

CHAPTER IV

AUDIT OF TRANSACTIONS

4.1 Fraud/misappropriation/embezzlement/losses detected in audit

MUNICIPAL ADMINISTRATION AND URBAN DEVELOPMENT DEPARTMENT (Kakatiya Urban Development Authority)

4.1.1 Loss of revenue due to improper management by KUDA

KUDA sustained a total loss of revenue of Rs 54.76 lakh in the process of sale of lands at Maddireddikunta and Lashkar Singaram.

The State Government permitted (May 1996) Kakatiya Urban Development Authority (KUDA), Warangal, to sell off in public auction, lands admeasuring 9.06 acres and 30 acres located at Maddireddikunta and Lashkar Singaram respectively. The terms and conditions of tender document provided that (i) the successful bidder should pay an initial deposit equal to one fourth of the sale price of the plot, (ii) he could opt to pay the balance within six months in three bi-monthly instalments from the date of auction with interest at 20 per cent per annum, (iii) KUDA would not carry any development work in any individual plot. The applicants were also advised to inspect the site and satisfy themselves of the condition and location of the plot. The following points were noticed in audit:

(a) Open auction for sale of plots in Maddireddikunta was conducted on 24 February 1999. Out of 65 plots available for sale, 47¹ were allotted (February 1999) to the bidders at a total sale price of Rs 96.30 lakh, as against which Rs 48.42 lakh was collected (February 1999) towards initial deposit and the balance was payable by 24 August 1999.

Audit observed that although there was abnormal delay in payment of the balance of the sale price by the allottees, KUDA did not issue notices to them for payment of interest. This was despite the refusal (May 2001) by the Special Officer (District Collector) of the requests of the allottees for waiver of interest. Out of 47 allottees, full sale price was paid by 46 allottees by 8 May 2003 and the plots were registered in favour of 35 allottees. In October 2003, the Board also resolved against the waiver of interest and decided to issue notices to the allottees to pay the total sale price including interest within 30 days and in case of failure, to forfeit the amounts (initial deposits and instalments). This was not implemented by the KUDA. Consequently, the interest on belated payments for the period from 24 February 1999 to 8 May 2003 (till 3 June 2005 in one case), which worked out to Rs 31.62

¹ 18 plots not allotted due to court cases, boundary disputes, etc.

lakh², remained to be realised from the allottees as of August 2005. The Government while accepting the audit objection stated (September 2005) that the VC, KUDA was directed to recover the interest amount from the section staff and officials of KUDA who were responsible and also to initiate disciplinary action against them.

(b) It was noticed that a total amount of Rs 6.45 lakh³ was either reduced from the sale consideration or refunded (to those who had already paid total sale price) to the allottees towards filling of morrum even though as per the terms and conditions cost of all development works after allotment of the plots was to be borne by the allottees. This resulted in loss of revenue to the extent of Rs 6.45 lakh. The Government stated (September 2005) that certain officials viz., Senior Assistant, Planning Officer and the then JPO were responsible for the loss. Government also directed the VC, KUDA to recover the loss from the concerned officials and to initiate disciplinary action against them.

(c) In the case of Lashkar Singaram, a layout was prepared and developed and put to auction between February 2000 and June 2004.

KUDA fixed the upset price of Rs 900 per sq. yard for corner plots and Rs 750 per sq. yard⁴ for other plots by adopting the market value as Rs 400 per sq. yard. Audit observed that the then⁵ prevailing market value was Rs 500 per sq. yard (as also confirmed by the Registration authorities). Further, eight plots were disposed of for even less than the upset price. In the process, KUDA sustained a total loss of revenue of Rs 16.69 lakh. The Government stated that the upset price was fixed below the market value taking into consideration the ground realities. The reply was not convincing and the loss was calculated by Audit only in respect of the plots against which no problems were identified/reported by KUDA.

Thus overall, KUDA sustained a total loss of revenue of Rs 54.76 lakh in the above three cases.

² calculated at 20 per cent per annum in respect of all the 47 allottees

³ at Rs 15000 for 43 plots

⁴ by adding the cost of development of Rs 350 to the market value

⁵ 1999-2001

4.2 Excess payments; wasteful/infructuous expenditure

FINANCE DEPARTMENT

4.2.1 Overpayment of pension and family pension

Overpayment of pension and family pension aggregating Rs 38.85 lakh were made during April 2000 to February 2005.

Test-check of records (2004-05) relating to payment of pension and family pension in all 23 district treasuries, 213 sub-treasuries⁶ and all nine Assistant Pension Payment Offices (APPOs) under the administrative control of Director of Treasuries and Accounts revealed that overpayment of pension and family pension was made for Rs 38.85 lakh by eight⁷ district treasuries, 91 sub-treasuries and five APPOs⁸ during April 2000 - February 2005. Despite being pointed out in the Audit Reports for the last five years, similar cases of overpayments/excess payments continued to occur. The category-wise excess payments are discussed below:

(i) AP Revised Pension Rules, 1980 provide for payment of enhanced family pension (EFP) equivalent to 50 per cent of the last pay drawn by the Government servant in the event of his/her death while in service or after retirement, for a period of seven years or till the date on which the Government servant would have attained the age of 65 years had he/she been alive, whichever is earlier. To restrict the payment of EFP to the relevant period, the District Treasury Officers (DTOs)/Sub-Treasury Officers (STOs)/Pension Payment Officers (PPOs) were required to maintain a register to watch this time limit. It was seen that in five district treasuries⁹, 42 sub-treasuries (in 17 districts) and three APPOs¹⁰ either such records were not maintained at all or the registers were incomplete, which led to payment of family pension at enhanced rates beyond the prescribed time and consequent overpayment of Rs 13.97 lakh in 84 cases (out of 4111 cases test checked) during April 2000-January 2005.

(ii) Consequent on revision of pay scales of Government employees during 1999, pension payable was revised by consolidating pension and relief. In four district treasuries¹¹, 40 sub-treasuries (in 16 districts) and two APPOs¹² consolidation was incorrectly computed in 66 cases (out of 4632 cases test checked) resulting in excess payment of pension of Rs 9.34 lakh during April 2001 - February 2005.

