

CHAPTER-II

AUDIT OF TRANSACTIONS

This chapter contains audit paragraphs on misappropriation, idle investment, wasteful expenditure, avoidable expenditure and other points of interest that came to notice during the audit of transactions of Government departments.

2.1 *Misappropriation*

URBAN DEVELOPMENT DEPARTMENT

2.1.1 Misappropriation of municipal revenue

Absence of internal checks to ensure reconciliation of revenue receipts resulted in misappropriation of ₹ 12.35 lakh.

As per Section 81 of the City of Panaji Corporation Act, 2002, money received by the Corporation of the City of Panaji (CCP) has to be credited to the Corporation's Fund. The collection of revenues by way of house tax, sanitation charges, lease rent, trade and occupation fees and other revenues is accounted in the books of CCP through software developed by the National Informatics Centre (NIC), Goa. The supervisors/clerks attached to the accounts section of the CCP collect taxes and other revenues from the public across the counters located in the municipal building and a computer generated receipt is issued to the remitter in token of receipt of the cash/cheque. The alteration/cancellation to an entry already made through the software is permitted only with a password held by the Accounts/Taxation Officer. The officials collecting the revenue, deposit the daily collection along with the daily scroll summarising the day's collection generated through the software to the cashier who issues a general receipt for the amount received.

Audit scrutiny (September 2009) of the records of the CCP revealed that there was no daily reconciliation of the total receipt amounts issued to the remitters and the total amount collected. A detailed check for the month of April and May 2008 pertaining to collection of sanitation charges was carried out which revealed that although receipts for the collection of sanitation charges of ₹ 300 per household were issued to the remitters, the collection of cash in respect of 189 cases were subsequently altered as 'zero' in the daily scroll by using the password which was held only by the Accounts/Taxation Officer. Consequently, cash amounting to ₹ 56,700 collected towards sanitation charges in the month of April and May 2008 did not appear in the scroll and remained unremitted to the cashier.

On this being pointed out (September 2009) in audit, the CCP carried out an enquiry and found that during 2006-2010, an amount of ₹ 12.35 lakh revenue collected were not remitted into municipal accounts. The

alterations done in the daily scroll which were possible only with a password held by the Accounts/Taxation Officer pointed to a probable compromise of the logical access controls built into the software. Further, though the software had the facility of generating daily cash abstract as per the receipts issued to the remitter, reconciliation of the cash abstract as per the receipts issued to the remitter and the daily cash scroll was not done as a part of internal check to prevent such misappropriation.

The Commissioner, CCP stated (July and August 2010) that on enquiry one supervisor had been placed under suspension and he had expressed his willingness to make good the amount of ₹ 12.35 lakh.

Thus, the absence of internal check to ensure reconciliation of the revenue receipts coupled with probable compromise of logical access controls built in the software resulted in misappropriation of revenue to the extent of ₹ 12.35 lakh. Further, the role of Accounts/Taxation Officer in whose custody the password was entrusted for making alterations/modification to the entries made through the software was yet to be investigated.

The matter was referred to the Government (May 2010) and their reply is awaited (October 2010).

2.2 Idle investment

URBAN DEVELOPMENT DEPARTMENT

2.2.1 Idle outlay on purchase of hydraulic garbage compactor and dustbins

Non-acceptance and non-utilisation of Hydraulic Garbage Compactor with dustbins purchased after paying full cost resulted in idle outlay of ₹ 32.50 lakh.

Based on the proposal (June 2006) of Sanguem Municipal Council, (SMC), the Director of Municipal Administration (DMA), Government of Goa, sanctioned (October 2006) grant of ₹ 32.50 lakh for purchase of one Hydraulic Garbage Compacting System (HGCS) with 100 numbers of metallic dustbins.

The SMC invited tenders (November 2007) for supply of one HGCS with 100 numbers of dustbins. Two parties viz. M/s Raj Traders and Dynamic Vehicles and Equipments offered an amount of ₹ 32.50 lakh and ₹ 33.77 lakh respectively. The lowest offer of M/s Raj Traders at ₹ 32.50 lakh was accepted. The Chief Officer of SMC issued supply order (December 2007) and made 100 *per cent* advance payment amounting to ₹ 32.50 lakh to M/s Raj Traders as per the offer condition. In the meanwhile (November 2007) five Councillors of SMC requested the Chief Officer not to place supply order on the ground that the rate quoted by M/s Raj Traders was higher as compared to the market price. A copy of the request was also marked to the Vigilance Department. M/s Raj Traders delivered the HGCS with dustbins in January 2008. SMC furnished (August 2008) the utilisation

certificate to the DMA for the entire grant amount of ₹ 32.50 lakh though it has not taken over the asset created out of the grant.

