CHAPTER VI : MINISTRY OF COAL

Coal Mines Provident Fund Organisation

6.1 Management of Funds

Non-implementation of recommendations of the actuary led to acute deficit in Pension Fund, incorrect diversion of funds from Provident Fund Account to Pension Fund Account, non-adherence to Ministry's guidelines for investment of Provident Fund of own employees, incorrect payment of interest, excess payment of pension, untraced balance of ₹ 1.71 crore for more than seven years, non-linking of Current Accounts with Corporate Liquid Term Deposit Scheme and non-review of rate of administrative charges adversely affected financial interests of the members of the Coal Mines Provident Fund Organisation.

Coal Mines Provident Fund Organisation (CMPFO), an autonomous organisation under the Ministry of Coal (MoC), was established under the Coal Mines Provident Fund and Miscellaneous Provisions Act, 1948 to provide social security, inculcate a spirit of savings and to provide for the future of all eligible employees of coal industry (public or private sector) on their retirement or for their dependents. The Act was enacted to make provisions for administering Provident Fund (PF) Scheme, Pension Scheme and Deposit Linked Insurance (DLI) Scheme for persons employed in coal companies, and to provide them with lump sum retirement benefits, monthly pension/family pension, insurance coverage etc.

The Board of Trustees (Board) is the administrative agency for implementing the schemes and consists of representatives of Central/State Government, employers and employees. The Coal Mines Provident Fund Commissioner is the *ex-officio* member of the Board and overall in-charge of the Organisation. At the State level, the schemes are implemented through 24 Regional Offices (RO) located in different states, headed by Regional Commissioners. The Headquarters of CMPFO is located at Dhanbad, in Jharkhand.

The financial activities of CMPFO were reviewed to assess whether CMPFO:

- administered its funds effectively and efficiently to protect the financial interest of its members;
- reviewed the rate of recovery of administrative charge from employers to defray the cost of administration of the Provident Fund;

The audit covered the period from 2013-14 to 2015-16. Records maintained at Headquarters, Dhanbad and 13 ROs located at Jharkhand, West Bengal and Chhattisgarh were test checked.

6.1.2 Audit Findings

Audit observed that funds of different CMPFO schemes were not effectively utilised leading to sub-optimal achievement of organisational objectives which adversely affected financial interests of the members. Audit also observed that internal audit, which is important to ensure monitoring and control, had not been conducted regularly in any of the ROs of CMPFO. The audit findings are discussed in the subsequent paragraphs.

6.1.2.1 Non-implementation of recommendations of the actuary led to acute deficit in Pension Fund

As per Coal Mines Pension Scheme (CMPS), 1998, the Board is required to appoint an actuary every three years to review and value the Pension Fund every third year so that, the rates of contribution payable under the Scheme or the scale of any benefits admissible or the period for which such benefit may be allowed, may be amended if warranted.

Audit, however, observed that:

- Since introduction of CMPS in 1998, actuarial valuation of the Pension Fund was not conducted regularly every three years. So far, actuarial valuation of Pension Fund has been conducted in 2001, 2005, 2012 and 2013 but the recommendations were never implemented. The actuary appointed in October 2015 was required to submit the valuation report (as on 01 April 2015) by January 2016. The actuary, however, submitted the draft report for confirmation of the Management in October 2016, which was yet to be finalised (November 2016).

- The "Committee of Group of Officers" (represented by Ministry of Coal, Coal India Limited, Employees Provident Fund Organisation (EPFO) and CMPFO) constituted for examining the valuation report of actuary as on 31 March, 2012 had recommended (October 2012) re-modeling/ restructuring of CMPS 1998 and fixation of upper and lower ceiling of monthly pension in line with the provisions of Employees Provident Fund Scheme. The Committee also recommended (September 2013) enhancement of the Pension Fund by revising the rate of contribution. These recommendations were yet to be implemented (November 2016).

- The latest available valuation report of Pension Fund highlighted a net deficit of ₹ 19,698.58 crore as on 31 March 2013 after adjusting its value of assets (₹ 14,819.46 crore) and current contribution (₹ 6,643.21 crore) from total liability of ₹ 41,161.25 crore. The actuarial report had opined that if this trend of deficit was allowed to be continued for another 16 years, the balance of the fund would be eroded and those who contributed for the Pension Fund would not receive any pension. The report strongly recommended enhancement of the rate of contribution to 19.46 *per cent* of salary from the existing contribution rate of 4.91 *per cent* (effective since 1998) for sustainability of the Pension Fund. No action had been yet taken on this recommendation.

