

CHAPTER-IV

Implementation of Master Service Agreement and Governance Structure

Successful implementation of a government project on a PPP or outsourced basis required formulation of adequate service delivery standards and effective monitoring of the implementation of the project as per the standards laid down through an appropriate mechanism.

4.1 Project Implementation Terms

The Ministry invited bids for selection of a Service Provider (October 2007). Eight bids were received in the Ministry. A Tender Committee was constituted with the approval of External Affairs Minister for evaluation of bids. The Committee after evaluation of technical and financial bids selected the bid of L1 (July 2008), i.e., M/s Tata Consultancy Services Ltd. (M/s. TCS). A Master Service Agreement (MSA) was signed between MEA and M/s. TCS Ltd. (October 2008).

As per clause 2.2 of RFP vol.-II, the project was planned to be implemented following the pilot approach where the PSK services would be first started at two pilot locations – Bangalore (3 PSK's) and Chandigarh (2 PSK's) and then after a test run of three months which had to be culminated on a positive certification by a third Party designated by MEA, the implementation had to be taken up at remaining locations. Further, the central facilities like Passport portal, Data Centre, Data Recovery Centre, Central Passport Printing Facility, Call Centre (for Citizen) and Helpdesk were to be established and certified by a third Party before the pilot test run could be started. According to this clause, the SP was responsible for the implementation of all the waves scheduled in the project implementation plan, on a turnkey basis, within the timelines as indicated in Section 3.2 of Volume II of the RFP, i.e., Schedule – IX of MSA.

As per clause 10.4 of RFP vol.-I, Project Director had to undertake an exercise of Testing, Acceptance and Certification of Passport system through a third party, as soon as the SP declares the system to be ready for this purpose, before go-live. "Go-Live" date of the project had been defined in RFP as the date on which

- (i) the Passport system was completely operational as per the requirements in the RFP

- (ii) All the acceptance tests were successfully concluded as per the satisfaction of CPV/MEA.
- (iii) The system was certified by third Party in accordance with the requirements of the RFP and
- (iv) The SLA compliance had reached a level of 80% at the least.

Standardisation, Testing, & Quality Certification (STQC) which is an attached office of the Department of Electronics and Information Technology (DeitY), Government of India is the third Party Audit Agency for PSP. After certification of the project by STQC (Phase-II) in January 2011, the PSP was cleared for launch across the country. As per Schedule-IX of MSA, the scheduled date of Go-Live of PSP was 23rd August 2011. As per clause 3.2 of Annexure – VI of RFP, vol.-II, MEA, shall undertake comprehensive application audits at regular intervals through a third party to ensure application functionality and integrity. STQC issued the Final Verification Report (Phase III) on 12 June 2012 and awarded the requisite Go-Live certification. Thereafter, the operation & maintenance Phase of the Project commenced for a period of six years i.e. from 12 June 2012 to 11 June 2018 as per terms of the MSA.

4.2 MSA and Service Level Agreement terms

The MSA meant the Agreement together with all the Schedules and the contents and specifications of all the volumes of the RFP. Schedule-VI of the MSA stipulated the terms of payment schedule. While Schedule-VIII was the Service Level Agreement (SLA) entered between MEA and the Service Provider (SP). The SP was expected to comply with a set of 27 parameters given in Service Level Metrics (**Annexe-II**) under the SLA. The SLA specified the expected levels of service to be provided by the SP to the various stakeholders of the Project. This expected level was called the baseline service level (baseline metrics). Payment of the Quarterly Transaction Charges (QTC) to the SP was linked to the compliance with the SLA metrics. As per clause 4.2(d) of RFP, the SP was to get 100 *per cent* of QTC if the baseline performance metrics are complied. The SP will get lesser payment in case of a lower performance as per the score specified in SLA.

Specific audit findings related to MSA and SLAs are discussed in the succeeding paragraphs:

4.2.1 Inconsistency in clauses of MSA

Clause 2(c) of Schedule VI of MSA stipulated that “The entire remaining cost for implementing, operating and maintaining the Passport Seva system would be borne by the SP and recovered through the two types of Service Charges quoted by him in the commercial proposal and accepted by MEA, in respect of the following two categories of Services.