Audit scrutiny revealed the following:

- The quotation put forth by M/s Raj Traders matched exactly the grant given to SMC by the DMA. The coincidence is questionable.
- The General Financial Rules stipulate that payments for supplies made should be released only after the supplies made and a performance security for an amount of five to 10 *per cent* of the value of the bid is also to be obtained. However contrary to the provisions of the Rules, the SMC had released full payment before the receipt of the equipment and no performance security was also obtained.
- The Council Members opposed (November 2007) the procurement of HGCS through M/s Raj Traders on the grounds of high rates. The Members apprised the Chief Officer that prevailing market prices were lower than the rate quoted by M/s Raj Traders. The absence of any market analysis by SMC despite this available information indicates lack of due diligence in placement of order.
- Though M/s Raj Traders delivered (January 2008) the HGCS with dustbins, the same were not accepted by SMC and were lying (August 2010) idle in the premises of the Municipal Office. The non-acceptance and non-utilisation of HGCS despite payment of full cost and allowing it to remain idle from January 2008 in the Municipal office premises was injudicious resulting in idle outlay of ₹ 32.50 lakh besides possible damage to the HGCS due to prolonged idling and being left in the open.
- The DMA sanctioned the grant with conditions such as the performance-cum-achievement report of the asset created by the grant to be furnished after close of the financial year. However failure of the SMC to take over the HGCS from the supplier resulted in non furnishing of the report and the DMA also failed in ensuring the fruitful utilisation of the grant sanctioned.

The Chief Officer of SMC stated (March 2010) that the HGCS has not taken over since the issue of purchase of HGCS was pending with Directorate of Vigilance. The reply is not tenable as SMC had already made the payment towards purchase of HGCS and therefore the matter being with Directorate of Vigilance should not have been a deterrent in its utilisation.

The matter was referred to the Government (May 2010) and their reply is awaited (October 2010).

RURAL DEVELOPMENT DEPARTMENT

2.2.2 Blocking of funds

Poor project planning resulted in idle investment of ₹ 1.27 crore on land acquisition, blocking of funds of ₹ 3.68 crore and non-achievement of intended benefits.

The State Government decided (March 2003) to set up a 'Goa Bazaar' in Panaji as a special project under the Swarnjayanti Gram Swarozgar Yojana (SGSY) scheme. The aim of the Goa Bazaar was to provide marketing support, training and infrastructure facilities for rural products made by Swarozgaris[¥] and Self Help Groups. Administrative approval for acquisition of land measuring 40,839 Sq m. for the project was granted (October 2003) by the State Government. The Government of India (GOI), Ministry of Rural Development approved (February 2004) the project at an estimated cost of ₹ 9.82 crore to be funded by the Centre and State in the ratio of 75:25 and to be completed by February 2005.

The execution of work was entrusted (October 2004) to the Goa State Infrastructure Development Corporation (GSIDC). Before taking up of the work by GSIDC, there was a change of Government and the new Government decided (July 2005) to execute the work departmentally. The Chief Engineer, Public Works Department (PWD) accorded (January 2008) technical approval to the project for ₹ 11.37 crore. Proposal for administrative approval and expenditure sanction sent by DRDA in February 2008 was still awaited from the Government (September 2010). An amount of ₹ 4.98 crore was received by DRDA during the period 2004-06 from GOI (₹ 2.95 crore in February 2004) and the State Government (₹ 2.03 crore in March 2004 and February 2006) of which ₹ 1.30 crore had been spent during the period 2003-10, mainly towards land acquisition. An unspent balance of ₹ 3.68 crore was lying with DRDA since September 2007.

Audit scrutiny (May 2009) revealed the following:

- Though GSIDC was entrusted with the work of executing the project in October 2004, the State Government subsequently decided (July 2005) to execute it through DRDA. The Government's decision to change the executing agency resulted in delay in implementation of the project.
- The project also suffered due to delay in grant of administrative approval and expenditure sanction by the State Government though the proposal was sent by DRDA in February 2008. Further, the State Government transferred (September 2009) 20,091 Sq m. of land out of the 40,839 Sq m. acquired, to the District and Sessions Court for construction of court buildings, thereby jeopardizing the implementation of the project. The Court also prohibited the use of the balance land for commercial or any other activity which could hamper or interfere with the administration of justice and cause inconvenience

[¥] Self-employed persons.

to the lawyers, litigants and court staff. Thus, the changes in the executing agency and transfer of the major portion of the land resulted in non-implementation of the project.

