CHAPTER IV

AUDIT OF TRANSACTIONS

- Fraudulent drawal/Misappropriation/Loss of Government money
- Infructuous/Wasteful expenditure and overpayment
- Avoidable/Extra/Unfruitful expenditure
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CHAPTER IV

AUDIT OF TRANSACTIONS

Audit of transactions of the Departments of Government, their field formations as well as that of the autonomous bodies brought out several instances of lapses in management of resources and failures in the observance of the norms of regularity, propriety and economy. These have been presented in the succeeding paragraphs under broad objective heads.

4.1 Fraudulent drawal/Misappropriation/Loss of Government money

EDUCATION DEPARTMENT
(Directorate of Printing, Stationery & Publications)

4.1.1 Fraudulent withdrawal of Government money

The Director of Printing, Stationery and Publications fraudulently withdrew Rs.1.67 crore from the treasury on the basis of fabricated documents and by subverting the prescribed rules and procedure.

As per Article 175 of the Karnataka Financial Code, the duty of construction and maintenance of Government buildings devolves on the Public Works Department (PWD). The works would be taken up for execution by the PWD upon communication of the administrative approval and the budget allotment by the head of the concerned department and the execution of these civil works is governed by the provisions of the Public Works Accounts Code and Public Works Departmental Code. The PWD officers are authorised to incur the expenditure by debiting the cost of these works to the major head of account concerned.

Records of the Director of Printing, Stationery and Publications, Bangalore (Director) disclosed (April 2007) that the Director withdrew Rs.1.67 crore during the period from August 2003 to August 2006 from the State Huzur Treasury, Bangalore towards construction of new sheds and a godown for paper at Branch press, Tumkur and for execution of some civil works at Branch press, Shimoga. The amount was drawn despite these works having not been approved by the Government and without any provision of funds. The necessary technical sanction was also not obtained. No tenders were invited for execution of these works. The amount was drawn by diverting funds from other budgetary heads.

One hundred and eighty work bills for an amount of Rs.1.67 crore were prepared in the name of one Shri K.M.Sridhar (159 bills) and M/s.Ganga Electricals (21 bills) and a certificate of satisfactory completion of work purportedly on behalf of the Karnataka State Small Industries Development Corporation (KSSIDC) was recorded (on the reverse of

each bill). A work order was issued *post facto* in respect of each of these bills quoting a reference to the bill number and date. There was no proof of execution of works in measurement books, running account bills, quality control test report, inspection notes, completion certificates, *etc.*, to validate these claims. The records further disclosed that the staff of the Directorate in their notings too had objected to these claims on the ground that they had not been certified by the State PWD and that they would be objected to by Audit. The Director, overruling their objections passed the bills for payment (Rs.1.67 crore).

While the amount was shown to have paid to aforementioned parties, the KSSIDC denied (July 2007) having issued any letter authorising these parties to execute the works on their behalf and to receive the payments directly from the Director. The KSSIDC also confirmed that the certificates of satisfactory completion were not issued by them. It further stated that these contractors were not empanelled in their organisation and that no work had been taken up by them for the Department during the period 2003-07.

It was thus clear that bills for execution of works by the then Director were drawn by fabricating the documents in the name of the KSSIDC. The Government stated (October 2007) that the then Director had been suspended and a departmental enquiry ordered (October 2007).

4.1.2 Excess issue of printing paper and its suspected misappropriation

Failure of the Director of Printing, Stationery and Publications to assess the actual requirement of paper for printing 2.06 crore copies of school text books resulted in issue of excess quantity (5,461.04 metric tonnes) of paper valued at Rs.17.09 crore and its suspected misappropriation. Besides, there was inordinate delay in supply of the text books to the schools.

The Government sanctioned (April 2004) Rs.20 crore to the Printing, Stationery and Publications department to procure the required machinery, material and labour force to print 2.85 crore copies of text books by the end of May 2004 for supplying them free of cost to the students of standard I to X for the academic year 2004-05. The Government later permitted (May 2004) the entrustment of printing work to the Government of India Press at Mysore, Kerala State Audio Visual and Reprographic Centre (KSAVRC) and Kerala Books and Publications Society (KBPS) also by granting exemption from the purview of the Karnataka Transparency in Public Procurement Act, 1999(KTPP Act). The paper required for printing the text books by these agencies was ordered to be supplied departmentally.

The Director of Printing, Stationery and Publications (Director) placed (May 2004) orders with KSAVRC for printing 2.06 crore copies of text books at the rates notified by the agency with the stipulation to deliver the

text books by 25 June 2004. Since the agency suggested to place a portion of these orders to two more agencies *viz*. KBPS and Kerala State Small Industries Development Corporation (KSSIDC) so as to ensure timely availability of text books, the Director redistributed (June/July 2004) the orders among these agencies. The Director supplied 10,815 metric tonnes (MT) of printing paper (cost: Rs.32.10 crore) to the outsourced agencies and paid them Rs.4.95 crore being the cost of printing 2.10 crore copies of text books besides incurring an expenditure of Rs.1.06 crore on transportation of printing paper to Kerala and the text books from Kerala to Bangalore. Audit scrutiny of records revealed the following:

The quantity of paper required for printing 2.06 crore copies of text books was neither assessed by the Director nor was there any basis to arrive at the requirement of 10,815 MT of paper. Records revealed that out of 10,815 MT paper, 100 MT were despatched (March-April 2004) to the outsourced agencies even before the issuance of orders by the Government exempting them from the purview of KTPP Act, 1999. The Kerala presses were also not instructed to furnish the paper consumption account and return excess paper if any, after printing the ordered quantity of text books. The Director also did not prescribe the maximum permissible wastage of paper in printing these text books. Consequently, the exact quantity of paper consumed by the presses was not available on record. The outsourced agencies neither returned the excess quantity of paper nor furnished the paper consumption account. The Director in reply to a specific audit query in this regard stated (November 2007) that the paper actually required for printing 2.06 crore copies of text books was 5,259.54 MT and that the reasons for despatching excess quantity (5,555.46 MT) of paper to the outsourced agencies would be investigated. Failure of the Director to assess the actual requirement of paper and obtain the paper consumption account from the outsourced agencies led to issue of 10,815 MT of paper as against 5,353.96 MT required to print 2.10 crore copies of text books and suspected misappropriation of 5,461.04 MT of paper valued at Rs.17.09 crore[1].

Further, no agreement was executed with any of the outsourced agencies specifying the due date for delivery of text books and penalty for delay in supply of books. While the orders for printing text books were placed with these agencies up to the first week of August 2004, the supply of printing paper was made up to the end of December 2004. The agencies supplied 1.99 crore copies of text books during the period August-November 2004 and another 10.49 lakh copies during September 2005. Consequently, the text books could not be supplied to the students on time.

[1] Cost of 5,461.04 MT paper calculated at an average rate of Rs.31,288 per MT paid to the paper mills during the period May-December 2004.

Government, in their reply stated (October 2007) that outsourcing to Kerala agencies was inevitable as the procurement and operation of the sophisticated machinery in the Government Presses of the State required a minimum six months time. But the department could not explain the enormous delay in supply of books and 5,461.04 MT of paper remaining unaccounted for as detailed above. These issues needed to be investigated.

FOREST, ECOLOGY AND ENVIRONEMNT DEPARTMENT

4.1.3 Misappropriation of Government money

Failure of the Range Forest Officer and treasury officials to follow the codal provisions and exercise prescribed checks resulted in misappropriation of Rs.1.73 lakh.

During scrutiny of accounts of Range Forest Officer, Khanapur Range (RFO) in Forest Division, Belgaum, a case of misappropriation of Government money of Rs.1.73 lakh by a daily wage employee was noticed in audit (July 2006). The amount was drawn fraudulently by presenting 14 salary bills at sub-treasury, Khanapur between May 2005 and July 2006 after manipulating the totals in the bills and accounting for only lesser amount in the departmental cash book. The unaccounted differential amount of Rs.1.73 lakh was misappropriated. The misappropriation was facilitated due to failure of the RFO in following the financial rules, codal provisions and omissions on the part of the treasury officials to verify the correctness of the totals in the bills, as detailed below:

- **A daily wage employee was entrusted with the work of preparation of bills and presenting them at the sub-treasury and encashment of cheques from the bank and maintenance of cash book. This was in violation of article 330 of the Karnataka Financial Code which stipulates that a Government servant of sufficient status should be entrusted with the work relating to cash transactions.**

- **The RFO in his capacity as a drawing and disbursing officer did not ensure the correctness of totals in the bills before signing them and while countersigning the treasury cheques before encashment from the bank.**

- **The RFO did not reconcile the figures of monthly drawals, required to be obtained from the treasury in form 62B, with the figures appearing in the records of his office. On the contrary, the expenditure figures as per treasury records were reported to the Divisional Office instead of those entered in the records of the Range Forest Office as a result of which the misappropriation could not be detected even during reconciliation with the Office of the Accountant General (Accounts and Entitlements).**
- **The directions of the Government (July 2005) to follow the revised system of crediting salary of the officials to their bank accounts was not followed and instead salary was being drawn and disbursed in cash.**

On this being pointed out in audit (July 2006), the misappropriated amount of Rs.1.73 lakh was recovered from the defaulting official (July 2006/May 2007) and remitted into the treasury. Action to fix responsibility for the misappropriation was awaited (June 2007).

