

CHAPTER IV

AUDIT OF TRANSACTIONS

4.1 Infructuous/wasteful expenditure and overpayment

EDUCATION DEPARTMENT Osmania University

4.1.1 Improper outsourcing of IT application

Due to defective agreement with the firm and negligence of Special Officer (Infrastructure) the entire expenditure of Rs 72.11 lakh on computerisation of Osmania University administration proved to be wasteful.

The Registrar of Osmania University invited (February 2001) quotations on a Build, Operate and Transfer (BOT) basis for (i) development and maintenance of administrative application software, (ii) website development, hosting, maintenance and content management and (iii) provision and maintenance of 512 kbps internet access for a period of five years. An earlier decision (August 1999) to get these done through University Computer Centre was annulled to avoid technological obsolescence and the burden of maintenance of IT infrastructure. The University invited quotations from those firms which are in IT business for the past 10 years, but it did not mention the requirement of experience in software development, which was essential for developing the required software.

Though the lowest bidder¹ did not claim any experience in software development unlike the other bidders, the work was entrusted (June 2001) to it at a monthly payment of Rs 3.50 lakh for a period of five years. As per the agreement entered into by the Registrar, the firm was supposed to develop all the modules of software and make them operational within a period of six months from the date of contract (June 2001). The firm provided (July 2001) 512 kbps internet access to the University but did not complete the development of administrative software. Nevertheless, the University continued to release monthly payments to the firm for 14 months up to August 2002 aggregating to Rs 49 lakh based on the satisfactory performance certificate issued from time to time by the Special Officer (Infrastructure). The University stopped payments in September 2002 and asked the firm to operationalise the modules as

¹ Samtech Infonet Limited

per the terms of contract. The firm, however, abandoned (October 2002) its services including the internet facility and removed all the software. In the meantime, the University purchased (February 2002) SDSL equipment² from the same firm at a cost of Rs 12.19 lakh though it was required to be supplied by the firm as per the agreement. The University also paid (May 2001) Rs 10.92 lakh to another firm³ towards digitization process⁴ which however, could not be used in the absence of software that was to be developed by the firm.

The Committee constituted (October 2002) to review the progress of computerisation in the University observed (January 2003) that the Special Officer (Infrastructure) did not have the necessary technical expertise to evaluate, verify and confirm the performance of the firm; that the firm had not given any evidence of significant software development by it and recommended to terminate the contract with the firm immediately and take legal steps to recover the money paid so far. The Committee also reported that the final agreement did not contain the clause for premature termination of the contract in the event of unsatisfactory progress/non-performance by the firm, though it was included in the draft agreement circulated to the Standing Council of the University. The Registrar stated (October 2004) that reasons for not incorporating the protective clause in the agreement were under investigation.

Thus, monthly payments were released to the firm although it did not develop the software modules as expected. In the absence of specific provisions in the agreement legal steps could not be taken against the firm to recover the money. The entire expenditure of Rs 72.11 lakh on the computerisation of University Administration proved to be wasteful.

The matter was referred to Government in July 2004; reply had not been received (October 2004).

4.1.2 Surplus staff in aided colleges

Surplus staff identified in three private aided colleges were not adjusted in other colleges as of May 2004. Expenditure of Rs 63.58 lakh (by way of grants) on the surplus staff proved to be wasteful.

With a view to verifying the student strength and work load vis-a-vis the lecturers working in the colleges and to identify the surplus staff so as to adjust them, the Regional Joint Director, College Education, Rajahmundry, conducted inspection during December 2002-January

² equipment related to the modules in the agreement

³ M/s Zircon Digital Data Services (P) Limited

⁴ to archive all the files in University administrative office for on-line retrieval

2003. He identified certain surplus staff⁵ in three private aided colleges which did not have the required number of students. Though he sent proposals in January and March 2003 to the Director of College Education (DCE) for adjusting the surplus staff, no action was taken as of May 2004. The surplus staff⁵ were retained in the colleges without any work since February 2002/December 2002/January 2003. Salaries paid to the twenty surplus staff for the idle period February 2002 to May 2004 amounted to Rs 63.58 lakh.

Thus delay of over 18 months on the part of the DCE in adjusting the surplus staff resulted in wasteful expenditure of Rs 63.58 lakh on staff whose services were not utilised gainfully.

The matter was referred to Government in June 2004; reply had not been received (October 2004).

HEALTH, MEDICAL AND FAMILY WELFARE DEPARTMENT

4.1.3 Infructuous expenditure on Health Equipment Repair Units

Expenditure of Rs 54.43 lakh incurred on pay and allowances of the staff of three Health Equipment Repair Units in Hyderabad was largely infructuous as there was no outturn during 1997-2004.

Mention was made in Para 3.13 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1997 about uneconomical functioning of four Health Equipment Repair (HER) units (three at Hyderabad and one at Guntur) and consequential wasteful expenditure of Rs 45.95 lakh on pay and allowances of 11 staff⁶ of three HER units in Hyderabad and five staff⁶ at Guntur up to March 1997.

The three units at Hyderabad under the control of the Regional Director of Medical and Health Services, Zone VI (RD) attended to only 35 minor repair works per year on an average during the calendar years 1997 to 2001. Only minor repairs were done at Sangareddy and Mahboobnagar during 2001-03 for keeping the cold chain system intact. Nevertheless, as of July 2004, ten out of the 11 staff were continued on the rolls of these three units.

⁵ Twenty (teaching : 17 and non-teaching : 3) - Syed Appala Swamy College, Vijayawada (Teaching : 3); VMC Mahila Vidya Peeth, Visakhapatnam (Teaching : 11 – December 2002 to March 2003); SCS Kalasala, Gudlavalleru, Krishna District (Teaching : 3 – upto April 2003 and Non-Teaching : 3 – two upto April 2003 and one post upto May 2004)

⁶ Junior Engineers (2), Mechanical Supervisors (3), Electrical Supervisors (3) – one upto June 1996 only, Drivers (4) and Helpers (4)

Expenditure incurred on pay and allowances of the staff⁷ of the three units for the period 1997-2004 (up to July 2004) was Rs 54.43 lakh⁸. The RD stated (March 2004) that due to formation (August 1998) of Hospital Development Society, the units did not receive any requisition from hospitals/institutions located in the twin cities of Hyderabad and Secunderabad. RD further stated (March 2004) that the services of some of the staff were utilised in the offices⁹. It was noticed that there were no vacancies in those offices to accommodate the surplus staff and their salaries were continued to be drawn by the parent office. No justification could be shown for deployment of the staff in those offices.

Though the RD requested the Director of Health in May 1996 and February 2003 to shift the units to Institute of Preventive Medicine (one unit) and Commissionerate of Family Welfare (two units), no decision was taken as of October 2004.

Expenditure of Rs 54.43 lakh incurred on pay and allowances of the staff of HER units was thus largely infructuous.

The matter was referred to Government in April 2004; reply had not been received (October 2004).

TRANSPORT, ROADS AND BUILDINGS DEPARTMENT (Roads and Buildings Wing)

4.1.4 Infructuous expenditure on crew attached to rollers

Engineer-in-Chief (Roads and Buildings) revised the existing clause in the tender schedule, and asked the contractors to make their own arrangements for road rollers. As a result road rollers belonging to the department remained idle. Salaries paid to the crew of the road rollers (Rs 89.71 lakh each year) were infructuous.

Prior to November 1998 it was obligatory for the contractors to make use of the department's road rollers in execution of works entrusted to them. For the rollers so made available hire charges as fixed by the Engineer-in-Chief, Roads and Buildings (ENC), which

⁷ Junior Engineer (1), Mechanical Supervisors (3), Electrical Supervisors (2), Helper (1), Driver (1) and Watchmen (2)

⁸ 1997-98 : Rs 2.87 lakh, 1998-99 : Rs 3.10 lakh, 1999-2000 : Rs 4.81 lakh, 2000-01 : Rs 6.67 lakh, 2001-02 : Rs 8.75 lakh, 2002-03 : Rs 10.92 lakh, 2003-04 : Rs 12.98 lakh, 2004-05 (up to July 2004) : Rs 4.33 lakh

⁹ Commissioner of Family Welfare (Electrical Supervisors : 2 (One Electrical Supervisor repatriated to the office of the RD, MHS in June 2004) and Driver : 1) and District Medical and Health Officer (Mechanical Supervisor : 1 and Helper : 1) while the services of watchmen were utilised in the workshop at Nacharam

included salaries of the crew attached, were recovered from the contractors.

