

CHAPTER-IV

AUDIT OF TRANSACTIONS

FINANCE DEPARTMENT

4.1 Fraudulent drawal of pension

An amount of Rs.13.19 crore was paid by two treasuries and one sub-treasury by irregularly honouring Pension Payment Orders and Gratuity Payment Orders which were not authorised by the Accountant General.

Fraudulent drawal of pension was reported in para 3.8 of the Audit Report of the Comptroller and Auditor General of India, Government of Nagaland (GON) for the year ended 31 March 2001. The matter was brought to the notice of the GON from time to time (October 2005 to July 2006). To check such fraudulent drawal of pension etc., the GON was requested (January 1998) to direct all the Treasury Officers in the State to personally collect the authorities (Treasury copies) for payment of pension, gratuity, commutation value etc. from the office of the Sr. Deputy Accountant General (A&E). Further, a system of re-confirmation of the genuineness of pension claims was introduced (December 2003) in consultation with the GON, wherein the employee's copy of all finalised pension authorities are to be collected personally by the nodal officers nominated by the Head of the Departments.

During central audit of the vouchers for payment of pension, gratuity etc., for the period October 2004 to March 2006, 743 cases¹ of fraudulent drawals involving Rs.13.19 crore were noticed in two treasuries and one sub-treasury (out of 12 treasuries and 8 sub-treasuries) of the State. The modus operandi of the fraudulent drawals of pension involved using identical forms as are used by the AG's office, forging signatures, using fictitious names and false authority numbers.

Thus, the failure on the part of the GON to take effective and timely measures to prevent fraudulent drawals despite the matter being brought to their notice from time to time compounded by the failure of the treasury officers to exercise statutory checks/controls prescribed by rules resulted in fraudulent drawal of pensionary benefits amounting to Rs.13.19 crore.

¹ Dimapur Treasury-343 cases involving Rs. 6.14 crore
Phek Treasury-91 cases involving Rs.1.67 crore
Phutsero Sub-treasury-309 cases involving Rs. 5.38 crore.

The matter was reported to the Government/Department July 2006. Replies had not been received (November 2006).

4.2 Avoidable payment

Finance Department failed to avail the re-set package of high interest borrowings from HUDCO in time resulting in avoidable payment of interest of Rs.1.86 crore besides unproductive commission charge of Rs.0.84 crore paid to middleman.

GON takes interest bearing loans from various financial institutions including Housing & Urban Development Corporation Ltd. (HUDCO) for implementation of various developmental schemes in the State at interest rates ranging between 6 *per cent* and 18.75 *per cent*.

To rationalise the interest on earlier loans with the current trend of rates of interest, the Regional Chief, HUDCO offered (July-August 2004) a special package to the GON for re-setting higher interest rate loans on the total principal amount outstanding as on 30 June 2004.

The offer inter alia provided that the principal amount outstanding with interest at rates higher than 8.25 *per cent* as on 30 June 2004 would be re-set at 8.25 *per cent* subject to the condition that re-setting charge at 50 *per cent* of the differential amount of interest for one year between the amount calculated at old rates and the re-set rate (8.25 *per cent*) had to be paid for availing the benefits of the offer from the quarter ending September 2004. Accordingly, HUDCO preferred a demand (August 2004) of re-setting charge of Rs.1.86 crore² being 50 *per cent* of the differential amount of interest between high rates and re-setting rate on total outstanding loan (Rs.105.98 crore) bearing interest rates ranging from 9.38 *per cent* to 12.59 *per cent* as on 30 June 2004.

Scrutiny of records of Finance Department, GON revealed that the Government instead of acting on the special offer made by HUDCO engaged (October 2004) a private agency (M/s Allianz Securities Ltd., New Delhi) through a Memorandum of Understanding (MOU) in January 2005 for re-structuring of all Government loans, received from different financial agencies including HUDCO. The MOU provided inter alia that (i) the agency shall negotiate with the financial institutions for re-structuring their high interest bearing outstanding loans to an interest rates ranging between 8.50 *per*

² Principal outstanding for schemes with interest at higher rate than 8.25 <i>per cent</i> as on 30 June 2004	Rs.105.98 crore
Total interest for the schemes at higher rate other than 8.25 <i>per cent</i> on principal outstanding	Rs. 12.46 crore
Interest @ 8.25 <i>per cent</i>	Rs. 8.74 crore
Differential amount (Rs.12.46 crore – Rs.8.74 crore)	Rs. 3.72 crore
Re-setting charge @ 50 <i>per cent</i> of differential amount (50% of Rs.3.72 crore)	Rs. 1.86 crore

cent to 9 per cent, (ii) in respect of HUDCO, the term of negotiation for payment of re-setting/repayment premium shall be 50 per cent of the amount of interest saving for one year or one per cent of the outstanding balance of high interest loan, whichever is higher, (iii) the agency shall be paid a professional fee @ 25 per cent of the savings in the first year accruing to Government.

Further scrutiny revealed that Government finally availed the re-setting offer extended by HUDCO in July-August 2004 from the quarter January-March 2005 paying re-setting value in February 2005. For arranging re-setting of interest rates with HUDCO the Government paid Rs.0.84 crore (February 2005) to M/s Allianz Securities Ltd., being professional charges.

Had the HUDCO offer been availed at the first instance (July 2004-September 2004) Government would have saved an amount of Rs.1.86 crore being savings on account of differential amount of quarterly interest payment arising out of re-setting for two quarters viz., July-September and October-December. Further, injudicious engagement of the private agency for negotiation with term higher than HUDCO's offer led to avoidable payment of Rs.0.84 crore as commission from the State exchequer.

