reputed NGOs and self-help groups were also the implementing agencies under the Guidelines.

[2] Revised as Subsequently intimated by the State Government.

It is evident from the table above that the fund released by the State Government compared to its shared liability (10 *per cent* of total releases) was short by ₹ 222.92 crore. Further, the amounts lying unspent[3] at the close of each of financial year could not be ascertained in audit as the consolidated annual accounts of the 'Uttar Pradesh *Gramin Rojgar Guarantee Yojna Samiti*' (*Samiti)* were not prepared during the periods covered in audit (2007-12). After creation of the *Samiti* in 2009-10, the annual accounts for 2007-12 were prepared by MGNREGS Cell but the accounts did not capture the releases[4] of fund made by the GoI correctly. Apart from it, the Cell also did not maintain records separately for the receipts and expenditure from the two sources i.e. the GoI and the State Government.

Thus due to short release of funds by the State Government, the sharing prescribed in the Act was not adhered to. Further, non-maintenance of accounting records coupled with lack of records relating to sharing of liability between Centre and State Governments was against the principles of financial discipline and as such the possibility of misuse of Central funds cannot be ruled out. In view of shared liability between the GoI[5] and the State Government[6], strict control over accounting of expenditure was imperative to ensure that the shareholders bore the cost of providing employment to the extent mandated by the Act.

4.4 State Employment Guarantee Fund Bank Accounts

The Scheme was launched in the State in three phases between February 2006 and April 2008 (***Appendix-IV***) in all the districts. Accordingly, Bank Accounts were opened from time to time in these districts for deposits/withdrawals of funds. Up to September 2009, the GoI released funds directly in these accounts. This was due to the fact that a requisite legal authority was not established under the Society Registration Act, 1860 and SEGF was not created in terms of Section 21 (1) of the Act despite reminder (November 2008) by the GoI. In June 2009, the State Government formed the 'Uttar Pradesh *Gramin Rojgar Guarantee Yojna Samiti*' and the existing bank accounts were designated as the State Fund Account. However, no notification to this effect was issued by the State Government, ignoring thereby the regulatory issue.

[3] The amount of actual unspent balances which became the part of total availability of funds in a year was not made available to audit.

[4] (₹ in crore)

Year	GoI grants	GoUP grants	Total
2007-08	0.20	200.00	200.20
2008-09	67.88	300.00	367.88
2009-10	3,083.85	550.00	3,633.85
2010-11	5,266.59	499.90	5,766.49

[5] Included the 100 *per cent* costs of wages for unskilled manual workers, 75 *per cent* of the cost of wages for skilled and semi-skilled workers and cost of materials and determined percentage of administrative expenses of functionaries and administrative expenses of the Central Employment Guarantee Council

[6] Included 25 *per cent* cost of material and wages for skilled and semi-skilled workers, unemployment allowance and administrative expenses of the State Employment Guarantee Council.

The Government stated (January 2013) that the separate notification for opening of SEGF bank account was not required in view of the Scheme notification for opening and operation of bank account for MGNREGS and also Government Order (August 2009) that the bank account no. 30125947162 opened for the *Samiti* would be used for bank account of MGNREGS. The reply was not acceptable as the Scheme was to be notified (February 2007) under Article 4 (1) of the Act and after establishment of SEGF Samiti in June 2009, SEGF bank account was to be opened through a separate Government notification under Article 21 (1) of the Act.

4.5 Financial irregularities

We during Audit noticed that a sum of ₹ 6,348.23 crore[7] was released by GoI and the State Government to the 18 test checked districts during the review period. However, against total available funds of ₹ 7,680.82 crore during 2007-12, ₹ 6,438.28 crore[8] was spent during the same periods. The financial irregularities noticed in this fund utilisation are discussed in the paragraphs below.