In November 1998 the ENC observed that the rollers available with the Department were old and heavy expenditure was incurred on their repairs. Further, the Government did not provide any funds for maintenance of machinery for 1998-99. He therefore, instructed all the Superintending Engineers of his department to incorporate a clause in the tender schedules to the effect that the contractors had to make their own arrangements for procurement of rollers; the department would supply them only on requisition, subject to availability. These changes were made in the tender schedules without the approval of the Government.

With the incorporation of this clause, utilisation of the 407 road rollers available with the Department as of March 2004 was drastically reduced. In ten test-checked divisions, the revenue (exclusive of the elements of cost of fuel and lubricants included in the hire charges) realised from 83 road rollers in working condition had drastically come down from Rs 65.98 lakh in 1997-98 to Rs 0.53 lakh in 2003-04. The entire crew of 94 however, remained on the rolls of the divisions. The average salary expenditure for the last three years was Rs 89.71 lakh per annum, which proved to be infructuous.

Government should consider disposal of the rollers lying idle and find avenues to utilise the services of the idle crew.

The matter was referred to Government in August 2004; reply had not been received (October 2004).

4.2 Violation of contractual obligations/undue favour to contractors

TRANSPORT, ROADS AND BUILDINGS (Ports) DEPARTMENT

4.2.1 Undue favour to a private firm

Government had foregone interest of Rs 13.90 crore on the cost of movable assets transferred to a private firm, which was to be paid by the firm as per the original agreement. Government was also yet to realise the penal interest of Rs 3.71 crore.

Government in Transport, Roads and Buildings Department entered (March 1999) into an agreement for operation and maintenance of four shore - connected berths at Kakinada Port with the private firm “International Sea Port Limited” renamed as “Kakinada Sea Ports

Limited” (firm). As per the agreement all the movable assets were to be sold to the firm for sum of the cost of such assets plus interest thereon at 18 per cent per annum from the date of incurring expenditure to the date of transfer, after adjusting the depreciation. The agreement also provided for penal interest at the rate of two per cent per month or part thereof for failure to remit the amount on the due date¹⁰.

The assets¹¹ valued Rs 29.71 crore procured between November 1996 and April 1998 were handed over to the firm in March 1999 and were being utilised by the firm. At the request of the firm, Government constituted a Cabinet Sub-committee to review the conditions of the agreement. Government accepted the recommendations of the Cabinet Sub-Committee. As per the recommendations, payment of Rs 26.47 crore was to be made by the firm towards cost (i.e., original cost minus depreciation) of movable assets. At the request of the firm not to charge interest since the assets were used by the Government prior to privatisation, interest amounting to Rs 13.90 crore (up to 31 March 1999) was also foregone though the firm was required to pay the interest as per the original agreement. Thus the firm was allowed a benefit to the extent of Rs 13.90 crore which was not envisaged in the agreement, for which justifications were not available. A supplementary agreement was concluded in August 2003. As per the revised milestones fixed and incorporated in the supplemental agreement, the cost of movable assets was to be paid by the firm by 21 January 2004 (instead of July 1999) i.e., one month after the firm was expected to achieve financial closure with regard to the package i.e., the achievement of the stage at which finances for implementation of phase I development are fully tied up.

When the non-realisation of the sale value was pointed out (May 2004) by Audit, the firm remitted Rs 26.47 crore, being the cost of the movable assets, to Government account in August 2004. However, penal interest (at two per cent per month) for the delayed payment (21 January 2004 to 10 August 2004) which amounting to Rs 3.71 crore was not paid (October 2004).

¹⁰ Within 15 days from the date of communication by Government

¹¹ Tugs, Pilot launch, Mobile Cranes and Fork lift Trucks

TRANSPORT, ROADS AND BUILDINGS DEPARTMENT
(Roads and Buildings Wing)

4.2.2 Excess payment to contractor

Entrustment of additional items of an ongoing work to the same contractor on nomination at estimate rates without applying the tender discount resulted in excess payment of Rs 43.69 lakh.

Government accorded (July 1999) administrative approval for the work “Construction of new multistoried building in the premises of Andhra Pradesh Secretariat” for Rs 31.91 crore. Technical sanction to the estimate restricting the initial construction to two floors as against four floors originally contemplated, was accorded (March 2001) by the Chief Engineer, Buildings for Rs 22.50 crore. The work was awarded (July 2001) to a contractor for Rs 17.56 crore at a tender discount of 10 per cent over the estimated contract value (Rs 19.51 crore). During execution of work, certain additions and alterations¹² valued Rs 4.17 crore were contemplated to the building, for which administrative and technical sanctions were accorded. Superintending Engineer, Roads and Buildings, Headquarters Circle, (SE) got these items of work executed by the same contractor on nomination at estimate rates without applying the discount. Government ratified the action in February 2003. The SE concluded another agreement for these additions and alterations only in February 2003, after the work was completed.

According to the Andhra Pradesh Standard Specifications which formed part of the contract, the contractor was bound to execute all supplemental items that were found essential, incidental, contingent and inevitable during execution. The rate payable for new items contingent upon the main work was estimate rate plus or minus overall tender percentage. Thus the action of the SE in entrusting the additional items at estimate rates, without considering the tender discount, resulted in excess payment of Rs 43.69 lakh (ten per cent of value of the supplemental items of work) to the contractor.

In reply the EE stated that the additional items of work were covered by separate administrative and technical sanctions and as such they were eligible for being entrusted separately. According separate administrative approval and separate technical sanction to the same work, which by itself was not in order, would not justify the action of the Department. The plea of urgency put forth by the Engineer-in-Chief, R&B (Buildings) in support of entrustment on nomination was also not justified as the additional items were entrusted to the same contractor.

¹² Replacement of flooring and dadoing in office rooms and corridors with vitrified tiles in place of glazed tiles, false ceiling with arm strong mineral fibre, smooth finish with spray plaster and plastic emulsion spraying to internal walls

The matter was referred to Government in June 2004; reply had not been received (October 2004).

4.3 Avoidable/Excess/Unfruitful expenditure

ANIMAL HUSBANDRY AND FISHERIES DEPARTMENT

4.3.1 Patrol boats not used for intended purpose

Two high-speed patrol boats procured (July 2000) by the Director of Fisheries at a cost of Rs 1.89 crore for carrying out surveillance were not put to intended use till March 2004.

Under the 100 per cent Centrally Sponsored Scheme 'Enforcement of Marine Fishing Regulation Act' and 'Introduction of Artificial Reefs and Sea Farming Projects', the Director of Fisheries procured (July 2000) two high-speed patrol boats¹³ at a cost of Rs 1.89 crore¹⁴ from a Goa based company. The operational and other recurring cost¹⁵ was to be borne by the State Government. The purpose was to carry out surveillance to enforce the AP Marine Fishing (Regulation) Act, 1994, to check (i) violation of fishing zones by crafts in fishing from the shores, (ii) fishing boats which are not registered and licensed from Fisheries department and (iii) fishing in violation of the Act and during ban period in the territorial waters up to 24 km from shore. The objective was to safeguard the interests of traditional fishermen who had fishing areas earmarked.

Audit observed that the two patrol boats were not put into operation by the Fisheries Department ever since their procurement. No agency had been engaged for operation and maintenance, as funds were not released by Government during 2000-02, in spite of the requests made by the Director. In the year 2002-03 no budget provision was made. The two boats were not also insured to cover the damages, for want of funds.

The boats were leased out by the Commissioner of Fisheries, so as to put them to alternate use, for an initial period of two years, to (i) Commissioner of Customs, Visakhapatnam, in June 2003 for patrolling, at a nominal charge of Rs 100 per month, and (ii) Visakhapatnam Urban Development Authority, Visakhapatnam, in December 2003 for tourism purpose at a lease charge equal to half

¹³ Sagar Rakshak I and II - to be operated from fishing harbours at Visakhapatnam - to patrol northern coast of AP from Visakhapatnam up to Orissa State border in sea; and from Kakinada - to patrol the southern coast of AP upto Tamilnadu State border

¹⁴ GOI : Rs 1.80 crore, GOAP : Rs 0.09 crore

¹⁵ estimated at Rs 70 lakh per annum for the two patrol boats in the year 1999-2000 towards POL, maintenance, onshore supervising charges and salaries

of the profit after deducting the operational and maintenance expenditure of the vessel, on quarterly basis. Though surveillance was required to be done throughout the year, the agreements had a condition that the officers of the Fisheries department should be allowed for enforcing the Act as and when necessary, free of cost. However, till March 2004, the boats were not used by the Fisheries Department.

Government replied (June 2004) that though the patrol boats were intended to be used for enforcement of the Act, the operation and maintenance of the boats became impossible due to constraint of resources.