- Funds amounting to ₹ 3.68 crore were lying unutilised between four and six years. Government of India also criticised (May 2006 and January 2008) the State Government for the poor progress in the implementation of the project and non-utilisation of funds and asked the State to sort out the issue of land to bring the project back on rails.

The Goa Bazaar did not materialise even after a lapse of six years despite the availability of funds, due to tardy implementation and transfer of a major portion of the land. This resulted in blocking of funds of ₹ 3.68 crore and idle investment of ₹ 1.27 crore on land acquisition. Further the non-completion of the project resulted in denying the anticipated marketing support and infrastructure to the beneficiaries.

The department stated (October 2010) that as per the Chief Minister's instructions, the PWD had been asked to prepare revised drawings after taking into consideration the restricted area of 20,000 Sq m. and it was proposed to complete the project by December 2011.

The non-implementation of the project, despite the availability of funds, defeated the purpose of granting marketing assistance to the rural poor.

The matter was referred to Government (May 2010). Their reply has not been received (October 2010).

2.3 Wasteful expenditure

URBAN DEVELOPMENT DEPARTMENT

2.3.1 Infertuous expenditure on procurement of software

Improper selection of agency for implementation of an e-governance project and the consequent non-customisation of software as per requirement resulted in infertuous expenditure of ₹ 25.05 lakh on software purchase.

Director of Municipal Administration sanctioned (November 2004) grant-in-aid of ₹ 49.50 lakh for the implementation of a e-governance project to Margao Municipal Council (MMC). Accordingly MMC decided (August 2004) to establish a Citizen Facilitation Center (CFC) with the objectives of bringing in transparency, accountability, efficiency in Administration and improving the quality of life of its citizens etc. To implement the e-governance project, MMC decided (August 2004) to replicate the CFC and application software module implemented in Kalyan Dombivli Municipal Corporation (KDMC) with suitable customisation. As per the agreement (December 2004) with KDMC the total value of the project was ₹ 25.50 lakh comprising of ₹ 17 lakh towards software cost and ₹ 8.50 lakh towards implementation cost.

The cost of the software was payable in advance at the time of signing the agreement. On installation of the software 50 *per cent* of the implementation cost was payable, while 40 *per cent* was payable on operationalising the CFC and balance 10 *per cent* payable after one year from the date of operationalisation of the CFC. The software comprised of 11 modules on property tax, birth and death, market and trade license, accounts etc. The entire project was scheduled to be completed within 16 weeks. The trial run was conducted in August 2005 and formally inaugurated in August 2007. MMC paid the software and implementation cost amounting to ₹ 25.05 lakh to KDMC.

Since inauguration of the project in August 2007, the software was not functioning properly due to bugs and various other software issues. Therefore, the use of all modules except two modules on registration of births and deaths and NOC for water and electricity under the project was terminated from February 2008. KDMC also expressed inability to modify the software as per the requirements of Goa Municipalities Act and Rules and suggested changes in the Municipal Act of the State. Two modules on registration of births and deaths and NOC for water and electricity modules used were also discontinued from June 2008 in view of changes to the certificates of birth and death by Goa Government.

Audit scrutiny revealed the following:

- The e-governance software was not developed in-house by KDMC but was provided and implemented in KDMC by an outside party. MMC did not ascertain the experience of KDMC in the successful implementation of e-governance software in other states. Moreover, MMC did not invite tenders for the project which would have enabled it to ascertain the competence and experience of the bidders in implementation of the project before the award of contract. KDMC did not customise the software as per the Goa Municipal Act and Rules and instead suggested changes in the Municipal code. Thus, the selection of agency without calling tenders and without ascertaining the competence and experience of KDMC in the successful implementation of e-governance software in other states and the consequent non-customisation of the software as per the requirement of MMC rendered the entire expenditure of ₹ 25.05 lakh on the project infructuous.
- The agreement entered into with KDMC was defective and did not secure the financial interest of MMC in that it provided for payment of 83 *per cent* of the project cost on installation of the software. The success of the project was wholly depended on the customisation of the software as per the requirement of MMC. Considering this aspect MMC should have ensured that the agreement provided for payment of major portion of the project cost only on successful customisation of the software as per its requirement or obtained adequate performance security to ensure successful implementation of the project.

The MMC (May 2010) stated that KDMC installed the software but could not customise the same as per MMC's requirements and KDMC suggested to adopt its better government practices instead of entire customisation.

