

CHAPTER II

AUDIT OF TRANSACTIONS

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

2.1 Wasteful/infructuous expenditure

HIGHWAYS DEPARTMENT

2.1.1 Extra expenditure on unnecessary provision of bituminous macadam

Provision of dense bituminous macadam and bituminous macadam in five road improvement works in contravention of Indian Roads Congress guidelines resulted in extra expenditure of ₹ 3.70 crore

The Indian Roads Congress (IRC) guidelines stipulate that the pavement thickness of a new road should be computed based on the design traffic in terms of cumulative number of standard axles¹ to be carried by the pavement during the design life² and on the CBR³ value of the sub-grade (IRC 37-2001). The guidelines also stipulate that the overlay thickness⁴ of an existing road should be computed based on the design traffic and the extent of structural deficiency⁵ noticed in the reaches of the road (IRC 81-1997).

The overlay thickness was to be adopted from the thickness design curve given in IRC 81. As per the curve, any increase in design traffic in terms of million standard axles (msa) and/or deflection values results in increase in pavement thickness. In reaches where there is no structural deficiency, only a thin surfacing (surface course) is to be provided to improve the riding quality of the road. The minimum deflection value for providing bituminous overlay should be between one mm and 1.40 mm for traffic range of 10 msa to two msa and it should be between 0.80 mm and one mm for traffic range of 20 msa to 10 msa.

Scrutiny (December 2008 and September 2009) of the records of two⁶ Divisional Engineers revealed that five road improvement works were carried

¹ Axle load of commercial vehicles of gross weight of three tonnes or more.

² Life for which the road is designed.

³ The strength of road sub-grade and base course is determined by conducting tests and expressed in terms of California Bearing Ratio.

⁴ Thickness of bituminous layer laid over the existing road surface.

⁵ Deformation of a road beyond a certain limit and calculated from the pavement deflection obtained by conducting a test using the Benkelman Beam Deflection Technique.

⁶ Highways Project Division II, Madurai; Highways Division, Sivagangai

out with 50 mm overlay thickness of dense bituminous macadam (DBM)/ bituminous macadam (BM) (base course) with surface course of Bituminous Concrete (BC)/Semi-Dense Bituminous Concrete (SDBC). These works which were commenced in July/August 2007 were completed between May 2008 and March 2010. It was noticed in audit that no overlay thickness was required in 45 reaches of the five roads as the design traffic in the various reaches ranged between three to 17 msa and the deflection value was in the range of 0.16 mm and one mm. The Divisional Engineer had not justified the provision of overlay thickness in the sanctioned estimates even though no structural deficiency warranting provision of bituminous layer was noticed. Execution of overlay with DBM/BM in the reaches was not correct as the riding quality of these reaches could have been improved by providing surface course only with 40 mm BC/25 mm SDBC. By providing unnecessary overlay with 50 mm thick DBM/BM, the department incurred extra expenditure of ₹ 3.70 crore (**Appendix 2.1**).

The matter was referred to Government in June 2010. Government stated (August 2010) that considering the characteristic deflection of 0.889 mm, one mm and 1.466 mm in respect of three roads, minimum provision of 50 mm DBM overlay was given. The reply is irrelevant since the reaches where the abovementioned characteristic deflections were noticed had not been objected to by Audit.

MICRO, SMALL AND MEDIUM ENTERPRISES DEPARTMENT

2.1.2 Unfruitful expenditure

Failure of the department to popularize the Price Stabilization Fund scheme intended to benefit small tea growers in Tamil Nadu resulted in non-implementation of the scheme for the past five years. Consequently, expenditure of ₹ 60.72 lakh incurred by the Government towards entry fees for enrolling members under this scheme remained unfruitful.

In order to benefit small growers/producers of tea, coffee, rubber and tobacco, the Government of India (GOI) has been implementing the Price Stabilization Fund (PSF) scheme since 2003. The scheme is based on the principle of contribution from growers and the Government depending on the normal/boom/distress periods of plantation crops with a provision for withdrawal by the growers during distress period. To operationalise the scheme, GOI established (2003) a PSF with a corpus of ₹ 500 crore and contributed ₹ 482.88 crore as a one time contribution to PSF. The remaining ₹ 17.12 crore was to be contributed by participating growers in various States at the rate of ₹ 500 per grower towards their non-refundable contribution as entry fee. The PSF was managed by the PSF Trust. Under the scheme, each member grower was required to open a special PSF savings bank account in a bank. In a boom year, when the commodity price was high, the member growers would have to deposit ₹ 1,000 each and in a normal price year, both the PSF Trust and the member growers would have to deposit ₹ 500 each in the PSF savings account of the member growers. In distress years, the PSF Trust was to deposit ₹ 1,000 in the savings bank account of each member

grower. A member grower was permitted to withdraw amounts from the PSF savings account in distress years as per conditions in PSF guidelines for opening and maintenance of accounts by banks.

Scrutiny (June 2009) of the records in the office of the Tea Board, Coonoor (Board) and in the Micro, Small and Medium Enterprises Department (Department) revealed that at the time of inception (2004) of the scheme, 23,000 small tea growers (STG) were estimated to be covered under the scheme in the State. To facilitate enrolment of 23,000 STGs under the PSF scheme, the State Government sanctioned (August 2004) an amount of ₹ 1.15 crore to the Board towards non-refundable entry fees payable by the estimated 23,000 STGs. The Board, as well as the District Collector, were instructed to enroll all the 23,000 estimated tea growers under the scheme in the State. The Board, however, was able to enroll only 12,143 tea growers⁷ under the scheme and paid ₹ 60.72 lakh to the PSF Trust in 2004. In addition, the Board also spent ₹ 0.85 lakh for covering the 12,143 growers under the personal accident insurance scheme and remitted (January 2009) the unutilised balance amount of ₹ 53.43 lakh to the Government. Even though all the years from 2004 to 2008 were declared as normal years, the STGs had not deposited their contribution to the PSF. As the STGs had not paid their contribution, GOI also did not pay its contribution during 2004-08 in respect of the STGs enrolled under the scheme in the State.

Government in reply (April 2010) stated that despite sincere efforts taken by the District Collectors and Tea Board, Coonoor, more non-cooperative grower members could not be enrolled under the scheme.

Thus, failure of the department to popularise the scheme effectively amongst the growers of tea and to persuade the enrolled STGs to contribute their dues to PSF resulted in non-implementation of the scheme in the State even after a lapse of five years. Consequently, the expenditure incurred by the Government towards the non-refundable entry fee of ₹ 60.72 lakh paid to the PSF Trust for enrolling members under the scheme remained unfruitful.

HIGHER EDUCATION DEPARTMENT

2.1.3 Unfruitful expenditure on development of study materials in electronic format

Unplanned procurements without following the tender procedures and failure to take follow-up action to utilise study materials developed in electronic format resulted in unfruitful expenditure of ₹ 56.44 lakh on procurement of e-contents.

The Tamil Nadu Open University (TNOU) is a State University established in 2002, which offers courses in the distance education mode. It supplies study materials to students in Self-Instructional Mode (SIM) formats for all the courses offered by the University.

⁷ 11,929 loyal members/small tea growers of Indco Tea factories (Co-operative sector) and 214 non-Indco members (Non Co-operative sector).

With a view to providing study materials in the electronic format for computer-based learning, in addition to the printed materials in SIM format, TNOU decided (2006-07) to develop e-contents of study materials using a development grant extended to it by the Indira Gandhi National Open University, New Delhi. The e-contents were to be developed and supplied in CDs with rich visuals, voice-over effect, self assessment modules etc. The e-content materials were also proposed to be launched through its website so that the students could access the materials from the website. The Registrar, TNOU placed (December 2006 to December 2007) six purchase orders with five different firms to produce and supply electronic format study materials in respect of 130 different subjects at a total cost of ₹ 1.06 crore.

Scrutiny of records revealed that the purchase orders for development and supply of e-contents had been placed without calling of tenders. No reasons were recorded for not calling for tenders to procure the e-contents. Further according to the Memorandum of Understanding (MoU) entered (2007-08) into with the suppliers, the supplies were to be completed within one year from the date of the MoU. It was, however, noticed that only 89 out of the 130 e-content CDs ordered between December 2007 and December 2008 were received as of April 2010 as given in the **Appendix 2.2**.

