

CHAPTER V
INTERNAL CONTROL SYSTEM

EDUCATION DEPARTMENT

**5.1 Internal Control System in the Department of Education
(Schools)**

Highlights

Internal control mechanism in a Government department is meant to ensure that its activities are carried out according to the prescribed rules and regulations and in an economical, efficient and effective manner. Audit review of the functioning of the internal control mechanism during 2000-01 to 2004-05 in the Education Department (Schools) revealed deficient budgetary and expenditure control, poor cash management and poor operational controls.

No effective system was in place for monitoring of fresh appointments, promotions and transfers in the department resulting in fake appointments, and large scale transfer of teachers from Autonomous District Councils to Government schools without Government approval.
(Paragraph 5.1.20)

Poor cash management and ineffective controls relating to recording/ accounting of cash transactions in the cashbook left scope for frauds and misappropriation of Government funds.
(Paragraph 5.1.13)

Inadequate control over sanction of advance/withdrawals led to fraudulent drawal of Rs.38.07 lakh from General Provident Fund.
(Paragraph 5.1.8)

Controls relating to procurement and proper accounting of stores were not enforced. Procurement of stores of Rs.7.43 crore could not be vouched for in the absence of stock accounts and proof of procurement. Periodical physical verification of stores had never been carried out.
(Paragraphs 5.1.22 & 5.1.23)

Rush of expenditure at the end of the financial year led to defective vouching procedures and non-observance of prescribed formalities. Rs.22.50 crore drawn on Abstract Contingent bills was deposited under the Head 8449- Other Deposits to avoid lapse of grant and Rs.30.94 lakh was drawn on fully vouched contingent bills by recording false certificate regarding receipt of stores.
(Paragraphs 5.1.5 & 5.1.21)

Medical advances of Rs.1.03 crore drawn by 164 employees during December 1998 to March 2005 remained unadjusted due to ineffective internal control and monitoring by Zonal Education Officers and the Director of Education (S).

(Paragraph 5.1.10)

Introduction

5.1.1 Internal control is a management tool used to provide reasonable assurance that the management objectives are achieved. Therefore, responsibility for the adequacy and effectiveness of the internal control structure rests with the management.

An internal control structure may be defined as the plan of an organisation including management attitude, methods, procedures and other measures that provide reasonable assurance that objectives of the department are achieved.

Organisational structure

5.1.2 The Commissioner, Education (Schools) exercises overall administrative control over the Department of Education (Schools) from the Primary level to the Higher Secondary level in the State. The management of the internal control system and supervision of the Department of Education (Schools) lies with the Director of Education (Schools) (DE(S)). For smooth and efficient administration and financial management the DE(S) is assisted by two Additional Directors, Joint Directors and other subordinate officers and staff at the directorate level and by 13 Zonal Educational Officers (ZEOs) with the assistance of Deputy Inspector of Schools, Assistant Inspectors and subordinate staff at the district/zonal level.

Internal Control Standard

5.1.3 The department follows norms and procedures prescribed in the Manipur Education Code 1982. Besides, they are also to follow Delegation of Financial Power Rules 1995, General Financial Rules (GFRs), Central Treasury Rules and instructions issued by the Finance Department. These rules, manuals and executive orders together constitute the internal controls of the department.

Audit Coverage

5.1.4 To review the Internal Control System of the department, records of the Directorate of Education(S) and five¹ out of thirteen Zonal Education Offices for the period from 2000-01 to 2004-05 were test-checked during April–June 2005. The deficiencies noticed in the Internal Control System are discussed below.

¹ ZEO/Kakching, Churachandpur, Bishnupur, Kangpokpi and Thoubal

Budgetary Control

5.1.5 All Drawing and Disbursing Officers (DDOs) under the department are the estimating authorities for their Zones/Offices and are required to submit budget estimates to the DE (S). After due scrutiny, the proposed estimates are forwarded to the administrative department for onward transmission to the Finance Department. The DE (S) is required to exercise budgetary control to ensure that no expenditure is incurred in excess of the total grant. If any excess is found necessary supplementary grant or appropriation or an advance from the contingency fund should be obtained. The following deficiencies were noticed in enforcement of budgetary controls:

