CHAPTER – IV
AUDIT OF TRANSACTIONS

Fraud/Misappropriation/Loss

FOOD SECURITY AND AGRICULTURE DEVELOPMENT DEPARTMENT

4.1 Doubtful expenditure on demonstration programme under Macro-Management programme of Agriculture (MMA)

Doubtful expenditure of Rs. 21.02 lakh was incurred on procurement of organic manure and bio-fertilisers for demonstration of wheat/mustard crop for Rabi season.

Under the Macro-Management Programme of Agriculture (MMA), a 100 *per cent* Centrally Sponsored Scheme, the GOI allocated funds to the State Government during 2005-06 for demonstration programme on wheat / mustard crop during Rabi season and cultivation of paddy during Kharif season. Audit scrutiny of the programme revealed the following:

i) For demonstration programme on wheat/mustard crop during Rabi season of 2005-06 (October-November 2005), Rs. 18 lakh was earmarked for providing inputs like vermi-compost, neem-cake and bio-fertilisers to the farmers to motivate the latter to use organic sources of nutrients to sustain productivity and maintain soil health.

The Food Security and Agriculture Development Department (FSADD) issued (30 August 2005) a supply order to the Sikkim Cooperative Supply and Marketing Federation Limited (SIMFED) a canalizing agency, for supply of 60 MT each of vermi-compost and neem-cake and 2.4 MT bio-fertilisers at a cost of Rs. 21.02 lakh with a stipulation to supply the material by 30 September 2005. Failure to do so was to entail cancellation of supply order. SIMFED supplied the materials between 10 October 2005 (neem-cake), 11 November 2005 (bio-fertilisers) and 21 February 2006 (vermi-compost) after a delay ranging between 22 to 140 days, in violation of the terms of the supply order. The Department further delayed delivery of the manure and fertilizers to the district offices by more than a month (final despatch on 27 March 2006). Thus, by the time the inputs reached the district offices, the Rabi season for wheat and mustard crop had already expired.

Despite repeated requests of audit for providing the list of beneficiaries of the demonstration programme, the Department could not provide the list. Also, neither the Department nor SIMFED could produce the details of the

suppliers (from whom SIMFED procured the material), related bills and challans for transportation of goods. In the absence of beneficiaries list and proof of purchase, the expenditure of Rs. 21.02 lakh incurred on procurement of organic manure and bio-fertilisers appears doubtful. The Department stated (September 2007) that the Village Level Workers did not maintain year wise and programme-wise records of inputs being distributed to the farmers. The fact remains that SIMFED had not furnished the details requisitioned by audit. In the absence of these, the veracity of the expenditure is doubtful.

ii) Under the Integrated Cereal Development Programme (ICDP) which is a part of MMA, demonstration of paddy (1000 hectare at an expenditure of Rs. 25 lakh) and wheat crops (2000 hectare at an expenditure of Rs. 50 lakh) was targeted during 2005-06. Against the supply order placed on SIMFED (May 2005) for supply of 400 quintals of paddy seeds for Kharif crop and 2000 quintals of wheat seeds for Rabi crop within June 2005, the Department received only 217.15 quintals of paddy seeds and 1200 quintals of wheat seeds in November 2005. The late and short receipt of seeds had adversely impacted the implementation of the programme. **Here again, despite repeated requisitions, the Department failed to furnish the list of beneficiaries covered under the programme.** Further, since the requirement of fertilizer depends on the quantity of seeds sown, the purchase and utilisation of fertilizer should have been with reference to the quantity of seeds procured. However, though the Department did not receive the entire quantity of seeds ordered, the entire quantity of fertilizers were utilised, resulting in utilisation of vermi-compost much in excess of requirement as compared to the seeds purchased. **The Department stated (April 2007) that the deficit seeds were provided by the beneficiaries. The reply is not acceptable as there was no beneficiaries list and no evidence of the beneficiaries providing the required quantity of seeds as stated by the Department to enable the successful implementation of the demonstration programme.**

HUMAN RESOURCE DEVELOPMENT DEPARTMENT

4.2 Avoidable loss of Rs. 61.90 lakh

Failure of the officers of Text Book Unit of the Department to ascertain the actual enrolment of students led to excess procurement of text books, uniforms and exercise books worth Rs. 2.63 crore. The Joint Directors of the districts showed doubtful utilisation of Rs. 61.90 lakh on account of issue to the students who were not on roll.

The State Government through Human Resource and Development Department (HRDD) provides free distribution of text books, uniforms and exercise books to pre-primary to class V students of Government schools to encourage their continuation in education system and to minimize the drop-out rate. The scheme is financed by the Pradhan Mantri Gramodaya Yojana (PMGY) and the State plan.

Procurement of the items is made on the basis of projections made by the Text Book Unit (TBU) of the Department based on the enrolment of the last academic session enhanced by 3 *per cent* for anticipated increase in the ensuing academic session.

Audit scrutiny revealed (January 2007) that the concerned officers in the TBU had not ascertained the actual enrolment in the schools before initiating proposals for procurement during the last four years despite the availability of requisite data in the Planning, Monitoring and Evaluation (PME) cell of the same Department. A comparison of the enrolment figures compiled by the PME cell with that of the TBU revealed huge variation in figures as detailed below:

Table 4.1

Year	Projected enrolment*	Actual enrolment+	Excess projection	Avoidable expenditure (Rs.)			
				Uniform	Text books	Exercise books	Total
2004	1,00,774	90,826	9,948	9,27,715	6,03,512	4,69,043	20,00,270
2005	1,01,207	90,201	11,006	51,34,197	11,72,602	3,55,021	66,61,820
2006	99,840	83,752	16,088	19,19,423	23,85,813	6,95,124	50,00,360
2007	99,840	83,752	16,088	1,15,55,792	6,40,310	4,52,651	1,26,48,753
Total	4,01,661	3,48,531	53,130	1,95,37,127	48,02,237	19,71,839	2,63,11,203

Source: Information furnished by the Department

* *Projected by the TBU of HRDD.*

\+ *Figure as per PME cell of HRDD based on head count from various schools.*

Clockwise from top left: Bundles of stock of uniforms lying in Geyzing store and Exercise books lying in Mangan store.

Scrutiny revealed that stock registers detailing procurement, issue, etc were not maintained in complete shape. However, records maintained by TBU in respect of uniform and figures compiled from information furnished by Joint Directors (JD) of the district revealed that the items shown issued to schools by JDs were far in excess of the actual enrolment of

the students. This indicates that the utilisation of Rs. 61.90 lakh worth of materials ostensibly issued by the JDs is doubtful. The details are as below:

Table 4.2

Year	Actual enrolment	Utilisation	Doubtful utilization	
			Quantity	Value (in Rs.)
2004	90,826	1,93,508	11,856	9,07,335
2005	90,201	4,82,345	31,340	34,47,587
2006	83,752	1,90,082	22,578	18,35,172
Total			65,774	61,90,094

Source: Departmental Records

Thus, procurement and utilization of the above items over and above the actual enrolment worth Rs. 2.63 crore not only resulted in avoidable excess expenditure but also led to avoidable loss of Rs. 61.90 lakh on doubtful utilization of the items.

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

URBAN DEVELOPMENT AND HOUSING DEPARTMENT

4.3 Irregular execution of work without sanction and tender

Action of the Department in taking up four works valued over Rs. 1.20 crore without following the prescribed procedures was irregular and meant to benefit a contractor unduly.

In terms of the Sikkim Public Works Code *(182 and 183)*, no work should be commenced unless specific administrative approval and technical sanction have been obtained from the competent authorities, and adequate provision is available in the budget. In case of urgency or emergency, a work could be started under the written orders of the Chief Engineer, simultaneously intimating the Finance Department the approximate liability, which should be regularised as soon as possible through proper administrative approval and technical sanctions in the form of detailed estimates.