The reply of the MMC is not acceptable for the following reasons:

- MMC should have ascertained the availability of competent bidders for the e-governance project in keeping with the local Municipal Council's requirements.
- Successful implementation in another state could not be a guarantee for the same in Goa. Adoption of a software successful in Maharashtra and replicating it in Goa without suitable customisation as per the requirements of MMC was the primary reason for the failure of the e-governance project.

Thus despite expending ₹ 25.05 lakh the CFC remains unrealised.

The matter was referred to the Government (May 2010) and their reply is awaited (October 2010).

2.4 *Avoidable expenditure*

PUBLIC WORKS DEPARTMENT

2.4.1 **Avoidable extra expenditure due to negligence of dealing staff and delay in processing of tender and communicating expenditure sanction**

Non-issue of work order due to negligence of dealing staff and delay in processing of tenders and communicating expenditure sanction by the Principal Chief Engineer resulted in extra expenditure.

According to para 18.4.1.1 of the CPWD Manual, top priority should be given to decide the award of work on receipt of tenders. To minimise chances of delay, the time schedule given in Appendix 22 of the Manual should be observed by the different authorities. The maximum time allowed in respect of a tender to be accepted by the State/Central Works Board is 45 days. Further, as per para 18.18.2 of the CPWD Manual, after the tender for a work has been accepted, the same should be communicated to the contractor by registered post, asking him to start the work at once and to complete the formal agreement within 15 days of the stipulated date of start of work.

Administrative approval and expenditure sanction for the work of 'providing hot mix carpet to the internal road in Poriem village' was sanctioned (September 2005) for ₹ 92.95 lakh by the Principal Chief Engineer (CE) and put to tender in October 2005. The lowest offer of M/s Bhavikara Construction Pvt. Ltd., at ₹ 87.24 lakh was accepted (December 2005) by the CE. On 27 December 2005, the file was forwarded by the Superintending Engineer (SE) to the Executive Engineer (EE) for issue of the acceptance letter to the contractor. The validity period of the tender was upto 20 February 2006. The

work order signed by the EE on 7 February 2006 was, however, not despatched/delivered to the contractor due to negligence of the dealing staff. The contractor, in response (22 May 2006) to the show cause notice issued (17 May 2006) by the department for not starting the work, stated that he had not received the work order and was not ready to execute the work as the cost of materials had increased inordinately. Hence, the department refunded (July 2007) the earnest money deposit of ₹ one lakh to the contractor.

The work was re-tendered in September 2007 and the single offer received (October 2007) from M/s Cherkala Construction Private Ltd., for ₹ 1.29 crore could not be accepted within the validity period (23 January 2008) due to delays in processing the tender at various* levels. The tenderer refused (24 January 2008) to extend the validity period due to increase in material prices and the work was re-tendered in March 2008.

On the third re-tendering, three tenders were received (8 April 2008) and the lowest offer of M/s Kudroli Construction Company Pvt. Ltd., for ₹ 1.38 crore was recommended (23 April 2008) by the EE to the CE. The CE accepted it on 4 July 2008 i.e. after a lapse of 72 days. The SE conveyed the acceptance of the tender to the EE on 10 July 2008 i.e. after expiry of the validity period (8 July 2008). The contractor expressed his inability to extend the validity period of the tender and the work was again re-tendered (23 January 2009).

During the fourth re-tendering, two offers were received (February 2009) and the lowest offer of M/s Kudroli Construction Company Pvt. Ltd., for ₹ 1.72 crore was accepted (March 2009) by the CE and the work order was issued on 2 March 2009. The contractor completed (May 2009) the work at a cost of ₹ 1.62 crore.

The Principal Chief Engineer (October 2010) accepted the lapse in the first tendering and stated that the delay in the finalisation of subsequent tenders was due to the approval required from higher authorities as the acceptance was falling within the power of the CE.

The delay in finalization of the tender as pointed out by Audit was accepted by the department. The fallout resulted in extra expenditure of ₹ 74.52 lakh and deprived the public of the benefit of a good road. Further, no responsibility was fixed for the non-delivery of the work order of the first tender to the agency.

In another work, viz. 'improvement of riding surface by providing hot mix from Pillar to Old Goa and construction of gutters and cross drainage works', the Ministry of Shipping, Road Transport and Highways accorded (February 2007) administrative approval (AA) for ₹ 4.41 crore. The work was to be financed from the Central Roads Fund. As per the Government of India sanction order, the technical and financial sanctions for the project were to be accorded by the State Government within a period of four months from the date of the AA of the work. Any excess over 10 *per cent* of the sanctioned amount was to be met by the State from their own resources.