⁶ out of 297 in the State

⁷ Anantapur, Kakinada, Krishna, Mahboobnagar, Medak, Nalgonda, RangaReddy and Vizianagaram

⁸ Chandrayanagutta, Motigally, Nampally, Panjagutta and Tarnaka

⁹ Anantapur, Krishna, Mahboobnagar, Medak and RangaReddy

¹⁰ Chandrayanagutta, Motigally and Nampally

¹¹ Anantapur, Kakinada, Medak and Vizianagaram

¹² Panjagutta and Motigally

(iii) Government withdrew (September 2000) sanction of dearness relief on the pension drawn by pensioners who were employed under the scheme of compassionate appointments. It was noticed in two district treasuries¹³, 27 sub-treasuries (in 16 districts) and APPO, Panjagutta that in 46 cases (out of 3247 cases test checked) of compassionate appointments, dearness relief was paid on family pension resulting in excess payment of Rs 7.84 lakh during April 2001-December 2004.

(iv) According to the pension rules, if a pensioner commuted a part of his pension, the amount of pension should be reduced to that extent. In 58 cases (out of 3329 cases test checked) in 25 sub-treasuries (in 14 districts), the District Treasury of Vizianagaram and two APPOs¹⁴, the commuted portion of pension was either not reduced or only partly reduced from the original pension resulting in excess payment of pension of Rs 5.86 lakh during the period from April 2001-February 2005.

(v) Family pension admissible on the death of a Government servant has to be divided equally amongst the widows if the deceased Government servant left behind more than one widow. In six sub-treasuries¹⁵ (in four districts) and in District Treasury, Vizianagaram full family pension was paid to each of the two widows, instead of half share (in seven out of 121 cases test checked) resulting in overpayment of Rs 1.84 lakh during the period from April 2001-February 2005.

The matter was referred to Government in July 2005; reply had not been received (December 2005).

HEALTH, MEDICAL AND FAMILY WELFARE DEPARTMENT

4.2.2 Avoidable extra expenditure due to failure to replace defunct water meters

Failure of the Superintendent of King George Hospital to replace defunct water meters for over two years led to avoidable extra payment of water charges estimated at Rs 83.82 lakh.

Superintendent, King George Hospital (KGH)¹⁶, Visakhapatnam draws drinking water as a bulk consumer from the Visakhapatnam Municipal Corporation (VMC), under an agreement¹⁷ for a minimum agreed quantity (MAQ) of 37.50 lakh gallons per month. VMC levies water supply charges to the bulk consumers at Rs 113.65 per 1000 gallons up to MAQ and Rs 227.30 per 1000 gallons for consumption in excess of the MAQ. Further, in case the

¹³ Mahboobnagar and Nalgonda

¹⁴ Panjagutta and Tarnaka

¹⁵ Kadapa, Karimnagar, Rajam, Railwaykoduru, Tekkali and Vinukonda

¹⁶ having 1037 beds and the attendance of out-patients and in-patients is more than 5000 per day

¹⁷ entered with the erstwhile Visakhapatnam Municipality 20 years back (agreement not traceable in hospital records)

water meter is not in working condition water charges are levied considering the highest monthly consumption charges payable or paid during the last six months till the meter is brought to working condition.

The water meters of the hospital were not in working condition from August 2002 to December 2004. It was only in December 2004, after Audit pointed out the matter in September 2004, that the meters were replaced¹⁸ at a cost of Rs 38000. For the period August 2002 to December 2004, during which the meters were not working, VMC reckoned water consumption of KGH based on a bill for 39.02 lakh gallons which was raised for 19 days (7.3.2002 to 26.3.2002) and reckoned the monthly consumption as 61.61 lakh gallons on this basis. Consequently, the hospital had to pay water charges for 61.61 lakh gallons per month on this basis up to December 2004. It was, however, noticed that actual average monthly consumption was 48.46 lakh gallons (approximately) considering the per day average consumption of 1.615 lakh gallons during the period from 7 February to 7 August 2002 i.e., the preceding six months when the meters were working. On this basis, the extra expenditure incurred for the period August 2002 - December 2004 worked out to Rs 83.82 lakh (total expenditure on water charges for the period was Rs 2.73 crore) as shown in *Appendix 4.1*.

The Superintendent of the Hospital stated (February 2005) that despite repeated repairs (details of the cost of repairs were not available) the meters had gone out of order frequently. Government replied (October 2005) that the delay in installing new water meters was due to administrative and financial procedures. The reply is not acceptable as replacement of the meters should have been done which cost only Rs 38000 rather than resorting to repeated repairs, particularly when the consequences of not doing so was to pay the water charges at a high rate.

IRRIGATION AND COMMAND AREA DEVELOPMENT DEPARTMENT (Irrigation Wing)

4.2.3 Wasteful expenditure on investigation of a project

The Department included a part of the command area of an already approved project (SRSP – Stage II), for its new Sripadarao Project, which resulted in wasteful expenditure of Rs 56.98 lakh on investigation and preparation of DPR.

Sripadarao Project, formerly known as Yellampally Barrage Project, envisaged construction of a barrage across the river Godavari near Yellampally village, 140 kilometres down stream of the existing Sriramsagar Project (SRSP). The Project envisaged utilisation of 56 tmc of Godavari waters.

¹⁸ The actual consumption for the subsequent period of 31 days (from 10.12.2004 to 10.01.2005) was recorded at 32.52 lakh gallons indicating sharp decline and the water charges were billed at normal rate

Government accorded (October 1999) administrative approval for Rs one crore for Stage-I works of the Project, which included detailed investigation, designs, preparation of draft project report (DPR), obtaining clearances from Central Water Commission (CWC), minimum land acquisition, etc.

These works were entrusted (November 2001) to a consultant for Rs 77 lakh. The DPR submitted (September 2003) by the consultant to the CWC was returned (April 2004) unapproved as the area proposed to be served by the Sripadarao Project effectively delinked an ayacut of 5.19 lakh acres from the already approved SRSP Stage-II whereby the scope of the latter would undergo a change. The CWC desired the Department to sort out the anomaly.