Thus, failure to avail the re-set package by HUDCO in time resulted in avoidable payment of interest of Rs.1.86 crore besides an unproductive commission charge of Rs.0.84 crore paid to middleman.

The Government accepted the facts (July 2006) and stated that due to shortage of expert officers in the Finance Department to examine the extent of benefit of the offer made by HUDCO, the Government appointed a professional firm as Sole Advisor. The reply is weak and not tenable as the Finance Department has been negotiating for various loans from financial institutions on behalf of the Government.

SCHOOL EDUCATION DEPARTMENT

4.3 Fraudulent drawal of Pay and Allowances

Deputy Inspector of Schools, Longleng had fraudulently drawn Rs.4.78 crore as pay and allowances of teachers by drawing amounts for employees in excess of actual deployment and double drawal in case of some employees.

The State Mission Authority functioning under the Director of School Education, Nagaland, carries out a survey at periodical intervals to ascertain the deployment of teachers under each district. As per the

survey report of 2003-04 there were 719 teachers under the Deputy Inspector of Schools (DIS), Longleng.

Test check of the vouchers in respect of the DIS, Longleng (Central Audit) revealed that, against the actual deployment of 719 teachers, the DIS Longleng had drawn pay and allowances for teachers ranging from 1051 to 2140 during the period from March 2004 to March 2005 (an excess number of teachers ranging from 332 to 1421 per month). This resulted in excess drawal of Rs.4.56 crore during the period (*Appendix-XXXIV*) as the concerned Treasury Officer, Tuensang did not carry out statutory checks before allowing payment to the DIS. Further scrutiny revealed that, in the pay bills for the month of May 2004, the names of 168 employees had appeared two to three times and the payment was made accordingly involving an amount of Rs.21.80 lakh.

Thus, the Deputy Inspector of Schools Longleng fraudulently drew an amount of Rs.4.78 crore (Rs.4.56 crore + Rs.0.22 crore) by inflating the number of employees and also duplicating the names of the employees.

The Government in reply (August 2006) accepted the facts and stated that action was being taken to investigate the matter by the Police. The investigation report is awaited (November 2006).

4.4 Distribution of Free Text Books

4.4.1 Introduction

The GON is implementing a State Plan Scheme of providing free text books to the students of pre-primary to Class VIII in four districts (Mon, Tuensang, Longleng and Kiphire) and pre-primary to class IV in seven districts (Mokokchung, Kohima, Wokha, Zunheboto, Phek, Peren and Dimapur) in Government Schools. The State Council of Educational Research and Training (SCERT) is responsible for prescribing the syllabus for the schools in Nagaland. The SCERT had directed the Education Department to procure books directly from the publishers and claim 15 *per cent* discount. Further, the publishers were to pay 5 *per cent* as royalty for all the text books developed by the SCERT. For this purpose, an amount of Rs.1.77 crore was sanctioned for the year 2005 by the GON. The supply of text books and their distribution was completed in April 2005.

4.4.2 Irregularities in implementation of the scheme

4.4.2.1 Excess expenditure due to procurement of text books from a local firm and loss of revenue as royalty

Test check (December 2005) of the records of the Director of School Education, Kohima revealed that text books for free distribution to the

students of pre-primary to Class VIII in four districts were procured (1,46,757³ sets of books) from a local supplier 'X'⁴ (March 2005) at a cost of Rs.1.77 crore. The supply orders were issued (February 2005 and March 2005) to the local supplier without following the codal formalities like, calling tenders etc., instead of procuring directly from the publisher. This resulted in an avoidable excess expenditure of Rs.26.51 lakh⁵ and undue benefit to local firm due to non-availment of a rebate of 15 *per cent* from the publisher. The Education Department also did not collect the royalty of 5 *per cent* from the publishers which resulted in potential loss of Government revenue to the tune of Rs.8.83 lakh⁶.

On this being pointed out, the Department admitted the fact and stated (October 2006) that the books were procured from a local firm as per the direction of the Government. The reply is weak and not tenable as the Director of School Education could not furnish any documents from the Government confirming forgoing of rebate and royalty.

4.4.2.2 Excess payment to the Supplier

The GON made a provision of fund of Rs.1.40 crore in 2004-05 to cover the entire targeted students in Nagaland for supply of free text books. The Director of School Education proposed (August 2004) to the GON that the fund of Rs.1.40 crore provided would be utilised in 1st phase to cover 82 *per cent* targeted student in seven districts and remaining 18 *per cent* would be covered in 2nd phase for which an additional Rs.37 lakh would be required. Accordingly, the GON accorded expenditure sanction of Rs.1.40 crore (February 2005) in 1st phase and Rs.37 lakh (March 2005) in 2nd phase towards procurement of text books which were drawn in February-March 2005. Supply order was issued for 1,18,054 sets of books in the first phase and 28704 sets of books in the second phase.

Test check (December 2005) of the delivery challans revealed that against the supply order for 1,18,054 sets of books in the first phase, the supplier had supplied only 1,11,413 sets of books and it was also certified by the respective District Education Officers and Deputy Inspectors of Schools. The supplier preferred the bill (February 2005) for an amount of Rs.1.40 crore for 1,18,054 set of books and the full claim was paid. This resulted in excess payment of Rs.12.29⁷ lakh to the supplier for 6641 sets of books.

In reply (December 2005), the Department while accepting the facts stated that, the supplier was directed to supply the remaining books (July 2005). As

3 82% of 80,829=66,280+51,773+28,704 = 1,46,757

4 M/S Biltek, Kohima

5 15 % of Rs.1,76,76,334

6 5% of Rs. 1,76,76,334

7 Calculated at an average cost price of Rs.185 per set
i.e., Rs.185 x 6,641 = Rs.12,28,585= Rs.12.29 lakh

of November 2006 there was no record to prove that the shortfall was made good.

