

**SECTION 'B' - PARAGRAPHS**

**ANIMAL HUSBANDRY AND VETERINARY SERVICES  
DEPARTMENT**

**3.2 Improper loan management causing avoidable interest liability**

**Inclusion of ineligible poultry units for financial assistance, belated release of loan and repayment of instalments of loan to NCDC resulted in avoidable financial burden of Rs.34.47 lakh**

Based on the proposal of Karnataka Poultry Federation engaged in development of poultry activities, State Government approached (July 1997) National Co-operative Development Corporation (NCDC) for financial assistance of Rs.4.35 crore to 20 poultry co-operative societies (societies) registered with the Federation. NCDC released (March 1998) advance loan assistance of Rs.1.03 crore with rate of interest of 15 per cent per annum to State Government pertaining to 18 societies. However, State Government delayed release of the loan to the Federation till March 1999 and in the process incurred a fruitless interest liability of Rs.15.45 lakh (at the rate of 15 per cent per annum).

On receipt of funds from State Government, the Federation authorities inspected the premises of societies and found many of them did not have comprehensive programmes for rearing of chicks, marketing of eggs etc. The Federation requested these societies to prepare detailed programmes and send the same to Federation. However, only seven societies responded and financial assistance of Rs.47.80 lakh was released (February 2000 to May 2000). Balance of Rs.55.63 lakh was refunded to State Government during October 2000. Evidently, details furnished by Secretary, Animal Husbandry and Fisheries Department (Secretary) to NCDC regarding functioning/status of 20 societies were faulty and included ineligible societies. State Government had not refunded the unutilised loan of Rs.55.63 lakh to NCDC so far ( July 2001) and further liability of Rs.6.25 lakh on interest was incurred. No reasons were furnished by Secretary for non-refund of the unutilised loan.

The Federation which earned interest of Rs.8.11 lakh on unutilised loan from March 1999 to October 2000 did not remit the same to Government. Further, two instalments of loan due on 5 October 1998 and 5 October 1999 were paid on 4 October 1999 and 13 May 2000 respectively while that due on 5 October 2000 had not been paid (July 2001) resulting in loss of interest rebate and payment of penal interest as detailed below:

(Rupees in lakh)

Principal	Interest after rebate	Due date	Date of payment	Period of delay (in months)	Rebate lost	Penal interest
10.34	8.12	5.10.1998	4.10.99	12	-	3.23
10.34	13.26	5.10.1999	13.5.2000 (Rs.5.15 lakh only)	7	0.70	5.31
10.34	11.79	5.10.2000	Not yet paid	9	0.62	2.91

Note: Penal interest had been worked out on outstanding loan for delayed period and interest thereon at 17.5 per cent per annum

No reasons were furnished by Secretary for delay in repayment of instalments of loan and interest.

Failure of Secretary/Director, Animal Husbandry and Veterinary Services to recommend eligible societies for financial assistance and monitor release, utilisation of loan, refund of unutilised loan and ensure payment of instalments of loan and interest thereon without delay resulted in financial burden of Rs.34.47 lakh.

The matter was referred to Government in August 2001; reply had not been received (September 2001).

### **3.3 Avoidable extra expenditure due to failure to follow the prescribed procedure for printing**

#### **Failure of Director/Government to follow the prescribed procedure for printing of formats for Livestock Census resulted in avoidable extra expenditure of Rs.24.76 lakh**

The Manual of Contingent Expenditure 1958 (Rules) prescribes that the printing work of all Government Offices should be got done only at the Government Press. When it is not possible for the Government Press to undertake the printing work required by a Government Office, work is to be entrusted to a private press after inviting tenders. Where the work is to be entrusted to a private press without inviting tenders, the rates of the private

press should be certified to be reasonable by Director, Printing, Stationery and Publications, Bangalore (DPSP).

Director, Animal Husbandry and Veterinary Services, Bangalore (Director) sent (June 1997) a requisition to DPSP for printing the formats required for conducting the sixteenth livestock census in the State. DPSP expressed inability to undertake the printing work. Without calling for tenders, Director sought (June 1997) Government's approval for entrusting the printing work to Karnataka Small Industries Marketing Corporation Limited (KSIMC) at the rates quoted by them in response to an enquiry made by the Director. Although KSIMC did not have a printing press of its own and had to get the printing work done only through private presses, Director did not ascertain the reasonableness of the rates of KSIMC from DPSP as required under the Rules. State Government also approved (July 1997) the Director's proposal without due observance of the Rules.

KSIMC arranged printing of 8.26 lakh numbers of various formats through private presses and Director paid Rs.42.18 lakh to KSIMC during 1997-98. When Audit referred (April 2001) the samples of printed material to DPSP for indicating the cost of printing (including the cost of paper) through private presses, DPSP reported the same to be Rs.17.42 lakh as against Rs.42.18 lakh paid to private presses through KSIMC. Government stated (July 2001) that KSIMC was a Government undertaking and it accorded sanction for printing through KSIMC. The reply was not tenable as KSIMC arranged printing only through private presses and the reasonableness of the rates of KSIMC was required to be verified by Director as per Rules before entrusting the work to KSIMC.

Thus, failure of Director/State Government to follow the procedure prescribed for printing resulted in avoidable extra expenditure of Rs.24.76 lakh.

## **COMMERCE AND INDUSTRIES DEPARTMENT**

### **3.4 Undue favour to firms through non-recovery of sales tax**

**Director failed to comply with the provisions of Karnataka Sales Tax Act in recovering sales tax at source from the work bills of firms and thus, extended undue favour to the firms**

According to Section 19A/19AA of Karnataka Sales Tax Act 1957 (KSTA), sales tax at 10 and 4 per cent of the value of work contract and supply bills respectively was to be deducted at source by Government departments, undertakings and Local bodies. The Directorate of Mines and Geology passed several work bills and supply bills for payment in favour of various firms, of which four were not registered with the Commercial Tax Department and failed to deduct sales tax amounting to Rs.40.37 lakh at source as detailed below though a similar lapse was pointed out by audit earlier (October 1999).

(Rupees in lakh)

	Value of the Bill	Sales tax
Total value of work contract bills	352.39	35.23
Total value of supply bills	128.62	5.14
Total		40.37

Government endorsed (October 2001) the reply of the Director who stated that it was the responsibility of firms to pay sales tax to Government and that sales tax was not recoverable from contractors registered outside Karnataka State. This contention was not tenable as the responsibility for deduction of tax at source devolved upon the disbursing officer and sales tax was to be recovered irrespective of the State in which contractors were registered as per Section 19A of the KSTA. On this being pointed out in audit, Earnest Money Deposit and Security Deposit of Rs.11.84 lakh recovered from four firms (Silver Sands India Limited, Cyber Electronics and Industries, K.K.Enterprises and Fathima Industries) were adjusted towards tax due (Rs.40.37 lakh) from these firms.

Entrustment of work to unregistered firms (with Commercial Tax Department) and failure to comply with the provisions of KSTA regarding deduction of sales tax at source from the work and supply bills of these firms, thus, resulted in undue favour to the firms to the tune of Rs.40.37 lakh.

### **3.5 Irregularities in execution of interior decoration and partition work**

**The Director paid for various interior decoration works at rates which were abnormally high by 6 to 3100 per cent of the Schedule of Rates/ prevailing market rates, resulting in avoidable extra expenditure of Rs.1.16 crore**

State Government allotted (March 2000) an area of 53382 sq.ft. (III, IV and V floor) in a newly constructed building “Khanija Bhavan” for accommodating the office of Director of Mines and Geology (Director) and accorded sanction for interior decoration and providing partition chambers for various offices, laboratory, library, museum etc. at an estimated cost of Rs.1.58 crore. State Government released funds of Rs.1.27 crore (Rs.60 lakh in March 2000 and Rs.67 lakh in December 2000) to the Director who executed these works through four private firms at an expenditure of Rs.2.48 crore. Expenditure in excess (Rs.1.21 crore) of funds released by State Government was borne out of allocation for the Hydrology project (World Bank assisted project). Scrutiny of records (vouchers and correspondence files connected with execution of the work) made available to audit revealed the following lapses/irregularities:

- (i) Notification calling for tenders was not advertised in leading daily newspapers but only in one evening daily newspaper “Indu Sanje” (20 March 2000) relating to the work of interior decoration and partition chambers and in “Pen Gun” (4 August 2000) for the work of chemical laboratory. Enquiry in

audit revealed that the copies of these two newspapers, though prescribed, were not sent to the office of Director, Information and Publicity. It was, therefore, doubtful that these newspapers were at all in circulation. Possibility of deliberate decision to avoid publicity by advertisement in obscure newspapers can not be ruled out in this case. Further, Director did not stipulate in the tender notification that only registered contractors should apply. This facilitated participation of unregistered contractors in the tender proceedings.