The contents of the CDs were required to be tested by the departments and schools of study concerned to make corrections, additions and deletions, if any. However, these were not tested before making payments. The 89 e-content CDs received between August 2007 and June 2009 were neither hosted in the website of the University nor supplied to the students along with the printed teaching materials. Audit noticed that the university had not fixed any time schedule for hosting the e-contents in the website or to include them in the study kit and the CDs already received could not be utilised as additions and modifications were still to be carried out. Further, the decisions on topics of the e-contents were taken without proper planning in informal meetings with the head of different Schools of study.

The Registrar, TNOU replied (April 2010) that tenders were not called for as the firms were selected based on their expert nature in preparing e-content materials and their efficiency and previous performances. The reply is not acceptable in view of the fact that as five firms were entrusted with the work, the University could have called for tenders. The Registrar, TNOU also stated that the vendors would be given six months time to supply the remaining e-content CDs.

Thus, due to lack of planning and follow up on hosting the e-contents in the website or to include them in the study kit, the project initiated at a cost of ₹ 1.06 crore to provide study materials to students in the electronic format did not take off even after 40 months of its launching, depriving the students of the benefit of computer-based learning. The expenditure of ₹ 56.44 lakh on developing 89 e-content CDs remained unfruitful till date (October 2010).

The matter was referred to Government in June 2010. Reply had not been received (November 2010).

PUBLIC WORKS DEPARTMENT**2.1.4 Wasteful expenditure due to defective design resulting in partial collapse of grade walls**

Construction of three out of four grade walls across the Vaigai river without ascertaining the exact theoretical bed levels at sites resulted in partial collapse during floods and wasteful expenditure of ₹ 45 lakh.

Kanur, Milaganur, Koothangal and Lower Nattarkal supply channels in the Vaigai river basin receive water from the Right and Left Main Canals taking off from both sides of Virahanur and Parthibanur Regulators as well as through flood carrier head sluices⁸ (open off-take points) (FCHS) located in the river banks during floods. In order to maintain the theoretical bed level of the river, the Superintending Engineer, Water Resources Organisation (WRO), Public Works Department (PWD), Plan Formulation Circle, Tiruchirappalli proposed (December 2004) construction of four grade walls⁹ across the river near four open off-take points. It was reported in the estimates for construction of grade walls that due to flash floods and sand mining activities, the bed level of the river had gone too deep below the sill level¹⁰ of the FCHS, which affected the flow of flood water through the sluices.

Government sanctioned (July 2005) the construction of four grade walls at an estimated cost of ₹ 312.56 lakh. The Superintending Engineer, WRO, PWD, Lower Vaigai Basin Circle, Sivagangai (SE) sanctioned (August 2005) the estimates for construction of grade walls for ₹ 312.56 lakh. The works, entrusted to contractors in March 2006, were completed during March to November 2007 at a cost of ₹ 310.62 lakh.

During floods in 2007 and 2008, the river bed eroded deeply both in the upstream and downstream sides of three of the four grade walls constructed leading to partial collapse of three of the four grade walls. The Chief Engineer (CE), WRO, PWD, Madurai Region, Madurai, after inspecting the damaged grade walls, proposed (July 2008) strengthening of the grade walls by providing protection arrangements like abutments¹¹, apron¹², etc. Estimates for strengthening of two out of the three grade walls near Kanur and Milaganur FCHS at a cost of ₹ 8.20 crore were submitted (July 2009) to the Engineer-in-Chief, WRO for obtaining Government sanction which was awaited.

Scrutiny (March 2008) of records of the CE, Madurai revealed that the grade walls had collapsed due to the departmental lapses as discussed below:

(i) The design of the grade walls furnished by the CE, Design, Research and Construction Support, WRO, PWD, Chennai prescribed (September 2002)

⁸ Structure constructed to draw out water from a tank or river

⁹ Bed dam like structures with crests of cross-walls raised only up to theoretical bed level of the river

¹⁰ The lowest point of sluice opening

¹¹ Structure that connects and support primary structure

¹² Platform like structure in a sluice-way to protect erosion

that the crest (top) level of grade walls should be fixed at the theoretical bed level at the proposed locations. The SE, however, adopted the sill level of the FCHS as the crest level of the grade walls, instead of the bed level, stating that the exact theoretical bed levels at the grade wall locations were not traceable from the records. The grade walls were constructed for heights ranging from 0.52 m to 1.30 m above the bed level leading to water pressure and deep scouring which led to the collapse of the grade walls.

(ii) It was also noticed that a portion of the grade wall at Kanur FCHS collapsed even during the construction period itself, when 3,000 cusecs of water was released in Vaigai river (August 2007) for drinking purposes. The CE, Plan Formulation, Chennai, who inspected the site, observed (September 2007) that insufficient binding between two layers of concrete led to shear formation¹³ and collapse of the structure. The damaged portion of the grade wall was got redone by the contractor at his own cost. This grade wall again collapsed after completion during floods.

(iii) It was further noticed that the levelling and regrading work which was required to be done in the river bed up to the crest level of the gradewalls in the up stream and down stream sides, was not done in any of the grade walls.

Thus, fixing incorrect crest levels of grade walls had resulted in deep erosion of the river bed and collapse of grade walls even during low flood conditions. The department proposed (May 2008) to reconstruct the collapsed portions of the grade walls at an estimated cost of ₹ 72.84 lakh.

The CE replied (May 2010) that provision was made in the sanctioned estimates for levelling and regrading¹⁴ the river bed up to the crest level of the grade wall in the upstream and downstream sides and that since the floods occurred prior to execution of regrading work, small stretches of grade walls failed. The reply is not acceptable as no provision was made in the sanctioned estimate of one grade wall (Koothangal) for levelling and regrading the river bed or other protective arrangements. Though the provision for levelling was made in the estimate of another grade wall (Milaganur), this was not done prior to occurrence of the floods in December 2007 even though the grade wall work was completed in July 2007 itself. In respect of the Kanur grade wall, the department should have been doubly cautious in providing protective measures since the grade wall had collapsed even during execution stage itself. The grade walls, which were designed to withstand flood discharges of more than 83,900 cusecs, failed even during low discharges of 9,300 to 22,350 cusecs due to defective design.

Thus, the defective designing of grade walls, non-execution of levelling and regrading work in the river bed and poor monitoring resulted in wasteful expenditure of ₹ 45 lakh, besides avoidable liability of ₹ 72.84 lakh on reconstruction of collapsed grade walls for a length of 180 metres.

¹³ Deformation between two layers of concrete due to compressive stress

¹⁴ Regrading is a process of raising and/or lowering the levels of river to enable free flow

The matter was referred to Government in June 2010. Reply had not been received (November 2010).

2.2 Undue favour to contractors/violation of contractual obligations/avoidable expenditure

ANIMAL HUSBANDRY, DAIRYING AND FISHERIES DEPARTMENT

2.2.1 Additional commitment of ₹ 31 crore to Government due to delay in identification of suitable agency to execute the work

Injudicious rejection of the department's initial proposal to set up a dairy-cum-powder plant in Thiruvannamalai District through the National Dairy Development Board resulted in additional commitment of ₹ 31 crore to the Government on the project due to escalation in cost, besides blocking of funds of ₹ 6.73 crore for over two years.

The Commissioner, Milk Production and Dairy Development (Commissioner) proposed (August 2004) to establish a dairy-cum-powder plant in Thiruvannamalai District through the National Dairy Development Board (NDDB). The implementing agency was to be the Tamil Nadu Co-operative Milk Producers' Federation Ltd., (TNCMPF). The Government sanctioned (May 2007) the setting up of the plant at a cost of ₹ 29.31 crore¹⁵ with financial assistance from the National Bank for Agriculture and Rural Development (NABARD).