4.5.1 Financial Management System

The State Government was required to design a Financial Management System (FMS) in terms of the Operational Guidelines-2008 for ensuring transparency, efficiency and accountability in transfer and use of funds and tracking the end use of funds. FMS was to assist in making proposals for budget, raising demands for funds, making banking arrangements, transferring funds to the implementing agencies, accountal of the expenditure, audit of the sanctions and releases, obtaining utilisation certificates/vouchers/authorities against advance payments, reporting progress, making balance sheet etc. and finally fix responsibility of the executives/functionaries in case of default. The following issues were noticed in audit:

Transfer of funds from SEGF to districts

In November 2009, the Government decided to transfer funds to the GPs directly from SEGF for ensuring transfers within three days to them. However, Audit observed that designing of FMS was incomplete. Criteria for deciding the amount to be transferred to various executing agencies (GPs, KPs, and Line Departments) were also not laid down due to which there was absolutely no uniformity or method in release of funds. In some cases, funds were released at a flat rate and in other cases they were released as per demands raised by the district level functionaries.

[7] ₹ 576.07 crore, ₹ 1,208.44 crore, ₹ 1,664.93 crore, ₹ 1,585.91 crore and ₹1,312.88 crore during 2007-12 respectively.

[8] ₹ 597.01 crore, ₹ 1,162.12 crore, ₹ 1,723.02 crore and ₹ 1,526.72 crore and ₹ 1,429.41 crore during 2007-12 respectively.

Case Study

In test checked Block Persendi (District- Sitapur), delays in transfer of funds as detailed below were noticed:

- In 2007-08, the funds were released in parts on lump sum basis to the GPs. The Block demanded ₹ 1.49 crore on 4 March 2008 but the district released only ₹ 49. 25 lakh on 18 March 2008.
- In 2008-09 the district released ₹ 25 lakh on 17 April 2008 against the demand ₹ 1.49 crore rose on 29 March 2008 by the Block.
- In 2009-10 the demand raised by the Block on 26 March 2009 was met by the district after two months on 21 May 2009.
- In 2010-11 the GP Ahamadpur Kanja generated the demand of rupees four lakh on 3 October 2011 and the same was finalised on the Budget website by MGNREGS Cell on 9 January 2012. The amount was received in the GP account in Allahabad Bank, branch Kasaraila on 30 January 2012. Thus the process of fund transfer took about 4 months.
- In 2011-12 the GP Khadania generated the demand of rupees four lakh on 3 December 2011 and the same was finalised on the website by MGNREGS Cell on 17 March 2012 but the amount was not credited in the GPs Account upto 31 March 2012.

Thus not only there were delayed transfer of funds but the funds transferred were not adequate as the releases were adhoc and not based on any criterion.

Avoidable recurring expenditure on funds transfer

MoRD had developed internet based MIS for uploading data relating to labour budget, expenditure etc., fulfilling all the major requirements for implementation MGNREGS. Despite availability of the internet based MIS, MGNREGS Cell developed (2011-12) its own web based 'Budget and Funds Framework' (BFF) software[9] for fund transfers, at an annual recurring cost of ₹ 2.13 crore[10]. The internet based MIS software (NREGASoft) had all the functionalities of BFF with one exception - the information relating to the bank account details of the *GPs*. This additional information could have been incorporated in the MIS software developed by MoRD and the recurring annual expenditure of ₹ 2.13 crore was completely avoidable.

Discrepancies noticed in Fund Release

Data analysis of the data maintained on the BFF software revealed the following shortcomings in the software as well as in procedures:

[9] Through Uttar Pradesh Development Systems Corporation Limited which is UP Government Undertaking.

[10] At the rate of ₹ 1,800 per named user per month with five *per cent* increase in each year. Accordingly, ₹ 2.13 crore for 820 users at Block level and 72 at District level (1,800*12*892) including 10.30 *per cent* service tax for 2011-12 and ₹ 2.23 crore for 2012-13 were paid to UPDESCO.

