

SECTION-A-REVIEWS

PUBLIC HEALTH ENGINEERING DEPARTMENT

5.5 Management of Stores and Stock

Highlights

A review on “Management of Stores and Stock” revealed that there is no methodical purchase of store materials based on actual requirement. Materials were lying idle in stock and site accounts of the scheme. Maintenance of records for procurement and distribution of materials was far from satisfactory. Blatant violation of codal procedures facilitated short or even non-supply of materials by suppliers.

Stores worth Rs. 682.11 lakh meant for Plan work were diverted for running and maintenance works under non-Plan between August 1998 to March 2002.

(Paragraph 5.5.11)

Advance payment of Rs.191.15 lakh made to local suppliers between March 1997 and January 1999 remained unadjusted to the extent of Rs.109.82 lakh which led to loss of interest of Rs.50.80 lakh.

(Paragraphs 5.5.12 to 5.5.15)

There was short delivery of materials worth Rs.32.10 lakh to Wokha Division against the demand draft for Rs.142.38 lakh resulting in locking up of Government funds.

(Paragraph 5.5.26)

Stores worth Rs.1049.28 lakh were lying idle since 1997-98 in 4 divisions. Further, unserviceable stores worth Rs.502.57 lakh were lying in 4 divisions till March 2002.

(Paragraphs 5.5.34 to 5.5.36)

Introduction

5.5.1 The Chief Engineer (CE), Public Health Engineering Department (PHED) under the administrative control of the Secretary, PHED procures materials centrally for execution and maintenance of water supply schemes through two central store procurement divisions located at Dimapur and Kohima for subsequent distribution of stores.

Organisational set up

5.5.2 The Secretary, PHED in the administrative head of the department and the CE PHED, Nagaland is in charge of procurement and distribution (allotment) of stores and stock for all divisions in Nagaland. As of March 2002, the department had 10 divisions under the supervision of three Superintending Engineers (SEs) of three circles stationed at Mokokchung and Kohima. The general administration of the divisional stores in regard to custody, distribution and utilisation of stores vests with the Divisional Officers, assisted by the Sub-Divisional Officers (SDOs), divisional accounts officer and store keeper.

Audit Coverage

5.5.3 Stores and Stock accounts of 5¹ PHE divisions out of 10 working divisions and records of the CE, PHED pertaining to the period from 1997-98 to 2001-02 were test-checked in audit between March and July 2002 to assess the efficiency of stores management. The result of test-check are highlighted in the succeeding paragraphs.

Inter-Divisional transfer of stores

Cash Settlement Suspense Accounts (CSSA)

5.5.4 As per codal provision, all inter-divisional transfer of stores should be routed through the minor head "CSSA" subordinate to Major Head 8658 - Suspense Accounts in the Public Account of the Government, but the department by an order of the Government (Finance Department) of 1988 dispensed with the operation of CSSA for inter-divisional transfer of stores and instead started operating "Miscellaneous Public Works Advance" (MPWA) for the purpose under service major head.

5.5.5 As of March 2002, stores valuing Rs.708.57 lakh issued from stock during 1983-1999 by debiting CSSA remained unadjusted in the accounts of 3 out of 5 divisions test-checked due to non-receipt of payment from the responding divisions. In the remaining 2 divisions (Peren and Mon), the closing balance under CSSA were not available.

¹ Kohima, Dimapur Store, Peren, Mon, Zunheboto.

5.5.6 The Government stated (October 2002) that finding no other alternative, the cost of materials issued from store division had been debited to CSSA by contra credit to stock.

5.5.7 The reply is not tenable as debiting cost of materials to CSSA violated the order of Finance Department and the CSSA should have been cleared by insisting payment by the indenting divisions.