It was seen in Audit (September 2006) that the Urban Development & Housing Department (UDHD) had awarded (October-December 2003) four works to two contractors without approval of works by the competent authorities, and without framing detailed estimates and technical designs and drawings (hence, there was also no technical sanction). The details of works were as under:

Table 4.3

(Rupees. in lakh)

Sl. No.	Name of works	Name of the contractors	Dates of		Actual Cost[1] incurred	Probable[2] cost
			Commencement	Completion		
1.	Diversion of road from five ways junction at Deorali	Shri N L Mundra	5.10.03	December,03	Not known	13.13
2.	Realignment of road below T.N.A. Gangtok	Shri T Lachungpa	20.11.03	September,06	Not known	83.71
3.	Road below Sikkim High Court	Shri T Lachungpa	28.11.03	Not recorded	Not known	--NA--
4.	Diversion road opposite to forest secretariat	Shri T Lachungpa	12.12.03	Incomplete	Not known	22.69
Total						119.53

Source: Departmental information

Neither had any intimation been sent to the Finance Department indicating the approximate liability nor had the works been regularised through proper administrative approval and technical sanction even after more than three years of award of work (as of March 2007). Tenders had also not been invited before awarding such works although the works were of high value.

It was seen that the Department had incurred a committed liability of Rs. 1.20 crore towards probable cost of three out of the four works *(Sl. No. 1, 2 and 4 above)* while estimate in respect of the fourth work *(Sl. No. 3)* had not even been prepared even after more than three years of award of work and hence, failure by the Department to even indicate the probable cost of this work to audit. Thus, action of the Department to take up such high value works in contravention of codal provisions was irregular and unjustified and was not in public interest.

It was further seen that three out of the four works were awarded to the same contractor (Shri T. Lachungpa). It may be mentioned that this contractor had been extended undue favour of Rs. 15.41 lakh earlier by the Department in execution of the work 'Construction of Storm Water Drain along NH 31 A (7.11 Kms)' mentioned in paragraph 4.3.2 of the Audit Report of the Comptroller & Auditor General of India for the year 2005-06. Thus, award of three out of these four questionable works to the same contractor by the Department without administrative approval, technical and financial sanction, tenders and adequate budgetary provision indicates undue favour to the same contractor.

In reply, the Department stated (November 2007) that while two works (Sl. No. 3 & 4) were executed as a part of 'storm drainage project' with the approval of the competent authority, the remaining two works (Sl no. 1 & 2) were undertaken on urgency basis to provide immediate relief to traffic

[1] *In the absence of detailed estimates, the actual costs could not be ascertained in Audit*
[2] *Probable costs furnished by the Department to audit, when requisitioned.*

congestion and that the contractors for these works (Sl. no. 1 & 2) were selected on the basis of their resourcefulness.

The reply is not tenable as approval from GOI (funding agency) was not obtained for inclusion of the two works[3] and thus were in effect a diversion. Selection of contractors (for Sl. No. 1 & 2) based on resourcefulness of the contractor was not covered by any rule and is thus a clear case of favouritism.

4.4 Irregular purchase of land and avoidable liability

The deal for acquisition of a private land by the UDHD at a cost of Rs 4.21 crore from four private individuals on the direction of the Minister, without any plan for its utilisation, ignoring the observation of the PDD, without provision of funds in the budget and including unwarranted cost of solatium of Rs. 1.23 crore was irregular.

On the direction of the Minister, Urban Development and Housing Department (UDHD) decided to acquire (April 2002) a land[4] belonging to three[5] individuals at Sokeythang, near Tadong (about 5 kilometers from Gangtok) with no stated purpose/objective. Though UDHD had no proposal for purchase of land in its annual plan (2002-03), the Department wrote (30 October 2002) to the Land Revenue Department (LRD) to process acquisition of land. Accordingly, value of the land was worked out (26 October 2002) at the rate of Rs. 62 per sq. ft, excluding establishment charges etc. Based on the request (11 November 2002) of the fourth individual[6] in view of suitability of his land (1.06 acre), Minister directed (July 2002) the Secretary, UD&HD to process for acquisition of his land also at the assessed rate (Rs. 62 per sq. ft). The cost of the land aggregated to Rs. 4.21 crore (*excluding solatium*) of which Rs. 2.09 crore was released to the landowners as of January 2007 and the balance (Rs 2.12 crore) could not be released owing to non-availability of funds.

Audit noticed that no action was taken by the Secretary to get the landowners to reduce the rate of their lands although the fourth landowner had offered (November 2002) to sell the land below the assessed rate (Rs. 62 per sq. ft.). Even the observation (December 2002) of the Planning and Development Department (PDD) that it would not be advisable for the UDHD to purchase land at such high cost to distribute sites to private individuals for construction of houses was ignored.

Further, 'solatium' at 30 *per cent* of the value of land amounting to Rs. 1.23 crore was also worked by the LRD which was not payable in the instant case in accordance with section 23 (2) of the Land Acquisition Act, 1894 as

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[3] *Road below Sikkim High Court and Diversion road opposite to forest secretariat*
[4] 9.00 acres
[5] Sri K.W. Kazi, Shri T. W. Kazi and S.W Kazi (9.00 acres)
[6] Shri K T Chankapa

the landowners were willing to sell their land and therefore was not warranted and led to undue favour of Rs. 1.23 crore to the land owners.

As of March 2007, the land was still under the possession of the original owners, the Department having failed to take possession of the same. Even after five years of the proposal for purchasing the land, the Department was clueless as to how it would utilize the property as it had no concrete plan for its fruitful utilisation.

Audit scrutiny further revealed that the UDHD had earlier also acquired lands without a clear objective or plan for their fruitful utilization. The Department had earlier acquired (December 1996) 4.75 acres of land at Namchi at a cost of Rs. 1.26 crore and another land at Dumra Busty, South Sikkim (August 1997) at a cost of Rs. 31.12 lakh. Both these lands were lying un-utilised as of March 2007 even after more than ten years of their acquisition.

Thus, the acquisition of the private land by the UDHD in the instant case from the four private individuals on the direction of the Minister, without any planning and provision of funds ignoring the observations of PDD besides inclusion of solatium is indicative of the fact that the purchases were mooted with the intention to benefit the landowners. This observation was further corroborated by the fact that the Department took no action to reduce the rate of the lands even after receiving open offer from one of the sellers to lower the sale rate of his land.

The Department stated (May 2007) that the land was purchased to establish a satellite township with associated facilities like hospitals, school, park, etc. The reply is not tenable as Government had not prepared any comprehensive plan for establishment of satellite township as of date as the land continues to remain idle (October 2007). The Department further contended that the landowner refused to reduce the rate in view of better prospects for his land. This contention is not tenable as one landowner, of his own volition, had offered to reduce the rate, which the Department did not avail of.

Undue favour

HUMAN RESOURCE DEVELOPMENT DEPARTMENT

4.5 Undue favour to supplier in implementation of Innovative education under Sarva Shiksha Abhiyan (SSA)

The implementation of innovative education component of Sarva Shiksha Abhiyan was not effective and did not benefit the students as envisaged in the programme guidelines. Apart from not achieving the objectives of the programme, its implementation in Sikkim has also resulted in undue benefit to a Firm to the extent of Rs. 2.62 crore.

State Project Officer (SPO) of Sarva Shiksha Abhiyan (SSA) invited (March 2003) tenders for implementation of 'Innovative Education' component of the programme. Based on the offers received, the SPO entered into an agreement (March 2003) with M/s. Aces Info Tech., Kolkata (Firm) for supply and installation of 400 computers in upper primary schools (10 computers per school) and also to impart training to the students of these schools at an annual contractual value of Rs. 1.14 crore (Rs. 2.84 lakh per school per annum) for 4 years aggregating Rs. 4.54 crore payable in two half yearly installments of Rs. 56.80 lakh each, commencing from September 2003. The agreement was signed on 28 March 2003 i.e, within 25 days of calling for tenders and was valid for four years (up to March 2007).

Scrutiny of records revealed the following:

- The SPO released (31 March 2003) mobilization fund of Rs. one crore to the Firm immediately after signing the agreement (28 March 2003) without obtaining bank guarantee or receiving supply of equipment equivalent to the amount as stipulated in the agreement. The SPO confirmed the payment of the mobilization fund but stated that the equipment had already been received. The reply is not tenable since the payment of mobilization fund was made in March 2003 while the equipment was received only between August 2003 and November 2003.

- The Firm was also paid Rs.75.73 lakh as consultancy fees for the period April 2003 to November 2003, although the computers were installed only in November 2003 as was seen from all the schools' test checked. The SPO had not obtained the acknowledgement of the school authorities before releasing the payment.