(ii) The private architect appointed by State Government short listed 21 and 15 firms for interior decoration and chemical laboratory works respectively. All these firms were not registered either with Public Works Department or Commercial Tax Department. Yet, Director issued enquiry letters to these firms calling for tenders in contravention of codal provisions.

(iii) Director awarded (28 March 2000) the execution of the work to four<sup>φ</sup> firms. These four firms were also neither registered with Public Works Department as civil contractors nor with the Commercial Taxes Department on the date of acceptance of tenders. Entrusting work to such unregistered firms was violative of the codal provisions. The Director's contention that two firms (Silversand India Limited and Fathima Industries) were registered with Commercial Tax Department on 15 January 2000 and 15 February 2000 respectively was incorrect as the registration certificates of these firms indicated their registration on 6 November 2000 and 2 February 2001 respectively.

(iv) According to para 179 of Karnataka Public Works Departmental Code, a period of 31 days was to be allowed for receipt of tenders from the date of notification in respect of works costing more than Rs.2 lakh. However, the Director prescribed a period of 6 days only.

(v) The rates at which these firms were paid for 24 items of work were higher by 6 to 3100 per cent than the rate prescribed in Schedule of Rates of PWD with similar/identical specification, which resulted in extra expenditure of Rs.59.71 lakh on these items alone.

(vi) In respect of another 36 items of work with identical specification, rates paid to the firms were higher by 6 to 222 per cent of prevailing market rates which resulted in further extra expenditure of Rs.56.27 lakh.

State Government endorsed (October 2001) the reply of the Director who stated that competitive bidding was ensured as tenders received were evaluated and the works were given to the lowest tenderers and interior decorators were not to register with Public Works Department. The reply was totally untenable as no wide publicity in leading newspapers was given and

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<sup>φ</sup> Silversand India Limited, Bangalore and Fathima Industries, Bangalore for interior decoration – K.K.Enterprises and Cyber Electronic/Interior Furnishing Center, Bangalore for supply of furniture and chemical laboratory

tenders were obtained from unregistered contractors and interior decoration being a civil work, registration of interior decorators also was necessary as per rules in Karnataka Public Works Departmental Code. The Director in fact flouted all prescribed rules and compromised tender proceedings to avoid competitive rates for executing the work which resulted in avoidable extra expenditure of Rs.1.16 crore.

## EDUCATION DEPARTMENT

### 3.6 Unauthorised appointment of large number of daily rated workers

**Director appointed 415 daily rated workers in disregard of Government instructions. Government's failure to monitor such illegal and unauthorised appointments necessitated wasteful expenditure of Rs.6.30 crore on wages paid to these appointees**

As per instructions (July 1984) of State Government, all Government departments were to immediately stop making appointments on daily wage basis. Finance Department and DPAR reiterated (July 1985, January 1990 and May 1990) Government instructions and cautioned that Heads of departments would be personally held responsible for contravening Government instructions and authorities would be liable to make good wages paid to such appointees. In disregard of these instructions, Director, Printing, Stationery and Publications, Bangalore (Director) appointed 415 daily rated workers during 1987-90 (1987 - 37, 1988 - 150, 1989 - 139, 1990 - 89) at Government Press, Bangalore and other branch presses at Dharwad and Gulbarga. Director stated (March 2001) that the irregular appointments were made for loading, unloading and carrying of paper bundles for printing of ballot papers for elections to Lok Sabha and Vidhana Sabha by the then Director, who had since retired (October 1995). He further stated that the services of these daily wage employees who had served for prescribed minimum period of 240 days in a year could not be terminated as per instructions contained in Government Order (August 1990).

Scrutiny revealed that as against 415 daily rated workers appointed for discharging the functions of Group D cadre, there were only 77 to 81 vacancies in Group D cadre during 1987-90. Thus, the Director appointed the daily rated workers far in excess of the sanctioned strength. Instead of initiating timely action against unauthorised appointments and consequent wastage and misuse of Government funds by the Director, Government continued to provide funds through the Budget for the wages of these appointees.

As of March 2001, these 415 persons were still on roll. It is doubtful whether they are gainfully employed as so many vacancies in Group 'D' cadre do not exist. State Government stated (July 2001) that disciplinary action as per CCA Rules was not possible as the Director retired in October 1995 and proposals to file civil suit to recover the loss caused to Government was still under examination.

The unauthorised appointment of daily rated workers by the Director and Government's failure to initiate timely action to stop such appointments resulted in wasteful expenditure of Rs.6.30 crore on wages of the appointees during 1990-91 to 2000-01. Further liability of Rs.11.62 lakh per month also continued unabated (December 2000).

### **3.7 Failure to obtain adequate security for Government property**

**Director entrusted printing work to a private press without obtaining adequate security for the cost of paper and facilitated huge financial loss of Rs.43.83 lakh.**

Under instructions of Director, Printing, Stationery and Publications, Bangalore (Director), Joint Director, Government Textbook Press, Mysore (JD) entrusted (April 1997) printing of 10 lakh textbooks for the year 1998-99 to a private press<sup>⊕</sup>. As per the agreement executed (April 1997), paper required for printing the books was to be supplied by the Department. Although the Financial Rules require that provision should be made in the contract for safeguarding Government property entrusted to a contractor, State Government/Department had not issued further instructions or fixed norms specifying the quantum of security to be obtained in respect of such property. In the absence of such instructions, Director prescribed a meagre security deposit of only Rs.0.80 lakh as against the cost of paper valued Rs.44.63 lakh required for printing the textbooks.

Joint Director issued 155.98 MT (April to June 1997) of white paper and 293.15 reams of cover paper valued Rs.44.63 lakh to the press for supply of printed text books within one month from the date of supply of paper. The press, however, did neither deliver the printed books nor return the unused paper to the JD who cancelled (December 1997) the orders after delay of six months. After nearly three years, JD referred (March 2000) the matter to Deputy Commissioner, Mysore for recovery of the cost of paper as arrears of land revenue. No recovery has been effected as yet.

Thus, failure of the Director/JD to obtain adequate security and monitor utilisation of paper issued resulted in financial loss of Rs.43.83 lakh (Rs.44.63 lakh – Rs.0.80 lakh) which could not be made good for over 4 years as of August 2001.

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<sup>⊕</sup> Janavarthe, Shimoga

The above matter was referred to the Government in April 2001; no reply was received from the Secretary (September 2001).

## FINANCE DEPARTMENT

### 3.8 Fraudulent/irregular refunds to loanees

**Director of Treasuries approved fraudulent refund of Rs.5.31 lakh in 20 cases and excess/inadmissible refund of Rs.11.30 lakh in 110 other cases. In 24 cases, DT refunded Rs.3.57 lakh to persons other than loanees**

A case of fraud in effecting refunds of recoveries on account of a housing finance scheme was detected in audit (December 2000 to May 2001) in the office of the Director of Treasuries (DT). The fraud was made possible due to the syndicated operation of the Assistant Treasury Officer (ATO), Joint Director (JD) and DT to flout the government rules and instructions in effecting refunds against fictitious credits and unauthorised refunds of principals and interests.

Under a housing finance scheme of State Government, Housing Development Finance Corporation (HDFC) disbursed housing loans to State Government employees based on sanctions accorded by the respective heads of departments. Interest rates charged by HDFC were higher than those charged by Government for similar loans. The State Government subsidised the difference in interest rates.

Drawing and Disbursing Officers (DDOs) were to recover the loans from the monthly pay bills of the loanees. District Treasury Officers (DTOs) were to forward the recoveries to DT who was to credit the amounts as well as subsidy released by State Government into a specific account in a nationalised bank and to arrange monthly payments to HDFC as per their demand statements. The DT was to maintain individual loan accounts, based on copies of sanction orders from the Heads of Departments/release orders from HDFC and monthly recovery schedules from the DTOs. At the end of each financial year, a statement of balances was to be furnished by DT to the loanees.