Scrutiny of the records revealed that both the Commissioner and TNCMPF had sought the permission of Government to execute the work on a turn-key basis through NDDB at the proposal stage (August 2004) itself, citing the NDDB's nationwide experience in execution of projects and execution of such projects for TNCMPF in earlier years. The Commissioner had also sought (August 2004) special exemption from the provision of the Tamil Nadu Transparency in Tenders Act¹⁶ (TNTT Act) for entrusting the work to NDDB. The Government did not accede to the request of the Commissioner. In May 2007, the Government, however, directed the TNCMPF to execute the work through a competent technical agency selected in accordance with the provisions of the TNTT Act. Even though TNCMPF called for tenders, no agency could be finalised as the tenderers had no experience in both civil construction and supply and execution of plant and machinery. Since no agency could be identified which had the expertise to execute the work, the Government revised its earlier stand and permitted (November 2008) the Commissioner to execute the work through NDDB on turn-key basis by exempting TNCMPF from the provisions of TNTT Act. Government released ₹ 25.04 crore (₹ 3.73 crore in 2007-08; ₹ 3.31 crore in 2008-09 and ₹ 18 crore in 2009-10) towards its share and NABARD's loan portion to TNCMPF. Out of ₹ 25.04 crore the TNCMPF had spent ₹ 18.31 crore till December 2009 towards preliminary expenses and advance payment to NDDB. The balance

¹⁵ State Government's Share : ₹ 1.47 crore and NABARD loan : ₹ 27.84 crore

¹⁶ An Act passed by the State Government to provide for transparency in the public procurement and to regulate the procedure in inviting and accepting tenders and matters connected therewith or incidental thereto

amount of ₹ 6.73 crore remained unutilised with TNCMPF for over two years. Meanwhile, the project cost had increased to ₹ 60.18 crore due to escalation in cost of material.

Thus, the act of Government in not acceding to the request of the Commissioner and TNCMPF for execution of the work through NDDDB while issuing orders in May 2007 not only delayed execution of the project but also led to increase in project cost by ₹ 31 crore due to escalation and blocking of funds of ₹ 6.73 crore for over two years. The objective of setting up of the dairy-cum-powder plant was still to be achieved.

The matter was referred to Government in March 2010. Reply had not been received (November 2010).

HIGHWAYS DEPARTMENT

2.2.2 Avoidable expenditure on upgradation of a National Highway stretch under a State road project

Failure to omit a stretch of the National Highway 210 from the World Bank-aided State road project resulted in avoidable expenditure of ₹ 28.28 crore.

With a view to improving the quality and sustainability of State Highways and Major District Roads, Government sanctioned (April 2003) the World Bank aided Tamil Nadu Road Sector Project (TNRSP) at a cost of ₹ 2118.77 crore. The roads to be upgraded under the project were taken up for execution under four contract packages. Under Package-3, upgradation of roads to a length of 100 km between Kattumavadi and Ramanathapuram was included and the package work, awarded (February 2005) to a contractor for a contract price of ₹ 143.41 crore, was completed (August 2009) at a cost of ₹ 255.67 crore

Scrutiny (December 2009) of records of the Project Director (PD), TNRSP revealed that the Government of India, Ministry of Surface Transport – Roads Wing (GOI) notified (January 1999) the road connecting Tiruchirappalli-Pudukottai-Devakottai-Ramanathapuram as National Highway (NH) 210. Under Package-3, the stretch from Devipattinam to Ramanathapuram of the NH 210 overlapped the proposed upgradation under TNRSP between Kattumavadi and Ramanathapuram.

In the TNRSP appraisal document (May 2003) as well as in the bid document (July 2003) Package 3 included the NH stretch from Devipattinam to Ramanathapuram. The PD requested (August 2004) the Empowered Committee (EC) of the project to retain the NH stretch in the TNRSP, stating that evaluation of bids was over and hence delinking the NH stretch from Package-3 of the project would be difficult as this would decrease the contract price for Package 3 by ₹ 17.50 crore, besides possible contractual claims from the contractor. The EC approved (August 2004) Package 3 including the NH stretch and the Divisional Engineer, Highways, TNRSP Division, Ramanathapuram upgraded (January 2009) the stretch for a length of 11.05 km at a cost of ₹ 28.28 crore from project funds.¹⁷

¹⁷ ₹ 255.67 crore x 11.05 km/99.90 km

Thus, the failure to omit the stretch of the NH 210 which was declared as the NH in January 1999, from the World Bank-aided State road project resulted in avoidable expenditure of ₹ 28.28 crore from the State funds under the project. It was also noticed that the NH 45A connecting Cuddalore-Chidambaram-Nagapattinam, which was included in the project roads was subsequently deleted from the project at the project appraisal stage itself (May 2003).

The matter was reported to Government in June 2010. Government stated (September 2010) that the travel time reduction in the corridor could not be achieved if there was discontinuity in the corridor. The reply is not acceptable since there would not be any discontinuity in the corridor as the stretch was declared (January 1999) as a National Highway and taken over by GOI for maintenance and that the standard of maintenance of NH roads was higher than that of the State Highway roads.

2.2.3 *Unauthorised financial benefit to contractors*

Even though the agreed rates of contractors for five bridge and road works were inclusive of all duties and taxes, the Chief Engineer (Highways Department) provided Central excise duty exemption benefit to contractors resulting in unauthorised financial benefit of ₹ 2.37 crore to contractors.

Government accorded (October 2005 and April 2007) administrative approvals for construction of four¹⁸ bridges at a cost of ₹ 39.85 crore and improvement to a road¹⁹ at a cost of ₹ 12 crore respectively under the Asian Development Bank (ADB) funded Tsunami Emergency Assistance Project. The Chief Engineer (Highways), National Bank for Agriculture and Rural Development (NABARD) and Rural Roads (CE) technically sanctioned (September 2006 – June 2007) estimates of the works for a total value of ₹ 45.97 crore. On approval of the tenders by the Commissionerate of Tenders and clearance from ADB, the Superintending Engineer (Highways), NABARD and Rural Roads Circle, Chengalpattu (SE), awarded (July 2007-January 2008) the works to three contractors for a total contract value of ₹ 61.05 crore as against the technically sanctioned amount of ₹ 45.97 crore. The road work was completed (March 2009) at a cost of ₹ 9.04 crore and the bridge works were completed between September 2009 and June 2010 at a cost of ₹ 62.66 crore.

As per Central Excise Notification No. 108/1995 (August 1995), all goods supplied to projects funded by ADB are exempted from levy of Central excise duty and certificates for availing of the exemption in respect of all procurements were to be issued to contractors by the executive head of the project implementing agency and countersigned by the Principal Secretary/ Secretary (Finance) of the State Government.

¹⁸ (i) Construction of high level bridge across Pulicat lake in Pulicat Light House Kuppam road; (ii) Construction of high level bridge across Paravanar at km ¼ of Pachaiyankuppam- Sothikuppam road; (iii) Construction of high level bridge across Vellar at km 11/4 of Killai road and (iv) Construction of high level bridge across Uppanar River at km 4/6 of Pichavaram-Kodianpalayam road.

¹⁹ Improvements to road from Alapakkam to Annankoil (via) Thiruchopuram, Periyakuppam, Chinnoor and Parangipettai road km 0/0-20/580

Scrutiny (July 2009) of records of CE revealed that though the materials procured for project works were eligible for excise duty exemption, the rates for various items of work adopted in the sanctioned estimates were inclusive of all duties and taxes. Even in the bid conditions, there was no mention regarding the availability of Central excise duty exemption for these works and issue of certificates to the contractors by the department for claiming exemption. After signing the agreements, the contractors requested the DE to arrange for issue of certificates for claiming exemption from levy of excise duty for materials required for the works. Based on the recommendations of the DE and the CE justifying the contractors' requests on the grounds of non-availability of price escalation clause in the agreements, certificates were issued by the Principal Secretary to the Government, Highways Department for the estimated quantities of various materials required for the works eligible for Excise Duty exemption. Till July 2009, the contractors availed of duty exemption of ₹ 2.37 crore in respect of materials procured for the works.