Following the comments of the CWC and on the recommendations (August 2004) of the Chief Engineer, Godavari Lift Irrigation Scheme, Government agreed to utilise water elsewhere and ordered (August 2004) calling of tenders for preparation of fresh DPR including investigation and identification of new ayacut for the Project. The Superintending Engineer, Sripadarao Project Circle, Mancherla was instructed to close the accounts of the first consultant and also to prepare an estimate to call for tenders with fresh scope of the project. Tenders were invited (September 2004) and a new agency fixed (December 2004) for preparation of fresh DPR and identification of new ayacut for the proposed project as ordered by the Government.

Thus, inclusion of ayacut falling under the command area of an already cleared project (SRSP-II) in a new project, rendered wasteful the expenditure of Rs 56.98 lakh incurred for payment to the consultant for initial investigation and preparation of the DPR.

The matter was referred to Government in April 2005; reply had not been received (December 2005).

TRANSPORT, ROADS AND BUILDINGS (Roads and Buildings Wing)/LABOUR, EMPLOYMENT, TRAINING AND FACTORIES DEPARTMENTS (Employment and Training Wing)

4.2.4 Unfruitful expenditure on construction of ITI Building

Failure to provide essential amenities like water supply, sanitary arrangements, and electrical installations to a building constructed in March 2000, prevented its occupation and rendered the expenditure of Rs 61.26 lakh on the building unfruitful.

The Superintending Engineer, Roads & Buildings Circle, Kurnool (SE, Civil) entrusted the work 'construction of a new building for Industrial Training Institute (ITI) at Srisailam' to a contractor in July 1996 for Rs 48.33 lakh. The electrical works were entrusted by the Superintending Engineer, Roads & Buildings, Electrical Circle, Hyderabad in April 1998 to another contractor for Rs 3 lakh. While the electrical work was completed in July 1998 the civil work was completed in March 2000. However, the Principal declined (March

2000), to take over the building on the ground that water supply and sanitary arrangements to the building as also 3-phase electric power wiring inside the rooms had not been provided. The building constructed at a cost of Rs 61.26 lakh remained unoccupied even as of August 2005.

Inner view of ITI building, Srisailam



Scrutiny in audit revealed (May 2005) that although a specific provision for water supply and sanitary arrangements was made in the sanctioned estimate of the building and a sub-estimate also prepared by the EE, Civil for Rs 3.25 lakh and submitted to SE, Civil in February 1998, the work was not taken up. It was only in February 2004, long after refusal by the Principal (March 2000) to take over the building that the EE submitted a fresh estimate to the SE, Civil for Rs 3.90 lakh. The said estimate was not approved even as of August 2005 which the SE attributed to non-availability of funds. Thus, the expenditure of Rs 61.26 lakh already incurred on the building remained unfruitful.

The matter was referred to Government in July 2005; reply had not been received (December 2005).

4.3 Violation of contractual obligations, undue favour to contractors, avoidable expenditure

TRANSPORT, ROADS AND BUILDINGS (Roads Wing) DEPARTMENT

4.3.1 Avoidable expenditure

The action of the ENC in not adhering to the time schedule in handing over sites to the contractor resulted in avoidable payment of escalation of Rs 5.35 crore on road works.

The work “widening and strengthening of Puthalapattu-Chandragiri, Renigunta-Naidupet, Renigunta-Putturu roads” taken up as a part of the World Bank aided Andhra Pradesh State Highways Project (Project) was entrusted to a contractor in March 1999 for Rs 103.27 crore. The work was divided into five milestones (MS) with different time schedules for completion of work in each MS. The contractor had submitted a construction programme in May 1999 for completion of the work within the stipulated period of 30 months.

As per the agreement, the sites of work in MS 1 and 2 were to be handed over to the contractor on the start date (17 April 1999) and those in MS 3 and 5 within six months (October 1999) from the start date. However, it was seen that in MS 1 and 2, out of a total length of 54.40 km, the Department had handed over the sites of 3.89 km stretch between July 2000 and July 2002 with delays ranging from 15 to 33 months.

Similarly in MS 3, as against a total length of 19.10 km, site of a stretch of 0.60 km was handed over after a delay of 33 months. In MS 5, out of the total length of 36 km, the Department handed over the site of 5.62 km stretch after delays ranging from 14 to 39 months.

It was observed that proposals for acquisition of lands needed for the work were submitted to the Revenue Department between April 1999 and January 2000 after the agreement with the contractor was concluded. The work was finally completed in January 2004 at a cost of Rs 113.05 crore.

The failure of the ENC in handing over sites to the contractor led to extra expenditure of Rs 5.35 crore by way of escalation paid to the contractor during the extended contract period.

Government endorsed (September 2005) the reply of the ENC, who attributed the delay in entrustment of encumbrance free site to the contractor to delay in shifting of utilities such as electric poles and high tension lines, delay in land acquisition, delay in receipt of approvals from the South Central Railway for the design changes to the road under bridge and addition of certain items of work not contemplated earlier. Delays caused by these factors could have been avoided had they been programmed in such a way as to ensure adherence to the time schedule.

4.4 Idle investments/idle establishments/blocking of funds/ delays in commissioning of schemes, equipment; diversion/ misutilisation of funds

EDUCATION DEPARTMENT

4.4.1 Tardy implementation of the scheme of Improving Science Education in schools

Tardy implementation of a component of the scheme 'Improvement of Science Education in schools' resulted in non-release of further Central assistance of Rs 4.78 crore for other four components.

Government of India approved (August 1999) an outlay of Rs 9.58 crore for implementation of the scheme 'Improvement of Science Education in schools' for the secondary and higher secondary schools in eight districts of the State.

GOI released an adhoc grant of Rs 4.80 crore¹⁹ between August 1999 and March 2000 for one of the five components of the scheme i.e., setting up of new science laboratories in 533 schools²⁰ at Rs 90000 per school. GOI also assured the remaining grant of Rs 4.78 crore for other four components²¹ of the scheme subject to the utilisation of the funds already drawn and submission of quarterly progress reports.

It was noticed that State Government released the amount between October 2000 and December 2001 and DEOs²² took almost three financial years (between October 2000 and October 2002) to draw the entire amount.