The DT unauthorisedly made refund of the recoveries in 240 cases during 1997-2001. Test-check of 163 cases of refunds for Rs.23.22 lakh made by DT during 1997-2000 revealed the following irregularities:

(i) Under the scheme, DT was to watch and account for recoveries from Government employees and arranging payments of the dues to HDFC. DT was to utilise the funds deposited in the bank account only for the purpose of making repayments to HDFC and had no authority for making refunds to loanees. As per the Karnataka Financial Code, only the Heads of Departments, Joint Directors and Controlling Officers could sanction refund of wrong or excess credits and the refund bills in all such cases were to be presented for payment at the treasuries which received the amounts originally. DT, in contravention of these provisions, unauthorisedly refunded Rs.23.22 lakh to 163 loanees out of the balances in the bank account.

(ii) No claims for refunds were available in the files of 159 cases. In all these cases, the ATO initiated a note specifying only the refund amount due to the loanees without giving any details in support thereof and JD/DT approved the refunds. No details of calculations for the refund made to the loanees were also available in any of the case files. Thus evidently, the refund amounts were decided arbitrarily without either reference to rules or the amounts originally paid which provided scope for malpractice.

(iii) DT issued bearer cheques in all these cases though this was not permissible under the rules and did not obtain acknowledgements of the payees for these cheques. There is no certainty that the amounts were collected by the payees in whose favour the amounts were disbursed. The issue of bearer cheque facilitates their drawal by any person, and thus provides scope for malpractice.

(iv) 20 cases involving Rs.5.31 lakh represented refunds of interest purportedly recovered in excess from Government servants who had died while in service. According to orders (April 1992) of State Government, in the event of death of a Government servant before repayment in full of the housing loan or interest thereon, the entire interest in cases where recovery of interest had not commenced or the balance amount of unrecovered interest in cases where interest had been partially recovered would be waived. In these 20 cases, Government servants died even before full recovery of the principal amount of the loan. As against the loan of Rs.20.85 lakh disbursed, Rs.10.03 lakh was recovered through salary deductions and Rs.10.86 lakh was remitted in lumpsum on their behalf. As interest on these loans was waived by the respective departments, only Rs.0.04 lakh was due for refund of principal against which DT approved refunds of interest of Rs.5.31 lakh and issued bearer cheques to various parties without ascertaining their relationship with the deceased and obtaining legal heir certificates. There was thus, a clear possibility of the entire disbursement being fraudulent and fictitious.

Scrutiny of these further revealed the following:

(a) In two cases of refunds, credits of Rs.47750 in the ledger accounts could not be verified from the scroll/challans. Evidently, the refund of Rs.47750 was made against fictitious receipts in the loan ledger accounts.

(b) In thirteen cases, DT refunded an amount of Rs.3.31 lakh without verification of credits in the loan ledger. While approving refunds, he also

failed to notice variations in the total amount of credit as accounted for in the loan ledger and that adopted in the processing note by ATO.

(c) DT also issued two bearer cheques for Rs.0.56 lakh in the name of the deceased persons. These were also found encashed. These refunds were also fraudulent.

Thus, ATO/JD/DT flouted all rules/procedures governing refunds in an evidently syndicated operation and facilitated the fraudulent refund of Rs.5.31 lakh.

(v) In the remaining 143 cases, the loanees had foreclosed the loan. In 23 of these cases, DT made a refund of Rs.4.44 lakh as against Rs.1.92 lakh admissible. The excess refund of Rs.2.52 lakh was effected due to wrong calculation of interest on the loans. Through similar irregular calculations, DT made inadmissible refund of Rs.8.78 lakh to 87 loanees even while Rs.13.05 lakh was outstanding for recovery from them. In 4 out of these cases involving refund of Rs.1 lakh, DT issued cheques for refund in the names of persons other than the loanees concerned and in one of these four cases, DT refunded Rs.0.45 lakh even before foreclosure of the account by the loanee. In 24 out of 143 pre-closed cases where Rs.3.57 lakh had been refunded, the signatures of payees on the paid cheques were totally different from those of the loanees available in the case files. In 13 of these cases involving refund of Rs.1.91 lakh, the loanees confirmed to audit that they had not received the cheques for refund drawn in their favour.

(vi) Article 329 of Karnataka Financial Code deals with the procedure for maintenance of cash books by Drawing and Disbursing Officers. Scrutiny revealed that in contravention of the said codal provision, the DT did not attest the transactions recorded in the cash book and had also not closed the cash book regularly. DT also did not reconcile the differences in the balances as per cash book and bank account since inception of the scheme.

(vii) DT failed to communicate the statement of balances to the loanees at the end of each year.

In view of the above findings during test-check, the following urgent action is called for by Government:

(a) Amounts not covered in test-audit should be got checked by Government to establish the total amount of fraudulent payments of refunds.

(b) Government should ascertain whether the loanees or their legal heirs encashed the cheques for refund issued by DT. If not, identity of drawees need be ascertained to recover the amounts.

(c) Action needs to be initiated to recover the unauthorisedly sanctioned amount from payees/persons responsible in these irregular/fraudulent refunds.

(d) Role of the DT/JD and the ATO need be thoroughly investigated to fix responsibility and prevention of similar fraud.

(e) Detailed instructions need be issued to provide for adequate internal control against similar frauds in other organisations.

The above matter was brought to the notice of the Chief Secretary to the Government in May 2001 and to the Secretary to the Government in June 2001. However, no reply was received (September 2001).

### 3.9 Personal Deposit Accounts

#### 3.9.1 Introduction

Personal Deposit Accounts (PD Accounts) are opened with special permission from Government, in cases where the ordinary system of accounting is not suitable. Such permission may not be granted except in consultation with the Accountant General and unless Government is satisfied that the initial accounts of the money held in such PD Accounts are properly maintained and are subject to audit (Article 284 of Karnataka Financial Code). The Administrators of the Personal Deposit Account are required to close their PD accounts at the end of each financial year by intimating the balance to the Treasury Officer for transferring such balances to the Consolidated Fund and for re-opening the PD account, if necessary, with 'nil' balance during the next financial year (Article 285-A of Karnataka Financial Code).

#### 3.9.2 Funds kept in Personal Deposit Accounts

The particulars of the deposits, withdrawals and balances in PD Accounts during the years 1996-97 to 2000-2001 were as below.

(Rupees in crore)

Year	Opening Balance	Receipts/ Deposits	Withdrawals	Closing Balance
1996-97	325.88	460.49	483.13	303.24
1997-98	303.24	555.97	526.84	332.37
1998-99	332.37	608.58	637.34	303.61
1999-2000	303.61	750.89	654.23	400.27
2000-01	400.27	669.58	699.72	370.13

#### 3.9.3 Coverage

The operation of 29 Personal Deposit Accounts out of 325 accounts for the period 1999-2001 in six Departments<sup>sr</sup>, in four districts\* were reviewed during March-July 2001 and important points noticed are detailed below.

#### 3.9.4 Accounts opened without authorisation of Accountant General

Contrary to the codal provisions, three administrators\* deposited Rs.4.52 crore relating to elections, failed Bore-wells, Border Area Development and 'Belli

<sup>sr</sup> Revenue, Health and Family Welfare, Medical Education, Handloom and Textiles, Food and Civil Supplies and Sericulture

\* Bangalore (Urban), Hassan, Mandya and Tumkur

Belaku' Schemes, during the period 1990-96, in PD Accounts without obtaining the authorisation of the Accountant General.

### 3.9.5 Non remittance of Surplus funds

**Surplus of  
Rs.1.49 crore  
not credited to  
Government  
Account**

As per the orders of Government (January 1992) the surplus amount generated by the Sericulture Model Grainages over and above the working capital of Rs.12.00 lakh provided by Government, by sale of layings was required to be credited to Government Account. During 1992-99, in two grainages, the surplus amount of Rs.1.49 crore\* was retained in Personal Deposit Account of the Deputy Directors of Sericulture instead of crediting the same to Government Account. The Director of Sericulture, model grainage, Hassan stated that the unit was running under loss and approval was sought from the higher authorities to retain the funds in PD Account to meet the routine expenditure (April 2001).

In Tumkur Grainage, an amount of Rs 5 lakh was diverted as interest free loan to meet the working expenses of model grainage, Hassan, under the orders of Director of Sericulture during December 2000 and the amount was yet to be repaid (April 2001).