- i. Passport services which required printing of a new passport booklet and
- ii. All miscellaneous services; that did not require the printing of a new passport booklet.

Clause 2(k) of Schedule VI of MSA stipulated that “The service provider shall be paid by MEA at the end of each quarter depending upon the number of transactions logged in that quarter for each of the categories of service and subject to SLA terms specified in the agreement between SP and MEA”. This clause shows that the service charges quoted by SP would be paid by the MEA.

However, clause 2(e) of the agreement stipulated that “The service charges for the applicants, who apply online, for both the above categories of service, would be 75 *per cent* of the basic service charges quoted above. This was to be done to encourage citizens to do transactions online.” Clause 2(j) of Schedule VI stipulated that citizens would be suitably notified about the schedule of service charges and Service Provider would provide appropriate publicity to this. These two clauses of MSA suggests that the service charges for implementing, operating and maintaining the Passport Seva system are to be paid by the applicants to the SP and the online applicants will get a discount of 25 *per cent*. However, as per the system adopted by the Ministry, the applicants pay Passport Fee to the government which is fixed (no discount available to online applicants) and it is the Ministry who pays service charges to the SP and Ministry gets discount of 25 *per cent* in service charges for the online applicants.

Thus, clause 2(e) and 2(j) are not consistent with clause 2(k). It was not clear whether the government had any intention to provide discount to the online applicants. This inconsistency among clauses of MSA needs to be removed.

The Ministry stated (November 2015) that if two or more clauses in any agreement are ambiguous or contrary to each other then interpretation of clauses should be in accordance with principle of harmonious interpretation. The reply of the Ministry is not convincing as the terms of the agreement indicated

that the applicants, who apply online, would get a discount of 25 *per cent* which was not envisaged in the scheme adopted by the Ministry. Also, there was no relevance for clause 2(j) to provide publicity to the service charges as the applicants were not required to pay these charges to the SP.

Recommendation: The Ministry may examine clauses of MSA and take appropriate action to remove inconsistencies.

4.2.2 Change in definition of Walk-in Applicant

The MSA recognised two categories of applicants – Walk-in and On-line. The following rates (**Table : 4.1**) were applicable for providing Passport Services which require printing of a new passport booklet:

Table : 4.1
Walk-in and Online rates

(i) Walk-in applicants	₹ 199 (if quarterly volume is less than 15 lakh)
(ii) On-line applicants	₹ 149.25 (if quarterly volume is less than 15 lakh)

Walk-in applicants were those, who manually filled the application form in the PSK and counter operator assisted them in filling the application form and capturing the details in the system from the physical application form. After completing the data entry and after confirmation from the applicant, counter operator had to submit the application into the system for obtaining appointment to visit desired PSK. As compared to this, on-line applicants were those who had already completed all those activities them self, before visiting the PSK on the appointment date and time. As in case of walk-in-applicants in comparison with online applicants, more services were to be provided by the service provider, the service charge rates for the walk-in-applicants were higher than that of the online applicants.

Audit scrutiny revealed that the system of 100 *per cent* online appointment was made applicable from 26 July 2012 due to change in definition of walk-in. Scrutiny of bills of Service Provider revealed that payment of walk-in applications @ ₹ 199 per application were still in existence till May 2015. The Ministry had paid ₹ 81.30 lakh (**Annexe-III**) from inception of the project to May 2015 for walk-in applicants to M/S TCS.

The Ministry clarified (November 2015) that the citizens who were seeking official/diplomatic passports visited PSKs without ARN¹ and the entire data was keyed in from physical application forms and were undertaken by Service Provider in 'A' zone of PSK and therefore payment of ` 199 per application for walk-in application was correct and not erroneous.

This reply was not acceptable as audit noted from the annual data published for the year 2013 and 2014, that only 4086 applications for seeking official and diplomatic passport were undertaken by the service provider, whereas, the payment for 27198 applications amounting to ` 54.12 lakh was made on account of walk-in-application. Thus, the Ministry made an overpayment of ` 11.50 lakh² to the Service Provider, which needs to be recovered.