Thus, non-release of funds by the government towards operation and maintenance of the patrol boats for over three years resulted in non-utilisation of these boats for the intended purpose. Thus the main objective of safeguarding the interests of traditional fishermen and seizure of unauthorised and unlicensed fishing vessels entering into the territorial waters of the State could not be achieved even after incurring an expenditure of Rs 1.89 crore.

EDUCATION DEPARTMENT

Andhra University

4.3.2 Extra financial burden towards power consumption charges

Registrar of the Andhra University failed to obtain separate power connection for staff quarters leading to an avoidable extra financial burden of Rs 61.45 lakh during 1998-2004.

The Andhra University had been drawing electricity from AP State Electricity Board (now APTRANSCO¹⁶) for its campus buildings, hostels and staff quarters under HT Category II, though the tariff applicable for townships and residential colonies of consumers of HT Category I to V for domestic purpose is HT Category VI. Electricity demand charges were paid as per the tariff charges levied from time to time by the APTRANSCO under HT Category II. However, the University recovered the power consumption charges from the occupants of the staff quarters according to the domestic tariff under LT Category I, which was far less¹⁷ than the charges actually paid to the APTRANSCO under HT Category II.

¹⁶ Transmission Corporation of Andhra Pradesh Limited

¹⁷ average tariff/actually collected (per unit) - 1998-99 (Rs 4.13/Rs 2.20 per unit); 1999-2000 (Rs 4.76/Rs 1.72 per unit); 2000-01 (Rs 5.08/Rs 2.30 per unit); 2001-02 (Rs 5.11/Rs 2.41 per unit); 2002-03 (Rs 5.40/Rs 2.58 per unit); 2003-04 (Rs 5.22/Rs 2.55 per unit)

As against the total demand of Rs 1.14 crore raised by the APTRANSCO and paid by the University for the period 1998-2004 only Rs 52.65 lakh was recovered from the occupants of staff quarters, thus sustaining an aggregate loss of Rs 61.45 lakh¹⁸.

Though the wrong categorisation of power supply and the resultant avoidable expenditure was pointed out by Audit in April 1999, the University had not obtained separate power connection¹⁹ for staff quarters. The Registrar of the University took up the issue with the APTRANSCO in February 2003 to provide separate power connection to the staff quarters. This has not been materialised as of June 2004. The Registrar replied (June 2004) that the University was approaching the Government and AP Electricity Regulatory Commission to permit to collect electricity consumption charges at par with all other Government educational institutions. The Principal Secretary to Government forwarded (August 2004) the reply of the Registrar to Audit without giving specific remarks.

Thus failure of the Registrar of the University to obtain separate power connection for staff quarters resulted in an avoidable financial burden of Rs 61.45 lakh on the University.

GENERAL ADMINISTRATION DEPARTMENT

4.3.3 Avoidable extra expenditure on AP Guest House canteen, New Delhi

Water and electricity charges for the canteen in AP guest House, New Delhi were borne by the Government instead of by the catering contractor. This led to extra expenditure of Rs 51 lakh. Although the tender notice stated that the caterer should bear the charges, the final agreement did not contain such a clause.

The canteen in AP Guest House, New Delhi was run by private catering contractor since 1986. From August 1997 the contract was awarded to M/s Sai Caterers, Hyderabad for a period of three years on a monthly rent of Rs 30000. The incidental charges i.e., water, electricity of the canteen were not collected from the caterer during the period 1997-2000 but were being borne by the AP Bhavan.

The Public Accounts Committee (PAC – 1998-99) in its 20th Report of Tenth Legislative Assembly recommended (September 1999) that the entire incidental expenditure like water, electricity should be borne by the catering contractor only; it was also stated that the

¹⁸ 1998-99 (Rs 7.70 lakh); 1999-2000 (Rs 12.67 lakh); 2000-01 (Rs 10.83 lakh); 2001-02 (Rs 10.74 lakh); 2002-03 (Rs 10.28 lakh); 2003-04 (Rs 9.23 lakh)

¹⁹ Estimated cost : Rs 25 lakh

Resident Commissioner (RC) had promised to keep in view the observations of the Committee while awarding fresh contract.

The tender notification by the Secretary (Political) in General Administration Department (August 2000) for catering for the five-year period from August 2000 included the clause regarding the payment of water and electricity charges by the caterer. The contract was awarded to the same contractor for five years from August 2000, on a monthly lease rent of Rs 50000. The draft agreement submitted by the RC to the Secretary (Political) contained the clause that electricity and water charges would be borne by the lessee. However, the Secretary (Political) and RC failed to include the clause in the final approved agreement.

As the tender notification provided for payment of water and electricity charges by the lessee, he had taken this into account while submitting his bid. However, due to non-inclusion of specific clause in the final agreement, the contractor did not pay the water and electricity charges, which had to be borne by the Government. Considering the estimated expenditure of Rs 1 lakh per month towards water and electricity charges in the canteen, the extra financial burden for the period August 2000 – October 2004 amounted to Rs 51 lakh.

Thus, failure of the Secretary (Political) to Government to incorporate a clause in the agreement for payment of water and electricity charges by the contractor despite the recommendation of the PAC and though envisaged in the original tender document as also the draft agreement submitted by the RC, led to avoidable financial burden of Rs 51 lakh up to October 2004. There was also a recurring commitment of Rs 1 lakh per month till expiry of the agreement in July 2005.

The matter was referred to Government in June 2004; reply had not been received (October 2004).

INDUSTRIES AND COMMERCE DEPARTMENT

4.3.4 Payment of investment subsidy to ineligible industrial units

Lack of clarity in the Government orders and failure of the Commissioner of Industries to get the ambiguity rectified led to extra financial burden of Rs 7.43 crore, besides foregoing of revenue of Rs 5.75 crore. The Commissioner continued to sanction/release the incentives to ineligible industries even after receipt of specific clarification from the Government.

To accelerate industrial development, Government introduced Industrial Policy called “Target 2000” in May 1996 and ‘New Industrial Policy’ 2000-05 in January 2001. These provide for certain incentives like investment subsidy, deferment/tax holiday of sales tax, with certain exceptions, for industrial units going into commercial production. A list of ineligible industries was appended to both the Government Orders of May 1996 and January 2001. The item 54 of the list of ineligible industries reads as follows:

“Servicing and/or Repairing units except xerox units (set up with institutional finance only) Auto servicing and/or repairing units or retreading, industrial material testing laboratories. General Engineering Machining Workshops, common effluent treatment plants, CAD and/or CAM, cold storage, heat treatment, Electroplating, Galvanising, seed processing, Desk top printing.”

Thus, above Government orders, *ab initio* suffered from ambiguity in regard to eligibility or otherwise of Auto servicing and/or repairing units for these incentives. The Commissioner of Industries, instead of getting the ambiguity rectified, released the investment subsidy/allowing the sales tax deferments to all industrial units appearing after the word, ‘except’ at item 54 in the list of ineligible units. In response to an Audit enquiry, Government in Industries and Commerce Department clarified (April 2003) that heat treatment, electroplating, galvanising, seed processing and desktop printing, etc. figured at Sl. No. 54 of list of ineligible industries appended to the Government orders are not eligible for any kind of incentives. Government endorsed the copy of this clarificatory letter to the Commissioner also.

Audit however noticed (April 2004) that the State Level Committee had irregularly sanctioned investment subsidy amounting to Rs 7.43 crore²⁰ and sales tax exemptions/deferments amounting Rs 5.75

²⁰ Adilabad (Rs 1.96 lakh); Anantapur (Rs 7.68 lakh); Guntur (Rs 215.09 lakh); Kadapa (Rs 1.32 lakh); Karimnagar (Rs 50.43 lakh); Khammam (Rs 78.70 lakh); Kurnool (Rs 29.42 lakh); Medak (Rs 5.76 lakh); Mahboobnagar (Rs 4.51 lakh); Nalgonda (Rs 3.90 lakh); Nizamabad (Rs 33.23 lakh); RangaReddy (Rs 167.28 lakh); Visakhapatnam (Rs 18.70 lakh); West Godavari (Rs 47.22 lakh); Warangal (Rs 78.23 lakh)

crore²¹ during December 1997 to March 2004 to 84 ineligible industrial units such as Cold storage (28), Seed Processing (46), Auto servicing (seven), Galvanising (two) and Effluent treatment (one). The amounts were released to the units during September 1999 to April 2004²². It was also noticed that the investment subsidy amounting to Rs 2.57 crore²³ (out of Rs 7.43 crore) was sanctioned and paid even after issue of Government's clarification in April 2003. Release of investment subsidy and allowing sales tax exemptions/deferments to the ineligible units was thus irregular.