### 3.9.6 Amounts kept in Fixed Deposits/Savings Bank Accounts

**Rs.107.80 crore  
drawn from PD  
account were  
invested in  
fixed deposits**

(a) An amount of Rs.107.80 crore was withdrawn from PD Account of Karnataka Urban Infrastructure Development and Finance Corporation (KUIDFC) relating to Mega City Scheme and kept in fixed deposit (Rs.96.66 crore), invested in infrastructure bonds (Rs.4.00 crore) and Mutual Funds (Rs.7.14 crore) for a period of five years from July 1996 to May 2001 without utilisation.

(b) During the period 1997-2000, two Administrators\* had transferred an amount of Rs.5.12 crore from PD accounts meant for operating funds related to computerisation of land records, Nehru Rozgar Yojana, Employment Generation Programme, Drinking Water and Road Repairs during calamities, to several savings bank account/current account opened in banks without any authority. On this being pointed out, the Deputy Commissioner, Bangalore (Urban) stated that the amounts would be re-credited to PD Account (May 2001).

\* Deputy Commissioner, Mandya (Rs.0.33 crore), Deputy Commissioner, Bangalore (Urban) (Rs.3.13 crore) and Director of Backward Classes, Bangalore (Rs.1.06 crore)

\* Model Grainage, Hassan (Rs.0.24 crore) and Model Grainage, Tumkur (Rs.1.25 crore)

\* Deputy Commissioner, Bangalore (Urban) – Rs.0.15 crore  
Deputy Commissioner, Tumkur - Rs.4.97 crore

**Funds of Rs.5.95 crore from PD accounts were diverted for other purposes**

**3.9.7 Diversion of Funds from PD Account**

During the period 1998-2001 an amount of Rs.5.95 crore was diverted from PD Accounts for purposes other than that for which they were meant by seven Administrators as detailed below:

Sl. No.	Administrator	Purpose for which the amount was kept in PD Account	Amount (Rs.in lakh)	Diverted for
1	Director of Medical Education, Bangalore	Earnest Money Deposit collected from suppliers	7.75	Payment of special custom duty on freezers and purchase of ambulance
2	Director of Health and Family Welfare Services, Bangalore	(i) Penalty recovered from the suppliers	4.15	Purchase of drugs
		(ii) Purchase of X-ray films	100.00	Purchase of TB Drugs
3	Commissioner for Handloom and Textiles, Bangalore	(i) Establishment of enforcement machinery	5.61	Purchase of vehicles
		(ii) National Co-operative Development Corporation (NCDC) grants	5.85	Payment of special rebate compensation to societies
4	Joint Director of Food and Civil Supplies (PDS), Bangalore	Differential cost of sugar to be paid to Food Corporation of India	87.46	Payment to Co-operative Societies for loss of weight of sugar
5	Commissioner for Food and Civil Supplies, Bangalore	Sugar price equalisation fund	6.30	Price fluctuation fund
6	Deputy Commissioner, Mandya	(i) Sugar price equalisation fund	27.59	Whole sale nominees of co-operative societies to meet the transport cost and loss incurred towards lifting of sugar.
		(ii) Ashraya Scheme	17.07	Various other schemes
7	Director of Backward Classes, Bangalore	Construction of Hostels	333.54	Construction of School Buildings
	Total		595.32	

**3.9.8 Transfer of amount to PD Account to avoid lapse of Budget grants**

During 1994-2001, Rs.35.54 crore was drawn from Consolidated Fund and transferred to PD Account by 14 Administrators\* on the last working day of the financial years to avoid lapse of Budget grants.

\* Director of Medical Education, Deputy Commissioners, Mandya, Bijapur, Karwar, Mysore, Chitradurga, Chamarajanagar, Davangere, Hassan, Udupi and Raichur, Director HFWS, Bangalore, Joint Director, Public Distribution System, Bangalore and Commissioner, Handloom and Textiles.

**3.9.9 Unspent Balance in PD Account**

**Huge unspent  
balance of  
Rs.57.75 crore  
in PD accounts**

There was an unspent balance of Rs.57.75 crore in the PD Accounts of 11 Administrators to end of March 2001 as detailed hereunder:

(Rupees in crore)

Sl. No.	Name of the Administrator	Scheme	Balance in PD Account
1	Commissioner for Food and Civil Supplies	Various schemes	27.58
2	KUIDFC	Mega City Infrastructure	18.57
3	Director of Backward Classes, Bangalore	Belli Belaku, construction of Navodya Schools	1.06
4	Commissioner for Handloom and Textiles, Bangalore	Enforcement cell and MDA	1.40
5	Director of Medical Education, Bangalore	Unclaimed EMD Drugs	0.33 0.41
6	Director of Health and Family Welfare, Bangalore	Purchase of drugs and equipments	3.91
7	Deputy Commissioner, Bangalore (Urban)	Ashraya/Atrocities	3.50
8	Deputy Director of Sericulture, Government Model Grainage, Hassan	Revolving fund	0.23
9	Deputy Commissioner, Hassan	Calamity Relief Fund	0.66
10	Deputy Commissioner, Mandya	Nehru Rozgar Yojana (NRY)	0.03
11	Deputy Commissioner, Tumkur	NRY	0.07
	Total		57.75

In March 1997, the Director of Health and Family Welfare Services, Bangalore under the orders of Government re-appropriated Rs.1.00 crore from the savings occurred under various salary heads towards purchase of drugs. The amount was drawn and kept in PD Account of the Director. As per the orders of the Government (February 1998) the amount was to be spent before the end of the financial year (March 1998) for the purpose for which it was deposited and the account closed. However, the account was not closed and the balance of Rs.3.00 lakh remained unutilised in the account (April 2001).

Under Rule 36 of Manual of Contingent expenditure of Government of Karnataka, Drawing Officers are permitted to draw contingent charges on AC Bills required for immediate disbursement. Detailed bills for the amount so drawn should be sent to Controlling Officers for onward transmission to Accountant General after counter signature before 15<sup>th</sup> of the following month of drawal of amount on AC Bill.

Contrary to the provision, the Director of Backward Classes, Bangalore drew an amount of Rs.86.00 lakh on AC Bill in March 1994 for implementation of 'Belli Belaku' Scheme and deposited in PD Account. The amount remained unutilised (May 2001).

The Director of Health and Family Welfare Services, Bangalore had deposited (June 1992) Rs.62.29 lakh drawn towards purchase of furniture and equipment but due to delay in finalisation, the amount was remitted back to Government during March 1999 after about seven years.

### **3.9.10 Mixing up of funds in PD Account**

As PD Accounts are opened for a specific purpose, deposit and withdrawals in the account should relate to the same purpose for which it was permitted to be opened. However, a test check of PD Accounts of four Administrators revealed that on several occasions the funds relating to other purposes were deposited in the same PD Account as detailed below.

Sl. No.	Name of office	Purpose of opening the PD Account	Deposits other than the purpose originally said	Amount (Rs.in lakh)
1	Commissioner for Food and Civil Supplies, Bangalore	Differential cost of food grains	Printing of tricolor ration card and purchase of stationeries	216.41
			Registration fees collected from palm oil packers	0.75
2	Director of Medical Education, Bangalore	Earnest Money Deposit	Purchase of drugs and equipments	63.44
			Clinical charge collected from Medical colleges	10.00
			Refund of fee to SC/ST students of Pvt. Medical Colleges	169.00
3	Deputy Commissioner, Bangalore (U)	NRY/SJSRY	Adhara/failed borewells Ambedkar Ashraya Schemes	604.86
4	Deputy Commissioner, Hassan	Ashraya Scheme	17 schemes other than Ashraya	58.44
Total				1122.90

In view of this, the balance under each scheme/project could not be identified.

### **3.9.11 Non-reconciliation of PD Accounts with Treasury Accounts**

Non-reconciliation of the balances as per the departmental cash books with that of Treasury was noticed in 20 PD accounts administered by 12 Administrators. There was a difference of (+) Rs.2.36 crore in seven accounts and (-) Rs.3.07 crore in 13 accounts which remained un-reconciled as of July 2001.

### **3.9.12 Non-receipt of Utilisation Certificate**

Director of Municipal Administration released an amount of Rs.128.04 crore to various Urban Local Bodies during 1998-2001 towards implementation of Swarna Jayanthi Shahari Rozgar Yojana (SJSRY), Balika Samruddhi Yojana (BSY) and Tenth Finance Commission Schemes out of which an expenditure of Rs.89.45 crore was incurred. However, utilisation certificate in support of the expenditure incurred were not obtained from the ULBs (May 2001).

