

# **CHAPTER-2**

## **PERFORMANCE AUDIT**

**2.1 Procurement and distribution of drugs and chemicals**

**2.2 Audit of Information System in Bangalore Development Authority**

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## Chapter-2

### Performance Audit

### Health and Family Welfare Department

#### 2.1 Procurement and distribution of drugs and chemicals

##### Executive Summary

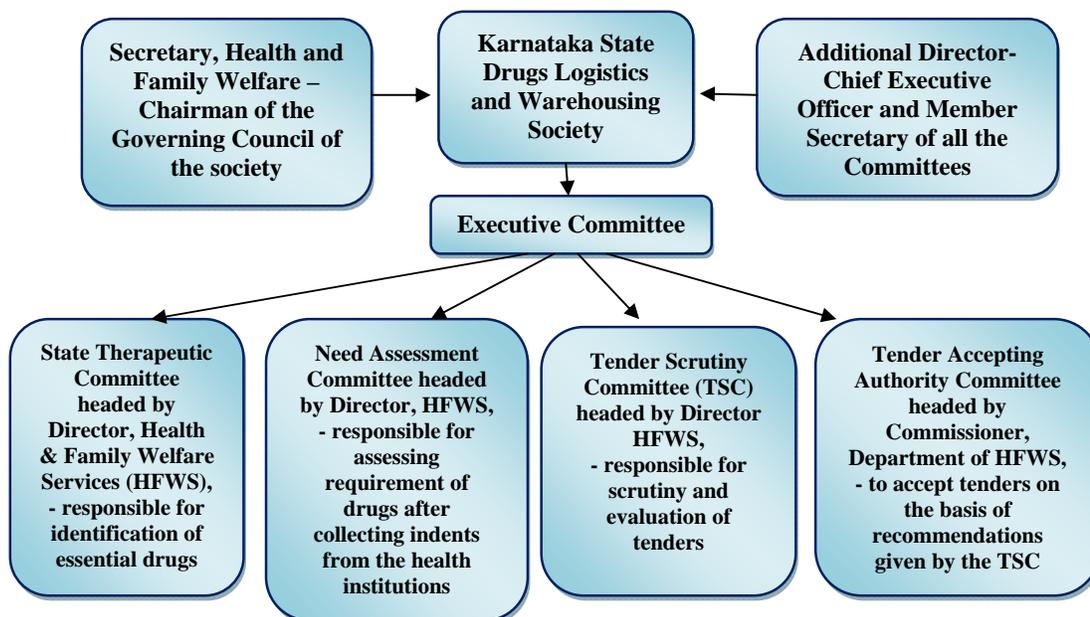
The Karnataka State Drugs Logistics and Warehousing Society (Society) had been established during the year 2003 with the main objective of establishing an efficient, cost effective and decentralized Drug Logistics and Warehousing System in the State adhering to modern warehousing and rigid quality control practices and providing information technology enabled services. The Society had been procuring drugs, chemicals and miscellaneous items for use in the health institutions in the State. A performance audit of the procurement and distribution of drugs by the Society during 2007-12 showed the following:

- The tender evaluation by the Society was flawed in many cases as many non-responsive tenders had been considered responsive and drugs had been procured from these non-responsive sources during 2010-11.
- Drugs procurement lacked planning, resulting in chronic delay in finalizing the rate contracts for supply of drugs. While the rate contracts for 2008-09 had been finalized only in March 2009, those for 2009-10 had been awarded only in October 2010. This resulted in non-availability of sources for procurement of drugs during the period March 2010 to October 2010.
- The cost of drugs procured directly from the Karnataka Antibiotics and Pharmaceuticals Limited (KAPL) during 2008-12 against exemptions granted by the Government under the Karnataka Transparency in Public Procurement Act aggregated 31 to 67 *per cent*. The exemption lacked justification as the rates charged by KAPL had been far higher than those at which other State Governments had been purchasing these drugs during the corresponding period. During 2008-12, out of ₹ 111.14 crore paid to KAPL for purchase of 17 to 42 drugs, ₹ 55.44 crore (50 *per cent*) represented the higher cost paid when compared to the rates paid by the other State Governments.
- Procurement of drugs, especially IV fluids, had not been based on estimates of actual need and drugs had been procured far in excess of requirement, creating storage problems in the warehouses and health institutions. These excessively procured drugs had been stored in garages, toilets, corridors etc in health institutions. Further, 7223 drugs costing ₹ 15.82 crore had been procured with shelf life of less than 80 per cent and 1024 of these had shelf life of less than 50 per cent. Another 87 drugs costing ₹ 35.30 lakh had shelf life of less than 90 days.
- The quality assurance system was not effective as no quality testing of drugs had been done for 14 months from September 2009 to November 2010. No testing laboratory had been appointed since December 2010 for 48 drugs procured. Though the cost of drugs not conforming to quality supplied during 2010-12 aggregated ₹ 1.03 crore, no action had been taken to get these drugs replaced or recover the cost thereof from the suppliers. Further, the warehouses had mixed up the drugs not conforming to quality and time-barred drugs with those meant for distribution to health institutions.

### 2.1.1 Introduction

The Karnataka State Drugs Logistics and Warehousing Society (Society) had been established during the year 2003 with the main objective of establishing an efficient, cost effective and decentralized Drug Logistics and Warehousing System in the State, adhering to modern warehousing and rigid quality control practices and providing information technology enabled services. The Society had been procuring drugs, chemicals and miscellaneous items for use in the hospitals in the State under the State Sector, District Sector, and Directorate of Medical Education. The Society had also been meeting the drug requirements of various programmes like National Rural Health Mission (NRHM), Akshara Dasoha of Education Department and those of the Karnataka State Aid Prevention Society (KSAPS).

### 2.1.2 Organisational set-up



### 2.1.3 Audit objectives

Audit was conducted with the objectives of evaluating the effectiveness of the procurement system and its impact on delivery of health services on the basis of:

- the efficiency of the budgeting process, sufficiency of allocation and timely release and utilisation of funds;
- efficiency and effectiveness of purchase procedures including tender evaluation and finalisation of contracts;
- evaluation of the system of assessment, procurement, storage, distribution and utilisation of drugs and chemicals;
- adequacy of quality control measures; and
- adequacy of monitoring and the internal control system.

**2.1.4 Audit scope and methodology**

The performance audit covered the transactions during the period 2007-12. Multi-stage stratified sampling technique had been used for selection of units for audit. Twenty five *per cent* of the district warehouses on the basis of allotment of funds, 25 *per cent* of the taluks in each sampled district on the basis of release and utilisation of funds and bed strength of health units and 20 *per cent* of the health units in the sampled taluks had been selected. The audit commenced with an entry conference held on 19 April 2012 with the Secretary, Health and Family Welfare in which the audit scope and methodology were explained. The audit was conducted during February to July 2012 covering the period 2007-12 through a test-check of records of the Secretary, Commissioner, Health and Family Welfare Services, the Society, five out of 14 warehouses, seven out of 13 hospitals under the Director of Medical Education, one district hospital, two hospitals in Bangalore, 11 taluk hospitals, 14 Community Health Centres (CHCs) and 24 Primary Health Centres (PHCs). We had also conducted joint inspection of the sampled warehouses, CHCs and PHCs with the departmental representatives. The audit comprised scrutiny of records, discussions with the departmental officers and field visits. The audit findings were discussed with the Principal Secretary, Health and Family Welfare in the exit conference held on 16 October 2012. The Report takes into account the replies furnished by the Government and the Society to the audit observations.

**Audit findings**

**2.1.5 Provision and utilization of funds for procurement of drugs and chemicals**

The Government made budget provision for procurement of drugs, chemicals and other miscellaneous items required by various health institutions under the head of account “2210-Health”. The details of budget provision and expenditure thereagainst during 2007-12 were as shown in **Table-2.1**:

**Table-2.1: Details of budget provision and expenditure**

(₹ in crore)

| Year         | Plan             |             | Non-plan         |               | Total            |               | Percentage of utilisation |
|--------------|------------------|-------------|------------------|---------------|------------------|---------------|---------------------------|
|              | Budget provision | Expenditure | Budget provision | Expenditure   | Budget provision | Expenditure   |                           |
| 2007-08      | 0.61             | 0.42        | 107.08           | 95.83         | 107.69           | 96.25         | 89                        |
| 2008-09      | 0.15             | 0.03        | 114.58           | 105.34        | 114.73           | 105.37        | 92                        |
| 2009-10      | 0.80             | 0.57        | 103.75           | 98.82         | 104.55           | 99.39         | 95                        |
| 2010-11      | 0.40             | 0.38        | 105.95           | 79.84         | 106.35           | 80.22         | 75                        |
| 2011-12      | 0.25             | 0.22        | 107.13           | 96.41         | 107.38           | 96.63         | 90                        |
| <b>Total</b> | <b>2.21</b>      | <b>1.62</b> | <b>538.49</b>    | <b>476.24</b> | <b>540.70</b>    | <b>477.86</b> | <b>88</b>                 |

(Source: Detailed estimates of expenditure and Appropriation Accounts)

While 80 per cent of the budgetary allocation was placed at the disposal of the Society, the remaining 20 per cent was allocated to major health institutions for meeting any immediate requirement of drugs.

The under-utilisation of funds during 2010-11 was mainly due to delay in finalisation of rate contract for supply of drugs and chemicals (as discussed in Paragraph 2.1.7 subsequently).

The Society also received funds directly from the implementing agencies for NRHM and Akshara Dasoha and from KSAPS for procurement of drugs. The Society deposited these funds in its bank account. The details of funds received during 2007-12 and the expenditure thereagainst were as shown in **Table-2.2:**

**Table-2.2: Details of funds received and expenditure thereagainst**

(₹ in crore)

| Year         | NRHM         |              | KSAPS       |             | AKSHARA DASOHA |              |
|--------------|--------------|--------------|-------------|-------------|----------------|--------------|
|              | Releases     | Expenditure  | Releases    | Expenditure | Releases       | Expenditure  |
| 2007-08      | 13.55        | 13.45        | 5.45        | 5.45        | 3.76           | 3.76         |
| 2008-09      | 11.50        | 7.35         | 0.46        | 0.45        | 4.08           | 3.91         |
| 2009-10      | 8.62         | 12.04        | 2.12        | 2.12        | 4.92           | 4.60         |
| 2010-11      | 3.22         | 3.57         | 0           | 0           | 1.95           | 1.95         |
| 2011-12      | 3.30         | 3.25         | 1.18        | 0.68        | 5.03           | 4.61         |
| <b>Total</b> | <b>40.19</b> | <b>39.66</b> | <b>9.21</b> | <b>8.70</b> | <b>19.74</b>   | <b>18.83</b> |

(Source: Information furnished by the Society)

Out of ₹ 69.14 crore received during the audit period, ₹ 1.95 crore had remained unspent with the Society as of March 2012.

The Society additionally received funds from out of grants allocated to Zilla Panchayats (ZPs) for supply of drugs to health institutions under their jurisdiction. The Society deposited these funds in its bank accounts. The details of funds received from ZPs and expenditure thereagainst were as shown in **Table-2.3:**

**Table-2.3: Funds received from ZPs and expenditure thereagainst**

(₹ in crore)

| Year         | Releases     | Expenditure  |
|--------------|--------------|--------------|
| 2007-08      | 8.94         | 8.03         |
| 2008-09      | 9.40         | 8.63         |
| 2009-10      | 9.38         | 8.63         |
| 2010-11      | 19.97        | 0.00         |
| 2011-12      | 20.79        | 19.96        |
| <b>Total</b> | <b>68.48</b> | <b>45.25</b> |

(Source: Information furnished by the Society)

While the Society received the grant of ₹ 19.97 crore only on 27 March 2011, it received the grant of ₹ 20.79 crore in two instalments of ₹ 13.78 crore and ₹ 7.01 crore during February and March 2012, respectively. As a result, the Society used ₹ 19.97 crore received in March 2011 for procurement during 2011-12 and the grant of ₹ 20.79 crore received during February and March 2012 remained unspent as of March 2012. The belated release of funds during 2010-11 resulted in non-procurement of drugs for the health institutions under ZPs during this period. Out of ₹ 68.48 crore received from ZPs during 2007-12, ₹ 23.23 had remained unspent with the Society as of March 2012.

### 2.1.5.1 Non-utilisation of the allocations made to health institutions

The Society prepared Action Plan every year for procurement of drugs from out of 80 per cent of the budget provision made under the head of account “2210-Health”. The Society allocated this 80 per cent of the budget provision among the various health institutions on the basis of the following criteria:

- The average of the inpatients and outpatients in the preceding three years to determine the allotment of funds to District hospitals, major hospitals, taluk level general hospitals, CHCs with 30 bedded hospitals;
- An adhoc allocation of ₹ 1.25 lakh for 24 x 7 PHCs;
- An adhoc allocation of ₹ 1 lakh for regular PHCs.

After preparing the Action Plan on this basis, the Society purchased drugs by debiting the cost thereof against the allocation and supplied the drugs to the health institutions. Scrutiny showed that no expenditure had been booked against the allocations made for 3093 health institutions during 2007-12, evidencing that no drugs had been supplied to these institutions. The details are as shown in **Table-2.4:**

**Table-2.4: Non-utilisation of allocation**

| Year         | Number of units | PHC/CHC to which sub centres attached | PHC        | CHC      | Others     | Allocation not utilised (₹ in crore) |
|--------------|-----------------|---------------------------------------|------------|----------|------------|--------------------------------------|
| 2007-08      | 746             | 589                                   | 49         | 1        | 107        | 2.44                                 |
| 2008-09      | 218             | Nil                                   | 80         | 1        | 137        | 4.14                                 |
| 2009-10      | 1039            | 886                                   | 64         | 0        | 89         | 2.93                                 |
| 2010-11      | 727             | 574                                   | 58         | 1        | 94         | 2.18                                 |
| 2011-12      | 363             | 311                                   | 26         | 0        | 26         | 1.11                                 |
| <b>Total</b> | <b>3093</b>     | <b>2360</b>                           | <b>277</b> | <b>3</b> | <b>453</b> | <b>12.80</b>                         |

(Source: Information furnished by the Health and Family Welfare Department)

The unspent provision constituted 20 per cent of the total savings during 2007-12. It was further seen that the:

- allocation had been made for seven non-existing PHCs during 2007-12;
- allocation was not utilised in respect of another seven PHCs during 2008-12;
- allocation was not utilised in respect of another 11 PHCs for three years during 2007-12.

The Additional Director stated (August 2012) that action would be taken to prepare the action plan scientifically and budget allocation would be made as per the actual consumption pattern irrespective of the type of health institutions. Though the Society’s reply was reassuring, the fact remained that a large number of health institutions did not receive supply of drugs year after year during 2007-12 and the ineffective monitoring by the Society facilitated denial of drug supplies to these institutions, which evidently affected the delivery of health care services to the needy public.

### 2.1.5.2 Parking of unspent funds in fixed deposits

The Society's receipts consisted mainly of handling charges levied at 2 per cent on the cost of drugs supplied to various health institutions. The Society had recovered ₹ 4.52 crore towards handling charges during 2007-08 to 2011-12.

As per the annual accounts of the Society for 2007-08 to 2011-12, the Society had parked huge funds in fixed deposits (FDs) in various banks year after year and earned interest thereon as shown **Table-2.5**:

**Table-2.5 : Details of funds parked in FD and interest earned during 2007-12**

| (₹ in crore) |   |                                 |
|--------------|---|---------------------------------|
| Year         | Funds parked in FD at the end of the year | Interest earned during the year |
| 2007-08      | 14.05                                     | 0.95                            |
| 2008-09      | 23.04                                     | 1.07                            |
| 2009-10      | 34.62                                     | 2.22                            |
| 2010-11      | 54.53                                     | 3.86                            |
| 2011-12      | 68.94                                     | 4.35                            |
| <b>Total</b> |   | <b>12.45</b>                    |

(Source: Annual Accounts of the Society)

The amount invested in excess of handling charges recovered represented unspent funds received from various agencies like ZPs, NRHM, KSAPS etc. As there were no guidelines from the Government regarding utilization of interest so earned, the Society continued to retain huge interest balances outside the Consolidated Fund of the State. The Society had been registered as a Public Charitable Trust under Section 12A of the Income Tax Act, 1961 with effect from 1 April 2009. Institutions registered as Public Charitable Trusts are to apply 85 per cent of their income for charitable purposes to avail of the exemption granted under the Income Tax Act. As the Society had been running business without application of its income for charitable purposes, it would become liable for payment of Income Tax, if the interest earned had not been remitted to Government account. The Government stated (December 2012) that funds had been invested in FDs to earn higher interest and the interest so earned was the income of the Society to be utilised as per the decision of the Executive Committee. The reply, however, glossed over the fact that the Society had been registered as a Public Charitable Trust and any retention of the interest would render the Society liable for payment of income tax, which was avoidable.

### 2.1.6 The Society did not follow prescribed procedures for tendering

As per the Karnataka Transparency in Public Procurement (KTPP) Rules 2000, the Tender Inviting Authority is to have the notice inviting tenders (NIT) published in the Indian Trade Journal in all cases where the value of procurement exceeds ₹ 10 crore. We found that in the case of 14 tenders invited during 2007-12, the tender value ranged from ₹ 10.64 crore to ₹ 32.51

crore. However, these tenders had not been published in the Indian Trade Journal. The Government stated (December 2012) that there was no need to publish the NIT in the Indian Trade Journal as the e-procurement provided wide range of publicity and participation. The reply was not acceptable as the Society was bound to follow provisions in the KTPP Rules 2000.

The Society invited tenders under two cover e-tendering system from primary manufacturers/import license holders for staggered supplies of drugs, chemicals and other miscellaneous items. As per Government instructions of June 2003, technical evaluation of the tenders in the first cover should be completed within a reasonable period, and the time gap between the opening of the first and second covers should be the minimum, and in any case not more than 45 days. In exceptional cases, approval of the Secretary to the Government of the concerned Department is to be obtained where the period is more than 45 days but less than 60 days. If the period exceeds 60 days, the tenders are to be re-invited.

We, however, found that the time gap between the opening of the technical and financial bids in respect of 11 tenders processed during 2008-12 varied from 48 days to 164 days. Neither the approval of the Secretary, Health and Family Welfare had been taken where the delay was less than 60 days nor had tenders been re-invited in cases where the delay exceeded 60 days. The Additional Director stated (August 2012) that tenders could not be finalised in time due to unavoidable circumstances such as change-over to the e-procurement process, inspection of the manufacturing premises etc. The reply was not acceptable as delay in acceptance of tenders had occurred year after year though e-tendering process had commenced only during 2008-09 and inspection of the manufacturing premises had been started by the Society only from 2010-11.

As per KTPP Rules, 2000, the evaluation of tenders and award of contract should be completed, as far as possible, within the period for which the tenders are held valid. If it is not completed within the validity period of tender, the Tender Accepting Authority should seek extension from the tenderers. If the evaluation of tenders and award of contract are not completed with the extended period, all the tenders would become invalid and fresh tenders are to be invited.

The number of days taken to complete the tendering process during 2008-12 ranged from 46 days to 350 days. However, the Society had not obtained extension of time from the tenderers in cases where the validity period of 180 days had expired. This had not been done evidently to bypass the provisions of the KTPP Rule 2000 which insisted on re-invitation of tenders in cases where award of contract was not completed even during the extended period. The Government stated (August 2012) that obtaining extension from the tenderers was not required as they entered into agreements with the Society before execution of the supply order. The reply was not acceptable as seeking extension from the tenderers and award of contract within the extended period were compulsory as per the KTPP Rule, 2000. Non-observance of this procedure gave unlimited time to the Society for award of contracts which resulted in delayed supply or non-supply of drugs to health institutions.

### 2.1.7 Delay in finalisation of rate contracts for supply of drugs and chemicals

The Society had finalized three rate contracts (RCs), one for supply of 212 items of drugs (RC-I) which remained valid for two years from 9 January 2006 to 8 January 2008, another for supply of 319 items of drugs (RC II), which was valid for two years from 24 January 2007 to 23 January 2009 and the third for supply of suture materials (RC-III) which was in force from 21 November 2006 to 20 November 2008. The Government extended the periods of these rate contracts as shown in **Table-2.6**, as there was considerable delay in finalizing fresh RCs.

**Table-2.6: Details of extensions of the rate contract periods**

| Sl No. | Rate contract                | Date of commencement | Initial validity period | Details of extensions given   |
|--------|------------------------------|----------------------|-------------------------|---|
| 1      | RC I of 2006 (212 items)     | 9.1.2006             | 08.01.2008              | 1 <sup>st</sup> extension granted up to 30 June 2008.<br>2 <sup>nd</sup> extension given up to 30 September 2008 or completion of tender process, whichever was earlier.        |
| 2      | RC II of 2007 (319 items)    | 24.1.2007            | 23.01.2009              | Extension given for a period of one year from 25.7.09 or completion of tender process, whichever was earlier  |
| 3      | RC III (86 suture materials) | 21.11.2006           | 20.11.2008              | 1 <sup>st</sup> extension given up to 30 June 2009<br>2 <sup>nd</sup> extension granted for a further period of six months was withdrawn by the Government during November 2009 |

(Source: Information furnished by the Society)

#### 2.1.7.1 Rate contracts for 2008-09

As RC-I was due for expiry on 8 January 2008 and fresh tenders were to be invited, the STC examined (August 2007) the need for purchase of 212 drugs and deleted 15 drugs which were not required. The STC's recommendations were reviewed (October 2007) by a Committee and the Tender Accepting Authority (TAA) resolved (November 2007) to invite tenders for supply of essential, vital and desirable drugs. A decision on the requirement of drugs on the basis of average consumption during 2006-07 and 2007-08 had been taken only in March 2008 by the Additional Director. Tender invitation for procurement of 174 drugs, chemicals and miscellaneous items was, however, made only in July 2008 after a further delay of four months. The Government accepted the tenders in March 2009, as various processes leading to acceptance of tenders were badly delayed as shown below:

- Verification of samples received from the eligible firms was completed only in October 2008 though it should have been done before the opening of the financial bids on 20 September 2008;
- The TSC determined the responsiveness of the bids only in December 2008;

- Commercial bids were opened only in February 2009;
- Negotiations with the tenderers were completed in March 2009;
- The TAA resolved (March 2009) to accept rate contracts for supply of only 95 drugs against 174 tendered items, as 27 items had been withdrawn after tender notification; required inputs for 37 items had not been keyed in during bid submission; and bids for 15 items were found non-responsive.

The Additional Director attributed (August 2012) the delay to the change-over from the manual tendering process to e-procurement process. The reply was not acceptable as the delay occurred at various stages during August 2007 to July 2008 before invitation of tenders.

The Society invited (March 2009) tenders again for 79 items for which tenders had not been finalized. These items had been split into two groups of 48 drugs and 31 non-drugs. Since the model code of conduct was in place due to elections to the State assembly, the Society recalled the tenders and reinvited these again during May 2009. However, evaluation of the technical bids could not be done by the Chairman of the Tender Scrutiny Committee (TSC) as his digital card certificate had expired and not been renewed. These tenders were eventually cancelled (January 2010) by the Secretary, Health and Family Welfare. The Additional Director stated (August 2012) that the tender finalisation was beyond the control of the Society due to technical snags in the e-governance department and the Society would take all possible measures to avoid such actions in future. The reply was not acceptable as the Department did not take suitable action to renew the digital signature card certificate of the Chairman, TSC, in time which resulted in non-finalisation of the tenders.

During the extended period of RC-I, the Additional Director had placed 1857 purchase orders between January and September 2008 on 157 different firms. The value of drugs ordered was ₹ 28.85 crore. Against this, 702 purchase orders for ₹ 7.83 crore had not been acted upon by the suppliers. While partial supplies costing ₹ 6.57 crore out of ₹ 8.29 crore had been made against 369 purchase orders, drugs costing only ₹ 12.73 crore had been supplied in full, against 786 purchase orders. The details are as shown in **Table-2.7**:

**Table-2.7: Details of execution of purchase orders**

(₹ in lakh)

| Date of placing the purchaser orders (Pos) | No. of POs  | No. of items | Total value    | No. of firms | POs not executed |               |            | POs partially executed |                |                    |            | POs fully executed |                |            |
|--|-------------|--------------|----------------|--------------|------------------|---------------|------------|------------------------|----------------|--------------------|------------|--------------------|----------------|------------|
|  |             |              |                |              | No. of POs       | Value         | Percentage | No. of POs             | Executed Value | Non-executed value | Percentage | No. of POs         | Value          | Percentage |
| 21.1.2008                                  | 56          | 56           | 364.58         | 28           | 1                | 2.07          | 1          | 22                     | 204.38         | 20.08              | 6          | 33                 | 138.05         | 38         |
| 15.2.2008                                  | 9           | 3            | 145.67         | 3            | 0                | 0             | 0          | 3                      | 72.15          | 3.48               | 2          | 6                  | 70.04          | 48         |
| 22.7.2008                                  | 179         | 179          | 197.36         | 43           | 47               | 57.02         | 29         | 19                     | 6.59           | 9.85               | 5          | 113                | 123.90         | 63         |
| 13/25/26 August 2008                       | 416         | 189          | 692.91         | 43           | 160              | 159.20        | 23         | 94                     | 137.50         | 32.87              | 5          | 162                | 363.34         | 52         |
| 16/18/19/26/27/30 September 2008           | 1197        | 180          | 1483.99        | 40           | 494              | 564.74        | 38         | 231                    | 235.98         | 105.30             | 7          | 472                | 577.97         | 39         |
|  | <b>1857</b> |              | <b>2884.51</b> |              | <b>702</b>       | <b>783.03</b> |            | <b>369</b>             | <b>656.60</b>  | <b>171.58</b>      |            | <b>786</b>         | <b>1273.30</b> |            |

(Source: Information furnished by the Society)

Thus, between January 2008 when the validity period of previous rate contracts expired for 212 drugs and March 2009 when fresh rate contracts for supply of 95 drugs were finalised, essential drug supplies to the needy institutions suffered as the existing rate contract holders had failed to meet the requirement. No purchase orders had also been placed beyond September 2008. Even from March 2009 onwards, the fresh rate contracts met the requirement of only 95 against 197 essential drugs.

#### **2.1.7.2 Rate contracts for 2009-10**

As RC II for supply of 319 drugs was due for expiry on 23 January 2009, the STC reviewed (January 2009) the drugs and determined the final list of 224 drugs. The TAA, which reviewed (January 2009) the STC's recommendations, invited tenders separately for supply of 118 drugs, 47 sutures and 19 Endo Tracheal Tubes (ETT) during February 2009.