While accepting the audit contention, Management stated (August 2016) that any review or revision of pension under CMPS 1998 should be as per recommendation of the Board and as approved by the Central Government. Since the Board had not made any recommendation on the reports of the actuary, revision of rate of contribution for Pension Fund had not been done.

Thus due to non-revision of the rate of contribution to the Pension Fund as per the recommendations of the actuary, there was a mounting deficit of ₹ 19,698.58 crore as on 31 March 2013, which may have serious implications on the financial interest of the existing as well as future pensioners. Audit noticed that in order to overcome the deficit in the Pension Fund, CMPFO had to resort to irregular diversion of fund from Provident Fund account, which is discussed in the subsequent paragraph.

6.1.2.2 Incorrect diversion of fund from Provident Fund account to Pension Fund account

As per Coal Mines Provident Fund Scheme 1948, the amount standing in the PF account should not be expensed or diverted for any purpose other than for payment of the sums standing credit to the members of the fund or their nominees or heirs or legal representatives, in accordance to the provisions of the PF Scheme.

During examination of utilisation of fund of PF scheme, Audit observed that:

- CMPFO diverted ₹ 3520.14 crore from PF account to Pension Fund account during 2007-08 to 2014-15[1] to meet the deficit of Pension Fund. Out of this, an amount of ₹ 1737.99 crore had been returned (October 2014) to the PF account, leaving an outstanding liability of ₹ 1782.15 crore which was yet (August 2016) to be returned to PF account.

- PF account did not receive any interest from Pension Fund account on ₹ 613.78 crore diverted during the period from 2007-08 to 2009-10, though CMPFO had to pay interest at the rate of 8 *per cent* on an average to its members during the same period. Later, CMPFO started paying interest at the rate of 6 to 8.75 *per cent* (2010-11 to 2014-15) to the PF account on the diverted fund. This interest rate was lower compared to the interest rate of 6.92 to 8.55 *per cent* earned by PF account during 2010-11 and 2011-12. Thus, PF account received lower interest of ₹ 75.30 crore during the period, 2007-08 to 2014-15.

The Management stated (August 2016) that the amount of excess withdrawal of ₹ 1782.15 crore from PF account would be fully adjusted from Pension account in the coming year. There was no loss of interest because the money diverted from PF account was earning interest by investment under Pension head. Investment under Pension head also followed the same pattern as applicable for PF investment.

The reply is not acceptable as the diverted fund was returned to PF account without any interest for the period from 2007-08 to 2009-10 and at lower rate of interest for the period from 2010-11 to 2011-12. Further, the diversion of fund from PF account to Pension Fund account was itself a violation of provisions of Coal Mines Provident Fund (CMPF) Scheme.

6.1.2.3 Non-adherence to Ministry's guidelines for investment of Provident Fund of own employees

Ministry of Finance (MoF), Department of Economic Affairs prescribed (August 2008) ceilings for investment of Non-Government Provident Funds, Superannuation Funds and Gratuity Funds in Government Securities (55 *per cent*), Debt Securities/Term Deposits (40 *per cent*), Money Market instruments (5 *per cent*), shares of companies (15 *per cent*). It was also provided that at no time, investments in any category would exceed 10 *per cent* of the prescribed limit.

[1] There was no diversion of fund in 2015-16.

It was however observed in Audit that:

- Violating the prescribed pattern for investment, CMPFO invested the entire amount of General Provident Fund (GPF) contribution of its own employees for the period under audit (2011-16) in short term deposits of State Bank of India against the allowed 44 *per cent*[2] of the total amount of investment.

- CMPFO paid interest at the rate of eight *per cent* to its employees on their GPF contribution during 2008-09 to 2010-11. However, CMPFO earned interest at lower rates (5.25 *per cent* and 7.75 *per cent*) through term deposit during the same period. Payment of interest at higher rate resulted in erosion of PF and loss of ₹ 1.56 crore during the period from 2008-09 to 2010-11.