- Test-check of records of the department revealed that there were savings totalling Rs.103.32 crore under Revenue and Rs.2 crore under Capital heads during the period 2000-01 to 2004-05. The savings were not surrendered before the end of the financial year. The department stated (October 2005) that savings were due to non-release of funds by the State Finance Department and also release of certain funds at the end of the year which could not be encashed for want of formalities. As a result, the implementation of departmental programmes and activities especially the Sarva Shiksha Abhiyan (SSA) suffered and programme objectives were not achieved.
- According to provisions of GFRs, no expenditure should be incurred without provision of funds. It was noticed in audit that during 2002-04 expenditure of Rs.5.14 crore was incurred without provision.
- Only 152 DDOs out of the existing 204, submitted proposals for requirements for Revised Estimates 2004-05 and Budget Estimates for 2005-06. The Director of Education (Schools), therefore, included the requirements of the others in the annual budget estimates on *ad hoc* basis.
- An amount of Rs.30 crore was withdrawn in March, 2005 through Abstract contingent (AC) bills for upgradation of physical infrastructure of 15 High/Higher Secondary schools (Rs.25.68 crore) and purchase of library books, scientific equipment, computer, generating set *etc.* (Rs.4.32 crore). Of this, an amount of Rs.22.50 crore was deposited during the same month under the Head 8449-Other Deposits and remained unutilised (June 2005).

Hence, internal controls relating to preparation of budget estimates, surrender of savings and drawal of moneys were not enforced.

Expenditure Control and Financial Reporting

5.1.6 A bill for Rs.88 lakh duly passed by the DDO (Joint Director of Education (S)) in March, 2005 and also passed by the Lamphel Treasury, Imphal could not be encashed as it was submitted in the form of a fully vouched contingent bill without any supporting sub-vouchers *etc.* The passed

bill had been seized by the Vigilance Department before encashment, to investigate the circumstances under which the irregular bill was passed by the DDO and the treasury.

Further, 51 contingent bills for a total amount of Rs.4.95 crore passed by the DDO of the directorate *viz.* Joint Director of Education (S) on the last two days of March 2005, could not be encashed as the bills were not passed by the treasury. The reasons for the treasury not passing the bills were not on record.

5.1.7 The department has a two tier system of expenditure control, one at the level of DDOs and the overall control at the level of the Director.

Statement of monthly expenditure is to be sent by the Head of Offices/DDOs to the Director who shall in turn submit the consolidated expenditure figures to the administrative department in terms of provisions of GFRs.

Test-check of records, however, revealed that the prescribed forms to show expenses against the heads of accounts, to watch receipt of the prescribed returns etc. were neither maintained in the Directorate nor in the offices of the selected DDOs. Prescribed returns were also not submitted by the DDOs regularly. Out of 204 DDOs, expenditure statements were submitted by 31 only (March 2005). Further, the returns in form GFR-12 required to be submitted by the Director to the administrative department by the 15th of the following month had not been submitted during 2000-01 to 2004-05.

5.1.8 Inadequate internal control over sanction of advance/withdrawal from General Provident Fund resulted in fraudulent withdrawals from the fund as discussed below:

Records in Sr. Dy. Accountant General (A&E)'s office revealed that during the years 2002-03 and 2003-04, thirty-seven employees under the Directorate of Education (Schools) had drawn Rs.29.35 lakh² from their General Provident Fund, much in excess of their balances in the fund (2002-03: Rs.3.23 lakh and 2003-04: Rs.26.12 lakh) which resulted in minus balance of Rs.8.14 lakh in their accounts. Thus, the DDOs did not exercise adequate checks while sanctioning advance/withdrawal to employees.

During 2004-05, there were fraudulent withdrawals from the General Provident Fund (GPF) in which Rs.29.93 lakh had been withdrawn in the Thoubal district alone (ZEO, Thoubal: Rs.14.30 lakh, DI, Lilong: Rs.15.63 lakh). The concerned ZEO and DI did not keep any record of such withdrawals in their offices. Audit scrutiny revealed that the amounts drawn were not shown in the cashbook, bill register, acquittance rolls *etc.* wherein these withdrawals should have been recorded. Audit detected these from the "Treasury Payment Schedules" obtained from Thoubal treasury.

² Imphal East: Rs.0.41 lakh; Imphal West: Rs.12.59 lakh; Thoubal: Rs.10.95 lakh; Bishnupur: Rs.0.50 lakh; Churachandpur: Rs.1.41 lakh; Chandel: Rs.1.19 lakh; & Tamenglong: Rs.2.30 lakh.

The possibility of similar fraudulent drawals from GPF in other ZEOs/DIs/districts cannot be ruled out. The Government/department should institute an effective mechanism to check and stop such fraudulent drawals by strengthening the internal audit unit of the department and taking other necessary steps including regular inspection of schools, proper accounts and record keeping, and timely reconciliation of accounts with the Accountant General on monthly basis.