Scrutiny also revealed that only 411 schools in East Godavari, Krishna, RangaReddy, Visakhapatnam and West Godavari Districts received the equipment. In the remaining 122 schools²³ in three districts viz., Guntur, Hyderabad and Khammam supply of the equipment was in progress as of July 2005. State Government furnished utilisation certificates to GOI for only Rs 3.70 crore (out of Rs 4.80 crore drawn).

Further, in West Godavari District, 34 schools which were already equipped with science laboratories but requiring upgradation²⁴ were also incorrectly included by the DEO. Supply of science equipment worth Rs 30.60 lakh to these 34 schools had thus denied the benefit of setting up new science laboratories to an equal number of other eligible schools in the district.

Due to tardy implementation of a component of the scheme by the Government and the DEOs, the State Government could not obtain the grant of Rs 4.78 crore for other four components of the scheme (August 2005).

The matter was referred to Government in January 2005 followed by a reminder in July 2005; reply had not been received (December 2005).

¹⁹ August 1999 (Rs 240.00 lakh), February 2000 (Rs 147.87 lakh) and March 2000 (Rs 92.13 lakh)

²⁰ East Godavari(84), Guntur(64), Hyderabad(39), Khammam(19), Krishna(58), RangaReddy(85), Visakhapatnam(64) and West Godavari (120)

²¹ Science kits to Upper Primary Schools, Upgradation of deficient science laboratories in Secondary/Higher Secondary schools, Supply of Library Books to Schools, and Training of Teachers

²² Guntur, Hyderabad, Khammam and RangaReddy

²³ Guntur(64), Hyderabad(39) and Khammam(19)

²⁴ under the third component of the scheme

HEALTH, MEDICAL AND FAMILY WELFARE DEPARTMENT

4.4.2 Non-commissioning of hospital buildings

Five 30-bedded hospitals in West Godavari District upgraded at a total cost of Rs 2.56 crore had not been commissioned for 19 to 30 months due to non-sanction of additional staff and equipment, rendering the entire expenditure unfruitful and also depriving the public of improved medical care.

Government transferred (September 2001) 40 Primary Health Centres (PHC) from the control of the Director of Health (DOH) to the control of the Commissioner of AP Vaidya Vidhana Parishad (APVVP) for upgrading them into Community Health Centres (CHCs) and to have one referral hospital in 40 Assembly Constituencies in 16 districts, where there were no referral hospitals. Government accorded (September 2001) administrative sanction for construction of six upgraded hospitals (CHCs) in West Godavari District at a total estimated cost of Rs 2.50 crore. The construction of upgraded hospital buildings at five²⁵ (out of six) places was entrusted (December 2001–January 2002) by the Government to the AP Health and Medical, Housing and Infrastructure Development Corporation (APMHIDC). The upgraded hospital buildings were completed (November 2002 – October 2003) at a total cost of Rs 2.56 crore, while one was not taken up due to a dispute pending in the court. After repeated requests by APMHIDC, the District Medical and Health Officer (DMHO) finally took possession of the buildings after delays ranging from eight to 18 months (between January and June 2004) reportedly due to non-receipt of permission from the DOH. Audit observed that as of July 2005, DOH has not transferred these hospitals²⁶ to the Commissioner, APVVP, owing to non-receipt of necessary administrative sanction from Government.

Further, Audit also observed that the upgraded hospital buildings could not be put to use as of August 2005, for want of additional staff and required equipment. The DOH submitted the proposals to Government only in January 2004²⁷ i.e. only after completion of the buildings by APMHIDC, seeking sanction of additional staff²⁸ and infrastructure²⁹ for the upgraded hospitals. The required staff and infrastructure for the five upgraded hospitals have not been provided as of August 2005.

²⁵ Akiveedu, Bhimadolu (old), Denduluru, Gopalapuram and Penugonda

²⁶ including the other 35 hospitals ordered (September 2001) by Government

²⁷ as submitted by DMHO also in January 2004

²⁸ Deputy Civil Surgeon(5), Civil Assistant Surgeon(6), MPHEO(2), Staff nurse(10), Radiographer(5), Dark room Assistant(5), Attender(2) and Class-IV(25) at an annual incidence of Rs 30.69 lakh on their salaries

²⁹ 50 items of equipment for each upgraded hospital

Thus, due to the failure of the DOH and the DMHO to transfer the hospital buildings to APVVP as soon as those were ready, and also to initiate timely action in sending proposals to Government for sanction of additional staff and equipment resulted in the hospital buildings not being put to use for 19 to 30 months and rendering the expenditure of Rs 2.56 crore unfruitful. The objective of providing improved medical care to the community at large has also not been achieved.

The matter was referred to Government in March 2005 followed by a reminder in July 2005; reply had not been received (December 2005).

PANCHAYAT RAJ AND RURAL DEVELOPMENT DEPARTMENT

4.4.3 Improper planning of drinking water scheme in Bibinagar

Improper selection of water source for a comprehensive water supply scheme had deprived the targeted habitations in Bibinagar area (Nalgonda District) of fluoride free drinking water. This also rendered the entire outlay of Rs 24.80 crore on the scheme unfruitful.

Government of India sanctioned (February 1998) a comprehensive protected water supply scheme under the Centrally Sponsored Scheme 'Rajiv Gandhi National Drinking Water Mission' to provide safe drinking water to 115 fluoride-affected habitations in Bibinagar (Nalgonda District) at a cost of Rs 26.77 crore.

For this purpose, the Chief Engineer, Rural Water Supplies (CE-RWS) proposed (November 1998) to draw water from two minor irrigation (MI) tanks at Bibinagar and Bhongir, and Chinna Musi. When consulted by the Government (December 1998), the District Collector opined that this was possible only after increasing the capacities³⁰ of the two tanks and constructing storage reservoir across Chinna Musi. State Government approved the water supply scheme in March 1999 reducing the scope from 115 to 108 habitations³¹ in the revised proposal. Although the work was completed (outlay: Rs 24.80 crore³²) in March 2002 except for some minor works estimated to cost Rs 22.13 lakh, the scheme could not be commissioned due to non-availability of water.