The details of opening, scrutiny and evaluation of tenders for supply of 118 drugs were not furnished to audit. In response to the tender notification for 47 sutures, five firms had submitted their bids. During the technical evaluation by the TSC during May 2009, only two firms were found responsive. The single bid received for supply of 19 ETT was found non-responsive. There was no documentary evidence in support of other tendering processes in the files produced for scrutiny. The Secretary, Health and Family Welfare cancelled (January 2010) the tenders due to inordinate delay in finalisation and ordered retendering. The Society was also directed to finalise the tenders within three months.

However, the processing of tenders did not proceed as planned and tenders were accepted only in October 2010 due to delays at various stages as shown below:

- The STC approved purchase of 552 drugs on 4 January 2010;
- The NAC approved procurement of 282 drugs in February 2010 and worked out the requirement on the basis of indents received.
- Tenders were invited for 277 drugs on 25 February 2010. The last date for uploading of tenders was extended up to 30 April 2010 due to a variety of reasons such as conducting pre-bid conference, technical problem in e-procurement portal, modifications made in the tender quantity etc.;
- Inspection of the manufacturing premises of the bidders was taken up in May 2010;
- Technical evaluation of the bids was completed only in September 2010;
- TSC evaluated the bids in September 2010;
- TAA accepted the bids in October 2010. The number of drugs for which tenders had been invited and the number of drugs for which tenders had been finally accepted were as shown in **Table-2.8**:

**Table-2.8: Details of tenders invited and accepted**

| No. of drugs for which tenders were invited | No. of drugs for which tenders were accepted |
|---|--|
| 88 drugs                                    | 65   |
| 123 drugs                                   | 75   |
| 66 drugs                                    | 49   |
| <b>Total 277 drugs</b>                      | <b>189</b>                                   |

(Source: Information furnished by the Society)

Though the validity of RC-II had been extended for a year from July 2009, no orders had been placed for supply of drugs, except for Glutamine 15 gram oral sachets, till fresh rate contracts were finalized in October 2010. Thus, 319 essential drugs had not been procured after the expiry of the rate contract in January 2009 till October 2010 and there were no RCs for supply of these drugs during 2009-10. The Additional Director stated (August 2012) that though the tendering process started in February 2009, there was delay in finalising the tenders due to an investigation ordered by the State Lokayuktha into the tendering process. The reply was not acceptable as the investigation by the State Lokayuktha commenced only on 6 April 2010 and the Lokayuktha directed the Secretary on 20 May 2010 to defer the process of tendering only for 25 drugs. Thus, the Lokayuktha investigation was not the cause for delay and cancellation of tenders by the Secretary in January 2010.

### **2.1.7.3 Rate contracts for 2011-12**

Though the STC finalized the Essential Drug List in April 2011, the Society invited (July 2011) tenders for supply of 272 items (228 drugs and 44 sutures) only during July 2011 and finalized the rate contracts for 174 drugs and 44 sutures only during November 2011. The Society invited tenders for the remaining 54 drugs only during January 2012 and the RCs for these drugs had not been finalized even as of July 2012. Thus, during 2011-12 also, the tendering process was delayed, affecting the procurement of drugs and chemicals.

### **2.1.8 Irregularities in evaluation of tenders**

We found that the determination of the responsiveness of bids received in response to the tender notifications was flawed in the following cases, resulting in acceptance of non-responsive bids and procurement of drugs from ineligible manufactures.

- (i) One of the conditions for determining the responsiveness of tenders was that the annual turnover of the tenderer in the preceding three years should not be below ₹ 5 crore. As per the bid of M/s. Delux Surgical, Ahmedabad submitted in response to an earlier tender notification (July 2008) for supply of 174 drugs, the bidder's turnover during 2006-07 was only ₹ 3.05 crore. The same company, while submitting the bid in response to the tender notification (February 2010) for supply of 66 drugs, had declared the turnover for 2006-07 as ₹ 5.16 crore. Though the Society received (September 2010) a complaint alleging misrepresentation of facts, it did not declare the bid of M/s.

Delux Surgical, Ahmedabad non-responsive. On the other hand, the lowest bid of the company for two products had been irregularly accepted in October 2010 and drugs costing ₹ 1.32 crore had been purchased from the company during 2010-11. The Government stated (December 2012) that there was no loss to the Government and the company supplied the material in time. The reply was not acceptable as the Society would have come to know about the misrepresentation of facts by the company, if it had acted upon the complaint received. Failure to do so resulted in award of contract to an ineligible company.

(ii) As per the tender conditions, the bidders are required to upload non-conviction certificate issued by the Drugs Controlling Authority in the format prescribed in the tender document. The certificate should have been issued on or after April 2009 and should cover the preceding three years. However, M/s. Relief Lab Private Limited had uploaded four non-conviction certificates (dated 16 January 2007, 24 April 2008, 3 February 2009 and 14 January 2010) issued by the Joint Commissioner, Food and Drug Administration, Nagpur, Maharashtra specifically for the purpose of participating in the tenders floated by Joint Director, Government of Haryana and Tamil Nadu Medical Services Corporation, Chennai (TNMSC). The non-conviction certificates, besides being not in the format prescribed by the Society, did not cover the preceding three years. Instead of treating the bid of Relief Lab Private Limited as non-responsive, the Society irregularly declared it responsive and accepted the lowest bids of the company for eight products in October 2010. The Society purchased five products from the company at a cost of ₹ 96.47 lakh from the company during 2010-11. The Government stated (December 2012) that the information asked in the non-conviction certificate was available in the uploaded performance certificate and a pragmatic view had been taken to consider this tender responsive. The reply was not acceptable as the certificates, besides being not in the prescribed format, had been issued for participating in tender of TNMSC and Joint Director, Government of Haryana. The role of the TSC was limited to evaluating the tenders against prescribed criteria. The criteria had been bypassed evidently to favour the company.

(iii) When tenders for supply of drugs and chemicals had been invited (February 2010), the Society introduced a new condition for the first time that inspection of the premises of the manufacturers should be done before determining the responsiveness of the tenders. However, the premises of M/s. Daffodills Pharmaceuticals Limited, Meerut had not been inspected before awarding the rate contract. The Society placed order for three drugs costing ₹ 29.58 lakh from the firm, against which drugs costing ₹ 16.91 lakh were supplied. The Government stated (December 2012) that inspection of the premises had been done on 19 October 2011. The reply was not acceptable as the inspection should have been done before award of the contract.

(iv) As per a tender condition, tenderers who had been declared as de-registered/debarred/black-listed by the Central/State Governments even after award of rate contract were to be treated as non-responsive tenderers. M/s. Parental Drugs (India) Limited had been debarred by the Municipal Corporation of Delhi and the Employees' State Insurance Corporation, New

Delhi during March 2011 and July 2011 respectively. In view of the tender condition, the tender submitted by M/s. Parentral Drugs (India) Limited in response to the tender notification (July 2011) of the Society should have been treated as non-responsive. The Additional Director, however, requested (October 2011) the Drugs Controller of the State to give his opinion in this regard after obtaining confirmation from the Drug Controllers concerned. No further developments in this regard were on record and the rate contract for supply of drugs was awarded (November 2011) to M/s. Parentral Drugs (India) Limited which subsequently supplied drugs costing ₹ 8.51 crore against orders for ₹ 8.59 crore. The award of the rate contract in total disregard of the tender conditions had evidently been done to favour the company.

(v) We also found that the TSC, while considering (November 2008) the responsiveness of tenders received in response to the tender invitation made in July 2008 for supply of 174 drugs treated the tenders of 10 companies responsive though the production evaluation report had treated the products of these companies as non-responsive. Though the commercial bids of these companies had been irregularly opened (January 2009) by the TAA, these companies were not awarded rate contracts for supply of drugs. Evidently, the system of determining the responsiveness of tenders on the basis of criteria laid down did not function effectively, exposing the Society to the risk of procuring drugs from non-responsive companies. The Additional Director stated (August 2012) that the decision of the TAA on the basis of the recommendation of the TSC to decrypt 14 non-responsive tenders was in the interest of procurement of drugs at competitive rates. The reply was not acceptable as the TSC's role was limited to examining the responsiveness of the tenders on the basis of tender conditions and it exceeded its powers in recommending the decryption of the financial bids of non-responsive tenders.

### **2.1.9 Conditions for eligibility relaxed to favour a company**

The Society invited (February 2010) tenders for supply of Injection Anti-Rabies Vaccine–Intra Dermal (ARV-ID), both for 0.5 ml and 1 ml vials. One of the conditions prescribed for determining the responsiveness of the bids was that the primary manufacturer should submit Market Standing Certificate and Performance Certificate for the products for a period of three years. Out of three bids received, two were not responsive. Of these two tenders, one Company (M/s. Bharat Biotech International Limited, Hyderabad) was non-responsive as the bidder had been granted license to manufacture the products only during May 2008 and December 2008 respectively. The only responsive tender was also rejected (October 2010) as the rates quoted for the products were very high.

When the Society invited (January 2011) tenders again, the condition regarding Market Standing Certificate and Performance Certificate was relaxed from three years to two years. There was no documentary evidence justifying the relaxation. Though the Company qualified in the evaluation of technical bids as a result of the relaxation, all the five bids received were rejected (June 2011) as the Society had received complaints alleging irregularities in the evaluation of tenders.

In response to the third call (June 2011), the Company qualified in the technical evaluation due to relaxation of the condition and also became the lowest in the evaluation of the financial bids. During 2011-12 the Society procured 60000 vials of 0.5 ml and 120000 vials of 1 ml injections of ARV-ID from the Company at a cost of ₹ 2.74 crore. When tenders were invited (May 2012) for supply of ARV-ID during 2012-13, the condition regarding Market Standing Committee and Performance Certificate was again increased to three years.

Thus, the relaxation of the condition regarding Market Standing Committee and Performance Certificate had been done evidently to facilitate the participation of the company in the tenders. The Government stated (December 2012) that the relaxation of the period of two years had been made to facilitate healthy competition. The reply was not acceptable as the original condition was restored when tenders were invited again in May 2012.

## **2.1.10 Procurement of drugs and chemicals**

### ***2.1.10.1 Purchases from KAPL***

The Government enacted the KTPP Act, 1999, effective from 4th October 2000 for ensuring transparency in public procurement of goods and services by streamlining the procedure for inviting, processing and acceptance of tenders by procurement entities. As per Section 5 of the KTPP Act, procurement other than by tender is prohibited. Section 4(g) of the Act, however, exempts specific procurements as may be notified by the Government from time to time.

Karnataka Antibiotics and Pharmaceuticals Limited (KAPL), Bangalore is a Public Sector Undertaking involved in the manufacture of antibiotics and other drugs required for both human and veterinary use. After the introduction of the KTPP Act, KAPL had been seeking exemption from the Government under Section 4(g) of the KTPP Act for a few of its products. The Government had been exempting procurement of specified drugs manufactured by KAPL under Section 4(g) of the KTPP Act since March 2003, except during June 2005 to April 2008, when the exemption stood withdrawn. The exemption had been restored after nearly three years with the Principal Secretary, Health and Family Welfare strongly recommending (March 2008) to the Finance Department for grant of exemption on the ground that the products manufactured by KAPL were of good quality while many of the firms participating in the tendering process did not even have proper manufacturing premises. The cost of drugs supplied by KAPL to the Society constituted 31 to 67 *per cent* of the total cost of drugs procured by the Society during 2008-12 as shown in **Table-2.9**:

**Table-2.9: Details of cost of drugs supplied by KAPL**

(Value: ₹ in crore)

| Year         | Total value of drugs ordered | Value of orders on KAPL | Percentage of KAPL orders to total orders | Total cost of supplies received | Cost of supplies received from KAPL | Percentage of cost of supplies from KAPL |
|--------------|------------------------------|-------------------------|---|---------------------------------|-------------------------------------|--|
| 2008-09      | 94.56                        | 24.58                   | 26  | 69.83                           | 21.95                               | 31                                       |
| 2009-10      | 100.26                       | 27.79                   | 28  | 87.12                           | 26.02                               | 30                                       |
| 2010-11      | 79.12                        | 52.26                   | 66  | 72.10                           | 48.33                               | 67                                       |
| 2011-12      | 103.89                       | 45.88                   | 44  | 97.77                           | 43.00                               | 44                                       |
| <b>Total</b> | <b>377.83</b>                | <b>150.51</b>           | <b>40</b>                                 | <b>326.82</b>                   | <b>139.30</b>                       | <b>43</b>                                |

(Source: Information furnished by the Society)

The supply of drugs was the maximum at 67 *per cent* during 2010-11. We found the exemption granted to KAPL unjustified due to the following reasons:

(i) The Principal Secretary to Government, Department of Health and Family Welfare who strongly recommended for grant of exemption, was also the Chairman of KAPL. Thus, there was clash of interests.

(ii) KAPL had been seeking exemption on the basis of Purchase Preference Policy (PPP) formulated by the Government of India during August 2006 which was valid for a period of five years. The purchase preference had been granted exclusively to Central Public Sector Enterprises in Pharma Sector and their subsidiaries in respect of 102 medicines manufactured by these. The PPP was applicable to purchases made by Ministries/Departments, PSUs, and autonomous bodies of the Central Government. This was also applicable to purchase of drugs made by the State Government under the health programmes funded by the Government of India. It was not applicable for health programmes funded exclusively by the State.

(iii) The Department of Animal Husbandry and Veterinary Sciences and Bangalore Medical College and Research Institute had rejected (December 2008) the proposal of KAPL for purchase of drugs under the preferential category as the rates of KAPL were very high.

(iv) The Society entered into an agreement for supply of 14 drugs against orders to be placed from time to time. KAPL, while executing the agreement, excluded the following clauses on the grounds that it was a unit owned by the State Government:

- Levy of testing charges for getting the test report from a testing lab approved by the Society; and
- Levy of penalty for delay in supply of drugs,

As the Society did not agree to the deletion of these clauses, KAPL furnished an addendum incorporating these clauses in May 2008. As KAPL continued to insist on deletion of these two clauses, the Government extended the period of supply to 120 days against 90 days prescribed for other firms which had been awarded the rate contracts. This concession was unjustified as it failed to provide a level playing ground to all the manufacturers of drugs.

The Society had introduced a security system which did not permit the warehouses to receive any supply after expiry of the maximum time limit allowed for supply. Any receipt after the prescribed time limit would be accepted only after the security lock was opened by the EDP personnel with the approval of the Additional Director. This security check had not been applied to supplies from KAPL which supplied the drugs as and when possible. The Society only levied penalty for delay in supplies. The extent of delay in supplies by KAPL in sampled units was as shown in **Table-2.10**:

**Table-2.10: Extent of delay in supplies by KAPL**

| Ware house     | Order No. | Order date | Received Date | No. of days |
|----------------|-----------|------------|---------------|-------------|
| Hassan         | D0125A    | 23.9.2009  | 19.4.2010     | 208         |
| All warehouses | E0002W    | 27.7.2010  | 31.1.2011     | 123-188     |
| All warehouses | E002AD    | 27.7.2010  | 27.12.2010    | 126-153     |
| Bangalore      | 010       | 12.8.2011  | 17.5.2012     | 240-279     |

(Source: Information furnished by Society)

The Society had recovered ₹ 115.37 lakh from KAPL towards penalty for belated supplies during 2008-12 as shown in **Table-2.11**:

**Table-2.11: Details of penalty recovered from KAPL**

(Value: ₹ in lakh)

| Year         | Value of drugs ordered | Value of drugs supplied | Value of drugs not supplied | Penalty recovered | Remarks  |
|--------------|------------------------|-------------------------|-----------------------------|-------------------|--|
| 2008-09      | 24.57                  | 21.95                   | 2.62                        | 15.23             | Non-supply ranged from 0 to 97 per cent. Purchase order placed on 26.9.08 for 7 drugs had not been acted upon. |
| 2009-10      | 27.79                  | 26.02                   | 1.77                        | 12.53             | Non-supply ranged from 27 to 87 per cent.  |
| 2010-11      | 52.26                  | 48.33                   | 3.93                        | 36.03             | Non supply ranged from 0 to 44 per cent.   |
| 2011-12      | 45.88                  | 42.76                   | 3.12                        | 51.58             | Non-supply ranged from 26 to 96 per cent.  |
| <b>Total</b> |                        |                         |                             | <b>115.37</b>     |  |

(Source: Information furnished by the Society)

Thus, KAPL failed to supply the drugs timely even after extending the supply period from 90 to 120 days. As the drugs procured from KAPL were essential drugs, delayed supply or non-supply of these drugs to the health institutions evidently resulted in the needy public not getting the essential drugs as and when these were needed.

(v) While issuing (July 2008) the tender notification for procurement of 174 drugs, the Society excluded the drugs that had been manufactured by KAPL. However, Tab. Albendazole 400 mg, Inj. Ranitidine 2ml and Tab Amoxicillin Dispersable 125 mg manufactured by KAPL had, nevertheless, been included in the tender notification. The Society also entered into agreements with the RC holders for supply of these drugs during March and April 2009. Meanwhile, KAPL requested (March 2009) the Society to delete the above products from the rate contracts and procure these from them. The Principal Secretary, Health and Family Welfare directed (April 2009) the Society to discontinue the RCs for these drugs on the ground that he was fully aware that all the suppliers were agents with no verifiable manufacturing units. The Principal Secretary's directive is to be viewed in the light of the fact that the Society had finalised the RCs for these drugs after their technical

evaluation by a Committee of experts and after the suppliers had met all the requirements prescribed by the Society. The Principal Secretary's directive was, at best, an attempt to direct the supply orders for these drugs to KAPL on indefensible grounds. The Society cancelled the agreements with the RC firms though the rates quoted by KAPL were far higher than those quoted by the RC holders as shown in **Table-2.12**:

**Table-2.12: Comparison of KAPL rates with RC rates**

| Sl. No. | Name of the drug   | KAPL rate (in ₹) | RC rate (in ₹) | Difference (in ₹) | Quantity purchased | Difference in value (₹ in lakh) |
|---------|--|------------------|----------------|-------------------|--------------------|---------------------------------|
| 1       | Tab. Albendazole 400 mg<br>1 x 10 x 10 (Indent 384643 ampules) | 119              | 55.95          | 63.05             | 83648 units        | 4.54                            |
| 2       | Inj. Ranitidine<br>1 x 10 x 2ml (Indent 7194 units)            | 22               | 12.36          | 9.64              | 7194 units         | 8.06                            |
| 3       | Amoxicillin Dispersable Tab<br>1 x 10 x 10                     | 86               | 44.43          | 41.57             |                    | 0                               |
|         | <b>Total</b>   |                  |                |                   |                    | <b>12.60</b>                    |

(Source: Information furnished by the Society)

The avoidable additional cost consequent on procurement of these two drugs from KAPL worked out to ₹ 12.60 lakh.

The Government stated (December 2012) that the drugs had been procured from KAPL at the rates fixed by the National Pharmaceutical Pricing Authority (NPPA) and additional cost due to procurement of these drugs from KAPL did not arise. The reply was not acceptable as the rates obtained by the Society for these drugs through the tendering process were far lower than the rates fixed by NPPA and non-availment of these rates did result in additional cost.

(vi) A comparison of the rates paid to KAPL for drugs supplied with those at which other State Governments procured for the same drugs showed that the rates of KAPL were very high and the Society had incurred an avoidable expenditure of ₹ 55.44 crore on purchase of drugs from KAPL during 2008-12 as detailed in **Table-2.13**:

**Table-2.13 : Comparison of KAPL rates paid by other Governments**

(₹ in crore)

| Sl. No | Year         | No. of drugs procured from KAPL | Value of drugs procured from KAPL | Value of the same drugs at the rates paid by other Governments | Difference in value |
|--------|--------------|---------------------------------|-----------------------------------|--|---------------------|
| 1      | 2008-09      | 17                              | 22.83                             | 12.89  | 9.94                |
| 2      | 2009-10      | 23                              | 18.99                             | 8.98   | 10.01               |
| 3      | 2010-11      | 29                              | 41.23                             | 19.91  | 21.32               |
| 4      | 2011-12      | 17                              | 28.09                             | 13.92  | 14.17               |
|        | <b>Total</b> |                                 | <b>111.14</b>                     | <b>55.70</b>   | <b>55.44</b>        |

(Source: Information furnished by Society and RC rates of other states)

Thus, promoting the products manufactured by KAPL resulted in draining of scarce resources earmarked by the State Government to address the health issues of the citizens. Though promoting the drugs of a State-owned company would be, per se, in order, doing it at a huge cost to the detriment of the citizens at large would be improper. The Government stated (December 2012)

that procurement from KAPL had been made on the basis of exemption granted under the KTPP Act and at the rates fixed by NPPA. The reply was not acceptable as the rates paid to KAPL were far higher than those at which other Governments had been procuring drugs. Further, the supplies by KAPL had also not been timely.

### 2.1.10.2 Drugs excessively procured

The details of items of drugs indented by the health institutions against the rate contracts, items of drugs procured and the range of quantities of items of drugs procured against the indented quantities during 2007-08 to 2011-12 were as shown in **Table-2.14**:

**Table-2.14: Details of ordered/procured quantity against indented quantity**

| Particulars  | 2007-08 | 2008-09 | 2009-10 | 2010-11              | 2011-12              |
|--|---------|---------|---------|----------------------|----------------------|
| Method of procurement  | RC      | RC/KAPL | RC/KAPL | KAPL/One time tender | KAPL/One time tender |
| No. of items indented  | 631     | 624     | 240     | 324                  | 486                  |
| No. of items procured  | 628     | 570     | 157     | 203                  | 253                  |
| Percentage of procurement  | 99      | 91      | 66      | 63                   | 52                   |
| <b>No. of drugs ordered and the percentage of quantities ordered against the indented quantities</b>   |         |         |         |                      |                      |
| 0-75 %   | 130     | 255     | 30      | 60                   | 45                   |
| 75-125%  | 382     | 213     | 31      | 101                  | 166                  |
| 125-500%   | 98      | 81      | 73      | 37                   | 36                   |
| 501-1000%  | 14      | 14      | 16      | 3                    | 3                    |
| 1001-4052%   | 4       | 7       | 7       | 2                    | 3                    |
| <b>No. of drugs procured and the percentage of quantities procured against the indented quantities</b> |         |         |         |                      |                      |
| 0-75 %   | 246     | 333     | 39      | 82                   | 57                   |
| 75-125%  | 291     | 156     | 29      | 83                   | 158                  |
| 125-500%   | 76      | 65      | 70      | 34                   | 32                   |
| 501-1000%  | 12      | 11      | 14      | 2                    | 3                    |
| 1001-4052%   | 3       | 5       | 5       | 2                    | 3                    |

(Source: Information furnished by Society)

We found that the Society had not placed supply orders for all the items of drugs indented by the health institutions during 2007-12. The items of drugs ordered constituted only 52 to 66 *per cent* of those indented by the health institutions during 2009-12. The proportion of the number of items of drugs ordered to those indented registered a sharp declining trend from 99 *per cent* during 2007-08 to 52 *per cent* during 2011-12. The number of items of drugs ordered was the lowest at 157 during 2009-10. This was because the RCs for only 95 items of drugs finalised in March 2009 were in force during the year. The number of items of drugs ordered during 2010-11 was also low as the fresh RCs for supplies during 2010-11 had been finalised only during November 2010 and purchase of 25 items of drugs had been deferred by the Society on the directions of the State Lokayuktha. During the year 2011-12, only 253 items had been ordered against 486 indented items and purchase orders for 219 of these items had been placed only from December 2011.

Though the items of drugs purchased drastically declined from 2007-08 level, there was no corresponding reduction in the expenditure on procurement. Though the number of items of drugs procured was the lowest during 2009-10, the expenditure on procurement was ₹ 99.39 crore during this period against the average expenditure of ₹ 95.57 crore during 2007-12. This was mainly

because the quantities of drugs purchased were far in excess of those indented by the institutions. While 19 drugs had been procured excessively ranging from 501 to 4052 *per cent* of the indented quantities, the excess procurement in respect of another 70 drugs had been in the range of 125 to 500 *per cent* of the indented quantities. The items of drugs excessively purchased during 2009-10 constituted 57 *per cent* of the total items of drugs procured. Though the excess procurement declined during 2010-12, the items of drugs excessively procured consisted 19 and 15 *per cent* of the total items of drugs purchased during 2010-11 and 2011-12, respectively.

The drugs excessively procured during 2009-10 had been indiscriminately distributed to the health institutions by the warehouses in excess of requirement and this created storage problems for these health institutions. We found that the drugs excessively supplied had been stored by the health institutions at different places like garages, toilets, kitchens, corridors, wards etc. in unhygienic conditions.

Drugs stored in toilet in General Hospital, Hirekerur (16 May 2012)



Drugs stores in corridor at Chigateri Hospital, Davanagere (9 May 2012)



Drugs stored in wards in General Hospital, Hanagal (17 May 2012)



As a result of the storage problems, various health institutions resorted to transferring the drugs and chemicals to other institutions. We also found that the Society itself had issued orders for transfer of IV fluids, between warehouses and major hospitals. In the test-checked warehouses, drugs valued at ₹ 2.99 crore had been transferred from one place to another during 2007-12, by incurring expenditure of ₹ 1.88 lakh. These were only illustrative cases. Excess procurement, besides resulting in locking up of funds, led to the stock of drugs remaining unutilised for a long time, reducing the shelf life of the drugs.

We further found that as a result of excessive procurement, huge quantities of drugs with marginal shelf life had been held in stock in test-checked health institutions. There was no likelihood of the utilisation of these drugs (Paragraph 2.1.10.7) before their dates of expiry.

The Government stated (December 2012) that procurement and distribution of drugs had been made purely on the basis of indents and some institutions might have indented more quantities of drugs unscientifically, leading to more stock and causing storage problems. The Government further defended the transfer of drugs on the ground that such transfers had been made depending on the consumption pattern of drugs. The reply was not acceptable for the following reasons:

- (i) The excess procurement had been worked out by audit only on the basis of indents received from various health institutions during 2007-12 and drugs had been supplied to health institutions far in excess of the quantities indented, leading to storage problems; and
- (ii) The transfer of drugs from one institution to another had not been made on the basis of any analysis of the consumption pattern but was necessitated by storage problems and lack of demand for the existing stock.

- ***Huge excess procurement of IV fluids***

After the Government approved (March 2009) the rate contracts for supply of drugs and chemicals, the Society circulated an indent book to the health institutions for indicating their requirement. In the meanwhile, the Society decided (May 2009) to place purchase orders for 50 *per cent* of the tendered quantity immediately and follow it up with further orders for the balance requirement after consolidation of the indents.