On the matter being pointed out (June 2004), Government issued (July 2004) 'Errata' to the Government orders of May 1996 and January 2001 thereby making all the units (mentioned at item 54 of the list of ineligible units) eligible for the incentives/sales tax exemptions. The errata was also made applicable with retrospective effect to those units which have availed or are availing the benefits. While the original GOs of May 1996 and January 2001 had the concurrence of the Finance Department, the 'Errata' issued in July 2004 had no such concurrence. Further, both the GOs containing the 'Errata' are in contradiction to the Government's own clarification issued in April 2003.

The matter was again referred to the Government in July 2004; reply had not been received (October 2004).

**IRRIGATION AND COMMAND AREA DEVELOPMENT
DEPARTMENT
(Projects Wing)
Neelam Sanjeeva Reddy Sagar Project**

4.3.5 Avoidable payment of electricity charges

Abnormal delay on the part of the EE, Camps and Buildings Division, NSRSP in getting the existing power supply derated resulted in avoidable payment of electricity charges of Rs 29.84 lakh.

Executive Engineer, Camps and Buildings Division, Neelam Sanjeeva Reddy Sagar Project, Srisailam (EE) concluded an agreement with the Andhra Pradesh State Electricity Board (renamed as APTRANSCO) in November 1994 for high tension (HT) power supply with a contracted maximum demand (CMD) of 1450 KVA,

²¹ RangaReddy (Rs 4.29 crore); Visakhapatnam (Rs 0.86 crore); West Godavari (Rs 0.60 crore)

²² Investment subsidy – Target 2000 (Rs 670.02 lakh during September 1999 to April 2004); New Industrial Policy 2000-05 (Rs 73.42 lakh during November 2002 to April 2004)

²³ Rs 49.23 lakh sanctioned to seven ineligible units during November 2000 – September 2002 was yet to be paid

for execution of Dam site works. According to the tariff conditions, the billing shall be for the maximum reading recorded during the month or eighty per cent of the CMD, whichever is higher.

Audit scrutiny (March 2004) revealed that the average recorded demand during the period January 2001 to December 2003 was 699 KVA, which was less than fifty per cent of the CMD of 1450 KVA. Nevertheless the Department continued with the 1450 KVA and paid demand charges accordingly.

Despite observations made by Audit from time to time ever since March 1998, it was only in December 2001 that the EE submitted proposals for derating from 1450 KVA to 750 KVA to APTRANSCO. Though the APTRANSCO had accorded approval to the deration as early as in January 2002 the deration was actually brought into effect, only in January 2004 owing to the delay on the part of the EE in concluding the agreement. The avoidable payment of demand charges for three years (January 2001 - December 2003) on this account worked out to Rs 29.84 lakh.

In reply, Government stated that action was taken to derate the demand on receipt of communication from the Superintending Engineer, Operation Circle, APTRANSCO, Kurnool in June 2003. The reply was not tenable as the APTRANSCO had conveyed the approval for derating to the EE as early as in January 2002. The EE had also endorsed the approval of APTRANSCO to the Deputy Executive Engineer, Camps and Buildings Sub-division No. 1 by name on 6 February 2002 for further action.

IRRIGATION AND COMMAND AREA DEVELOPMENT DEPARTMENT (Irrigation Wing)

4.3.6 Unfruitful expenditure on an incomplete irrigation tank

Failure of the SE to arrange a meagre amount of Rs 72000 needed for completion of an irrigation tank rendered the expenditure of Rs 49.44 lakh already incurred unfruitful.

District Collector, Kadapa accorded (September 1997) administrative approval for Rs 49.45 lakh to the work of formation of new minor irrigation tank across a vagu²⁴ near Mittapalli village under Janmabhoomi Programme to benefit 30 hectares of land. Superintending Engineer, Irrigation Circle, Kadapa (SE) accorded technical sanction to the work, and awarded the work to an ayacutdar in December 1997. While the work was initially approved

²⁴ A stream of water

by the Collector under Janmabhoomi, Government ordered in March 1999 that expenditure on the work should be met from the additional provision made in the budget for Minor Irrigation Schemes.

The scope of the work underwent change during execution with corresponding increases in the quantities of earthwork. To limit the expenditure to the agreement value on the plea that the work was proposed under Janmabhoomi programme, the SE deleted (December 1999) supply channel (estimate value: Rs 51000 revised to Rs 72000) portion from the scope of the agreement with the contractor. The work was completed in May 2000 at an expenditure of Rs 49.44 lakh, leaving out the supply channel.

In October 2000 the Executive Engineer, Minor Irrigation, Kadapa (EE) submitted to the SE a fresh estimate for the supply channel for Rs 72000 seeking funds under regular budget. The SE advised the EE to take up the work with the funds of the district administration available under MPLADs and other schemes. No funds were, however, made available by the District Collector and the work was not taken up as of September 2004.

When Government authorised (March 1999) to meet the entire expenditure on the work from regular budget for Minor Irrigation Schemes, the action of the SE in subsequently (December 1999) deleting the supply channel from the scope of agreement with contractor was unwarranted. For the same reason the SE ought to have applied for and obtained additional funds required for completion of the work from the allocation under Minor Irrigation Schemes without reference to the Collector. Failure of the SE in arranging a meagre amount rendered the expenditure of Rs 49.44 lakh unfruitful.

Reply of the EE (February 2003) that water percolated in the area was being made use of and hence expenditure could not be considered unfruitful was not tenable as the objective contemplated was to irrigate 30 hectares of land and not merely to act as a percolation tank, which would benefit only those who could afford to have bore/open wells involving large investment.

The matter was referred to Government in July 2004; reply had not been received (October 2004).

**PANCHAYAT RAJ AND RURAL DEVELOPMENT
DEPARTMENT**

4.3.7 Unproductive investment on bulk milk cooling centres

Of the 13 bulk milk cooling centres established in Anantapur District only one centre was functioning to its capacity; seven were underutilised. Five centres were not utilised at all, rendering the expenditure of Rs 52.71 lakh unfruitful.

The AP Dairy Development Co-operative Federation Limited (APDDCFL), Hyderabad proposed (December 1999) to provide milk marketing facility to DWCRA²⁵ women and other women in drought prone Anantapur District to encourage commercial dairying. Accordingly, APDDCFL established 13²⁶ bulk milk cooling centres²⁷ during 2001-02 with a total expenditure of Rs 1.38 crore²⁸. Each centre was to handle 2000 litres of milk per day (lpd). It was seen (February 2004) that only one centre at Roddam was functioning to its capacity and five centres were not utilised at all (two²⁹ of them were closed in August/September 2003) and seven others were underutilised. The position in respect of all the 12 (out of 13) centres is given in the following table:

Location	Average procurement during 2001-04 in lpd	Remarks
(1)	(2)	(3)
Madakasira	NIL	Unit set up but collection centres not organised as of March 2004. Reasons were not furnished though called for.
Tadipatri	NIL	Unit set up but collection centres not organised. Reasons were not furnished though called for.
Uravakonda	NIL	Though established in April 2002 the procurement of milk was very low.
Kanekal	NIL	Though established in July 2001, the procurement of milk was very meagre due to disinterest of milk farmers who were selling milk at higher rates. The unit was closed in September 2003.
Mulakanoor	NIL	Though established in July 2001 the procurement of milk was very meagre. The unit was closed in August 2003.
Kudair	319	Capacity utilisation – 16 per cent
Gorantla	574	Capacity utilisation – 29 per cent
Kadiri	816	Capacity utilisation – 41 per cent
OD Cheruvu	900	Capacity utilisation – 45 per cent
Kalyandurg	933	Capacity utilisation – 47 per cent
Dharmavaram	1057	Capacity utilisation – 53 per cent
Kothacheruvu	1126	Capacity utilisation – 62 per cent

²⁵ Development of Women and Children in Rural Areas

²⁶ Dharmavaram, Gorantla, Kadiri, Kalyandurg, Kanekal, Kothacheruvu, Kudair, Madakasira, Mulakanoor, OD Cherevu, Roddam, Tadipatri and Uravakonda

²⁷ covering the villages within a radius of 15-20 km

²⁸ incurred from out of SGSY Infrastructure, MPLADS funds

²⁹ at Kanekal and Mulakanoor

The Deputy Director, APDDCFL informed (April 2004) that the targets could not be achieved due to drought conditions prevailing in the district for the past four years. The reply was not tenable as the project was intended to mitigate rural poverty due to drought. The fact remains that despite the expenditure of Rs 1.27 crore³⁰ on 12 bulk milk cooling centres, seven of the centres were underutilised and five centres, on which Rs 52.71 lakh had been spent, were not utilised at all.

