

## CHAPTER-IV

### AUDIT OF TRANSACTIONS

#### Infructuous / wasteful expenditure and over payment

#### FINANCE DEPARTMENT

#### 4.1 Suspected fraud in Integrated Pay and Accounts Office System

Inadequate controls resulted in suspected fraud in drawal of salary and other entitlements and excess payment of Rs. 28.27 lakh.

The State Government employees' subscription to General Provident Fund (GPF) is deducted from their monthly salary by the Treasury through the Integrated Pay and Accounts Office System (IPAO), which was introduced (January 2002) at Dehradun and 25 other treasuries of the State (April 2002). The details of the subscriber-wise contribution are transmitted to the Office of the Accountant General, who maintains the GPF accounts.

Test check of schedules (October 2007) relating to GPF submitted by various treasuries revealed that subscriptions of one subscriber<sup>1</sup> were being received from Ranikhet Treasury as well as from Almora Treasury. The employee was fraudulently drawing salary from both the treasuries, and a sum of Rs. 2.28 lakh was recovered (October 2007) from him at the instance of audit. Two similar cases were detected by Audit, details at *Appendix-4.1(a)*, which have been accepted by the Government. However, recoveries are pending.

Audit scrutiny further revealed that in case of four subscribers, debits (withdrawals/ advances from GPF) were booked to incorrect account numbers even while the credits (subscriptions) were being credited to the correct GPF account number. As a result, the GPF balances in the subscribers' accounts remained unaffected by the debits. Details are at *Appendix-4.1(b)*. In addition, subscriptions from two different subscribers were credited into one account number<sup>2</sup> in the same schedule.

The above frauds point to a systemic flaw in the IPAO system, for release of salaries and other entitlements of the State Government employees. The software was developed by National Informatics Centre, Dehradun free of cost and the hardware was procured at a cost of Rs. 2.10 crore.

Under the IPAO system the State treasuries prepare the salary bills of all the departments and directly credit the amounts to the employees' bank account. The bills are prepared on the basis of a master data that contains all relevant information pertaining to every employee of the State Government. Variations

<sup>1</sup> GPF Account No: MEDU/42006

<sup>2</sup> GPF Account No: PWDU/19394 in the Schedule No A 20590004 dated 7/4/2007

from the database in components of pay<sup>3</sup>, if any, are intimated by DDOs in prescribed forms to the respective treasuries by 23<sup>rd</sup> of every month. The IPAO system generates several reports such as employee pay slips (sent to DDOs for distribution to employees) and schedules for GPF and other deductions

In an application that is so completely input dependent, authentication of the data through embedded controls/validation controls in the application are vital. But this was found absent in the IPAO system. The reliability of the IPAO system, with specific reference to input controls, was tested in Audit in Dehradun Treasury, using SQL queries from the data back-up from April 2004 to March 2007. The scrutiny revealed the following flaws in the IPAO system:

- \* The IPAO was implemented as a stand-alone system at each treasury without any central database. As a result, the three cases where the employees took salary from two different treasuries went undetected by the system.
- \* The system calculates only dearness pay and dearness allowance on the basis of basic pay, and all other components of salary are dependent on fresh input of data in the event of changes (if necessitated by DDO's monthly reports). There were no input checks such as upper and lower limits of salary under each category, slabs for license fee for Government accommodation, etc.
- \* Although each employee was assigned a unique employee code, the data in various fields relating to each employee was not linked with his employee code. The system accepts any number as GPF account number even when the number has been already allotted to another employee. Absence of this critical check would explain the incidence of suspected frauds in GPF, as mentioned above.
- \* Further, audit scrutiny revealed excess payment of House Rent Allowance of Rs.14.19 lakh in case of 843 employees. 496 employees were paid a sum of Rs.14.08 lakh as Hill compensatory Allowance in excess of their entitlement.

The system suffered from other shortcomings impinging on data security:

- \* The entire Treasury staff had physical access to servers, database, application software and operating system, exposing the system to risk of unauthorized access and data manipulation.
- \* There was no well-defined documented password policy. The default password had not been changed since software installation.
- \* There was no documented business continuity and disaster recovery plans defining the roles, responsibilities, rules and structures for continuing the operations of IPAO in the event of any disaster caused either due to intentional, accidental or natural calamities.