### 3.9.13 Conclusion

Despite irregularities in operation of PD Accounts being pointed out in audit repeatedly, the same was not being monitored properly and huge balances were held in the accounts every year. Government had not devised any mechanism to review the balances in the PD Accounts and timely closure of inoperative accounts and to check the transfer of funds to PD accounts to avoid lapse of budget provision. Scheme/Programme-wise details of the funds retained in PD Accounts were not maintained and on many occasions the funds were diverted for purposes other than those for which it was meant.

The matter was referred to Principal Secretary, Finance Department in August 2001; reply had not been received from him (September 2001).

## 3.10 Inspection of Treasuries

The Treasuries and Sub-Treasuries in Karnataka are under the administrative control of the Director of Treasuries, Bangalore. There were 30 District Treasuries\*, 184 Sub-Treasuries and Stamps Depot, Bangalore as on 31 March 2000. All the District Treasuries, Sub Treasuries and Stamps Depot were inspected by the Accountant General (Accounts & Entitlement) during 2000-01. The following major irregularities and failure in control were noticed during inspection of the Treasuries by the Accountant General (A&E).

### 3.10.1 Excess Payment of Family Pension

(a) Under the provisions of Karnataka Government servants (Family Pension) Rules 1964, when a government servant dies while in service his/her family is entitled to Family Pension at double the normal rate or 50 percent of the pay last drawn by the deceased government servant at the time of death whichever is less, for a period of seven years from the date following the date of death or till the date on which the Government servant would have attained the age of sixty five years had he remained alive, whichever is earlier.

**Excess  
payment of  
Family  
Pension of  
Rs.81.93  
lakh in 508  
cases**

In 27 Treasuries, in 508 cases Rs.81.93 lakh of excess payment of family pension was made by the public sector banks at enhanced rate beyond the period indicated in the Pension Payment Orders issued by the Accountant General (A&E). Treasury wise details are given in the Appendix 3.1.

Though this irregularity was pointed out repeatedly in the Inspection Reports of the concerned Treasuries and also in the Audit Reports of earlier years, no effective action was taken by the Treasury Officers/Director of Treasuries to check the excess payment and the irregularity persists.

\* Bangalore (Urban), Bangalore (Rural), State Huzur Treasury, Bangalore, Pension Payment Treasury (PPT), Bangalore, Bagalokot, Belgaum, Bellary, Bidar, Bijapur, Chamarajanagar, Chikmagalur, Chitradurga, Dakshina Kannada, Davanagere, Dharwad, Gadag, Gulbarga, Hassan, Haveri, Hubli, Kodagu, Kolar, Koppal, Mandya, Mysore, Raichur, Shimoga, Tumkur, Udupi and Uttara Kannada.

The matter was also brought to the special notice of the Principal Secretary to Government, Finance Department, Government of Karnataka in July 2000. Though the Principal Secretary stated (August 2000) that the concerned Treasury Officers were instructed to take appropriate action, the excess payment continues (March 2001).

(b) In four Treasuries Rs.2.94 lakh {PPT Bangalore (Rs.0.28 lakh - 2 cases), Bidar (Rs.1.55 lakh – 2 cases), Davanagere (Rs.0.73 lakh – 1 case) and Gadag (Rs.0.38 lakh – 1 case)} was paid in six cases beyond the period of limited family pension authorized by the Accountant General (Accounts & Entitlement).

(c) In one case {Bangalore (PPT)}, family pension was paid wrongly at the same rate of original pension authorized to the pensioner resulting in excess payment of Rs.0.24 lakh.

(d) In one case (Bidar), family pension was unauthorisedly continued to be paid even after the date of remarriage of the pensioner, resulting in inadmissible payment of Rs.0.21 lakh.

(e) In two treasuries (Bellary and Gulbarga), in 3 cases family pension of Rs.0.87 lakh was paid in excess due to wrong fixation of family pension at the time of revision with effect from 1<sup>st</sup> April 1998.

### **3.10.2 Plus and Minus Memorandum**

While rendering monthly accounts of Treasury Cheques to the Accountant General, the Treasury Officer is required to send the Plus and Minus Memorandum along with the list of cheques issued but un-encashed. The closing balance in the Plus and Minus Memorandum should agree with the total amount of un-encashed cheques. In its absence, the closing balance cannot be reliably worked out and the accounts do not reflect the correct picture.

As at the end of March 2001, out of 30 Treasuries, the Plus and Minus Memorandum were received from 13 Treasuries upto March 2001, five Treasuries upto February 2001, eight Treasuries upto January 2001 and one Treasury upto December 2000. In respect of Bangalore (Rural) Treasury the Plus and Minus Memorandum was furnished upto March 2000, however, the opening balance was adopted as Rs.50.28 lakh as against Rs.336.52 lakh resulting in discrepancy of Rs.286.24 lakh (Cr). Two Treasuries {(State Huzur Treasury, Bangalore and Bangalore (Urban))} have not sent the Plus and Minus Memorandum.

### **3.10.3 Un-encashed Cheques**

Under the provisions of Article 75(1) of Karnataka Financial Code, the Treasury Officers are required to prepare on 15<sup>th</sup> May each year, a list of cheques outstanding for more than twelve months from the date of issue along with the alteration memoranda duly indicating the debit and credit heads of

**Alteration  
memos for  
Rs.17.50 crore  
not furnished  
by 19 Treasury  
Officers**

account and render it to the Accountant General for proposing necessary adjustments in the accounts.

Nineteen Treasury Officers did not furnish to the Accountant General (A&E) the alteration memos in respect of un-encashed cheques amounting to Rs.17.50 crore relating to period 1984-85 to 1999-2000, for carrying out necessary adjustments in the accounts.

Out of the above, in five treasuries (Bellary, Dharwad, Karwar, Madikeri and Tumkur) cheques amounting to Rs.61.47 lakh were drawn in favour of Post Masters for issue of National Saving Certificates. Non-encashment of these cheques resulted in non-investment of the funds in savings scheme and caused financial loss to the Government Servants from whom the amounts were deducted. The matter needs urgent corrective action.

#### ***3.10.4 Non-receipt of recovery schedules of General Provident Fund***

**GPF schedules for Rs 5.60 crore did not accompany the vouchers sent by 27 Treasury Officers**

Recovery schedules in respect of General Provident Fund (GPF) subscription by the Government Servants, for Rs.5.60 crore (16261 cases) did not accompany the vouchers sent by 27 treasuries during 1999-2000. This has resulted in non-accounting of credits in the individual accounts of the subscribers besides delay in finalisation of their claims.

Further, vouchers in support of withdrawals from GPF for an amount of Rs.1.06 crore (242 cases) were not received along with the accounts sent by 21 Treasuries. The omission may result in over payment at the time of final settlement of the account of the subscriber. The matter needs urgent corrective action.

#### ***3.10.5 Wanting Vouchers***

The Treasury Officers were required to send all the vouchers along with the schedule of payments while rendering accounts to the Accountant General (A&E). During 1999-2000, 26 Treasury Officers did not send the vouchers for Rs.41.82 lakh, consequently the amount was held under suspense in the accounts.

#### ***3.10.6 Non-refund of Old Age, Physically Handicapped and Destitute Widow Pension by Post Offices.***

In three districts, an amount of Rs.26.75 lakh<sup>⊗</sup> being the un-disbursed money orders in respect of Old Age, Physically Handicapped and Destitute Widow Pension relating to period July 1999 to March 2000 was not claimed from the Post Offices by the Treasuries.

#### ***3.10.7 Release of pension even after the death of the beneficiaries***

In two treasuries (Bangalore (Urban) and Deodurg Sub-Treasury, Raichur District) the Old Age, Physically Handicapped and Destitute Widow Pensions aggregating to Rs.33.75 lakh continued to be released upto April 2000 in 495

<sup>⊗</sup> Bangalore (Rural) - Rs.11.38 lakh, Chamarajanagar- Rs.7.38 lakh and Raichur- Rs.7.99 lakh

cases even after the receipt of report of the death of the beneficiaries from Post Offices during October 1999. The sum was yet to be claimed by the Treasury Officers resulting in blockade of the amount with the Postal Department.

The matter was referred to Principal Secretary, Finance Department in July 2001. However, no reply has been received from him (September 2001).

**FOREST, ENVIRONMENT AND ECOLOGY  
DEPARTMENT**

**3.11 Unfruitful expenditure on construction of tourist complex**

**Construction of a tourist complex within Nagarhole National Park  
without permission from Government of India resulted in unfruitful  
expenditure of Rs.1.84 crore**

As per the Forest (Conservation) Act of 1980, notwithstanding anything contained in any other law, prior approval of the Government of India is mandatory for leasing or by any other means assigning areas falling within the purview of the Act to any non-Government agency or persons.