Scrutiny of the consolidated indents and purchase orders placed for IV fluids during 2009-10 showed that while orders had been placed for 381 to 638 *per cent* of the indented quantities, IV fluids supplied were 178 to 497 *per cent* of the indented quantities as shown in **Table-2.15**:

**Table-2.15: Excessive IV fluids purchased during 2009-10**

| Sl. No. | Name of the drug  | Consolidated indent quantity (In lakh) | Ordered quantity (In lakh) | Percentage of ordered quantity in terms of indented quantity | Received quantity (In lakh) | Value (₹ in lakh) | Percentage of received quantity to indented qty |
|---------|---|--|----------------------------|--|-----------------------------|-------------------|---|
| 1       | METRONIDAZOLE INJ.I.V 100 ML FFS – 5MG/ML – 1X100 ML            | 10.99                                  | 41.89                      | 381  | 29.31                       | 168.57            | 267   |
| 2       | RINGERS'S LACTATE SOLUTION FOR INJ 500ML BOTTLE 1 X 500ML       | 9.98                                   | 46.38                      | 465  | 37.71                       | 352.95            | 378   |
| 3       | DEXTROSE 5% W/V WITH SODIUM CHLORIDE 0.9% w/V -500 ML 1 X 500ML | 9.60                                   | 42.21                      | 440  | 34.98                       | 327.09            | 364   |
| 4       | SODIUM CHLORIDE INJ.500 ML 0.9% W/V – 1X 500 ML                 | 5.88                                   | 37.50                      | 638  | 29.24                       | 259.96            | 497   |
| 5       | DEXTROSE INJ.500 ML-5% W/V – 1 X 500ML                          | 6.46                                   | 27.50                      | 426  | 20.65                       | 200.11            | 320   |
| 6       | CIPROFLOXACIN – 100ML – 2MG - 1X100 ML                          | 6.03                                   | 23.03                      | 382  | 10.76                       | 58.12             | 178   |
|         | <b>TOTAL</b>  | <b>48.94</b>                           | <b>218.51</b>              |  | <b>162.65</b>               | <b>1366.80</b>    |   |

(Source: The consolidated indents included Departments of Health, Medical Education and Zilla Panchayats)

We found that three suppliers benefitted from the indiscriminate procurement in total disregard of the indented quantities and these purchases were evidently suppliers driven. The details are as shown in **Appendix-2.1**.

The Government stated (December 2012) that IV fluids had been procured on the basis of indents received from the health institutions. The reply was not acceptable as the excess procurement had been assessed by audit after considering all the indents that had been received during the year as per the database provided by the Society. Further, the procurement had been so high during 2009-10 that IV fluids of Dextrose 5% with Sodium Chloride 0.9%, Sodium chloride injection 500 ml, Dextrose injection 500 ml 5% and Ciprofloxacin 100 ml had not been procured during 2010-11.

- ***Distribution of IV fluids***

After placing (February 2010) the purchase orders on M/s.Parenteral Drugs Limited and Claris Life Sciences Limited, the Additional Director modified (March 2010) the list of consignees to overcome space constraints though there had been no indents from these consignees. The details of the modified orders are as shown in **Appendix-2.2**.

Similarly, we also found that the Additional Director directed (July, 2011) the District Health and Family Welfare Officer, Belgaum to transfer excessive stock of 85000 bottles of IV fluids to two hospitals in Bangalore, one hospital in Hospet and one hospital in Hiriyur. Further, the modified order also required the suppliers to prepare the invoices for supplies on the basis of the earlier distribution list though the consignments were to be delivered as per the modified list. The warehouses followed these instructions and acknowledged

receipt of drugs not received and subsequently raised delivery notes against the institutions which actually received the drugs. The Government stated (December 2012) that transfer of drugs had been effected with the sole intention of providing IV fluids for consumption in every nook and corner of the State. The reply was not acceptable as the modified list issued by the Additional Director clearly stated that it was issued in order to overcome space constraints and there was no indent from the institutions.

As the hospitals, CHCs and PHCs had not been equipped to handle such huge stocks of drugs, the IV fluids remained stored in ambulance sheds, near stair cases and in small rooms in very unhygienic conditions even during the period of audit, long after their purchase. We found carcasses of rats on IV fluid carton boxes. Illustrative photographs of improper stocking of IV fluids noticed during inspection are shown below:

|  |  |   |
|--|--|---|
| <p>District Hospital, Davanagere<br/>(9 May 2012)</p>  | <p>District Hospital, Davanagere<br/>(9 May 2012)</p>  | <p>District Hospital, Haveri<br/>(15 May 2012)</p>  |
| <p>CHC, Akki Allur<br/>(17 May 2012)</p>   | <p>.District Hospital, Haveri<br/>(15 May 2012)</p>  | <p>Carcasses of rats on IV fluids<br/>carton boxes at CHC, Byadagi<br/>(16 May 2012)</p>  |
|   |   |    |
| <p>Ambulance Shed at CHC, Byadagi (16 May 2012)</p>  | <p>CHC, Byadagi (16 May 2012)</p>  |   |
|   |    |   |

### 2.1.10.3 Procurement of psychiatric drugs

As per the directives of the High Court of Karnataka (March 2006), the State Government was to make sufficient provision in the budget for the mental health of the citizens of the State, besides making all efforts to ensure that necessary medicines were available.

We found that the Deputy Director (Mental Health) in the Directorate of Health and Family Welfare furnished every year to the Society the requirement of psychiatric drugs to be supplied to the health institutions including PHCs/CHCs and the Society procured the drugs and supplied these to the health institutions. However, the requirement worked out by the Deputy Director had been ad hoc and not based on any need assessment. The availability of doctors in the health institutions, especially PHCs and CHCs, to treat psychiatric orders had also not been considered while working out the requirement.

The details of psychiatric drugs purchased by the Society during 2007-12 were as shown in **Table-2.16**:

**Table-2.16: Details of psychiatric drugs purchased by Society during 2007-12**

| Year    | No. of drugs projected by the Deputy Director for procurement | No. of drugs actually procured | Actual expenditure incurred (₹ in lakh) | Remarks  |
|---------|---|--------------------------------|---|--|
| 2007-08 | Details not available   | 17                             | 20.74                                   |  |
| 2008-09 | 13  | 4                              | 20.65                                   | Only 4 drugs were available in the rate contracts  |
| 2009-10 | 13  | 11                             | 88.36                                   | Rate contract was available for all the drugs      |
| 2010-11 | NA  | Nil                            | Nil                                     | Rate contract was available for all the drugs      |
| 2011-12 | 21  | 10                             | 154.22                                  | Only 10 drugs were available in the rate contracts |

(Source: Information furnished by Society)

We found in the sampled units that the psychiatric drugs supplied by the Society had either largely remained unutilised or had been transferred to other institutions. The status of stock of these drugs in the sampled units including the transfer of drugs to other institutions is shown in **Appendix-2.3**.

Thus, though psychiatric drugs had been procured, their utilisation by the health institutions was dismal, defeating the very purpose of procurement of these drugs. The Government stated (December 2012) that the Deputy Director (Mental Health) would be asked to assess the needs of the health institutions depending on the availability of psychiatrists, trained doctors and the number of patients requiring such drugs.

### 2.1.10.4 Procurement of drugs with reduced shelf life

The RC for supply of drugs prescribed that all drugs should arrive at the district warehouses with a remaining shelf life of at least 80 *per cent*, failing which the drugs would be rejected. Further, the drugs nearing expiry period were to be replaced by the supplier with fresh stocks from the latest batch, if informed three months before the date of expiry.

We found that the warehouses received 7223 drugs costing ₹ 15.82 crore during 2007-12 with less than 80 percent of shelf life. Out of these, 1024 drugs had shelf life of less than 50 percent. Further, 87 drugs costing ₹ 35.30 lakh had been received with shelf life of less than 90 days (10-88 days). Though the warehouses immediately distributed these drugs to the health institutions, there was no feedback on timely utilization of these drugs by various health institutions within the very narrow shelf life of the drugs, apart from that in respect of expired drugs. Evidently, the controls for ensuring supply of medicines with sufficient shelf-life to the public functioned ineffectively. Further, there were no validation checks in the software developed to reject the supplies with reduced shelf-life. The Government stated (December 2012) that no drugs having shelf life of less than 80 per cent would be accepted without clear instructions and action was being taken to develop a suitable software to reject drugs with less than 80 per cent shelf life. The reply was not acceptable as drugs with reduced shelf life had been accepted in total disregard of the agreement.

#### ***2.1.10.5 Drugs procured at higher rates***

The agreements with the RC holders provided that the rate quoted for the drugs, in no event, should be more than the lowest price at which the supplier sold his products of identical description to any other persons, State, Union territory, Corporation, Board, University, Trust, local authority, company or others including his own dealer, distributor, stockist, agent during the period of the currency of the RC. If at any time during the period of contract, the supplier reduced the sale price of such products to a price lower than the price quoted in the RC, he should notify such reduction or sale to the Additional Director and the price payable under the contract should correspondingly be reduced to the same extent as was sold to such others.

The Society had no mechanism in place to ensure that the rates at which the RC holders had been selling their products were the lowest and that the RC holders complied with the fall clause. We found that five firms having RCs with the Society had sold drugs of identical description during 2009-12 to other States at rates less than those quoted in the RCs, resulting in an excess payment of ₹ 76.81 lakh to these firms. The Government stated (December 2012) that the Society insisted that the supplier reduced the rates, if such instances came to its notice and this clause had been removed from the tender during 2012-13. The reply is to be viewed in the light of the fact that the society had no mechanism to detect such price variations after award of RCs and no action had been taken to assess and recover the excess payment made upto 2011-12.

#### ***2.1.10.6 Procurement of Auto Disable and Disposable Syringes***

The Society procured 3.10 lakh and 3.85 lakh non-reusable auto disable/disposable (AD) syringes from the RC holders during 2007-08 and 2008-09 respectively at a cost of ₹ 16 crore. AD syringes which became dysfunctional after single use had been preferred over the conventional disposable syringes for immunization in spite of increased cost ranging from 71 to 100 per cent, to prevent transmission of disease like HIV and HCV etc. The Society had also

purchased 1.91 lakh conventional disposal syringes during this period at a cost of ₹ 98.79 lakh for regular use in the health institutions.

On expiry of the rate contracts, the Society invited (February 2010) tenders for AD syringes. However, the STC decided (March 2010) to reduce the tendered quantity of AD syringes by 80 *per cent* and procure in its place conventional disposable syringes. The Society issued necessary addendum to the tender notification. Meanwhile, following receipt of complaints alleging irregularities in the tendering process, a team of doctors constituted by the State Lokayuktha examined the syringes notified for procurement. In its report (May 2010) the team observed that AD syringe, besides being costlier by 100 *per cent*, had no added advantages and its procurement was contrary to the very objective of setting up the Society. The Society deferred the procurement of AD Syringes thereafter and procured only conventional disposable syringes during 2010-12.

Thus, there was no due diligence on the part of the Society before procuring AD syringes during 2007-08 and 2008-09 on a large scale. Though the AD syringe became dysfunctional after single use, the additional cost outweighed the benefit, especially in the context of scarce resources available to meet the multitude of health problems faced by the citizens. The Society, therefore, failed to strike a balance between sophistication and, need and in the process, ended up spending ₹ 7.02 crore more for AD syringes, which could have been better utilized to address more important health issues faced by the citizens. The Government stated (December 2012) that AD syringes had been deleted as they were not suitable even for immunization. It was further stated that procurement of AD syringes had been deferred on the basis of directions of the State Lokayuktha. The reply confirmed the findings that procurement of AD syringes was not justified as they had not been suitable even for immunization.

#### ***2.1.10.7 Procurement of drugs by health institutions and their utilisation***

The district level and taluk level authorities had been delegated (April 2010) financial powers<sup>1</sup> for purchase of drugs and medicines urgently required against funds released out of 20 *per cent* of budgetary allocation. A Local Purchase Committee in the health institution was entrusted with the responsibility of inviting quotations on the basis of requirement projected by the Pharmacist and recommending the purchases for approval of the competent authority.

Scrutiny of the purchases made by the sampled institutions and utilization thereof during 2007-12 showed the following:

- General Hospital, Bailhongal and General Hospital, Ramnagara had not furnished purchase files for our scrutiny.
- While stock registers and records had not been maintained properly by CHC, Mallebennur, PHC, Kamthana and District Hospital, Bidar, there

<sup>1</sup> ₹ 5-10 lakh and ₹ 3 lakh per annum respectively

were also variations between the book balances of stocks of medicines and the ground stocks in these institutions.

- In 24 out of 63 health units (General Hospitals:9, CHCs:7 and PHCs:8), physical verification of stock had not been carried out at all.
- The warehouse at Davanagere supplied 27000 Chlorpromazine 25 MG Tablets to Chigateri Hospital, Davanagere on 4 February 2012. Scrutiny of the issue register of the hospital showed that 11500 tablets had been issued after the expiry date (31 March 2012). Another 40 units of Inj Dextrose 25 *per cent* which had expired on 30 November 2010 had been issued to patients of CHC, Harohalli during April to July 2011. The matter calls for investigation and stringent action against the officials responsible for the lapses.
- Two District warehouses and 11 health institutions held 31 drugs in stock for 1 to 65 months after their receipt. These drugs were allowed to expire without being used as there was no demand.
- In 12 health institutions, the percentage of non-utilisation of 79 drugs received between August 2010 to June 2012 ranged from 10 to 100 *per cent*. All these drugs were nearing expiry.
- In 14 health institutions, 90 drugs purchased during 2010-12 were found to be slow-moving as the percentage of utilisation ranged from 0 to 48 over a period of more than two years from April 2010 to July 2012.
- In CHC, Harohalli, stocks received from the warehouse and by way of transfers from other institutions had been taken to the Main Stores Ledger and, thereafter, the stocks had been shown as issued to sub-stores. However, the sub-stores registers had been written only on 3 November 2011, 10 December 2011, 13 March 2012 and 28 March 2012. No receipts and issues were entered in sub-stores registers for the period 2007-08 to October 2011. The utilization of drugs shown as issued to sub-stores was not, therefore, susceptible of verification.
- We inspected PHC, Janawada, a 24 x 7 unit on 13 June 2012 along with the Senior Pharmacist of DHO, Bidar. During inspection, the staff of the PHC including the Medical Officer were not present at the Health Centre except for one staff nurse, though six staff members had signed the attendance register. In the absence of the staff and the Medical Officer, the records of the PHC could not be verified.
- In PHC, Doddamaralawadi, the drugs/chemicals received from the district warehouse had been shown as issued to the patients on the same or next few days. A few illustrative cases are shown in **Table-2.17**:

**Table-2.17: Illustrative cases of drugs received and issued**

| Name of the drug    | Quantity | Date of receipt | Quantity | Issue date |
|---------------------|----------|-----------------|----------|------------|
| Iron folic acid     | 2600     | 29.9.2009       | 2600     | 30.9.2009  |
| Ergometrine Maleate | 1400     | 2.9.2009        | 1400     | 3.9.2009   |
| Folic Acid          | 38600    | 4.10.2010       | 38600    | 8.10.2010  |

(Source: Information furnished by the Society)

Further, no records in support of the issues made to the patients had been maintained in the units. In the absence of supporting records, the authenticity of the issues was not verifiable.

### 2.1.10.8 Levy of penalty

The RCs prescribed varying degrees of penalties for non-supply, partial supply and delay in supply of drugs ordered, besides cancellation of RC, black listing of suppliers and forfeiture of Earnest Money Deposits (EMD) and Security Deposits (SDs) without notice in case of delay of 90 days and above in supplies.

During 2007-08 to 2011-12, 826 purchase orders for supply of drugs valued at ₹ 13.14 crore had not been acted upon by the suppliers and no drugs against these purchase orders had been supplied as shown in **Table-2.18**:

**Table-2.18: Details of purchase orders not acted upon**

| Sl. No | Year         | Number of purchase orders not acted upon | Value of drugs not supplied (₹ in lakh) |
|--------|--------------|--|---|
| 1      | 2007-08      | 649                                      | 412.83                                  |
| 2      | 2008-09      | 99                                       | 584.07                                  |
| 3      | 2009-10      | 46                                       | 85.29                                   |
| 4      | 2010-11      | 28                                       | 188.59                                  |
| 5      | 2011-12      | 4  | 42.91                                   |
|        | <b>Total</b> | <b>826</b>                               | <b>1313.69</b>                          |

(Source: Information furnished by Society)

In the case of another 2138 purchase orders placed during the same period, only 76 per cent of the value of drugs ordered had been supplied as shown in **Table-2.19**:

**Table-2.19: Details of partial supply**

(Value: ₹ in lakh)

| Sl. No. | Year         | Number of Purchase Orders | Value of drugs ordered | Value of drugs supplied | Balance value |
|---------|--------------|---------------------------|------------------------|-------------------------|---------------|
| 1       | 2007-08      | 1453                      | 30.05                  | 17.26                   | 12.79         |
| 2       | 2008-09      | 400                       | 71.14                  | 48.98                   | 22.16         |
| 3       | 2009-10      | 89                        | 62.09                  | 48.97                   | 13.12         |
| 4       | 2010-11      | 94                        | 48.14                  | 41.12                   | 7.02          |
| 5       | 2011-12      | 102                       | 49.58                  | 43.10                   | 6.48          |
|         | <b>Total</b> | <b>2138</b>               | <b>261.00</b>          | <b>199.43</b>           | <b>61.57</b>  |

(Source: Information furnished by the Society)

We further found delays ranging from 91 days to 1785 days in supply of drugs costing ₹ 64.85 crore to various warehouses during 2007-08 to 2011-12.

The penalty recoverable in all these three cases aggregated ₹ 6.94 crore. Though, as per the annual accounts of the Society, a penalty of ₹ 2 crore had been recovered during 2007-12, the Society did not have the details of penalty recovered from individual suppliers against individual supply orders. As a result, the correctness of the penalties levied and individual cases where penalty had not been levied could not be determined. The Government stated (December 2012) that the range of delay indicated by audit was incorrect as the system reckoned the number of days from the date of the purchase order

till the date on which report was generated. It was further stated that penalty for delayed supplies had been imposed. The reply was not acceptable as the Society did not have any other data to monitor the delay in supply of drugs and, in the absence of any such data and the details of penalties recovered so far, the adequacy of the penal measures taken against the defaulting suppliers could not be assessed in audit. Further, no action had been taken to rectify the system defect.

### **2.1.11 Quality assurance**

The RCs for supply of drugs envisaged that the purchaser reserved the right to test each batch or batches selected at random from the consignment, either at the time of receiving the goods or at any time during the shelf life of the product, at any laboratory approved under the Drugs and Cosmetics Act and Rules, notwithstanding the routine sampling that might be carried out by the Drugs Controller and regulatory authorities. The actual cost of testing was to be deducted by the Society from the bills for supplies.

The Society had empanelled four<sup>2</sup> laboratories for testing of drugs during the period 1 April 2007 to 31 March 2009. The period was further extended by 6 months up to 30 September 2009 under the orders of the Commissioner, Health and Family Welfare.

After the expiry of agreements with these laboratories in September 2009, the Society empanelled another three laboratories for testing only from 1 December 2010. Thus, there was no in-house system in place for 14 months to provide quality assurance for the drugs procured from various sources. Further, no testing agency had been fixed for 48 essential drugs as none of the laboratories which had participated in the tendering process had the facilities to test these drugs. These drugs were evidently supplied to patients without testing. The Society did not furnish the details of tests conducted by the empanelled laboratories during 2007-12 and the results thereof and, as a result, we could not assess the adequacy of the tests conducted and the follow-up action taken by the Society on the test reports. While accepting that no quality testing had been done for 14 months, the Government stated (December 2012) that instructions were being issued to the warehouses to distribute the drugs only after receipt of test reports.

As per the rate contracts, the stock of any drug declared as “Not of Standard Quality (NSQ)” by the Drugs Controller or any other authority should be replaced by the suppliers. Further, the drugs which were nearing expiry (90 days) were to be replaced by the suppliers with fresh stock. In case of default, the Society was to forfeit the security deposit furnished by the supplier and in respect of the remaining damages, the Society was to take action under the existing laws to recover such loss and to blacklist the supplier.

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<sup>2</sup> M/s. Teena Labs Private Limited, Hyderabad, M/s. Sophisticated Industrial Materials Analytical Labs Private Limited, Delhi, M/s. Standard Analytical Laboratory Private Limited, Delhi, and M/s.ITL Labs Private Limited, Delhi.

The Society did not furnish to audit the details of NSQ drugs and drugs nearing expiry which had not been replaced by the suppliers during 2007-10. However, the cost of such drugs not replaced by the suppliers in 28 cases during 2010-12 aggregated ₹ 1.03 crore. The Society did not furnish the details of action taken to forfeit the security deposit in these cases, blacklist the suppliers and recover the remaining damages, if any, by initiating appropriate legal action.

### 2.1.12 Non-disposal of NSQ and expired drugs

As per 'The Bio-medical Waste (Management and Handling) Rules 1998, discarded medicines and cytotoxic drugs (wastes comprising outdated, contaminated and discarded medicines) are to be disposed of either through incineration or destruction and or in secured landfills.

We found that 120.95 tonnes of NSQ/time-barred drugs had been lying in nine warehouses as of July 2012. Details in respect of six warehouses had not been furnished by the Society. Though the issue of disposal of the NSQ/time-barred drugs had been engaging the attention of the Society since September 2006 and necessary authorisation for disposal had been obtained from the Karnataka State Pollution Control Board, the NSQ/time-barred drugs had not been disposed of, creating storage problems in the warehouses. While the warehouses at Mangalore and Bangalore had stored these drugs in guard rooms and places meant for keeping antiseptic and disinfectant solutions, these drugs had been lying in other warehouses mixed with other drugs meant for distribution. A few photographs taken during our inspection of the warehouses are given below:

#### Bangalore Warehouse

Guard Room (10 July 2012)



Room for keeping antiseptic and disinfectant solutions (10 July 2012)



#### Davanagere Warehouse

Expired drugs mixed with regular drugs (8 May 2012)



### **Belgaum Warehouse**

Expired drugs stored within the warehouse (24 May 2012)



### **Gulbarga Warehouse**

Expired/NSQ drugs stored within the warehouse (7 June 2012)



### **Mangalore Warehouse**

Lizol room (26 April 2012)



Failure to ensure timely destruction of the NSQ/time-barred drugs exposed the warehouses to the risk of issuing these drugs inadvertently to various health institutions. The Government stated (December 2012) that the process of floating tender for disposal of NSQ/time-barred drugs was in progress and strict instructions would be given to the warehouses to store NSQ and barred drugs separately.

### 2.1.13 Maintenance of Warehouses

The Storage Manual for the maintenance of warehouses contained detailed procedures to be followed for storage of drugs. However, the joint inspection of the selected warehouses<sup>3</sup> showed the following omissions:

- Periodical inspection of electrical accessories and the buildings had not been conducted by the Public Works Department and the cylinders of the fire extinguishers had not been refilled since during 2005;
- The warehouse staff had not been trained in fire fighting;
- Large number of drugs belatedly received from the suppliers had not been taken to stock and had been lying in the entrance of the warehouses;
- There was no insurance either for the drugs stores or the warehouses;
- The warehouse at Davanagere did not have Troop Carrier for distribution of drugs to the health institutions; and
- The warehouses did not adopt automated track and trace system of bar-coding of drugs.

The Government stated (December 2012) that action would be taken to rectify the defects at the warehouse level.

### 2.1.14 Manpower

The salaries of staff working in the Society had been borne by the Government till March 2012. With effect from 1 April 2012, the Society had been meeting the expenditure on pay and allowances of its staff out of the grants provided by the Government.

Against the sanctioned strength of 83, the men in position in the Society as of July 2012 was 69. Against two posts each of Chief Pharmacist and Graduate Pharmacist, one post of Graduate Pharmacist remained vacant as of July 2012. The two post of Chief Pharmacist had also been filled up with Graduate Pharmacists. Though the Directorate of Health and Family Welfare Services had prescribed (September 2006) one post of Graduate Pharmacist, two posts of Pharmacists and one System Manager for each of the warehouses, the Government had not sanctioned these posts so far (July 2012). These posts were being managed by drawing personnel from the health institutions on deputation. Further scrutiny showed that 11 out of 14 warehouses were not managed by Graduate Pharmacists.

Further, though the Society had been using the Drug Distribution Management Software developed by KEONICS, Bangalore for managing the activities of drug procurement and distribution, it did not have a System Administrator to ensure safeguarding of assets, data availability, integrity and security. The data processing was done by staff outsourced by KEONICS. The Society did not have any IT policy to guide its IT initiatives and as a result,

<sup>3</sup> Bangalore, Belgaum, Davanagere and Gulbarga

- The duties and responsibility of IT staff and the procedures for segregation of duties etc had not been defined;
- The various control procedures for reporting, reviewing, reconciliation, access to data files, approving and controlling of documents had not been defined; and
- There were no formally defined access controls for physical and logical access to assets and records

Thus, the IT initiative had been implemented by the Society in an uncontrolled environment, posing risk to safeguarding of assets, data availability, integrity and security. The Government stated that (December 2012) that periodical assistance from the Department of e-Governance would be taken to have a safe database and its proper working.

### **2.1.15 Accounts of the Society**

Our scrutiny of the accounts of the Society showed the following:

The Additional Director was responsible for maintenance of proper books of accounts for the funds received and expended by the Society. Although the Society came into existence during 2002-2003, no Cash Book had been maintained and the Society's accounts had been prepared on the basis of the Receipts and Payments register maintained.

Though the rules and regulations of the Society required the Additional Director to finalize the annual accounts, get these duly audited and place the audited copy of the annual accounts together with the auditor's report before the Governing Body for its approval within three months from the close of the financial year (30<sup>th</sup> June), this time frame had not been adhered to as shown in **Table-2.20:**

**Table-2.20: Delay in placing the annual accounts before the Governing Body**

| <b>Year</b> | <b>Date of approval by the Chartered Accountant</b> | <b>Date of approval by the Governing Council</b> |
|-------------|---|--|
| 2007-08     | 2-12-2008   | 21-02-2009                                       |
| 2008-09     | 2-01-2010   | 08-09-2010                                       |
| 2009-10     | 20-2-2011   | 14-09-2011                                       |
| 2010-11     | 26-05-2011  | 14-09-2011                                       |
| 2011-12     | Not yet placed before Governing Council             |  |

(Source: Information furnished by the Society)

As per the Rules and Regulations of the Society, the Additional Director is to file, on or before the 14<sup>th</sup> day succeeding the day on which the Annual General Council meeting is held, the accounts with the Registrar of Societies along with a list of Members of the Governing Council, a copy of the audited statement of accounts and a copy of the proceedings of the meeting. However, annual accounts for the period 2007-12 had not been filed with the Registrar so far (July 2012).

According to Rules and Regulations of the Society, the amendments to the Memorandum of Society should be done in accordance with the procedure laid down in the Karnataka Societies Registration Act 1960, and such amendments shall come into force from the date of approval by the Registrar of Societies. An amendment to the mandated activities of the Society enabling it to procure drugs required for implementation of schemes like NRHM, Akshara Dasoha, Ayush etc., had been approved by the Governing Council in February 2009 and representation had been made with Registrar for approval of the amendment. However, no approval had been given by the Registrar so far.