4.4.2.3 Infructuous expenditure

During the second phase, the remaining 18 *per cent* in the seven districts were to be covered (requiring 14,549 sets of books)*. The Department however, placed an order for 28,704 sets of books and distributed only 9704 sets of books to the seven targeted districts. Scrutiny of the delivery challans revealed that the excess sets of books (19,000) were shown to have been distributed to four districts (Mon, Tuensang, Kiphire and Longleng) whereas, 100 *per cent* of students in these districts were covered during the first phase. Thus, the expenditure of Rs.28.39 lakh (**Appendix-XXXV**) incurred on procuring books for students covered in the first phase was duplication and resulted in infructuous expenditure to the Government.

The Department (October 2006) accepted the facts. Reply of the Government had not been received (November 2006).

4.5 Wasteful expenditure due to deployment of excess teachers

Wasteful expenditure of Rs.9.91 crore due to deployment of 1297 teachers in excess of prescribed norms in Government Primary, Middle and High Schools in three Deputy Inspector of Schools and one Government High School.

According to the norms prescribed by the State Government (April 1993), a maximum of five teachers in Primary School and 11 teachers in Middle School are to be deployed. Further, the State Government in its notification issued in January 2002 prescribed a norm of a maximum of 10 Graduate teachers (both Arts graduate and Science graduate) in Government High Schools (Class V to X) and requirement of additional teachers was to be determined in the teacher pupil ratio of 1:25.

Mention was made in Para 4.7 of the report of the Comptroller and Auditor General of India for the year ending March 2004 regarding deployment of teachers in excess of the prescribed norms in Government Primary Schools (GPS) and Government Middle Schools (GMS) up to March 2004 by the Deputy Inspectors of Schools, Dimapur and Kohima. However, no corrective action was taken by the Government.

- Test check of records of the three Deputy Inspectors of Schools (DIS) *viz.*, Dimapur (July 2005); Tuensang (September 2005) and Meluri (August 2005) covering the period from March 2004 to July 2005; September 2004 to September 2005 and July 2002 to August 2005 respectively revealed that 3155 teachers were deployed in 422 Schools against 1913 (based on teacher student

* Total requirement : 82 *per cent* of 80,829 =62,280 in 1st phase and 18 *per cent* of 80,829 = 14,549 in 2nd phase.

ratio of 1:25) required as per prescribed norms. The deployment of 1242 teachers in excess of norms resulted in changing the teacher student ratio to 1:15 and incurred wasteful expenditure of Rs.9.38⁸ crore during the period (July 2002 to September 2005). In the absence of authenticated number of children in the records of the three DIS test checked vis-a-vis excess number of teacher the possibility of embezzlement could not be ruled out.

- Test check (January 2006) of records of the Head Master, N.I. Jamir Government High School, Ongpangkong (January 2001 to December 2005) revealed that 21 untrained teachers were deployed against requirement of 10 teachers as per prescribed norms during the period of audit. The deployment of 11 teachers in each of the five years (2001 to 2005) in excess of the prescribed norms resulted in wasteful expenditure of Rs.0.53⁹ crore during the period.

Thus, deployment of 1297¹⁰ teachers by the Department in contravention of the prescribed norms resulted in wasteful expenditure of Rs.9.91 crore (Rs.9.38 crore + Rs.0.53 crore) on salary and allowances of the teachers.

The Department accepted the facts (May 2006) and stated that deployment of teachers in excess of norms was made due to public pressure. The Government also endorsed (July 2006) the views of the Department. The reply is not tenable since the deployment is clearly against the norms prescribed.

4.6 Extra expenditure

Against the actual deployment of 82 adhoc teaching and non-teaching staff, the Deputy Inspector of Schools, Noklak had drawn pay and allowances for adhoc staff ranging from 89 to 126 persons resulting in extra expenditure of Rs.26.96 lakh.

The Deputy Inspector of Schools (DIS), Noklak deployed 82 Adhoc teaching and non-teaching staff (79 teachers and 3 Group-D) in different schools under its jurisdiction during the period from February 2004 to July 2005.

Test check of records (August 2005) revealed that the DIS had drawn and disbursed pay and allowances of Rs.1.27 crore against adhoc employees ranging between 89 and 126 persons during the period from February 2004 to July 2005 as seen from the records of the DIS. The excess deployment of adhoc employees ranging from 7 to 44 resulted in extra expenditure of Rs.26.96¹¹ lakh (**Appendix-XXXVI**).

8 Calculated on the minimum pay (GPS teacher Rs.4000 and GMS teachers' Rs. 5000/p.m) +DA @ 61 % + HRA @ 7.5% + MA Rs.100.

Calculated on the minimum pay (GPS @ Rs.4000 and GMS @ Rs.5000/p.m + DA @ 63% + HRA @ 7.5% + MA Rs.100. Calculated on the minimum emolument of under graduate teachers of Rs. 8125 in 2002-03; Rs.9624 in 2003-04 & 2004-05 and Rs.9791 in 2005-06.

9 Calculated on the gross pay of the junior most staff @ Rs.6240 in 2001, Rs.9205 in 2002, Rs.9490 in 2003 and Rs.10257 in 2004 and 2005.

10 1242+55 (11 x 5)=1297.

11 Calculated on the basis of average pay and allowances drawn in each month

The Department in reply (May 2006) stated that adhoc employees appointed by the Directorate are within the sanctioned strength of the district. The Government also endorsed (July 2006) the views of the Department. The reply is not tenable as there were only 82 adhoc employees on records as certified by the DIS.