Procurement of Stores

Defective budgeting and accounting procedure

5.5.8 The Government made budget provisions for Plan schemes to cover the cost of materials, labour and departmental charges etc. It however, did not make any budget provisions for stock suspense to ensure availability of funds for timely procurement of stores and completion of repair and maintenance work under non-Plan. However, as per instructions in the budget document, all debit to stock suspense during the year should be cleared by contra minus debit and all materials purchased should be utilised against work during the year making the net debit to suspense 'nil'. Consequently, the department resorted to the practice of procuring stores by debiting stock suspense as and when funds were released by the Government for Plan schemes. The instructions in budget documents were also defective in as much as it allowed the department to procure stores by debiting suspense head even though such materials were to be procured out of Plan works budget provision (both revenue and capital) by debiting the concerned works/schemes.

5.5.9 Test check of 5 divisions revealed that though the divisions utilised Plan/non-Plan funds meant for procurement of materials against on-going works (being material component), they finally debited the amount to suspense head 'Stock' as shown below:-

Table No. 5.2 *(Rupees in lakh)*

Sl. No.	Name of the Division	Year					Total
		1997-98	1998-99	1999-00	2000-01	2001-02	
1.	Kohima	441.74	520.92	410.19	198.46	989.13	2560.44
2.	Dimapur Store	626.80	500.93	621.17	693.75	944.72	3387.37
3.	Peren	31.29	8.74	1.17	76.07	201.34	318.61
4.	Mon	73.15	9.62	29.23	70.87	270.36	453.23
5.	Zunheboto	78.70	1.57	38.41	116.26	208.61	443.55
	Total	1251.68	1041.78	1100.17	1155.41	2614.66	7163.20

Source:-Departmental figure

5.5.10 Thus, due to adoption of incorrect accounting procedure Rs.7163.20 lakh was debited to suspense head 'Stock' by the aforementioned 5 divisions during the period 1997-98 to 2001-2002 instead of booking the expenditure to the final head of account of the concerned work/scheme.

5.5.11 Scrutiny of monthly account and stock issue register maintained by Kohima and Mon Divisions revealed that materials valued Rs.682.11 lakh (Kohima Division-Rs.663.40 lakh, Mon Division-Rs.18.71 lakh) procured out of Plan fund (State/Centrally sponsored scheme) allotted by the Government between August 1998 to March 2002 were utilised for running and

maintenance (RM) work. Thus, utilisation of Plan funds on operation and maintenance of the scheme was irregular and amounted to diversion of fund to the tune of Rs.682.11 lakh.

Undue financial aid to supplier

5.5.12 Though the codal provision did not provide for advance payment to local suppliers for procurement of materials, the Executive Engineers of 2 store divisions (Dimapur and Kohima) paid Rs.191.15 lakh to 7 local suppliers (between March 1997 and January 1999) as advance in contravention of the codal provisions.

5.5.13 Scrutiny of the records revealed that against the advance payment of Rs.191.15 lakh, materials worth Rs.81.33 lakh only had been received (July 2002) leaving unadjusted advance of Rs.109.82 lakh.

5.5.14 Thus, injudicious payment of advance resulted in undue financial aid of Rs.191.15 lakh to the suppliers, apart from a loss of interest of Rs.50.80 lakh (calculated at Government borrowing rate) on the unadjusted advance of Rs.109.82 lakh as detailed in *Appendices – XXVI & XXVII*.

5.5.15 The Government stated (October 2002) that the department has since stopped advance payment and legal action is being initiated for recovery of balance.

Payment of additional charges - Extra expenditure

5.5.16 As per terms and condition of the supply order, the department was not required to pay carriage charges from factory to Dimapur or Kohima in addition to the rates given in the supply orders, if the rate quoted was FOR destination. On these accounts, 2 store divisions had paid (between January 2001 to August 2001) Rs.21.48 lakh, as carriage charges in respect of 5 (five) supply bills finalised on receipt of materials from the supplier. Thus, payment of carriage charges of Rs.21.48 lakh was irregular and resulted in extra expenditure to the department.

5.5.17 The Government stated (October 2002) that the payment was made as per terms of supply order. The reply is not tenable as the rates quoted in the supply orders was FOR destination.

Short receipt of store

5.5.18 Rule 106 of the General Financial Rules provide that all materials received, shall be examined and measured when delivery is taken by a responsible officer who shall record a certificate to the effect that he has actually received the materials in full and in good condition and recorded them in appropriate register/accounts.