The matter was reported to the Government in May 2007; reply had not been received (October 2007).

HOUSING DEPARTMENT

4.1.4 Loss due to failure to obtain TDS certificates

Failure to obtain TDS certificates resulted in loss of Rs.36.22 lakh to the Karnataka Housing Board.

Under the Income-tax Act, 1961 (IT Act), when a refund arises as a result of excess tax deducted at source/collected at source in respect of the income assessable for the assessment year commencing on or after 1 April 1969, the assessee should claim the refund within one year from the last day of such assessment year.

It was noticed (September 2006) that during the years 2003-04 and 2004-05, Karnataka Housing Board (Board) had earned income, by way of rent from properties let out and from the interest on fixed deposits, which was subject to deduction of tax at source (TDS) under the IT Act. According to the data furnished by the Board, TDS of Rs.43.04 lakh and Rs.32.47 lakh were made during these years. However, it obtained TDS certificates for Rs.9.06 lakh and Rs.16.13 lakh only for these years and claimed refund by furnishing (September 2005/December 2005) the returns of income to IT authorities. While the Board got the refund of Rs.9.06 lakh for 2003-04 during March 2006, the refund of Rs.16.13 lakh pertaining to the year 2004-05 was yet to be realised. The Board did not, however, obtain the TDS certificates from the tenants/banks for the remaining amounts of Rs.33.98 lakh and Rs.16.34 lakh for these years.

On this being pointed out in audit, the Board obtained TDS certificates for additional sum of Rs.14.10 lakh for 2004-05 and claimed its refund in October 2006 by furnishing a revised return. The balance amount of Rs.36.22 lakh could not be claimed as they were time barred under the Act.

Government in their reply stated (October 2007) that action had been taken to obtain TDS certificates and file the revised returns. The reply was not tenable as the claim was time barred resulting in a loss of Rs.36.22 lakh to the Board.

4.2 Infructuous/Wasteful expenditure/Overpayment

FOREST, ECOLOGY AND ENVIRONMENT DEPARTMENT

4.2.1 Wasteful expenditure on solar power fencing

Failure of the departmental officers to monitor execution of solar power fencing works resulted in its sub-standard execution and consequent wasteful expenditure of Rs.37.87 lakh, besides leading to payment of Rs.38.57 lakh towards crop compensation to villagers.

The Deputy Conservator of Forests, Wildlife Division, Hunsur (DCF) awarded (November 2002) the work of erecting solar powered fencing (SPF) for a length of 80.50 kms in the Rajiv Gandhi (Nagarahole) National Park to a firm at the tendered cost of Rs.78.14 lakh. The work was to be completed by 28 February 2003 which was later extended to 25 March 2003. The SPF was to be maintained by the firm for a period of one year after its completion. Full payment of Rs.77.10 lakh[2] for the work was paid by the DCF to the firm between March 2003 and August 2003 on the basis of the report (March 2003) of its satisfactory completion from the Range Forest Officers (RFOs) concerned.

Scrutiny of divisional records of the DCF (March/December 2006), however, disclosed that the DCF did not obtain fortnightly progress reports of the work during its execution from the firm as stipulated in the contract. Reports of inspection by departmental officers during execution, if any, were also not on record. The DCF, however, inspected the sites (April 2003) at Veeranahosahalli and Metikuppe ranges after completion of the work and found the material used in fencing of substandard quality and execution of work unsatisfactory. The DCF also found that SPF had snapped in many places and no current was flowing through it. In Antharasanthe Range, the RFO reported (November 2003) that the solar poles were in dilapidated condition and not fixed in cement concrete. The RFO further reported to DCF (January/May 2004) that the wild elephants had damaged crops in the fields after entering the villages and damaging the SPF. The DCF, in spite of deficiencies noticed in execution of the work, made payment of Rs.37.50 lakh between June 2003 and August 2003. The Field Director, Project Tiger, Mysore after inspecting all the six ranges reported (July 2004) that SPF had got damaged for a length of 39.019 kms. The Department, while forfeiting (October 2004) the Security Deposit of Rs.3.39 lakh[3] and initiating action for black listing the firm did not get the affected SPF restored and maintained at the cost of the firm through another agency for making it functional.

Thus, failure of the departmental officers to monitor execution of SPF works and get the defects in the SPF rectified resulted in wasteful expenditure of Rs.37.87 lakh. Besides, even after erecting SPF at a cost of Rs.77.10 lakh damage to the crops by elephants and other animals could not be prevented as

[2] In March 2003: Rs.39.60 lakh, June to August 2003: Rs.37.50 lakh
[3] In respect of affected stretch

envisaged, leading to payment of compensation of Rs.38.57 lakh to the villagers.

The Principal Chief Conservator of Forests (Wildlife) while admitting lapses of the departmental officers asked (April 2007) the Government for setting up of a departmental enquiry against the officials concerned.

The matter was reported to Government in April 2007; reply had not been received (October 2007).

PUBLIC WORKS DEPARTMENT

4.2.2 Wasteful expenditure and non-realisation of insurance claims

Delay in disposal of a helicopter resulted in wasteful expenditure of Rs.1.19 crore. Failure to provide documents endorsing the recovery rights of insurer against Air Traffic Controller/Air India resulted in non-realisation of Rs.58.27 lakh. Two more insurance claims including the one for Rs.74.93 lakh and another for damages to helicopter due to flood were also not preferred.

The Government purchased (February 1999) a Dauphin helicopter (cost: Rs.24.66 crore) for use by officials and VIPs during natural calamities, law and order situations, *etc.*, as the helicopter could carry eight passengers without refuelling up to Bidar being farthest point from Bangalore. It had life span of 25 years with 350 hours of flying per annum and direct operating/ maintenance cost of Rs.0.24 lakh per hour. It was under the administrative control of the Department of Personnel and Administrative Reforms (DPAR) and the Public Works Department (PWD) looks after its running and maintenance.

Scrutiny of records (February 2006/March 2007) in the offices of the Executive Engineer, No.1 Buildings Division, Bangalore (EE) and the Department of Personnel and Administrative Reforms (DPAR) showed the following:

4.2.2.1 Wasteful expenditure due to delay in its disposal

The Department maintained the helicopter (expenditure[4]: Rs.6.95 crore) for a period of seven and half years out of which it could not be used for 48 months between July 2002 and August 2006 due to repairs (31 months) and non-availability of pilots (17 months). The Government, had entered into a maintenance contract (October 1998)[5] with Pawan Hans Helicopter Limited (PHHL) and permitted it (October 2004) to ferry the helicopter to Mumbai for repairs. The repairs were completed by March 2005. The helicopter remained idle, stationed at Juhu airport in Mumbai beyond March 2005 due to non-availability of pilots. The Chief Secretary had recommended (March 2005) to dispose of the helicopter, as trained pilots to fly the helicopter could not be arranged since July 2004. In July 2005, the helicopter was

[4] Includes expenditure on repairs
[5] In anticipation of actual purchase in February 1999

damaged in flood waters in Mumbai. Government took 13 months to dispose of the helicopter after it was damaged due to floods in July 2005. It was disposed of (August 2006) by auction without fixing a minimum price realising an amount of Rs.10.16 crore[6]. An expenditure of Rs.78.86 lakh was incurred towards maintenance from October 2004 to August 2006 and Rs.40.30 lakh towards insurance from May 2005 to August 2006.

Delay in disposal of the helicopter after undertaking major overhauling (October 2004) resulted in wasteful expenditure of Rs.1.19 crore on its maintenance and insurance. Insurance claim for the damage due to flood had yet to be preferred (March 2007) as details of damages were not provided by the PHHL.