HORTICULTURE DEPARTMENT

4.7 Centrally Sponsored Scheme fund misappropriated/unaccounted

An amount of Rs.5.58 crore under Technology Mission for Integrated development of Horticulture in North Eastern States was misappropriated/unaccounted for and Rs.55.70 lakh remained unutilized till July 2006.

The GOI approved (October 2003) the Scheme of Integrated Development of Horticulture in a mission mode in North Eastern States considering the potential of horticulture for socio-economic development of the region. On the basis of the GOI sanction (August 2003) the Small Farmers' Agri-Business Consortium, Delhi released a grant of Rs.37.87 crore in 16 installments (August 2003 to July 2006) through the Managing Director, Nagaland Small Farmers' Agri-Business Consortium (SFAC), to the Department of Horticulture under the scheme Mini-Mission II of the Technology Mission.

Test check (August 2006) of records of the Director of Horticulture, Kohima, revealed that an amount of Rs.37.87 crore was received (August 2003 to July 2006) from the Managing Director, SFAC, Nagaland for different components of the scheme.

Scrutiny of the cash book revealed that, the closing balance as on 31 July 2006 was shown as Rs.14.96 crore as against the closing bank balances of Rs.9.38 crore¹². It could be seen that the actual cash balance was understated by Rs.5.58 crore. The Department stated that these amounts were paid as advances to the Officers/Officials of the Department being travel expenses and advances to suppliers for supply of different materials without recording these

¹²

Sl.No.	Name of the Bank	Account No.	Actual Cash balance at the end of July 2006
1	Vijaya Bank, Kohima	1036	Rs.8,64,16,467
2	Vijaya Bank, Kohima	1003	Rs.561
3	Bank of Baroda, Kohima	1001098	Rs.55,69,560
4	Bank of Baroda, Kohima	1001471	Rs.18,12,017
Total			Rs.9,37,99,605

transactions¹³ in the Cash Book as of July 2006. Out of Rs.5.68 crore paid as advances, only Rs.9.71 lakh was adjusted (July 2006), leaving Rs.5.58 crore (**Appendix-XXXVII**) unadjusted for periods ranging from one to six years. In the absence of any details of expenditure of Rs.5.58 crore, the possibility of the money being misappropriated cannot be ruled out. Out of the bank balance of Rs.9.38 crore, an amount of Rs.55.70 lakh was parked (February 2004 to July 2006) in a current bank account¹⁴ without any transactions which affected the implementation of the scheme in the State and also denied the beneficiaries of the intended benefit to that extent. The Government also sustained an interest liability of Rs.11.49 lakh¹⁵ as the State Government resorts to borrowing of money from various Financial Institutions for developmental works.

On this being pointed out, the Government in reply (October 2006) accepted the fact and stated that out of Rs.5.58 crore, Rs.2 crore had been adjusted in October 2006 and efforts are being made to adjust/regularise the remaining amount. The veracity of the claim is yet to be verified in Audit (November 2006).

4.8 Diversion of funds

Technology Mission for Integrated Development of Horticulture fund of Rs.48.86 lakh (including Rs.17.95 lakh earmarked for Supervisory Level Training Centre) was diverted towards purchase of vehicles.

A Centrally Sponsored Scheme “Technology Mission for Integrated Development of Horticulture in the North-Eastern States” was launched by the GOI in 2001-02 with the aim of promoting horticulture and foster socio-economic development. This scheme is being implemented in Nagaland from the year 2002-03. According to the scheme guidelines, provision of Rs.8.50 lakh was made for purchase of two diesel jeeps with trailer for setting up of the State Bio-Control Laboratory and New Model Floriculture Centre under Mini Mission II. A provision of Rs.20 lakh (October 2003) was also made towards construction of Supervisory Level Training Centre.

Test check (May 2005 and August 2006) of the records of the Director, Horticulture, Kohima, revealed that, against the specific provision of Rs.8.50

¹³

Year	Amount paid as advances	Amount recovered/adjusted	Balance to be recovered
2001-02	19,000		19,000
2002-03	22,69,450		22,69,450
2003-04	13,42,581		13,42,581
2004-05	34,64,035		34,64,035
2005-06	3,87,72,198	9,71,000	3,78,01,198
2006-07	1,09,65,309		1,09,65,309
Total	5,68,32,573	9,71,000	5,58,61,573

¹⁴

Bank of Baroda A/C No.1001098, Kohima Branch.

¹⁵

Calculated at the borrowing rate of 8.25 per cent per annum.

lakh for procurement of two diesel jeep with trailer, the Department procured nine light vehicles at a cost of Rs.57.36 lakh¹⁶ between March 2004 and March 2006 by diversion of funds.

Further scrutiny of the records/status report on the implementation of the scheme prepared by the GON revealed that the Department instead of utilising the amount of Rs.20 lakh earmarked for Supervisory Level Training Centre diverted Rs.17.95 lakh (excludes Rs.8.50 lakh mentioned above) towards procurement of four vehicles during 2003-04. Further test check revealed that Horticulture Technology Mission funds of Rs.39.41 lakh were diverted towards procurement of five more vehicles during 2005-06. The records/documents such as invoice/bills, actual payee receipts from the dealers and the Registration Certificates of the vehicles etc., in support of the procurement of five vehicles were not furnished to audit. The necessity of procuring these vehicles and the officers to whom these were allotted was not intimated to audit.

Thus, diversion of scheme funds of Rs.48.86 lakh¹⁷ not only violated Government directives but also frustrated the objective of developing horticulture to promote socio-economic development of the State to that extent. The benefit desired to be obtained by setting up of the Supervisory Level Training Centre could not be achieved. In addition, the possibility of Rs.39.41 lakh being misappropriated could not be ruled out.

The matter was reported to the Department and Government in July 2006 and September 2006; reply had not been received (November 2006).