- The SPO had also failed to effect the mandatory deduction of income tax amounting to Rs. 13.23 lakh from the bills paid to the Firm.

- As per the agreement, defects if any, in the functioning of computers, printers and UPS were to be rectified by the Firm within 5 days of its occurrence, failing which, deduction of Rs. 100 per day was to be effected by the SPO. The agreement was also liable to be terminated at the risk and cost of the Firm if the defects were not addressed within 25 days. Out of 20 schools test checked, these items remained non-functional beyond 5 days in 17 schools. The SPO did not deduct penalty on account of delay in attending to these repairs amounting to Rs. 26.11 lakh.

- The SPO had also not entered into any annual maintenance contract with the Firm for maintenance of the computers and other equipments after the expiry of the project period.

- The agreement also enjoined the Firm to provide for full time skilled instructors for imparting computer training to the students on a fixed monthly pay of Rs. 7000. In the event of absence of instructors for a period exceeding 10 days at a stretch, the agreement provided for substitute teachers or deduction of Rs. 300 per day from the payment due to the Firm. In all the 20 schools jointly inspected by the officers of SPO and Audit, it was observed that the instructors provided by the Firm did not possess the requisite qualifications stipulated in the agreement and were paid a monthly salary of only Rs. 3000 as against Rs. 7000 clearly implying, that both the Firm as well as SPO/school authorities were aware of the lack of expertise of the instructors in training the students.

- The SPO not only failed to ensure quality education is imparted to the students but also continued to pay the agreed amount of consultancy fees, which had inbuilt cost component of Rs. 7000 towards the monthly salary of the instructors resulting in extra and unproductive payment of Rs. 64 lakh besides undue favour to the Firm.

- Further, in 11 out of 20 schools test checked, instructors were absent for periods ranging between 12 to 174 days aggregating 949 days during the period 2003-07 for which deduction of Rs. 2.85 lakh was not effected by the SPO as per the terms of the agreement.

- The agreement also stipulated provision of internet facility for 500 hours to the schools during the currency of the project and 50 multimedia CDs for e-learning material costing Rs. 80 lakh. Scrutiny revealed that these were not provided by the Firm in any of the test checked schools. This not only deprived the students of e-learning but also resulted in extra payment of Rs. 80 lakh to the Firm.

- The Firm also supplied sub-standard tables and other computer furniture instead of standard furniture agreed upon in the contract. Other charges like electricity dues were also not paid by the firm as envisaged in the agreement.

As can be seen from the details above, the implementation of innovative education component of SSA was not effective and did not benefit the students as envisaged in the programme guidelines. Apart from not achieving the objectives of the programme, its implementation in Sikkim has also resulted in undue benefit to the Firm to the extent of Rs.2.62[7] crore.

[7] Rs. 75.73 lakh + Rs. 13.23 lakh + Rs. 26.11 lakh + Rs. 64 lakh + Rs. 2.85 lakh + Rs. 80 lakh = Rs. 2.62 crore.

The SPO stated (November 2007) that after calculation, necessary deductions as pointed out by Audit will be effected from the final bill of the Firm which is still pending.

ENERGY AND POWER DEPARTMENT

4.6 Loss on payment of inadmissible erection charges

Payment of erection charges on all items without considering the actual requirement of erection for all such items led to loss of Rs. 32.20 lakh and also undue favour to the contractors.

The Energy and Power Department (E & PD), executes various works which often involve erection of machinery and equipment for which erection charges at the rate of 15 *per cent* of the cost of the items is incorporated in the estimates.

Scrutiny (May 2006) of paid vouchers of 42 works executed during March 2005 to March 2006 in the E & PD, revealed that Rs. 32.20 lakh were irregularly paid to the contractors towards erection charges on items of works not warranting any erection by allowing a blanket rate of 15 *per cent* erection charges on all items included in the bills though these items did not involve erection of any machinery/equipment. The concerned engineers of the Department failed to exercise necessary diligence in scrutinizing the bills before making final payment.

Thus payment of erection charges on all items included in a bill without considering the actual requirement of erection for all such items led to loss of Rs. 32.20 lakh.

The Department while accepting the audit observation stated (July 2007) that payment of erection charges for items not warranting any erection was made due to oversight and assured that in future such charges would be paid only for those items wherever required.

4.7 Undue favour to a private firm by purchasing without tender and by diverting funds from other projects/schemes.

Purchase of Electrostatic Liquid Cleanser (ELC) and Low Vacuum Dehydration (LVDH) machines worth Rs. 30.97 lakh from a private firm on the basis of an unsolicited offer, without calling for tenders and by diverting funds from other projects/schemes was not only grossly irregular and un-authorised but also, was a case of undue favour to the supplier.

The Sikkim Financial Rules (SFR) requires open tenders to be invited for all purchases above Rs. 1.00 lakh, giving wide publicity in leading newspapers. All such tenders are to be opened at Gangtok by a Tender Selection Committee (TSC) comprising five[8] officials. The tenders are to be accepted only on the recommendations of the TSC. However, in contravention of both the above conditionalities, the E & PD purchased (May 2005) "Electrostatic Liquid Cleanser (ELC) and Low Vacuum Dehydration (LVDH)" machines stated to be useful in cleaning and de-hydrating hydraulic/lubricating/turbine oil used in Power Generating units from M/S Ferrocare Machines Private Ltd., a Pune based firm, based on an unsolicited offer (3 May 2004) wherein it referred to verbal discussion with the Secretary on the matter, prior to the written communication.

Audit scrutiny revealed (December 2006) that the Secretary, EPD ordered (15 May 2004) the Chief Engineer (CE) (N/E) and Additional CE (LLHP) to process purchase of the equipment on the letter of the firm itself. The need for the machines was thereafter justified (June/July 2004) by the Additional CE (L/R), *(stating that the equipment were urgently required in the Lower Lagyap Hydel Power House (LLHP) for filtering turbine oil and removing moisture content from the oil)* though no prior requirement had come from the plant engineers of the Power House for procurement of the equipment.

Supply order was placed on the firm (July 2004) and the firm submitted (September 2004) a bill for Rs. 14.23 lakh towards supply of five ELC and one LVDH machines while the proposal for the purchase was still being processed (till 29 October 2004) in the Planning Cell of the Department. The proposal for the purchases had also not been routed through the Finance, Revenue and Expenditure Department for financial sanction, although required under the SFR. The Secretary, E & PD gave the financial sanction for the purchase although he was not delegated the power to grant such sanction. This clearly indicated that the purchase was pre-meditated.

A second order for another lot of the machines was placed (April 2005) on the firm, against which the firm supplied (May 2005) two ELC and two LVDH machines at a cost of Rs. 16.74 lakh, purportedly for use in the Meyong and Rabom Power Houses in North Sikkim. Payment of Rs. 30.97 lakh *(Rs. 14.23 lakh plus Rs. 16.74 lakh*) was made to the firm in November 2004 and October 2005 for the supplies. Authority granting sanction for the second lot of machines for Rs. 16.74 lakh could not be identified in Audit as the Department failed to produce the relevant file in which the purchase proposal was moved.

As the purchases were unplanned and based on the direction and decision of the Secretary, there was no provision in the budget for meeting the expenditure. The Department, therefore, diverted Rs. 14.23 lakh from the funds meant for

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[8] *One member from the Department concerned, one from Finance and State Trading Corporation each and such other members as the Government may decide.*

construction of the Rellichu Hydel Project in West District and Rs. 16.74 lakh from the provision for rural electrification in North Sikkim under Pradhan Mantri Gramodaya Yojana (PMGY) for making the payments.

Thus the purchase of the ELC and LVDH machines from the firm without identification of requirement by the plant engineers, without calling for tenders, without any provision in the budget for incurring such expenditure, placing of supply order to the firm and receipt of machines by the Department even before the proposal was finalised by the Planning Cell of the Department indicated that the transaction was not only irregular, but also, was clearly meant to extend undue benefit to the supplier. Further, payment of Rs. 30.97 lakh for the machines from the provision meant for construction of Rellichu Hydel Project and Rural Electrification under PMGY in North District was not only un-authorised but also resulted in irregular diversion of programme funds to that extent, as the purchase were not related to these projects. All these further reinforce the conclusion that financial propriety was not observed to benefit this particular supplier.