4.2.2.2 Non-realisation of insurance claim

The helicopter got damaged on 20 July 2002 due to air blast by an Air India Boeing-747 aircraft while stationed at Bangalore airport. It was thereafter got repaired (January-May 2003) at Mumbai at a cost of Rs.4.34 crore[7] and declared airworthy on 8 May 2003. DPAR took up the damage issue with Air India and Air Traffic Controller (ATC) belatedly (February 2004) after they were indicted by Director General of Civil Aviation (DGCA) for the accident. The matter was not pursued with ATC and Air India after they held the view that they were not liable for the accident. Meanwhile, the EE preferred (July 2003) a claim of Rs.4.33 crore with the insurance company which admitted (October 2004) a claim of Rs.2.33 crore realising (October 2004) only an amount of Rs.1.75 crore. The balance Rs.58.27 lakh was withheld by the company pending submission of copies of correspondence with Air India and ATC for enabling them to establish recovery rights against ATC and Air India. DPAR, however, did not make available the documents as Air India and ATC did not accept their responsibility despite being indicted by DGCA for the accident. The insurance company besides claiming recovery rights against the persons responsible for the accident, further suggested resolving the dispute through the good offices of empowered agencies of the Government or through arbitration. The Government was yet to take action as suggested by the insurance company.

Thus, failure of DPAR to pursue the damage charges against Air India and ATC and delayed follow up action resulted in non-realisation of a sum of Rs.58.27 lakh from the insurance company for over two and half years.

4.2.2.3 Insurance claim not preferred

PHHL during inspection on 17 July 2003 observed malfunctioning of one of the two engines of the Dauphin helicopter. Technical report revealed that the Gas Generator Module-3 and Power Turbine Module-4 of the engine required repairs by its manufacturing company. However, the engine was subsequently exchanged (September 2003) with another factory-repaired engine at a cost of Rs.74.93 lakh. Though the helicopter was insured (value: Rs.21 crore) in May 2003 for one year on payment of a premium of Rs.36.95 lakh, the

[6] Includes an amount of Rs.1.13.crore as 12.5 *per cent* VAT
[7] Payments made during February to June 2003

Government preferred the insurance claim for Rs.74.93 lakh (July 2007) after four years after the same was pointed out in audit.

4.2.2.4 Avoidable expenditure

EE issued a supply order (June 2005) for supply of a display screen for the helicopter (cost: Rs.13.19 lakh[8]) for priority delivery. The screen was, however, delivered (September 2005) to PHHL after the helicopter had got damaged (July 2005) at Juhu airport in Mumbai due to floods. No action was taken by the EE to cancel the delivery after the helicopter got damaged in July 2005. The display screen, which was not fixed on the helicopter, was lying with PHHL and had not been obtained back.

The matter was reported to Government in July 2007. Government agreed (August 2007) to claim insurance towards replacement of engine and recover the cost of display screen from PHHL. Action taken by the Government against insurance firms for realisation of balance claim of Rs.58.27 lakh and the cost of damages to helicopter due to floods was awaited (October 2007).

PUBLIC WORKS DEPARTMENT - COMMUNICATION AND BUILDINGS

4.2.3 Excess payment for consolidation of metal

Making payment on loose quantities of metal instead of the compacted quantities resulted in excess payment of about Rs.4.54 crore in respect of 1,444 road works.

Providing Water Bound Macadam (WBM) is one of the items of work required for construction of roads. The item comprises collection of metal, its spreading, watering and consolidation. As per norms of Indian Road Congress, 133 cum[9] of loose metal is required for obtaining 100 cum of consolidated WBM. As per approved Schedule of Rates, the rate for collection and spreading of metal is applicable for loose quantities collected. However, in respect of 'consolidation of metal' the payment is required to be made for the quantities obtained after rolling/compaction to the required thickness.

Scrutiny of records (March 2006) of divisional offices of the Department disclosed that the sanctioned estimates of NABARD assisted and other road works executed[10] during the period 2001-02 to 2005-06 provided therein the item of work 'consolidation of metal' for the loose quantities instead of compacted quantities. Subsequently, while executing the works, the divisions without recording measurements of compacted quantities, made payments on the basis of loose quantities collected. This resulted in excess payments of 33 *per cent* on the additional quantity which in respect of 100 works executed between 2001-02 and 2005-06 in five test-checked divisions amounted to Rs.56.68 lakh (**Appendix-4.1**). The estimated excess payment in respect of 1,344 works in the remaining 30 divisions based on applicable Schedule of

[8] Payment made in December 2005
[9] IRC 19-1972
[10] Under RIDF VI to X

Rates[11] amounted to Rs.3.97 crore (**Appendix-4.2**). No action was taken by the Department to recover the excess payment and fix responsibility even though pointed out in audit as early as in June 2004.

The Government in reply stated (May 2007) that due care would be taken in future by making payment on finished items and recovery involving large number of cases may not be possible as it might result in a number of litigations. No departmental action was, however, taken to fix the responsibility for the lapse.

WATER RESOURCES DEPARTMENT - MINOR IRRIGATION

4.2.4 Wasteful expenditure on construction of a minor irrigation tank

Despite increasing the slope of a tank work, the tank could not be made viable and functional rendering the expenditure of Rs.9.45 crore on the work largely wasteful.

The Government accorded administrative approval (March 2003) to the construction of a tank[12] in Arjanal village of Indi taluk at an estimated cost of Rs.5.70 crore for irrigating 415 ha through right bank canal (200 ha) and left bank canal (215 ha), respectively. Chief Engineer, Minor Irrigation (North), Bijapur (CE) accorded the technical sanction (March 2003) to the work. Executive Engineer, Minor Irrigation Division, Bijapur (EE) awarded the work (January 2004) to the lowest tenderer at a negotiated cost of Rs.4.59 crore (12 *per cent* over SR 2002-03) for completion by January 2006. Execution of bund and appurtenant works except canal work were completed (December 2005) incurring an expenditure of Rs.9.45 crore. This included additional expenditure of Rs.4.64 crore incurred on increase in slope of the bund without the approval of the competent authority. The right and left bank canals were yet to be taken up (March 2007). A revised estimate for Rs.11.64 crore to cover increase in cost proposed (April 2007) by CE was yet to be approved by Government.

Scrutiny of records of the EE and CE (February/July 2007) disclosed that the CE accorded technical sanction to the work without undertaking survey of the command area to be covered by the tank. Despite the omission, the CE misreported to Government at the estimation stage, that the command area of the tank would not overlap with any other project. The omission was further compounded after CE rendered (June 2003) a clarification to a specific query from the Administrative Department that the command area of the tank had not been covered by Indi Branch Canal (IBC) of Upper Krishna Project maintained by Krishna Bhagya Jala Nigam Limited (KBJNL), a Government Company. Consequently, Government cleared (October 2003) the work for execution.

[11] Actual payments were made at tendered rates on premium to rates in SR
[12] Earthen bund, waste weir, tail channel, sluice gates for canal network, *etc.*

After execution of the bund and appurtenant works, the CE, during site inspection (November 2006) noticed that a part of the command area of the tank was already covered by IBC and it was not possible to irrigate the command area of 200 ha with right bank canal using gravity flow. Records of KBJNL showed that out of command area of 215 ha of left bank canal, 128 ha had already been covered (December 2002) by IBC. Further, 70.80 ha of left bank canal apart from the command area of right bank canal (200 ha) were not susceptible for flow irrigation as they were at higher terrain. Consequently, the actual command area available for the tank was only 16.20 ha as against 415 ha envisaged. This rendered the project unviable as the benefit cost ratio worked out to far less than one considering the reduction in command area as well as increase in cost.

Thus, construction of tank was rendered unviable due to non-availability of command area and the expenditure of Rs.9.45 crore thereon was largely unfruitful.

The matter was reported to the Government in September 2007; reply had not been received (October 2007).

URBAN DEVELOPMENT DEPARTMENT

4.2.5 Wasteful expenditure

Erroneous designing and estimation of a water supply scheme to provide a separate pipeline to a nearby milk powder plant resulted in a wasteful expenditure of Rs.83.29 lakh and an avoidable expenditure of Rs.34.52 lakh on pipes for the schemes.