4.2.3 Reward to service provider on peak hour terminology

During the RFP stage, it was assumed that 80 *per cent* applicants would apply manually (walk-in) and 20 *per cent* would apply online. A concept of peak hour and non-peak hour was envisaged to handle the rush and volume and reward the SP to meet the target. However, as per Change Control Note (CCN) 0147 (July 2012), the definition of walk-in was changed to walk-in with ARN which needed online filling of form before the visit to PSK. Thus, the reward related to the peak hour performance was required to be modified accordingly.

Audit observed that for walk-in applicants, the baseline time for service rendering was less than 45 minutes, with penalty for more than or equal to 45 minutes and reward for less than 30 minutes. In case of on-line applicants the respective performance parameters were 25 minutes and 18 minutes respectively. Since all the applications are online now, the clause related to walk-in applicants is no longer relevant and the performance indicators of online applicants should have been applied to the applicants with ARN. Audit noted that an amount of ` 61.49 lakh had been made to the service provider during September 2012 to May 2015 on the basis of performance indicator related to walk-in applicants which was not justified.

¹ ARN is Application Reference Number. It is a print-out of acknowledgement receipt after the citizen had filled-in online application.

² (Number of walk-in applications for which payment was made is 27198 @ ` 199 less number of applications actually for which services relating to official/diplomatic passports were rendered 4086) x ` 49.75

The Ministry stated (November 2015) that as per NISG recommendation entire day of PSK operation was to be treated as a peak hour day which would have costed Ministry additional payment of bonus/reward amounting to ` 2.00 crore per quarter. It further stated that now it had decided to regulate flow of citizens for passport related services through online appointments.

The reply is not convincing as after the change in the system, there was no concept of walk-in applicants where the PSK would require to do data entry of the application also. Hence, keeping the baseline time for service delivery in case of Walk-in applicants as 45 minutes and for payment of reward as less than 30 minutes was not justifiable.

Recommendations: Ministry may review the mechanism of payment of reward to the SP in line with the change in the system.

4.2.4 Change in calculation of average time spent by citizens in PSK

Payment was released to the service provider quarterly on the basis of quarterly data furnished by the SP. Payment of the quarterly transaction charges payable to SP was linked to the compliance with the SLA metrics laid down in the table provided in Appendix A to Schedule VIII of the MSA (**Annexe-II**). The table also specified the limits and metrics for lower/higher performance and breach levels. The SP would get 100 *per cent* of quarterly transaction charges, if the baseline performance metrics were complied. The SP would get lesser payment in case of a lower performance/breach level and higher payment in case of a higher performance. The methodology for calculation of average time spent by the citizen in PSK given in SLA of MSA was revised as per the **table 4.2**:

Table 4.2
Audit findings on deviations in SLAs

Sl. No.	SLA as per MSA	Revised methodology in SLAs	Audit Findings
1.	According to SLA 1, 45 minutes (baseline metrics) were meant for walk-in citizen and	The system has become 100 <i>per cent</i> online w.e.f. July 2012 (CCN	In case of a walk-in citizen, personal particulars in the manual application had to be filled-in by the SP, but

Sl. No.	SLA as per MSA	Revised methodology in SLAs	Audit Findings
	<p>according to SLA 2, 25 minutes (baseline metrics) were meant for online citizen.</p> <p>SLA 1(Walk-in) - Average must be achieved with the time spent by 99 <i>per cent</i> or more of the citizens in PSK being within 45 minutes for the baseline metric score.</p>	<p>0147) wherein walk-in category has been changed to walk-in with ARN.</p> <p>SLA1 (Walk-in with ARN) – Average service time of 90 <i>per cent</i> citizens/tokens must be within 45 minutes for the baseline metric score</p>	<p>now since the system had become 100 <i>per cent</i> online, there is no requirement of manual feeding of personal particulars by the SP in the category of walk-in with ARN. Hence payment to service provider on the basis of 45 minutes in case of walk-in with ARN was incorrect.</p> <p>Since quarterly payments to the service provider were based on this measurement, by reducing number of citizens from 99 <i>per cent</i> to 90 <i>per cent</i> (SLA No. 1 and 2) and from 95 <i>per cent</i> to 90 <i>per cent</i> (SLA No. 3 and 4) for calculating average time spent by the citizens in PSKs, the service provider is unduly benefitted by getting more baseline metric scores. As change in the methodology of calculation had direct impact on the payments being made to SP, change in favour of SP without justification was incorrect.</p>
2.	SLA2 (Online) - Average must be achieved with the time spent by 99 <i>per cent</i> or more of the citizens in PSK being within 25 minutes for the baseline metric score.	SLA2 (Online with appointment) - Average service time of 90 <i>per cent</i> citizens/tokens must be within 25 minutes for the baseline metric score.	
3.	SLA3 (Walk-in) - Average must be achieved with the time spent by 95 <i>per cent</i> or more of the citizens in PSK being within 30 minutes and the time Spent by 4 <i>per cent</i> or less of the citizens	SLA3 (Walk-in with ARN) - Average service time of 90 <i>per cent</i> citizens/tokens must be within 45 minutes for the baseline metric score.	