Scrutiny revealed that the CE (RWS), while selecting the water source, did not take into consideration the actual water levels³³ of the MI tanks during the preceding three years, which were far below the full tank level (FTL). The actual ayacut in the surrounding areas of the MI tanks was also far less than

³⁰ Bhongir: from 92 mcft to 120 mcft; Bibinagar: extent of increase not known

³¹ with a population of 1.09 lakh as per 2001 census

³² Ground level Balancing Reservoirs, pump houses, pumping mains, laying of pipelines, etc.

³³ Bibinagar MI tank (FTL 35') - 1995(13'6"); 1996(35'0"); 1997(24'0"); 1998(15'0") and Bhongir(FTL 23') - 1995(19'0"); 1996(21'0"); 1997(12'0"); 1998(3'0")

the registered ayacut in the preceding one year. But the CE had gone ahead with the execution of laying of pipelines, etc. without ensuring that the water could be drawn from the MI tanks.

Since the MI tanks could not be used as the water source for the project, the Superintending Engineer (RWS) proposed (September 2002) to draw water from the ongoing Nalgonda Rural Drinking Water Supply (NRDWS) project by extending its pipeline to the Bibinagar scheme at an additional estimated cost of Rs 7 crore. The work was proposed to be executed³⁴ in phase IV of the NRDWS project, for which tenders were finalised (June 2005) and targeted for completion by March 2006. Meanwhile the water supply network constructed with an expenditure of Rs 24.80 crore remained idle and the objective of providing fluoride free water was not achieved.

Thus, due to improper planning by the ENC (PR) and the CE (RWS), the objective of the scheme remains unfulfilled rendering the whole outlay of Rs 24.80 crore³⁵ unfruitful.

The matter was referred to Government in December 2004 followed by a reminder in July 2005; reply had not been received (December 2005).

4.4.4 Improper utilisation of MPLADS funds

MPLADS funds of Rs 98.09 lakh were utilised on activities in Srikakulam and Visakhapatnam Districts, other than creation of durable assets. This resulted in the denial of intended benefits to the beneficiaries of the respective districts to that extent.

Under the revised guidelines issued in April 2002 for the Members of Parliament Local Area Development Scheme (MPLADS) funds cannot be used for construction of office buildings, residential buildings or other buildings relating to Central or State Governments, agencies or organisations and purchase of inventory or stock of any type, repair and maintenance works of any type other than special repairs for restoration, upgradation of a durable asset, etc. As per the guidelines, the District Collectors are to draw a priority list of works based on the recommendations of the Members of Parliament.

It was, however, observed (November 2004) that during 2002-05, MPLADS funds of Rs 66.17 lakh³⁶ were utilised in Srikakulam District by the Executive Engineer, Panchayat Raj (EE, PR), Tekkali (Rs 26.92 lakh) and the EE (PR), Srikakulam (Rs 39.25 lakh) for construction of Gram Panchayat office buildings and Mandal Parishad office buildings at the instance of the District Collector, in violation of the guidelines.

In Visakhapatnam District too MPLADS funds of Rs 31.92 lakh received during 2001-03 were spent (2001-03) by the Project Director, DRDA, Visakhapatnam (with the approval of the District Collector) towards purchase

³⁴ under NABARD – RIDF X

³⁵ GOI share : Rs 19.19 crore, State Government share : Rs 5.61 crore

³⁶ received during the years 2002-03 and 2003-04

of hospital equipment for a non-government hospital (Rs 10 lakh), inventory/electrical items (Rs 20 lakh), medical, beauty and healthcare equipment, TV, Refrigerator, etc. for a non-government institution (Rs 1.92 lakh).

Thus, utilisation of MPLADS funds of Rs 98.09 lakh on activities not covered by the guidelines was against the spirit of the scheme.

The matter was referred to Government in January 2005, followed by a reminder in July 2005; reply had not been received (December 2005).

4.4.5 Unfruitful expenditure on incomplete water supply schemes

Out of 87 works relating to water supply schemes taken up during 1997-2001 by the EE, RWS, Nagarkurnool (Mahboobnagar District), 68 works were left incomplete rendering the expenditure of Rs 79.25 lakh unfruitful.

The Executive Engineer, RWS proposed to take up 87 works comprising spillover works (21) of Protected Water Supply Scheme (PWSS), extension of pipelines, construction of Over Head Storage Reservoir (OHSR) etc. with a view to providing protected water supply to 15 mandals of Nagarkurnool Division (Mahboobnagar District). All the 87 works were administratively sanctioned during June 1997-April 2000 at a total estimated cost of Rs 2.23 crore. Out of the 87 works, 80 works, covering 107406 beneficiaries, were entrusted (May 1997 – July 2000) to contractors on nomination basis with the stipulation to complete the works within three to nine months from the date of entrustment. The remaining seven works were not entrusted as of August 2005.

Audit observed that of the 80 works entrusted, only 12 works were completed (cost: Rs 67.64 lakh) between July 1997 and March 2005. The remaining 68 works (covering 87170 beneficiaries), which were due for completion between February 1998 and March 2001, were left incomplete (December 2003) at various stages after incurring an expenditure (between July 1997 and December 2003) of Rs 79.25 lakh. The work-wise details are given in *Appendix 4.2*. Even in respect of the completed works, there were delays³⁷ ranging from over three to five years (11 works).

The EE, RWS replied (January/June 2005) that the works could not be completed due to paucity of funds and that the contractors had stopped the works due to non-payment of bills to the extent of work done. They were not coming forward to execute the remaining works at old rates due to escalation in costs over the period. The EE also stated that action could not be taken against the contractors since the payments were not made to them to the extent of work done and that the incomplete works could not be taken up departmentally due to shortage of manpower. The EE further stated that there

³⁷ seven works with delay of more than five years; three works with delay of more than three years; one work with delay of more than four years

were no proposals at present to finish the incomplete works in the near future due to non-availability of funds under that grant.

Scrutiny also revealed that (i) the EE did not maintain proper record and that even the measurement books could not be made available to Audit and (ii) he did not organise the resources properly and the requirement of funds for each work was not also assessed. Consequently, he could not segregate the drawals for each work separately. Thus improper and inefficient planning of the EE, RWS in taking up a large number of petty works simultaneously without ensuring the availability of sufficient funds as well as the manpower not only resulted in the expenditure of Rs 79.25 lakh remaining unfruitful for five to eight years but also deprived 0.87 lakh beneficiaries of water supply facilities.