The CE /SE failed to exclude this Central excise duty component while arriving at the estimated rates for various items of work and also to include a special condition regarding the availability of duty exemption in the bid documents. Inasmuch as the quoted rates of contractors were inclusive of Central excise duty, the irregular issue of certificates to contractors to facilitate them to avail of the excise duty exemption on materials procured resulted in unauthorised financial benefit of ₹ 2.37 crore to the contractors as given in the **Appendix 2.3**.

The matter was reported to Government in May 2010. Government stated (October 2010) that the contractors would have quoted rates after taking into account the excise duty exemption available for ADB assisted works. The reply is hypothetical and not acceptable as the agreed rates were inclusive of all duties and taxes and as per clause 14.1 of the General Conditions of Contract, the contractors were to pay all taxes, duties and fees required to be paid by them under the contracts.

MUNICIPAL ADMINISTRATION AND WATER SUPPLY DEPARTMENT

TAMIL NADU WATER SUPPLY AND DRAINAGE BOARD

2.2.4 Avoidable expenditure due to non-availment of rebate offered by a contracting firm

Failure of the Chief Engineer, Tamil Nadu Water Supply and Drainage Board, Southern Region, Madurai to avail of a rebate of ₹ 2.28 crore offered by the contracting firm resulted in avoidable expenditure of ₹ 1.50 crore under the Asian Development Bank - assisted water supply project.

Central Excise Notification No 108/1995 (August 1995) exempts all materials supplied to projects financed by the United Nations/international organisations and approved by the Government of India (GOI) from payment of Central

excise duty (CED). Central Excise Notification No 47/2002 (September 2002), also exempts from payment of CED, all items of machinery and equipment required for setting up of water treatment plants in drinking water supply projects and pipes required for water supply projects having water treatment plants for delivery of water from its source to water treatment plant and from the plant to the first storage point irrespective of the source of financing.

Government sanctioned (October 2005) a Combined Water Supply Scheme for 113 tsunami-affected coastal habitations in Tirunelveli District at a cost of ₹ 23.68 crore under the Asian Development Bank (ADB) assisted Tsunami Emergency Assistance Project for execution by the Tamil Nadu Water Supply and Drainage (TWAD) Board. Though the water supply project had no water treatment plant and no CED exemption was available under Notification No 47/2002, exemption was available under Notification No. 108/1995 as it was financed by the ADB.

The Chief Engineer, TWAD Board, Southern Region, Madurai (CE), technically sanctioned (January 2006) the estimate of the scheme for ₹ 26.68 crore, adopting rates inclusive of CED for pipes instead of adopting the rates exclusive of CED for all materials. The work awarded (October 2007) to a firm for a contract price of ₹ 24.51 crore, was completed (September 2009) at a cost of ₹ 27.28 crore.

Audit scrutiny of the records of CE revealed that bid documents of the work included a condition that CED exemption, if any, availed of by the contractor should be passed on to the Board. The firm which quoted the lowest price (₹ 25.29 crore) informed (June 2007) the CE that their rate was inclusive of CED and that the exemptions would be passed on to the Board. CE, however, during evaluation of the bids for the project (June 2007), revised the departmental value by adopting rates exclusive of CED for the pipes, wrongly presuming that exemption under Notification No 47/2002 was available for pipes required for this scheme, but without realizing that this scheme was covered under Notification No. 108/1995. The CE informed (June 2007) that necessary certificates would be issued to the firm for availing CED exemption for the pipes and that the benefit need not be passed on to the Board. Considering the CE's assurance, the firm offered a rebate of nine *per cent* (₹ 2.28 crore) on their quoted price.

On an enquiry by the Board, the Central Excise Department clarified (June 2007) that CED exemption under Notification No 47/2002, was available only for pipes used in water supply projects having water treatment plants. At no point of time during the tender process, did the CE inform the bidders that CED exemption was available for the project under Notification No 108/1995 as it was financed by ADB. In view of the clarification, the firm withdrew (July 2007) the nine *per cent* rebate offered earlier and offered a lump sum reduction of ₹ 78 lakh in their quoted price, thereby reducing the price to ₹ 24.51 crore. After conclusion (November 2007) of the agreement, an amendment slip was issued (December 2007) by the CE to the effect that

the agreed rates were inclusive of CED. The withdrawal of the rebate by the firm resulted in avoidable extra expenditure of ₹ 1.50 crore²⁰.

When this was pointed out, the CE stated (August 2009) that the TWAD Board was not aware of the exemption available for ADB assisted projects (Notification No 108/1995). The Chairman and Managing Director of the Board replied (February 2010) that the firm had not availed of any exemption as no certificate for claiming the CED exemption was issued by the Board and that the amount paid towards CED was only revenue to GOI. The reply of the TWAD Board that it was not aware of Notification 108/1995 is not acceptable as it had resulted in non-availment of rebate of ₹ 1.50 crore offered by the contractor. The Project Management Unit, established (July 2005) by the Government to monitor the activities of the project implementing agencies also failed to inform the Board regarding the CED exemption available for ADB assisted projects which was availed of by another implementing agency (State Highways Department) in respect of the transportation component of the same project.

The matter was referred to Government in June 2010. Reply had not been received (November 2010).

HIGHWAYS DEPARTMENT

2.2.5 Avoidable expenditure on carrying out urgent repairs to a road underbridge

Failure of the Highways Department to get defective work rectified through a contractor during the defect liability period resulted in avoidable expenditure of ₹ 1.03 crore on carrying out urgent repairs to a road underbridge.

A road underbridge (RUB) at km 0/8 of the southern sector inner ring road at Thillai Ganga Nagar in Chennai was constructed (May 2002) by the department at a cost of ₹ 4.29 crore, adopting the contractor's design. The Superintending Engineer (SE) (Highways), Projects I Circle, Chennai furnished (August 2002) a completion certificate to the effect that the work conformed to the approved design and drawings and was free from any noticeable defect. The agreement provided for retention of 2.5 *per cent* of the total value of the work executed as a deposit for the defect liability period of five years.

Scrutiny of records revealed that seepage of water from the walls and raft of the RUB was noticed in the year of completion (2002) itself and the DE instructed (November 2002 and January 2003) the contractor to rectify the defective work. As the contractor failed to rectify the defective work effectively, the DE warned (April 2005) the contractor that, in case of failure, the defects would be rectified departmentally and the cost recovered from him. Thereafter, only routine reminders and notices were sent to the contractor up to June 2006. In the meanwhile, based on the SE's certificate that the quality

²⁰ ₹ 2.28 crore – ₹ 0.78 crore (lump sum reduction)

of work done was good, the withheld amount of ₹ 10.74 lakh was refunded (August 2004) to the contractor after obtaining an indemnity bond valid up to May 2007. The department failed to carry out the rectification works departmentally within the defect liability period and recover the cost from the contractor. The RUB was handed over to the Maintenance Division for maintenance. As the leakages continued in the walls and raft²¹ of the RUB, the Maintenance Division carried out (August 2007 to January 2008) urgent repairs to the RUB at a cost of ₹ 1.03 crore.

The SE, while furnishing the completion certificate for the work stated that the work was free from any noticeable defect and recommended refund of the retention money, stating that the quality of construction was good, which was not factual. Thus, the departmental failures resulted in avoidable extra expenditure of ₹ 1.03 crore.

When pointed out, the Chief Engineer (Highways), Projects replied (November 2009) that during the defect liability period, all the defects noticed and pointed out by DE/SE were rectified by the contractor and that the repair work done by the maintenance division, after expiry of the defect liability period, was for routine maintenance of the subway. The reply is contrary to the facts brought out above since substantial repairs involving drilling holes and grouting in the bottom and walls of the RUB, which could not be termed as routine maintenance work were carried out at a cost of ₹ 1.03 crore.

The matter was referred to Government in August 2010. Reply had not been received (November 2010).

MUNICIPAL ADMINISTRATION AND WATER SUPPLY DEPARTMENT

TAMIL NADU WATER SUPPLY AND DRAINAGE BOARD

2.2.6 Avoidable extra cost due to non-evaluation of bids as per guidelines

Failure of the Chief Engineer, Tamil Nadu Water Supply and Drainage Board, Northern Region, Vellore to evaluate the bids received for three packages of the Underground Sewerage Scheme to Thiruvallur Municipality as per bid criteria resulted in avoidable extra cost of ₹ 92 lakh.