Sl. No.	SLA as per MSA	Revised methodology in SLAs	Audit Findings
	being within 45 minutes for the baseline metric score.		
4.	SLA4 (Online)- Average must be achieved with the Time Spent by 95 <i>per cent</i> or more of the citizens in PSK being within 18 minutes and the time Spent by 4 <i>per cent</i> or less of the citizens being within 25 minutes for the baseline metric score.	SLA4 (Online with appointment) - Average service time of 90 <i>per cent</i> citizens/tokens must be within 25 minutes for the baseline metric score.	
5.	In case of SLA 3, average time spent by citizen walk-in during non-peak hours was as under; Baseline Metric - < 30 minutes Lower performance - >= 30 minutes Breach - > 45 minutes	Average time spent by citizen (walk-in with ARN) at PSK during Non-Peak Hours Baseline Metric - < 45 minutes Lower performance - >= 45 minutes Breach - > 60 minutes	According to present system, walk-in with ARN applicant had to take online appointment by himself; therefore online time as given below should have been applicable to walk-in applicant. Baseline Metric - < 18 minutes Lower performance - >= 18 minutes Breach - > 25 minutes

The Ministry stated (November 2015) that SLA 1 to 4 as contained in RFP were recommended by National Institute of Smart Government and as per RFP, review of SLAs were required to be conducted at specific time interval. Therefore, SLA 1 to 4 has been revised and NISG in its report also recommended that entire day of PSK operation might be treated as a peak hour day. The Ministry further stated (November 2015) that because of the social behaviour factors, 10 *per cent* citizens were not turning up at the counters after issue of tokens which was beyond the control of the Service Provider, therefore, care had been taken not to penalise the Service Provider.

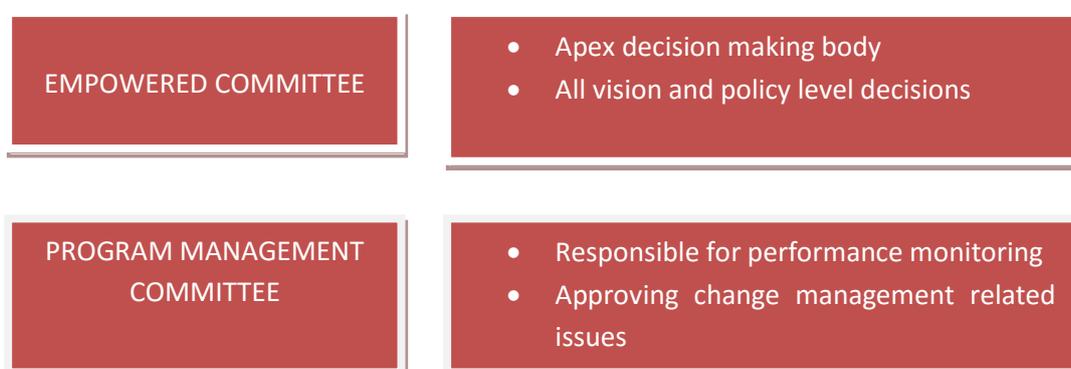
Reply of the Ministry is not acceptable as in case of SLA 1, the system of applying for passport related services was changed by the Ministry after entering into

MSA. The change in the system led to considerable reduction in the time taken by the SP to process the applications as all the applications are now online applications. In respect of change in methodology due to social behaviour factors based on the report of NISG, it may be noted that the CCNs to make above changes were made in July 2012 which did not include any justification for the changes whereas the study report of NISG was given to the Ministry in November 2012. Moreover, NISG, in its report had not given any quantitative analysis of social behaviour. No quantitative analysis supporting the argument that 10 per cent of citizens were not turning up at the counter after issue of tokens was made available to audit.