Non-submission of Detailed Countersigned Contingent (DCC) bills

5.1.9 During 2000-01 to 2004-05, forty four Abstract Contingent (AC) bills for a total amount of Rs.73.97 crore had been drawn. But necessary DCC bills in respect of the above AC bills have not been submitted (June 2005). Due to non-submission of DCC bills, actual utilisation of Rs.73.97 crore for the purpose for which it was sanctioned could not be ascertained.

The Director stated (June, 2005) that DCC bills could not be prepared due to non-submission of detailed accounts, vouchers, APRs, completion reports of works, utilisation certificates *etc.*, by work agencies/suppliers/Zonal Officers/Headmasters of schools.

Non-adjustment of medical advances

5.1.10 Medical Attendance Rules lay down that final bills in adjustment of medical advances should be submitted by the Government servant within one month of discharge of the patient from the hospital. Examination of records of the directorate however, revealed that a total amount of Rs.1.03 crore of medical advances drawn by 164 employees from December 1998 to March 2005 remained unadjusted (October 2005).

Possibility of large amounts of medical advances remaining unadjusted for long periods in other departments cannot be ruled out. The Government should issue instructions to all departments including Department of Education (Schools) to recover unadjusted medical advances from the salaries of the employees concerned who have failed to submit their medical bills for years together against the advances taken by them in past.

Cashbook and related controls

5.1.11 Central Treasury Rules prescribe that no money should be drawn from the Government account unless required for immediate disbursement (Rule 290). But the Director of Education (Schools) withdrew large sums of money without any need of immediate disbursement. As a result, huge amounts were held in the cash balance by the directorate. Test-check by Audit revealed that DE(S) was holding cash balances of Rs.3.65 crore, Rs.3.10 crore and Rs.4.28 crore at the end of November 2004, December 2004 and January 2005 respectively.

5.1.12 Test-check of records of DE(S) revealed that a total amount of Rs.1.47 lakh was robbed by unknown persons (Rs.67,670.60 on 31.7.1980 and Rs.79,644.00 on 16.3.1981) and the physical cash balance was, therefore, reduced to that extent. The amount though not physically available was shown included in the total cash balance worked out in the cashbook (June 2005).

5.1.13 Central Treasury Rules (Rule 77 A) stipulate that all monetary transactions should be entered in the cashbook as soon as they occur and attested by the Head of Office in token of check. Test-check by Audit, however, disclosed that DE(S) did not enter into the cashbook a total amount of Rs.93.43 lakh paid to 58 schools from October 2002 to March 2003. This was taken into the cashbook only when the omission was pointed out in audit during August 2003. The matter needs investigation.

In other two cases, two DDOs (Commandant, NCC Group Headquarters, Imphal and Zonal Education Officer, Senapati) did not enter into their cashbooks up to March 2005, Rs.55.18 lakh³ advanced by the directorate for construction of school buildings and meeting expenditure on mid-day meals.

Thus, controls relating to cashbook and cash accounting were not strictly adhered to which may result in frauds and misappropriation of Government funds. The Internal Audit Unit² of the department also did not point out these irregularities.

This indicated that the Heads of Offices in the above cases failed in their responsibilities to exercise relevant checks as prescribed under Rule 77 A of Central Treasury Rules.

5.1.14 The Cashier of the directorate was changed in May 2005. He handed over less cash balance of Rs.12.11 lakh to the new cashier on 16 May 2005. The Director stated that the said amount had been utilised for miscellaneous office expenses including payment of legal fees. However, the relevant vouchers/actual payees' receipts in support of the expenditure of Rs.12.11 lakh were not available with the directorate.

Thus, internal controls relating to cashbook and related accounting were not enforced leaving ample scope for fraud and misappropriation of Government money.

Reconciliation

5.1.15 Under the provisions of GFRs (Rule 66 (2) (VIII)), the Head of Department is responsible for reconciliation of the expenditure figures with the Accountant General every month in order to ensure that the departmental

³ Rs.29,69,252 received by Commandant, NCC Group Headquarters, Imphal during April 2002 and Rs.25,49,054 received by Zonal Educational Officer, Senapati during June 2004, November 2004, January 2005 and February 2005.

² Internal Audit Unit was headed by one Internal Audit Officer assisted by 11 supporting staff.

accounts are accurate. However, no monthly reconciliation had been carried out by DE(S) for the period 2000-01 to 2004-05.

Bill Register

5.1.16 Bill register maintained in the directorate and District/Zonal offices is an important control for watching drawal of funds from the treasuries. After a bill is passed by the treasury and encashed by the DDO from the bank, necessary entry is required to be made in the bill register to facilitate verification of bills actually drawn from the treasuries. Test-check in audit disclosed that the bill registers were not maintained properly and requisite entries had not been recorded therein making verification of drawals difficult.