### **2.1.16 Monitoring**

As per the bye-laws of the Society, the Additional Director should undertake inspections to ascertain the proper functioning of the warehouses and to ensure that the drugs reached the health institutions in time. The details of inspections conducted by the Additional Director were not furnished to audit. However, the Additional Director stated (August 2012) that inspections were conducted consequent on receipt of complaints from the health institutions and his support staff were conducting inspections as and when required. It was further stated that the inspections of the warehouses would be carried out by District Nodal Officer of the Health Department once a month. The reply was not acceptable as no periodicity had been prescribed for inspection by the Additional Director and the support staff, in the absence of which the inspections conducted were only reactive to the complaints received. As the inspection was ineffective, the warehouses had received drugs with reduced shelf life, accumulated huge quantity of NSQ and time barred drugs.

There was also no internal audit mechanism in the Society and its voluminous transactions had never been subject to any internal audit so far (July 2012). The Additional Director stated (August 2012) that one post each of Accounts Officer and Accounts Superintendent had been created in the Society and action would be taken to audit the accounts internally as suggested by audit. Non-establishment of the internal audit wing exposed the Society to the risk of financial irregularities, if any, remaining undetected. There was also no evidence of monitoring of the tendering and procurement processes which had witnessed inordinate delays at various stages and other irregularities.

### **2.1.17 Conclusion**

The tender evaluation by the Society was flawed in many cases as many non-responsive tenders had been considered responsive and drugs had been procured from these non-responsive sources during 2010-11. Drugs procurement lacked planning, resulting in chronic delay in finalizing the rate contracts for supply of drugs. This resulted in non-availability of sources for procurement of drugs during the period March 2010 to October 2010. The exemption granted to the products of KAPL during 2008-12 lacked justification as their rates for drugs were far higher than those paid by other State Governments during the corresponding period. Procurement of drugs, especially IV fluids, had not been based on estimates of actual need. Drugs had been procured far in excess of requirement, creating storage problems in

the warehouses and health institutions. While drugs with reduced shelf life had been procured, the quality assurance system was not effective.

### **2.1.18 Recommendations**

We recommend the following:

- Procurement process should be transparent, strictly following the prescribed criteria throughout the process to award contracts for supplies;
- Procurement should be planned properly and procurement performance should be monitored regularly to ensure that tenders for supply of drugs are finalised timely and drugs are available as and when these are needed;
- Procurement should be based on reliable estimates of actual needs; and
- Procurement procedures/systems should include all assurances that the drugs purchased are of high quality.

## Urban Development Department

### 2.2 Audit of Information Systems in Bangalore Development Authority

#### Executive Summary

The Bangalore Development Authority (BDA)'s vision was to use Information Technology (IT) and establish an integrated management system for its various business processes. The IT initiatives were also expected to enable the public to access every information they needed from BDA.

However, we found that BDA had not formulated any IT policy to guide its IT initiatives. The IT initiatives were disaggregated and did not factor in the wider picture and the potential need for future enhancement. BDA failed to follow the established system development practices and ended up developing several software packages without establishing a clear link to its key strategic priorities. BDA handled the software development unprofessionally and the value for money achieved by various IT projects was very poor. BDA's ineffective engagement of its stakeholders in the development of software, lack of clear vision of senior management of the IT initiatives and inadequate oversight of the implementation of these initiatives were key factors, resulting in failure of many of the IT projects undertaken. Improper management of the contracts of the vendors led to several financial irregularities. In particular, the core aims as per the vision statement had not been met.

The property tax, shop-rent and attendance management modules functional in BDA suffered from several flaws in design. We found several instances of inadequate application controls, lack of integration of various interfaces, adoption of adhoc and unauthorised procedures to rectify errors, inadequate security of databases, etc., which effectively meant that BDA had been relying heavily on these systems with all their existing flaws to conduct its business. These arose from insufficient governance, weaknesses in decision making and management in regard to software development. As a result, the IT controls functioning in BDA were not capable of ensuring safeguarding of assets, data integrity and their confidentiality. BDA needed to take immediate and appropriate steps to overcome these shortcomings and deliver a robust IT solution.

#### 2.2.1 Introduction

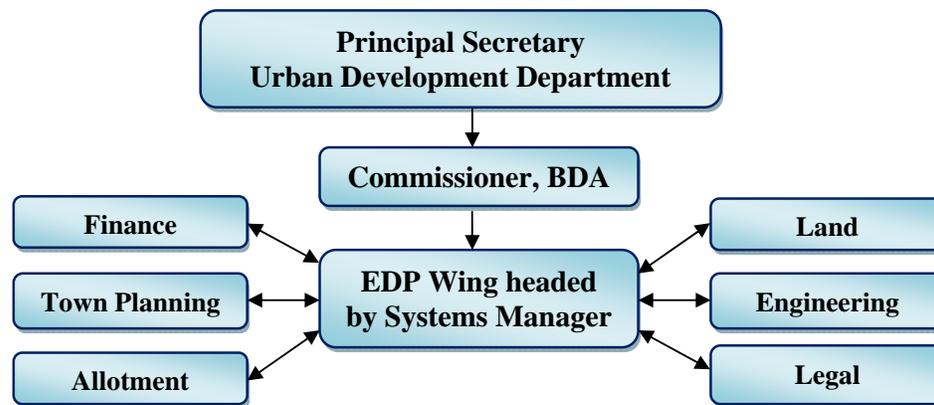
Bangalore Development Authority (BDA) launched several e-governance initiatives during 2005-12 with the objective of providing transparent, accountable and efficient services to its stakeholders. The vision of BDA was

to use Information and Communication Technology to achieve the following objectives:

- Common man's access to information;
- Establishment of an integrated system for online capturing of all revenues and expenditure and generation of reports;
- Deployment of online Complaints Management and Interactive Voice Response Systems;
- Establishment of systems for Project Management, Workflow Management, e-Procurement, Human Resources Management, Document Management and Executive Information Management; and
- Installation of kiosks catering to public needs like downloading of application forms, lodging of complaints, downloading of geographical maps etc.

### 2.2.2 Organizational set-up

#### Organisational Chart



BDA functions under the overall control of the Principal Secretary, Urban Development Department who is assisted by the Commissioner, BDA. The EDP Wing in BDA, headed by a System Manager reports to the Commissioner and acts as the centre for implementation of the e-governance initiatives in BDA including procurement of hardware and software and regular maintenance of the information system infrastructure in BDA.

### 2.2.3 Audit Objectives

We undertook this audit with the objective of ascertaining whether:

- BDA had formulated policies regarding its Information Technology (IT) initiatives and whether these policies had been directed towards achieving the objectives as per the vision statement;
- BDA had derived value for money from the information system projects implemented; and
- IT controls were adequate and working to achieve safeguarding of assets, data integrity, their confidentiality and availability.

## 2.2.4 Scope of Audit

We covered the IT initiatives undertaken by BDA from 2005-06 to 2011-12. We conducted audit from January 2012 to April 2012 by test-checking the records maintained at BDA's headquarters in the Finance Wing, the EDP Wing and the Law Section besides three out of four divisional offices. In the entry conference conducted on 29 May 2012 with the Principal Secretary, Urban Development Department, the scope of audit and the audit objectives were discussed. The audit findings were discussed with the Principal Secretary in the exit conference held on 12 October 2012. The report takes in to account the replies furnished by the Government to the audit findings.

## Audit findings

### 2.2.5 Weak management controls

We found that:

- BDA had not formulated any IT policy for guiding its IT initiatives:
- the duties and responsibilities of the IT staff and the procedures for segregation of duties etc. had not been defined;
- the control procedures for reporting, reviewing, reconciliation, changes to computer programmes, access to data files, approving and controlling of documents had not been defined;
- there were no formally defined access controls for physical and logical access to assets and records; and
- the IT wing did not maintain any register or database showing the available inventory of information system assets, their costs, their ages, their locations, etc.

The absence of any IT policy resulted in non-existence of any mechanism to provide any direction to the IT and related activities. Thus, BDA implemented its IT initiatives in a totally uncontrolled environment. While accepting our findings, The Government stated (November 2012) that all the issues brought out by Audit would be addressed with care.

### 2.2.6 Software development

#### 2.2.6.1 System Development practices not followed

The software and hardware infrastructure are to be developed through a systematic process involving the users and the development team. Best practices also prescribe the approach of a stage by stage deployment of applications to mitigate the risk of failure of the applications.

We found that BDA ignored the established system development practices while developing software application packages. The IT initiatives had been carried out without finalizing the AS IS documents of the existing system(s),

without conducting a technical feasibility study of the proposed system and without finalising the system requirement specifications. The user acceptance testing had not been done in any of the packages developed. No formal change management process had been in place. No post-implementation reviews had been conducted. The Government stated (November 2012) that the audit observations were noted for guidance. Thus, lessons learnt from implementation of the previous packages could not be made use of while developing/procuring new application packages, leading to wasteful expenditure in many cases as discussed below:

### 2.2.6.2 Software packages developed by BDA

BDA developed/procured the following software packages as part of its IT initiatives as shown in **Table-2.21**.

**Table-2.21: Details of software packages developed by BDA**

| Sl. No | Name of the software  | Period of development | Cost of development/ procurement & name of the agency (₹ in lakh) | Status of utilisation (March 2012)              |
|--------|---|-----------------------|---|---|
| 1      | Computerized Works Management System (CWMS)                 | March 2005            | 26.92 / NCR Computers Limited                                     | Not operational                                 |
| 2      | Integrated Management Information System (IMIS)             | May 2005              | 137.81 / HCL Technologies Limited                                 | Not in operation except the property tax module |
| 3      | E-Pragathi Kiosks   | November 2005         | 244.00/Ramky Infra Ltd.   | Not operational                                 |
| 4      | Document Management System (Scanning and indexing of files) | July 2009             | 63.03/ 3i Infotec and Mathenson Record Management (P) Ltd.        | Under implementation                            |
| 5      | Attendance Monitoring System                                | May 2011              | 21.75 / KEONICS   | In operation                                    |

As BDA had not identified its key strategic IT priorities, the IT efforts were disaggregated. The project planning lacked both detail and robustness and there was a failure to produce a single integrated plan representing all the tasks from across the individual work streams. Engagement with the stakeholders before embarking on these initiatives was not visible.

According to Section 10 of the BDA Act, the Commissioner is empowered to sanction any estimate or call for tenders or enter into any contract for an amount upto ₹ 50 lakh after complying with the requirements of the Karnataka Transparency in Public Procurement (KTPP) Act, 1999. Where the value of the contract or agreement exceeds ₹ 50 lakh, the previous sanction of the Government is required. The Act also requires that every such high value contract or agreement is to be signed by the Commissioner and sealed with the common seal of the Authority. However, we found that though the cost of projects such as IMIS, E-Pragathi kiosks etc was more than ₹ 50 lakh each, no approval from the Government had been obtained. Further, the agreements between BDA and the contractors had been signed by persons not authorized to enter into agreements, such as Public Relations Officer, System Manager

etc. The Government stated (November 2012) that audit observations were noted for guidance. These deviations were indicative of blurred accountability and ineffective functioning.

**(a) Computerized Works Management System**

BDA undertook the development of a Computerized Works Management System (CWMS) for automation of transactions of the Engineering Department. The software was to help manage the works by creating a common database of works for the Engineering Department. BDA entrusted the software development work to NCR Consultants Limited, Chennai without inviting tenders. It also procured (March 2004) Oracle 9i server version with 10 user licenses at a cost of ₹ 1.09 lakh. Payments aggregating ₹ 26.92 lakh had been made to the company for developing the system and capturing the data in the Engineering Department during April 2004 to March 2005.

The Company handed over the software source code, operational manual, application user manual, training material and data to BDA in May 2005. BDA handed over (June 2005) these to HCL Technologies Limited (HCLT) which had been entrusted (May 2005) with the task of developing an Integrated Management Information System (IMIS). We found that BDA had neither updated the database thereafter and had also not used the software developed, leaving the expenditure of ₹ 26.92 lakh wasteful. While agreeing with our findings, The Government stated (November 2012) that HCLT abandoned the whole project without handing over all these data and BDA had not, therefore, been able to use the CWMS software. The reply was not acceptable as BDA made no efforts to integrate the CWMS with IMIS and its poor oversight of the development of the IMIS facilitated the abandonment of the project by HCLT (as discussed in Paragraph (b) below):

**(b) Integrated Management Information System Project**

BDA initiated the development of IMIS in January 2005 with the objective of automating business processes in various wings like Finance, Engineering, Law, Land Acquisition, Allotment etc. BDA awarded (May 2005) the work to HCLT for ₹ 3.15 crore with stipulation for completion within 10 months. While HCLT commenced work immediately, a formal agreement was entered into between BDA and the HCLT only in March 2006. The belated execution of the agreement gave HCLT an unauthorized and unjustified extension of time by 9 months as the time for completion was reckoned only from the date of agreement.

As per the agreement, the HCLT was to develop the IMIS consisting of 28 modules within a period of 10 months and provide necessary technical support for a period of 3 years at a cost of ₹ 1.78 crore, which included ₹ 0.82 crore towards the cost of supply and technical service of IBM DB2 software and another ₹ 0.55 crore payable to an independent agency to be identified by BDA for verification and validation of the modules developed by HCLT. BDA spent an amount of ₹ 1.38 crore on the project as shown in **Table-2.22**.

**Table-2.22: Details of payments made by BDA for IMIS**

| Payment made to | Purpose                                    | Amount paid (₹ in crore) | Date of payment |
|-----------------|--|--------------------------|-----------------|
| HCLT            | Purchase of IBM software                   | 0.82                     | 28.5.2005       |
| RelQ            | software testing                           | 0.11                     | 7.10.2005       |
| HCLT            | Development of software                    | 0.29                     | 14.3.2006       |
| HCLT            | Development of Law and Acquisition modules | 0.16                     | 30.4.2009       |
|                 | <b>Total</b>                               | <b>1.38</b>              |                 |

The inadequate oversight of the project and poor supplier management allowed the project to go on for longer than it should have, as discussed in the following paragraphs.

- ***SRS and design documents not mutually accepted***

The preparation of the system requirement specifications (SRS) and system design document was part of the contract for which a payment of 20 per cent had been envisaged. BDA paid (March 2006) ₹ 29.40 lakh to HCLT towards preparation of SRS and design documents. These documents were to define the detailed scope of the software development work. However, the SRS and design documents had not been reviewed for mutual acceptance by both the parties. The Government stated (November 2012) that the SRS had been prepared in isolation by HCLT without perceiving the concepts and work flow properly. The reply was not acceptable as it was silent as to why BDA had allowed HCLT to proceed with the software development without acceptance of SRS. As the development of the software flowed from the SRS, the defective SRS prepared by HCLT led to development of the software which failed to meet the requirement of BDA.

- ***Software procured had not been used***

BDA paid (May 2005) an amount of ₹ 81.51 lakh towards the IBM DB2 software licenses procured by HCLT for the implementation of the IMIS. However, the DB2 software had not been used in the development of the IMIS. Instead, IMIS had been developed in MySQL platform. The Government stated (November 2012) that HCLT failed to understand the requirements of BDA and procured many software without putting these to use. The reply was not acceptable as BDA had allowed HCLT to develop the IMIS without approving the SRS. This resulted in unnecessary procurement of IBM DB2 software, rendering the investment of ₹ 81.51 lakh wasteful.

- ***Scope of work reduced without justification***

As per the agreement, HCLT was to develop 28 modules. However, BDA reduced (February 2009) the number of modules to eight<sup>4</sup>. In view of the reduction in scope of the work, BDA worked out the cost per module at ₹ 8,10,000 by dividing the development cost by 22. There was no documentary evidence as to how the factor of 22 had been used to arrive at the pro-rata cost per module and on what grounds BDA had adopted a uniform

<sup>4</sup> Legal, Land Acquisition, Allotment, Property Tax and Shop Rental, Town Planning, Engineering, Finance and Public Relations

development cost for each module without analyzing the development efforts required for different modules. No formal agreement had also been entered into with HCLT for incorporating this substantial reduction in the scope of the work. The Government stated (November 2012) that the number of modules had been reduced to eight as the SRS had been prepared by HCLT without understanding the requirement of the BDA and the workflow. The reply was not acceptable as the reduction glossed over the requirement of BDA, helped HCLT cover up its lapses and also diffused the accountability of HCLT. The reduction in the scope of work without levy of appropriate penalty was, therefore not justified. Further, against the revised scope of eight modules, only four modules developed by HCLT had been accepted by BDA and of these four modules, only one module viz., Property Tax and Shop Rental had been put to use.

- ***Testing agency identified without following prescribed procedures***

The software modules developed by HCLT were to be tested and validated before adoption by BDA in its production environment. BDA finalized (February 2005) a testing agency (Rel Q) for an amount of ₹ 55 lakh even before engaging HCLT for development of the IMIS software. The testing agency had been fixed without following the formal tender process.

BDA paid RelQ an amount of ₹ 11 lakh in advance on 7 Oct 2005 without even entering into a formal agreement and without obtaining any bank guarantee for securing the amount paid. Though ₹ 11 lakh had been paid, RelQ had neither furnished any testing plan to BDA nor tested any of the modules developed by the HCLT. BDA had also not taken any action to recover ₹ 11 lakh from RelQ or the persons responsible for the irregular payment. BDA finally accepted four modules (Land Acquisition, Allotment, Property Tax & Shop Rental and Law) developed by HCLT without getting these tested.

- ***Revocation of bank guarantee of HCLT***

HCLT was to furnish a bank guarantee for 10 *per cent* contract price at the time of signing the contract. Though HCLT executed the agreement in March 2006, it furnished the bank guarantee for ₹ 18 lakh only in April 2009.

HCLT was paid (March 2006) ₹ 29.40 lakh towards software development even before a bank guarantee had been executed. Another ₹ 15.90 lakh was paid in April 2009. The four modules developed by HCLT had been certified to be working satisfactorily by the Systems Manager, EDP cell of BDA without conducting any testing. HCLT informed (October 2010) that the development work as per the agreement had been completed and any changes required by BDA would have to be treated as a new contract. As HCLT had not fulfilled the contractual obligations, BDA proposed to blacklist HCLT and initiate legal action against it. Though BDA invoked the bank guarantee of ₹ 18.00 lakh in February 2011, it had neither obtained the source code, design documents, data migration strategy documents, training documents etc., from HCLT nor blacklisted HCLT.

- ***Law module not put to use***

The law module in IMIS had been developed to record legal opinions sought by various sections in BDA, input legal opinions given by lawyers appointed by BDA and track the status of various court cases. BDA accepted (April 2009) the Law module without testing and made a payment of ₹ 7.95 lakh to HCLT.

In May 2009, BDA proposed to implement an Interactive Voice Response System, which would enable BDA to track and monitor all the legal cases posted for hearing on different dates. After hearing the case, BDA was to be intimated of the status of the case by the advocates representing the case. BDA entrusted (May 2009) the work to Voice Tech Solutions Pvt Ltd for ₹ 1.55 lakh without inviting tenders. The work was completed in September 2009 and certified by EDP Cell of BDA to be working satisfactorily. A payment of ₹ 1.25 lakh was made during October 2009 for the package. However, this package had also not been put to use. There was also no interface in the website for the lawyers and the legal section staff to login. The Government stated (November 2012) that another application developed in-house was being used. The reply was silent as to why the earlier application had not been used. Further, we found that the data entry was still being done on the in-house application and the database was incomplete. Thus, BDA was yet to make the Law module fully functional inspite of incurring an expenditure of ₹ 9.20 lakh.

(c) ***e-Pragathi kiosks<sup>5</sup>***

As part of its e-governance initiatives, BDA initiated the e-Pragathi Project in February 2005. The aim of the project was to provide the public, with access to information and to facilitate complaint registration, complaint monitoring, checking of the status of complaints etc. In addition, the project was to help downloading of digitised maps, different forms and a host of other materials relating to the activities of the BDA.

The project was considered the most ambitious customer-friendly initiative of BDA and was expected to enable the general public to access everything they needed or required from BDA at their doorsteps.

The work of construction of 20 e-pragathi kiosks had been completed during June 2007 at cost of ₹ 2.44 crore. However, BDA did not deploy these centers for delivering the intended services. On the other hand, it rented out these kiosks to Bangalore-One in September 2007. Thus, the project objectives remained unachieved. Further, though BDA had rented out these kiosks for the use of Bangalore-One at ₹ 185 per square metre, BDA had not raised any demand for dues aggregating ₹ 31.55 lakh (July 2012). The Government stated (November 2012) that action would be taken to demand and recover the arrears of rent.

<sup>5</sup> A small structure in a public place used for providing information or displaying advertisement often incorporating an interactive display screen

(d) *Scanning and Indexing*

The Karnataka Information Commission had directed (March 2009) BDA to complete the scanning and indexing of the records by July 2009 and report compliance. As a follow-up of this directive, BDA invited (July 2009) Expression of Interest to undertake scanning and indexing of files/records and selected M/s.3i-Infotech offering the lowest price of ₹ 71.50 lakh. The purchase order was issued in December 2009. The work consisted of pre-scanning activities, scanning, quality control, indexing and profiling, meta data entry, providing images and supply of Data Management System that would enable online retrieval of the image repository.

BDA entered into the agreement with M/s.3i Infotech only in June 2010, six months after the issue of the purchase order. At the time of submitting the tender, M/s.3i-Infotech had offered 10 *per cent* discount on the additional quantities beyond the quantity as per the tender. This had also been mentioned in the purchase order issued to M/s.3i-Infotech. However, in the agreement signed by the System Manager, the clause of discount had not been incorporated. M/s.3i Infotech stopped the work in February 2011 without completing it. The EDP wing reported (February 2011) that the contractor had not submitted a work plan and had also not demonstrated the functionalities of the Document Management Software, no acceptance testing had been arranged, the scanned images had not been indexed and training had not been imparted as per the agreement.

Thereafter, BDA entrusted (June 2011) the balance work to M/s.Mathenson Records Management Company Limited (second company) without inviting tenders in contravention of the procurement procedures prescribed in the KTPP Act. There was no documentary evidence as to how BDA had evaluated the credentials of the second company before entrusting the balance work to it. The rates agreed upon were the same as approved for M/s.3i-Infotech. As per the tender criteria used for selecting M/s.3i-Infotech, the bidders were to have CMM Level and ISO 27001 certifications. However, these had not been insisted upon while entrusting the balance work to the second company.

Further, the agreement had been signed on behalf of the second company by Mr.Alexander Mathen, who had been Director (Technical) in M/s.3i-Infotech. This unauthorised arrangement by BDA with the second company relieved M/s.3i-Infotech of the burden of 10 *per cent* discount on additional quantities of work. We found that against one crore pages of different sizes, M/s.3i-Infotech had completed 98.99 lakh pages. Thereafter, the second Company had scanned 37.71 lakh pages (June 2012) against the additional quantity of one crore pages. The loss to BDA on account of entrustment of the balance work to the second company aggregated ₹ 7.15 lakh.

The Government stated (November 2012) that M/s.3i Infotech was required to do scanning and indexing of only one crore pages as per the agreement (A4 size: 80 lakh pages, A3 size: 15 lakh pages and A2, A1, A0 sizes: 5 lakh pages). Against this, 98.99 lakh pages had been scanned and indexed till February 2011 (A4 size: 98.41 lakh pages, A3 size: 0.17 lakh pages and A2, A1, A0 sizes: 0.41 lakh pages). It was further stated that 3i Infotech had

incurred loss as a result of huge reduction in the volume of A3, A2, A1 and A0 size pages and stopped taking further work. The balance work was, therefore, entrusted to the second company in order to continue the balance work without loss of much time. The reply was not acceptable for the following reasons:

- The second company which had been doing the work at the rates quoted by the M/s. 3i Infotech had scanned and indexed mainly A4 size pages (37.71 lakh) and the volume of A3 size pages was negligible (33796). This would imply that the rates quoted by M/s. 3i Infotech were workable and the question of loss having been incurred by M/s. 3i Infotech would not arise.
- The entrustment of the balance work in violation of the KTPP Act, to a company headed by a person who had earlier worked for M/s. 3i Infotech had been evidently done to make the offer of discount made by M/s. 3i Infotech on the additional quantities of work inoperative.

Though the second company was to do the scanning activities at the same rates of M/s.3i Infotech, the Commissioner approved (March 2012) enhancement of rates by 20 paise on all page sizes on the ground that the document management system had to be integrated with the paper-less office software and such integration required additional manpower and machinery. Scrutiny showed that the rates quoted by 3i Infotech included the cost of integration of the Document Management System with the server, network and other utility softwares. However, this condition had been removed from the agreement entered into with the second company. This exclusion paved the way for sanctioning extra 20 paise per every page scanned, resulting in a loss of ₹ 1.20 lakh (July 2012).

#### ***(e) Attendance Management System***

BDA implemented a web-based electronic Attendance Management System (AMS) using biometric based application at its head quarters and divisional offices. The objectives of the AMS were to (a) eliminate proxy attendance; (b) increase accuracy of recording employee's attendance by matching finger prints; (c) automate computation of attendance; (d) make leave computation simple; (e) enable remote monitoring of attendance; (f) ensure accurate date and time stamp of attendance; and (g) provide input for pay calculation and increase overall efficiency of the organisation. BDA spent an amount of ₹ 21.75 lakh on the project developed by KEONICS, Bangalore. The deficiencies noticed in the AMS are discussed in the succeeding paragraphs. The Government agreed (November 2012) with the audit findings and stated that the findings were noted for guidance.

#### **• *Inadequate controls over attendance reader locations***

In the manual system of attendance, employees can mark their attendance only after reaching their designated place of work. As part of the AMS, bio-metric attendance readers had been installed at various locations in BDA's headquarters and its four divisions. We found that employees had been marking their attendance at readers installed in locations other than their designated work locations. Thus, the system facilitated marking of attendance

even before the employees reached their work places, defeating the very purpose of attendance marking.

We found that 427 employees had logged in and logged out at different locations during February 2011 to May 2012. A few instances are as shown in **Table-2.23**.

**Table-2.23: Different places where employees had logged in and logged out**

| Emp Ref code | Actual Place of work | Logged in at   | Logged out at  | Number of times | Place of residence of the employee |
|--------------|----------------------|----------------|----------------|-----------------|------------------------------------|
| 208          | Head Office          | Head office    | RT Nagar       | 126             | RT Nagar                           |
| 263          | Banshankari RO       | Vijaynagar RO  | Banshankari RO | 87              | Nandini layout                     |
| 496          | Head office          | Banshankari RO | Head office    | 159             | Kumaraswamy layout                 |

When we reviewed the “On-duty Report” available in the system which listed out the employees on field visits, we did not find any data of these employees. There were also no specific authorisations allowing the employees to login and logout at different places. Further, the bio-metric attendance readers had not been placed at the entrance of the BDA’s headquarters and its offices. While the readers had been kept at three places inside the BDA’s headquarters, it had been placed in the corridors in divisional offices. The employees were free to login and logout at any place and there was no mechanism to watch the movements of the employees after logging in. Thus, the AMS failed to provide any assurance that the staff members logged in and logged out only at authorised work places.