The Government approved (February 2005) the project for a permanent Water Supply Scheme (WSS) to Sravanabelagola village in Hassan District at an estimated cost of Rs.14.50 crore in view of the "Mahamastakabhishekha[13]" celebrations during the year 2006. The project envisaged pumping about 0.90 million gallons of water per day (MGD) from Hemavathy river to supply about 0.17 MGD to Sravanabelagola, 0.55 MGD to cater to the water requirements during the Mahamastakabhishekha ceremony (estimated cost:Rs.11.79 crore) and another 0.18 MGD to a proposed Milk Powder Plant/Dairy of the Karnataka Milk Federation (KMF) at Shettihalli (estimated cost: Rs.2.11 crore) besides providing some missing links to underground drainage facilities and renovation of sewage treatment plant at Sravanabelagola (Rs.0.60 crore). The project was entrusted (February 2005) to the Karnataka Urban Water Supply and Drainage Board (Board) for execution out of funds earmarked for Mahamastakabhishekha celebrations. The work was got done through two contractors; one for commissioning WSS to Sravanabelagola (tendered cost: Rs.9.86 crore) and another for WSS to the KMF Plant at Shettihalli (tendered cost: Rs.1.07 crore). Both the works were completed and commissioned (January/February 2006) at a cost of Rs.12.22 crore. Audit scrutiny of the Board's records revealed:

[13] the ritual anointing ceremony of Lord Bahubali statue at Sravanabelagola held once in twelve years

- The sanctioned estimate for WSS to Sravanabelagola provided for pumping 0.90 MGD water using three pumps of 75 HP capacity each and construction of a rising main using 300 mm diameter ductile iron (DI) pipes. This was sufficient to lift and transport the water (0.90 MGD) to both Sravanabelagola WSS and the WSS for KMF. The sanctioned estimate of WSS for KMF also provided for another set of two pumping machinery each of 30 HP capacity and a rising main of 150 mm diameter pipes to a length of 6.92 Kms which ran parallel to the rising main supplying water to Sravanabelagola. The works were executed as per the sanctioned estimates and an expenditure of Rs.83.29 lakh was incurred on providing the pumping machinery and construction of the rising main for WSS to KMF. As the pumping machinery and the rising main designed for the WSS to Sravanabelagola was for the gross requirement of 0.90 MGD of water which could also cater to the WSS to KMF, the provision of two additional pump sets and a separate rising main to KMF was wholly unnecessary resulting in a wasteful expenditure of Rs.83.29 lakh (**Appendix-4.3**).

- The Board included in the tenders for the above works, supply of DI pipes and PVC pipes of various diameters. While estimating the cost of these pipes, the Board adopted the rates fixed under the rate contracts (RC) (executed by them with various RC firms) instead of adopting their own Schedule of Rates. The contractors quoted their premium on this item of work and accordingly the rates paid were higher than those under the RC. Under the RC system, the supplier firms were obliged to supply the pipes anywhere in the State. As such, the Board could have procured these pipes and supplied to the contractors instead of entrusting the supply to them. Consequently, there was an avoidable expenditure of Rs.34.52 lakh on account of rate differential between the RC rates and rates paid to the contractors (**Appendix-4.4**).

The matter was reported to the Government in January 2007; reply had not been received (October 2007).

4.2.6 Excess payment to a contractor

The injudicious action of the Karnataka Urban Water Supply and Drainage Board to make payments for earthwork excavation and construction of embankment for an impounding reservoir at higher rates resulted in excess payment of Rs.1.32 crore to the contractor.

Under the Scheme for augmentation of water supply to Navalgund town in Dharwad district, the Karnataka Urban Water Supply and Drainage Board (Board) took up (June 2002), construction of an impounding reservoir at an estimated cost of Rs.4.49 crore. The work was got executed (July 2003) through a Public Sector Undertaking[14] (PSU) at 10 *per cent* above the estimated cost. A total payment of Rs.4.94 crore (July 2004) was made to the PSU. The work entrusted to the PSU included, *inter alia*, two items of work *viz.*, 2.25 lakh cubic metres (cum) of earthwork excavation in all kinds of soil

[14] Hindustan Steel Works Construction Limited

and construction of an embankment (core area) utilising 1.25 lakh cum of soil excavated for the impounding reservoir. The actual quantities executed under the earthwork excavation and embankment were 3.22 lakh cum and 1.26 lakh cum respectively and the PSU was paid Rs.1.39 crore and Rs.1.45 crore accordingly for these items of work.

Scrutiny (April 2006) of records revealed that the PSU was to transport 1.26 lakh cum of excavated soil to the site of bund involving a lead of one kilometre and the remaining soil (1.96 lakh cum) was to be dumped at a place beyond three kilometres from the site of excavation as per stipulations in the agreement. The rate payable per cum of earth excavated and transported to a distance of three kms was Rs.47.57 per cum as per the agreement. It was observed from the final bill of the work that the Board paid the entire quantity of 3.22 lakh cum of earth work excavation at Rs.47.57 per cum although 1.26 lakh cum out of this quantity had been transported to the site of bund involving a lead of only one km which should have been paid at Rs.39.32 per cum[15] as against Rs.47.57 per cum. This resulted in excess payment of Rs.10.38 lakh[16] to the PSU.

It was also observed that the Board incorrectly applied the rate of Rs.127.13 per cum applicable for construction of embankment with soil brought from borrow area although the same was constructed from the available excavated soil. The rate payable for the construction of embankment with available soil including area weightage, agency premium and the lead charges for one kilometre was Rs.30.14 per cum as per the prevailing Schedule of Rates of the Minor Irrigation Department which was adopted by the Board for preparation of the estimate. The failure of the Board to adopt the rate actually applicable as per the specifications of the work resulted in excess payment of Rs.96.99 per cum and the total excess payment on 1.26 lakh cum of embankment work was Rs.1.22 crore.

The matter was reported to the Government in May 2007; reply had not been received (October 2007).

4.3 Avoidable/extra/unfruitful expenditure

LABOUR DEPARTMENT

4.3.1 Additional expenditure due to purchase of drug at higher rates

Additional expenditure of Rs.38.25 lakh was incurred on purchase of a drug at higher rate.

The expenditure on provision of medical services to beneficiaries under the Employees' State Insurance Scheme is shared by the State Government with the Employees' State Insurance Corporation (ESIC) in the ratio of 1:7. According to purchase guidelines of ESIC, for procurement of drugs to

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[15] Worked out on the basic rate of Rs.15 and an addition lead of one kilometre plus agency premium of 10 *per cent*

[16] 1,25,779.56 cum x Rs.8.25 per cum = Rs.10,37,681

be administered under the scheme, the use of ESI Central Rate Contract by State Directorates is mandatory for maintaining quality and uniformity of medicines supplied. In September 2005, ESIC clarified that in cases of legal difficulty, specific exemption from operation of the ESIC Rate Contract was to be sought. According to the ESI Rate Contracts for Cyclosporin, the approved rates for capsules of 25 mg were Rs.9.80 each for 2004-05 and Rs.11.80 each for 2005-06 and for capsules of 50 mg, the rates were Rs.19.60 each for 2004-05 and Rs.24 each for 2005-06.

It was, however, noticed (October 2006) that the Director of ESI Scheme (Medical Services), Bangalore purchased this drug during June 2004 to June 2006 from a manufacturer not included in the said Rate Contracts of ESIC. The rates paid were higher at Rs.28.56 each for 60,150 capsules of 25 mg and Rs.57.10 each for 79,700 capsules of 50 mg. The Director had not obtained specific exemption from operation of the Rate Contracts. These purchases at higher rates resulted in additional expenditure of Rs.38.25 lakh.

The matter was reported to the Government in November 2006; reply had not been received (October 2007).

PUBLIC WORKS DEPARTMENT - NATIONAL HIGHWAYS

4.3.2 Avoidable payment of interest and compensation on land acquisition

Failure of the Department to deposit 50 *per cent* of the enhanced compensation in the lower court, as directed by the High Court, resulted in dismissal of appeal of the Department and payment of enhanced compensation of Rs.6.04 crore including avoidable interest of Rs.61 lakh.