In reply, the Department stated (August 2007) that the machines were necessitated due to frequent tripping of the generating units due to contamination of hydraulic oil. It was further stated that the machines were manufactured solely by the firm from which the purchases were directly made and that the payment for the machines was made from the Rellichu Project and PMGY scheme as there was no suitable debitable head for making the payment.

The reply is not tenable as the proposal for the purchase was initiated by the Secretary and not received from the power houses delineating the requirement of the machines.

RURAL MANAGEMENT AND DEVELOPMENT DEPARTMENT

4.8 Excess expenditure due to defective preparation of estimates

The Department prepared estimates including additional provision of 10 *per cent* towards wastage and lapping over and above the Schedule of Rates, which led to excess liability of Rs. 15.34 lakh

Government approved (October 2004) a scheme for construction of Block Development Office Complex at 16 places across the State at an estimated cost of Rs. one crore per complex. The Rural Management and Development Department floated tender (November 2004) and awarded the works (March

2005) to 15[9] contractors for construction of equal number of BDO Complexes at 38 *per cent* above the estimated cost with stipulation to complete the work within 12 months i.e. February 2006. As of November 2006, two[10] complexes had been completed and the status of completion of the remaining 13 complexes ranged between 23 and 97 *per cent.* Rs. 13.90 crore had been released to the contractors.

Scrutiny of records revealed (November 2006) that the departmental engineers had prepared the estimate of Rs. one crore per complex on the basis of Schedule of Rates (SOR) 2002. It was noticed that in case of four items of work[11] a provision of 10 *per cent* towards wastage and lapping was incorporated in the estimate over and above the SOR. Since the Analysis of Rates (AOR) 2002, based on which, the SOR 2002 was framed, already had provision in the estimate for wastage ranging between 5 to 10 *per cent* in respect of three items (serial no. i to iii) of works and of 22 *per cent* towards lapping for one item (serial no. iv), incorporation of additional provision of 10 *per cent* towards wastage and lapping led to an additional liability of Rs 15.34 lakh out of which Rs. 12.02 lakh has since been paid.

While accepting the audit observation, the Chief Engineer stated (April 2007) that efforts would be made to realise excess payment from the concerned contractors. Final reply is awaited (July 2007).

4.9(a) Undue benefit to contractors due to allowance of excess cost escalation

Incorrect calculation of labour escalation cost resulted in loss of Rs. 1.54 crore.

The Pradhan Mantri Gram Sadak Yojana (PMGSY) was launched (December 2000) by GOI to provide connectivity to all unconnected habitations in the rural areas by way of an all–weather road in a phased manner. The scheme is fully funded by GOI. The scheme guidelines stipulate implementation of projects at the estimated cost which should be formulated on the basis of latest State Schedule of Rates (SSOR) and difference, if any, on account of tender premium (above estimated cost) to be borne by the State Government. No provision for escalation was to be allowed.

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[9] *One work (at Yuksom) executed departmentally.*
[10] *Ranka and Wok.*
[11] *(i) providing fitting, fixing 25 mm ceiling in wood equivalent to chap and panisaaz all complete, (ii) providing fitting, fixing 25 mm x 50 mm dressed ceiling, beads in wood all complete, (iii) providing fitting, fixing of undressed local wood in all types of frames complete, and (iv) providing fitting, fixing of 24 BWG GCI sheet roofing with GI hooks, bolts and nuts 8 mm dia with bitumen*

The GOI sanctioned Rs. 63.10 crore for execution of 21 packages comprising 34 works under Phase IV during the year 2004-05. The Rural Management and Development Department (RM&DD) invited tenders (May 2005) and awarded (September- December 2005) the works to 21 contractors at the estimated cost of Rs. 63.10 crore with stipulation to complete the works within 12 months i.e by August - November 2006. As of May 2007, none of the works had been completed. The overall physical progress was 22 *per cent* and Rs. 27.49 crore (43.56 *per cent*) was released to the contractors.

Scrutiny of records (December 2006) revealed that the rates in the estimates were taken from SSOR 2002 for scheduled items enhancing the same by 21.56 *per cent*. For non-scheduled items in the SSOR, rates enshrined in standard data book for rural roads by Union Ministry of Rural Development (MORD), September 2004 were taken. The enhancement of rates of SSOR for scheduled items was done (January 2005) to neutralize the cost escalation towards increase in cost of POL (0.4268 *per cent*), material (3.2869 *per cent*) and labour (17.85 *per cent*).

The cost escalation of labour rate (17.85 *per cent*) was reckoned on the basis of base rate of Rs. 50 per labour per day instead of Rs. 70 in the SSOR which led to inflation of the labour rate by 17.85 *per cent* instead of 7.65 *per cent*. Had the Department taken actual base labour rate of Rs. 70, the escalation towards labour would have been only 7.65 *per cent* and the overall cost escalation on all the works would have been 11.36 *per cent* only instead of 21.56 *per cent*. Thus, incorrect calculation of escalation of labour rate resulted in overall inflation of the estimate by Rs. 1.54 crore on 21 works till date (October 2007).

The Department stated (August 2007) that in the absence of latest SOR, the price index was calculated on the basis of RBI index which was approved by NRRDA and MORD. For working out the escalation of labour rate, Government approved rate of Rs. 50 per day was taken into consideration. It was further stated that to minimize the rate quoted by the contractors at 16 *per cent* to 60 *per cent* above the estimate, the department awarded the work at par after negotiation with the contractors**.**
The reply is not tenable as the Department was fully aware of the base labour rate of Rs. 70 taken in the SOR 2002 for which escalation should have been allowed on the difference of Rs. 15 (Rs. 85[12] - Rs. 70) only.

4.9 (b) Undue benefit to contractors due to inflated item rate

Excess payment of Rs. 13.73 lakh was made to 18 contractors due to incorrect formulation of item rate.

Phase II of PMGSY works was based on SOR 2001. While carrying out analysis of rate (AOR) for hill cutting in hard rock per 100 cum, contractor's

[12] *Government approved rate applicable: Till March 2004 –Rs. 50; from April 2004 –Rs. 85*

profit was erroneously taken as Rs. 798.33 against the admissible amount of Rs. 371.52. Further, while stacking charges for the usable stone was included, charges for throwing of the whole quantity of excavated stones was also found included in the item rate. These inflated the item rate for 100 cum of hill cutting in hard rock by Rs. 731[13].

Scrutiny of records revealed (December 2006) that the Department made excess payment of Rs. 13.73 lakh towards hill cutting in hard rock in 18 such works executed during the period March 2001 to June 2007 for which final payment was made on the basis of the inflated AOR calculated as above thereby extending undue benefit to the contractors to this extent.

The Department stated (August 2007) that the incorrect SOR 2001 was prepared by the Sikkim Public Works Department against which the bidders quoted their rates. It was also stated that final payments on the basis of rates had already been made. Fact remains that the expenditure incurring authority had not safeguarded the interest of the Government in restraining the excess payment due to defective SOR prepared on the basis of inflated AOR.

Avoidable/Excess expenditure

ROADS AND BRIDGES DEPARTMENT

4.10 Excess expenditure due to incorporation of excess labour component

Allowance of excess labour in stone masonry work resulted in excess expenditure of Rs. 2.09 crore.

Coursed Rubble Stone Masonry Work (CRSM) in 1:4:8 cement concrete mortar (1:4:8 CCM) is a very widely used item of protective work in construction of retaining and breast walls, adopted in road construction by the Sikkim Public Works Department.