- ***Absence of input controls and supervisory checks***

BDA operated two shifts, General (10 am to 5.30 pm) and Horticulture (8 am to 4 pm). However, all the employees had been assigned General shift in the AMS, though there were employees in the Horticulture shift. Further, there were about 29 employees in employee details table whose age was between 61 and 107. These lapses evidenced that the Master Data of employees had not been verified and corrected by supervisory personnel.

- ***The in-time and out-time not recorded in many cases***

Employee numbers are created in a serial order in employee master table. However, employee numbers 802 and 806 were found missing. These employee numbers were available in the attendance master table in 21 records though the first-in and last-out times had not been recorded in these cases.

The in-time and out-time had not been recorded even once for 816 records in the attendance master table. Reasons for this were not forthcoming.

- ***Employees not punching both in-time and out-time***

Though the employees were to punch both the in-time and out-time, they were not doing so. When in-time is not punched, the last-out time is taken as in-time and the system incorrectly calculates the late in-time based on this time.

Similarly, if the employee does not punch the out-time, his name incorrectly figures in the early-out report. In 35071 out of 233114 cases, first-in time had not been punched. In 89023 cases, last-out time had not been punched. Though there is an "Incomplete report" in the system to list employees who have punched only once, it does not serve any purpose as the supervisory authority would not know at what time the employee actually came or left in such cases.

- ***Wrong database entries***

In some cases, the first in-time and last-out time had been interchanged. For instance, the first-in and last-out times for employee with refcode 14 had been recorded on 04-03-2011 as 17:29:41 and 10:26:44 respectively.

As per the attendance master table, 10095 entries had been made manually. The manual attendance table was, however empty. BDA replied (July 2012) that attendance had not been edited manually and this appeared to be a coding error and the vendor had been directed to verify these.

- ***Unrealistic data***

There are no reports to list employees who have worked outside office hours. The Attendance master table indicated that in 63 cases, employees had worked between midnight and 8 am. In 359 cases, employees had worked between 6.30 pm and midnight. There was no documentary evidence regarding permission given in these cases to work beyond normal office hours.

Holiday master table had not been updated for 2012. The employees who had worked on holidays could not, therefore, be ascertained. Access control report created to check accesses to server room did not function.

- ***AMS not used to capture leave details***

Though the AMS was to simplify the leave computation of the employees, the system had not been used for this purpose. The relevant tables in the database had not been populated with any data.

- ***Reports not linked with pay roll preparation***

Though AMS had been developed in SQL-Server and designed to integrate attendance, leave and salaries, it was not linked to salaries paid to employees as the salary package was maintained in Foxpro and no mapping was done between the two data.

- ***Supervisory officers not provided access to AMS***

User access had been provided to use AMS only to two users (FDA-Establishment and Accounts Officer-Finance section) other than seven DEOs/Programmers of the EDP section. Regular monitoring of the attendance of the employees had not been done by the heads of various wings even after installation of biometric enabled AMS.

- ***Late attendance was not monitored***

Though AMS provided information on the date and time stamp of the attendance marking and generated reports on late attendance and early leaving, this information had not been made use of while preparing the salary bills and there was no mechanism for reviewing the late attendance and early leaving. Thus, salary bills of employees had been prepared overlooking the reports on late attendance and early leaving.

- ***Security risks***

The passwords were not encrypted. Two users had been given supervisory rights and they would be able to use other user ids as well, as the passwords were in clear text.

All users except one DEO had access to the screen to edit attendance. When edited, first-in and last-out dates are changed to 1-1-1900 in the database. The old values punched by the employee had not been stored in the database. Though there is an “Edited attendance report”, one cannot view the old values.

## **2.2.7 Property Tax Module**

### **2.2.7.1 Authority to levy tax**

Section 28-B of the Bangalore Development Authority Act, 1976 authorises BDA to levy property tax on land or buildings or both, situated within its jurisdiction at the same rates at which such tax is levied by the Corporation within its jurisdiction. As per section 28-B(2), the provisions of the Karnataka Municipal Corporation Act, 1976 shall apply mutatis mutandis to the assessment and collection of property tax. BDA is also to collect the following cesses along with property tax, on behalf of other departments:

- Education cess
- Health cess
- Library cess
- Beggary cess

Section 112(3) of Karnataka Municipal Corporation Act, 1976 prescribes that property tax shall be paid by a person within sixty days after the commencement of every half year.

In case of default, the person liable to pay the tax is to pay a penalty at the rate of five *per cent* per annum of the amount of tax remaining unpaid. The penalty rate had been revised to two *per cent* per month effective from 1 April 2011.

### **2.2.7.2 Process for demand and collection of tax**

Khatha<sup>6</sup> certificate is issued in the regional offices of the BDA whenever a site owner applies for it. A demand is then raised for property tax since the date of possession certificate in respect of the site allotted by BDA and the date of

<sup>6</sup> Khatha evidences recording of one's property in the books of the Government

registration in respect of sites in private layouts. Cesses are calculated at the rates applicable. Penalty is levied on arrears, if any. The property tax module of the IMIS developed by HCL Technologies Limited had been used by BDA since 2009.

When a khatha is applied for, the details of the property, the demand of tax for the year and arrears, if any, and details of the owner of the property are entered through the property tax module and stored in the database. A challan is generated for the property tax, cess, arrears and penalty on arrears based on this data. Three copies of the challan are made. The assessee makes the payment against the challan and keeps a copy of it with himself. The bank scroll along with the challans is received by the BDA headquarters which sorts out the challans and send these to the respective divisions. The details of these challans are entered in the database and physical challans are filed in the respective assessment files.

Online payments were introduced in January 2011. The front end for this purpose had been developed by the Corporation Bank. The required data is fetched from the database maintained in the BDA. The online payments are stored in a database by the Corporation Bank and are updated in the server of the BDA at the end of each day.

Challans are generated for all the existing properties in April of every year to raise the demand for property tax for the year.

**2.2.7.3 Other processes relating to khatha**

When a khatha is transferred, the details of the old owner are copied into the old owner details table. It is replaced by the current owner’s details in the current owner details table. A challan is generated for the new owner.

When a khatha is cancelled, the details of the owner and the reason for deletion are recorded in the old owner details table. The record status of the record is made as 1 in the property header table to indicate it as an inactive property. The DCB statement ignores such properties while calculating the demand.

**2.2.7.4 System and data analysis**

We checked the Property Tax module and Shop-Rent module and analysed the data till 2011-12. We found the following deficiencies from our scrutiny.

**Property Tax Module**

|   | <b>Audit Findings</b>  | <b>Risk faced by the BDA</b>   |
|---|--|--|
| <b>Application errors</b>                             |  |  |
| <b>Absence of interface to capture necessary data</b> | Site dimensions of a property cannot be captured   | Property tax is calculated manually; errors due to human intervention pose a threat. |
|   | No interface to record tax rates for vacant lands and buildings though property tax rate is different for vacant land/buildings              |  |
|   | Date of registration and date of possession cannot be captured.<br>Khatha creation date is stored as date of approval & date of registration | The correct property tax cannot be generated by the system.                          |

|  | <b>Audit Findings</b>  | <b>Risk faced by the BDA</b>   |
|--|--|--|
|  | Whether the property is BDA allotted or a private one is not captured  | Private layouts have to be identified manually for levying khatha fee.   |
|  | The Transfer khatha module does not have fields to enter the new owner's name, new address etc.  | One has to delete the old owner's details and type the new owner's details.  |
| <b>Non-validation of input data</b>                                      | Application allows entry of khatha creation date at a date much later than the current date, even of the year 2038. In 136 cases, date of entry of khatha was before the khatha created date.  | The correct tax amount cannot be generated by the system.  |
|  | Application permits entry of date of payment which is much earlier than system date or much later than the system date, even of the year 5009. In 39279 out of 116463 cases, the year of payment was prior to 1900.<br>In 357 cases, the date of entry of the payment is before the date of the payment. Of these 357 cases, the year of payment was later than April 2012 in 167 cases. | The correct collection figures for a month/year cannot be determined.  |
|  | Date of transfer/date of cancellation of khatha can be before date of creation of khatha   |  |
|  | The application permits creation of another record for the same site. More than one record had been created for the same site in 1150 cases. In 970 of such cases, all the records were active (not cancelled).  | Challans are generated for all records of the same site leading to fictitious increase in the annual demand of tax.  |
|  | In 164 cases, different records had been created for the same property by adding a dot and in 17 cases, by adding a zero to the site number.   | The online module does not permit dots in site numbers. Hence, one cannot pay taxes for such sites online. Where the sites have 0 followed by the site number, the owner of the property may not enter the site number with a 0 and hence, cannot view the site. |
|  | The application as well as the online payment system permits payments even for cancelled khathas.  |  |
|  |  |  |
| <b>Data entry of essential details not made mandatory and supervised</b> | Even when mandatory details like division, layout, sub-layout (where it exists) are not entered, a property record gets created. In 5 records, the division was not entered; in 7 records, circle was not entered; in 9 records layout was not entered; and in 73 records, sub-layout was not entered.   | Since DCB is generated division wise, DCB in respect of such records are excluded.<br>One cannot view such records in the front end.   |
|  | Recording of bank details has not been made mandatory. In 81146 out of 116463 cases, "paid at" field is empty.   | Scope for using the database for bank reconciliation is reduced  |

|                                      | Audit Findings  | Risk faced by the BDA   |
|--------------------------------------|---|---|
|                                      | Recording reasons for cancelling khatha has not been made mandatory.  | The genuineness of the cancellation cannot be determined without verification of the physical files.  |
|                                      | The khatha can be transferred/ cancelled even when cancellation date is not entered. Date of cancellation was not available for 66 out of 514 cancelled khathas and in 468 out of 15921 transferred cases, date of transfer was not available.  | This gives scope for manipulation in transferring and cancellation of khathas as arrears and demand amount can be edited while making the transfer. |
|                                      | In 931 records, the property was transferred to the same person 2 to 10 times.<br>42 khatha records were deleted and created again with the name of same owner and property ID.<br>94 khatha records were deleted and created again with different property IDs. All these transactions had been done without the authorisation of superior officers.   |   |
|                                      | Reviewing of approval details is not made mandatory while cancelling a khatha.  | This gives scope for manipulation in cancellation of khathas.   |
| <b>Flaws in design of the module</b> | The rate of cess is editable by the DEOs creating the khatha. Cess on the property tax was 34% till 31.3.2009 and since 1.4.2009, it is 24%. However, one finds cess ranging from 0 to 448 <i>per cent</i> in the challans generated ( <b>Appendix-2.4</b> ). While the cess had been short collected to the tune of ₹ 1.18 lakh, it had been collected excessively to the extent of ₹ 2.11 lakh.                         | Editing would result in levy of inappropriate cess rates.   |
|                                      | While creating a khatha, the user has to necessarily click on the “calculate cess” button to calculate cess and “calculate total” button to calculate the total tax to be paid.   | If these buttons are not clicked after entering the amounts, the total amount to be paid would be 0.  |
|                                      | If khatha creation date is in the second half of the year, the system is designed to calculate 50% of the annual tax as demand. If no date is entered, khatha fees is calculated at 50% of the annual demand. Subsequently, if khatha date is entered which is in the first half of the year, one should click on the “total” button to calculate the correct demand. Else, only 50% of the tax would be taken as demand. | The challan would be wrongly generated and the origin of the error cannot be traced.  |
|                                      | While transferring a record or when the nature of property is changed from vacant to building or vice versa, the application exhibits the property tax, cess, arrears and   | The challan would be wrongly generated and the origin of the error cannot be traced.  |

|                             | Audit Findings   | Risk faced by the BDA  |
|-----------------------------|--|--|
|                             | interest on arrears correctly. These interfaces also have the “calculate cess” and “calculate total” buttons, though not required. Accidental clicking of the “calculate total” button increases the dues by the annual demand. Penalty of 5% is also levied on the old arrears. If the date of transfer or date of change is in the first half of the year, the system calculates the demand at half of the annual demand.  |  |
|                             | Khatha reports → Update khatha payment menu is used to update the payments from challans received from banks. After entering the payment details in this module, the user has to click on “confirm payment” button. Ideally, when this button is clicked, the user should be asked once again for confirmation. Also, once the details are updated in the relevant tables in the back end, the button should be disabled or the input fields should be made empty. This would prevent unintentional clicking of the button by the user. However, payment records are created as many times as the button is clicked.<br>In 445 cases, payments had been entered 2 to 6 times for the same challan, increasing the payments fictitiously by ₹ 716223. | Tax collection increases fictitiously. In some cases, this extra payment goes to set off the demand for the next year and relieves the property owner of the burden of paying tax. |
|                             | In the payment screen, the payment status i.e whether paid, unpaid or partially paid is chosen by the DEO and not recorded automatically.  | Human intervention poses a threat  |
|                             | The system does not re-confirm the transfer of khatha when clicked on the “transfer khatha” button. Accidental clicking of it creates a new entry in the backend and treats the khatha as a transferred khatha. Similarly, the cancel khatha module does not ask for confirmation while cancelling a khatha.   | Inadvertent errors are possible  |
| <b>Errors in processing</b> | Interest on arrears is calculated at 5 per cent without considering the age of arrears.  | Short payment of interest is a bright possibility.   |
|                             | An assessee is given 60 days time to pay the tax demanded. If he pays beyond this period, the application does not calculate penalty for belated payment while generating the challan for the next year.   | Penalty would not be recovered.  |
|                             | The period of 60 days is not deducted while calculating arrears.   | Penalty is overcharged to that extent.   |

|  | <b>Audit Findings</b>   | <b>Risk faced by the BDA</b>   |
|--|---|--|
|  | Even if partial payments are made, penalty is set to 0. In 5804 challans, though arrears is greater than ₹ 100, the penal interest was 0.   | Penalty is short levied to that extent.  |
|  | One has the option to increase or decrease the arrears in the Arrears Adjustment Module. We observed that both the options when chosen, only decrease the arrears.  | Arrears is decreased even where it has to be increased; arrears is, thus, understated.   |
|  | The amount entered as khatha creation fees is not printed on the challan though there is a separate field to capture the information.   | Currently, the khatha creation fee is included manually in the challan which could be left out inadvertently. Also, this amount does not enter the DCB report.   |
| <b>Lack of provision for viewing and editing</b> | One cannot view and edit the payments already made for a challan.   | Editing of wrong payment entries is not possible   |
|  | One cannot view a property where the sub-layout information is not available.   | Sites in a layout which does not have a sub-layout cannot be viewed unless some “dummy” value is stored for the sub-layout.  |
|  | There is no provision to edit the name of the owner of a property in case of data entry errors in spelling, initials etc. This should have been provided under a supervisor’s login id after a formal approval process. For instance, a khatha had been created in the name of Sri Krishnamurthy for the property at Arkavathy X block, site no 784. A khatha transfer had been made in the system to change the name to Sri Ramaprasad, the actual allottee. The DEO of North Division explained that a khatha transfer had been done to correct the khatha details which had been wrongly generated in the name of the allottee’s father. | The data entry operators currently use the khatha transfer module to rectify data entry errors in owner’s details. In such cases, unless the physical file is examined, one would not know if a property is really transferred or the khatha transfer has been made only to correct data entry errors. |
|  | The khatha to be transferred or cancelled cannot be searched using by khatha no. property id or site no.  | One has to list all the sites within a division-subdivision-layout group and then select the particular site.  |
| <b>Lack of provision for generating reports</b>  | There are no reports for challans generated and payments made/not made for a property.  | Monitoring of payments is difficult.   |
|  | No reports exist to display cess demanded and collected   | The cess collected and to be paid to the Government is being worked out manually by the Accounts wing.   |
|  | The khatha→query module displays the details of a cancelled khatha also but does not display the status as cancelled. Further, though there is a report to display cancelled khathas, it does not function.   | Cancellation of khathas cannot be monitored.   |
|  | Though there is a submenu to list transferred khathas, the reports do not get generated.  | Transfer of khathas cannot be monitored  |

|   | <b>Audit Findings</b>  | <b>Risk faced by the BDA</b>   |
|---|--|--|
|   | List of private layouts and properties handed over to BBMP are not available.  | Property tax not paid for such properties cannot be monitored  |
|   | One cannot get the history of owners of a property.  | Physical files need to be referred to  |
| <b>Flaws in database design</b>               |  |  |
| <b>Foreign key</b>                            | There is no relation between the master table storing division details and the table storing the khatha details.<br>There were 5 records with division id 0 and 86 records with division id 1 which did not figure in the divisions table.   | The details of these properties cannot be viewed in the front end. The DCB of these properties do not get reflected in the DCB report.             |
|   | There is no foreign key between Arrears adjustments table and Challans table. One can delete the challan no and enter some fictitious challan no in the Arrears adjustment module. The amount in these challans would, however, reduce the arrears in khatha table. In 265 cases, the challan No. was 0. In 14 cases, the challan No. was not found in challans table. | One would not be able to trace the challan through which payment had been made in such cases. The risk of fictitious payment entries is very high. |
|   | There is no foreign key between Payments table and Challans table. Payments had been made in 827 cases through challans which were not found in the challans table.  | One would not be able to trace the challan for which payment had been made in such cases.  |
| <b>Redundant data</b>                         | The challans table stores again details like owner's name, address etc though they are already available in the owners table.  | Data redundancy and unnecessary occupation of database space.  |
| <b>Others</b>                                 | There is no separate field to store the opening balance of arrears. Instead, the annual demand along with the arrears is stored in the arrears field of the khatha table.  | One cannot obtain the actual arrears from this field.  |
|   | The table storing details of previous owners has a field named "Newownerid" which is a misnomer since it holds the data of the old owner of a property.  |  |
| <b>Integration between various interfaces</b> |  |  |
| <b>Front-end and back-end</b>                 | The front end is designed to generate challans only once a year apart from creating a challan during a khatha transfer. However, challans had been generated more than once for the same purpose in the same year ( <b>Appendix-2.5</b> ).   | When another challan gets printed for the same property in the year, the annual demand of the first challan is wrongly treated as arrears.         |
|   | In one test-checked case, payment entries had not been made in the system; the paid challans were also not available in the physical files. The package however displayed that all payments had been made.   | Tax is shown as collected though it is not actually so.  |

|   | <b>Audit Findings</b>  | <b>Risk faced by the BDA</b>   |
|---|--|--|
| <b>Online database and BDA's database</b> | When a transaction is already made for a challan, one cannot make payment for the same challan online. However, a duplicate online transaction had been observed for the challan No: 182378 (property id 4312040989) for an amount of ₹ 7676. This amount was, however, shown as arrears in the next challan created (challan No: 205344) and it was paid with interest on 18.1.2012.  | Integrity of online payments becomes questionable.   |
|   | Payment made online is available in the online database of the Corporation Bank but not available in BDA's database in 66 cases.   | Such payments have not been accounted for.   |
|   | Some online transactions are not reflected in the application used by DEOs though they are updated in the backend. In 236 cases, where it had come to the notice of a DEO that a payment had been made online but was not reflected in the front-end, the DEOs had re-entered these details through the front end, creating double entries in the backend and increasing the payments made fictitiously by ₹ 385878.50.  | Short collection of tax due.   |
| <b>Database and physical files</b>        | In the database, payment of ₹ 1135 had been made vide challan No:131966 for the property id 6000002141 (North division, Byrathi, site no 298). In the physical file, payment for the same amount was available on a challan with No:131223 and property id 6000001855. The name and address of the assessee were, however, correct. In the database, the property id 6000001855 corresponded to Banashankari VI stage, IV block, site no 2580. The challan No:131223 corresponded to property id 3320130345 (Banashankari IV block FE, site no 883). Similarly, challan No: 75080 was available in the physical file for property id 2062. However, this challan was generated for the property id 2080 in the database. | Integrity of the data becomes suspect.   |
|   | There was a delay in the data entry of payments made in the database. The delay ranged from 1 to 491 days (delay was calculated in 34161 cases where the date of payment was in correct format and was between 1.4.2010 and 31.3.2012)   | There was a mismatch between the collection figures in the database and the actual collections |
|   | Data entries of some payments had not been made. The next challan generated indicated arrears even when payment had  | There was a mismatch between the collection figures in the database and the actual collections |

|  | <b>Audit Findings</b>  | <b>Risk faced by the BDA</b>  |
|--|--|---|
|  | <p>been made. Wherever it came to the notice of DEOs, this challan was edited and the amount in the challan reduced to the actual amount to be paid.</p> <p>In some cases, payments had been made for the increased demand.</p>              |   |
|  | As per the database, the site at Arkavathy IX Block 265 had been transferred from Narayanappa VM to Jolly JK. The details of this transfer was, however, not available in the physical records.  | Mismatch between the physical files and the database.   |
|  | In the physical file, site of property id 4312081367 had been transferred to Syed Sameer Ahmed from Vinaya Ravi Kumar. However, the property continued to be in the name of Vinaya Ravi Kumar in the database                                | Database not updated.   |
|  | The property with property id 530 was “cancelled” as per the database. However, there was no indication of cancellation of khatha in the physical file.  | Integrity of the data becomes suspect.  |
| <b>Accounts and the software program</b> | From 1.4.2011, penalty is 2 <i>per cent</i> per month. However, the system continued to calculate penalty at 5 <i>per cent</i> per annum.  | There is a shortfall in the demand and collections.   |
| <b>Security issues</b>                   |  |   |
| <b>Login ids</b>                         | There is no separate login id for the authority approving the khatha, editing khatha details, cancelling and transferring khathas.   | The module is being used by the 4 divisions of BDA and every user logs in with the same user id “property”. Further, every division has access to the data of other divisions. The DEOs having access to this login id can cancel and transfer khathas and edit master data without permission of competent authority. No one can be made accountable in case of errors/irregularities. |
| <b>In-built hierarchy</b>                | The system does not have an in-built hierarchy even for editing payments, editing, transfer and cancellation of khathas. All transactions are done by the DEOs.  |   |
| <b>Use of Super user id</b>              | Ideally, even a DBA should use a non-DBA id to perform operations other than DBA operations to avoid accidental damage to data. However, no user ids have been created other than the superuser id used by the DBA.                          | Any inadvertent errors while using the superuser id could cause serious damage to the data in the database.   |
| <b>Backend intervention</b>              | Where a property is transferred/cancelled after 2009, details of previous owner are copied into another table programmatically. However, details of previous owners had not been captured in 4806 out of 16443 transferred/ cancelled cases. | One cannot trace the previous owners. Further, one cannot check if an applicant for a site had been allotted a BDA property earlier and had transferred it subsequently.  |
|  | Where the record status of a record in Arrears adjustment table is 1, that record becomes “inactive”. The adjustment   | Editing the records at the backend provides scope for irregularities.   |

|   | <b>Audit Findings</b>   | <b>Risk faced by the BDA</b>  |
|---|---|---|
|   | amount in such cases does not get displayed in the DCB report. However, there was no interface in the front end through which a record can be made inactive in the Arrears adjustment table, implying that records had been edited in the backend. The record status of 434 out of 3397 records in Arrears adjustment table was 1.  |   |
| <b>Audit Trail</b>  | Though many of the tables in the database provide for capturing the user-id making data entry/changes, this feature is not being used. Instead, static values are being entered as user ids.  | Users making unauthorized changes cannot be made accountable in this scenario.  |
|   | The challans can be displayed in MS-Word and edited.  | Any inadvertent change of the figures in the challan would result in the printing of challans with errors. Also, there would be no audit trail of such changes made.  |
| <b>Errors due to adoption of adhoc procedures</b>   |   |   |
| <b>To rectify multiple printing of challans</b>   | <p>When it comes to the notice of a DEO that challans have been printed more than once for the same property in an year, the DEO adopts one of the following methods to rectify this error :</p> <ol style="list-style-type: none"> <li>Makes changes in the actual payments made as if the owner has paid the inflated amount.</li> <li>Makes changes in the actual payments made as if the owner has paid the amount in the challan.</li> <li>Uses the arrears adjustment module and treats the differential amount as arrears of previous years.</li> <li>While transferring the khatha to another person, the DEO rectifies this error by editing the arrears field and transfers khatha to the same person and during the process, enters the correct amount so that a new challan is created with the correct amount, and edits challans manually to indicate the correct amount</li> </ol> | The collections as per the database will be grossly at variance with the actual collections.  |
| <b>Creation of multiple records to rectify errors instead of reporting the errors and getting them rectified in an authorised</b> | A property has to be transferred using the khatha→transfer menu. This would keep a backup of old owner's details and replace the old owner's details with the current owner's details. In some cases, this procedure was not followed. The DEO created another record with the new owner's details by adding a 'Dot' with site number as 3. in the name of Francis Selvaraj.  | Demand continues to be generated for both the persons for the same property. Property tax cannot be paid online for the property with site number 3. as the online system does not permit dots in site numbers. |

|   | <b>Audit Findings</b>  | <b>Risk faced by the BDA</b>   |
|---|--|--|
| <b>manner</b>                                 | In the East division, in a few cases when the property details were not displayed in khatha view module, another khatha with a different property id for the same property had been created.   | Demands are raised for both the properties and reflected in DCB.   |
|   | In Kanakashree Kannur village (North division), sites were released in two phases. However, sites had been given the same number in both the phases and there was no indication in the site number to indicate the phase. Such records had been created in 243 sites. To differentiate the sites, the DEO had created one site with just the number and another site with a dot (eg 3 and 3.). | The Annual demand is fictitiously increased by the annual demand of the “extra” properties created. Also, one cannot list out properties with the same number in a layout. Further, online payment for sites with dots is not permitted. |
| <b>Arrears adjustment module not utilised</b> | In some cases, where arrears are paid, the payment details are entered in the payments module instead of Arrears adjustment module.  | Since there is no option in the DCB to separate the current years’ collections from the earlier years, the entire amount is shown as collections against the current year’s demand.  |
| <b>Change in nature of property</b>           | In some cases, the nature of the property (from vacant to building and vice versa) is not changed through the module designed for the purpose. Instead, another record is created for the same property with a different property id.  | Demands will be raised for both the properties.  |

### 2.2.7.5 DCB Report

The flaws in the programme code written to generate the DCB report and in other modules as discussed above lead to errors in the DCB report. In addition, we found the following deficiencies in generating the DCB Report.