Executive Engineer, National Highways Division, Hubli (EE) acquired[17] (October 1985) 30 acres 27 guntas land comprising 28 cases at Rayanal village for construction of Hubli-Dharwad by-pass road. A land compensation of Rs.2.57 lakh was paid (1985) to the owners as per the award passed (August 1985) by Special Land Acquisition Officer, National Highways, Dharwad (SLAO) providing for land compensation ranging from Rs.3,000 to Rs.5,000 per acre. The land owners, however, in 22 cases (28 acres 11 guntas) challenged the award and filed appeals (1986) in the civil court pleading payment of compensation at higher rates which was allowed (August 2002) by the court raising the compensation amount to Rs.3.60 lakh per acre. The Department, preferred appeal[18] (2002) in the High Court against the order of the civil court in respect of 19 cases (26 acres 10 guntas). The High Court while admitting (26 February 2004) the appeals and granting *ad interim* stay to lower court's order directed the Department to deposit 50 *per cent* of the enhanced compensation granted by the lower court within six weeks. This amount (Rs.2.39 crore) was not, however, deposited by the Department within the stipulated time. Later, High Court in its judgement (March 2004) set aside the lower court order and directed to pass appropriate award of the acquired

[17] Possession of the land taken over in October 1985
[18] After obtaining approval (October 2002) from the Law Department

land *de-novo* within a period of six months after taking into account all the relevant material and recording its findings on comparability of the acquired lands. It further directed the Department to deposit 50 *per cent* of the enhanced compensation with the lower court, as directed by it earlier (February 2004), within the extended four weeks time[19] from the date of judgement (March 2004) failing which its order would stand rescinded without any further orders from the High Court and the appeal would stand dismissed. The Department, despite High Court direction, did not deposit 50 *per cent* of the enhanced compensation in the lower court. Consequently, the appeal made in 19 cases stood dismissed.

Scrutiny of records (August 2004/September 2006) in the offices of the SLAO and the EE revealed that the Department did not project the requirement of funds within four weeks time for depositing in the court and belatedly included it in its second Revised Estimates and proposed for funds on 19 May 2004 along with its other requirements to the Ministry of Road Transport and Highways which were provided by them only in April 2005. The delay in obtaining funds and failure to deposit them in the lower court within the stipulated time, as per the directions of the High Court, resulted in dismissal of the appeal made by the Department and additional payment of Rs.6.04 crore as land compensation. This also included avoidable payment of interest of Rs.60.53 lakh for the period from August 2002 to March 2005.

The matter was reported to the Government in April 2007; reply had not been received (October 2007).

URBAN DEVELOPMENT DEPARTMENT

4.3.3 Avoidable payment of penalty

Failure to install power capacitors by the Karnataka Urban Water Supply and Drainage Board in High Tension installations for water supply works resulted in payment of penalty of Rs.91.32 lakh.

Under the Karnataka Electricity Reforms Act, 1999, a high tension (HT) consumer is required to maintain an average power factor[20] (PF) of not less than 0.90 and if it falls below this level, a surcharge of three paise per unit of power consumed is leviable for every reduction of PF by 0.01 below 0.90. For this purpose, the HT consumers are required to install power capacitors (power factor correction apparatus) in their installations so as to maintain the prescribed PF.

Audit scrutiny (October 2006) of electricity bills of four divisions[21] of the Karnataka Urban Water Supply and Drainage Board (Board) for the period 2002-07 revealed that PF penalty aggregating Rs.91.32 lakh (**Appendix-4.5**) was paid by the Board for its failure to install power capacitors. The Board attributed (November 2006) non-installation of power capacitors to non-

[19] By 30 April 2004
[20] Power factor is the ratio between the voltage and current. If the PF is less than one, the supply of current will be more with accompanying transmission losses.
[21] Bellary, Gadag, Gulbarga and Hubli-Dharwad.

release of sufficient funds by the Civic Bodies *viz.*, City Municipal Corporation/City Municipal Councils. The reply is not tenable as the cost of a capacitor (Rs.300 to Rs.3,500) was too meagre compared to the amount of penalty paid by the Board. Moreover, the onus of installing a suitable power capacitor was on the HT consumer (the Board) as per the regulations of the Karnataka Electricity Reforms Act, 1999.

The matter was reported to the Government in May 2007; reply had not been received (October 2007).

4.3.4 Avoidable expenditure on filling up with earth

The injudicious action of the Bangalore Development Authority to fill the low lying sites with earth from borrow areas despite availability of loose earth at site resulted in an avoidable expenditure of Rs.68.54 lakh.

The Bangalore Development Authority (BDA) executed (2002-06) the work of formation and development of Sir M.Vishweshwaraiah Layout in Bangalore South and North taluks to distribute 10,000 residential sites to the general public besides providing the necessary civic amenities. The work was executed under 16 separate packages through contractors and an expenditure of Rs.38.20 crore was incurred.

Audit scrutiny of records in six test-checked packages revealed (December 2006) that the Commissioner, BDA during his inspection of the work observed (March 2003) that certain sites were low lying and required to be filled up to the ground level so as to avoid any complaint from the allottees in future. Accordingly, the low lying sites in six packages[22] were got filled up (September 2005 to March 2006) with 1.64 lakh cubic metres (cum) of soil brought from borrow areas at a total cost of Rs.1.18 crore despite availability of 2.72 lakh cum of loose earth from the excavation carried out under these six packages during 2002-03.

The material was brought from borrow areas at an average cost of Rs.73.44 per cum as against the average cost of Rs.31.71 per cum[23] payable for transporting the available loose earth from the spoil banks to the low lying sites within the layout and filling them. The action of the BDA to fill the sites with earth brought from borrow areas despite availability of sufficient loose earth at site resulted in an avoidable extra expenditure of Rs.68.54 lakh.

Government replied (October 2007) that bulk of the excavated soil (2.40 lakh cum) could not be used for filling as it contained plastic, paper, garbage, *etc.*, which was not suitable for filling apart from 19,425 cum of soil considered as loss during transit. The reply is not tenable as the BDA paid the contractor the rate applicable for excavation in ordinary soil (2.40 lakh cum) which according to tender specification did not contain any unwanted material like garbage, plastic, paper, *etc.*, and the loss considered during transit was only notional.

[22] Package Nos. I, III, VII, IX, XIII & XIV

[23] Rs.24.90 - Lead charges per cum/km of excavated muck + Rs.5.50 spreading charges + Rs.1.31 Average tender premium = Rs.31.71

WATER RESOURCES DEPARTMENT

4.3.5 Unfruitful expenditure on cloud seeding operation

Delay in issue and finalisation of tenders, non-inclusion of appropriate cloud seeding technique in the agreement and lapses in providing infrastructural and technical support adversely affected the cloud seeding operation for augmenting rainfall during south-west monsoon rendering the expenditure of Rs.9.37 crore largely unfruitful.

The Government approved (May 2003) 'Project Varuna' for augmenting rainfall during south-west monsoon (July to October 2003) using cloud seeding technique for mitigating irrigation/drinking water shortage due to drought. The technique, using an aircraft, involves infusion of chemicals into moisture bearing clouds for inducing precipitation and consequent rainfall. The infusion of chemicals, depending on cloud conditions in a particular area, is done either at the base of the clouds called 'warm cloud seeding'[24] or at their top called 'cold cloud seeding'[25]. The project executed by Executive Engineer, No. 1 Gauging Division, Hassan (EE) was monitored and coordinated by Superintending Engineer (Hydrology), Water Resources Development Organisation (WRDO), Bangalore. An expenditure of Rs.9.37 crore[26] was incurred on the project.

Scrutiny of records of the EE and Engineer-in-Chief, WRDO, Bangalore (January/March 2007) revealed that, on inviting tenders (June 2003), three foreign tenderers[27] responded of which only one was found (July 2003) to be technically qualified by the tender evaluation committee[28], headed by Secretary, Water Resources Department. The committee recommended (July 2003) to go only for 'warm cloud seeding' due to tropical conditions prevalent in Karnataka and after negotiations recommended acceptance of the tender from the sole valid bidder for Rs.5.65 crore against his tender offer of Rs.5.73 crore. Government approved (August 2003) the operation at a cost of Rs.5.65 crore apart from cost of chemical flares and extra flying hours beyond 100 hours using an aircraft with a radar at Jakkur airbase. Later Government approved (September 2003) installation of another radar system at Gadag at an additional cost of Rs.1.94 crore. Accordingly, EE executed agreements with the agency on 6 August 2003 and 29 September 2003. However, the agreements were made without specifying the cloud seeding technique to be used by the agency which was left to its discretion, reasons for which were not

[24] Suitable for tropical areas by flying aircraft at the base of the clouds using hygroscopic seeding devices like sodium chloride flares

[25] Conducting the operation by flying aircraft at the top of the clouds injecting silver iodide flares to accelerate the process of ice formation resulting in cloud precipitation and rainfall

[26] Amount paid to the agency (Rs.8.52 crore) for cloud seeding *plus* customs duty for import of radar and flares (Rs.0.68 crore) *plus* miscellaneous expenditure *viz.*, tendering charges, committee meeting expenses, *etc* (Rs.0.17 crore)

[27] M/s Atmospheric Incorporated (AI) and M/s Weather Modification Incorporated (WMI) from USA and M/s First Technology from UAE