The Nagarhole forest area was declared the 'Nagarhole National Park' (NNP) by the Government of India in 1984 and thus came under the purview of the Forest (Conservation) Act.

A part of the forest land at Murkal, which was used by Karnataka State Forest Industries Corporation Limited (KSFIC) till 1984 for a saw mill, was transferred by Government (1989) to the Karnataka Forest Development Corporation Limited (KFDC) for establishing a Reception Centre to provide facilities for eco-tourism. KFDC spent Rs.1.84 crore to convert the existing sawmill building and other structures and built additional cottages to house tourists and run the complex till December 1993.

A Committee on Wild Life Tourism, constituted by Government of India for making specific recommendations with regard to the management and control of tourism in identified natural parks and sanctuaries, visited (January - February 1990) the NNP and opined that construction of a massive commercial complex constitutes serious encroachment in a natural forest and was against the interest of wild life and ecology. However, the Committee suggested that the buildings be utilised for promoting conservation and education about National Parks and Sanctuaries.

In September 1989, KFDC decided to lease out the complex to an external agency, as they could not run such a complex effectively. Accordingly, Government took back the complex from KFDC and reimbursed the expenditure incurred by them. In June 1994, lease was finalised for a period

of 18 years at a total rent of Rs.4.25 crore in favour of a firm<sup>1</sup>, in gross violation of Section 2 (iii) of the Forest Act.

At the direction of High Court in connection with a Public Interest Litigation, the State Government asked for *post facto* approval from the Ministry of Ecology and Forests, Government of India for leasing the complex. This request was rejected by the Government of India (November 1999) on the ground that there was no justification for such a huge tourist complex within the core area of the NNP and suggested that the complex be developed as an interpretation *cum* education centre.

The lessee demanded (November 1998) the Government to refund lease rent (Rs.47.40 lakh) already paid and desired to withdraw from the project. The lessee also indicated that it had already spent Rs.6 crore on the project. The complex is yet to be taken over by Government (May 2001).

Thus, establishing a huge tourist complex in the core area of NNP without obtaining approval from Government of India resulted in unfruitful outlay of Rs.1.84 crore and a potential liability of Rs.6 crore.

The above matter was referred to the Secretary to the Government in June 2001 and was followed up with a reminder in August 2001. However, no reply was received from the Secretary (September 2001).

## HEALTH AND FAMILY WELFARE DEPARTMENT

### 3.12 Purchase of medical instruments at abnormally high rates

#### **The Superintendent of Victoria Hospital did not give wide publicity to obtain competitive rates and made extra expenditure of Rs.41.78 lakh**

The Superintendent, Victoria Hospital, Bangalore (Superintendent) purchased several medical instruments/equipment for Rs.1.86 crore during 1999-2001 (December 2000). Scrutiny revealed the following lapses/irregularities.

Superintendent obtained quotations from selected local dealers without giving wide publicity for tenders and thus, failed to obtain competitive rates. No reasons were furnished for the same. Comparison of rates at which several medical instruments were purchased with the market rate of leading firms viz. Karnataka Antibiotics and Pharmaceuticals Limited (KAPL), Hindustan Antibiotics Limited (HAL) in respect of these items with similar specifications indicated that rates charged by local dealers were higher by 25 to 50 per cent, 51 to 100 per cent and 101 to 307 per cent than the rate of KAPL, HAL in respect of 35, 20 and 32 items respectively.

<sup>1</sup> M/s Gateway Hotels and Getaway Resorts Limited.

Action of Superintendent to avoid wide publicity for tenders to obtain competitive rates for various medical instruments resulted in unnecessary expenditure of Rs.41.78 lakh on purchase of 87 items.

The above matter was referred to the Secretary in June 2001. However, no reply was received from the Secretary (September 2001).

### **3.13 Non-recovery of fees from out-patients**

#### **Director delayed communication of Government order prescribing collection of fees from out-patients registered in Government teaching hospitals and Superintendents of 13 hospitals failed to collect fees of Rs.31.08 lakh from outpatients**

State Government prescribed (August 1998) a fee of Re.1 (enhanced to Rs.5 with effect from 15 July 2000) from out-patients registered in all Government teaching hospitals. Director, Medical Education, Bangalore (Director) was to communicate the Government instructions to all Government teaching hospitals and Superintendents of these hospitals were to implement the Government Orders.

Scrutiny of details furnished by Superintendents of 13<sup>⊙</sup> out of 16 teaching hospitals revealed that they delayed implementation of Government orders by 1 to 23 months and did not collect the out-patient fees of Rs.31.08 lakh on the ground that the Government order prescribing the fees had either been received late or not received at all. Director did not intimate the dates on which the Government order prescribing the fees had been forwarded to Superintendents of these hospitals. Evidently, Director did not ensure timely implementation of the Government orders which led to financial loss of Rs.31.08 lakh.

The above matter was referred to Secretary and Director in May 2001. The material was developed into a draft audit paragraph for consideration of Government and the same was demi-officially forwarded to the Secretary to the Government for reply within 6 weeks. However, inspite of such efforts, no reply was received from the Secretary (September 2001).

## **REVENUE DEPARTMENT**

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<sup>⊙</sup> Bowring and Lady Curzon Hospital, Bangalore (Rs.7.75 lakh), Victoria Hospital, Bangalore (Rs.5.60 lakh), Minto Eye Hospital, Bangalore (Rs.1.47 lakh), Vani Vilas Hospital, Bangalore (Rs.0.80 lakh), Chigateri Hospital, Davanagere (Rs.4.06 lakh), Wenlock Hospital, Mangalore (Rs.2.43 lakh), K R Hospital, Mysore (Rs.0.77 lakh), PKTB Hospital, Mysore (Rs.0.04 lakh), KIMS Hubli (Rs.5.44 lakh), KIMS, Dharwad (Rs.0.11 lakh), District Hospital, Gulbarga (Rs.0.90 lakh), VIMS Bellary (Rs.1.69 lakh), SD Sanitarium, Bangalore (Rs.0.02 lakh)

### 3.14 Undue favour to a firm and purchase of sub-standard computer hardware

#### Government favoured a vendor by purchasing computer hardware at higher rates at an expenditure of Rs.49.56 lakh

The Centrally Sponsored Scheme (Scheme) for computerisation of Land Records with cent per cent financial assistance from Government of India had been implemented in all 177 taluks of Karnataka State from the year 1998-1999. Government of India released funds of Rs.5.13 crore during December 1998 (Rs.2.90 crore) and April 1999 (Rs.2.23 crore) for purchase of computer hardware, software, peripheral equipment and for site preparation on the basis of unit cost fixed by the Technical Advisory Panel (TAP)\*. In making this procurement of computers and other accessories, gross violation of rules, patronisation of a multi national brand and huge loss of Government funds were noticed in audit.

Government in Revenue Department authorised (23 April 1999) Deputy Commissioners (DCs) of 17 districts covering 100 taluks to purchase computer hardware either from Vendor A\* at Rs.1.89 lakh per unit or Vendor B\* at Rs.2.47 lakh depending upon availability of post-installation services.

Scrutiny of the files in the Revenue Secretariat revealed the following lapses/irregularities :

(i) Karnataka Government Computer Centre short-listed the vendors for supply of computer hardware. When TAP considered the offers from the short-listed vendors on 1 March 1999, they noticed that Vendor B had offered for a Desk Top Converted Server instead of for a Server Proper. TAP directed all the vendors to reduce their prices and submit revised offers for a server proper on 2 March 1999. According to the proceedings of the TAP meeting on 2 March 1999 as drawn up by the Principal Secretary, TAP recommended award of contract to either Vendor A or Vendor B. The proceedings further discussed that while the offer of Vendor B, an internationally renowned company, was inclusive of three year comprehensive warranty, that of Vendor A, a local company, was for one year warranty period. However, Government decided (March 1999) to purchase the computer hardware from Vendor A and Vendor B. The contents of the TAP proceedings were evidently not true due to the following reasons:

(a) System Analyst of Karnataka Government Computer Centre who was a member of TAP contended (3 April 1999) that the offer of Vendor B for server proper was not received by TAP before conclusion of the meeting on 2 March 1999. Evidently, the offer of Vendor B was not discussed by TAP.