* Executive Engineer: 49 days, Superintending Engineer: 27 days and Chief Engineer: 19 days.

Accordingly, technical sanction for ₹ 4.35 crore was accorded (March 2007) by the CE and the work was tendered in March 2007. Of the five offers received (April 2007), the lowest offer of M/s Madanant Construction (Goa) Pvt. Ltd., of ₹ 3.86 crore which was 7.85 *per cent* below the estimated cost of ₹ 4.19 crore, was accepted by the Goa State Works Board (GSWB) in July 2007.

Audit scrutiny revealed that while the validity period of the tender was upto 25 July 2007, the department delayed the approval process of the tender far beyond the validity period. The EE took 53 days for submitting the proposal against the five days permissible under the CPWD Manual. GSWB accepted the tender on 20 July 2007. The CE, while communicating the acceptance, directed the SE to issue a work order after obtaining expenditure sanction. Despite clearance from the Finance Department on 16 July 2007, expenditure sanction was accorded by the CE only on 16 August 2007, i.e. after one month. Hence, the work order could not be issued within the validity period of the tender and the agency also refused (12 November 2007) to extend the validity period.

The work was re-tendered in January 2008 and the lowest offer of M/s Cherkala Construction Pvt. Ltd., for ₹ 5.98 crore, which was 42.96 *per cent* above the estimated cost, was accepted (February 2008) by GSWB. The work order was issued in March 2008. The work was completed and the agency was paid ₹ 5.95 crore (October 2009).

The CE stated (October 2010) that the delay in processing tenders was due to the absence of the regular Divisional Accountant who was drafted for election duty. The CE further stated that tender scrutiny and preparation of comparative statements done manually had now been computerized, resulting in avoidance of delays in finalisation of tenders. However, the fact remains that the initial delay of 53 days by the EE was further compounded by the CE who delayed in granting expenditure sanction while all other clearances had been obtained. The resulting outcome was an extra expenditure to the project of ₹ 2.10 crore. The State also incurred an expenditure of ₹ 1.10 crore on account of excess expenditure, being 10 *per cent* over the amount sanctioned by the Ministry of Shipping, Road Transport and Highways.

Thus, administrative inefficiencies at different levels in the department resulted in increasing the cost of works.

The matter was referred to Government (April 2010). Reply has not been received (October 2010).

2.5 General Paragraphs

2.5.1 Lack of response to audit findings

Accountant General, Goa conducts periodical inspections of Government Departments as per its audit plan to test check their transactions and to verify the maintenance of accounting and other records as per the prescribed rules and procedures. These inspections are followed up with Inspection Reports

(IRs) which are issued to the heads of offices and the next higher authorities to comply with the audit observations and to report compliance to the Accountant General. Half-yearly reports of pending IRs are sent to the Secretaries of each department to facilitate monitoring of the audit observations and their compliance.

A review of the IRs issued upto December 2009 pertaining to 40 departments showed that 1,301 paragraphs relating to 344 IRs were outstanding at the end of June 2010. Failure to comply with the issues raised by Audit resulted in the continuation of financial irregularities and losses to the Government.

Year-wise position of the outstanding IRs and paragraphs is given in **Appendix 2.1**. Even the initial replies which were required to be received from the heads of offices within six weeks from the date of issue of the IRs, were not received upto June 2010 in respect of 429 paragraphs of 51 IRs.

It is recommended that the Government should take appropriate steps to revamp the system of proper response to audit observations in the departments and ensure that a procedure exists for (a) action against the officials who fail to send replies to IRs/paragraphs as per the prescribed time schedule, and (b) action to recover losses/outstanding advances/overpayments pointed out in audit, in a time-bound manner.

2.5.2 Follow-up of Audit Reports

As per the provisions contained in the Internal Working Rules of the Public Accounts Committee of the Goa Legislative Assembly, administrative departments were required to furnish Explanatory Memoranda (EM), duly vetted by the Office of the Accountant General, Goa within three months from the date of tabling of Audit Reports to the State Legislature in respect of the paragraphs included in the Audit Reports. In spite of this, there were 24 paragraphs/reviews, in respect of which EMs were not received as of September 2010 from the administrative departments, as shown below.

Audit Report	Date of tabling the Report	Number of Paragraphs & Reviews	Number of EMs received	Balance
2006-07	19 August 2008	14	9	5
2007-08	24 March 2009	10	3	7
2008-09	25 March 2010	12	--	12
Total		36	12	24

Department-wise details are given in **Appendix 2.2**.