[28] Comprising members drawn from Water Resources Department, Indian Meteorological Department, Drought Monitoring Cell, Karnataka State Remote Sensing Application Centre, Indian Institute of Tropical Meteorology (Pune), Government Flying School, Finance Department and WRDO

on record. Further, conditions and parameters for monitoring additional rain fall expected from the operation and the number of additional rain gauge stations to be set up by the Department were also not specified in the agreements though the tender document required the bidders to cover these aspects. The agency later carried the operation largely using 'cold cloud seeding' technique[29] instead of 'warm cloud seeding' technique which was attributed by it (February 2004) to operational difficulties such as not seeing base cloud features due to poor visibility, loss of flight tracks, data telemetry and communication during base cloud seeding operation. The operation was carried with the radar at Jakkur from 21 August 2003 to 18 November 2003 and with the radar at Gadag from 25 September 2003 to 18 November 2003 undertaking 295 flying hours. It included avoidable 64 flying hours (variable cost: Rs.13.35 lakh) when there were no seedable clouds (51 hours) or when rains had already set in (13 hours). The operation got delayed due to delay in finalisation of tenders and went beyond the monsoon period of October. The effectiveness of the operation carried out at a cost of Rs.9.37 crore was not monitored by the Department in the absence of adequate rain gauge stations.

Thus, the failure to include appropriate cloud seeding technique in the contract agreements, lapses in providing infrastructural and technical support and delay in issue and finalisation of tenders adversely affected the cloud seeding operation. This resulted in not achieving the objective of augmenting rainfall during south-west monsoon rendering the expenditure of Rs.9.37 crore largely unfruitful.

The matter on being reported to the Government in May 2007, Government stated (November 2007) that the technique of cloud seeding was solely judged on the spot, depending on the characteristics of the cloud and therefore it was not possible to mention before hand in the agreement and the total rainfall that occurred was measured through ordinary rain gauges.

The reply was not tenable since the tender evaluation committee had recommended only 'warm cloud seeding' technique suitable for tropical areas and the evaluation report of the Indian Institute of Science also opined that in majority of days the clouds were seeded from top and self-recording rain gauges which are required to measure the extent of rainfall data were not provided by the Department.

WATER RESOURCES DEPARTMENT - MINOR IRRIGATION

4.3.6 Unfruitful outlay on a minor irrigation tank

Execution of the work without acquiring required land including that for right bank canal resulted in an unfruitful expenditure of Rs.1.21 crore on the construction of the irrigation tank.

The Government accorded administrative approval (March 2000) to the construction of a minor irrigation tank (estimated cost: Rs.94 lakh) for irrigating 76 hectares of land in Buddini village, Lingasugur taluk of Raichur

[29] Using 3587 silver iodide flares

district. The work technically sanctioned (March 2000) by Chief Engineer, Minor Irrigation (North), Bijapur (CE), was awarded (October 2000) to a contractor at his tendered cost of Rs.1.04 crore for completion within 12 months from the date of handing over site. As of March 2007, only tank and appurtenant works had partly been completed incurring an expenditure of Rs.1.58 crore and construction of canal, channel sluice, *etc*., was yet to be taken up.

Scrutiny of records of Executive Engineer, Minor Irrigation Division, Kushtagi (EE) (December 2006) revealed that the work was awarded (October 2000) to a contractor without acquiring the land required for the work which was initially under-assessed (March 2000) at 28 acres 34 guntas and later enhanced to 77 acres 27 guntas. Out of this, 30 acres three guntas had been acquired and the remaining area was under various stages of acquisition. After taking possession of 14 acres 10 guntas of land on consent basis (January 2001), the EE handed over 5 acres 20 guntas to the contractor (November 2002) for construction of bund and waste weir. The contractor took up the work only in November 2003 after the Department obtained a geological report (March 2003) from the Mines and Geology Department. The contractor completed (August 2005) the construction of the earthen dam and its appurtenant works at a cost of Rs.1.21 crore. The work of constructing 1.38 km right bank canal was not taken up as the Department had not acquired 2 acres 30 guntas land required for it. As such, the canal work and other remaining works could not be taken up and water stored in the tank since July 2005 was not utilised for irrigation.

Thus, execution of the work without acquiring required land including that for construction of right bank canal resulted in expenditure of Rs.1.21 crore on construction of tank being rendered unfruitful.

The matter was reported to the Government in July 2007; reply had not been received (October 2007).

4.3.7 Avoidable extra expenditure

According technical sanction and awarding a work without finalising the location of the waste weir delayed the completion of the work besides leading to an extra expenditure of Rs.70.82 lakh on entrustment of left-out items of work at higher rates.

Executive Engineer, Minor Irrigation Division, Dharwad (EE), proposed (2000-01) construction of a tank near Muradi village for irrigating 1,165 acres land in drought prone areas of Gadag district after undertaking survey and investigation (1999-2000) at a cost of Rs.7.92 lakh. The project envisaged construction of earthen dam for a length of 990 metres and other appurtenant works like waste weir and right and left bank canals. Administrative approval (January 2002) and technical sanction (March 2002) to the work was accorded for Rs.2.40 crore (based on SR of 2000-01). The work was awarded

(December 2003) to a contractor at his lowest offered cost of Rs.1.23 crore[30] for completion by February 2006. The work on which an expenditure of Rs.2.34 crore was incurred had not been completed as of October 2007.

Scrutiny (December 2006) of records of the EE revealed that the estimate for the work was technically approved (March 2002) and put to tender (January 2002) without incorporating the changes as suggested (1999) by the Technical Appraisal Committee (TAC) to shift the bund location down the stream which increased bund length from 990 metres to 1,360 metres. Further, the approved estimate did not include quantities of work relating to construction of tail channel, cross drainages and right and left bank canals. This resulted in under-estimation of the tendered quantities by Rs.67.89 lakh[31]. The bund work was, however, taken up by the contractor at the new site handed over to him (February 2004). Subsequently, Chief Engineer ordered shifting the location of the waste weir of the bund on two occasions (June 2004 and November 2005) from left to right and again to left side of the bund. Thus, delay in selection of site for waste weir and exclusion of remaining components of the work necessitated revision in the cost of work to Rs.4.97 crore.

Meanwhile, the contractor after executing earthwork excavation and formation of bund at the new location down the stream, except for a length of 100 metres each on both sides of the bund and in its gorge portion, at a cost of Rs.97.88 lakh[32] stopped (March 2005) the work as he did not agree to execute the additional quantities and extra items of work at tendered rate and instead offered to execute them at a discount of one *per cent* of Current Schedule of Rates for the year 2004-05. Consequently, the Division took (February 2006) *ex-parte* final measurements of the work done by him and invited fresh tenders (June 2006) for the balance work of Rs.1.78 crore which included additional quantities (Rs.44.95 lakh) and extra items (Rs.22.94 lakh). The work was allotted (November 2006) to a construction company at a tendered cost of Rs.1.89 crore[33]. The second agency achieved a financial progress of Rs.1.53 crore (March 2007) and the remaining work was in progress (October 2007).

Thus, according technical sanction and awarding the work without finalising the location of waste weir delayed the completion of the work besides leading to an extra expenditure of Rs.70.82 lakh[34].

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

[30] At a tender discount of 45.04 *per cent* of SR 2000-01
[31] As per SR of 2004-05
[32] Payment made to contractor Rs.81.35 lakh
[33] At a tender premium of 5.85 *per cent* to SR of 2004-05
[34] Based on differences in tendered rates of first and second agency in respect of balance quantities

4.4 Idle investment/Idle establishment/Blockage of funds

COMMERCE & INDUSTRIES DEPARTMENT

4.4.1 Locking up of Government funds

Injudicious decision of the Karnataka Industrial Area Development Board to buy a land not suitable for setting up the Export Promotion Industrial Park at Mangalore and payment of project funds to an agency to commission a water supply scheme even before acquiring the land resulted in locking up of Government funds of Rs.5.42 crore.

The Karnataka Industrial Area Development Board (Board) took up (2001-02) the project of setting up an Export Promotion Industrial Park (EPIP) at Mangalore at an estimated cost of Rs.26.52 crore under the centrally sponsored EPIP scheme. The project envisaged creation of necessary infrastructure for the industries such as road and drains, water and power supply, telecommunication and other amenities. The project was to be funded out of the Central share of Rs.10 crore, State share of Rs.7.50 crore and the remaining was to be mobilised by the Board. Out of the approved Central/ State share, the Board received Rs.5.42 crore (Central share: Rs.two crore, State share: Rs.3.42 crore) during 2001-02. An expenditure of Rs.15.05 crore had been incurred (March 2007) on acquisition of land (Rs.10.65 crore) and infrastructure development works (Rs.4.40 crore). The project scheduled for completion in June 2007 was still in progress (March 2007).