\* TAP consisting of Principal Secretary as Chairman, Joint Secretary-Revenue Department, System Analyst of Karnataka Government Computer Centre, representatives from Indian Institute of Science, National Information Centre and Finance Department as members was constituted as prescribed in guidelines for determination of configuration and unit cost per taluk.

\* Vendor A - HCL Infosys

\* Vendor B - Sunrise Computers and Networks

(b) Joint Secretary, Revenue Department also contended (17 March 1999) that the decision of the TAP was to award the contract to Vendor A.

(c) Vendor B in their quotation purportedly submitted on 2 March 1999 offered a comprehensive warranty only for one year. As per the notings of the Principal Secretary, TAP did not discuss the issue of warranty period given by any of the vendors on 2 March 1999. Further, Vendor B extended the comprehensive warranty period to three years only on 17 March 1999 and as such, the merits of extended warranty period given by Vendor B could not have been the subject of discussion by TAP on 2 March 1999.

Principal Secretary stated (November 2001) that the inclusion of the quotation of Vendor B in the proceedings of 2 March 1999, even if taken to be irregular, did not help Vendor B in any manner. The reply was not tenable as Vendor B offered 3 years post-warranty only after they had a meeting with Principal Secretary and the increased warranty period projected their offer in a better light.

(ii) The decision of giving choice to DCs to purchase computers also from Vendor B though Vendor A fulfilled all tender conditions, offered better rates and could provide better post-installation services through their 11 service centres in different districts of the State as against five of Vendor B was unjustified and irregular. This resulted in additional financial burden on Government without any corresponding benefit.

(iii) Government cancelled (27 May 1999) the orders placed on Vendor A on the ground that:

- (a) they had not supplied computers to any district,
- (b) DCs confirmed to State Government that Vendor A required another 45 days for supply,
- (c) they demanded payment of entry tax and
- (d) Vendor B would supply computers within 10 days.

The reasons adduced for cancellation were not tenable as

(1) It was seen from information furnished by 8 DCs that 6 of them placed orders with Vendor A only during May 1999 and the prescribed period for delivery of 4 to 6 weeks was to expire during June 1999. According to the Deputy Secretary, Revenue Department, 10 DCs had not even placed orders as of 25 May 1999. Thus, the Principal Secretary's contention regarding non-supply had no merit.

(2) Principal Secretary did not furnish any document in support of the request of Vendor A seeking time extension.

(3) Vendor A had indicated in the tender itself that entry tax was to be paid directly to concerned authorities and Principal Secretary was aware of this

before issuing (23 April 1999) instructions to DCs to place orders on both Vendors A and B.

(4) Government cancelled the orders placed on Vendor A and directed Vendor B to supply computers by 31 May 1999. However, Vendor B continued supply till July 1999 and the site preparation was incomplete even as of August 1999.

Thus, cancellation of orders placed on Vendor A on grounds of urgency was unjustified and lacked transparency.

(iv) Government while issuing instructions to DCs to place orders on Vendor A or Vendor B, overlooked the clarification issued (January 1998) by Government of India, Department of Electronics that international brand names like IBM, Compaq had no great advantage and there were hardly any differences among the competitive products.

(v) Again on 6 October 1999, Government placed orders on Vendor B for supply of computers for the remaining 77 taluks at the same rate of Rs.2.47 lakh without calling for tenders. No time limit was fixed for installation of computers. The computers had not been installed (May 2001) even after 18 months of supply.

Thus, decision of Government in awarding purchase contract to Vendor B was an undue favour to them and resulted in avoidable extra expenditure of Rs.1.01 crore on purchase of 177 computers.

Further, Principal Secretary, Revenue Department noticed (February 2000) that computer hardware supplied by Vendor B for a price of Rs.4.26 crore (paid Rs.3.88 crore only) was found to be sub-standard as per the report of Principal Secretary, Finance Department. An enquiry committee constituted (21 June 2000) by State Government under the Chairmanship of Secretary to Government, Information Technology Department was to investigate, inter alia, inconsistencies in convening TAP meetings and preparation of the proceedings, the award of contract to a specific company at higher rate and the resultant financial loss, cancellation of contract of Vendor A etc., and furnish report within one month. Information on whether the committee furnished report and action taken on the same had not been furnished to audit.

State Government stated (August 2001) that

(i) All the three firms submitted their quotations on 2 March 1999 and Principal Secretary did not revise meeting proceedings,

(ii) Vendor B (Sunrise Computers) had offered three years warranty as against one year offered by Vendor A,

(iii) Computers supplied by Vendor B were superior.

These contentions were not tenable as

(i) Vendor B did not submit quotation on 2 March 1999 to TAP as stated by Karnataka Government Computer Centre which was not contested by the Principal Secretary while furnishing replies in November 2001.

(ii) Vendor B had offered comprehensive warranty for one year only in their tender documents and agreed for 3 years post warranty subsequently. No such facility was provided to Vendor A. Even after adding annual maintenance charges for two years at 6 per cent each year and entry tax at 4 per cent, cost per unit of Vendor A would be Rs.2.19 lakh as against Rs.2.47 lakh per unit supplied by Vendor B and there would still be an extra expenditure of Rs.49.56 lakh.

## **SOCIAL WELFARE DEPARTMENT**

### **3.15 Salaries to idle staff of a research institute**

**A research institute established in March 1992 did not turn out any tangible work since inception, rendering the expenditure of Rs.70.80 lakh on pay and allowances of staff unproductive**

State Government approved (March 1992) the establishment of Shri.D.Devaraja Urs Research Institute, Bangalore (Institute). The establishment consisting of 25 posts<sup>ψ</sup> sanctioned initially for a period of two years had been continued from year to year. The Institute, headed by a Director, was responsible for (i) monitoring and evaluation of schemes relating to development of backward classes and suggesting modifications, improvement etc., to the schemes (ii) organising seminars, symposium etc., on matters connected with identification of backward classes and the problems of backward classes and (iii) undertaking research on practical problems of backward classes and suggesting remedial measures.

However, except for conducting four workshops (October 1996, March 1999, June 1999 and March 2001), inspecting (November 2000) hostels for backward classes at Channapatna and reviewing (December 2000 and March 2001) the implementation of two schemes (Belli Belaku and Ganga Kalyana) in six villages of Shimoga, Mysore and Udupi districts and survey on drop out of children in Navodaya schools in Udupi and Gulbarga, the Institute did not carry out any tangible work and the staff of the Institute remained idle since inception. State Government sanctioned every year continuance of establishment without evaluating the performance of the Institute. Director of the Institute stated (August 2001) that research work could not be conducted as necessary staff (field staff etc.) was not posted.

Thus, failure of the Institute to discharge the assigned functions and that of State Government to monitor its working rendered the expenditure of Rs.70.80

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<sup>ψ</sup> One post each in the cadre of Director, Joint Director, Deputy Director, Administrative Officer, Assistant Director, Superintendent, Librarian, Stenographer-2, First Division Assistant-3, Field Investigator-4, Typist-2, Driver-2, Second Division Assistant-2, Peon-4

lakh on pay and allowances of the staff ranging from 18 to 12<sup>⊗</sup> officers/officials during 1992-93 to 2000-2001 largely unproductive.

The above matter was referred to Secretary to Government in June 2001. However, no reply was received from him (September 2001).

## GENERAL

### 3.16 Misappropriations, losses, defalcations, miscellaneous irregularities, etc.

(i) At the end of September 2001, 273 cases of misappropriations, embezzlements etc., involving a sum of Rs.13.39 crore relating to periods up to September 2001 were outstanding as shown below:

	Number of cases	Amount (Rupees in lakh)
Cases as on 30 September 2000	266	1273.85
Cases reported during 1 October 2000 to 30 September 2001	19	140.37
Cases disposed during 1 October 2000 to 30 September 2001	12	74.74
Cases outstanding as on 30 September 2001	273	1339.48

The year-wise break-up of the outstanding cases is furnished hereunder:

Year	Number of cases	Amount (Rupees in lakh)
Upto1995-96	151	216.94
1996-97	14	91.27
1997-98	33	531.39
1998-99	41	270.60
1999-2000	19	89.22
2000-2001	15	140.06
Total	273	1339.48

Department-wise details of 273 cases are given in Appendix 3.2. Out of 273 outstanding cases, while 176 cases were awaiting completion of investigation, 20 were pending in courts and action initiated was not intimated in the remaining 77 cases, involving a sum of Rs.3.02 crore.