- Subsequent installments to 1,990 *GPs* were released without obtaining UCs, as required under rules.
- Fund requests with zero amounts were captured in 85 out of 82,696 records, although fund request number and date of request were captured.
- Fifty one districts submitted UCs (₹ 2,560.63 crore) more than their actual expenditure. This was not cross verified by MGNREG Cell.
- Out of 42,139 CBS account numbers, there were 130 duplicate account numbers.
- Funds (₹ 2,284 crore) released during 2011-12 to 29,401 *GPs* was more than their demands (₹ 1,322.24 crore). Similarly, fund (₹ 409.22 crore) released to 4,834 *GPs* was more than their labour budget (₹ 335.13 crore).
- Material component of the expenditure by 12,006 *GPs* was more than the prescribed 40 *per cent*. Seventy-nine *GPs* of Agra district incurred expenditure (₹ 1.38 crore) on material only and expenses on labour were zero.
- Although the opening balances (₹ 106.69 crore) of 1,312 *GPs* was more than their labour budget (₹ 79.47 crore), additional funds (₹ 21.75 crore) to 734 *GPs* were released.
- Even after implementation of the policy of release of funds to the *GPs* directly, the concerned DPCs also released funds (₹ 99.53 crore) to 5,475 *GPs*.

The Government stated (January 2013) that releases were made in anticipation of UCs and funds released more than the labour budget to meet demands of the *GPs*. However, the Government did not reply as to the reasons for releases without demands.

Replies were not acceptable in audit because of inconsistencies in decisions for release of funds in excess/without demand thereby indicated a lack of planning for fund transfer.

4.5.2 Revolving Funds

Under Section 21 of the Act, the amounts lying in SEGF Account were to be spent and administered in a manner prescribed by the State Government. However, as per the Operational Guidelines-2008, SEGF account was to be operated as a revolving fund. Similarly, the accounts at district, block and *GP* levels were also to be operated as a revolving fund.

Audit noticed that prior to September 2009 the funds from the GoI were credited directly in MGNREGS' account opened in the districts. In August 2009, the State Government issued orders for operation/maintenance of block level accounts as revolving funds. However, rules for operation and maintenance were not framed. Subsequently, funds[11] were released to the blocks. With effect from November 2009, when funds to *GPs* were decided to be credited directly from SEGF, the maintenance of revolving funds was discontinued in violation of the provisions of the Operational Guidelines-2008.

The State Government stated (January 2013) that the revolving funds were required to replenish emergent need of funds, but there was no need of it with the commencement of direct transfers to *GP* from SEGF.

Reply was not justified in view of the provisions of Operational Guidelines-2008 under which accounts were to be operated as revolving funds.

4.5.3 Labour Budget

As per Section 14 (6) of the Act, DPCs were to prepare labour budget each year in the month of December for the next financial year, which was to be based on the assessment of labour demand, identification of works to meet it and estimated cost of works and wages. The development plans of the *GPs* were to form the basis for it.

However, the labour budgets were not based on realistic estimates emerging from the development plans as the development plans were not available with DPCs. Consequently, variations between monthly labour budgets and the actual expenditure were noticed in audit as was evident from the analysis of data provided to Audit in a CD media in respect of 72 districts for 2011-12. An analysis of this data revealed the followings:

- Projected person days, to be generated (2011-12) by 59 districts were reduced (10 *per cent*) by the GoI while approving the labour budget. Against 46,793 crore person days projected for 2011-12, the GoI approved 42,000 crore person days**.** The corresponding decrease of person days across districts by MGNREGS Cell varied from 1 to 35 *per cent*.

- On one hand, the overall sanctioned projected person days was reduced by the GoI while on the other hand the labour budget of 26 districts was approved in excess (₹ 124 crore) of their projected labour budget.

- The projected person days of eight districts was increased by 8.38 lakh person days with the increase (₹ 49.59 crore) of their labour budget.

[11] ₹ 50 lakh to the Blocks having labour budget above ₹ 20 crore and ₹ 25 lakh to the blocks having labour budget less than ₹ 20 crore.

Thus the projected person days by the districts, their approved labour budget and person days sanctioned by the GoI had no correlation with each other. There was no rationale at the State level either for reduction/increase in the labour budget of GPs.