Audit scrutiny (October 2006) of the records of the Board showed that the development works could not be taken up until December 2004 due to delay in acquisition of land. Although, the Board had initially identified (March 1997) 125 acres of land at Kulai, the same was abandoned (April 2002) as it was not considered appropriate. Another location at Ganjimutt village was considered too far from the city. The Board purchased (July 2003) 106 acres of land at Baikampadi out of the State share of Rs.3.42 crore and abandoned it in view of being marshy and uneven. It was finally decided to locate the project at Ganjimutt village and 202 acres of land were purchased (November 2004) at a cost of Rs.10.65 crore and the development works taken up.

The Board advanced (March 2004) Rs.two crore to the Karnataka Land Army Corporation (KLAC) even before the acquisition of land for commissioning an independent water supply scheme for the project. As the KLAC did not commence the works even after two years of receipt of the funds, the Board entrusted (April 2006) the work to another agency and demanded refund of money from KLAC. The KLAC was yet to refund Rs.two crore (May 2007).

Thus, injudicious action of the Board to buy land at Baikampadi out of the State's share of Rs.3.42 crore and pay Rs.two crore to the KLAC to commission the water supply scheme even before acquisition of the land resulted in locking up of project funds of Rs.5.42 crore.

The matter was reported to the Government in January 2007; reply had not been received (October 2007).

DEPARTMENT OF TOURISM

4.4.2 Locking up of Central assistance with the executing agency

Failure to make land for location of an eco-tourism and nature camp project available to the executing agency led to locking up of Rs.1.48 crore with the agency.

The Government of India sanctioned (December 2004) Rs.2.02 crore under the Scheme of Product and Infrastructure Destination Development for development of an eco-tourism and nature camp project at Lakkavalli in Chickmagalur district and released Rs.1.62 crore as the first instalment. The scheme comprised creation of facilities like construction of cottages and tented platforms (Rs.1.08 crore), improvement of habitat (Rs.35 lakh) and purchase of water sports, trekking and camping equipment (Rs.59.34 lakh). The scheme was to be implemented through a State Government Undertaking and completed in 24 months. The amount was released by the Commissioner for Tourism to the Agency in March 2005.

The site for location of facilities as per the project report was Lakkavalli, Bhadra in Tarikere Taluk. The title of fully developed piece of this land was to be transferred to the Government of India free of charge and the Project, on completion, was to be maintained by the State Government at its cost. The State Government was also required to forward to the Government of India quarterly detailed physical and financial progress reports of the project.

Audit scrutiny revealed (January 2007) that neither the land specified in the project report nor any other suitable land for location of the project was handed over to the executing Agency. Only Rs.13.78 lakh were spent on purchase of water sports equipment and the balance of Rs.1.48 crore remained unused with the Agency since March 2005 though the project was to be completed by March 2007 i.e. within 24 months. The Department had also not submitted progress reports to the Government of India.

Thus, release of funds by the Commissioner, Tourism without firming up suitable land for the project led to locking up of Rs.1.48 crore with the executing Agency and deprived the Government of the expected benefits of the infrastructure development.

The matter was reported to the Government in March 2007; reply had not been received (October 2007).

4.5 Regularity issues and other points

FINANCE DEPARTMENT

4.5.1 Excess Payment of Family Pension

Karnataka Government Servants (Family Pension) Rules, 1964 provide that when a Government servant dies while in service, his/her family is entitled to family pension at double the normal rate or 50 *per cent* of the pay last drawn by the deceased Government servant whichever is less, for a period of seven years from the date following the date of death or till the date on which the Government servant would have attained the age of sixty five years had he/she remained alive, whichever is earlier.

In 576 cases relating to 27 district treasuries, public sector banks made payment of family pension at enhanced rate beyond the period indicated in the Pension Payment Orders issued by the Accountant General (A&E) resulting in excess payment of Rs.1.41 crore (**Appendix-4.6).**

Despite being pointed out during earlier treasury inspections, banks continued to pay family pension at higher rate in 161 cases relating to 18 treasuries resulting in further excess payment of Rs.42.03 lakh (**Appendix-4.7**). The Government did not enforce the provisions of indemnity bonds executed by the public sector banks for the recovery of excess payment of family pension.

FOOD & CIVIL SUPPLIES DEPARTMENT

4.5.2 Inflated projection of demand and diversion of funds

Failure of the Government to ascertain the exact amount of bills pending settlement in the Food and Civil Supplies Department resulted in release of surplus funds and consequent diversion of Rs.1.67 crore.

The Commissioner, Food, Civil Supplies and Consumer Affairs, Bangalore requested (March 2005) the Government to release Rs.4.73 crore as supplementary grants to the Department for settlement of pending bills for the years 2003-04 (Rs.2.22 crore) and 2004-05 (Rs.2.51 crore) towards computerisation of yellow cards for issue to BPL families. Government released (March 2006) Rs.3.73 crore exclusively for settlement of pending bills with directions to utilise the said amount within three months. The Department utilised Rs.3.12 crore out of these funds up to March 2007 and Rs.61 lakh were lying in PD Account of the Commissioner (June 2007).

Records disclosed (January 2007) that the Department had only estimated the liability on account of pending bills (Rs.2.51 crore) for requisitioning the funds. The Government too, did not ensure that the bills were actually pending settlement as details of pending bills were neither furnished by the Department nor collected by the Government before releasing the funds. Out of the funds released by Government, the Department settled (April-June 2006) pending bills amounting to Rs.2.06 crore only. Instead of surrendering the savings of Rs.1.67 crore, the Commissioner spent Rs.35.87 lakh on purchasing laptop computers, office furniture and payment of advertisement charges and consultation fees and sought (July 2006) the sanction of Government to purchase 15 departmental vehicles (Mahindra Scorpios) for his own official use and his departmental officers. Although the existing vehicles were not certified by the RTO as condemned, State Government approved (March 2007) utilisation of Rs.74.50 lakh out of the savings, for purchase of 17 vehicles and directed the Commissioner to remit the balance lying in the PD Account. As against this, the Commissioner incurred an expenditure of Rs.70.41 lakh and purchased 15 Tata Sumo Vans (Rs.59.74 lakh), one Hyundai Verna Car (Rs.6.49 lakh) and one Ambassador Car (Rs.4.18 lakh). The balance (Rs.61 lakh) in the PD Account was yet to be remitted to Government (June 2007).

Government in their reply stated (August 2007) that Rs.2.51 crore was estimated by the Department on the basis of the tenders received for computerisation of yellow cards and the amount was reduced after submission of the bills by the contractors which resulted in savings. From the reply, it was evident that the Department had no bills pending at the time of requisitioning of funds. Thus, unjustified release of funds by the Government facilitated their diversion.

SOCIAL WELFARE DEPARTMENT

4.5.3 Irregular drawal of Government money

The Director of Scheduled Tribe Welfare drew funds from the treasury to avoid their lapsing at the end of the financial year and deposited Rs.12.81 crore in a bank in contravention of the prescribed rules and procedure.

Rule 17 of the Manual of Contingent Expenditure prescribes that no money shall be drawn from the treasury unless it is required for immediate disbursement and that drawal of money to prevent lapse of budget grants is irregular. Article 76 of the Karnataka Financial Code (KFC) further prohibits a Government servant to open an account with a private bank in his official capacity for the deposit of Government money. The Director drew Rs.107.52 crore during the period 2004-07 from the treasury by debit to major head of account 2225-Welfare of Schedule Caste and Scheduled Tribes & Other Backward Classes and 4225-Capital Outlay on Welfare of Schedule Caste, Schedule Tribes & Other Backward Classes for implementation of various welfare schemes. An expenditure of Rs.74.64 crore was incurred and balance of Rs.32.88 crore was lying in cash book in the form of uncashed cheques (Rs.22.61 crore), bank balance (Rs.10.27 crore) and the cash balance (Rs.2,190) as at the end of 31 March 2007. The uncashed cheques included 26 cheques (Rs.17.95 crore) drawn in favour of the Director, 10 cheques in favour of other Government Departments/PSUs (Rs.3.71 crore) and 16 cheques in favour of contractors such as consultants, suppliers, *etc.*, (Rs.0.95 crore). These cheques were charged off during the period April-November 2007.