The matter was referred to Government in February 2005 and July 2005; reply had not been received (December 2005).

4.5 Regularity issues and others

FINANCE DEPARTMENT

4.5.1 Non-realisation of audit fee

Non-realisation of audit fee of Rs 18.75 crore (up to March 2005) for periods ranging from one to fourteen years by the Director of State Audit caused undue burden on the Government.

Under the AP State Audit Act, 1989 (Act), the Director of Local Fund Audit (now Director of State Audit) is responsible for auditing the accounts of local authorities and other authorities specified in the Schedule to the Act.

The Act authorises the Director of State Audit (DSA) to conduct audit and to recover the cost of audit subject to such rules as may be made in this behalf by the Government. While Government did not issue any orders subsequent to the enactment of the Act, it had laid down the norms for audit fees to be levied on institutions from time to time (May 1969, October 1972, November 1978, October 1981 and May 1987). Accordingly, DSA recovers cost of audit from the institutions other than the local bodies for which the cost is met by Government.

It was observed in audit that as against the demand of audit fee of Rs 20.83 crore up to March 2005, only Rs 2.08 crore has been recovered by the DSA

leaving Rs 18.75 crore yet to be realised as of August 2005 as shown below:

(Rupees in crore)	
Auditee institutions	Audit fee due
Universities	2.54
Tirumala Tirupati Devasthanam	4.98
Hindu Religious and Charitable Endowments Institutions	5.63
AP Housing Board	1.57
Agricultural Market Committees	2.74
AP Residential Educational Institutions Society	1.05
AP State Wakf Board	0.24
Total	18.75

The institution-wise details are given in *Appendix 4.3*. The audit fee payable by the auditee institutions related to periods as far back as 1991-92 in respect of Dr B. R. Ambedkar Open University and APHB. The DSA could not furnish the year-wise details of the dues to be realised from HR & CE. Although Government orders of May 1969 provided for working out the cost of audit before the audit is taken up, this has not been practiced by the DSA. The DSA had taken up the matter with the Government once in July 2000 for adjusting the arrears of audit fee while releasing grants to the defaulting institutions, but this was not effectively pursued later. Government continued to release grants to the Universities, APHB, APREIS, AP Wakf Board, etc. year after year (details for 2004-05 shown in *Appendix 4.3*) in spite of huge arrears in payment of audit fees by them.

DSA stated that he had been periodically reminding the institutions concerned and that the Government was also being addressed on the defaulting institutions for necessary orders. He could not however, produce the copies of the references made to the Government except the one issued in July 2000. Government endorsed (October 2005) the reply of the DSA without however, offering any specific remarks.

Thus poor follow-up for realisation of audit fee from the concerned institutions resulted in non-realisation of audit fee amounting to Rs 18.75 crore for periods ranging from one to fourteen years.

HOUSING DEPARTMENT

4.5.2 Non-realisation of arrears of rent for over nine years

AP Housing Board was yet to recover/realise rentals amounting to Rs 5.58 crore for periods ranging up to 112 months (since August 1995) as it failed to enforce the rental regulations on the allottees of commercial complexes, besides poor maintenance of the relevant records.

The AP Housing Board (APHB) owns commercial complexes comprising 390 units (present book value: Rs 10.06 crore) in the twin cities of Hyderabad

and Secunderabad. These units were allotted to 123 Central Government and State Government departments and 267 private tenants on rental basis.

According to the AP Housing Board Tenements and Premises Rental Regulations, 1974, the allottees ought to pay monthly rent in advance on or before the 15th of each calendar month. In case of delay, penal interest is payable, while default in the payment of rent for a period of four months may lead to cancellation of the allotment and eviction. Section 53 of the AP Housing Board Act, 1956, also provides for recovery of overdue rents by resorting to attachment and sale of movable property as for arrears of land revenue.

Audit observed that the APHB was yet to recover the arrears of rent³⁸ amounting to Rs 4.34 crore in respect of 118 Government departments (Rs 3.90 crore) and 184 private tenants (Rs 0.44 crore) as of December 2004. The penal interest of Rs 1.24 crore in respect of 43 Government departments and 176 private tenants was also due to be realized. Further, the APHB failed to calculate the actual amount of penal interest due and raise the demand thereon in respect of 75 Government departments and eight private tenants, as the records were not maintained properly. The APHB did not also ensure collection of overdue rents with interest by attachment of movable property before allowing the private tenants to vacate the premises. The failure on the part of the APHB in enforcing the rental regulations and poor maintenance of relevant records resulted in non-recovery of revenue of Rs 5.58 crore for periods ranged up to 112 months. This indicated poor management and follow-up of rent collection on the part of the APHB.

The APHB replied (January 2005) that most of the government departments were not paying penal interest though rents were being paid half yearly or annually. The Vice Chairman (VC) and Housing Commissioner also stated (August 2005) that the APHB could not collect the enhanced rent from the private tenants, as they approached the courts against such an enhancement. The reply is not acceptable as such cases were pending in courts only in respect of four tenants, out of 184. The Government did not offer their comments while forwarding the reply of the VC and Housing Commissioner.

³⁸ since August 1995

REVENUE DEPARTMENT

4.5.3 Unauthorised utilisation of Government receipts in violation of codal provisions

District Collector, Krishna besides keeping the sale proceeds realised on account of sale and alienation of Government land outside the Government account unauthorisedly utilised Rs 2.42 crore out of that for construction of various Government buildings, etc. The expenditure was without any legislative sanction.

Financial Rules³⁹ stipulate that all moneys received by or tendered to Government servants in their official capacity should be paid in full into the treasury without undue delay. Further, such moneys should not be appropriated to meet departmental expenditure or otherwise kept apart from the Government account.

Government in Revenue Department issued orders in September 1998 (reiterated in May 2002) delegating powers to District Collectors (DCs) to sell government lands through public auction and to utilise proceeds from such sale for construction of office complexes and also Hospital buildings, educational institutions in the districts, divisions and mandal headquarters. As per these orders, the District Collectors were required to first remit the sale proceeds into the Government Treasury under the relevant head of account⁴⁰; and thereafter submit necessary proposals for provision of funds for taking up construction of integrated office complexes.