The matter was referred to Government in May 2004; reply had not been received (October 2004).

4.3.8 Unfruitful expenditure on digging of bore wells

248 out of 526 bore wells dug during 1997-98 in Ongole (Prakasam District) were not energised for want of funds, rendering the expenditure of Rs 38.26 lakh unfruitful.

Under the Centrally sponsored scheme of Ganga Kalyan Yojana (GKY), DRDA, Ongole (Prakasam District) received Rs 89.32 lakh (GOI share: Rs 71.45 lakh; State share: Rs 17.87 lakh) between March-December 1997 for providing irrigation facilities to the small and marginal farmers of the district. As per the guidelines, no works should be taken up by DRDAs under the scheme which cannot be completed within two financial years.

The District Collector entrusted (1997) the execution of works to AP State Cooperative Rural Irrigation Corporation (APSCRIC)³¹. The Project Director, DRDA transferred the funds under GKY to the District Cooperative Officer, who would make payments for the work. Out of 569 bore wells proposed to be dug to benefit 2104 beneficiaries covering 3216 acres, 526 wells were dug by December 1998 at a cost of Rs 81.13 lakh.

Till March 2001, none of the bore wells was energised with electric motors. Subsequently, only 278³² wells were energised as of April 2004. While the District Cooperative Officer attributed the delay to the ban imposed on energisation of bore wells, the Project Director (PD), DRDA, stated (June 2004) that there was no ban on power connections for agriculture in Prakasam District. The PD, DRDA, on the other hand, attributed (May 2004) non-energisation of the remaining 248 bore wells to lack of adequate funds. The PD however, did not state the steps taken to obtain the additional funds.

³⁰ Rs 1.38 crore minus Rs 0.11 crore (for Roddam centre)

³¹ through Prakasam District Cooperative Joint Farming Societies Federation headed by District Co-operative Officer

³² 2001-02 : 71; 2002-03: 126; 2003-04: 81 – of these, 14 wells (expenditure : Rs 1.51 lakh) were damaged

Thus, apathy of the District Co-operative Officer to get the wells energised rendered the expenditure of Rs 38.26 lakh on 248 wells unfruitful. This deprived 1402 beneficiaries of the intended irrigation facilities to the extent of 1427 acres.

The matter was referred to Government in May 2004; reply had not been received (October 2004).

YOUTH ADVANCEMENT, TOURISM AND CULTURE (SPORTS) DEPARTMENT

4.3.9 Ineffective management of sports activities by the Sports Authority of Andhra Pradesh

Failure to ensure availability of sufficient funds before embarking on the construction of sports complexes/stadia resulted in unfruitful outlay of Rs 10.05 crore.

With a view to promoting games and sports, the Sports Authority of Andhra Pradesh³³ (SAAP) took up construction of stadia with assistance from both State and Central Governments³⁴. The ownership and management of sports complexes, thus created should rest with the State Government or its agencies. Scrutiny revealed that 37 projects remained incomplete after spending Rs 10.05 crore; Rs 87.15 lakh released for 25 projects remained unutilised and two completed stadia (cost : Rs 5.09 crore) were not taken over by the DSA from the construction committee.

(i) During the period 1993-2003, SAAP took up 71 projects³⁵ in 21 districts comprising outdoor stadia, indoor stadia, swimming pool at district/mandal levels, with financial assistance from GOI (Rs 10.72 crore) and State Government (Rs 23.65 crore). The stadia/complexes were to be



Rear view of Mini Stadium, Atmakur

completed within two years of their sanction. However, only nine³⁶ stadia were completed and put to use; 37 projects (estimated cost :

³³ A body established (1988) by AP State Legislature and functions under the general supervision of the Government

³⁴ 75:25 for hilly/tribal areas and 50:50 for other areas

³⁵ Financial assistance from GOI (33), SAAP funds (38)

³⁶ Swimming pool, Khammam; Indoor Stadia, Amalapuram, Chirala, Karamchedu; Mini stadia, Gadwal, Achampet, Narayanapuram, Marrigudem, Narsipatnam

Rs 20.69 crore) taken up during 1993-2001 remained incomplete; on which Rs 10.05 crore³⁷ had been spent as of March 2004. Details are given in *Appendix 4.1*. These projects had been languishing for three to 10 years. Action plan had not been drawn up for 21 (out of 37) ongoing projects. The VC&MD gave paucity of funds as the reason for non-completion of the 37 projects. Audit observed that new projects were taken up although a large number of stadia remained incomplete at various stages; thus available resources were thinly spread, with inadequate funds for each stadium.

Further, the remaining 25 projects were yet to be started as of August 2004. Rs 87.15 lakh released for construction of stadia/sports complexes at 14 places³⁸ were lying unutilised for two to 10 years with seven DSAs³⁹, five executing agencies⁴⁰.

(ii) Since SAAP had no engineering personnel, Stadium Construction Committees were formed by certain DSAs to oversee the initiation, formulation, construction and implementation of sports infrastructure projects; however, the duties of the committees and the milestones for the project were not specified. As a result, the committees of two stadia, as detailed below, did not handover the infrastructure to the DSAs in spite of repeated requests by SAAP/DSA.

Name of the stadium	Date of Commencement/Completion	Expenditure (Rupees in crore)	Funding arrangement
NTR Stadium, Gudivada, Krishna District (works executed by NTR stadium committee [#])	1984/February 2001*	4.10	GOI : Rs 10 lakh, State : Rs 20 lakh, Membership : Rs 4 lakh, Municipal contribution : Rs 3 lakh and balance met by way of lottery/rents. Apart from this 10.20 acres of land (value : Rs 1.23 crore) was given free of cost by the State Government
Indoor stadium, Chirala, Prakasam District (works executed by Rotary Service Trust, Chirala)	February 2002/September 2003	0.99	GOI (Rs 45 lakh), State (Rs 30 lakh), balance from local contribution

* except minor works – swimming pool, tennis court and street lighting (estimated cost : Rs 8 lakh)

[#] comprising non-officials and officials with the District Collector as the Chairman – registered under the Society Registration Act

³⁷ including Rs 3.25 lakh incurred for levelling the ground (for sports facilities at Guntur). However the land was allotted to Income Tax Department for residential purpose

³⁸ including the 25 projects - yet to be started

³⁹ Kurnool (Rs 15 lakh), Chittoor (Rs 5 lakh), Mahboobnagar (Rs 5 lakh), Adilabad (Rs 5 lakh), Khammam (Rs 2.90 lakh), Kakinada (Rs 12.50 lakh) and Ongole (Rs 8 lakh)

⁴⁰ Project Director, ITDA, Eturunagaram (Rs 5 lakh); EE, R&B, Guntur (Rs 6.75 lakh); DM, AP Housing Corporation, Mahboobnagar (Rs 10 lakh); Resident Commissioner, AP Bhavan, New Delhi (Rs 10 lakh) and EE, PR Division, Parchur (Rs 2 lakh)

Due to failure of the VC&MD, SAAP and the DSAs to ensure availability of sufficient funds before embarking on the projects the stadia/sports complexes remained complete for periods ranging up to 10 years. Thus, the outlay of Rs 10.05 crore rendered unfruitful. The stadia constructed at Chirala and Gudivada have not been handed over to the DSAs for management.

The matter was referred to Government in June 2004; reply had not been received (October 2004).

4.4 Delays in commissioning of schemes/equipment

HEALTH, MEDICAL AND FAMILY WELFARE DEPARTMENT

4.4.1 Release of funds to a Society without any conditions

Government released Rs 34 crore (up to March 2004) to 'AP Right to Sight Society' without stipulating any conditions/guidelines. Rs 20.31 crore were lying outside the Government account with the Society as of March 2004.

State Government launched (October 2001) a programme 'Vision 2020 - the Right to Sight' to eliminate all avoidable blindness by the year 2020. The programme was to be implemented in four 5-year phases commencing from 2002-03. The strategies are broadly classified into (a) Disease control⁴¹, (b) Human Resource Development⁴², (c) Infrastructure development⁴³, and (d) others⁴⁴. Total cost of the Phase I (2002-07) project was estimated at Rs 375 crore.