4.9 Excess payment to suppliers

The department made excess payment of Rs.10.55 lakh by allowing higher rate over the supply order.

The Directorate of Horticulture, Nagaland, Kohima issued supply orders (January 2005) to 21 local suppliers for supply of 211 MT ginger seeds at the rate of Rs.15 per Kg under the scheme Horticulture Technology Mission 2004-05.

Test check (August 2006) revealed that the Department paid Rs.42.20 lakh to the suppliers in June 2005 for procurement of 211 MT ginger seeds @ Rs.20 per kg instead of Rs.31.65 lakh @ Rs.15.00 per Kg without assigning any reasons for allowing higher rate than the rate specified in the supply order. Scrutiny of the Actual Payee Receipts (APRs) revealed that the payment of Rs.42.20 lakh was received by the respective District Horticulture Officers on behalf of the suppliers. However, APRs from the suppliers were not produced to audit.

¹⁶ Rs.17.95 lakh out of Rs.20 lakh and Rs.39.41 lakh out of HTM fund
¹⁷ Rs.57.36 lakh – Rs.8.50 lakh = Rs.48.86 lakh

Thus, entertainment of rate higher than the rate specified in the supply order for procurement of ginger seeds resulted in excess payment of Rs.10.55 lakh. The Government in reply (October 2006) stated that the rates were revised from Rs.15 to Rs.20 per kg during February 2005 and payment was made accordingly. The reply is not tenable as the Department did not issue any supply order at the revised rate.

HOME (POLICE) DEPARTMENT

4.10 Blocking up of fund resulting in loss of interest

The Project Engineer, Police Engineering Project, Chumukedima Division, Dimapur irregularly drew Rs.10.26 crore and kept Rs.1.26 crore in civil deposit and Rs.9 crore in current account resulting in avoidable interest liability of Rs.92.01 lakh.

Rule 290 of the Central Treasury Rules provide that, money shall not be drawn unless it is required for immediate disbursement. It is also prohibited to withdraw money from the treasury to avoid lapse of budget grant.

Test check (March 2005) of records of the Project Engineer, Police Engineer Project, Chumukedima Division, Dimapur revealed that against the Finance Department drawal authorities (March 2005) for Rs.10.26 crore¹⁸ for construction of Police housing at Saijang, Zhadima and Kohima, procurement of furniture, payment of work charged salaries and repair and maintenance of buildings, the Divisional Officer drew (March 2005) Rs.10.26 crore through self cheque and deposited (March 2005) Rs.1.26 crore (HUDCO loan) in Civil Deposit and Rs.9 crore¹⁹ in two current accounts²⁰ of State Bank of India in favour of the Executive Engineer.

Thus the Division, in violation of the Rules locked up Rs.10.26 crore (Rs.1.26 crore upto October 2005 and Rs.9 crore upto October 2006) from March 2005 to October 2006 as detailed above. This resulted not only in denial of the intended benefit but Government also sustained avoidable interest liability of Rs.92.01 lakh²¹ as the State Government resorts to borrowing funds from various financial institutions for funding its other development activities. Had the Division deposited the fund in Government account in March 2005, instead of keeping in Civil Deposit and Current Deposit Accounts, the GON would have borrowed less from outside sources and thereby saved payment of interest on loan to that extent.

¹⁸ Rs.0.02 + Rs.4.97 crore + Rs.5.27 crore

¹⁹ Includes Rs.7.34 crore HUDCO loan.

²⁰ SBI, Dimapur (C/A No.01000050451) Rs.4,00,82,000

SBI, Chumukedima (CA/No.01000050624) Rs.4,99,09,000

²¹ Rs.1,26,00,000 x 6.14 x 7/1200=Rs.4.51 lakh

Rs.9,00,00,000 x 6.14 x 19/1200=Rs.87.50 lakh.

Thus, drawal of funds in anticipation of future demand and their continued retention in civil deposit/current accounts resulted in avoidable interest liability of Rs.92.01 lakh to GON.

The Department in reply (July 2006) stated that the money kept in the civil deposit (Rs.1.26 crore) were withdrawn in August and October 2005 and paid to the contractors for works executed and Rs.9 crore is still retained in the current bank accounts (October 2006). The reply is not tenable as drawal of fund in anticipation of future requirement is against the provision of Rules.

The matter was reported to the Government in June 2006; reply had not been received (November 2006).

HOME (GENERAL ADMINISTRATION) DEPARTMENT

4.11 Extra expenditure due to deployment of excess staff

Extra expenditure of Rs.13.41 lakh due to deployment of peons in excess of prescribed norms in Civil Secretariat.

The Special Officer (Accounts), Civil Secretariat, Nagaland appointed 570 peons (an excess of 182 peons) against the sanctioned strength of 388 peons between March 2004 and September 2005). To examine the persistent trend of appointment without sanctioned post in the Civil Secretariat, a High Powered Committee was appointed (April 2001) by the GON. The Committee inter-alia recommended deploying 488 peons (100 peons on fixed pay) against the sanctioned strength of 388 peons. Accordingly, a Selection Committee was appointed (July 2001) and the senior most 100 peons were selected (October 2001) out of the 182 excess peons, on fixed pay.

Test check (November 2005) of the records (March 2004 to September 2005) of the Special Officer (Accounts), Civil Secretariat, Kohima revealed that the Department continued to deploy 115 to 173 office peons on fixed pay against the approved posts of 100 during the period from March 2004 to September 2005 resulting in entertainment of excess peons ranging from 15 to 73 (*Appendix-XXXVIII*) on fixed pay in contravention of the norms approved by the Government.