Audit scrutiny revealed (June and December 2004) that District Collector, Krishna realised Rs 1.73 crore on account of sale of Government lands in public auction during the year 2000-01 and Rs 1.14 crore⁴¹ on alienation of Government lands during 1997-2004. Contrary to Financial Rules and in violation of the Government orders the DC had kept these amounts in savings bank accounts⁴².

It was noticed (June and December 2004) that during 2001-04, DC had also utilised without the approval of Government, Rs 2.42 crore (out of Rs 3.32 crore including accrued interest) for construction of buildings for 27 Mandal Revenue Offices (Rs 1.81 crore), Collectorate building (Rs 29.37 lakh), Camp office (Rs 4.72 lakh), Sub Collector's office, Vijayawada (Rs 0.94 lakh), Government Polytechnic College building (Rs 21 lakh) and towards other expenditure⁴³ (Rs 5.01 lakh). Thus, neither the receipts nor the expenditure were accounted for in the government account by

³⁹ Rule 7(1) of AP Treasury Code (Vol.I)

⁴⁰ Major Head of Account – 0075 Miscellaneous General Services, Minor Head – 10 Sale of Land and Property

⁴¹ 1997-98: Rs 2.88 lakh, 1998-99: Rs 26.49 lakh, 1999-2000: Rs 0.94 lakh, 2000-01: Rs 1.40 lakh, 2001-02: Rs 4.50 lakh, 2002-03: Rs 54.91 lakh, 2003-04: Rs 1.62 lakh and 2004-05: Rs 21.68 lakh

⁴² With Indian Bank

⁴³ Publicity: Rs 2.50 lakh; Refunds to alienees: Rs 2.51 lakh

the DC and the expenditure was also completely without any legislative sanction.

Audit also observed serious system lapses viz., (i) separate cash book was not maintained by the MROs for accounting the sale proceeds, (ii) tender system was not followed and the construction works were undertaken departmentally by MROs⁴⁴, (iii) measurement books were not properly maintained in that check measurements and prescribed certificates were not recorded and (iv) quality control checks were not performed. These indicated lack of internal control in the Collectorate besides violation of financial rules.

The DC accepted (June 2005) the audit objection stating that it was a procedural lapse. He also replied to Audit that Rs 87.20 lakh had since been withdrawn from bank and remitted into the Government account. Government stated (September 2005) that the Chief Commissioner of Land Administration had been requested to issue suitable instructions to all concerned for adherence to the codal provision.

IRRIGATION AND COMMAND AREA DEVELOPMENT DEPARTMENT (Irrigation Wing)

4.5.4 Avoidable extra committed liability

The unwarranted action of the Government in withholding the entrustment of the spillway work of a project to the successful tenderer led to the tenderer backing out from his offer and resulted in the extra commitment of Rs 1.65 crore for the Government in the recall.

The technical sanction for construction of spillway regulator, non-overflow dam, river sluice and surplus course under the Peddagedda Reservoir Project in Vizianagaram District was accorded by the Project Administrator and Superintending Engineer, Tarakarama Thirthasagaram Project Reservoir Circle, Vizianagaram (PA & SE) in August 2003. The PA & SE put the work to tender (August 2003). The Commissioner of Tenders (COT) accepted (January 2004) the lowest tender of 'A' for Rs 7.38 crore which was 25.7 per cent below the estimated contract value (ECV) of Rs 9.93 crore, of the work.

The tenders were, however, cancelled with a view to reducing the cost by getting the excavation work done by machine instead of labour. Estimate of the work was recast and tenders were once again invited (February 2004). In response, four tenders were received with validity up to 15 June 2004. While the second tendering process was in progress, 'A' whose tender in response to the first call was cancelled approached the Hon'ble High Court challenging the cancellation of tenders. The Hon'ble High Court disposed (5 February 2004) of the case with a direction to the Department to continue and finalise

⁴⁴ with the cooperation from respective nodal officers/Mandal Parishad Development Officers/ Mandal Level Engineers and other Government officials

the tender process but to award the work only after the Government disposed the representation of the petitioner 'A'. Government rejected (29 March 2004) A's representation on the ground that there was no merit in it, and advised the PA&SE to await further instructions before entering into agreement with the successful bidder in the second tender.

COT accordingly proceeded with the second tender process and accepted (31 March 2004) the lowest tender of 'B' for Rs 6.61 crore, which was 24 per cent less than the revised ECV (Rs 8.70 crore). It returned (15 April 2004) all the tenders to PA&SE with suggestion to await further instructions from the Government. PA&SE also intimated the Government about the acceptance of the tender by the COT. Orders for acceptance of the tender was not communicated to 'B'. PA&SE requested (9 June 2004) the parties to extend validity of their offers up to 15 July 2004. While the first and the second lowest tenderers declined (14 June 2004) to do so, the other two agreed to extend the validity. When the Government was informed (22 June 2004) of this, it instructed (24 June 2004) PA&SE to go in for fresh tenders. Tenders were accordingly invited (24 June 2004) for the third time and the lowest tender of 'C' was for Rs 8.26 crore which was Rs 1.65 crore more than that of 'B' (the lowest in the second call). COT accepted the tender of 'C' in September 2004 and the work was awarded in November 2004.

Audit observed (January 2005) that the Government had unnecessarily withheld awarding of contract to 'B' although it had disposed of the representation of 'A', as ordered by the Hon'ble High Court. It had also, for no valid reason, delayed the award of contract to 'B' despite PA&SE repeatedly approaching it and also warning that the validity of offers was to expire shortly. The Government's instructions went beyond the requirement of the Hon'ble High Court's orders. This resulted in avoidable extra committed liability of Rs 1.65 crore and delay in implementation of the project.

The matter was referred to Government in May 2005; reply had not been received (December 2005).