While accepting the audit contention, the Management stated (August 2016) that Board had approved the investment of fund under GPF through appointed portfolio manager. Life Insurance Corporation of India (LIC) had been appointed as fund manager for managing the GPF as per the investment guidelines issued by the Government of India and transfer of fund to LIC was under process.

6.1.2.4 Incorrect payment of interest

CMPF scheme provides for payment of interest on the balance available in the PF accounts of the members at such rate as determined by MoC in consultation with CMPFO Board. Audit observed that for the year 2013-14, CMPFO Board recommended (January 2014) interest at the rate of 8.75 *per cent* to their members. MoC however communicated (October 2015) approval of interest at the rate of 8.5 *per cent* only for the year 2013-14. CMPFO had already credited excess interest of 0.25 *per cent* (8.75 *per cent* – 8.50 *per cent*) to the PF accounts of its employees.

While accepting the facts, Management stated (August 2016) that interest is credited to the accounts before final settlement, at the rate recommended by Board. As per previous practice, the Government declared the same rate as recommended by Board. However, when the rate of interest of 8.75 *per cent* recommended by Board for 2013-14 was reduced to 8.50 *per cent* by the

[2] Prescribed limit of 40 *per cent* + 10 *per cent* of 40 *per cent* = 44 *per cent*.

Government, immediate action was taken as soon as the reduced rate was communicated to CMPFO.

The reply of Management is not tenable in view of the fact that there was inordinate delay in communicating the recommendation of Board to MoC (for more than ten months) and further delay (of nine months) in getting approval of MoC which led to excess credit of interest to the members. Though, Management had taken action for reduction of interest based on the communication of the Ministry, the excess payment of interest amounting to ₹ 0.51 crore to 575 retired/deceased members could not be recovered.

6.1.2.5 Excess payment of Pension

CMPFO entered into an agreement (December 2004) with IDBI bank, Mumbai for disbursing pension under CMPS. Audit observed that pensioners of Godavarikhani Region under Regional Office, Hyderabad received excess arrears in the month of February 2006 on account of double payment to the pensioners by IDBI bank. IDBI stated (April 2006) that such excess payment of ₹ 18.11 crore to 10340 pension holders was made based on the data supplied by CMPFO, Dhanbad office. Till February 2016, IDBI bank could recover an amount of ₹ 14.19 crore and the balance of ₹ 3.92 crore was yet to be recovered (August 2016).

While accepting the facts, the Management stated (August 2016) that possible measures had been taken to recover the balance unrecovered amount. For disbursement of pension, IDBI bank was replaced by 14 nationalised banks.

6.1.2.6 Untraced balances of ₹ 1.71 crore for more than seven years

Headquarters of CMPFO at Dhanbad maintained 16 bank accounts with State Bank of India for running its day to day operation. Audit observed that CMPFO detected a shortage of ₹ 1.71 crore[3] in 2008 and since then, the above amount remained un-recovered. The issue was repeatedly highlighted by Audit in the Separate Audit Reports but no fruitful action had been taken to reconcile the shortage with the bank and recover the same till date (August 2016).

[3] ₹ 0.95 crore in Account No. III (Administrative Account), ₹ 0.73 crore in Account No. V (GPF Account of the employees of CMPFO and ₹ 0.02 crore in Account No.VI (Pension cum Gratuity Fund for employees of CMPFO).

While accepting the facts, Management stated (August 2016) that the untraceable balances pertained to the year 2008 and earlier. Attempt was made to trace the amount but was not fruitful. It was also assured that CMPFO was now trying to coordinate with the banker to trace the amount.

The reply did not address the basic issue as to how such shortage remained un-reconciled and why no action was taken. Thus, due to absence of proper financial control, the amount of ₹ 1.71 crore has remained untraced for more than seven years.

6.1.2.7 Non-linking of Current Accounts with Corporate Liquid Term Deposit Scheme

Out of the sixteen current accounts maintained by CMPFO at Headquarters, Dhanbad, Account No. 1 was the main account for receipt and disbursement of funds. Since balance in the current account did not earn interest, it was beneficial for the organisation to link the current accounts with the Corporate Liquid Term Deposit (CLTD) scheme of the bank for automatic transfer of unutilised balance and earning interest thereon.