The rates for this item of work in terms of the SORs of different periods were as under:

Table 4.4

Year of SOR	Rate of CRSM in 1:4:8 CCM per cum	Percentage variation
1997	448.00	--
2001	629.80	40.58
2002	1244.00	97.52

Source: SORs

13 *Rs. 426.58 due to excess contractor's profit; Rs. 256.73 due to excess allowance of throwing of spoils and Rs. 47.69 due to excess overheads because of inflated rates.*

The increase in the rate of the item of work in a span of four years - between 1997 and 2001 was 40.58 *per cent*. However, within a year's time i.e. between 2001 and 2002 the rate was increased by 97.52 *per cent.* Audit analysis revealed that the inflation in the rate in SOR 2002 was mainly due to incorporation of excess labour component while working out the rate of the item of work. In terms of SOR 1997 and SOR 2001, the labour requirement for execution of 1 cum of CRSM work *(in 1:4:8 CCM)* was 1.9249 whereas in SOR 2002, this quantity was increased to 5.1665. Due to the increase in the labour component of the item of work, the cost per unit was inflated by Rs. 290.69 per cum. The inflated cost resulted in excess expenditure of Rs. 2.09 crore in execution of 52,725 cum of the item *(CRSM in 1:4:8 CCM)* in 61 works for which payments were made between October 2005 and March 2007.

In reply, the PCE-cum-Secretary, Roads & Bridges Department, stated (June 2007) that the increase in the rate of the item of work was due to i) basing the SOR 2002 on the Nabhi's compilation of Analysis of Rates in terms of which the labour component was 4.25 per cum ii) slight modification in the size of stone chips used in the item of work i.e. from 21mm to 25 mm in SOR 2001 to 40 mm down in SOR 2002 iii) inclusion of bond stone and through stone in the item of work which was not there in SORs 1997 & 2001 and, iv) increase in labour rate by 40 to 60 *per cent* in SOR 2002 over SOR 2001.

The reply is not tenable as:

In terms of the Nabhi's Compilation of Analysis of Rates, labour requirement for Coursed Rubble Stone Masonry was 2.7625 per cum and not 4.25[14] as stated by the Department.

The excess expenditure in the audit para has been based only on the basis of the excess labour incorporated in SOR 2002 and not against the cost of bond stone /through stone, stone chips or the increase in the labour rates in SOR 2002 over SOR 2001. The Department skirted the issue of incorporation of excess labour component in SOR 2002 as compared to SOR 1997 and SOR 2001.

[14] *The figure of 5.1665 labour per cum in SOR 2002 was worked out in audit by adding labour requirement for preparation of 0.3 cum of 1:4:8 CCM (0.9165 labour) plus labour requirement of laying 1 cum CRSM in 1:4:8 CCM (4.25 labour). Toal labour = 0.9165 + 4.25 = 5.1665.*

SMALL FARMERS' AGRI BUSINESS CONSORTIUM, SIKKIM

4.11 Irregular excess expenditure of Rs. 60.36 lakh under area expansion scheme

Irregular deviation from norms under area expansion scheme for cultivation of vegetables led to avoidable expenditure of Rs. 60.36 lakh.

The Centrally Sponsored Scheme, "Technology Mission for Integrated Development of Horticulture in North Eastern Region including Sikkim" was launched in 2001-02. The Scheme had four Mini Missions (MMs). The major activities under Mini-Mission-II were to increase production through area expansion under various horticultural crops. After the areas had been surveyed, treated and developed, the farmers were to be provided guidance and assistance of 50 *per cent* of cost of cultivation *with* maximum limit fixed at Rs.13000 per unit (one unit =1 hectare) for adopting horticulture crops. The balance 50 *per cent* was to be borne by the beneficiaries. However, the assistance was limited to Rs. 4000 per unit where seeds were used for cultivation of vegetables.

Scrutiny of records revealed (January 2006) that the target area for coverage during 2004-05 was 700 hectare. The Small Farmers' Agri-Consortium, Sikkim (SFACS) prepared and got approval of the State Level Steering Committee (SLSC) headed by the Chief Secretary for assistance of Rs. 13000 per hectare for cultivation of vegetables using seeds against the permissible assistance of Rs. 4000 per hectare and accordingly spent Rs. 88.36 lakh. This resulted in irregular excess expenditure of Rs. 60.36 lakh towards area expansion under vegetables.

In reply, the SFACS stated (March 2006) that Rs. 4000 was not sufficient for procurement of hybrid seeds suitable for Sikkim for which Rs.13000 per hectare was approved by the SLSC and the GOI. In a further reply (August 2007), it was stated that the Department distributed high quality and costly hybrid seeds to the progressive farmers and the overall expenditure was restricted to Rs. 13000 per hectare. The reply is not acceptable as the maximum limit of assistance, in the case of distribution of seeds, was Rs. 4000 per hectare and any deviation from the prescribed norms requires specific approval from GOI which could not be shown to Audit.

Infructuous/Wasteful Expenditure

HUMAN RESOURCE DEVELOPMENT DEPARTMENT

4.12 Infructuous expenditure on purchase of buildings

Decision of the Department to purchase buildings for Rs. 48.18 lakh for establishment of offices of the Science College, despite having acquired land for construction of College, proved infructuous as the buildings remained unused.

The Human Resource Development Department (HRDD) acquired (January 2001) 12 acres of land for Rs. 34.29 lakh[15] for setting up a Science College at Soreng (West Sikkim) and submitted the project proposal (December 2003) to the North-Eastern Council (NEC) for Rs. 107 crore. The NEC approved the project for Rs. 39.50 crore for the first phase to be completed by May 2007 and released Rs. 3 crore (Rs. 2 crore in March 2004 and Rs. 1 crore in December 2004).

Meanwhile, the Department purchased (February-March 2003) 2 buildings (18 flats) at a cost of Rs. 48.18 lakh from Sikkim Housing and Development Board (SHDB) for establishment of offices of the Science College and running of temporary classes and guesthouse from the State Plan Sector and also incurred (October 2003) Rs. 1.42 lakh towards repair and renovation of the flats.

Scrutiny of records revealed that the buildings were actually purchased (February-March 2003) on the request (February 2003) of the Secretary, SHDB to alleviate the financial crisis of the SHDB.

On this being pointed out in Audit (November 2004), the Department proposed (August 2005) to utilse the buildings for establishment of District Institute of Education and Training (DIET) for West District, which however did not materialize pending approval of the Union Ministry of Human Resources Development Department. Physical inspection by the Departmental officials in the presence of Audit (May 2006) disclosed that the buildings remained unused; the ground floor had got damaged and the doors and windows were broken as can be seen from the photograph below.

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[15] *Rs. 15 lakh paid in March 2001 and Rs. 19.29 lakh in February 2002.*

Room damaged at several places

Thus, the decision of the Department to purchase flats for establishment of offices of the Science College, running of temporary classes and guesthouse despite having acquired land worth Rs. 34.29 lakh for the specific purpose and approval of project by NEC was nothing but merely to bail out the SHDB from its financial crisis. This investment proved infructuous as the buildings remained unused till date primarily because the buildings were designed to suit residential accommodation of low income group (LIG) families. In August 2007, the Secretary of the Department stated that efforts were being made to renovate the flats for establishment of DIET during 2007-08. While the stated effort was a repetition of what was proposed in August 2005, the fact remains that the buildings were not put to any use despite being purchased in February-March 2003.

ENERGY AND POWER DEPARTMENT

4.13 Loss due to non-utilisation of existing departmental capacity for fabrication works

The Department could have saved Rs. 1.10 crore had it taken up fabrication works of lattice structures and MS plate water conductors in its own workshop rather than execute these works through private contractors.

The Mechanical wing of the Energy and Power Department (E&PD) was established during 1980 as a Sub-division. It was entrusted with the job of fabrication works, running of stores, running a workshop for repair and maintenance of construction machinery etc. It was later (1993) upgraded to a 'division' and then to a full-fledged Circle headed by a Chief Engineer, by the year 2002. It was fully equipped with adequate manpower[16], tools, plants, machinery and equipment to execute all types of fabrication works generally required by the Department.