Audit scrutiny (November 2006) of records of the Director, Scheduled Tribe Welfare for the period 2004-07 revealed the following:

- The Director opened (September 2006) a savings bank (SB) account in a nationalised bank as a sequel to repeated revalidation of the cheques/demand drafts at the Reserve Bank of India (RBI)/State Huzur Treasury and objections to such revalidations by the RBI. During the period September 2006 to March 2007, Rs.12.81 crore was deposited in the SB account in contravention of the KFC provisions and in violation of Government instructions issued in May 1997. The closing balance of Government money in the SB account was Rs.10.27 crore as at the end of March 2007.

- Following objections (November 2006) in local audit to the opening of the SB account, the Director transferred (June 2007) Rs.4.35 crore kept in SB account together with grants of Rs.9.57 crore to the Karnataka Residential Educational Institutes Society for execution of 17 works for which these grants were provided. An order was issued (May 2007) by Government to that effect without obtaining the concurrence of the Finance Department. The role of the Officers in drawing Government money in violation of financial rules and keeping it outside the Government account needs to be investigated expeditiously.

Government in their reply (October 2007) stated that the funds were drawn to avoid their lapsing as these were meant for the welfare of the scheduled caste and scheduled tribe community. The reply was not tenable as money was drawn and kept outside the Government account in violation of the finanacial rules besides exposing them to the risk of misuse.

4.6 GENERAL

4.6.1 Follow-up on Audit Reports

4.6.1.1 Action taken notes

The Hand Book of Instructions issued by the Finance Department in 2001 for speedy settlement of audit observations as also the Rules of Procedure (Internal Working), 1999 of the Public Accounts Committee provide for furnishing by all the departments of Government, detailed explanations in the form of Action Taken Notes (ATNs) to the observations featured in Audit Reports within four months of their being laid on the Table of Legislature to the Karnataka Legislature Secretariat with copies thereof to Audit Office.

The Audit Reports for the years 1995-96, 1996-97, 1997-98, 1998-99, 1999-2000, 2000-01, 2001-02, 2002-03, 2003-04 and 2004-05 were presented to the State Legislature on 27 March 1997, 14 May 1998, 1 July 1999, 3 May 2000, 24 July 2001, 22 March 2002, 28 March 2003, 21 July 2004, 18 July 2005 and 28 March 2006 respectively. Twenty-five Departments as detailed in **Appendix-4.8** had not submitted ATNs for 53 paragraphs, even as of September 2007. These included the following important irregularities, which were featured in the Audit Reports 1999-2000 to 2004-05, the delay being over 14 to 70 months:

Audit Report 1999-2000

Paragraph No.3.2: Fourth National Games - Youth Services and Sports Department

The State Government conducted the Fourth National Games during May-June 1997. Due to delay in providing budgetary support by it, major part of expenditure was met through overdrafts availed of from banks resulting in fruitless payment of interest of Rs.18.59 crore.

Audit Report 2000-01

Paragraph No.6.3: Extra contractual/excess payments and undue favours to a contractor - Commerce and Industries Department

The Chief Executive Officer and Executive Member/Chief Development Officer of the Karnataka Industrial Areas Development Board did not enforce the contractual provisions. This, compounded by departmental lapses, facilitated excess payments and undue favours aggregating Rs.17.97 crore to the contractor, causing huge financial loss to the Board.

Audit Report 2002-03

Paragraph No.4.1.8: Unauthorised works – Water Resources Department

The action of the Chief Engineer, Irrigation Central Zone, Munirabad to incur irregular expenditure on an irrigation canal led to an unwarranted financial burden of Rs.1.86 crore to Government.

Audit Report 2003-04

Paragraph No.4.4.8: Avoidable payment on acquisition of land – Water Resources Department

Inordinate delay in furnishing land acquisition proposals and the injudicious action of the Water Resources Department to pay interest on land compensation without taking possession of lands resulted in an avoidable expenditure of Rs.75.17 lakh and excess payment of interest of Rs.83.09 lakh.

Audit Report 2004-05

Paragraph No.4.2.1: Wasteful expenditure on preparation of Master Plan

The entrustment of the work of preparation of master plan for IT corridor without Legislative sanction coupled with delay in finalisation of master plan resulted in Rs.1.34 crore paid to the firm becoming wasteful.

4.6.1.2 Paragraphs to be discussed by the Public Accounts Committee

Comments on Appropriation Accounts featured in Audit Reports for the years 1989-90 and onwards are pending discussion by the Public Accounts Committee. Details of paragraphs (excluding General and Statistical) pending discussion as of June 2007 are detailed in **Appendix-4.9.**

4.6.2 Inspection Reports Outstanding

The Hand Book of Instructions for Speedy Settlement of Audit Observations issued by the Finance Department provides for prompt response by the Executive to the Inspection Reports (IRs) issued by the Accountant General (AG) to ensure rectificatory action in compliance of the prescribed rules and procedures and accountability for the deficiencies, lapses, *etc*. noticed during the inspection. The Heads of Offices and next higher authorities are required to comply with the observations contained in the IRs, rectify the defects and omissions promptly and report their compliance to the AG, who forwards a half yearly report of pending IRs to the Secretary of the Department to facilitate monitoring of the audit observations.

As of 30 September 2007, 1,514 IRs (6,142 paragraphs) were outstanding against Revenue, Home, Water Resources, Minor Irrigation and Public Works Departments. Year-wise details of IRs and paragraphs outstanding are detailed in **Appendix-4.10**.

A review of the IRs, which were pending due to non-receipt of replies, in respect of these five departments revealed that the Heads of Offices did not send even the initial replies in respect of 196 IRs containing 1,119 paragraphs, as detailed below:

Sl. No.	Department	Initial replies not received	
		Number of IRs	Number of paragraphs
1.	Revenue	89	197
2.	Home	32	128
3.	Water Resources	39	288
4.	Minor Irrigation	24	367
5.	Public Works	12	139
Total		**196**	**1,119**

It is recommended that Government may look into this matter and see that procedure exists for (a) action against the officials who failed to send replies to the IRs/paragraphs within the prescribed time schedule; (b) action to recover loss/overpayment in a time bound manner; and (c) strengthen the system for proper response to the audit observations in the departments.

4.6.3 Non-receipt of accounts

Annual consolidated accounts of stores and stock are required to be furnished by various Departments to the Accountant General by 15 June of the following year. Delays in receipt of stores and stock accounts have been commented upon in successive Audit Reports. The Public Accounts Committee (1978-80) in its First Report (Sixth Assembly) presented in February 1980 had also emphasised the importance of timely submission of accounts by the Departments. Nevertheless, the delays persist. The Departments from which the stores and stock accounts had not been received by Audit as of September 2007 are mentioned below:

Serial Number	Department	Year(s) for which accounts are due
1.	Agriculture - Director of Agriculture	2006-07
2.	Animal Husbandry & Veterinary Services - Commissioner of Animal Husbandry & Veterinary Services	2006-07
3.	Commerce and Industries - Director of Industries and Commerce	2006-07
4.	Health and Family Welfare -	
	(i) Director , Health and Family Welfare Services	2006-07
	(ii) Director of Medical Education	2006-07
	(iii) Joint Director of Government Medical Stores	2006-07
	(iv) Indian System of Medicine and Homoeopathy	2005-06 & 2006-07
5.	Home - Inspector General of Prisons	2006-07
6.	Information and Tourism - Director of Information and Publicity	2006-07
7.	Revenue (Registration) - Inspector General of Registration and Commissioner of Stamps	2001-02 to 2006-07
8.	Public Works, Water Resources and Minor Irrigation	1998-99 to 2006-07*

* Accounts due from:

(a)	One Division	- for 18 half yearly periods (1998-99, 1999-2000, 2000-01, 2001-02, 2002- 03, 2003-04, 2004-05, 2005-06 and 2006-07)
(b)	One Division	- for ten half yearly periods (2001-02, 2003-04, 2004-05, 2005-06 and 2006-07)
(c)	Two Divisions	- for seven half yearly periods (October 2003 to March 2004, 2004-05, 2005-06 and 2006-07)
(d)	Three Divisions	- for six half yearly periods (2004-05, 2005-06 and 2006-07)
(e)	Six Divisions	- for five half yearly periods (October 2004 to March 2005, 2005-06 and 2006-07)
(f)	16 Divisions	- for four half yearly periods (2005-06 and 2006-07)
(g)	22 Divisions	- for three half yearly periods (October 2005 to March 2006 and 2006-07)
(h)	20 Divisions	- for two half yearly periods (2006-07)