Thus, due to deployment of peons in excess of the recommendation of the High Powered Committee, the Government incurred an extra expenditure of Rs.13.41 lakh.

The Government accepted the facts (September 2006) and stated that the recommendation of the HPC was an interim measure and appointment of office peons in excess was necessitated due to the increased activities/expansion/bifurcation and creation of new branches.

PUBLIC HEALTH ENGINEERING DEPARTMENT

4.12 Unproductive expenditure

Augmentation of Water supply project at Mokokchung town at a total cost of Rs.9.92 crore remained non operational even three years after its completion due to non payment of land compensation resulting in cost overrun of Rs. 1.33 crore and loss of potential revenue of Rs.25.69 lakh. The Government also incurred an additional expenditure of Rs.1.05 crore on repairs due to deviation from approved specifications.

GON sanctioned Rs.10 crore (November 2000) for the project “Augmentation of water supply at Mokokchung town Phase-III” with the twin objective of providing safe drinking water to the citizens and generating revenue. The work was scheduled to commence from 2000 and completed by March 2002.

Test check (June 2005) of the records of the Executive Engineer, Public Health Engineering Department (PHED), Mokokchung revealed that, against the Detailed Project Report (January 1999) at an estimated cost of Rs.10 crore, the GOI conveyed approval (May 1999) with modified design and specifications for Rs.8.59 crore. The GOI specification include use of Ductile Iron (DI) cement mortar pipe with effective internal diameter 200 mm K9 (ISO 4179) with cement mortar lining in the inside surface in the high gravity zone. The project commenced in January 2001 and was completed in February 2005 at a cost of Rs.9.92 crore. Against the GOI specifications, the Department used 200 mm DI pipe K7 and K10 in the high pressure zone. During trial run, the DI pipe joints in the high pressure zone (4600 meters) could not take the pressure and broke down. The Department incurred an additional expenditure of Rs.1.05 crore (October 2004) to replace the defective DI pipe by a Galvanized Mild Steel pipe. Thus, deviation from the specified materials resulted not only in additional expenditure of Rs.1.05 crore on repairs but also led to cost overrun of Rs.1.33 crore²².

Further scrutiny of records revealed that, against the actual requirement of Rs.1.22 crore²³, the Department projected only Rs.40 lakh²⁴ for acquisition of land in the catchment area. As of June 2005, the Department had paid only Rs.0.04 crore leaving Rs.1.18 crore outstanding towards land compensation. This resulted in the project being non-operational for four years (upto June 2006) after its completion, as the landowners had gone to Court for payment of land compensation.

Thus, the project scheduled to be completed by March 2002 could only be completed in February 2005 and is yet to be commissioned (June 2006). This

²² Rs.9.92 crore – Rs.8.59 crore= Rs.1.33 crore

²³ At the rate of Rs.15,000 per acre.

²⁴ 400 acres @ Rs.10,000 per acre.

resulted in cost overrun of Rs. 1.33 crore and loss of potential revenue of Rs.25.69 lakh²⁵ from April 2002 to March 2005.

The Government (July 2006) accepted the facts and stated that payment of land compensation is under consideration.

POWER DEPARTMENT

4.13 Undue benefit to contractor/Irregular payment

The Department paid Rs.74.94 lakh to the contractor without actual execution of work (against the work order of Rs.70.52 lakh) and loss of potential revenue of Rs.1.67 crore due to non-completion of the project.

The Chief Engineer (CE) Power prepared an estimate (July 2002) for Rs.1.10 crore for construction of 33 KV line from Changtongya to Longleng²⁶ under System Improvement (SI) scheme with the objective of minimizing transmission losses, improve voltage regulation and earn a revenue of Rs.1.67 crore²⁷ in two years. The project is funded by National Bank for Agriculture and Rural Development (NABARD). The work was awarded to contractor 'X'²⁸ for Rs.70.52 lakh²⁹ in September 2003.

According to clause 3 of the work order, 20 *per cent* of the contract value was to be made on submission of bill(s) along with 50 *per cent* progress report duly verified by the Executive Engineer (EE). The balance 80 *per cent* was to be made on satisfactory completion of the works subject to submission of 5 *per cent* of the contract value within 15 days from the date of issue of work order as security in the form of Bank guarantee. Clause, 4, 7 and 8 of the work order further stipulated that if the contractor failed to commence and complete the work within the stipulated period, the security deposit³⁰ will be forfeited and penalty @ 10 *per cent* of the contract value will be imposed and the contract shall be rescinded. The work was scheduled to commence within one month from the date of issue of the order and completed within February 2004 which was extended up to November 2004.

Test check (September 2005) of records of the EE (Elect), Changtongya revealed that loan of Rs.74.94 lakh (NABARD) approved in March 2004 was withdrawn and kept in Civil Deposit (July 2004). The amount was withdrawn

25 2002-03-Rs.13.85 lakh

2003-04-Rs.7.20 lakh

2004-05-Rs.4.64 lakh

26 (32 kms for Rs.96.00 lakh), 1.6 MVA, 33/11KV substation at Longleng (Rs.10.40 lakh) and Duty Room at Longleng Substation (Rs.3.50 lakh)

27 In the first year- Rs.56.26 lakh and by the second year -Rs.167.16 lakh

28 M/s.Shyama Power(India) Private Ltd, Naga Cottage ,Circular Road, Dimapur

29 Construction of 33 KV line-21 kms (Rs.58.35 lakh); 1.6 MVA, 33/11 KV substation-1 (Rs.9.53 lakh); Duty Room-1 (Rs.2.64 lakh).