'AP Right to Sight Society'⁴⁵ was formed (February 2002) under the orders of the Government with the main objective of intensifying and accelerating the efforts to control all avoidable blindness by 2020. Government was to provide 50 per cent of the required funds to the Society and the balance would be raised by the Society from international, national and non-governmental agencies. Audit observed the following:

- While releasing the grant-in-aid of Rs 16 crore to the Society for the year 2002-03, Government had not set any conditions/

⁴¹ Cataract, refractive errors and eye banking

⁴² training of Ophthalmologists and other medical/paramedical staff in the State

⁴³ upgradation of dark rooms in PHCs, development of new vision centres, upgradation of district hospitals for Ophthalmology work, upgradation of regional eye hospitals

⁴⁴ Society development

⁴⁵ Registered under AP (Societies) Registration Act, 2001

guidelines for implementation of the programme nor did it fix any specific targets under the four strategies envisaged.

- Government/Director of Health released another Rs 16 crore in March/April 2004. But utilisation of the amount released (March 2003) earlier was not ensured before releasing the money. Of the total releases of Rs 34 crore up to March 2004, the Society utilised only Rs 13.69 crore⁴⁶ as of March 2004; leaving Rs 20.31 crore lying in its bank account.
- Though the Society was to mobilise another Rs 32 crore by March 2004, it could mobilise only a meagre Rs 58.11 lakh (two per cent) on its own, that too in kind, as of May 2004.

Release of funds to a Society without stipulating any conditions/guidelines was not justified. The Director of Health failed to monitor the utilisation of funds by the Society; Rs 20.31 crore were lying unspent with the Society outside the Government account. When this was pointed out, the Director of Health informed (August 2004) that the Government was addressed to issue monitoring guidelines for the functioning of the Society.

The matter was referred to Government in June 2004; reply had not been received (October 2004).

4.5 Regularity issues and other points

FINANCE DEPARTMENT

4.5.1 Overpayments of pension/family pension and retention of excess stock of stamps

Overpayments of pension/family pension aggregating Rs 30.09 lakh were made during April 1999 to December 2003. Excess stock of stamps worth Rs 56.54 crore was retained in three treasuries.

Scrutiny of records (2003-04) relating to payment of pension and family pension revealed that overpayment of pension and family pension were made for Rs 30.09 lakh by three district treasuries, 85 sub-treasuries and three Assistant Pension Payment Offices (APPOs)⁴⁷ during April 1999 to October 2003 as detailed below.

⁴⁶ equipment procured from overseas (Rs 5.64 crore), reimbursement of cataract surgeries (Rs 2.74 crore), providing free spectacles (Rs 14.94 lakh), training programme for PMOA and Nurses, Ophthalmologists (Rs 11.37 lakh), other expenditure including purchase of computers, furniture, telephone bills (Rs 5.05 crore)

⁴⁷ Malakpet, Nampally and Secunderabad

(i) AP Revised Pension Rules, 1980 provide for payment of Enhanced Family Pension (EFP) equivalent to 50 per cent of last pay drawn by the Government servant in the event of his death while in service/death 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 DTOs/STOs/PPOs were required to maintain a time limit register. It was seen that in 35 Sub-Treasuries (in 13 districts) either such records were not maintained at all or the registers were incomplete, which led to overpayment of Rs 13.70 lakh in 71 cases.

(ii) Consequent on revision of pay scales of Government employees with effect from 1999, pension payable was revised by consolidating pension and relief. It was noticed that in two District Treasuries⁴⁸, 57 sub-treasuries (in 18 districts) and three APPOs⁴⁹ consolidation was incorrectly computed in 87 cases resulting in excess payment of pension of Rs 11.42 lakh during April 1999 to November 2003.

(iii) According to the pension rules, if a pensioner commuted a part of his pension, the amount of pension should be reduced to that extent. Scrutiny revealed that in 23 cases in 17 sub-treasuries (in 12 districts) and two APPOs⁵⁰, the commuted portion of pension was either not reduced or less reduced from the original pension resulting in excess payment of pension of Rs 2.62 lakh.

(iv) Family pension admissible on the death of Government servant has to be divided equally amongst the widows (if deceased Government servant left behind more than one widow). It was noticed in five sub-treasuries⁵¹ (in four districts) and in District Treasury, Kurnool that full family pension was paid to each of the two widows, instead of half share, in eight cases resulting in overpayment of Rs 2.35 lakh.

(v) Test-check of the records of three district treasuries revealed that Stamps worth Rs 56.54 crore were retained in stock as of March 2004 in Hyderabad (Rs 18.27 crore), Kadapa (Rs 18.03 crore) and Medak (Rs 20.24 crore) district treasuries. The treasury-wise details are given in *Appendix 4.2*. The indents placed by DTOs were far in excess of the actual requirements/issues (except in 1999-2000 and 2003-04/Medak and in 2003-04/ Kadapa). Further, the value of stamps received was always less (except in 2000-01 in Kadapa) than the indents placed by the DTOs. Placing of indents without considering the available balance and anticipated sales for the year

⁴⁸ Eluru and Ongole

⁴⁹ Malakpet, Nampally and Secunderabad

⁵⁰ Nampally and Secunderabad

⁵¹ Chilakaluripet, Mummidivaram, Nandyal, Sadasivapet and Sattenapalli

resulted in huge accumulation of non-judicial stamp paper with the three treasuries.

The above points were referred to Government in July 2004; reply had not been received (October 2004).

FOOD, CIVIL SUPPLIES AND CONSUMER AFFAIRS DEPARTMENT

4.5.2 Diversion of sale proceeds of coupons for rice/kerosene oil

District Collectors and District Supply officers utilised the sale proceeds (Rs 25.11 crore) of rice/kerosene coupons for printing and distribution of coupons, purchase of vehicles, computers, furniture and fixtures, hire charges and telephone charges contrary to Financial Rules, besides keeping the money outside the Government account.

Government introduced (September 2000) coupons system for supply of kerosene and subsidised rice to the BPL families. The coupon booklets were to be distributed through Mandal Revenue Officers (MROs), at a price of five rupees each. Government also ordered (October 2000) that expenditure on printing and distribution of coupon books should be met from the sale proceeds of the coupons; this was contrary to the Financial Rules⁵² which stipulated that moneys received by the Government servants in their official capacity should not be appropriated to meet departmental expenditure, nor otherwise kept apart from Government account.

Test-check by Audit in six District Supply Offices⁵³ (DSOs) revealed that the DSOs sold 1,58,54,434 coupon books during 2000-04⁵⁴ and realised Rs 6.14 crore as against Rs 7.93 crore due; Rs 1.79 crore were yet to be realised. Out of Rs 6.14 crore so realised the DSOs utilised Rs 2.35 crore towards printing and distribution of coupon books and appropriated Rs 2.27 crore on other items⁵⁵. Such expenditure was to be met from the regular budget allotment voted by the legislature. The balance Rs 1.52 crore was lying in banks. Thus the government receipts were kept in banks outside

⁵² Rule 7(1) of AP Treasury Code Vol. I

⁵³ Guntur, Kurnool, Mahboobnagar, Medak, Nizamabad and Prakasam.

⁵⁴ Information not available for 2002-03 (Guntur) and for 2002-04 (Nizamabad)

⁵⁵ wireless sets (Rs 24 lakh), Computers, Fax, Xerox machines (Rs 12.57 lakh), maintenance of vehicles (Rs 6.64 lakh), furniture and fixtures (Rs 4.81 lakh), hire charges of vehicles (Rs 5.82 lakh), new car (Rs 4.50 lakh), renovation of Pragathi Bhavan (Rs 2 lakh), building for the AP State Consumers Disputes Redressal Commission, Hyderabad (Rs 25.15 lakh) and miscellaneous items (Rs 1.42 Crore) such as telephone charges

Government account and utilised to meet the expenditure which was highly irregular.

The Commissioner of Civil Supplies and Ex-Officio Secretary to Government in Food, Civil Supplies and Consumer Affairs Department confirmed (August 2004) the misutilisation of the sale proceeds of the coupon books in the entire State. He further stated (January 2005) that as against the sale value of Rs 32.61 crore for the coupon booklets sold, actual realisation was only Rs 31.32 crore.

Government also issued orders (June 2004) prescribing the 'Receipt' and 'Expenditure' Heads of Account for crediting the sale proceeds of rice/kerosene coupons books and for withdrawals therefrom. Further, as ordered by Government, District Collectors and APSCSC⁵⁶ remitted Rs 8.76 crore to the Government account as of September 2004. Of Rs 25.11 crore⁵⁷ spent from out of the coupon fund Government *suo motto* ratified (July 2004) the expenditure of Rs 15.58 crore⁵⁸ and for the balance Rs 9.53 crore, details were called for from the District Collectors. Secretary also requested the Director of State Audit to conduct a detailed audit of the receipts and expenditure from coupon fund in all the districts since inception. Results of the audit by the Director of State Audit were awaited (December 2004).