5.5.19 It was noticed in audit that Executive Engineer, Kohima Division paid Rs.66.03 lakh during the period from March 1996 to May 1998 being the cost

of 40,000 metres GI pipe of different specification which were supplied by Firm 'A' against the supply order dated 29 February 1996 for the year 1995-96. According to certificates recorded on the supply bill and measurement book (MB), the materials were received in full and taken into stock account of December 1996 and March Part - I/1997.

5.5.20 Test check of Monthly Stock Receipt Register alongwith stock account revealed that against the payment of Rs.66.03 lakh, materials worth Rs.30.34 lakh only had been accounted for in March Part II/1997 instead of December 1996 and March Part I/1997. Receipt of remaining materials worth Rs.35.69 lakh could not be proved.

5.5.21 The Government stated (October 2002) that the materials were accounted for in the March Part.II/1997 stock account. But the materials worth Rs.35.69 lakh could not be traced in March Part-II Account in audit.

5.5.22 Thus, the expenditure of Rs.35.69 lakh on procurement of store proved to be doubtful.

Non-accountal of store

5.5.23 Cross verification of stock issue statement of Kohima Division with stock receipt statement of Zunheboto Division revealed that 7867.40 metres of GI pipe of different specification (15 mm dia, 20 mm dia, 32 mm dia, 40 mm dia, and 50 mm dia) issued by the Kohima Division during 1998-99 and 2001-02 valuing Rs.7.68 lakh (at the issue rate of Kohima Division) had not been accounted for in the stock account of Zunheboto Division. Non-accountal of stores needs investigation.

5.5.24 In Mon Division, fitting materials worth Rs.4.86 lakh procured between December 1996 and August 1998 had not been accounted for in Material-at-Site Accounts. Though, as per certificate recorded on the bill and measurement book (MB) the materials were taken to site accounts of Longshen EAC Headquarter water supply scheme, the Executive Engineer could not produce any other records to show the utilisation of the materials.

5.5.25 The Government stated (October 2002) that due to non receipt of material the work could not be started. The reply is not relevant to the objection and not acceptable.

Short delivery of materials by the Store Division

5.5.26 Scrutiny of record revealed that the Executive Engineer, Wokha Division, deposited through demand draft (for material component) Rs.142.38 lakh (Rs.70.00 lakh during December 1997 and Rs.72.38 lakh during March 1998) to Kohima Division for issue of GI pipe of different diameters during 1997-98. Out of this amount, GI pipe valuing Rs.107.20 lakh had been delivered during 1997-98 and 1998-99 leaving a balance material (GI pipe) worth Rs.32.10 lakh undelivered by the Kohima Division (July 2002).

5.5.27 Despite directives from the Chief Engineer and reminders by Wokha Division, the Kohima Division did not initiate any action to deliver balance quantity of materials which resulted in locking up of scarce Government funds for a period over 4 years unjustifiably.

5.5.28 The Government stated (October 2002) that the balance quantity was issued in March 2000. The reply is not tenable as audit scrutiny (July 2002) revealed that materials worth Rs.32.10 lakh remained undelivered.

Material Management

Non-maintenance of Bin Cards and Priced Store Ledgers

5.5.29 The department had not introduced the system of maintaining Bin Cards and Priced Store Ledgers (PSL) by the sub-divisions and divisions. The sub-divisions, however, only prepared and submitted material received (Goods Receipt Sheet) and issue and disposal account to the divisional officer.

5.5.30 Test check of 5² divisions revealed that none of the divisions/sub-divisions maintained bin cards and PSLs. As a result, the department was unable to determine class-wise quantity and value of stores held at any point of time, particularly when assessing future requirements and issuing supply order for fresh procurement.