Recommendation: The performance parameters for SLA 1 need revision in line with change in the system. Also, changes in methodology of calculation of SLAs should be based on adequate justification.

4.3 Governance structure-deficiencies

Clause 4.1 of Schedule-IV of the Master Service Agreement (MSA) of the Passport Seva Project prescribed the program governance structure to monitor the implementation of the project and provided guidance as required. The MSA envisaged a governance and implementation structure as given below:



The governance structure was to establish and maintain the processes for:

- managing the relationship between the Ministry and the service provider;
- defining the principles to be followed to ensure the delivery of the services, ensure the continued alignment of the interests of the parties;
- ensure the relationship maintained at the correct level within each party;
- create the flexibility to revise and maintain the relationship.

As noted above, the MSA (RFP vol.-III) prescribed a governance structure with well-defined and clearly segregated roles for each level. However, it was seen

that in actual implementation top level governance and monitoring was largely absent as detailed below:

4.3.1 Empowered Committee

The Empowered Committee, constituted by MEA was responsible for taking all decisions related to overall vision and policy matters. MEA constituted Empowered Committee consisting of Foreign Secretary as chairman and AS (CPV), AS (FA), JS (PSP & CPO), JS (eG & IT), Secretary (DeitY)³ as members of the Committee. Director (PSP & Project Director) was assigned as convener of the Empowered Committee. The Empowered Committee was required to meet at least once in six months.

Audit scrutiny of records showed that the Empowered Committee met only three times i.e. on 11 January 2007, 16 February 2007 and 09 July 2007, till August 2015. Audit further noticed that policy decisions like compulsory online registration and definition of walk-in applicant were taken without the approval of the Empowered Committee (Para 4.2).

The Ministry stated (November 2015) that meeting of the Empowered Committee was essential before finalisation of the RFP/MSA, signing of the contract with the successful bidder and it had played crucial role during finalisation of Detailed Project Report and Request for Proposal. Thereafter, the Programme Management Committee headed by AS (CPV) took the lead role in implementation of the Project.

The Ministry's reply is not acceptable, as proposal for compulsory online registration was also discussed in the Empowered Committee on PSP held on 09 July 2007, and it was decided that system should provide both for walk-in applicants as well as for online registration. Later on, compulsory online registration was made without the concurrence of Empowered Committee. The fact remained that Empowered Committee had not met as prescribed and important policy matters were not approved by the Empowered Committee.

Recommendation: Empowered Committee should meet once in six months and overall vision and policy matters should be routed through it as prescribed.

³DeitY - Department of electronics and technology

4.3.2 Program Management Committee (PMC)

MEA constituted PMC consisting of AS (CPV) as chairman and JS (PSP & CPO), Project Director, Director (Fin) as member. Representatives of SP and NISG, STQC, NIC, ISP Nashik and India Post could be called in the Committee meetings on need basis. Principal Consultant (Tech) was assigned as convener of the committee. The PMC was required to meet at least on monthly basis and cover the following items:

- (i) consideration of monthly Performance Reports;
- (ii) consideration of matters arising out of the Change Control Schedule;
- (iii) matters to be brought before the PMC in accordance with the MSA and the Schedules;
- (iv) any matter brought before the PMC by the Service Provider under this Article;
- (v) any other issue which either Party wishes to add to the agenda.

Scrutiny of records revealed that no meetings were conducted by the PMC. As a consequence of a non-working PMC, the following were noticed:

- All Change Control Notes (CCNs) and changes in SLA were made without approval of the PMC. A total of 41 CCNs were carried out for which a payment of ` 11.59 crore (**Annexe-IV**) was made to TCS. In the absence of a working PMC, technical review of the CCNs were not made and the Ministry could not verify the need of the CCNs or their costing.
- It was noticed that SLAs related to performance requirements by the vendor and breach metrics were revised. These changes always entailed a relaxation of the parameters in favour of the Service Provider.