Scrutiny of records of E&PD revealed (May 2006) that despite obvious cost advantages in fabricating lattice structures and MS plate water conductors in the departmental workshop, no steps were taken by the Department to utilize the capacity under its control since 1997 and instead, works relating to fabrication were executed through private contractors. A comparison of rates at which these private contractors were paid vis-à-vis cost of fabrication in the departmental workshop at 2002 rates (*valid upto 2005*), as calculated by the Mechanical wing itself, revealed that the Department had to incur a loss of Rs. 1.10 crore on procurement of 1,023 units of lattice structure and 441 MT of BQ/ MS plates through private contractors during the year 2004-05 *(payments made in 2005-06)* as detailed below:

Table 4.7

(Figure in Rupees)

Particular	Lattice structure (In no.)			Plates (in MT)	
	8.5 mtrs	9 mtrs	11 mtrs	BQ	MS
Cost of procurement from contractors[17]	6,280	10,232	12,645	51,300	45,900
Cost of fabrication in Departmental workshop[18]	3,480	7,164	9,419	34,450	26,500
Difference (1- 2)	2,800	3,068	3,226	16,850	19,400
Quantities fabricated through private contractors during 2004-05.	640	196	187	208.49	232.69
Loss (3 x 4)	17,92,000	6,01,328	6,03,262	35,13,057	45,14,186

The issue relating to utilization of existing facilities in the workshop for fabrication and allied works was also raised from time to time by the Chief engineer, (Mechanical) in Co-ordination Committee meeting of the E&PD, but to no avail. Thus, there were no reasons for not utilizing the existing facility within the Department to execute the fabrication works other than to extend undue favour to the contractors at the cost of idle pay and allowances (Rs. 35.62 lakh *per annum*) of the substantial manpower and existing machinery and equipment in the Mechanical wing of the Department.

The Department stated (August 2007) that fabrication works could not be taken up departmentally as most of the works had to be executed on turnkey basis in terms of the project guidelines. The reply is not tenable as the Department could have saved an amount of Rs. 1.10 crore had they utilized the existing facility even for maintenance works or for works relating to fabrication of water

16 *Engineers in the grade of Junior Engineers, Assistant Engineers, Executive Engineers, Superintending Engineers and fitters etc. and 20 employees on muster roll and work-charged category*

17 *Taken from contractors' bills for the period during 2005-06*

18 *Taken from the detailed analysis of cost made by the Mechanical Circle for departmental execution of works*

conduits for which there was no stipulation to execute works on turnkey basis. The Department, however, assured that henceforth all fabrication works would be taken up departmentally in view of the Audit observation.

SIKKIM URBAN DEVELOPMENT AGENCY

4.14 Wasteful expenditure

The objective of the Swarna Jayanti Shahari Rojgar Yojana (SJSRY) to create socially and economically useful public assets by providing gainful employment to the urban unemployed or underemployed poor was defeated as 'Hat Sheds' constructed at a cost of Rs. 25.34 lakh under the scheme remained not only idle but also severely damaged rendering these unusable for the intended purpose.

GOI introduced the scheme 'Swarna Jayanti Shahari Rojgar Yojana' (SJSRY) with the objective of providing gainful employment to the urban unemployed or underemployed poor through the setting up of self-employed ventures or provision of wage employment in construction of socially and economically useful public assets. One of the components of the programme is Urban Wage Employment Programme (UWEP).

Scrutiny of records revealed (November 2006) that the Sikkim Urban Development Agency (SUDA) took up (February 2002) the work 'Construction of Hat[19] sheds at slaughter house area, Gangtok' under the UWEP component at a cost of Rs. 25.34 lakh with a view to shift old Lal Bazar complex. Although construction of the Hat sheds was completed as early as May 2002, the sheds had neither been put to any use nor been allotted to any beneficiary even as of March 2007 primarily due to the Government's decision to shift old Lal Bazar to old children park complex. Audit also noticed that the scheme was taken up for execution without involving the Community Development Societies (CDS) and without conducting any survey as envisaged in the guidelines.

Physical verification of the infrastructure in April 2007 by the Departmental officers at the instance of audit revealed that the Hat sheds were languishing in a state of dilapidation. The roofs constructed of GCI sheets were severely damaged and leaking and the floors badly damaged rendering the sheds unusable for the intended purpose.

Thus, the objective of the SJSRY scheme to create socially and economically useful public assets by providing gainful employment to the urban unemployed or underemployed poor was defeated as the asset created at a cost of Rs. 25.34

[19] *Local daily market for fresh vegetables etc.*

lakh remained not only idle but the expenditure also proved infructuous in view of the severe damage to the sheds.

While citing the shifting of old Lal Bazar to old Children Park complex as one of the reasons for non-utilisation of the sheds, the Department stated (May 2007) that the hat sheds would be allotted to Social Justice, Empowerment and Welfare Department (SWD) for making use on ICDS Centre. However, as of June 2007, neither the allotment of hat sheds to SWD was completed nor have these been put to any use.

LAND REVENUE AND DISASTER MANAGEMENT DEPARTMENT

4.15 Wasteful expenditure

Inaction of the Department in drawing up an agreement with National Informatics Centre (NIC) before awarding the work, failure to keep a tab over the progress of implementation of the project and non-involvement of other departments resulted in non-completion of the project even after eight years of sanction and expenditure of Rs. 1.10 crore leading to loss of subsequent funding by Central Government. Besides, the intended purpose of the survey to serve as a useful tool for planning was defeated.

Based on the feasibility report prepared by the National Informatics Centre (NIC), project for cadastral survey of the State of Sikkim at an estimated cost of Rs. seven crore was proposed (August 1998) to the Union Ministry of Rural Areas & Employment, (MRAE) for approval and sanction. The project envisaged preparation of digital base maps involving aerial photography to capture all the important natural (forest, natural boundaries, sinking areas, etc) and man made (roads, water and sewage lines etc) features to serve as a useful planning tool for the future. The project also envisaged involvement of various departments such as Urban Development & Housing, Forest, Water Security and Public Health Engineering, Telecom and Land Revenue with a view to include their requirement for capturing suitable data during the survey.

MRAE approved (March 1999) the project for cadastral survey of Namchi sub-division only under the Centrally sponsored scheme of ‘Strengthening of Revenue Administration and Updating of Land Records (SRA&ULR) at a total cost of Rs. 1.95 crore to be shared on 50:50 basis between Centre and the State Government and simultaneously released Rs. 55.10 lakh towards first installment of its share.

The sanction of MRAE *inter-alia* stipulated (i) completion of the project within one year from the date of sanction *i.e* by February 2000, (ii) release of State matching contribution immediately on receipt of Central share, (iii) utilisation of total fund within one year on approved items of works and (iv) release of second installment of Central share on satisfactory progress of works by the State Government.

Scrutiny of records revealed (November 2006) that the State Government released its matching contribution of Rs. 54.97 lakh only in 2001-02 after a delay of two years. The work relating to survey was assigned to NIC without entering into any agreement. Thus, time frame for execution of the project, submission of progress reports of the survey from time to time, mode of payment of consultancy and survey charges and penalty clause for delay in implementation of the project were not finalized between the Department and the NIC.

The Department released Rs. 1.10 crore[20] (including amount of MRAE) between March 2000 and April 2002 to NIC against which, NIC submitted (July 2001) the utilisation details of Rs. 19.36 lakh towards aerial photography (Rs. 18.90 lakh) and travel expenses (Rs. 0.46 lakh). Utilisation of the remaining amount (Rs. 91 lakh) was not furnished by NIC as of November 2006. As for physical progress, only 150 sq. km digital maps data was prepared against the required 250 sq. km. The work remained incomplete even after eight years of sanction of the project by the MRAE as against the stipulation of completion within one year.

In August 2003, the NIC asked the Department to enter into an agreement for implementing the project and assured that the project would be completed within a period of 12 months from the date of signing the agreement. Not only did the Department not sign the agreement, it failed to take up the matter with NIC for early completion of the project and submission of progress report at periodical intervals. No initiatives were taken to assess the requirement of other departments by involving their representatives before assigning the work to NIC to capture data that would be useful for better planning.

Thus, inaction of the Department in drawing up an agreement with NIC before awarding the work, failure to keep a tab over the progress of implementation of the project and non-involvement of other departments resulted in non-completion of the project even after eight years of sanction and expenditure of Rs. 1.10 crore leading to loss of subsequent funding by GOI. Besides, the intended purpose of the project to serve as a useful tool for planning was defeated despite incurring an expenditure of Rs. 1.10 crore.

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

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[20] *Rs. 55 lakh in March 2000, Rs. 30 lakh in May 2001 and Rs. 24.97 lakh in April 2002.*

ENERGY AND POWER DEPARTMENT

4.16 Diversion of project funds

Payment of salary/wages of work-charged and muster roll employees involved in regular maintenance and commercial activities from the provision earmarked for establishment of hydro-electricity projects, even before commencement of any work relating to establishment of the projects, resulted in irregular expenditure of Rs. 1.99 crore.