4.6 Administrative expenses

Audit noticed that the State Government had fixed (May 2010) the proportion of administrative expenditure to be incurred by different tier functionaries in the State. MGNREGS Cell first transferred funds to the districts and thereafter it received it from them through bank drafts for meeting its contingent expenditure.

As fixed, funds at the rate of ₹ 0.75 per man day generated in the districts were to be sent back to MGNERGS Cell. Audit further noticed that MGNERGS Cell received funds (in excess of the admissibility) to the tune of Rupees one crore (2010-11) to six crore (2011-12) from the districts. As a result, ₹ 20.80 crore[12] at the end of (2010-11) and ₹ 20.44 crore (2011-12) was lying in the bank account. Retention of huge amounts in bank accounts besides resulting in blockage of funds is also fraught with the risk of misuse, indicative of lax internal controls.

The State Government stated (January 2013) that the funds were collected as per State Government orders.

Reply was not convincing as the funds in excess of admissibility were collected.

4.7 Unauthorised engagement of NGO/CSO at higher cost

As per Paragraph 5.2.5 of the Operational Guidelines, a door-to-door survey was to be carried out to identify persons willing to register themselves under the Act. The survey in *GPs* was to be carried out by a team headed by the *Gram Pradhan.*

However, audit noticed that the State Government decided (August 2010) to register benficiaries through a project viz '10 lakh *Vanchit Parivar-100 Din ka Rojgar'* during 2010-11 in 26 districts of the State at a cost of ₹ 3.56 crore. The purpose of this scheme was to undertake beneficiary registration surveys through Non-Governmental Organisations (NGOs) and Civil Society Organisations (CSOs) on contract basis and accordingly engaged (October 2010) Messer's NR-International-NRMC-Proact Consortium New Delhi, an

12

Year	Man Days Generated (In lakh)	Total Expenditure	Admissible Administrative funds at State level	Available Contingency funds	Excess funds maintained at State level	Expend iture	Balance funds
		₹ In lakh					
2010-11	3,348.50	5,62,784.83	2,511.38	2,669.61	158.23	589.78	2,079.83
2011-12	2,759.81	5,16,615.00	2,069.86	2,756.85	686.99	712.74	2,044.11

NGO as nodal agency, and 22 CSOs. Audit further noticed that the GoI advised (September 2010) the State Government to cancel it. Instead of canceling the same, the State Government extended (November 2010) the project to 31 districts and decided to incur expenditure under IEC component of the Scheme. GoI again advised (November 2010) to cancel the project. However, the State Government continued it and paid ₹ 1.44 crore to the NGO/ CSOs. This indicated lack of coordination between the GoI and the State Government.

In reply, it was stated that NGO was engaged as per State Government orders. Thus, the Government continued its registration drive contrary to the GoI guidelines.

4.8 Inadmissible payment of honorarium

According to MoRD (March 2007) clarification, honorarium was inadmissible to the Government employees. Audit observed that MGNREGS Cell paid (2010-12) honorarium amounting to ₹ 8.17 lakh to the Government employees working in MGNREGS Cell. The expenditure was met irregularly from the administrative expenses.

The Government stated (January 2013) that the honoraria were paid, as were paid in other GoI sponsored schemes.

Reply was not acceptable in view of clarification given by MoRD.

4.9 Outstanding recoveries

As per Paragraph 10.4 of the Guidelines, the entitlement conferred by the Act is legally justiciable. For this reason, among the others, it is important to maintain accurate records particularly of financial transactions. In case of any irregularity, requisite action should be taken within reasonable time to ensure timely recovery and to avoid loss.

However, based on information furnished to audit by MGNREGS Cell, 198 cases of financial irregularities involving ₹ 3.31 crore occurred during 2010-12. Out of this, the recoveries amounting to ₹ 2.60 crore were outstanding at the close of March 2012.

The Government stated (January 2013) that the recovery is under process.

The recovery needs to be watched in audit.