5.5.31 The Government admitted (October 2002) non maintenance of bin cards and PSLs.

Defective physical verification

5.5.32 As per codal provision, Sub-Divisional Officer (SDO) should verify the stores in full once in a year i.e. on September each year and report the results of such verification to the divisional officer. The divisions test-checked had recorded annual stock taking and physical verification certificates upto September 2001. The physical verification reports in all cases remained silent about shortage/pilferage (if any), and unserviceable/obsolete stores. These provisions also apply mutatis-mutandis in respect of tools and plant (T&P) returns. In absence of the same, the actual inventory level as well as discrepancy, if any, between the book balance and actual physical balance could not be vouchsafed in audit.

5.5.33 The fact was admitted by the Government (October 2002).

Unserviceable Store

5.5.34 During test-check of the records of 5 divisions, it was noticed that many items of store viz. valves, GI socket, bend etc. had deteriorated due to their prolonged storage and thus became unserviceable. It was, however, seen that the CE, PHED (September 1998) instructed all the PHE divisions to submit

² Kohima, Dimapur Store, Peren, Mon and Zunheboto.

the unserviceable materials account for disposal through public auction. The value of such unserviceable stores as reported by these divisions was as under:-

Table No. 5.3 (Rupees in lakh)

<i>Sl. No.</i>	<i>Name of the Division</i>	<i>Period of Report</i>	<i>No. of items</i>	<i>Value</i>	<i>Date of procurement</i>
1.	Kohima	September 2000	114	224.31	Not Available
2.	Dimapur Store	-do-	73	198.54	-do-
3.	Mon	September 1998	54	73.74	1979 to 1987
4.	Zunheboto	-do-	16	5.98	Not Available
	Total		257	502.57	

Source:-Departmental records.

5.5.35 Of the above surplus store, information such as survey reports and follow up action, if any, taken for their disposal, quantity disposed of, sale value realised and the quantity and value of unserviceable stores remaining as of 31 March 2002 could not be furnished to audit.

5.5.36 In reply (July 2002), the department stated that several times from 1993-94 onwards unserviceable stores were disposed of through tender as per decision of the Cabinet and the records of the disposal with amount realised were not available due to seizure of the records by the Central Bureau of Investigation (CBI) during May 1998.

Idle Stores

5.5.37 The department did not obtain any information on past consumption from its central store divisions and assessment of requirement was done centrally without obtaining any indent from divisions. This led to indiscriminate procurement of materials (especially fittings and tools and plant items) with the result that these materials remained idle in stock. Test-check of the records of 5 divisions revealed that huge stock of stores (mostly fittings and T&P items) valuing Rs.1049.28 lakh pertaining to 4 divisions as shown below were lying idle since 1997-98:-

Table No. 5.4 (Rupees in lakh)

<i>Sl. No.</i>	<i>Name of the Division</i>	<i>No. of items</i>	<i>Value at Divisional Issue Rate</i>	<i>Date of procurement</i>
1.	Kohima	12	449.26	Not Available
2.	Dimapur Store	11	516.12	-do-
3.	Mon	14	76.06	-do-
4.	Zunheboto	12	7.44	-do-
	Total		1049.28	

5.5.38 Holding of excess stock was mainly due to incorrect and inflated assessment of requirement. For prolonged storage of stores, possibility of deterioration of the quality of materials also could not be ruled out. Thus, due to injudicious procurement of stores, Government funds of Rs.1049.28 lakh was unnecessarily blocked which led to poor store management.

5.5.39 The Government stated (October 2002) that the stores were being utilised from time to time. The reply is not tenable as the stores are lying idle since 1997-98.

Monitoring

5.5.40 In spite of Monitoring and Investigation Cell in the department, the CE, PHED had not evolved any mechanism to monitor the system adopted to assess requirement, procurement made thereagainst, storage, distribution as per requirement, actual utilisation and proper accounting of materials as yet.

Recommendations

5.5.41 With a view to have an effective, efficient control and management of stock and stores, the materials should be procured on the basis of actual requirement of the divisions separately for plan schemes and completed schemes (for running and maintenance expenses). Actual receipt of materials by the allottee divisions must be ensured. The divisions, in turn, should debit the value of materials received to schemes concerned. Proper maintenance of related accounts and records should be ensured.

5.5.42 The matter was reported to Government in August 2002. Government replies (October 2002) have been incorporated in the relevant paragraphs.