The State Cabinet approved the proposal of the Energy and Power Department (E&PD) for development of seven[21] small new hydro power projects (HPP) in the North, West and South Districts of the State in November 2004 with expected installed capacity of 24.5 MW at an estimated cost of Rs. 187.91 crore. A provision of Rs. 10 crore was initially kept in the budget for 2005-06 for commencement of the projects.

Test check of records revealed (November/December 2006) that an expenditure of Rs. 1.99 crore out of the provision of Rs 10 crore was irregularly utilised during 2005-06 for payment of salary/wages of work-charged and muster roll employees involved in various maintenance/commercial activities of the Department not connected with the projects. None of the activities relating to development of the projects viz, construction of approach roads, intake structures, water conduits etc. as envisaged, had been initiated as of December 2006.

While accepting the audit observation, the Department stated (May 2007) that payment of salary of the work-charged employees engaged in regular maintenance works and other activities not related to establishment of the projects was made from the plan provision under the power projects in compliance with instructions issued (March 2005) by the Finance Department. The reply is not tenable as the circular only mentioned that salaries of work-charged employees should be met from the Plan Sector but did not authorise the Department to irregularly divert plan funds earmarked for establishment of power projects for payment of salary/wages of work-charged and muster roll employees engaged in regular maintenance/commercial activities relating to the Non-plan sector.

[21] *Chatten II (North); Hee Khola, Kalej Khola & Upper Rimbi (West), Barmelee Khola, Kismey Khola and Ringyang Khola (South).*

HUMAN RESOURCE DEVELOPMENT DEPARTMENT

4.17 Irregular and wasteful expenditure

Extravagant celebration of Teachers' Day resulted in additional expenditure of Rs. 13.53 lakh apart from diversion of funds from Plan outlay on Midday Meal programme.

The Secretary, Human Resource and Development Department (HRDD) proposed (7 August 2006) to celebrate the Teachers' Day at Chintan Bhawan on 05 September 2006 at an estimated expenditure of Rs. 3.57 lakh. While according approval, the Chief Minister changed (23 August 2006) venue to Guards Ground. Accordingly, meetings were convened by the Secretary (23 August 2006) and by the Minister (26 August 2006) to celebrate Teachers' Day and All Sikkim Education Conference at an estimated expenditure of Rs. 11.58 lakh. Due to non-availability of fund in the relevant head of account, Rs. 10 lakh was re-appropriated from the Plan outlay under Midday Meal Programme with the approval (31 August 2006) of the Secretary, FRED. Though the re-appropriation was authorized by Development Planning, Economic Reforms and North Eastern Council Affairs Department (DPNER & NECAD) and FRED, such action for re-appropriation of funds from Plan outlay for meeting expenditure of a completely Non-Plan nature is in contravention of the stipulation under rule 85 of Sikkim Financial Rules and directives of the GOI issued in 1979 and 1986. HRDD drew Rs. 7 lakh as advance (4 September 2006) for the event against which, adjustment is awaited (August 2007). Further on account of heavy expenditure on pandal and lunch the estimated expenditure was subsequently revised to Rs. 17.10 lakh.

Thus, celebration of the occasion in an extravagant manner resulted in additional expenditure of Rs. 13.53 lakh (Rs. 17.10 lakh *minus* Rs. 3.57 lakh) apart from diversion of funds intended for Midday Meal Programme to meet the expenditure.

The matter was referred to the Department (July 2007); reply had not been received (October 2007).

Regularity issues

URBAN DEVELOPMENT AND HOUSING DEPARTMENT

4.18 Non realisation of establishment charges from BSNL

The Department had not incorporated any provision in the MoU stipulating recovery of establishment, tools and plant charges from the BSNL at the prescribed rate resulting in non-realisation of such charges to the tune of Rs. 22.69 lakh.

Sikkim Public Works Code (SPWC) provides that in case of works executed by PWD on behalf of other Departments, recovery of establishment, tools and plant charges is to be effected in all cases on a percentage basis unless there are special orders of Government to the contrary. The rates fixed for recovery are: establishment (11 *per cent*), tools & plants (3/4 *per cent*), pensionery contribution (one *per cent*) and audit and accounts establishment (one *per cent*) totalling 13 ¾ *per cent* of total cost of the project.

A Memorandum of Understanding (MoU) was signed (February 2004) between the Bharat Sanchar Nigam Limited (BSNL) and the Urban Development and Housing Department (UD&HD) for execution of the work '*Laying of 50 mm diameter G.I. pipe along National Highway 31A to provide optical fibre cable from Zero Point to Ranipool in Gangtok*' at a cost of Rs. 1.65 crore. The UD&HD completed the work in April 2005. However, establishment cost of Rs. 22.69 lakh (13¾ *per cent* of the total cost of work) had not been recovered from the BSNL by the Department as of February 2007.

Audit scrutiny (September 2005/February 2007) revealed that the Addl. Chief Engineer & Chief Engineer of the Department, who were signatories to the MoU on behalf of the UD&HD, had failed to include appropriate provisions in the MoU stipulating recovery of charges towards establishment, tools & plants from the BSNL at the prescribed rate as required under the SPWC. The work having already been completed (April 2005) and in the absence of appropriate provision in the MoU for recovery of establishment charges, the Department had no instrument to compel BSNL to pay the charges at this juncture. Chances of recovery of the charges thus were remote.

In reply (August 2006), Superintending Engineer of the UDHD informed that the matter had been taken up (March 2006) with the BSNL authority for remittance of the charges. However, such a request to BSNL had no legal sanctity as recovery provision was left out from the MoU. As of February 2007 the amount remained unrealised.

Thus, failure of the Additional Chief Engineer and the Chief Engineer of the Department (*who were the signatories to the MoU*) and the Accounts Officer (*who was responsible for pre-checking all financial transactions of the Department*) to incorporate suitable clauses for recovery of stipulated establishment charges led to loss of Rs. 22.69 lakh to the State exchequer.

ROADS AND BRIDGES DEPARTMENT

4.19 Unnecessary provision of 'agency charges' and irregular expenditure

Loading of 'agency charges' of Rs. 6.83 crore by the Roads and Bridges Department in the road and bridge construction projects sanctioned by the GOI under the North Eastern Council package was superfluous, which, besides unduly inflating the project cost, gave scope to the Department to irregularly divert project funds for unauthorized purposes and make irregular deposit in Government revenue.

The Roads and Bridges Department incorporated provision towards 'Agency Charges' at the rate of 6.5 to 10.50 *per cent* of the value of works in the Detailed Project Reports (DPR) of 22 road and bridge works amounting to Rs. 6.83 crore sanctioned by the GOI under the North Eastern Council (NEC) package in 2004-06. While the DPRs did not define 'Agency Charges', the GOI also sanctioned such charges without explaining how the amount was to be expended.

Scrutiny of records revealed (April 2007) that while the Department deposited *(upto March 2007)* 'agency charges' amounting to Rs.90 lakh in Government revenue, Rs. 2.92 crore was diverted for meeting contractors' tender premium (Rs. 1.94 crore), purchase of six new vehicles (Rs. 51.92 lakh), salary and wages of temporary staff (Rs. 10.40 lakh), purchase of computers, stationery, advertisement bills, lunch etc (Rs. 8.39 lakh), clearance of slip/debris along Sang Khola Sumin Road (Rs. 21.43 lakh) and construction of circle office at Namchi (Rs. 6.35 lakh). Of the balance amount (Rs. 3 crore), Rs. 1.70 crore was earmarked for construction of a guest house at Mangan and Rs. 1.30 crore was proposed to be credited to Government revenue.

Action of the Department to credit agency charges to Government revenue and incurring of expenditure on the above items was irregular and unauthorized in view of the following:

- Central funding for construction of roads and bridges is meant to develop infrastructure and therefore deposit of agency charges (Rs. 0.90 crore) in Government revenue to augment the State's non-tax revenue is irregular and unjustified.