- The DCB is generated always for the current date and not for the month asked for. One can choose to generate DCBs even for future months; the DCB would, however, be generated as on date.
- There is no time schedule prescribed for the divisions to generate the DCB. As a result, each division generated DCB at different dates for a month.
- When DCB reports are generated, values like annual demand, collection etc are stored in the DCB table at the back end. However, DCB reports generated by four divisions during 2007-12 were, however, not available at the back end. It was not clear whether DCBs had not been generated for these months by the divisions or records had been deleted at the back end.

### 2.2.7.6 DCB reports submitted by the Regional Offices

The DEOs generate the DCB reports every month and save these in an excel file.

In the West division, the balance and the collection at the end of each month is taken from the database and the demand is reverse calculated.

In the North division, the demand is taken from the DCB module while collection figures are totalled from the challans manually and included in the DCB report.

In the East division, the property tax module is not used for generating the DCB report. The figures of demand and collection are obtained from the back-end by the EDP Cell.

Thus, each division had adopted its own method of generating DCB reports and failed to follow a standard procedure.

While preparing the balance sheet, the Accounts section takes the collection figures from the bank accounts. The demand is taken from the DCB reports given by the divisions and the balance calculated.

The DCB report does not reflect the cess demanded and collected. Cess for the balance sheet is arrived at from the actual collections of property tax by doing a reverse calculation. The “actual cess collected” thus calculated is subtracted from the property tax demand figures given by the divisions to arrive at the property tax demand for the balance sheet. In view of these irregular practices, there was huge mismatch between the figures as per the database, those furnished by the divisions and calculated by the Accounts Section. The demand for property tax, collections and outstandings during 2010-11 and 2011-12 as per the database, reports of the divisions and the Balance Sheet were as shown in **Table-2.24**.

**Table-2.24: Details of demand for property tax, collection and outstandings**

(₹ in lakh)

| Head  | Amount as per database<br>(where khatha not deleted) |         | Amount as per the<br>Divisional offices |         | Amount in Balance<br>sheet/ledger |         |
|---|--|---------|---|---------|-----------------------------------|---------|
|   | 2010-11  | 2011-12 | 2010-11                                 | 2011-12 | 2010-11                           | 2011-12 |
| Income from property taxes(Demand)-including cess | 74.67  | 465.46  | 470.31                                  | 724.76  | 470.31                            | 724.76  |
| Cess payable                                      | 14.01  | 86.01   | --                                      | --      | 93.34                             | 131.67  |
| Collection during the year                        |  |         | 495.40                                  | 733.53  | 482.26                            | 680.30  |
| Based on dates on which property tax was paid     | 232.32   | 383.22  |   |         |                                   |         |
| Based on data entry of these payments             | 401.73   | 644.03  |   |         |                                   |         |
| Sundry debtors-property taxes                     | Cannot generate                                      | 369.49  | 341.54                                  | 333.01  | 55.63                             | 144.29  |
| Sundry debtors-Interest due from property tax     | Cannot generate                                      | 12.51   | --                                      | --      | 10.96                             | 14.05   |

In this scenario, the amounts adopted in the Balance Sheet as regards the property taxes were suspect and highly unreliable.

### 2.2.8 Shop Rent Module

This module is used to input, edit and view data for BDA shopping complexes, shops in the complex, update shop payments, prepare and print challans, create cess and DCB reports. The lacunae in this module are tabulated below:

#### Lacunae in Shop Rent Module

|   | Audit Findings  | Risk faced by the BDA  |
|---|---|--|
| <b>Application controls</b>                             |   |  |
| <b>Absence of input controls and supervisory checks</b> | Allotment date can be a date after the current date even of the year 2030.  | Demand cannot be raised correctly.   |
|   | Amount paid is 0 in 4 cases. In two of these cases, amount paid is entered in paid at field.  |  |
|   | Payment details had not been entered correctly in some cases.<br>For instance ₹ 17494 had been paid by shop No. GF-22, Nagarbhavi Complex through challan No: 18323. The corresponding payment entry in the database exhibited this amount as ₹ 238882.<br>Shop No2 of RMV Shopping Complex had paid ₹ 10,000 through challan No:16118 but this had been wrongly entered as ₹ 1,00,000 in the database. | Since there is no provision to edit a wrong entry in payment, changes are made in the next challans manually.  |
|   | Payments had been made more than once in respect of the same challan No. in 3 cases (challan Nos. 11958, 18465 and 18475). In the last two cases, payments had been made both online and through bank; the shop ids were different for online and bank payments for the same challan.   |  |
|   | Payment dates after the system date had been entered in 3 cases   |  |
| <b>Vital details not captured</b>                       | The rent of the shops is fixed based on its dimension. However, these details are not captured in the application   | It is impossible to use the software for calculating rent.   |
| <b>Delay in data entries</b>                            | Payment details are not entered regularly.<br>For instance, only one payment had been updated in the database for shop no 3, HBR Shopping Complex. Challan details are not available for this shop after April 2011.  |  |
|   | Sometimes, payment details are not entered against the challans through which payments are made. Instead, these are bunched and one single entry is made.   | The database cannot be used to calculate interest on arrears. Also, monthly reconciliation is not possible.  |
| <b>Errors in application design</b>                     | The shop allotted date is taken as the date of record creation instead of system date   | There is no audit trail of when a record was created.  |
|   | Shops can be created with numbers as 1 & 2 or 1, 2 etc instead of the details being entered for individual shop numbers.<br>(For eg., RMV Shopping Complex, shop no 12 & 16 with shop id 7249.)   | <ul style="list-style-type: none"> <li>• Searches for details of one of these shops cannot be made.</li> <li>• This would lead to errors when a particular shop is to be vacated or changes regarding payments are to</li> </ul> |

|                              | <b>Audit Findings</b>   | <b>Risk faced by the BDA</b>   |
|------------------------------|---|--|
|                              |   | <p>be made only for one shop.</p> <ul style="list-style-type: none"> <li>Also, the online payment system does not allow entry of ampersand, comma or space in the shop numbers. Hence, online payment cannot be made for shops having these characters.</li> </ul> |
|                              | If the user changes the allotted date but does not click on the button “calculate the renewal date”, the renewal date does not get changed.   | Inadvertent errors cannot be avoided.  |
|                              | The status of a challan needs to be selected and updated manually when making a payment.  | If this is not done, the status is shown as not paid even if paid.   |
| <b>Viewing &amp; editing</b> | The user has an option to choose the division as well as the shopping complex from drop down boxes to view the details of the shopping complex. However, when both the fields are chosen, the result is blank. If only division is chosen, results are displayed. |  |
|                              | Some shopping complexes are not displayed in the list when the division is chosen.<br>For instance, Banshankari Shopping Complex and RT Nagar Shopping Complex though available in the database as well as the drop down box are not displayed.                   |  |
|                              | The no of shops in some of the complexes are also displayed wrongly.<br>For instance, The number of shops as per the database is 36 in HBR and 17 in RMV but the number of shops in both these shopping complexes is 50 in the front end.                         |  |
| <b>Updation of records</b>   | The vacancy of shops is not being updated regularly. Shop no 66 of RT Nagar Shopping Complex had been vacant since March 2011 but was not updated as vacant in the database.  | The database cannot be relied upon for management of vacant shops and their leasing.   |
|                              | Challans are not generated for all the months. Challans are also not sent to the shop owners. A print out of the challan is given when a shop owner requests for it in the Regional Office.   | Arrears and interest on arrears will not be calculated correctly by the system in the next challan generated.  |
| <b>Absence of reports</b>    | There are no reports for<br>(a) Shops which have not paid rents<br>(b) Shops which are vacant and can be auctioned<br>(c) Demands and payments for a shop   | Monitoring the rent collection is rendered difficult.  |
| <b>Audit trail</b>           | There is no audit trail for the transactions made as the same login id is being used by all the DEOs. Also, some tables store static values for “created by” and “updated by” fields  | Users making unauthorised changes cannot be made accountable.  |
|                              | Whenever a challan is generated, an entry is made in the shop challans table. However, in some cases, challans generated were available in physical files but not in the database.  |  |

|  | <b>Audit Findings</b>   | <b>Risk faced by the BDA</b>   |
|--|---|--|
|  | Challans can be edited in MS-Word before being printed  | The changes are not traceable unless every challan is checked with the database                |
|  | Sometimes the demand in the challan is edited to the amount in the cheque or DD.<br>For instance, in the case of shop Nos. FF-43 (BP Jyothi), GF-5(Huchappa V), GF-3 (Corporation Bank) of Nagarbhavi Shopping Complex , interest on arrears and service tax had not been levied in the challans.   | The demand will be less than the requirement.  |
|  | The challan date is not stored in the back end.   | One cannot trace when a challan was issued. The issue of challans could be manipulated.        |
|  | The shop rent payment table stores the payment date as the record created date.   | One would not know when the data entry was actually made. This could facilitate manipulations. |
|  | The bank details are not collected. Cheque, DD details are not collected even when payments are made through these instruments.   | No reconciliation can be made with the help of the application.                                |
| <b>Database issues</b>                       |   |  |
|  | There is no foreign key relationship between shop challans table and shop detail table.   | Challans can be generated for shops which do not exist   |
|  | There is no foreign key relationship between shop payment detail and shop challans table  | Payments can be made for shop ids which do not exist in the shop challans table                |
|  | There is no foreign key relationship between shopping complex detail table and division master table. Three shopping complexes had been created with division id as 1 though there is no division with division id as 1 in division master table. Records for 36 shops had also been created in these shopping complexes in the shop detail table and challans generated till November 2009.<br>Subsequently, records have been created again for these shops with correct division ids. They had also been assigned new shop ids. However, the record status of the old records continued to remain “active”. Two demands were generated for both the ids in June 2009 and November 2009 | Excess raising of demand based on incorrect database   |
|  | The shop payment detail table stores the shopping complex name, division name of the shop though these are already available in the table shop detail   | Redundancy in data storage   |
| <b>Mismatches between various interfaces</b> |   |  |
| <b>Online system &amp; BDA’s database</b>    | Shop number GF-22 , Nagarbhavi Shopping Complex had paid challan No. 21630 but was exhibited in online as not paid  |  |
| <b>Database &amp; Physical file</b>          | In the front end, Challan no 8957 had been displayed for shop no 22, Koramangala Shopping Complex. In the physical file, the same challan was available for shop number FF-43 of Nagarbhavi Complex.  |  |

|                                   | <b>Audit Findings</b>  | <b>Risk faced by the BDA</b> |
|-----------------------------------|--|------------------------------|
| <b>Accounts &amp; application</b> | Service tax had been reduced from 12.36% to 10.3% from February 2009. However, the cess report exhibits service tax at 12.36 % even for December 2010.<br>A dummy shopping complex was created with shopping complex id as 385. The cess report lists only shop No. 2&3 and not shop No. 1 of this complex.  |                              |
| <b>Report generation</b>          |  |                              |
| <b>DCB Reports</b>                | There is a provision to generate DCB report for a particular month for a particular shopping complex. However, there is no menu where the DCB report generated can be viewed. The DCB report for BDA as a whole cannot be generated nor viewed. DCBs are prepared by DEOs in Excel in North, West and South divisions and in Dbase in East division. In the Excel sheets, the amount does not include interest on arrears. Interest on arrears is, however, shown in the DCB abstract sent to BDA. |                              |

### 2.2.9 Monitoring

In our audit, we found that monitoring of the implementation of various IT initiatives was very weak and BDA had ceded much of its authority to the System Manager of the EDP Cell, who had failed to exercise the level of oversight required for proper functioning of the information systems. We also found that the EDP Cell did not provide adequate and correct information periodically to the top management which hampered appropriate decision making to set right the shortcomings noticed. This had resulted in persistent overlooking of the controls essential to safeguard the IT assets and maintain data integrity.

### 2.2.10 Conclusion

Overall, BDA handled the software development unprofessionally and the value for money achieved by the various projects was very poor. The key factors leading to the failure of the projects could have been prevented with better management of the well known issues. BDA's inadequate oversight of the projects, lack of clear vision of senior management and lack of effective engagement of the stakeholders led to disaggregated IT initiatives which failed to provide a better and clear link between the projects and the BDA's key strategic priorities. Improper management of contracts of the vendors resulted in several financial irregularities. In particular, the core aims as per the vision statement had not been met.

The property tax and shop-rent modules functional in BDA suffered from several flaws in design of database. We found instances of inadequate application controls, lack of integration of various interfaces, adoption of adhoc and unauthorised procedures to rectify errors, inadequate security of the databases etc., which effectively meant that BDA had been relying heavily on

these systems with all their existing flaws to conduct its business. This, situation arose from insufficient governance, weaknesses in decision making and management, in regard to software development. As a result, the IT controls presently functioning in BDA were not capable of ensuring safeguarding of assets, data integrity and their confidentiality.

### **2.2.11 Recommendation**

We recommend that:

- BDA should formulate its IT policy to guide its IT initiatives. While doing so, it should evaluate the systems developed, take early steps to rectify the deficiencies in these and plan any improvements required. Future solutions need to be built keeping in mind the wider picture and the potential need and ability to scale up for future enhancement.
- The softwares already developed cover several individual areas with different ways of working which inhibits the development of one common management system. It is, therefore, important that BDA evaluates the systems already developed, integrates these and consider development of a single database solution, if possible, after identifying the causes and illustrating the risk for the success of the future initiatives; and
- BDA redefine what it delegates to the System Manager, requiring increased reporting to the Commissioner. In the long term, the IT policy, that the BDA may have to evolve, effectively addresses these issues to ensure that policies, procedures and daily operations contribute to achieving the BDA's vision and goals.

## Revenue Department

### 2.3 Leasing of properties by the Department of Hindu Religious Institutions and Charitable Endowments

#### 2.3.1 Introduction

Under the Karnataka Hindu Religious Institutions and Charitable Endowments Act, 1997 (Act), the State Government had notified the list of all charitable and Hindu religious institutions in the State. There are 34220 notified institutions, which are classified on the basis of their incomes as Group A, B or C temples and administered as per the provisions in the Act. Many of these institutions have movable and immovable properties, which either belong to them or had been given or endowed for their support. The Act provides that the State Government may lease these immovable properties provided that the leases are in the interest of the institutions. The other conditions governing the leases are prescribed in the Act as well as the Karnataka Hindu Religious Institutions and Charitable Endowments Rules, 2002 (Rules).

#### 2.3.2 Organizational set-up

The Secretary, Revenue Department (Disaster Management) was responsible for overall administration of the notified institutions at the State level. The Department of Hindu Religious Institutions and Charitable Endowments (Department) was headed by a Commissioner who was assisted by a Deputy Commissioner (Muzurai properties) and seven<sup>7</sup> Assistant Commissioners (ACs) at the district level. The ACs were assisted by 50 Executive Officers (EOs) attached to the notified institutions. The EOs were responsible for maintaining primary records such as register of immovable property, auction register, Demand-Collection-Balance register etc at the institution level.

#### 2.3.3 Audit objectives

Our audit of leasing of the immovable properties of the notified institutions centered on the following three objectives:

- whether the Department had inventorised its properties and drawn up plans for their proper utilization, keeping in view the interest of the notified institutions;
- whether the Government approved the leases consistent with its guidelines and the provisions in the Act and Rules; and
- whether the existing enforcement procedures were being followed to ensure timely and accurate payment of lease rent.

<sup>7</sup> Bangalore Rural, Bangalore Urban, Bellary, Belgaum, Karwar, Mangalore and Udupi

### **2.3.4 Audit scope and sampling**

The scope of our audit undertaken during January 2012 and March 2012 covered the leases granted or renewed by the State Government during 2007-12. We reviewed 244 out of 354 leases by test-checking the records at the Government Secretariat, three out of seven ACs and 17 out of 50 EOs. We selected our sample on the basis of simple random sampling and assessment of risk.

### **Audit findings**

#### **2.3.5 The Department did not have an inventory of the properties of the notified institutions**

Section 31 of the Act which came into force from 4 May 2011, envisages the following:

- The Government may, by notification, appoint an Endowment Survey Officer and as many Assistant Endowment Survey Officers as may be necessary for the purpose of making survey of all the properties of the notified institutions in the State;
- The Endowment Survey Officer shall submit his report in respect of the properties of every notified institution to the Government;
- On receipt of the report, the Government shall publish the list of property of all notified institutions in the official Gazette;
- On publication of such list, every notified institution shall maintain a register of movable and immovable properties of the institution and submit it to the prescribed authority for approval; and
- After approval of such register, the Committee of Management or Trustees or the EO shall scrutinize the entries in the register every year and submit to the prescribed authority, a verified statement showing the alterations, omissions or additions required in the register for approval.

Rule 25 mandates every notified institution to maintain a property register and requires the Chairman of the institution to send a statement of any additions and deletions to the AC for verification at the end of every financial year. The AC is to verify the statement with reference to the property register every year by physical verification and to send a copy of the statement to the Deputy Commissioner and the Commissioner.

We observed that no survey of the properties of notified institutions in the State had been conducted so far (March 2012). None of the sampled units had maintained property registers. The Commissioner also did not have a list of movable and immovable properties of all the notified institutions in the State. Further, there was also no documentary evidence in sampled units in support of any physical inspection of the properties by the ACs. Absence of a database of the properties of the notified institutions and absence of physical

verification of the properties facilitated large scale encroachments of the immovable properties belonging to these institutions.  
As of March 2012, 836 acres and 5 guntas of lands belonging to the notified institutions had been encroached upon as shown in **Table-2.25:**

**Table -2.25: Details of lands of notified institutions encroached upon**

| Grade of notified institutions | No of notified institutions having land | Area of land (acres and guntas <sup>8</sup> ) | No of institutions the lands of which had been encroached upon | Area of land encroached upon (acres and guntas) | Districts where lands had been encroached upon on a large scale (acres-guntas) |
|--------------------------------|---|---|--|---|--|
| A                              | 165                                     | 2634-38                                       | 20   | 114-06  | Ramanagara (39-07 acres), Kodagu (33-16) and Bangalore (11-24)                 |
| B                              | 287                                     | 2461-02                                       | 17   | 48-11   | Bangalore (31-30 acres) and Chitradurga (14-10)                                |
| C                              | 2653                                    | 12019-27 ½                                    | 298  | 673-28  | Hassan (491-03), Kolar (67-33), Shimoga (30-17) and Chickmagalur (24-28)       |
| <b>Total</b>                   | <b>3105</b>                             | <b>17115-27 ½</b>                             | <b>335</b>   | <b>836-05</b>                                   |  |

(Source: Information furnished by the Commissioner)

The Commissioner was in possession of only the State level information and did not have the details of (i) how long these lands had been encroached upon (ii) individual cases of encroachments (iii) action taken to evict the encroachers and restore the property to the notified institutions. As the immovable properties of the notified institutions had not been surveyed and inspected periodically, the possibility of more encroachments than what had come to light cannot be ruled out.

We observed that 3 acres and 2 guntas of prime land belonging to Sri Banashankari Devasthanam, Bangalore had been unauthorisedly occupied by lorry owners for the last 15 years. Though the Department had proposed (March 2007) to evict the unauthorized occupants and construct a Kalyana Mantapa and a commercial complex, it had not sent any proposal to the Government in this regard (March 2012).

In another case, prime land measuring 5.25 acres belonging to Sri Ranganathaswamy Temple, Devenahalli, Bangalore Rural district had been under unauthorised occupation for the last 60 to 70 years. Though Deputy Commissioner, Bangalore Rural district had ordered (September 2006) eviction of the unauthorized occupants, five occupants running non-vegetarian hotels had not been evicted even six years after the Deputy Commissioner passed orders for their eviction. AC, Bangalore Rural who was responsible for eviction of the unauthorised occupants and recovery of damages from them had not taken any action in this regard (March 2012).

The Government stated (November 2012) that a survey wing had been established in the Department and a Committee headed by the Deputy Commissioner had been constituted in each district to survey the properties of

<sup>8</sup> 40 guntas make one acre

the notified institutions and find out the encroachment of the properties. It was further stated that while the district committees had surveyed the properties of 1003 institutions, the Department had completed survey of properties of another 64 institutions. The Government, while agreeing to take action to complete the survey of the properties of the remaining institutions, stated that action had been taken to evict the encroachers as per law.

### 2.3.6 Strategic Planning

Strategic management covers planning, policy, organisational culture and strategic initiatives which are broader in scope and vision than the specific operational practices. Strategic management requires that processes, structures and systems all embody the strategic goals of the organisation. Section 31 of the Act provides that any alienation or transfer of land or other immovable property by way of lease should be in the best interest of the notified institution.

We observed that the Department had not drawn up any strategic plan specifying the goals and objectives to use the land and other immovable holdings in the best interest of the notified institutions and to generate, at the same time, revenue and achieve financial security. The strategic planning should be aimed at providing clear directions on how to use the assets, which the notified institutions managed, to help the Department reach its long term vision. We found that the Department primarily focused on the short-term strategy of leasing out its properties when someone approached it for lease. The Department did not have an asset management plan, which is a critical tool used by successful estate managers to meet the long term goals. Our scrutiny showed that prime land measuring 255205.49 square feet (sq ft) in Bangalore and another 5.25 acres in Devanahalli belonging to eight notified institutions valued at ₹ 204.47 crore (as shown in **Table-2.26**) remained unexploited.

**Table-2.26 : Details of prime land remaining unexploited**

| Sl. No       | Name of the notified institution                 | Location of the land in Bangalore | Area in sq ft                           | Guidance value (₹ in crore) | Potential monthly lease rental value (₹ in lakh) |
|--------------|--|-----------------------------------|---|-----------------------------|--|
| 1            | Sri Siddalingeswara Swamy, Yedyur, Bangalore     | Nandini Lay out                   | 13206.82                                | 2.97                        | 1.32   |
| 2            | Bandi Shesamma Chattra, Bangalore                | K.G. Circle                       | 12708.00                                | 16.52                       | 6.61   |
| 3            | Sri Raya Raya Kalyanamantapa, Bangalore          | K.R. Road                         | 28675.00                                | 17.21                       | 6.88   |
| 4            | Sri Banashankari Temple, Bangalore               | Banashankari                      | 132858.00                               | 73.07                       | 31.89  |
| 5            | Sri Dodda Basavanna Temple, Bangalore            | Basavanagudi                      | 40371.52                                | 16.15                       | 9.69   |
| 6            | Sri Sampangi Ramaswamy Devasthanam, Bangalore    | Cunningham Road                   | 24813.65                                | 16.13                       | 6.20   |
| 7            | Sri Raghavendra Anjaneyaswamy Temple, Bangalore. | Malleswaram,                      | 2572.50                                 | 1.16                        | 0.77   |
| 8            | Sri Ranganathaswamy Temple                       | Devanahalli                       | 5.25 acres                              | 61.26                       | 7.35   |
| <b>Total</b> |  |                                   | <b>255205.49 sq ft &amp; 5.25 acres</b> | <b>204.47</b>               | <b>70.71</b>                                     |

(Source: Information furnished by the Commissioner)

The Government agreed (November 2012) to prepare the strategic plan to provide clear directions for the use of immovable properties and leasing of properties at fair market value.

### 2.3.7 Property leases

#### 2.3.7.1 Framework for leasing of properties

We found that Government had not formulated any policy or guidelines till October 1980 for leasing of properties/buildings belonging to the Muzrai and religious institutions. The Government revisited these guidelines in September 1990 and modified the rates of goodwill, the period of lease etc., the Government finally enacted the Karnataka Hindu Religious Institutions and Charitable Endowments Act, 1997 (Act) and framed the Karnataka Hindu Religious Institutions and Charitable Endowments Rules, 2002 (Rules). Both the Act and the Rules came into force on 1 May 2003. An overview of the framework for leasing of properties belonging to the temples and other religious institutions is given in **Table-2.27**.

**Table:2.27 Framework for leasing of properties**

| Subject in brief                                      | Provision as per Government guidelines of September 1990   | Provisions as per the Rules with effect from 1 May 2003  |                       |
|---|--|--|-----------------------|
| Lease of vacant land to private persons               | All leases of immovable properties to be given by inviting offers after giving wide publicity.<br>Lease to be given to the persons offering the highest bid. | All leases to be made by public auction after calling for objections and giving wide publicity.          |                       |
| Collection of non-refundable goodwill from the lessee | The lessee to pay goodwill additionally at the following rates with effect from 11 April 2001 (₹ per sq metre)   |  |                       |
|   | <b>Locality of the property</b>  | <b>Commercial purpose</b>  | <b>Public purpose</b> |
|   | Corporation area   | 600  | 300                   |
|   | Population between 10000 and 1 lakh  | 300  | 150                   |
|   | Population less than 10000   | 150  | 50                    |
| Lease period  | 5 years  | Maximum of 20 years for vacant land and 5 years in case of buildings, shops and residential houses       |                       |
| Rate of rent  | Based on the highest offer received  | Rate of rent reserved for auction not to be less than the prevailing market rate of rent in the locality |                       |
| Revision of monthly rent                              | 5 per cent every year  | To be enhanced by 5 per cent every year  |                       |
| Advance rent  | Six months' rent to be collected at the time of execution of lease deed, adjustable at the end of the lease period.  | No change in the provision   |                       |
| Interest on belated payment of rent                   | No provision in the guidelines   | 18 per cent per annum where rent is not paid by the fifth of the succeeding month                        |                       |

#### 2.3.7.2 Leases violated the guidelines and the Rules

(a) We found that 52 leases had been granted by the Government during 1991-2010 without inviting offers or conducting auctions in disregard of its own guidelines of September 1990 and the Rules. The extent of land involved in these cases was 1.31 lakh square feet (sq ft) valued at ₹ 52.59 crore. The details are given in **Appendix-2.6**. Large scale bypassing of the procedure prescribed for grant of lease evidenced lack of transparency.

(b) The maximum period of 5 years from September 1990 and 20 years from May 2003 prescribed for granting lease had been relaxed by the Government without justification in the following cases:

- Land measuring 45000 sq ft and 40372 sq ft belonging to Sri Dodda Basavanna Temple had been leased during August 1991 and October 1992 respectively to B.M.Sreenivasaiah Educational Trust for 30 years for construction of a hospital and residential quarters for staff;
- Land measuring 10836 sq ft belonging to Sri Karanji Anjaneya Temple had been leased to B.M.Sreenivasaiah Educational Trust for 50 years during November 1997; and
- Land measuring 7916 sq ft belonging to Sri Mallikarjuna Swamy Temple had been leased for 30 years in December 2009 to Sri Samputa Narasimhaswamy Sri Subramanya Matt.

(c) Non-refundable goodwill aggregating ₹ 51.81 lakh (**Appendix-2.7**) had not been collected in 128 leases as of March 2012, extending unauthorized concession to the lessees.

(d) Though lease agreement was to be executed by the lessee and the lessor and got registered by the lessee, lease agreements had not been entered into in respect of 111 leases (**Appendix-2.8**). Enforcement of the conditions of lease was, therefore, not feasible in these cases.