30 5 per cent of the total value of work order for Rs.70.52 lakh= Rs.3.53 lakh

and paid to the contractor in March 2005. In June 2005 the EE (Elect.) intimated the contractor that the work had been delayed and not been fully executed. Audit scrutiny of the Measurement Book (MB) also revealed that the work was not fully executed. However, in violation of the terms and conditions of the work order, the contractor was paid Rs.74.94 lakh against the value of the work order of Rs.70.52 lakh despite non completion of work.

The Department also failed to forfeit the security deposit of Rs.3.53 lakh and withhold 10 *per cent* penalty of Rs.7.05 lakh at the time of payment resulting in undue financial benefit of Rs.15 lakh³¹ to the contractor. The progress reports duly verified by the EE as stipulated in the work order were not produced to audit in support of the progress of work.

Thus, the lack of proper planning and monitoring resulted in payment of Rs.74.94 lakh without execution of full work (Rs.4.42 lakh in excess over the work order value). The Department incurred a total loss of Rs.15 lakh (Rs.10.58 lakh + Rs.4.42 lakh) due to payment in excess of contract value and failure to invoke clause 4, 7, and 8 of the agreement. By keeping Rs.74.94 lakh in civil deposit from July 2004 to February 2005 without utilisation the Department also paid avoidable interest. Same could not be calculated as rate of interest was not made available. Had the Department withdraw funds from NABARD on the basis of actual release of payment to contractor, the burden of interest could have been substantially reduced. The Department also sustained a loss of potential revenue of Rs.1.67 crore as envisaged in the project report due to non-completion of the project.

The matter was reported to the Department/Government in June 2006; reply had not been received (November 2006).

TRANSPORT DEPARTMENT

4.14 Unproductive expenditure

Computerised Automobile Service Equipments procured at the cost of Rs.41.04 lakh could not be utilised due to its non-installation after three and half years of its procurement. Rs.4.50 lakh was also paid as installation charges without carrying out the work.

The GON sanctioned Rs.45.54 lakh (July 2003) for purchase of Computerised Automobile Service Equipment including installation charges of Rs.4.50 lakh for Transport Special Pool Workshop at Kohima.

Test check (November 2005) of the records of the Special Officer (Accounts) Civil Secretariat, Kohima revealed that the Transport and Communication

³¹ Rs.4.42 lakh + Rs.3.53 lakh + Rs.7.05 lakh=Rs.15 lakh.

Department issued supply order (January 2003) to a firm³² with a stipulation to complete supply and installation within 30 days from the date of issue of the order which was subsequently extended upto August 2003. The firm supplied the equipment in August 2003 and was paid Rs.45.54 lakh in September 2003 (Rs.41.04 lakh) and October 2003 (Rs.4.50 lakh). The equipment received could not be installed till the date of Audit (November 2006) for want of proper site.

Thus, the lack of planning by the Department resulted in unproductive expenditure of Rs.45.54 lakh (Rs.41.04 lakh+Rs.4.50 lakh). The Department also failed to avail of the benefits of warranty period due to its non-installation.

The Government (August 2006) in reply accepted the fact except release of installation charges. The reply is not tenable as the cash book entry clearly indicated that installation charge was paid to the firm in October 2003.

PUBLIC WORKS DEPARTMENT

4.15 Excess payment to suppliers and Diversion of funds

The Executive Engineer, Public Works Department (Housing) Education Division Kohima failed to recover the full amount of mobilization advance from suppliers' final bill resulting in excess payment of Rs.17.85 lakh. Non-lapsable Central Pool of Resources (NLCPR) fund of Rs.10.52 lakh was diverted towards payment of workcharged salaries.

The GON sanctioned an amount of Rs.32.24 crore (in three installments) for construction of 449 Government Primary Schools and 117 Government Middle School buildings in Nagaland during October 2000 to March 2003. Accordingly, the Executive Engineer (EE), Public Works Department (PWD), Housing, Education Division, Kohima issued (July 2000) supply orders for procurement of pre-fabricated steel structures with CGI sheets and other accessories. The terms and conditions of the supply order allowed mobilisation advance @ of 10 *per cent* of the total supply order on production of Bank guarantee which was subsequently revised to 25 *per cent* (October 2000).

Further, according to Clause IX of Chapter 4 of the guidelines for administration of NLCPR fund issued (November 2002) by the GOI, no staff component, either work-charged or regular shall be created by the Project Implementing Authorities from NLCPR funds. All such requirements shall be met from re-deployment of surplus manpower in the Department

32 *R.S.Enterprises, Dimapur.*

Test check (January 2005) of records of the EE, PWD (Housing) Education Division, Kohima (August 2000 to December 2004) revealed that supply orders were issued to firms 'X',³³ 'and Y',³⁴ in July 2000 for supply of 250³⁵ and 295³⁶ units of pre-fabricated steel structures with CGI sheets and other accessories (complete set) for an amount of Rs.12.40 crore (Rs.5.68 crore and Rs.6.72 crore). As provided in the terms and conditions, the department released (October 2000) the mobilisation advance of Rs.3.10 crore (Rs.1.42 crore and 1.68 crore) after obtaining the Bank guarantees.

The mobilisation advance was adjusted from the suppliers' bills (July 2000 to May 2002). However, further scrutiny of records revealed that the adjustment was made for Rs.2.92 crore only (Rs.1.37 crore and Rs.1.55 crore). Since the final payment to the suppliers had already been made, the failure to recover the full amount of mobilisation advance from the suppliers' bill resulted in excess payment of Rs.17.85³⁷ lakh.

Further test check revealed that the EE paid (October 2000 to November 2001) Rs.10.52 lakh to 63 work-charged staff/employees out of NLCPR funds.

This resulted in diversion of NLCPR fund of Rs.10.52 lakh in contravention of the GOI guidelines.