⊗

Joint Director	Dy. Director	Asst. Director	Field Investigator	Ministerial staff	Group 'D's and Drivers	Total
1	--	1	--	10	6	18
1	1	1	1	4	4	12

### 3.17 Outstanding Inspection Reports

Lack of responsiveness of Government to audit

Accountant General (Audit) (AG) arranges to conduct periodical inspection of the Government Departments to test-check the transactions and verify the maintenance of important accounting and other records as per prescribed rules and procedures. These inspections are followed up with Inspection Reports (IRs). When important irregularities detected during inspection are not settled on the spot, these IRs are issued to the Heads of Offices inspected with a copy to the next higher authorities. The Hand book of instructions for speedy settlement of audit observations (Finance Department) provides for prompt response by the executive to the IRs issued by the AG to ensure rectificatory action in compliance of the prescribed rules and procedures and accountability for the deficiencies, lapses, etc., noticed during the inspection. The Heads of Offices and next higher authorities are required to comply with the observations contained in the IRs and rectify the defects and omissions promptly and report their compliance to the AG.

A half-yearly report of pending IRs is sent to the Secretary of the Department in respect of pending IRs to facilitate monitoring of the audit observations in the pending IRs.

IRs issued up to March 2001 pertaining to 40 and 51 offices of the Department of Technical Education and Department of Collegiate Education respectively disclosed that 925 paragraphs relating to 255 IRs remained outstanding at the end of September 2001. Of these, 163 IRs containing 512 paragraphs had not been replied to/settled for more than 10 years. Year-wise position of the outstanding IRs and Paragraphs are detailed in the Appendix 3.3. Even the initial replies, which were required to be received from the Heads of the Offices within one month from the date of receipt of IR, were not received in respect of 24 offices (75 IRs) and 42 offices (121 IRs) from the Department of Technical Education and Department of Collegiate Education respectively.

As a result, the following serious irregularities commented upon in these IRs had not been settled as of September 2001.

#### Department of Technical Education

Serial Number	Nature of irregularities	Number of paragraphs	Amount (Rupees in lakh)
1.	Non-maintenance/improper maintenance of initial records, cash book, imprest account, reconciliation with treasury etc.	33	47.12
2.	Extra/excess/infructuous/wasteful/unauthorised/irregular expenditure	14	73.44
3.	Irregular purchase/purchase of defective machinery	32	532.36
4.	Withdrawal of funds to avoid lapse of grants and blocking up of Government capital	22	138.00
5.	Excess/Over payment/mis-utilisation of grants, loans and subsidies	10	87.86
6.	Wanting payees' receipts/UCs and non-receipt of	01	3.33

	completion certificates of buildings		
7.	S.R.objecion	33	6.01
8.	Non-furnishing of NDC bills	19	30.03
9.	Misappropriations, losses, defalcations	39	17.50
10.	Miscellaneous	95	111.31
	Total	298	1046.96

### Department of Collegiate Education

Serial Number	Nature of irregularities	Number of paragraphs	Amount (Rupees in lakh)
1.	Non-maintenance/improper maintenance of initial records, cash book, imprest account, reconciliation with treasury etc.	28	26.01
2.	Extra/excess/infructuous/wasteful/unauthorised/irregular expenditure	2	2.65
3.	Irregular purchase/purchase of defective machinery	25	89.60
4.	Withdrawal of funds to avoid lapse of grants and blocking up of Government capital	1	0.10
5.	Excess/Over payment/mis-utilisation of grants, loans and subsidies	2	8.72
6.	Wanting payees' receipts/UCs and non-receipt of completion certificates of buildings	2	3738.36
7.	S.R Objection	28	5.33
8.	Non-furnishing of NDC bills	2	0.96
9.	Misappropriations, losses, defalcations	39	6.05
10.	Miscellaneous	147	185.90
	Total	276	4063.68

A review of the IRs which were pending due to non-receipt of replies, in respect of the above two departments revealed that the Heads of Offices whose records were inspected by AG, the Director of Technical Education and the Commissioner of Collegiate Education failed to discharge due responsibility as they did not send any reply to a large number of IRs/ paragraphs indicating their failure to initiate action in regard to the defects, omissions and irregularities pointed out in the IRs of the AG. The Secretary of the Department of Education who was informed of the position through half yearly reports, also failed to ensure that the concerned officers of the department took prompt and timely action.

The above also indicated inaction against the defaulting officers thereby facilitating the continuation of serious financial irregularities and loss to the Government though these were pointed out in Audit.

It is recommended that Government should have a re-look in to this matter and ensure that procedure exists for (a) action against the officials who failed to

send replies to the IRs/paras as per the prescribed time schedule, (b) action to recover loss/over payment in a time bound manner and (c) revamping the system of proper response to the audit observations in the department.

### **3.18 Follow-up on Audit Reports**

The Hand Book of Instructions (Finance Department) for speedy settlement of audit observations and Rules of Procedure (Internal Working), 1995 of Public Accounts Committee provide the following time frame for furnishing replies to audit observations communicated to Heads of offices/State Government in the form of inspection reports, draft paragraphs and Audit Reports;

- (1) Inspection Reports:- Generally within one month from the date of receipt of inspection report and within a maximum period of three months
- (2) Draft Paragraphs/Reviews:- Within six weeks of receipt
- (3) Audit Reports:- Action Taken Notes (ATNs) on the audit paras/reviews featured in the Audit Reports should be furnished to the Legislature Secretariat within four months of its being laid on the table of Legislature duly furnishing copies of these explanations to Audit as well.

It was, however, noticed that though the Audit Reports for the years 1994-95, 1995-96, 1996-97, 1997-98 and 1998-99 were presented to the State Legislature on 12 June 1996, 27 March 1997, 14 May 1998, 1 July 1999 and 3 May 2000 respectively, a few Departments had not submitted ATNs, as of August 2001, for 1, 12, 14, 33 and 41 Paras/Reviews included in the Audit Reports 1994-95, 1995-96, 1996-97, 1997-98 and 1998-99 respectively. Department-wise details are given in Appendix 3.4.

In respect of the following important irregularities which featured in the Audit Reports 1997-98 and 1998-99, neither replies to draft paras were received (except for Sl.No.4) nor ATNs received even after a lapse of 10 to 21 months.

## **Audit Report 1997-98**

### **1 Horticulture Department**

#### **3.3 Review on working of Horticulture Department**

Misappropriation of Government Funds to the extent of Rs.3.36 crore by Shri Pandit Noola, incharge Assistant Director of Horticulture, Narayanpur during April 1994 to May 1997. ATNs have not been received. Results of Lokayukta enquiry initiated in July 1997 are also awaited (August 2001).

## **Audit Report 1998-99**

### **2 Social Welfare**

#### **3.16 Fictitious payment of scholarships**

District Social Welfare Officer, Bangalore Urban-District failed to exercise checks on sanction/disbursement of scholarships, resulting in payment of scholarship of Rs.6.65 lakh to fictitious students during 1997-98 and 1998-99. Genuineness of disbursement of scholarship for Rs.3.10 lakh was also doubtful. ATNs have not been received.

## **Audit Report 1998-99**

### **3 Public Works Department (National Highways)**

#### **5.4 Shortages in Stores and Stock account in National Highway Division**

Divisional Officer failed to conduct proper checks at the time of physical verification and to monitor submission of half-yearly return of stores resulting in shortage of store articles valued Rs.64.66 lakh. ATNs not received.

### **4 Commerce and Industries Department**

#### **6.6 Irregular investment of Board funds in non-scheduled banks**

Chief Executive Officer of Khadi & Village Industries Board (Board) irregularly invested Rs.50 lakh in non-scheduled bank without orders of the Board/State Government. The Bank failed to repay dues of Rs.49.25 lakh to the Board. ATNs have not been received. In reply to the draft paragraph, State Government stated action would be taken to recover the dues.

### **5 Urban Development Department**

#### **6.16 Irregularities in purchase of stores**

Executive Engineer, Gulbarga Division, Karnataka Urban Water Supply and Drainage Board (Board), committed serious irregularities in purchase/accountal of stores during May 1994 to August 1995. He paid Rs.20.75 lakh for spurious bearings. Existence of electrical material valued Rs.76.93 lakh was doubtful. He was also responsible for non-accountal/short accountal of stores aggregating Rs.1.02 crore. ATNs have not been received. Outcome of the Departmental enquiry initiated in October 1998 is awaited (August 2001).

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