(e) Though the Rules prescribed levy of interest at the rate of 18 *per cent* per annum for belated payment of monthly rent, interest aggregating ₹ 66.01 lakh had not been recovered in five test-checked cases by the EOs (March 2012).

(f) Six month's rent aggregating ₹ 5.33 lakh payable by the lessees in advance at the time of execution of the lease deeds had not been collected in 12 cases. In another 111 cases, advance collection of six months' rent could not be enforced as lease agreements had not been entered into with the lessees.

(g) According to Rules, no property situated near the institution was to be leased out to non-Hindus. However, two shops measuring 1392.76 sq ft belonging to Sri Kukke Subramanya Devasthanam had been leased to non-Hindus during March 2011.

(h) Though running of a bar, non-vegetarian restaurant, liquor or wine shop or live band on the leasehold property was strictly prohibited by the Rules, lease had been granted to Oza Wines for setting up a liquor shop in the premises of Bandi Shesamma Chatra, KG Road, Bangalore. Though the lease period expired in December 1982, the lessee had been continuing his business unauthorizedly in the premises by paying a paltry rent of ₹ 410 per month. Similarly, another lessee (Vijaya Enterprises) sold non-vegetarian food in the shop located in the premises of Sri Karikal Anjaneya Swamy Temple located on Mysore road (March 2012).

### **2.3.7.3 Grant of leases and their administration**

Sound estate management requires the use of detailed current market data to evaluate lease proposals and determine the best strategies and processes to deal with diverse leases.

We reviewed 244 leases which three ACs managed and specific cases where we found inconsistencies in grant of lease including fixation of lease rents and shortcomings in administration of leases as discussed below:

#### **(i) Sri Rama Mandir Trust, Bangalore**

One acre and three guntas of inam land in Survey No.29 of Jakkasandra village had been endowed to Sri Kodi Anjaneyaswamy Temple, Seshadripuram, Bangalore. The Government had leased (February 1974) 3136 square yards (28224 sq ft) of these lands to Sri Rama Mandira Trust for a period of 99 years for a monthly ground rent of ₹ 100. The lessee was to construct a Kalyana Mantapa and a students' hostel on the leased property with the approval of the Commissioner within three years from the date of execution of the sale deed. The lessee was also to make available the Kalyana Mantapa to the temple free of cost for not more than 12 days in a year, not exceeding three days at a time.

The lessee violated the terms and conditions of lease and converted the property into a commercial hub by constructing two Kalyana Mantapas and letting out one of them for commercial activities including accommodation of a leading restaurant in the premises. No students' hostel had been constructed as per the terms of lease. Though the Commissioner was to approve the plan and estimate for the Kalyana Mantapa, the lessee failed to obtain approval before constructing the two Kalyana Mantapas. The Kalyana Mantapa had also not been made available to the temple free of cost for 12 days in a year and the EO had also not insisted on the same. As per the report of the AC, Bangalore Urban sent to the Commissioner in October 2007, the title of the leasehold property had also been irregularly transferred in favour of the lessee during August 1974 by Tahshildar, Bangalore North taluk. The violations of the terms and conditions of the lease came to the notice of the Department only in November 2006 during inspection of the property by the Joint House Committee.

Based on the report (August 2008) of the Commissioner highlighting the violations, the Government ordered (January 2009) cancellation of the lease. The lessee filed (February 2009) a case in the Court of the Additional City Civil Judge, Bangalore, seeking permanent injunction restraining the Department from dispossessing the Trust without following due process of law. The Court directed (October 2011) the Department to seek possession in accordance with law. However, the Department had not taken any action to take over the property from the lessee (March 2012).

We observed that the Commissioner, at the time of reporting the violations to Government in August 2008, himself had assessed (August 2008) the ground rent payable for the property at ₹ 1 lakh per month. Against this, the lessee had

been paying a paltry ground rent of only ₹ 100 per month while making huge profits from the commercial activities. The concession extended to the lessee during 2007-12 on the basis of ground rent assessed by the Commissioner aggregated ₹ 60 lakh. While the lessee had not paid the non-refundable goodwill of ₹ 15.74 lakh, it gained another ₹ 50 lakh by not making available the two Kalyana Mantapas for 12 days every year during 2007-12.

Out of one acre and 3 guntas of inam land endowed to the temple, only 28224 sq ft had been leased to the temple, leaving a balance of 18603 sq ft. Of this, 75 sq.m. had been unauthorisedly occupied by nine persons.

The Government stated (November 2012) that damages at the rate of ₹ one lakh per month would be claimed from the lessee in the proceedings filed under the Public Premises (Eviction of unauthorised occupants) Act, 1971 (PPA) and the unauthorised occupants of 75 sq m. would also be evicted as per law.

Thus, the lessee continued to enjoy the leasehold property for a significant number of years and make huge profits by exploiting the property for commercial use and paying only a nominal rent to the Department.

**(ii) BMS Educational Trust**

We found that the Government had approved four leases during different periods in favour of the Trust and these leases involved land measuring 1.15 lakh sq. ft. belonging to one temple viz., Sri Karanji Anjaneya Swamy Temple. In three out of four leases approved after the Government guidelines of 1980, no public offers had been invited before approving the lease. In these three cases, unjustified concession had been extended by the Government either in the form of longer period of lease than permitted by the guidelines or fixation of rent lower than the market rate. The details are as under:

(a) Government leased (July 1973) 35451 sq ft of land to the trust for 50 years up to November 2023 for a nominal monthly rent of ₹ 1000 per month.

The Trust had encroached upon 10836 sq ft of adjacent land belonging to the same temple and built a canteen and auditorium. As there was no access to the land encroached upon except through the leased property, the Government regularized (November 1997) the encroachment by leasing out the adjacent land to the Trust for 50 years up to 2023 and fixing a nominal rent of ₹ 1 per sq ft from November 1973 to December 1996 and ₹ 4 per sq ft from January 1997 onwards. The Government also ordered recovery of goodwill at the prescribed rates and annual increase of ground rent by 5 per cent.

We found that the demarcation of land measuring 35451 sq ft covered by the lease of July 1973 without providing access to the land beyond was illogical and irrational as it facilitated not only the encroachment of the adjoining land by the lessee but created the ground for the lessee to get the encroached portion also leased in its favour. We also found the lease period of 50 years fixed for the adjacent land to be irregular as the Government violated its own order of September 1990 which had prescribed a maximum period of only five

years for the lease. As a result, the Department lost the opportunity of revising the rent on the basis of market rates at the time of renewing the lease every five years. Irregular fixation of the lease period facilitated extending unauthorized financial benefit of ₹ 1.09 crore to the lessee. Further scrutiny showed that the Department had not entered into any lease agreement for the adjacent land and also not raised any demand on the Trust so far. The Trust had also not paid either goodwill or ground rent for the additional land leased by Government. As of March 2012, the dues from the Trust towards goodwill and ground rent aggregated ₹ 1.13 crore.

(b) The Government leased (1991) another 23715 sq ft of land to the same Trust for a monthly rent of ₹ 2500 without inviting any public offers. During the renewal of the lease from June 2004 to June 2009 and from June 2009 to June 2011, the Government fixed (June 2005 and July 2009 respectively) a nominal monthly rent of ₹ 40,000 for the property against ₹1.90 lakh at the prevailing market rate of ₹ 8 per sq ft in the locality. Similarly, while renewing (December 2011) the lease further for a period of 5 years up to June 2015, the Government fixed a monthly rent at ₹ 1 lakh against ₹ 4.74 lakh at the prevailing market rate of ₹ 20 per sq ft. Fixation of a lower rent resulted in unauthorized concession of ₹ 1.92 crore to the lessee during 2007-12.

(c) Without inviting public offers, the Government approved (August 1991) lease of 45000 sq ft of land to the same Trust for a period of 30 years (against five years prescribed) for a monthly rent of ₹ 1000. The lessee constructed a hospital on the leased land as per the terms of lease. Had 45000 sq ft of land been leased to the Trust as per the prescribed procedure, the lease period would have been only 5 years and monthly rent would have been enhanced every five years based on prevailing rates. Failure to do so resulted in a loss of ₹ 2.30 crore during 2007-12.

### **(iii) BMS Nursing Home**

The Government approved (December 1972) the lease of 5000 sq ft of land belonging to Raya Raya Choultry, Bangalore for 30 years in favour of Dr.Chikkananjappa for a nominal rent of ₹ 1 per sq ft for construction of a nursing home. The Government renewed (October 2003) the lease for a further period of 15 years against 5 years prescribed under the Rules, thereby losing the opportunity of revising the ground rent on completion of the lease period of five years. The Government also retained the monthly rent of ₹ 1 per sq ft instead of revising it to ₹ 6 per sq ft on the basis of the prevailing market rate.

While EO, Raya Raya Kalyana Mantapa, Bangalore informed (October 2010) AC, Bangalore Urban that the lessee had let out the second floor to medical students and the rent for the property as per the prevailing market rate was ₹ 4 lakh per month, AC, Bangalore Urban apprised (November 2010) the Commissioner of the position. However, no action had been taken against the lessee for violating the conditions of lease.

Thus, the lessee exploited the leased property for unauthorised commercial use and evidently made huge profits. This was facilitated by the unjustified action

of the Government in retaining the nominal rent of ₹ 1 per sq ft at the time of renewing the lease and renewing the lease for 15 years instead of 5 years. These lapses of Government resulted in a loss of ₹ 52 lakh during 2007-12.

**(iv) Sri Vidya Mandir Education Society, Bangalore**

In respect of lease of vacant land measuring 4752 sq ft granted to Sri Vidya Mandir Education Society, Bangalore for 30 years during October 1989 for a monthly rent of ₹ 15500, the Department had not demanded 10 per cent increase in monthly rent every five years as provided in the agreement and the shortfall in recovery aggregated ₹ 6 lakh. In respect of another two leases of vacant land sanctioned to the same Society (1336.50 sq ft and 3312.50 sq ft), the lease periods expired in July 2005 and September 2005 respectively. However, these leases had not been renewed and the lessee had been paying monthly rent at the old rate of ₹ 7 and ₹ 4 per square respectively.

During April 2005, the Commissioner reported to Government that the Society had encroached upon 4232 sq ft of land adjoining the already allotted land and constructed buildings unauthorisedly. The Commissioner recommended to the Government for leasing out the land encroached upon for 10 years from October 2004 for a monthly rent of ₹ 30 per sq ft. The Government sought (March 2006) a report from the Commissioner as to why the Department had failed to take action against the Society for encroachment. Although the Commissioner again recommended (January 2010) to the Government for regularizing the encroachment, the Government insisted (January 2011) on the Society vacating the school from the land encroached upon. However, no action had been taken either for restoring the property to the Department or assessing the cost of damages recoverable from the society for unauthorized occupation (March 2012). The cost of damages recoverable as per the Rules amounted to ₹ 76.18 lakh on the basis of the monthly rent of ₹ 30 per sq ft recommended by Commissioner for regularizing the unauthorized occupation.

The Government stated (November 2012) that the extension or otherwise of the leases was being examined and damages would be claimed in appropriate proceedings.

**(v) Sri Samputa Narasimhaswamy Sri Subramanya Mutt, Bangalore**

Without conducting public auction, the Government approved (August 2007) lease of 5000 sq ft of land belonging to Sri Mallikarjunaswamy Temple for a period of 30 years (against 20 years prescribed by the Rules) to Sri Samputa Narasimhaswamy Sri Subramanya Mutt, Bangalore for a nominal rent of ₹ 2 per sq ft. During December 2008, the Government exempted the lessee from paying even this nominal rent till completion of construction of building on the vacant land though the lease rent was to be recovered from the date of commencement of the lease period as per the Rules. The lessee requested (November 2009) for additional land measuring 2916 feet belonging to the same temple and the Government approved (December 2009) the lease of this additional land. The revised lease period of 30 years was fixed from

November 2009 and the nominal rent of ₹ 2 per sq ft fixed already was also reduced to ₹ 1 per sq ft.

Further, while fixing a nominal monthly rent of ₹ 1 per sq ft, the Government overlooked the recommendations of the EO and AC, Bangalore Urban for charging a monthly rent of ₹ 10 per sq ft. The concession extended to the lessee during 2007-12 alone on the basis of the rate recommended by the AC aggregated ₹ 39.90 lakh without factoring in future increases in the market rates.

The Government stated (November 2012) that action would be taken to review the lease by complying with the provisions in the Rules.

**(vi) Sri Agamatraya Mahamandali, Bangalore**

In respect of a lease of land and building (2925 sq ft) approved (December 1976) by the Government in favour of Sri Agamatraya Mahamandali, Bangalore for 30 years, the lessee requested (April 2007) for renewal of the lease for another 30 years. After renewing (April 2010) the lease for 10 years (against 5 years permitted by the Rules) from April 2007 for a monthly rent of ₹ 20 per sq ft, the Government revised (April 2007) the monthly rent downward and fixed it at ₹ 2 per sq ft, thereby extending unjustified concession of ₹ 63.18 lakh. The Government stated (November 2012) that action would be taken to review the lease.

**(vii) Vijaya Enterprises, Bangalore**

Vacant site measuring 42678 sq ft belonging to the Karikal Anjaneya Swamy Temple had been leased for 20 years to Vijaya Enterprises from April 1979 to April 1999. The Government renewed (August 2001) the lease for five more years up to April 2004 subject to the lessee paying the non-refundable goodwill of ₹ 15.46 lakh. The monthly rent was to be fixed on the basis of the guidance value of the property. The Government overlooked the following while renewing the lease:

- The lessee had violated the terms and conditions of lease and sold non-vegetarian food in the shops and the Government, therefore, ordered (December 1994) cancellation of the lease. However, the lease had not been cancelled.
- The lessee, during the initial lease period of 20 years failed to pay the monthly rent regularly and arrears of rent had accumulated. However, the lessee had been collecting monthly rent of ₹ 25000 to 35000 from 18 shops on the leasehold property sub-let to others.
- During August 1999, the Government directed the Commissioner to take steps to evict the lessee from the premises and lease out the property by public auction. However, the lease had not been cancelled and the lessee had not been evicted.

When the lessee approached the Court regarding discrepancies in measurement of the leased land, the Court directed (February 2002) the Commissioner to take immediate action to evict the lessee from the premises

as the lessee had been unauthorisedly continuing his business by resorting to various litigations. The Court's directions had not been acted upon and the lessee continued to occupy the property even after expiry of the lease period in April 2004. The Department approached (June 2004) the Tahsildar, Bangalore (North) for recovery of rent amounting to ₹ 6.32 lakh and goodwill of ₹ 15.46 lakh as arrears of land revenue. The Government stated (November 2012) that Rs 14.22 lakh out of Rs 21.78 lakh had since been recovered.

During June 2011, the Government regularized the unauthorized occupation of 18 shops by prescribing a monthly rent of ₹ 2 per sq ft from May 1999 to April 2004 and ₹ 4 per sq ft from May 2004 to December 2009. Out of ₹ 26.53 lakh recoverable, only ₹ 12.35 lakh had been recovered, leaving a balance of ₹ 14.18 lakh. Leases for these shops had not been renewed from January 2010 and monthly rent had not been fixed. These shop owners continued to occupy the shops without paying rent.

#### ***(viii) Sri Kalleswara Swamy Temple, Tiptur***

At the time of renewing the existing lease for 24,300 of land on which the lessee had set up a cinema theatre, the Government did not fix (August 2001) the monthly rent for this property. The lease had been renewed for 15 years from 1 July 1999 against only five years permissible. Though the Commissioner had recommended a monthly rent of ₹ 10000 for the property, the ground rent had been recovered at ₹ 5000 per month on the basis of the oral orders of the Deputy Commissioner. The loss to the Department on account of this unjustified and unauthorized concession extended to the lessee aggregated ₹ 18.53 lakh for the period July 1999 to March 2012. The Government stated (November 2012) that action would be taken to recover the balance rent as arrears of land revenue.

#### ***2.3.7.4 Timely payment of lease rent***

We found that as of March 2012, 120 lessees had not paid lease rents aggregating ₹ 2.63 crore (**Appendix-2.9**). The Demand, Collection and Balance (DCB) registers had either been not maintained in the sampled units, or where maintained, the details were incomplete. Year-wise details of the outstanding balances were not available. The Rules prescribe levy of interest at 18 *per cent* per annum where rent is not paid by the fifth of the succeeding month and violation of this condition by persistent default would result in termination of lease. We found that (i) collection procedures to ensure the timely payment of delinquent rents had not been effectively followed; (ii) enforcement actions had not been taken to provide a long-term solution for chronic delinquent lessees; and (iii) the provision to collect interest for delinquent rental payment had not been enforced. The Government stated (November 2012) that the concerned officers have been directed to recover the arrears of rent along with interest and action would be taken against the officers concerned for lapses. The reply was not acceptable as DCB registers had not been properly maintained in the sampled units to facilitate assessment of dues and their timely recovery. In the absence of the basic records for watching the recovery of dues, collection procedures would continue to be

ineffective and, as a result enforcement of penal provisions against delinquent lessees would also become ineffective.

### **2.3.8 Monitoring**

Monitoring of the management of the leases, from the stage of approval or renewal of the lease to the stage of expiry of the lease period, had not been undertaken in an effective manner. Regular inspection of the leased properties had not been done to ensure that the lessees were adhering to the lease agreements. In sampled units, there was no system of sending periodical returns to the higher officers about the status of leases, including physical inspections conducted and the results thereof, arrears in payment of rent by the lessees, enforcement actions taken against delinquent lessees etc. In the absence of a structured information flow from the level of EOs, the Department lacked the critical tool to effectively manage the leases. Deficient monitoring facilitated encroachments and unauthorized occupation of the institutions' properties besides encouraging the lessees to violate the conditions of lease and exploit the leasehold properties for unauthorized uses.

### **2.3.9 Conclusion**

The Department had not conducted a survey of all immovable properties belonging to the notified institutions and this handicapped the Department in effectively managing the properties of the Hindu religious institutions and charitable endowments. The Department also did not have an asset management plan and, as a result, there was no guidance on managing the properties over the mid-and long-term. Land measuring 1.31 lakh sq ft had been irregularly leased by the Government in 52 cases without inviting public offers or conducting auctions. There were no efforts on the part of the Department/Government to obtain detailed market information before fixing the rates for the leases.

The administration of the leases was very poor as unjustified concessions had been extended to the lessees at the time of renewing the leases by (i) fixing the lease rent far lower than the prevailing market rate (ii) fixing longer lease period, depriving the Department of the opportunity of revising the lease rent in the short-term and (iii) revising downward the lease rent after its fixation. Collection procedures to ensure the timely payment of lease rents had not been effectively followed, enforcement actions had not been taken to provide a long-term solution for chronic delinquent lessees, and the provision to collect interest for delinquent rental payment had not been enforced.

Monitoring of the management of the leases was very deficient as it failed to detect the shortcomings and initiate necessary remedial measures.

### 2.3.10 Recommendation

We recommend that:

- To ensure effective management of the properties, the Department should complete the survey, identify the encroachments and unauthorized occupation of properties and initiate prompt measures to restore the properties to the notified institutions.
- The Department should draw up a strategic plan to provide clear direction on how to use the immovable properties it manages. The Department should also establish policies and procedures to ensure that the rental rates reflect fair market value.
- The legal framework provided for granting of leases should not be bypassed. This is to be ensured by developing an independent review system that would review and verify property transactions before approval of lease;
- The Department should exercise greater oversight by strengthening the monitoring mechanism so as to ensure that the staff collects, tracks and conveys key information needed for a meaningful monitoring of the management of the properties.

## Urban Development Department

### 2.4 Maintenance of borewells by Bangalore Water Supply and Sewerage Board

#### 2.4.1 Introduction

Bangalore Water Supply and Sewerage Board (Board) is mandated with the responsibility of providing drinking water supply and sewerage facilities to Bangalore city. The geographical area of Bangalore increased from 558 square kilometres (sq km) to 800 sq km when the areas under seven City Municipal Corporations (CMCs) and one Town Municipal Corporation (TMC) had been transferred to the jurisdiction of the Bruhat Bangalore Mahanagara Palike (BBMP). The Government had transferred (April 2008) these additional areas to the jurisdiction of the Board, which took over the maintenance of 3454 borewells existing in these areas.

#### 2.4.2 Organisational set-up

The Board was headed by a Chairman, who was assisted by one Engineer-in-Chief (EIC) and four Chief Engineers (CEs). The EIC was in-charge of maintenance of borewells. Five divisions, each headed by an Executive Engineer (EE), were responsible for the maintenance of the borewells.

#### 2.4.3 Scope of audit

An internal audit (May 2011) of the procurement of materials made by five divisions of the Board during 2008-11 estimated the loss at ₹ 6.79 crore due to irregularities in procurement. Subsequently, the Board entrusted a special audit of the expenditure on maintenance of borewells in four divisions<sup>9</sup> incurred during July 2008 to July 2011 to the Institute of Public Auditors of India (IPAI). In its report of January 2012, IPAI highlighted several irregularities like multiple purchases against a single sanction order, purchases against a single sanction order by more than one division, excess consumption of submersible pumpsets on borewells maintenance, etc. We conducted (April to June 2012) an audit of the expenditure incurred by the Board on maintenance of borewells during 2008-11 to examine the system deficiencies that led to irregularities in procurement and utilisation of materials. Out of ₹ 55.89 crore spent by the five divisions on maintenance, we audited expenditure of ₹ 32.39 crore by test-checking the records of the Board and three<sup>10</sup> divisions.

<sup>9</sup> East, North, South and West

<sup>10</sup> North, South and West

**Audit Findings****2.4.4 Procurement of materials for borewell maintenance****2.4.4.1 Defective estimates facilitated huge variations in procurement of material**

For maintenance of the borewells, the Board had prepared (May 2008) identical estimates for 28 packages, each estimated to cost ₹ 99 lakh on the basis of Schedule of Rates (SR) for the year 2008-09. Each estimate covered 75 borewells and contained provision for supply of 75 submersible pumps and 7500 running metres (rmt) of galvanized iron (GI) pipes. The pumps and GI pipes accounted for 50 *per cent* of the estimated cost. The balance cost covered the work of repairing the existing panel boards, labour charges for removing and repairing pumps, erection or re-erection of pumps, pipes etc. However, no survey had been conducted before preparation of these identical estimates to determine the location of the borewells, their condition, the type of maintenance works required etc. As a result, these estimates did not even identify the borewells requiring maintenance. Although 3454 borewells had been taken over by the Board, the estimates covered only 2100 borewells. The Government stated (December 2012) that the Board undertook a survey through an agency called BARC from its Quality Assurance Wing and estimates had been prepared for 2100 borewells, the condition of which had been found unsatisfactory. However, the Government's reply failed to explain why identical estimates had been prepared for all the packages when the condition of the borewells differed.

While inviting tenders for these 28 packages in June 2008, the Board undertook to supply the submersible pumps and GI pipes free of cost to the contractors who were required to quote only the charges for maintenance. The Board received (July 2008) single tenders for all the packages. The Board accepted the single tenders for 26 out of 28 packages after negotiations with the bidders who had agreed to execute the work uniformly at 9.9 *per cent* above the estimated rates. Thus, the contract value of each packages was ₹ 108.80 lakh against the estimated cost of ₹ 99 lakh. The bidders for packages 2 and 12 failed to qualify in the technical evaluation and their financial bids were not opened. As per the agreements with the Board, the contractors were to maintain borewells in the wards from July 2008 to July 2009. However, the Board extended the contract period upto July 2010 at the same rates. The five divisions of the Board took care of the maintenance of borewells from August 2010 onwards. The Government stated (December 2012) that the contract period was extended beyond July 2009 due to urgency on the basis of administrative decision, to avoid another tortuous round of procurement. The reply was not acceptable as the Board was aware of the expiry of the contract period in July 2009 and had sufficient time to finalise fresh tenders.

The EEs prepared revised estimates for each of these packages incorporating the maintenance expenditure actually incurred during July 2008 to July 2010 and submitted these to EIC during October 2011 for approval. However,

approval had not been given (June 2012). The actual expenditure as per the revised estimates in respect of 19 of these packages in sampled divisions was as shown in **Table-2.28**.

**Table-2.28: Details of actual expenditure on maintenance as per the revised estimates**

(₹ in lakh)

| Name of the package              | Contract value | Expenditure incurred on |               |                 |                | Total expenditure as per revised estimate | Excess(+)/ Savings(-) |
|----------------------------------|----------------|-------------------------|---------------|-----------------|----------------|---|-----------------------|
|                                  |                | Submersible pumpsets    | GI pipes      | Other materials | Labour charges |   |                       |
| <b>North Division</b>            |                |                         |               |                 |                |   |                       |
| Byataranayapura CMC ward 1 to 11 | 108.80         | 15.75                   | 15.68         | 4.77            | 136.10         | 172.30                                    | + 63.50               |
| Byataranayapura ward 12to 22     | 108.80         | 26.61                   | 15.05         | 6.74            | 159.70         | 208.10                                    | + 99.30               |
| Yelahanka ward 1 to 10           | 108.80         | 9.05                    | 7.36          | 6.27            | 24.10          | 46.77                                     | - 62.03               |
| Dasarahalli ward 1 to 8          | 108.80         | 19.93                   | 16.89         | 7.72            | 107.15         | 151.69                                    | + 42.89               |
| Dasarahalli ward 9 to 16         | 108.80         | 25.01                   | 16.41         | 7.34            | 51.96          | 100.72                                    | - 8.08                |
| Yelahanka ward 21 to 31          | 108.80         | 13.80                   | 6.51          | 6.42            | 60.77          | 87.51                                     | - 21.29               |
| Yelahanka ward 11 to 20          | 108.80         | 15.44                   | 10.70         | 6.41            | 41.78          | 74.33                                     | - 34.47               |
| <b>Total</b>                     | <b>761.60</b>  | <b>125.59</b>           | <b>88.60</b>  | <b>45.67</b>    | <b>581.56</b>  | <b>841.42</b>                             |                       |
| <b>West Division</b>             |                |                         |               |                 |                |   |                       |
| Dasarahalli ward26 to 35         | 108.80         | 11.09                   | 12.25         | 3.16            | 125.82         | 152.32                                    | + 43.52               |
| RR Nagar ward 17 to 25           | 108.80         | 9.37                    | 6.14          | 1.62            | 54.34          | 71.47                                     | - 37.33               |
| RR Nagar ward 9 to 16            | 108.80         | 9.74                    | 5.10          | 1.74            | 55.18          | 71.76                                     | - 37.04               |
| Dasarahalli ward 17 to 25        | 108.80         | 9.96                    | 7.95          | 2.35            | 81.42          | 101.68                                    | - 7.12                |
| RR Nagar ward 1 to 8             | 108.80         | 7.28                    | 6.31          | 2.01            | 66.02          | 81.62                                     | - 27.18               |
| Kengeri ward 1 to 12             | 108.80         | 6.37                    | 2.66          | 1.29            | 22.65          | 32.97                                     | - 75.83               |
| Kengeri ward 13 to 24            | 108.80         | 8.56                    | 5.05          | 1.83            | 40.66          | 56.10                                     | - 52.70               |
| <b>Total</b>                     | <b>761.60</b>  | <b>62.37</b>            | <b>45.46</b>  | <b>14.00</b>    | <b>446.09</b>  | <b>567.92</b>                             |                       |
| <b>South Division</b>            |                |                         |               |                 |                |   |                       |
| Bommanahalli ward 17 to 24       | 108.80         | 24.06                   | 25.76         | 13.15           | 77.20          | 140.17                                    | + 31.37               |
| Bommanahalli ward 25 to 32       | 108.80         | 25.10                   | 24.22         | 6.38            | 84.60          | 140.30                                    | + 31.50               |
| Bommanahalli ward 1 to 8         | 108.80         | 27.78                   | 29.53         | 12.90           | 66.65          | 136.86                                    | + 28.06               |
| Bommanahalli ward 9 to 16        | 108.80         | 23.80                   | 38.68         | 9.33            | 77.00          | 148.81                                    | + 40.01               |
| RR Nagar ward 26 to 31           | 108.80         | 19.29                   | 23.83         | 13.19           | 54.05          | 110.36                                    | +1.56                 |
| <b>Total</b>                     | <b>544.00</b>  | <b>120.03</b>           | <b>142.02</b> | <b>54.95</b>    | <b>359.50</b>  | <b>676.50</b>                             |                       |
| <b>GRAND TOTAL</b>               | <b>2067.20</b> | <b>307.99</b>           | <b>276.08</b> | <b>114.62</b>   | <b>1387.15</b> | <b>2085.84</b>                            |                       |

(Source: Information furnished by the divisions)

While the expenditure was less than the contract value by ₹ 3.63 crore in respect of ten packages, the expenditure in respect of the remaining nine packages was higher than the contract value by ₹ 3.82 crore. Though the Board was to supply as per the tender only submersible pumps and GI pipes to the contractors, several other materials like gate valve, non-returning valve etc., which had not been factored in the estimates, been procured and issued to the contractors free of cost. The cost of materials not factored in the estimates but supplied to the contractors free of cost aggregated ₹ 1.15 crore (9 per cent) in 19 sampled packages. While labour charges accounted for 67 per cent of the total expenditure, submersible pumpsets and GI pipes accounted for 28 per cent. All the packages of South Division witnessed excess expenditure over the contract value while only one out of seven packages recorded excess expenditure in the West Division. The packages in the North division witnessed mixed trends with three and four packages recording excess expenditure and savings respectively.