In reply the Department stated (July 2006) that the expenditure was within the provision of the estimate and the detailed project report and no new posts were created but the fund was utilized for payment of salaries of the existing work charged employees. The reply is not tenable as the expenditure is in violation of GOI the guidelines.

The matter was reported to the Government in June 2006; reply had not been received (November 2006).

POWER DEPARTMENT AND FINANCE DEPARTMENT

4.16 Diversion of funds

Accelerated Power Development and Reforms Programme fund of Rs.1.93 crore was diverted towards other schemes and purposes.

GOI launched (February 2001), the Accelerated Power Development Programme (APDP) which was rechristened as Accelerated Power

33 M/s. Nezone Enterprises, Dimapur.

34 M/s. Angami Trading Co. Dimapur.

35 $60' \times 20' = 200 \text{ units} \times \text{Rs.}1,70,000 = \text{Rs.}3,40,00,000$ and $120' \times 20' = 50 \text{ units} \times \text{Rs.}3,40,000 = \text{Rs.}1,70,00,000$

36 $60' \times 20' = 235 \text{ units} \times \text{Rs.}1,70,000 = \text{Rs.}3,99,50,000$ and $120' \times 20' = 60 \text{ units} \times \text{Rs.}3,40,000 = \text{Rs.}2,04,00,000$

37 M/s. Nezone Enterprises, Dimapur Rs.5.25 lakh

M/s. Angami Trading Co. Dimapur Rs.12.60 lakh

Development and Reforms Programme (APDRP) in March 2003. The objectives of the programme were to renovate, modernise, update the old power plants, upgrade and strengthen the sub-transmission and distribution network including energy accounting and metering in the distribution circles, and to reduce the transmission, distribution and commercial losses in a phased manner. In Nagaland the programme started during the year 2001-02.

According to paragraph 10 (iv) of the programme guidelines, funds provided under APDRP should not be diverted for any other schemes or purposes.

The GOI released Rs.70.47 crore in six installments during the period from March 2001 to January 2006. Out of this, the GON released Rs.54.46 crore in nine installments during the period from August 2001 to March 2006 (*Appendix-XXXIX*).

Test check of records (September 2006) revealed that out of Rs.54.46 crore released by the GON, the Department of Power diverted an amount of Rs.1.53 crore³⁸ for payment of salaries for work charged employees (October 2002 to March 2003) and clearing past liabilities of Likhimro Hydro Electric Project (December 2004).

Further scrutiny of the vouchers received from Dimapur Treasury for the month of March 2006 revealed that the GON, Finance Department diverted Rs.0.40 crore³⁹ from the unreleased amount of Rs.16.01 crore⁴⁰ pertaining to APDRP fund towards renovation of guest house and construction of six bedded dormitories at Wazeho Mini Cement Factory under Nagaland State Mineral Development Corporation.

Thus, Rs.1.93 crore was spent in contravention of the APDRP Scheme Guidelines.

The Government accepted the facts (October 2006).

38 *Rs.63.24 lakh (work charged payment)+ Rs.89.30 lakh (past liability)*
39 *Rs.9.36 lakhs (Guest house)+ Rs.30.55 lakhs (Dormitory)*
40 *Rs.70.47 crore – Rs.54.46 crore*

**HOME (POLICE & GENERAL ADMINISTRATION/
HEALTH & FAMILY WELFARE DEPARTMENTS**

4.17 Failure of senior officials to enforce accountability and protect interests of Government

6771 paragraphs relating to 1426 Inspection Reports involving Rs.1193.48 crore had not been settled as of September 2006.

Accountant General (Audit), Nagaland arranges to conduct periodical inspection of Government Departments to test check the veracity of transactions and verify the maintenance of important accounting and other records, as per the prescribed rules and procedures. These inspections are followed by issue of Inspection Reports (IRs). When important irregularities detected during inspections are not settled on the spot, these IRs are issued to Heads of Offices inspected, with a copy to the next higher authorities. The Head of Offices and next higher authorities are required to ensure compliance with the observations contained in the IRs and rectify defects and omissions promptly and report their compliance to the AG. Serious irregularities are also brought to the notice of heads of departments by the office of the AG to facilitate monitoring of the audit observations therein.

Review of the IRs (issued upto September 2006) revealed that 6771 paragraphs pertaining to 1426 IRs involving Rs.1193.48 crore remained outstanding at the end of September 2006. The corresponding figures for the preceding two years are given below:

Particulars	At the end of		
	September 2004	September 2005	September 2006
Number of IRs pending settlement	1152	1215	1426
Number of outstanding audit observations	5610	5720	6771
Amount involved (Rupees in crore)	88.85	934.90	1193.48

The position of IRs and audit observations pending settlement in respect of three major defaulting departments is given below:

Name of Department	Inspection Reports	Audit observations	Amount involved (Rupees in crore)	Year to which observations relate	No. of IRs to which first replies have not been received
Home (General Administration)	121	795	50.39	1986-87 to 2005-06	47
Home (Police)	117	588	83.08	1986-87 to 2005-06	21
Health & Family Welfare	134	897	68.76	1988-89 to 2005-06	53

The above position indicates failure of the departmental offices in initiating action with regard to deficiencies, omissions and irregularities pointed out in the IRs of the AG. The head of the offices who were informed of the position through half-yearly reports, also failed to ensure that the concerned officers of the department take prompt and timely action to settle the paras.

It is recommended that Government re-examine this matter and ensure that procedure exists for (a) action against the officials who failed to send replies to IRs/Paras as per the prescribed time schedule, (b) action to recover/make good the loss/outstanding advances/overpayments in a time bound manner and, also (c) establish an appropriate mechanism in Government to monitor Government's response to audit.

The matter was reported to the Government in October 2006; replies had not been received (November 2006).