Government sanctioned (April 2007) the Underground Sewerage Scheme to Thiruvallur Municipality (UGSS) for ₹ 35.39 crore, under the World Bank assisted Third Tamil Nadu Urban Development Project (TNUDP) for execution by the Tamil Nadu Water Supply and Drainage (TWAD) Board. The Tamil Nadu Urban Infrastructure Financial Services Limited (TNUIFSL) was the Fund Manager of the Tamil Nadu Urban Development Fund and the Project Manager for TNUDP. The World Bank guidelines for procurement stipulate that the bidders should meet the eligibility criteria both technically

²¹ Raft is a concrete slab on the ground used as the riding surface.

and financially. The Chief Engineer, TWAD Board, Northern Region, Vellore (CE), sanctioned (May 2007) the estimate of the work for ₹ 34.76 crore. The CE split up the work (excluding Sewage Treatment Plant) into three packages for invitation of bids. The draft bid documents for the three packages sent by the Board were cleared by TNUIFSL in January 2008.

Bid documents prescribed the minimum qualification criteria for each package and bidders participating for more than one package were to satisfy the aggregate criteria to qualify for award of more than one contract. The bid conditions prescribed an annual turnover of ₹ 9.80 crore, ₹ 6 crore and ₹ 9 crore for packages I, II and III respectively. The CE received (6 March 2008) eight bids valid up to 3 June 2008 for the packages. Firm 'A' was the lowest bidder for all the three packages and the Engineering Director of TWAD Board recommended (11 April 2008) firm 'A' for all the packages to TNUIFSL for a total value of ₹ 28.08 crore (₹ 11.97 crore, ₹ 5.95 crore and ₹ 10.16 crore for packages I, II and III respectively) even though the bidder did not satisfy the aggregate criteria prescribed in respect of the annual turnover. TNUIFSL returned (May 2008) the bid evaluation report (BER) stating that the annual turnover of firm 'A' (₹ 12.61 crore) fell short of the required aggregate annual turnover for all three packages and instructed the Board, to re-evaluate the bids for deriving maximum financial benefits in award of package works.

The Managing Director (MD), TWAD Board, agreed that firm 'A' did not satisfy the combined annual turnover criteria prescribed in the bid conditions. The MD, however, resubmitted the BER to TNUIFSL without any revision, recommending (19 May 2008) firm 'A' again for all the three packages, stating that its assessed bid capacity²² (₹ 28.58 crore) was more than the combined contract value of ₹ 28.08 crore. TNUIFSL did not accept the MD's recommendation as the bids were not evaluated as per the World Bank guidelines and bid conditions, and advised (6 June 2008) the MD to revise the BER with the best possible combination.

In the meantime, the validity period of the bids expired and when the CE requested the bidders to extend their validity, firm 'A' extended its validity only for package III (up to 3 September 2008) and the second lowest bidders for packages I and II, firms 'B' and 'C' also extended their validity periods up to 3 September 2008. The bids were evaluated (June-September 2008) by the CE and the works awarded (August-September 2008) to the three firms at a total contract price of ₹ 32.23 crore (₹ 14.55 crore, ₹ 7.52 crore, ₹ 10.16 crore for packages I, II and III to firms 'B', 'C' and 'A' respectively). The works were in progress (June 2010).

Had the Board evaluated the bids as per the bid criteria and the advice of the TNUIFSL, the three packages could have been awarded to the lowest and second lowest bidder at a total contract price of ₹ 31.31 crore (package I to firm 'A' for ₹ 11.97 crore and packages II and III to firm 'C' for ₹ 7.52 crore

²² Bid capacity is computed based on maximum value of civil works executed by the firm in any one of the last five years and the value of existing commitments and ongoing works.

and ₹ 11.82 crore). Thus, the imprudent action of TWAD Board to recommend firm ‘A’ twice for all the three packages, ignoring the minimum qualification criteria stipulated in the bid conditions, resulted in award of the contracts at an avoidable extra cost of ₹ 92 lakh²³.

When pointed out (June 2010) by Audit, the Board stated (July 2010) that, if TNUIFSL felt that the lowest bidder could not be awarded more than one package, it could have issued a ‘no objection certificate’ for Package I before the expiry of tender validity. Government also concurred (August 2010) with the views of the Board. The reply is not acceptable since TNUIFSL while returning the proposal in May 2008 categorically stated that the firm ‘A’ did not satisfy the qualification criteria collectively for all the three packages. As the subsequent recommendation of the Board was also against the World Bank guidelines, TNUIFSL was left with no other option but to return the proposal. Thus, the incorrect evaluation of the bids by the Board violating the World Bank guidelines resulted in avoidable extra cost of ₹ 92 lakh.

HIGHWAYS DEPARTMENT

2.2.7 Non-realisation of amount due to Government

Failure of the Divisional Engineer, Highways, Madurai Division, to get bank guarantees for ₹ 34.68 lakh obtained from contractors revalidated, resulted in non-realisation of amounts guaranteed on termination of their contracts, besides non-recovery of extra cost of ₹ 41.54 lakh

The Divisional Engineer (DE) (Highways), Madurai Division obtained (June to October 2005) bank guarantees (BGs) for ₹ 34.68 lakh as security from contractors for due performance of contracts in respect of three²⁴ road works. In cases of termination of contracts due to the contractors’ failure to complete the work within the contract or the extended contract period, the security deposits were to be forfeited to Government by invoking the BGs and the extra cost involved in completing the balance work was to be recovered from the contractors.

The contracts for the first two works were entrusted in June 2005 and December 2005 for completion in three and seven months respectively. As the works were not completed, extension of time was given till October 2006 and July 2007. The contracts were terminated (October 2006 and July 2007) at the contractors’ risk and cost by the DE as they failed to complete the works even within the extended periods of contract. The balance works were executed (April 2007 and January 2009) by other contractors at an extra cost of ₹ 41.54 lakh (₹ 31.21 lakh + ₹ 10.33 lakh).

Scrutiny of records of DE revealed that the BGs of ₹ 34.68 lakh obtained from the earlier three contractors expired between March and December 2006. Even though the DE granted extension of time up to October 2006 and July

²³ ₹ 32.23 crore – ₹ 31.31 crore.

²⁴ (i) Strengthening Melakkal-Peranai road in kilometre (km) 17/4 – 34/6.
(ii) Widening Battalagundu-Peraiyur road in km 25/6 – 45/2.
(iii) Improvement of three roads in Package No TN-08-17 under Pradhan Mantri Gram Sadak Yojana scheme.

2007 to the contractors of the first two works, he failed to get the BGs revalidated up to the extended periods. In respect of the third work, the DE accepted a BG for ₹ 17.82 lakh from a non-scheduled bank (co-operative bank) violating the tender condition that it should only be from a scheduled bank. The contract for the third work was terminated (April 2006) by the DE at the request of the contractor. The DE, however, failed to invoke the BG within its validity period (November 2006). As a result, the security deposits obtained from the contractors in the form of BGs could not be forfeited to Government on termination of the contracts.

For recovering the extra cost of ₹ 41.54 lakh involved in two works and for realizing the amounts guaranteed in the expired BGs (₹ 16.86 lakh) the DE proposed (December 2009) recovery under the Revenue Recovery Act as stipulated in the agreement and sent the proposals to the Revenue Department. However, recovery proposals for ₹ 17.82 lakh under the Revenue Recovery Act were not sent in respect of the third work. The dues remained unrecovered till September 2010.

Thus, the failure of DE to get the BGs revalidated up to the extended periods at the time of granting extension of time for two works and to invoke the BG within the validity period for the third work resulted in non-realisation of an amount of ₹ 34.68 lakh due to Government by way of forfeiture of security deposits. Reasons for not revalidating the BGs and acceptance of a BG from a non-scheduled bank by the DE violating the bid conditions were not furnished to audit. Further, the extra cost of ₹ 41.54 lakh involved in two works had also not been recovered (May 2010).