As the estimates had not been framed on the basis of need analysis, there were huge variations between estimated quantities of materials and those procured for maintenance. The Government stated (December 2012) that replacement of submersible pumps, gate valves, etc., had been done only in a few genuine cases depending on need and, due to varying ground conditions, the expenditure was less than the estimated amount in some packages, while it

was more in other cases. The reply was not acceptable as the varying ground conditions and condition of the borewells could have been assessed reasonably well through survey before framing the estimates.

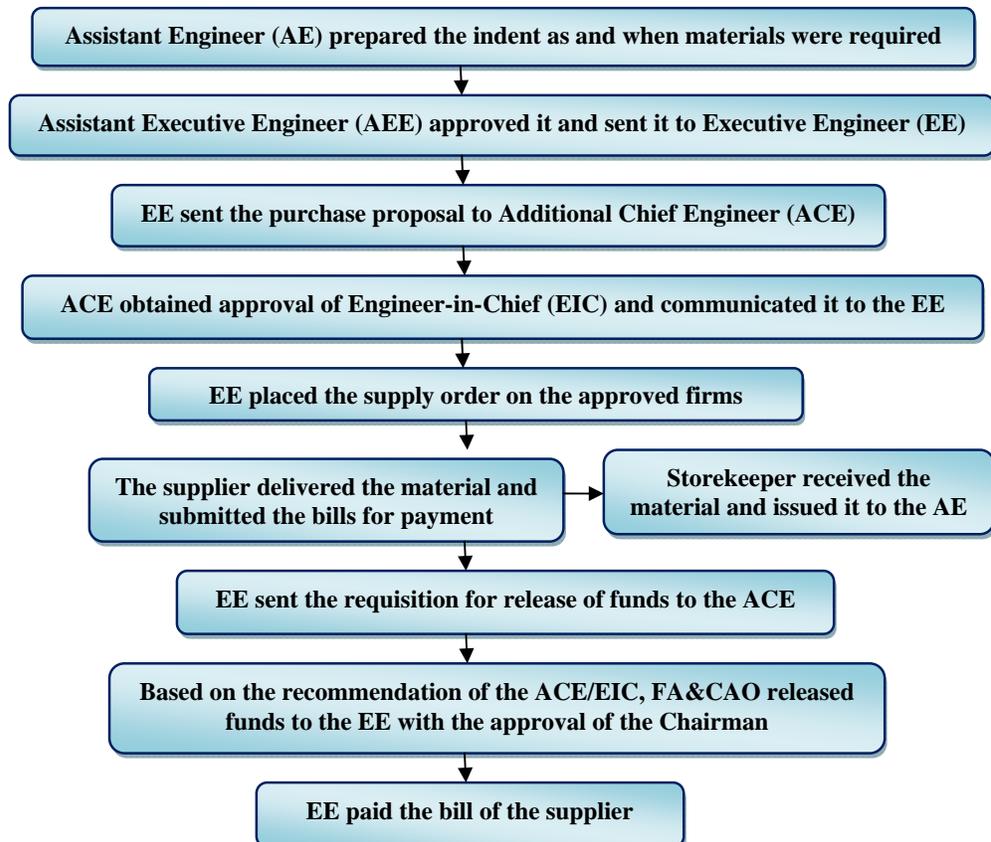
#### **2.4.4.2 Indents for purchases had no basis**

The scope of work entrusted to the contractors required them to inspect the existing borewells, remove the stuck-up/non-functional pumps from the borewells, carry out repairs, replace the old pumps, pipes etc., wherever necessary, with new ones. In this scenario, while the divisions were to necessarily have an adequate reserve stock of materials required for maintenance of borewells, further procurement of additional quantities of materials should have been made either to replenish the reserve stock or to meet any urgent requirements for maintenance.

However, we found that the indents placed by the AEs/AEEs had not been prepared on the basis of any requisitions from the contractors and could not, therefore, assess whether the indents had been driven by actual need. The Government stated (December 2012) that the Board had initiated investigation into the alleged malafides of the Engineers and taken disciplinary action on the basis of preliminary reports.

#### **2.4.4.3 Irregular procedure followed for purchase of materials**

The Board was to follow all the codal provisions applicable to Government departments. The procedure followed by the divisions for procurement of materials required for maintenance was as shown below:



While sending the proposal for procurement to the ACE, the EEs brought to notice that the EIC had on earlier occasions approved procurement of small quantity of the same material at a certain rate on the basis of quotations invited. The EE's proposal sought the approval of the EIC to procure the material at the rate approved earlier without resorting to invitation of either quotations or tenders. The EEs even mentioned names of the three firms from which supplies would be obtained at the approved rates. The ACE, after obtaining the approval of the EIC, communicated it to the EEs.

This procurement procedure was in violation of the provisions in the Karnataka Public Works Department's (KPWD's) Stores Manual and the Karnataka Transparency in Public Procurement (KTPP) Act which prescribe that officers making purchases should see that a large purchase is not split up into several smaller ones for evading the rules relating to larger purchases. Whenever several small purchases of the same class of articles are made within a period of three months, an explanation should be given on the bills stating why the purchases could not be made together. Further, as per the provisions of Section 5 of the KTPP Act, no procurement entity shall procure goods or services except by inviting tender for supply or procurement of materials with a value of more than rupees one lakh.

From a review of the indents sent by the AEEs, proposals sent by the divisions to the EIC, and approvals given by the EIC, we observed that during 2008-10, the divisions had split up the quantity of the materials indented by the AEEs into smaller ones to bypass the rules relating to large purchases and the provisions of the KTPP Act. A few illustrative cases are detailed in **Appendix-2.10**.

The Government stated (December 2012) that as the maintenance work was to be undertaken immediately, there was no alternative other than adopting the procedure followed. It was further stated that only small items had been purchased on the basis of quotations. The reply was not acceptable as the divisions while seeking approval of the EIC for purchases had invariably split up the requirements projected by the AEEs, so as to bring each purchase within the financial power (₹ 50000 to ₹ 1 lakh) delegated to EIC. This procedure not only facilitated procurement of materials without inviting tenders/quotations but also directed the supply orders to predetermined firms. Thus, the procurement procedure was not transparent and was also not designed to secure the most economical prices for materials.

#### **2.4.4.4 *Competitive price for pumps not obtained***

The submersible pumps needed by the divisions for borewells varied in their specifications such as horse power and stages. The correct specification of the pump required for a borewell would be known only at the time of undertaking repairs as no survey of the existing borewells had been done earlier. In such a scenario, the prudent initiative would be to enter into a rate contract for supply of pumps with different horse powers and stages, after inviting tenders. Such a rate contract would not only take care of the requirement of pumps with differing specifications but also would secure the most competitive price for

the pumps. However, the EEs split up the purchases and procured the pumps locally at the rate approved by the EIC without inviting quotations/tenders.

We found that the Central Stores Division of the Board entered (January 2011) into a rate contract for supply of submersible pumps of varying specifications required for borewells. There was no such rate contract earlier. We compared the rates paid for the pumps purchased locally during 2008-11 with those in the rate contract and found that the divisions had purchased pumps at exorbitantly high rates, involving an extra expenditure of ₹ 1.81 crore (**Appendix-2.11**). Normally, the cost of pumps would increase over a period of time due to increases in costs of inputs. In this context, the extra expenditure determined by us on the basis of prices of 2011 would only be understated and the actual extra expenditure would be more than our estimate.

The Government stated (December 2012) that local purchase of pumps might have been followed to enable quick restoration of the borewells and the irregularities were being enquired into. However, the Government defended the purchases on the ground that urgent action needed to be taken to restore pumps and motors in water deficient areas and neither the general public nor the elected representatives would be satisfied with procedural aspects without actual restoration of water supply. The reply was not acceptable as the solution to the problem in such a scenario would be to have a minimum reserve stock of pumps of different capacities rather than bypassing the prescribed purchase procedures and spending money in disregard of the canons of financial propriety.

#### 2.4.4.5 Indents for supply of materials had been altered

We found variations/differences between the original copies of indents which had been sent to the division and the respective carbon copies available in the sub-division. In the cases listed in **Table-2.29** below, items of materials and their quantities indented by the sub-division had been altered in the copies of the indents available in the division:

**Table-2.29: Differences between the original copies of indents and the carbon copies**

(Amount in ₹)

| Item                                      | Carbon copy |       |               | Original copy |                |                |
|---|-------------|-------|---------------|---------------|----------------|----------------|
|   | Quantity    | Rate  | Amount        | Quantity      | Amount         | Difference     |
| 50mm GI Tee                               | 04          | 58    | 232           | 64            | 3712           | 3480           |
| Union                                     | 27          | 372   | 10044         | 332           | 123504         | 113460         |
| Elbow                                     | 81          | 190   | 15390         | 466           | 88540          | 73150          |
| Nipple                                    | 27          | 105   | 2835          | 312           | 32760          | 29925          |
| Gate Valve                                | 51          | 2632  | 134232        | 117           | 307944         | 173712         |
| Collar                                    | 25          | 144   | 3600          | 125           | 18000          | 14400          |
| Non-return Valve                          | 60          | 2198  | 131880        | 189           | 415422         | 283542         |
| Submersible Pumpsets<br>– 7.5 HP/15 stage | 01          | 23690 | 23690         | 02            | 47380          | 23690          |
| 7.5 HP/20 stage                           | 06          | 30183 | 181098        | 16            | 482928         | 301830         |
| 5 HP/50 stage                             | 03          | 45655 | 136965        | 04            | 182620         | 45655          |
| 5 HP/15 stage                             | 04          | 37100 | 148400        | 19            | 704900         | 556500         |
| 50 mm GI pipe                             | 00          | 420   | 00            | 1000 rmt      | 420000         | 420000         |
| <b>TOTAL</b>                              |             |       | <b>788366</b> |               | <b>2827710</b> | <b>2039344</b> |

(Source: Information furnished by the divisions)

As a result, materials costing ₹ 20.39 lakh had been excessively procured and issued to the sub-division on the basis of these altered indents. The AE/AEE did not object while receiving the procured materials, which were at variance with those indented. This evidenced that AE/AEE did not check the indents given while accepting the materials supplied. These materials had been taken to the MAS account of the concerned Engineer and shown as having been issued for borewell maintenance. However, while issuing the materials from the MAS account, the borewells for which these materials had been issued and the package comprising these borewells had not been mentioned in the MAS account. The materials were removed from the MAS account by showing these as issues for maintenance of borewells. We could not, therefore, verify whether the materials had been used on bonafide works.

Further, the contractors had not acknowledged receipt of materials received by them for maintenance, though required in terms of provisions in Para 311(d) of KPWD Code.

We also observed instances where the divisions had sent proposals for procurement of materials in excess of quantities indented by the AEEs. Illustrative cases of such excess procurements are shown in **Appendix-2.12**.

Thus, alteration of the indents and excessive procurement of materials in disregard of the indents evidenced that no checks and balances existed at the divisional level resulting in procurement of materials not indented or required. As there was no evidence of use of these materials on bona fide works, misappropriation of funds through fictitious purchases cannot be ruled out. The Government stated (December 2012) that wherever proper procedures had not been followed and charges made against the officials were proved, suitable action would be initiated.

#### ***2.4.4.6 The suppliers provided insufficient details of pumps supplied***

Our scrutiny of invoices for supply of pumps showed that in a majority of the cases, neither the make of the pump nor the serial number inscribed by the manufacturer on the pump had been mentioned. As a result, the details regarding the make and the serial number had not been recorded at the time of entering the receipt of pumps in the Measurement Books (MB). In the absence of these details, audit could not ascertain whether the pumps purchased had the same specifications for which the rates had been approved. Further, the submersible pumps should have been supplied to the divisional stores with a warranty card. However, no warranty cards were available in the stores of the sampled divisions. As a result, we could not verify whether the divisions had enforced the terms of warranty wherever applicable. The Government stated (December 2012) that all procedural lapses and irregularities were being enquired into and suitable action would be taken if any officer was found guilty.

## 2.4.5 Fictitious purchases against fake sanction orders

### 2.4.5.1 Materials purchased against fake sanctions

During 2008-11, the EIC had issued 1245 purchase sanctions authorizing procurement of borewell materials by the three sampled divisions. However, these three divisions purchased materials against 2124 purchase sanctions purported to have been given by the EIC. We verified the purchases of borewell materials made by these three divisions during 2008-11 by matching each purchase with the purchase sanction order of the EIC. We found that the three divisions purchased materials costing ₹ 6.06 crore against 879 purchase sanctions which had not been given by the EIC. Fictitious sanction orders had been recorded on the purchase orders placed by EE on the vendors in these 879 cases. The details of materials procured against these evidently fake sanction orders were as shown in **Table-2.30**:

**Table-2.30: Details of materials procured against fake orders**

| Division | Year of purchase | No. of fake sanction orders | Cost of materials procured against fake orders (₹ in lakh) |
|----------|------------------|-----------------------------|--|
| North    | 2008-09          | 09                          | 5.26   |
|          | 2009-10          | 128                         | 93.34  |
|          | 2010-11          | 267                         | 180.77   |
| West     | 2008-09          | 01                          | 0.48   |
|          | 2009-10          | 64                          | 45.20  |
|          | 2010-11          | 338                         | 228.75   |
| South    | 2008-09          | 01                          | 0.99   |
|          | 2009-10          | 43                          | 30.75  |
|          | 2010-11          | 28                          | 20.05  |
|          | <b>TOTAL</b>     | <b>879</b>                  | <b>605.59</b>  |

(Source: Information furnished by the divisions)

The materials had been accounted as receipts in the stock register and shown as issued to the AEs who had charged off these materials during 2008-10 to maintenance works without mentioning the location of the borewells or even the package relevant to the borewells.

The purchases made against fake sanctions were evidently fictitious in the absence of evidence of utilization of materials on bonafide works. The Government stated (December 2012) that the variations between the sanctions given by the EIC and those actually recorded in the divisions were being examined in detail in the departmental enquiry and suitable action would be taken against officials found guilty.

### 2.4.5.2 Absence of mechanism to guard against manipulations

The normal procedure followed by two Government offices situated in the same city/town to send and receive a communiqué other than by post is as follows:

- The sender office hands over the letter to be sent, to a despatch clerk.
- The despatch clerk enters the letter number, subject, address etc in a despatch register and hands over the letter to an official (usually a Group D employee) to carry it to the addressee.

- The Group D official enters the details of the letter in a ‘Tappal Register’ or ‘Transit Register’ and hands over the letter to the addressee after obtaining his acknowledgement.
- The designated official in the receiving office enters the letter received in an inward register and hands over the letter to the person or section concerned.

A scrutiny of the despatch registers and inward registers in sampled divisions showed that none of the proposals seeking sanctions of the EIC had been entered in the Tappal Register. Further, none of the sanctions received from EIC had been entered in the divisions’ inward registers. Thus, there was no mechanism in place in the divisions to keep track of the proposals sent for sanction and the receipt of the sanction orders. The Government stated (December 2012) that suitable action would be taken against the concerned and the correct procedure would be followed.

#### 2.4.5.3 Register of sanctions not maintained

According to Paragraph 49 of the Karnataka Public Works Department Accounts Code (KPWA code), every sanction affecting the expenditure to be accounted for in the Monthly Account is to be noted at once in a suitable register, preferably one wherein the expenditure incurred against it can be watched readily. However, we observed that neither the Board nor the divisions maintained the Register of Sanctions and did not watch the expenditure against each sanction accorded by the EIC. Though the expenditure on maintenance of borewells exceeded the allocation made in the Budget of the Board during 2008-09 and 2009-10 as shown in **Table-2.31**, the Board did not examine the reasons for such excess expenditure:

**Table-2.31: Budget provisions and expenditure on maintenance**

(₹ in lakh)

| Year    | Budget provision for maintenance | Expenditure | Excess (+)<br>Savings (-) |
|---------|----------------------------------|-------------|---------------------------|
| 2008-09 | 680.50                           | 1934.40     | (+) 1253.90               |
| 2009-10 | 1750.00                          | 1884.32     | (+) 134.32                |
| 2010-11 | 2090.00                          | 1771.30     | (-) 318.70                |

(Source: Information from the Budget and expenditure statements of the Board)

#### 2.4.5.4 EIC failed to notice fake sanction order

The EIC issued purchase sanction orders to the divisions after entering these in a despatch register. The serial number and date given in the despatch register had been entered in the sanction order as the approval number and date. The EIC maintained a common despatch register for all the divisions and thus no two approvals given in a year could carry the same number and date. However, we observed that several sanctions received by North and West divisions carried the same numbers though the dates differed. The details are given in **Appendix-2.13**. The EIC did not carry out any periodical checks to verify the sanctions given by him before recommending for release of funds for payment of bills to the suppliers.

The monthly requests for release of funds sent by the EEs contained the details of supply bills pending for payments and the respective purchase sanctions given by the EIC. However, these requests had not been subject to scrutiny by the office of the EIC and funds had been routinely released to the EEs on the basis of requests received. Failure of the EIC to verify the genuineness of the claims received from the EEs facilitated continued creation of fake purchase orders and release of funds for fictitious purchases. The Government stated (December 2012) that these observations had been pointed out by the Internal Audit Wing in the initial stages when a special audit was taken up and the matter was subsequently entrusted to IPAI for a thorough verification. It was further stated that the Board decided to initiate disciplinary action against the concerned and entrust further investigation to the Lokayuktha. While the action taken by the Board after May 2011 was laudable, the irregularities could have been avoided if regular internal audit of the transactions had been part of the internal control mechanism of the Board.

#### **2.4.6 Utilisation of materials procured for borewell maintenance**

##### ***2.4.6.1 Shortcomings in the recording of materials issued in the Measurement Books***

As per the provisions in the KPWA code, the measurements recorded in the MBs should, inter alia, incorporate the name of the work as given in the estimate. However, while charging off materials from MAS accounts, the entries recorded in the MBs did not even mention the wards and packages for which the materials had been issued from MAS accounts. A few illustrative recordings made in MBs of the West division are shown in **Appendix-2.14**. Thus, the recordings in the MBs failed to provide proof of utilisation of materials on bonafide works.

Further, as per the PWD codal provisions, the AEE and the EE should conduct check measurements of entries made in the MBs to the extent of 75 per cent and 25 per cent, respectively, and both should certify that the checked items had been found correct. However, none of the entries in the MBs indicating issue of materials to works had been test-checked either by the AEEs or EEs.

##### ***2.4.6.2 History Books did not support the quantity of borewell materials as per the revised estimates***

The divisions maintained History Books wherein ward-wise borewells maintained had been recorded. A separate folio had been allotted in the History Book to each borewell and details such as location of the borewell, RR No. of the power connection, the nature of maintenance work carried out like GI pipe lowered/replaced, new pump erected, panel board repaired etc., had been recorded.

We found that the quantities of GI pipes and submersible pumps shown as used in the History Books of 10 packages reviewed by us in three divisions

were different from the quantities shown as used in the respective revised estimates as shown in **Table-2.32**.

**Table-2.32: Variations between History books and revised estimates**

| Sl. No. | Description of material  | No. of packages | As per History books (numbers) | As per the revised estimates (numbers) |
|---------|--------------------------|-----------------|--------------------------------|--|
| 1.      | New Pumps erected (No.)  | 6               | 157                            | 265                                    |
| 2.      | New Pumps erected (No.)  | 4               | 317                            | 288                                    |
| 3.      | 50 mm GI pipes (Rmt)     | 8               | 23743                          | 31758                                  |
| 4.      | 50 mm GI pipes (Rmt)     | 2               | 11830                          | 11328                                  |
| 5.      | 32 mm dia GI pipes (Rmt) | 3               | 2430                           | 4964                                   |
| 6.      | 32 mm dia GI pipes (Rmt) | 1               | 2634                           | 2484                                   |

As details of borewells/packages for which pumps and pipes had been issued were not recorded in the MBs, the basis for writing the History Books and preparing revised estimates, albeit with such huge variations, was not forthcoming. The Government stated (December 2012) that the Board had decided to take disciplinary action against the concerned on the basis of the reports of the Internal Audit Wing and IPAI and suitable action would be taken against the concerned on completion of the enquiry.

#### **2.4.6.3 Materials issued had not been accounted under sanctioned works**

The Engineers in-charge of maintenance of borewells were to take to their MAS accounts the materials received from the divisional stores and issue these for maintenance works. The issue entries should cite the transfer entry order (TEO) or MB number incorporating the details of the borewells/packages for which materials had been issued.

We found that the borewell materials consisting of pump and GI pipes were charged off from MAS accounts by citing the entries recorded in the MBs. Scrutiny of entries in the MBs showed only the quantities of pumps and GI pipes so charged off without any mention of either the respective borewells or the packages in which the borewells were located. As a result, we could not relate these issues with the borewells or the packages. However, while scrutinising the revised estimates for 19 packages, we found that the total quantities of pumps and pipes included therein were lower than those issued as per the MAS accounts, implying that pumps and GI pipes had been excessively issued from MAS accounts. The financial implication of such excessive charging of materials aggregated ₹ 4.36 crore in respect of the divisions shown in **Table-2.33**:

**Table-2.33: Cost of materials excessively charged off**

| Sl.No. | Name of the Division | Cost of materials excessively charged off (₹ in crore) |
|--------|----------------------|--|
| 1.     | West Division        | 1.03   |
| 2.     | South Division       | 1.33   |
| 3.     | North Division       | 2.00   |
|        | <b>Total</b>         | <b>4.36</b>  |

Details of materials excessively charged off are given in **Appendices-2.15, 2.16 and 2.17** respectively.

Charging off the pumps and GI pipes from the MAS accounts without mentioning the location of the borewells and the respective packages in the MBs and the huge differences in quantities of materials between the MBs and the revised estimates raised doubts about the utilisation of these materials for bonafide purposes. The Government stated (December 2012) that disciplinary action had been initiated against the concerned on the basis of the reports of the Internal Audit Wing and IPAI.

#### **2.4.7 Monitoring**

Effective monitoring and review of the procurement activity would help the organisation comply with the Government policies and rules governing procurement and increase the efficiency and effectiveness of the procurement process. However, we found that the Board did not regularly monitor the procurement of materials by divisions against the purchase sanctions given by the EIC and, as a result, the Board failed to notice the persistent purchases against fake sanctions. The internal audit (May 2011) of the purchases made against fake sanction orders by all the five divisions assessed the loss to the Board at ₹ 6.79 crore against ₹ 6.06 crore detected in audit in respect of only three out of five divisions. If the excessive charging of materials costing ₹ 4.36 crore (as discussed in Paragraph 2.4.6.3) by three out of five divisions was also taken into account, the loss to the Board would aggregate ₹ 10.42 crore. As no regular internal audit of the procurement of materials had been done till May 2011, the fictitious purchase remained undetected for three years. On the basis of a complaint filed by the EIC, the Ulsoorgate Police Station filed (July 2011) an FIR against the three firms from which fictitious purchases had been made. Subsequently, the Government referred the matter to the Lokayuktha during September 2011. Thus, lack of oversight of the procurement activities by the Board facilitated, continued and sustained subversion of the procurement procedures by the EIC/EEs.

#### **2.4.8 Conclusion**

The procurement process followed by the Board for materials required for maintenance of borewells did not conform to the KPWD's Stores Manual and the KTPP Act, discouraged competition, hampered efficient and economical use of the resources, and inhibited transparency and accountability and facilitated purchases of materials against fictitious sanction orders. As the irregular procurements were not isolated cases but had continued for nearly three years, it was indicative of the coordinated efforts of unscrupulous suppliers and officials at various levels to subvert the checks and balances encouraged by the failure of the oversight mechanism in the Board. These lapses resulted in misappropriation of Board's funds aggregating ₹ 10.42 crore through fictitious purchases and excessive charging of materials to borewells.

## 2.4.9 Recommendations

We recommend that:

- The procurement of materials should conform strictly to the provisions in KPWD's Stores Manual and the KTPP Act;
- The procurement process should be regularly monitored by the Board by putting in place oversight mechanism at appropriate levels;
- Where materials are charged to maintenance works, all requisite details should be recorded in the prescribed records to evidence utilisation of materials for bonafide purposes; and
- The loss caused by the irregularities committed in procurement should be recovered from the persons responsible therefor, besides initiating exemplary action against the officials and others responsible for the fictitious purchases.