The Department should issue instructions to all the drawing and disbursing officers to maintain bill registers properly with requisite entries as per rules to avoid possibilities of frauds, misappropriation of funds and grant of favours to specific contractors and other private parties in release of payments.

Non-maintenance of Register of inspection reports

5.1.17 Register for watching disposal of audit objections was not maintained by the Directorate and the District/Zonal offices.

Periodical inspection by departmental officers

5.1.18 Periodical inspections envisaged in the Manipur Education Code 1982 and required to be conducted by the DE(S) and his subordinate officers at the zonal/district level offices and schools under their jurisdictions had not been carried out in respect of all units. The number of inspections done at some other units were negligible.

Internal audit

5.1.19 Internal audit unit of the Department of Education (S) consisted of one Internal Audit Officer and 11 supporting staff. Against the sanctioned posts of four Accountants, three remained vacant as of June 2005. The department has also not drawn up any 'Internal Audit Manual' as per their reply received in October 2005.

There were 2,306 units (Government Schools: 1689, Aided Schools: 604, Zonal and District offices: 13) auditable by the internal audit unit. Test-check of records revealed that the internal audit could cover 260 units (*i.e.* 11 *per cent*) only during the period from 1996-97 to 1999-2000 and 19 units (*i.e.* 0.8 *per cent*) of the total auditee units during 2000-01 to 2004-05. The Director stated (June, 2005) that due to shortage of staff and non-allotment of funds for travel expenses, internal audit inspections could not be carried out during 2000-01 to 2004-05. Thus, unsatisfactory internal audit arrangements in the department led to most of the schools and other units remaining uninspected

for the last several years making the internal control system weak and ineffective.

Lack of control in appointment and transfers

5.1.20 In the Department of Education (S), no gradation/seniority list had been maintained (June, 2005). There was no system of reporting fresh appointments to the Head of Department/Government. Government also failed to install proper internal controls for monitoring fresh appointments, and transfers and postings in the department. This made Education(S) Department prone to fake appointments as discussed below:

- 151 fake appointments of teachers were reported by the Commissioner of Education (Schools) to DE(S) during January and February 1999. The department stated (October 2005) that the matter was under investigation.
- As per the information furnished by the ZEO, Churachandpur to the DE (S), 12 teachers were working on the basis of possible fake appointment orders in that district.
- The Government by an order dated 21 May, 2005 accorded sanction granting extension to 9,137 temporary posts of the department for the period from March 1, 2005 to February 28, 2006. The actual number of sanctioned posts vis-à-vis men-in-position could not be provided by the department. Absence of such basic information made detection of fake appointments more difficult.
- Test-check of records in Zonal Education Offices (Zone I to IV) revealed that 55 teachers of schools owned or controlled by the Autonomous District Councils (ADC) were transferred to the State Government schools and were working in their respective Government schools as of June 2005. The department incurred a minimum expenditure of Rs.43.68 lakh per year on payment of salaries to such teachers. There were no specific Government orders or terms and conditions of deputation under which such teachers were transferred to Government schools. Examination in audit disclosed that the orders for transfer of these teachers from ADC schools to Government schools were issued by the Director of Education (S). The Director of Education (S) stated (October 2005) that these teachers were transferred from ADCs to Government schools under the orders of the Government but he could not make Government orders available in support of his reply. The Government also did not furnish any reply to the audit paragraph/comment. The Director also stated that the ADC teachers were not treated as “on deputation” in Government schools. This indicates that DE(S) neither took Government approval nor followed any rules in transferring teachers from ADC schools to Government schools.

The Director of Education (S) also stated that ADC teachers were transferred to Government schools as there were vacancies in Government schools due to ban on recruitment imposed by the Government. The reply of the Director is not acceptable as Audit examination of progress reports submitted under Sarva Shiksha Abhiyan (SSA) disclosed that there were excess teachers in the State with pupil–teacher ratio being as high as 1:24 against the norm of 1:40 prescribed under SSA. Test-check by audit in 42 schools of three selected districts (Imphal East, Imphal West and Churachandpur) indicated a teacher–pupil ratio of 1:12 at the end of March 2005. Hence, the transfer of ADC teachers to Government schools was wholly unnecessary and irregular.

Large scale fake appointments and transfer of teachers from Autonomous Hill District Councils to Government schools without Government approval indicated lack of monitoring and enforcement of internal controls by the Government and the Director. There is a need to strengthen the internal control mechanism immediately by:

- Preparing correct database of sanctioned posts, men-in-position and seniority list in respect of each cadre and office/school under the department.
- Instituting a system of monthly reports/returns to be submitted to the Government by each school/Head of office on fresh appointments and transfers.