The matter was reported to Government in July 2010. Government stated (September 2010) that action was being taken to recover the dues by addressing various wings of the department and also through Revenue Recovery Act. The fact, however, remained that the amounts due were not realized as on date.

HEALTH AND FAMILY WELFARE DEPARTMENT

2.2.8 Avoidable expenditure on purchase of Siddha medicines

Delay in assessing district-wise requirement of Siddha medicines for treatment of Chikungunya resulted in procurement of medicines from private manufacturers at a higher cost leading to excess expenditure of ₹ 51.21 lakh.

Chikungunya, an infectious viral disease, broke out in March 2006 and spread to all districts of the State, reaching epidemic proportions during 2006-07. With a view to treating chikungunya patients visiting the Indian System of Medicine (ISM) wings in Government hospitals, the Special Commissioner, Indian Medicine and Homoeopathy Department (SC, IMH) sought (July 2007) Central assistance from the Government of India (GOI) to procure Siddha medicine at a total cost of ₹ 2.51 crore to treat an estimated 300 patients in each of the 722 ISM wings in Government hospitals. The course of treatment decided by the SC, IMH included eight Siddha preparations for five days. The Siddha wings of Government hospitals, dispensaries and Primary Health

Centres (PHCs) treated 1.01 lakh chikungunya patients during 2006-07 and 0.40 lakh patients during 2007-08. Based on the proposal of SC, IMH, GOI sanctioned and released²⁵ (November 2007) ₹ 1.65 crore for procurement of the Siddha medicines proposed by SC, IMH.

Scrutiny (September 2009) of the records of offices of SC, IMH and Director of Public Health and Preventive Medicine (DPH&PM) disclosed that as the epidemic had come under control by the time of receipt of central assistance and medicines already supplied using State Government funds were available with ISM wings of Government medical institutions, the SC, IMH kept the funds unutilized and sought the district-wise requirement of medicines from District Siddha Medical Officers (DSMO) only in April 2008. The DSMOs did not furnish their requirements well in time, leading to delay in commencement of the procurement process. In the meantime, as DPH&PM opined (7 November 2008) that the medicines should be supplied to the ISM wings before the end of November 2008 so as to combat the disease which was seasonal in nature, the SC, IMH sought (7 November 2008) urgent supplies before the end of November 2008, from Tamil Nadu Medicinal Plant Farms & Herbal Medicine Corporation Ltd (TAMPCOL)²⁶. TAMPCOL expressed (7 November 2008) its inability to supply the required quantity before the end of November 2008 as they were not able to supply the medicines in such short notice. As a result, the SC, IMH procured (November 2008) the medicines through open tenders from two different private manufacturers.

It was noticed that the prices paid for three medicines procured from private manufacturers were higher than that prevailing with TAMPCOL for the same medicines as given below:

Name of medicine	Packing	Quantity procured (packs)	Procurement price (₹ per pack) from private suppliers	TAMPCOL price (₹ per pack)	Price difference (₹ per pack)	Excess expenditure (In ₹)
T. Amukkara Suranam	500 tablets	5,730	100.00	66.14	33.86	1,94,018.00
Pinda Thailam ²⁷ / Sikappukukil Thailam	500 ml	42,975	137.51	73.63	63.78	27,40,945.50
Nilavembu Kudineer	500 grams	14,325	225.00	72.38	152.62	21,86,281.50
Total						51,21,245.00

²⁵ GOI sanctioned ₹ 2.51 crore, but adjusted an unspent amount of ₹ 85.50 lakh relating to an earlier release for a different scheme and released ₹ 1.65 crore

²⁶ TAMPCOL is a Government agency which manufactures and supplies Siddha medicines to ISM wings of Government Hospitals.

²⁷ The medicine manufactured by TAMPCOL in the name of Pinda Thailam is manufactured in the name of Sikappukukil Thailam by the private supplier.

Thus, the inordinate delay in assessment of the requirement and consequent delay in placing orders on TAMPCOL for more than a year resulted in placing of purchase orders at a higher rate on private manufacturers, leading to avoidable excess expenditure of ₹ 51.21 lakh. Moreover, the delayed procurement (November 2008) of Siddha medicines defeated the very purpose of sanctioning (November 2007) of funds for timely intervention to control the disease.

The matter was referred to Government in June 2010. Reply had not been received (November 2010).

HIGHWAYS AND REVENUE DEPARTMENTS

2.2.9 Avoidable expenditure due to delay in acquisition of land

Delay in approval of a proposal for land acquisition resulted in avoidable expenditure of ₹ 46.30 lakh towards escalation payment to a contractor.

Government sanctioned (October 2000) the construction of a road over bridge (ROB) in lieu of the existing level crossing (LC 91) between Thirupathur and Moolakaranpatti railway stations for ₹ 13.37 crore. The work involved construction of the ROB by the Railways and an approach road on both sides by Highways Department. In addition to the available Government land, acquisition of private land to an extent of 2,870 sq.m. was essential to complete the work.

The Chief Engineer (General) (CE) approved (January 2004) the tender for construction of the approach roads for ₹ 3.91 crore for completion in 18 months (by July 2005) and the contractor commenced (February 2004) the work in the Government land made available to him. As the private land was not acquired even by the extended time upto February 2006, the contract was foreclosed (June 2006) at the request of the contractor. The contractor was paid (August 2006) ₹ 71.30 lakh for the value of work done²⁸. The estimate for the balance work was revised to ₹ 3.93 crore (2006-07 schedule of rates) and the work was entrusted (January 2007) to the same contractor for a contract price of ₹ 4.45 crore, even though the private land was still to be acquired. Even though the work was scheduled to be completed by May 2008, the land was acquired and handed over to the Highways Department in June 2008 and the work was completed only in March 2009. The request of the contractor for payment of price escalation charges over and above the agreed amount was considered and an amount of ₹ 46.30 lakh was sanctioned by Government in December 2009. The contractor was paid ₹ 4.45 crore as contract payment in September 2009 and ₹ 46.30 lakh towards price escalation in January 2010.

²⁸ Piers and retaining walls

Scrutiny of records revealed that the delay in acquisition of land was avoidable as discussed below:

The Tamil Nadu Highways Act, 2001, under which the land was proposed to be acquired, provides for issue of show-cause notices to the parties and public notices under Section 15 (2), publishing in Government Gazette under Section 15 (1), taking over the land, passing of award and settlement of compensation to the landowners. A total period of 325 days was prescribed for completion of land acquisition.

The Divisional Engineer, Chengalpattu sent (September 2004) land plan schedules for 2,870 sq.m. of land to the District Collector, Vellore. Government, while approving (July 2005) the proposals under Section 15 (2), instructed the Collector to ensure that the land to be acquired did not attract the provisions of the Tamil Nadu Land Reforms Act, 1961. The Land Reforms Department was to certify that the land proposed to be acquired was not surplus land taken over by Government under the Act for distribution to landless poor. Government had not approved the proposals (February 2006) of the Collector for gazette notification under Section 15 (1), as they did not contain the clearance certificate from the Land Reforms Department and also wrongly included acquisition of land from the Tamil Nadu Housing Board for another work. The Collector issued a Press notification in June 2006 for deletion of the land proposed to be acquired from the Tamil Nadu Housing Board, obtained the certificate from the Land Reforms Department in December 2006 and sent revised proposals only in October 2007. A gazette notification under Section 15 (1) was finally issued in November 2007. The land cost was fixed in June 2008 and the award was passed by the Collector in August 2008. In the meantime, based on a request from the Divisional Engineer, Highways, Projects, Vellore, the District Collector issued (June 2008) 'enter upon' permission²⁹ to the site.

Thus, as against 325 days prescribed for completion of all stages of land acquisition, the land acquisition process was delayed by 577 days (February 2006 to October 2007) due to the deficiencies in the Collector's proposals under Section 15 (1). Even though the private land had not been acquired at the time of awarding the balance work, the DE retendered the balance work which was awarded to the same contractor. The avoidable delay in finalising the land acquisition proceedings resulted in extension of the contract period up to March 2009 and an additional expenditure of ₹ 46.30 lakh towards escalation payment to the contractor.