Thus Government hurriedly ratified the misutilisation of Rs 15.58 crore without receipt of request from the District Collectors and without calling for the explanation of those responsible for the misutilisation of departmental receipts.

The orders (October 2000) of the Ex-Officio Secretary to Government regarding meeting the expenditure on printing and distribution of coupon books out of the sale proceeds of coupons were faulty and in violation of the codal provisions. Further, failure of the Commissioner of Civil Supplies and Ex-Officio Secretary to Government to closely monitor the transactions of sale of coupons and utilisation of the sale proceeds facilitated misutilisation of departmental receipts by District Collectors and DSOs all over the State. The matter calls for investigation and fixing of responsibility for the lapses.

⁵⁶ AP State Civil Supplies Corporation Limited

⁵⁷ including the advances of Rs 1.51 crore given by the District Collectors for other expenditure - yet to be reimbursed

⁵⁸ printing and distribution of coupons : Rs 11.60 crore, strengthening and revamping of PDS : Rs 0.37 crore; construction, renovation and completion of buildings : Rs 2.22 crore , purchase of vehicles even when the general ban existed on it : Rs 1.39 crore

**MUNICIPAL ADMINISTRATION
AND URBAN DEVELOPMENT DEPARTMENT
(Public Health Engineering wing)**

4.5.3 Extra financial commitment due to restrictive tender call

Floating of tenders for a work by the Engineer-in-Chief, Public Health Engineering, only amongst the principal manufacturers of pipes resulted in extra financial commitment of Rs 1.30 crore.

The Engineer-in-Chief, Public Health Engineering wing (ENC) accorded (November 2003) technical sanction to Kakinada Water Supply Improvement Scheme (Scheme-I) for Rs 16.05 crore. While tender notice for this was yet to be issued, the Tender Committee⁵⁹, in the meeting held on 10 November 2003, opined that for all pipeline works tenders should be invited only from the principal manufacturers of pipes on turnkey basis, in order to get quality materials and ensure better quality control during execution.

The matter was referred to Government by the ENC on 22 November 2003 for issue of Government orders. It was observed in Audit (June 2004) that the ENC had already approved the Chit Tender Notice for the work on 20 November 2003 and communicated to Superintending Engineer, Public Health Circle, Rajahmundry (SE), giving effect to the opinion of the Tender Committee. The SE accordingly invited tenders on 21 November 2003 with this restriction. Of the four tenders received, the lowest tender of 'K'⁶⁰ was accepted by the ENC for Rs 7.54 crore and the work was awarded in March 2004. This firm had quoted 3.9 per cent excess over the estimated contract value (ECV) of Rs 7.43 crore, but revised it subsequently, on its own, in February 2004 to 1.5 per cent excess over the ECV.

It was observed that in the case of Ongole Water Supply Improvement Scheme (Scheme II), tenders for which were called in September 2003, the invitation was open to both the manufacturers of pipes and contractors with joint venture with manufacturers. The work was awarded to the lowest tenderer 'B'⁶¹ at his quoted offer of 16 per cent less than ECV, while the tenderer 'K' quoted at nine per cent discount.

⁵⁹ (1) Principal Secretary to Government, Municipal Administration & Urban Development Department, (2) Additional Secretary to Government, Finance Department, (3) Engineer-in-Chief, Public Health, (4) Director Technical, Hyderabad Metropolitan Water Supply and Sewerage Board and (5) Chief Engineer, Rural Water Supply, Hyderabad

⁶⁰ M/s Koya & Company

⁶¹ M/s Bhooratnam & Company

It was observed that tenderers 'B' and 'K' quoted at 9 per cent and 3.9 per cent premium respectively for the Scheme-I. This abnormal increase in the rates quoted for Scheme I as compared to Scheme II was indicative of collusion amongst the tenderers in respect of Scheme I with the knowledge of absence of competition from others.

The action of the ENC in restricting tenders to the manufacturers of pipes was in violation of the provision of Andhra Pradesh Financial Code. It resulted in limited competition amongst tenderers for Scheme-I, that led to extra financial commitment of Rs 1.30 crore representing 17.5 per cent excess (16 per cent discount at which the tender was accepted in Scheme II plus 1.5 per cent premium in Scheme I) on ECV of Rs 7.43 crore.

The action of the ENC was, therefore, unjustified and arbitrary notwithstanding the fact that it was ratified on 12 April 2004 by the Principal Secretary to the Government, who perhaps did not have any other alternative in the given circumstances.

Government endorsed (October 2004) the reply (September 2004) of the ENC wherein the latter attributed the premium tender in Scheme-I to steep increase in the prices of cement and steel between September and November 2003. No convincing reply was given by the Government/ENC for restricting the tenders to manufacturers only, which was against the codal provisions.

**MUNICIPAL ADMINISTRATION AND URBAN
DEVELOPMENT DEPARTMENT
Visakhapatnam Urban Development Authority (VUDA)**

4.5.4 Deficient loan management by VUDA/Government

Government loans of Rs 3.68 crore sanctioned to VUDA for housing schemes and other developmental activities were not recovered for over 14 years. As of March 2004, interest due was Rs 4.37 crore.

Government had sanctioned (1968-90) loans aggregating to Rs 6.05 crore to Visakhapatnam Urban Development Authority (VUDA - formerly Town Planning Trust) for undertaking various housing schemes (Rs 4.49 crore) and other developmental activities (under IDSMT⁶²) of municipalities (Rs 1.56 crore⁶³). The concerned three municipalities⁶⁴ were to pay loan annuities to VUDA to enable the latter to repay the loan to Government. VUDA repaid Rs 2.37 crore

⁶² Integrated Development of Small and Medium Towns

⁶³ The loan amounts were to be repaid in 15 to 25 annual instalments

⁶⁴ Anakapalli, Bheemili and Vizianagaram

towards principal and Rs 4.09 crore towards interest⁶⁵ up to March 1989 and thereafter became a defaulter. As of March 2004, the total outstanding dues payable by VUDA to Government worked out to Rs 8.05 crore⁶⁶.

Government had fixed (January 1990) the loan annuities payable by the concerned municipalities and directed them to pay the annuities to VUDA. However, this was not complied with. VUDA made no further repayment of the loan to government after March 1989 even in respect of the housing schemes owing to taking up of several non-remunerative schemes/facilities like Bheemili beach road, public parks and other tourism works. Municipalities were also not in a position to repay the loans to VUDA due to their poor financial condition. Government declined the request made by VUDA from time to time (latest in June 2004) for waiver of the loan (principal and interest), but did not take action either to recover the loan instalments or to adjust the dues from out of the grants⁶⁷ being released to VUDA/municipalities. On this being pointed out (June 2004) Government directed the Commissioner and Director of Municipal Administration to deduct the outstanding loan amount from the current budget (2004-05) of the concerned municipalities. Government also instructed the VUDA to pay the outstanding loan amount immediately. Compliance of the Government's instructions was awaited (August 2004).

Thus, due to lack of effective monitoring by the VUDA over the loans advanced by it to municipalities as also the failure of Government to recover the loans from VUDA, Rs 3.68 crore remained unrecovered for over 14 years; apart from interest which is accumulating.

⁶⁵ at the rate ranging from 5.5 per cent to 10.5 per cent (housing schemes) and 9.25 per cent to 12 per cent (IDSMT loans)

⁶⁶ Principal : Rs 3.68 crore; Interest : Rs 4.37 crore

⁶⁷ towards development activities, housing schemes, establishment charges to VUDA - 1989-90 (Rs 55 lakh), 1990-91 (Rs 36.26 lakh), 1991-92 (Rs 98.18 lakh), 1992-93 (Rs 25 lakh), 1993-94 (Rs 25 lakh), 1994-95 (Rs 25 lakh), 1995-96 (Rs 9.80 lakh), 1998-99 (Rs 20 lakh), 1999-2000 (Rs 1.5 lakh)

**TRANSPORT, ROADS AND BUILDINGS DEPARTMENT
(Ports)**

4.5.5 Non-recovery of enhanced lease rentals due to defective agreement

Director of Ports made an obvious error in a clause of the lease deeds in respect of lease of port lands. As a result, enhanced rates, as ordered by Government, to the extent of Rs 53.35 lakh could not be collected.

For comprehensive development of Kakinada Port, Government authorised (January 1994) the Director General of Ports and Port Project (Collector, East Godavari District) to lease out the Kakinada port's lands to private parties. The allotment was to be made to actual users of the port on long lease for 30 years, at annual rent of six per cent of the registration value of land⁶⁸, with a provision for an increase of 15 per cent every three years.