Audit examined the balances lying in the Account No.1 of CMPFO, Dhanbad and observed that substantial balances were lying unutilised for significant periods without earning any interest. Test check of balances lying un-utilised for more than seven days in 2014-15 and 2015-16 revealed that CMPFO lost the opportunity to earn interest of ₹ 1.66 crore (computed at the rate of 7 *per cent per annum* on term deposits offered by SBI w.e.f. October 2014).

While accepting the audit contention, Management stated (August 2016) that linking of all current accounts with CLTD scheme would be completed by October 2016. Subsequently, CMPFO stated (December 2016) that all the current accounts of the organisation had been converted into CLTD.

6.1.2.8 Non review of rate of administrative charges

CMPFO collects administrative charges at the prescribed rate on the contribution for Provident Fund made by members and employers to defray the cost of administering the fund. This rate was to be reviewed from time to time by Central Government in consultation with the Board. The last review was undertaken in 1981 when the rate of administrative charges was fixed at 3 *per cent*.

Audit observed from the Income and Expenditure Statements of the Administration Fund of CMPFO that there were consistent surplus, of ₹ 238.37 crore, ₹ 357.63 crore and ₹ 266.19 crore at the end of the financial years 2012-13, 2013-14 and 2014-15 respectively, after meeting all the regular expenditures related to administration of Provident Fund. The surplus was available to CMPFO even after incurring irregular expenditure on electricity charges (of ₹ 2.16 crore for electricity consumed by employees of CMPFO during 2010-11 to 2014-15 in violation of the instructions issued by MoC as pointed out in para no. 4.1 of C&AG's Civil Report No. 11 of 2016) and capital expenditure (of ₹ 0.88 crore for procurement of fixed assets during 2012-13 to 2014-15) which was not permissible as per CMPF scheme. Despite such persistent surpluses, CMPFO did not review the rate of administrative charges recovered during the last 35 years.

Management stated (August 2016) that CMPFO was a self-funded autonomous organisation for managing the schemes run by it through staff and officers having pay structure of Central Government including the benefits of pension, leave encashment and gratuity payable to them. Considering the administrative charges levied by CMPFO on the employer (coal companies) and lump sum grant received by CMPFO from Central Government on account of CMPS 1998, the percentages of expenditure over income during 2012-13 to 2014-15 were 53.74, 66.08 and 63.26 respectively. The yearly expenditure was expected to go up in 2015-16 by ₹ 120 crore and it would further increase due to impact of Seventh Pay Commission. Since yearly expenditure was more than 60 *per cent* of the collection which did not include the liability on account of pension, leave encashment and gratuity payable to its employees and no funding was received from Government on these account, CMPFO created a corpus from yearly savings, to meet all future liability including for the above. CMPFO appointed LIC for conducting actuarial valuation for pension, leave encashment and gratuity and as per preliminary evaluation, the valuation of which could go up to ₹ 800 – ₹ 900 crore.

The reply of Management is not tenable in view of the consistent surplus of income over expenditure, which ranged between 34 *per cent* and 46 *per cent* during 2012-13 to 2014-15. Further, collection of administrative charges, being a percentage of contributions, will also increase as and when contribution increases on account of revision of salaries. The Administration Account as on 31 March 2015 reflected current liabilities and provisions of ₹ 124.33 crore only against the assets of ₹ 2497.76 crore (liabilities being ~ five *per cent* of its assets).

6.1.3 Conclusion

The intended purpose of setting up of CMPFO would be seriously affected due to inadequacies in the management of funds earmarked for the benefit of the members. CMPFO failed to implement the recommendations of the actuary for revision of contribution to the Pension Fund which remained static for the last 17 years, leading to acute deficit of ₹ 19,699 crore as on 31 March 2013. To overcome the deficit in the Pension Fund, CMPFO resorted to irregular diversion of funds from the Provident Fund account of the members. CMPFO did not adhere to the guidelines of the Ministry of Finance regarding investments of PF of its employees and earned lower interest on its investments. Instances of excess payment of pension, irregular payment of interest and untraced balances were also noticed indicating poor monitoring and control. CMPFO did not review the appropriateness of the rate of administrative charges collected from the coal companies fixed 35 years ago resulting in accumulation of large volume of assets.

The matter was reported to the Ministry in September 2016; their reply was awaited as of January 2017.