The matter was referred to Government in June 2010. The Highways Department admitted (October 2010) the additional expenditure. However, reply had not been received from the Revenue Department (November 2010).

²⁹ The permission given by the Collector, after getting consent letters from landowners to the Highways Department to take possession of the land for commencement of work.

HANDLOOMS, HANDICRAFTS, TEXTILES AND KHADI DEPARTMENT

2.2.10 Avoidable payment of premium under Health Insurance Scheme for handloom weavers

Enrolment of husband and wife of a family as individual members and payment of insurance premium separately for each under the Health Insurance Scheme for Handlooms Weavers, instead of treating them as a family resulted in avoidable expenditure of ₹ 44.30 lakh as insurance premia to the State/Government of India.

Government of India (GOI) has been implementing a health insurance scheme (HIS) for handloom weavers and their family since 2005-06, to enable the weavers' community to access the best health care facilities in the country. The scheme covers weavers as well as ancillary handloom workers³⁰ and is implemented through ICICI Lombard General Insurance Company Limited. Under the scheme, a premium of ₹ 781.60 per annum per weaver including his wife and two children is to be paid to the insurance company. The annual premium payable to the insurance company is to be shared between GOI and the State Government/weavers at the rate of ₹ 642.47 and ₹ 139.13³¹ respectively. However, the weaver's minimum share of ₹ 50 per family is also contributed by the State Government. Both GOI and State Government are required to pay their due share directly to the insurance company.

During 2007-09, the State Government sanctioned its share of ₹ 8.35 crore towards payment of premium to the insurance company for covering three lakh handloom weavers/ancillary handloom workers annually under the scheme. Against the sanction, the Commissioner of Handlooms and Textiles (Commissioner) paid ₹ 7.98 crore to the insurance company during 2007-09, covering 5.74 lakh weavers under the scheme at the rate of ₹ 139.13 per weaver per annum. The insurance company also issued 5,73,669 health cards to insured persons.

Scrutiny of the records at 194 test-checked co-operative societies in five co-operative circles³² and in the Offices of the Assistant Director Handlooms and Textiles revealed that in 5,668 cases, the Commissioner had paid ₹ 781.60 per person as premia, even though the payment of single premium of ₹ 781.60 was required to be paid as insurance cover for the whole family including the weaver, his wife and two children. Thus, the enrolment and payment of insurance premia separately for husband and wife of a family, resulted in avoidable expenditure of ₹ 44.30 lakh on insurance premia to the State/GOI in respect of 5,668 insured persons.

The Government accepted (April 2010) the audit findings and subsequently had on its own verification noticed issue of 10,031 duplicate cards in 18

³⁰ Workers engaged in warping, winding, dyeing, printing, finishing, etc.

³¹ Includes a minimum contribution of ₹ 50 per family payable by the weavers

³² Coimbatore, Erode, Kancheepuram, Salem and Vellore

circles in the State involving avoidable payment of ₹ 78.40 lakh and had eliminated the same from claiming benefits under the Health Insurance Scheme.

HIGHWAYS DEPARTMENT

2.2.11 Avoidable expenditure due to non-finalisation of tenders within the validity period

Delay in evaluation of tenders resulted in non-finalisation of tenders by the Commissionerate of Tenders within their validity periods and avoidable expenditure of ₹ 40.17 lakh on retendering.

With a view to finalising tenders expeditiously, Government had fixed (May 1982) a 15 day time limit for evaluation of tenders by the Superintending Engineers, including the time taken for negotiation if necessary, a seven day limit for scrutiny by the Chief Engineers and a 30 day time limit for finalisation of the tenders by the tender committees. The same time limit was reiterated by the Government in September 1998.

Government sanctioned (January 2007) widening and improving two reaches³³ of the road from Hasthampatti to foot of Shervaroys (via) Kannankurichi at a cost of ₹ 180 lakh. The Superintending Engineer(SE), Highways, Project Circle, Coimbatore awarded (October 2008) the works to contractors in the sixth call of tender for contract value of ₹ 124.73 lakh and ₹ 120.99 lakh respectively. The works were completed (June 2009) at a cost of ₹ 240.17 lakh against the contract value of ₹ 245.72 lakh.

Scrutiny of records of the SE, Highways, Project Circle, Coimbatore, revealed delays in evaluation of tenders for the works as discussed below:

There was no response to the first and second tender calls made (August and September 2007). In response to the third call, the SE received (19 October 2007), a single tender from a contractor for both the works with a validity period of 90 days i.e. up to 15 January 2008. The single tender for each of the works, after negotiation, (for ₹ 102.39 lakh and ₹ 103.16 lakh), with 10 per cent excess over departmental value for both the works were recommended by the SE to the Chief Engineer, Highways, Projects Circle (CE) on 22 November 2007. As the SE had not compared the quoted rates with the prevailing market rates justifying the tender excess, the CE returned (28 November 2007) the tender proposals, directing the SE to conduct further negotiations with the tenderer and to resubmit them with proper justification. The tenderer declined (3 December 2007) to reduce his rates further, citing increase in cost of construction materials. The SE resubmitted the tender for each of the works to CE on 19 December 2007 with justification for the quoted prices.

The CE submitted the tenders to the Commissionerate of Tenders (COT) on 7 January 2008. Since the tenders were not approved by the COT within the validity period (15 January 2008) and the contractor refused to extend the

³³ Kilometre 2/6 – 5/2 and kilometre 5/2 – 8/0

validity of his tenders, the tender proposals were withdrawn by CE on 29 January 2008. Reasons for non-approval of the tenders by the COT were not on record. Tenders were again called for the fourth time and there was no response for the call. In the fifth call (March 2008), though the tenders were accepted (June 2008) by the COT within the validity period, the SE, instead of issuing work orders, without assigning any reasons requested the contractors to extend the validity which was not agreed to. The tenders were subsequently cancelled by the SE and the works retendered. In the sixth call, the tenders which were valid up to 15 November 2008, were recommended (19 August 2008) by the SE and the CE on 11 September 2008 and were approved by COT on 23 September 2008. The SE issued (October 2008) work orders to contractors for a value of ₹ 124.73 lakh and ₹ 120.99 lakh.

Thus, the delay in evaluation of tenders received in the third call at various levels and consequent non-finalisation of tenders by the COT within the validity period resulted in avoidable expenditure of ₹ 40.17 lakh³⁴ on retendering.

The matter was referred to Government in June 2010; reply had not been received (November 2010).

2.3 Regularity issues and others

ADI DRAVIDAR AND TRIBAL WELFARE DEPARTMENT

2.3.1 Excess administrative expenditure on scheme implementation

Administrative expenditure in excess of the ceiling fixed by Government of India resulted in short availability of funds to the tune of ₹ 23.87 crore for implementing a scheme for economic development of Scheduled Castes.

Government of India (GOI) releases Special Central Assistance (SCA) each year to the State Governments for the economic development of Scheduled Castes. The State Governments are to utilise the SCA funds for development of the people belonging to Scheduled Castes by devising suitable schemes and for infrastructure development³⁵ in Scheduled Caste habitations. The State Governments have been given full flexibility in utilising SCA funds subject to the condition that the expenditure on staff meant for implementation, supervision, monitoring and evaluation is limited to three *per cent* of the funds released every year. For this purpose, the State Government has set up a Monitoring and Evaluation Cell (MEC) at the Secretariat for monitoring the progress in implementation of schemes.

The State Government releases the funds under SCA to Tamil Nadu Adi Dravidar Housing and Development Corporation Limited (TAHDSCO) after

³⁴ (₹ 124.73 lakh + ₹ 120.99 lakh) - (₹ 102.39 lakh + ₹ 103.16 lakh)

³⁵ Expenditure on infrastructure development should not exceed 10 *per cent* of the total release.

retaining the establishment cost (three *per cent*) of the MEC at the Secretariat. The Government of Tamil Nadu nominated (1990) TAHDCO as the agency for implementing schemes using SCA funds. TAHDCO uses the SCA funds for implementing schemes to provide self-employment to youth, vocational training and income-generating schemes to benefit individual beneficiaries.