The basic purpose of formation of PMC i.e. consideration of monthly performance reports, consideration of matter arising out of the Change Control Schedule, etc., stood defeated.

The Ministry stated (November 2015) that AS (CPV), met frequently during the entire execution period and roll-out/post roll-out period and similarly JS (PSP & CPO) reviewed the progress of the project execution on a weekly basis and also met RPO's on regional basis to sort out issues faced by them.

The Ministry did not reply why PMC had not met as prescribed and why important CCNs due to which payment of ` 11.59 crore had been paid to Service Provider and relaxation in SLA requirement had not been routed through the PMC.

Recommendation: PMC should meet once in a month as prescribed and all-important CCNs and relaxation in SLA requirements should be routed through it.

4.4 Non-submission of information to audit on legacy Data Migration

As per Clause 12 of RFP vol.-I, the Service Provider was to perform the data digitization & migration from manual and/or the previous systems to the Database of new Passport system. The data digitization and migration had to be preceded by a data migration methodology, prepared by SP and approved by CPV/MEA. Following requirements were to be fulfilled at the time of data migration:-

- (a) Provide checklist from the migrated data to Project Director for verification, including number of records, validations, highlight errors, abnormalities and deviations.
- (b) A final approval of Project Director for migrated/digitized data.

Audit requisitioned the data regarding migration methodology prepared by service provider and approved by the Ministry and approval of the Project Director for migrated/digitized data, which was not provided to audit.

The Ministry stated (November 2015) that a document on data migration methodology (Data Migration Rules Specification version 1.5) was prepared by the Service Provider and approved by the MEA and more than 70 million records were migrated as part of the base data migration process. However, this document was not shared with Audit.

In the absence of production of any record relating to data migration despite several requests during audit and in the absence of production of any evidence with the reply (final approval of Project Director for migrated/digitized data),

audit was not able to ascertain whether legacy data as maintained in PISON (previous system) was actually transferred to PRIDE (new system) or not.

4.5 Internal controls related to reconciliation of receipts

We examined the internal controls related to reconciliation of receipts (online as well as at PSKs) from passport services. We observed following:

- Normal passport fee was collected online at the time of applying for passport. However Tatkaal fees and penalties were collected from the applicants in cash at PSKs and RPO. Scrutiny of records revealed that a bipartite agreement had been signed only between TCS and SBI with respect to banking arrangements on Passport Seva Project, whereas the Ministry which was responsible for transfer of its receipts to CFI was not even a party in the agreement.
- Application fees received online is directly deposited in the SBI account. No periodic reconciliation of these receipts with online applications was done by the Ministry.

The Ministry replied (February 2016) that tripartite agreement among accredited bank, service provider and Ministry was being finalised. It further stated that in respect of online receipt, test check was conducted on 6 January 2016 and reconciliation was being carried out between SBI and TCS. The reply of the Ministry is not acceptable as no such reconciliation was done during the period covered under review. Moreover, reconciliation of online receipts needs to be done by the Ministry also.

Conclusion

The terms of MSA were not drafted by the Ministry carefully. Ministry also made payment of incentives as per the old system which was not justifiable. Further, deviation in the methodology of calculation i.e., by reducing number of citizens from 99 *per cent* to 90 *per cent* and from 95 *per cent* to 90 *per cent* had direct impact on the payments being made to SP. PSP prescribed programme governance structure (Empowered Committee, Programme Management Committee) to monitor the implementation of the Project and provide guidance. The prescribed meetings of Empowered Committee were not held and a number of policy decisions were carried out without its approval. As the Programme

Management Committee was not met, all Change Control Notes relaxing SLA parameters were carried out without the approval of the PMC. In the absence of requisite meetings of governance level committees, programme governance was

weak. Internal controls related to reconciliation of online receipts were weak as no periodic reconciliation of these receipts with online applications was done by the Ministry.

**New Delhi
Dated: 7 March
2016**

**(MUKESH PRASAD SINGH)
Director General of Audit
Central Expenditure**

Countersigned

**New Delhi
Dated: 11 March
2016**

**(SHASHI KANT SHARMA)
Comptroller and Auditor General of India**