4.10 Control and monitoring of payments and accounting records

Major deficiencies in accounts

The consolidated annual accounts for the Scheme were not prepared for the periods 2007-12. The annual accounts prepared at district level which provide basic data for financial monitoring and control were marred by deficiencies *viz*. form of accounts was not prescribed, non adoption of accounts by General Body, non preparation of accounts annually, non capturing of entire data in the accounts, grants received booked as expenditure on the basis of disbursements, absence of monthly squaring of accounts, non transfer of funds of closed schemes etc. These irregularities raise doubts about the reliability of accounts. Brief discussion on the deficiencies is annexed **(*Appendix-V*).**

Routing of funds through banks

With a view to ensure timely transfer of funds to the implementing agencies, the GoI adopted the banking route for funding MGNREGA programme. Despite this, Audit observed:

- Authorising and payment/cheque issuing authority was with one officer viz. at State level, Commissioner Rural Employment Guarantee was sanctioning authority and joint signatory on the cheques with the Chief Accounts Officer. In districts CDO as DPC[13], BDO as PO, *Gram Pradhan* in GPs were sanctioning and cheque drawing officers, thereby weakening the internal controls;
- Bills were not supported by sanctions and sub-vouchers;
- Monthly reconciliation of the transactions with banks were not being done;
- Funds were released to implementing agencies without any mechanism for reconciliation with UCs.
- Differences in data in MIS and MPRs were not being reconciled.
- Issue of muster rolls without marking unique identification number issued from DRDA[14] as against from the Block.
- Control records as illustrated in the review were not maintained.

Resorting to a banking route for funding without ensuring at least the basic safeguards built into treasury system had adversely impacted accounting controls which were compromised.

In reply, the State Government stated (January 2013) that the MGNREGS bank accounts were being operated jointly by the two officers at district, Block and GPs level and corrective actions have also been taken for other deficiencies noticed in audit. Reply indicated that one of the two officers signing the cheques is the authority for sanctions also.

[13]With effect from 7 January 2009, District Magistrate has been designated as DPC and CDO as ADPC.
[14]DRDA Bareilly issued 1,999 muster rolls in 2008-09 to 2010-11 (4/11) to Ruhelkhand Nahar Khand Division, Bareilly without allotting unique identification numbers.

Banking arrangements

Separate Bank Accounts were to be opened for funds under the Scheme at the State, district, block and *GP* levels. Funds from MGNREGS account were to be spent on MGNREGS works only after these works were accorded the required administrative and technical sanctions by the competent authorities. Payments made from the accounts of the *GP* were to be reported to the *Gram Sabha* in its next meeting for approval. All payments of MGNREGS wages through Banks (or Post Offices) were a useful means of separating payment agencies from implementing agencies. In order to implement the provision of the Act in its letter and spirit and also to ensure livelihood security, timely payments (weekly and not beyond a fortnight) to the workers was essential. Audit observations on separate bank accounts, payments not reported to *Gram Sabha*, non opening of bank accounts, delay in payments of wages are annexed **(*Appendix-VI and VII*).**

In reply, the State Government stated (January 2013) that the bank accounts not opened would now be opened. However, reply for delay in payments was not furnished.

4.11 Conclusion

The consolidated annual accounts were not prepared. There were shortfalls in releases of the central shares vis-à-vis the approved labour budget thereby vitiating the demand driven concept of MGNREGS. The financial management system was inadequate and different criteria were adopted at different points of time. Avoidable annual recurring expenditure of ₹ 2.13 crore was incurred on the designing of discrepant web based Budget and Funds Framework despite availability of internet based MIS developed by MoRD. The labour budgets were also not realistic. NGO/CSOs were unauthorisedly engaged for door to door surveys for identification of the labourers.

4.12 Recommendations

- In order to ensure transparency in fund distribution to districts/GPs, the State Government should design complete financial management system which monitors and regulates the amount to be transferred based on demands and dictate its quick transfer to the executing level.

- Forms of accounts should be prescribed and the consolidated accounts to be prepared on annual basis, should be submitted to the general body of the *Samiti* for its adoption. Monthly squaring of accounts should also be prepared separately.

- Payments to the workers should be made within due time. Separate bank accounts wherever not opened should be immediately opened and all the payments made should be invariably reported to *Gram Sabha*.