Scrutiny of records in the office of TAHDCO and at the Secretariat revealed that against the permissible limit of three *per cent* of establishment expenditure under the schemes, the entire establishment expenditure of the MEC and TAHDCO was met from the SCA funds received from GOI during 2006-09 which resulted in incurring of excess administrative expenditure of ₹ 23.87 crore during 2006-09 as given below:

(₹ in lakh)

Year	Funds released by GOI	Administrative expenditure admissible	Administrative expenditure incurred by TAHDCO and MEC	Administrative expenditure incurred in excess of admissibility (percentage)
2006-07	4,482.57	134.48	659.42	524.94 (11.71)
2007-08	4,897.99	146.94	1,026.71	879.77 (17.96)
2008-09	6,002.81	180.08	1,162.80	982.72 (16.37)
Total	15,383.37	461.50	2,848.93	2,387.43 (15.52)

Further, while submitting the progress report on utilisation of SCA funds to GOI, the State Government had not separately indicated the administrative expenditure charged to SCA funds by TAHDCO, but had shown it as a part of the scheme expenditure. This amounted to misreporting of the expenditure incurred on administration as expenditure on schemes. The inadmissible expenditure had also been pointed out in the Comptroller and Auditor General's Audit Report for the year 1995-96. The Public Account Committee (PAC) had also observed (December 2006) that the Government could not incur expenditure on establishment beyond the permissible limit prescribed by GOI.

Incurring administrative expenditure in excess of the ceiling fixed, to the tune of ₹ 23.87 crore, despite PAC's observations, resulted in reduced availability of funds to that extent for implementing schemes for economic development of Scheduled Castes under SCA.

The matter was referred to Government in April 2010. Reply had not been received (November 2010).

REVENUE DEPARTMENT

2.3.2 Irregular distribution of colour television sets

A total of 11,354 colour television sets purchased at a cost of ₹ 2.71 crore were distributed in Erode and Madurai districts to beneficiaries without ensuring availability of electricity connections in their houses.

In order to provide entertainment to women and to enable them to acquire general knowledge, the Government introduced (June 2006) a scheme of

supply of free colour television sets (CTVs) for those families which did not have them. The scheme also envisaged that habitations of beneficiaries were required to have both electricity and cable connections. Families which possessed family card and did not own/possess CTV were eligible to get benefits under the scheme. During 2006-10, 1.04 crore CTVs were procured in the State through the Electronics Corporation of Tamil Nadu (ELCOT).

Scrutiny (March and April 2010) of records in the offices of the District Collectors of Erode and Madurai revealed that out of 5,45,847 CTVs distributed to beneficiaries during 2006-09, 11,354 CTVs procured at a cost of ₹ 2.71 crore were supplied to beneficiaries who did not have electricity connections in their houses, as detailed in **Appendix 2.4**.

Thus, in the absence of electricity connections, 11,354 CTVs procured at a cost of ₹ 2.71 crore could not be put to use by the beneficiaries. This irregular distribution of CTVs defeated the objective of providing entertainment to women and to enable them to acquire general knowledge.

The matter was referred to Government in June 2010. Reply had not been received (November 2010).

HIGHER EDUCATION DEPARTMENT

2.3.3 Irregular retention of Government receipts outside Government account

Out of ₹ 2.49 crore collected from educational institutions by the Director of Technical Education towards certificate verification fees during 2003-10, only ₹ 0.95 crore was credited into Government account. ₹ 1.15 crore was spent from the balance amount without approval of the Legislature and ₹ 0.39 crore was kept outside the Government account as of February 2010.

The Tamil Nadu Treasury Rules (Rule 7) provide that all moneys received by Government servants in their official capacity should be paid in full to the treasury or into the bank and not be appropriated to meet departmental expenditure. The rule position has also been reiterated (May 2005) by the Government to all Heads of Department.

The Director of Technical Education (DOTE) proposed (June 2003) collection of certificate verification fees³⁶ of ₹ 15 per student, on admission, from Polytechnics and Engineering colleges from the academic year 2003-04 and an amount of ₹ 2.49 crore was collected as certificate verification fees from the Polytechnics and Engineering colleges during 2003-10. The said amount was deposited in a current account of a bank, instead of remitting the amount into Government account as 'Government receipts'. Of this, DOTE spent ₹ 1.15 crore as detailed in the **Appendix 2.5** and remitted (2007-08) ₹ 0.95 crore only into the Government Account. As of February 2010, ₹ 0.39 crore

³⁶ Fee proposed to be collected by the DOTE to meet the expenditure on remuneration, honorarium to staff and stationery relating to verification of certificates of students

out of ₹ 2.49 crore collected towards certificate verification fees was available in the bank account.

The Government directed (March 2005) DOTE to remit the certificate verification fees collected under the Government account. DOTE, however, sought (June 2005) Government orders for keeping the certificate verification fees in a Personal Deposit Account, citing difficulties in completion of the admission process in time. The Government instructed (July 2006/March 2008) DOTE to indicate the amount required every year for meeting the expenditure on verification of certificates for making suitable budget provision. However, DOTE had furnished (April 2009) only the details of fees collected and expenditure met therefrom and did not send its fund requirements for making budget provisions so far (March 2010).

Thus, contrary to codal provisions which required that all Government moneys should be remitted into the treasury or bank, DOTE continued to keep its receipts outside the Government account and also appropriated the same for the department's expenditure for the past six years.

The matter was referred to Government in June 2010. Reply had not been received (November 2010).

FINANCE, INDUSTRIES, REVENUE AND HIGHWAYS DEPARTMENTS

2.3.4 Lack of responsiveness of Government to audit

Response to audit was inadequate as 3,511 Inspection Reports involving 11,278 paragraphs, issued upto September 2009 remained outstanding as of March 2010

Important irregularities detected by Audit during periodical inspection of Government offices through test check of records are followed up through Inspection Reports (IRs) issued to the Head of Office with a copy to the next higher authority. Government issued orders in April 1967 fixing a time limit of four weeks for prompt response by the authorities to ensure corrective action in compliance with the prescribed rules and procedures and accountability for the deficiencies, lapses, etc. A half-yearly report of pending IRs is sent to the Secretary of the Department by the Accountant General to facilitate monitoring of action on the audit observations.

As of March 2010, 11,278 paragraphs relating to 3,511 IRs (issued upto September 2009) remained to be settled for want of satisfactory replies. Of these, 700 IRs containing 1,268 paragraphs (issued upto 2006-07) had not been settled for more than three years. Year-wise position of the outstanding IRs and paragraphs is detailed in the **Appendix 2.6**. Compilation of details by Audit revealed that of the above unsettled paragraphs even the initial reply was not received for 530 IRs involving 2,168 paras, relating to 25 departments as detailed in the **Appendix 2.7**. This showed the absence of response from

the authorities and as a result the deficiencies and lapses pointed out continued to be unaddressed.

A scrutiny of the IRs issued up to September 2009 pertaining to three departments viz., Highways Department, Industries Department and Revenue Department revealed the following:

- A total of 507 IRs involving 1,655 paragraphs, issued up to September 2009 remained outstanding as of March 2010 as detailed in the **Table** below:

Table: Inspection Reports outstanding as of March 2010

Year in which IRs were issued	Industries Department		Revenue Department		Highways Department		Total	
	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
Upto 2004-05	1	1	3	5	2	2	6	8
2005-06	5	12	18	21	5	10	28	43
2006-07	7	14	34	64	26	63	67	141
2007-08	21	37	87	246	42	99	150	382
2008-09	10	31	70	356	57	178	137	565
2009-10	19	64	56	306	44	146	119	516
Total	63	159	268	998	176	498	507	1,655

- Even initial replies had not been received as of March 2010 in respect of 55 IRs involving 262 paragraphs issued upto September 2009.
- As a result of the long pendency, serious irregularities as detailed in **Appendix 2.8** had not been settled as of March 2010.

Government constituted Audit and Accounts Committees at both the State and department level for consideration and settlement of outstanding audit observations. During the meetings of the above committees and joint sittings with departmental officers between April 2009 and March 2010, 427 paragraphs were settled.