Store accounts

5.1.21 In March, 2005, a sum of Rs.30.94 lakh was drawn on fully vouched contingent bill (TR-30) by the directorate for procurement of map, chart, chalk, duster *etc.* on the basis of four proforma bills submitted by one firm. The amount drawn was not spent immediately and audit checks disclosed that the whole amount remained credited to the DDO's account in the Bank as of June 2005. The certificate of stock receipt was falsely recorded by the dealing assistant on the body of the firm's proforma bills dated 15 April 2004 to enable the DDO to draw the bill in March 2005. The stock register could not be produced and therefore, actual receipt of goods could not be verified in audit. Government should investigate all cases of retention of funds outside Government accounts in violation of financial rules as such irregular practices may result in serious frauds and misappropriation of Government funds.

Further, Districts/Zonal Education Officers/DDOs did not furnish their requirement of stores in advance and purchases were resorted to by the Director as per availability of funds without reference to actual requirements. Hence, the system of proper assessment of requirement of stores in the department was non-existent.

5.1.22 During March 2004 a total amount of Rs.1.25 crore was drawn by the directorate for purchase of computers for 25 schools. The whole amount was paid to one firm in September 2004 and February 2005 but relevant records

pertaining to procurement of computers including stock register and details of schools where these computers had been installed could not be made available to Audit (June 2005). In the absence of these documents, the genuineness of expenditure on purchase and installation of computers could not be ascertained.

The Government should investigate all cases of non-maintenance of prescribed records in respect of major procurements to ensure that procurements were made as per rules and there were no instances of fake procurements causing loss to the Government.

5.1.23 During 2000-01 to 2004-05, the DE (S) purchased furniture worth Rs.1.33 crore, chalks and dusters worth Rs.0.53 crore and library books and equipment costing Rs.4.32 crore.

- While procuring the above stores, no tenders were invited by the department. Purchases were made at the approved rates of 1996-97. No stock registers for the items purchased had been maintained.
- No proper stock registers were maintained at all in the zonal education offices and schools inspected by Audit. Periodical physical verification of stores required to be conducted at least once a year under the provision of GFRs had never been carried out. DE(S) confirmed (June 2005) that records of physical verification of stores were not maintained.

Monitoring and evaluation of programmes and schemes

5.1.24 The department had incurred a total expenditure of Rs.58.43 crore during the five years (2000-05) on various works under Sarva Shiksha Abhiyan, Pradhan Mantri Gramodaya Yojana, 10th and 11th Finance Commission Awards and Non-lapsable Central Pool of Resources.

Physical and financial targets and achievements in respect of the above schemes were not submitted regularly by the implementing agencies/units. The controls for monitoring expenditure and physical progress of works executed under the schemes were rendered ineffective. This adversely affected implementation of important programmes and schemes including Sarva Shiksha Abhiyan.

Test-check of records revealed that DE (S) and other authorised Officers did not conduct physical inspections of works executed in the department. Hence internal controls for ensuring quality in execution and timely completion of works were not ensured.

Conclusion

5.1.25 The Internal Control System in the department was not effectively enforced. There is a serious problem in the department regarding maintenance of prescribed records of appointments, promotions, procurements, stock

keeping and programme implementation. Rules and procedures are not strictly adhered to and monitoring of day to day administrative activities like appointments, promotions, transfers *etc.* and implementation of various programmes is non-existent. This has resulted in many fake appointments, serious frauds, irregular drawal of funds and gross financial indiscipline in every sphere of activity of the department. Rules and procedures for cashbook maintenance were not enforced resulting in misappropriation of cash due to non-recording of cash transactions in the cashbooks. DDOs were keeping Government funds outside Government accounts in violation of financial rules. Medical advances of crore of rupees were not adjusted for years. Stores were purchased without tendering and without adhering to financial rules. Internal audit and periodical inspection by departmental officers were not carried out as required and budgetary and financial controls were ineffective.

Due to ineffectiveness of the Internal Control System, the departmental policies, programmes, plans and activities suffered resulting in non-fulfilment of the basic objectives of the department and depriving children of the State of the intended benefits of the various educational schemes and programmes.

Recommendations

- A computerised system of monitoring of fresh appointments, promotions and transfers in schools should be introduced immediately.
- The periodicity of inspections of schools by the departmental officers should be increased and internal audit mechanism strengthened to cover all the schools within a fixed time period.
- Strict expenditure control measures should be put in place to check fraudulent drawals and stop the practice of drawal of money on AC bills to avoid lapse of grant.
- Rules relating to cashbook maintenance should be strictly enforced and prescribed records against procurement *etc.* should be maintained.