4.6 General

Follow-up on Audit Reports

4.6.1 Non-submission of Explanatory (Action taken) Notes

As per the instructions issued by the Finance and Planning Department in November 1993, the administrative departments are required to submit explanatory notes on paragraphs and reviews included in the Audit Reports within three months of presentation of the Audit Reports to the Legislature, without waiting for any notice or call from the Public Accounts Committee, duly indicating the action taken or proposed to be taken.

It was, noticed that 21 departments had not submitted explanatory notes, as of August 2005, in respect of 129 paragraphs/reviews for the years 1996-97 to 2003-04. The details are given in *Appendix 4.4*.

4.6.2 Action not taken on recommendations of the Public Accounts Committee

As of June 2005, 1201 recommendations of the Public Accounts Committee (PAC), made between 1962-63 to 2004-05 in regard to 22 departments remained outstanding. Of these, the PAC had discussed Action Taken Notes (ATNs) in respect of 301 (25 per cent) recommendations relating to 15 departments. Of the remaining 900 recommendations, the concerned administrative departments were yet to submit ATNs in respect of 444 (37 per cent) recommendations (210 ATNs were due from Irrigation and Command Area Development Department) even though the Finance and Planning Department issued (May 1995) instructions to all administrative departments and the Heads of Departments to submit the ATNs within six months from the date(s) of receipt of recommendations. Details are given in *Appendix 4.5*.

4.6.3 Lack of response to Audit

The Accountant General (Audit) (AG) arranges to conduct periodical audit inspections of the government departments to test-check the transactions and verify the maintenance of important accounting and other records as per prescribed rules and procedures. These inspections are followed up with Inspection Reports (IRs). The Hand Book of Instructions for speedy settlement of audit observations/IRs issued by the Government in Finance and Planning Department also provides for prompt response by the executive to the IRs issued by the AG to ensure rectificatory action in compliance of the prescribed rules and procedures and accountability for the deficiencies and lapses noticed during inspection. A half-yearly report of pending IRs is sent to the Secretary of the Department concerned to facilitate monitoring of the audit observations and its disposal. The Heads of offices and the next higher authorities are required to comply with the observations contained in the IRs and rectify the defects promptly and report their compliance to the AG.

At the end of June 2005, 17771 IRs issued up to March 2005 were not settled as shown below:

	Pending as at the end of		
	June 2003	June 2004	June 2005
Number of IRs	21044	18317	17771
Number of Paragraphs	79084	67459	62763

Of the 62763 paragraphs pending as on 30 June 2005, even first replies had not been received in the case of 1701 IRs (8402 paragraphs). The year-wise and department-wise breakup of these IRs and paragraphs is indicated in *Appendix 4.6 and 4.7* respectively. The Principal Secretaries/Secretaries who were also informed of the position through half yearly reports, could not

ensure prompt and timely action by the concerned officers. Lack of action on audit IRs and paras facilitate continuation of serious financial irregularities and loss to Government.

Constitution of Audit Committee

Government while accepting the recommendations of Shakhder Committee (High Powered Committee) instructed (November 1993) all the departments to nominate a designated Officer within the department for monitoring the follow-up action on audit objections. For regular review at higher levels, the departments were instructed to ensure that there should be a monitoring committee consisting of the Secretary of the Department and the Finance Secretary. Government also reformulated (June 2004) comprehensively the orders issued in July 1986 for constitution of Audit Committees at three levels i.e., Apex level, Departmental level and District level for speedy settlement of audit objections. These three Committees are required to meet twice in a year (i.e., January and July), once in three months and once in two months respectively.

The status of audit committee meetings held during 2004-05 is discussed below:

Departmental level Audit and Accounts Committee meetings were not held in 17 departments during 2004-05

(i) The Apex level State Audit and Accounts Committee met only once in July 2004 as against the required number of two in a year.

(ii) No departmental level Audit and Accounts Committee meeting was held in 17 departments⁴⁵ during 2004-05. It indicated lack of seriousness on the part of these departments in rectifying the deficiencies pointed out by the AG.

Except in Anantapur, District level Audit Committee meetings were not conducted in 2004-05

(iii) As against 138 meetings to be conducted in a year, the District level Audit and Accounts and Monitoring Committee met only once in Anantapur District during 2004-05.

(iv) During 2004-05, the Audit committee meetings were held by AG with departmental officers at district level on 35 occasions to review and settle the outstanding IRs/paras in respect of seven departments. Of the 1785 IRs and 7370 paragraphs reviewed by the Committee, 621 IRs and 4070 paragraphs were settled. The department-wise details are given in *Appendix 4.8*.

It is recommended that Government should ensure (i) timely and proper response to the Inspection reports of the AG, (ii) conducting of Audit Committee Meetings regularly for speedy settlement of pending IRs and paras and (iii) effect recoveries pointed out in the inspection reports promptly.

⁴⁵ Agriculture and Cooperation; Animal Husbandry, Dairy Development and Fisheries; Backward Classes Welfare; Education (Higher Education); Energy; Finance; Health, Medical and Family Welfare; Housing; Industries and Commerce; Labour, Employment, Training and Factories; Law; Minorities Welfare; Planning; Public Enterprises; Revenue; Social Welfare (including Tribal Welfare); Youth Advancement, Tourism and Culture

4.6.4 Audit arrangement for local bodies

Audit of local bodies (Zilla Parishads, Mandal Parishads, Village Panchayats, Municipal Corporations, Municipalities and Grandhalaya Samsthas) and Universities is conducted by the Director, State Audit while the Registrar of Co-operative Societies is the statutory auditor for Co-operative Societies. Audit of the District Rural Development Agencies is conducted by Chartered Accountants.

Audit of the accounts of Local Bodies is also conducted by the AG under Section 20⁴⁶ of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. During 2004-05, audit by the Accountant General was conducted under Section 14⁴⁷ of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 covering three Universities, 27 Educational institutions, 15 Municipalities and Municipal Corporations, 14 Zilla Parishads, four District Rural Development Agencies, six Zilla Grandhalaya Samities, 10 Zilla Saksharatha Samithies, seven District Water Management Agencies, 43 Mandal Parishads, two District BC/SC Co-operative Societies and five other institutions.

⁴⁶ under Section 14 of CAG's (DPC) Act, 1971 up to February 2005

⁴⁷ for the period from April 2004 to February 2005