Director of Ports had leased out 280504.8 sq. yards of port's land for 30 years to 29 private firms during December 1994 – November 1998 (in one case, leased in March 1980). The clause in the lease deeds relating to rent reads as follows:

“The rent will be at the rate of Rs 8.70 per sq. yard per annum up to 30 years payable yearly, in advance,-----.

And thereafter the rent is to be revised and raised at the end of every three years at the rate calculated at 6 per cent on the revised value of the land as made by the District Revenue Authorities ----- subject to the condition that the increase in annual rent shall not at any stage be less than 15 per cent of the preceding year's rent -----”.

There was evidently a mistake in the clause, which implied that rent would be fixed for 30 years and this contravenes the government order. The Director of Ports who concluded the agreement was responsible for the lapse since the condition in the lease deed should have made it clear that rent was to be increased every three years from the date of allotment of land though the lease was for a period of 30 years.

Without rectifying the error in the clause, the Director of Ports raised a demand in September 2001 for increase in rent by 15 per cent that was due in February 1997. One⁶⁹ of the lessees refused (October 2001) to pay the enhanced rent stating that the relevant clause in the lease deed provided for enhancement of rent

⁶⁸ fixed at Rs 145 per sq yard in November 1994

⁶⁹ M/s Andhra Sugars Limited, Kovvuru

only after 30 years. The other lessees also continued to pay the annual rent as initially fixed in the lease deed.

Since the enhanced rent was not paid, the Director should have terminated the lease by giving six months notice to lessee. Instead he referred the matter⁷⁰ (March 2003) to the District Collector⁷¹ for settlement. The award of the District Collector is still awaited (October 2004).

Consequently, an amount of Rs 53.35 lakh⁷² due towards increase in rent for the period January 1997 – March 2004 for which demands were raised between September 2001 and March 2003 remained uncollected as of October 2004. In terms of the agreement, interest of Rs 29.32 lakh accrued on the Rs 53.35 lakh was also due from the lessees, upto July 2004.

The matter was referred to Government in June 2004; reply had not been received (October 2004).

WOMEN DEVELOPMENT, CHILD AND DISABLED WELFARE DEPARTMENT

4.5.6 Diversion of sale proceeds of empty containers of food supplies

Commissioner of Women Development and Child Welfare diverted Rs 1.71 crore being the sale proceeds of empty containers of food supplies made under ICDS project for purposes not covered by GOI guidelines.

The Centrally Sponsored Integrated Child Development Scheme (ICDS) has a component called Supplementary Nutrition Programme, under which ready-to eat food (RTE)⁷³ is supplied to feed the children at the anganwadi centres (AWCs) under the control of the Child Development Project Officers (CDPOs)/in-charge officers at block level. Government of India (GOI) permitted (August 1986) utilisation of sale proceeds of empty containers (bags and tins) of food, only for specified purposes such as fuel, condiments, utensils, dunnage, repair of AWCs and rodent control.

⁷⁰ following the instructions (February 2003) of the Government issued in response to his request (January 2002)

⁷¹ in the capacity of arbitrator as per item 6 of the general conditions of the terms of lease

⁷² at 15 per cent increase every three years, i.e., @ Rs 1.30 per sq yard from February 1997 to January 2000; @ Rs 2.80 per sq yard from February 2000 to January 2003 and @ Rs 4.55 per sq yard from February 2003 to March 2004 – on 2,80,504.80 sq yards of the land allotted to 29 firms

⁷³ containing sweet ready mix (SRM), Snack (food) and also rice, SS Oil

It was observed that the Commissioner diverted⁷⁴ the sale proceeds of containers amounting to Rs 1.71 crore between April 1999 and March 2004⁷⁵ for meeting expenditure on repairs and maintenance of office buildings and State Home (Rs 42 lakh), conducting Health Baby shows (Rs 3.48 lakh), purchase of furniture (Rs 19.24 lakh), expenses of International Women's day Celebrations (Rs 14.62 lakh), printing of posters (Rs 7.94 lakh), payment of electricity charges (Rs 8.30 lakh), purchase of Air-conditioners (Rs 5.33 lakh) and other contingent expenses⁷⁶ (Rs 69.94 lakh) not covered by the guidelines. In all these cases the expenditure was to be met from the regular budget allotment. Out of Rs 1.71 crore so diverted, only Rs 0.52 crore were recouped to container account as of March 2004 that too at the instance of audit.

Utilisation of programme funds for purposes not covered by the guidelines constituted unauthorized diversion and this adversely affected the implementation of the ICDS Programme.

The matter was referred to Government in April 2004; reply had not been received (October 2004).

4.6 General

Follow-up on Audit Reports

4.6.1 Non-submission of Explanatory (Action taken) Notes

As per the instructions issued by 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, however, noticed that 20 departments had not submitted explanatory notes, as of October 2004, in respect of 99 paragraphs/reviews for the years 1996-2003. The details are given in *Appendix 4.3*.

⁷⁴ without the approval of GOI

⁷⁵ 1999-2000 (Rs 0.37 crore), 2000-01 (Rs 0.10 crore), 2001-02 (Rs 0.46 crore), 2002-03 (Rs 0.41 crore) and 2003-04 (Rs 0.37 crore)

⁷⁶ installation of telephones, telephone bills, salaries of private security personnel/computer operators

4.6.2 Action taken by the Government

Detailed Contingent bills not submitted for over a decade

DC bills for Rs 1.63 crore drawn in March 1992 not yet submitted by the Commissioner

Mention was made in para 3.4.10 (iv) of the Audit Report (Civil) for 1998-99 about non-submission of Detailed Contingent (DC) bills by the Commissioner of Women Development, Child and Disabled Welfare for Rs 2.33 crore out of Rs 5.86 crore released by the Government in March 1992 for purchase of material intended to be used in the Integrated Child Development Services (ICDS) Scheme (Health component).

Check (September 2004) of compliance of the action taken on the audit objection revealed that DC bills for only Rs 0.70 crore were submitted by August 1997. The DC bills for the balance Rs 1.63 crore had not yet been submitted by the Commissioner even after a lapse of more than a decade.

Government needs to investigate the matter regarding non-submission of DC bills for such a long period.

4.6.3 Action not taken on recommendations of the Public Accounts Committee

As of October 2004, 1184 recommendations of the Public Accounts Committee (PAC), made between 1962-63 to 2003-04 in regard to 22 departments were pending settlement. Of these, the PAC had discussed Action Taken Notes (ATNs) in respect of 289 (24 per cent) recommendations relating to 15 departments. Of the remaining 895 recommendations, the concerned administrative departments were yet to submit ATNs in respect of 450 (38 per cent) recommendations (212 ATNs were due from Irrigation and Command Area Development department alone) 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 4.4*.

4.6.4 Lack of response to Audit

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). HandBook of Instructions for speedy settlement of audit observations/IRs issued by 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 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 2004, 18317 IRs issued up to March 2004 were not settled as shown below:

	Pending as at the end of		
	June 2002	June 2003	June 2004
Number of IRs	21286	21044	18317
Number of Paragraphs	83305	79084	67459

Of the 67459 paragraphs pending as on 30 June 2004, even first replies had not been received in the case of 1519 IRs (7819 paragraphs). The year-wise and department-wise breakup of these IRs and paragraphs is indicated in *Appendix 4.5 and 4.6* respectively. The Principal Secretaries/Secretaries who were also informed of the position through half yearly reports, failed to ensure prompt and timely action by the concerned officers. Lack of response to Audit indicated inaction against the defaulting officers, facilitating continuation of serious financial irregularities and loss to government even after these were pointed out in audit.

It is recommended that Government should ensure proper timely response to the Inspection reports of the AG and recoveries pointed out in the inspection reports are effected promptly.

4.6.5 Write off of losses and revenue

Rupees 2.57 lakh representing losses due to evaporation of petrol and irrecoverable amounts were written off (six cases/Rs 0.09 lakh) or recoveries waived (two cases/Rs 2.48 lakh) by the competent authority during the year 2003-04. Department-wise details are as follows:

Department	Losses, irrecoverable amounts written off	
	Number of cases	Amount (Rupees)
Home	7	21,333.02
Women Development, Child Welfare and Disabled Welfare	1	2,35,797.75
Total	8	2,57,130.77

4.6.6 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 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.

During 2003-04, audit by the Accountant General was conducted under Section 14 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 covering seven Universities, 20 Colleges, two Municipalities, 14 Zilla Parishads, 37 Mandal Parishad Development Offices, three District Rural Development Agencies, three Zilla Grandhalaya Samsthas, two Zilla Saksharata Samithies, four District Water Management Agencies and 12 other institutions.