On this being pointed out by Audit, Chief Treasury Officer, Dehradun stated (October 2007) that the sole responsibility for correctness of data rests with the DDO, who is also required to verify the amounts drawn. The reply is not tenable since the IPAO system, in its current form, does not provide assurance on

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<sup>3</sup> Owing to promotions or postings which entitle the employee to other benefits, allotment of a Government house which will necessitate deduction of licence fee and withdrawal of House Rent Allowance etc.

integrity of data and moreover the features of Relational Database Management System (RDBMS) in Oracle have not been tapped in the system.

The IPAO system facilitates monthly payment of Rs 10.23 crore in the State. As evidenced from the frauds detected by Audit, the system has inherent flaws in every aspect of data integrity and security, thus rendering it vulnerable to errors, intentional or otherwise.

The matter was referred to the Government (October 2007); reply had not been received (December 2007).

## PUBLIC WORKS DEPARTMENT

### 4.2 Undue aid to contractor

Unjustified interest free mobilisation advance of Rs. 87.10 lakh remained unadjusted for more than one year even as false evidence of utilization by the contractor was accepted.

Executive Engineer (EE), Construction Division, PWD, Almora took up (July 2006) the work of 29 km Gagas-Binta-Someshwar road in Almora district through Kailash Hillways Engineering Associates for Rs. 8.71 crore. The work was scheduled to commence in July 2006 and be completed by July 2007 but as of June 2007, work had not begun. An amount of Rs. 87.10 lakh was paid (July 2006) to the contractor as interest free mobilization advance.

Test check (May 2007) of records of the Division and further information collected (September 2007) revealed the following:

- \* The Division accepted (May 2006) a single tender bid of the contractor which was 33 *per cent* above the estimated cost (Rs. 6.55 crore) on the ground that the schedule of rates (SOR) was three year old and that breakage of plant and machinery during transportation in hilly areas could be high. The scope of work was reduced from km 29 to 23 only to keep the cost of work within the sanctioned cost.
- \* The work was tendered (November 2005) prior to obtaining administrative approval and expenditure sanction (February 2006).
- \* Mobilization advance was paid for machinery and equipment although possession of the same was a condition for pre-qualification of contractor in the technical bid.
- \* The contractor reported utilization of advance for purchase of the machinery (cost Rs. 52 lakh; August/September 2006) from a firm but the partnership deed of these two firms showed that owners / partners are the same. As such, the purchase of machinery was fictitious and done only to show proof of utilization of the mobilization advance.
- \* Financial rules of the State Government do not contain provision for payment of mobilization advance. Instructions of the Central Vigilance Commission (1997 and 2004) require that mobilization advance should be released in stages depending on the progress of works and it should be interest bearing so that the contractor does not draw undue benefit. The instructions also require

**Appendix-4.1**

*(Reference: Paragraph 4.1; page 99)*

**(a): Cases where the employees are suspected to be drawing salary from two Treasuries**

GPF No.	Treasuries	Schedule No. & Date	Subscription amount
COEDU/13461	Dhumakot; Pauri	A 22020003 30/5/2007	1000
COEDUA/13827	Pauri; Narendranagar	A 22020512 25/5/2007	4000

**(b): Incorrect posting of GPF account number thus leaving debits unbooked**

Debit Voucher No.	Date Treasury	Withdrawal amount	Remarks
B27000002	9/5/2007 Purola	100,000	Debit was sanctioned against correct GPF no. IRRIU/43006 but it was drawn against wrong GPF no. IRRIU/46006.
33	8/5/2007 Haldwani	25,000	Credits are received against correct GPF no. IRRIU/44738 but debit is drawn against wrong GPF no. IRRIU/44748.
20	9/5/2007 Roorkee	92,000	Credits are received against correct GPF no. IRRIU/30583 but debit is drawn against wrong GPF no. WU/30583.
12	5/5/2007 Pithoragarh	80,000	Credits are received against correct GPF no. IRRIU/67980 but debit is drawn against wrong GPF no. IRRIU/87980.