- The GOI separately provided price escalation at the rate of 7.5 *per cent* of the project cost per annum as proposed by the Department. Therefore, utilisation of agency charges for meeting additional tender premium (Rs. 1.94 crore) over and above the GOI sanction is irregular and unauthorised.

- Expenditure on purchase of vehicles, salary of temporary staff, construction of office building, debris clearing works etc (Rs. 98.48 lakh) and earmarking funds for construction of guest house (Rs. 170.45 lakh) from the provision under 'Agency Charges' did not come within the purview of the NEC sanction and is thus irregular.

In reply, the Additional Chief Engineer of the Department stated (June 2007) as follows:

- No specific guidelines were issued detailing the mode of utilization of the agency charges and accordingly the Department utilized the funds for meeting expenditure on vehicles, salaries, office buildings, survey works, slip clearance which formed part of the project;

- Schemes funded through NEC were implemented by the State Government on behalf of the NEC as its agency and thus agency charges were utilized by the Department based on the requirement of the State Government.

The reply is not acceptable as:

- The agency charges were not utilized for bonafide purposes as claimed by the Department but in effect were diversion of project funds for non-project purposes since expenditure on vehicles, establishment charges, slip clearance, office buildings, etc did not form part of road projects for which funds were granted;

- Projects were implemented by the Department on behalf of the State Government and not on behalf of the NEC and therefore agency charges in the first place should not have been proposed by the Department for funding.

- The Department in its own perception had also felt that Agency charges were unnecessary and had agreed (March 2004) to discontinue inclusion of such charges.

The matter was referred to the Department (July 2007); reply had not been received (October 2007).

FOREST, ENVIRONMENT AND WILDLIFE MANAGEMENT DEPARTMENT

4.20 Irregular diversion of funds

Irregular diversion of Rs. one crore from the money realized from the user beneficiaries towards payment of salary of regular departmental staff.

In terms of notification issued (January 2002) by the State Forest, Environment and Wildlife Management Department (FEWMD), the estimate for Catchments Area Treatment (CAT) under Compensatory Afforestation (CA) scheme in lieu of forest land diverted for non-forestry purpose under the Forest Conservation Act 1980 would include, *inter alia*, the overhead cost of 10 *per cent*, monitoring/evaluation cost of two *per cent* and contingencies of four *per cent* towards office maintenance, office stationery, cost of communication etc. There was no provision to either transfer the fund received for compensatory afforestation to State revenues or incur expenditure towards the regular salary component of the Department. The fund received for CAT under the CA scheme was being deposited in "8443-Civil Deposit-109-Forest Deposit-CAT-Plan Teesta Stage V" and expenditure towards the same was being met from out of the balances under this head.

Scrutiny of records revealed (January 2007) that on the proposal (May 2006) of the Secretary, FEWMD, the Controller of Accounts, Finance, Revenue and Expenditure Department (FRED) approved (June 2006), subject to clearance from Accountant Generals (AG)'s Office, transfer of Rs.one crore from this Deposit head to the revenue head "0406-Forestry and Wild Life-01-800 Other Receipts". However, despite non-clearance of the proposal by the AG Office the Secretary, FEWMD transferred (November 2006) the amount from the Civil Deposit head to the revenue head as revenue of the State Government to obviate the deficit in budget allotment of the Department under salary component.

The action of the Secretary, FEWMD was not only irregular from the point of view of revenue recognition norms in Government accounts, but also jeopardized the implementation of CAT under Compensatory Afforestation Scheme intended for restricting environmental degradation. Besides, action of FRED in approving such an erroneous proposal was also irregular.

In reply, the PCCF-cum-Secretary stated (July 2007) that Compensatory Afforestation and CAT were two different components and CAT for Teesta Stage V provided for administrative support which included Rs. two crore for salaries of officials and staff engaged in the implementation of the project during 1999-00 to 2008-09. The reply is not tenable as diversion of forest land for hydro electric projects beyond 10 MW capacity should invariably be accompanied by CAT plan. Scrutiny further revealed that the stated provision was not in pursuance of any regulatory provision (Act or Rule, Notification, Circular etc.) duly specifying salary of whom, for how long, at what rate etc. It could never be a lump sum provision remaining unutilized for years.

FOOD SECURITY AND AGRICULTURE DEVELOPMENT DEPARTMENT

4.21 Loss due to non-recovery of beneficiary-component of the cost of certified seeds

In contravention of Government of India's guidelines, cost of seeds excluding the authorized subsidy of Rs. 800 per quintal to the tune of Rs 49.17 lakh was not recovered from the beneficiaries.

According to the condition imposed (April 2005) by the Union Ministry of Agriculture for implementation of Macro Management of Agriculture (100 *per cent* CSS), subsidy on distribution of certified oilseeds is to be restricted to Rs. 800 per quintal or 25 *per cent* of the cost of seeds, whichever is less.

Scrutiny of records revealed (November 2006) that the Principal Director-cum-Secretary, Food Security and Agriculture Development Department purchased (December 2005) 405 quintals and 215 quintals of soyabean and mustard seeds respectively at a cost of Rs. 33.09 lakh under the 'Implementation of Oilseeds Production Programme'. According to the GOI directives, cost of seeds excluding the authorized subsidy of Rs. 800 per quintal (*limited*) to the tune of Rs. 28.13 lakh is to be borne by the beneficiaries. However, the entire expenditure was borne by the Department. Similarly, the Department purchased (March 2006) 230 quintals and 30 quintals of rajma seeds and field pea respectively at Rs. 23.54 lakh under the 'Implementation of Pulses Development Project (PDP)'. However, cost of seeds excluding subsidy of Rs. 800 per quintal to the tune of Rs. 21.04 lakh was also not recovered from the beneficiaries. No directive was given to the district offices regarding recovery of cost of oilseeds. This resulted in non-recovery of the beneficiary-component of the cost of certified seeds to the tune of Rs. 49.17 lakh and also deviation from the GOI's laid down norms for admitting subsidy.

The Department stated (August 2007) that fund was received from the GOI on the basis of proposal submitted to them. It was also stated that distribution of seeds on stipulated subsidy was not feasible, as unlike other States, Sikkim did not have its own Seed Corporation due to which the Department had to procure the seeds at National Seeds Corporation seed cost. The reply is not tenable as the approval from GOI clearly indicated distribution of seeds to the farmers at a subsidy of Rs. 800 per quintal, necessitating recovery of balance cost from the beneficiaries.

Miscellaneous observations

ROADS AND BRIDGES DEPARTMENT

4.22 Non-recovery of hire charges of machines

Failure of the Department to adjust the hire charges in the bills of respective works led to non-realisation of Rs. 0.70 crore.

The State Public Works Code (Para 154) stipulates recovery of hire charges for usage of road machinery from contractors and divisions (for departmental works) at prescribed rates. The bill for hire charges is required to be prepared by the Mechanical sub-division every month debiting the user sub-division in case of departmental work and contractors for contractual work, as the case may be. The hire charges should be adjusted within the financial year through transfer entry or deducted from the forthcoming running account bills in case of contractual works. The Department, while reiterating the codal provisions, also made (February 2000) the Accounts Officer responsible for recovery of hire charges. Test check (October - November 2005 and April 2007) of records revealed that the Department had failed to recover hire charges of Rs. 99.28 lakh in 459 cases of works executed departmentally (Rs. 40.22 lakh in 280 cases) and through the contractors (Rs. 59.06 lakh in 179 cases) for the period 1999-2000 to 2003-04 as at the end of March 2006.

The matter relating to non-recovery of hire charges was pointed out in Audit Report of the Comptroller and Auditor General of India for the years 1992-93 and 1999-2000. While deliberating on the issue (for AR-1992-93), the Public Accounts Committee (PAC) recommended (March 1997) periodical review of the outstanding hire charges to prevent accumulation of arrears in future. Inspite of the PAC recommendation, no effort was made by the Department to review the outstanding hire charges at frequent intervals leading to accumulation of arrears and non-realisation of hire charges amounting to Rs. 99.28 lakh for the period 1999-2000 to 2003-04 as at the end of March 2006.

The Department stated (July/September 2007) that an amount of Rs. 28.97 lakh had been recovered as of July 2007 after being pointed out by Audit leaving a balance of Rs. 70.31 lakh to be collected from contractors/department.