

## CHAPTER-IV

### AUDIT OF TRANSACTIONS

#### HORTICULTURE DEPARTMENT

##### 4.1 Centrally Sponsored Scheme fund misappropriated/unaccounted

##### **Rupees 21.43 crore under Technology Mission for Integrated Development of Horticulture in North Eastern States was misappropriated/unaccounted for.**

GOI approved (October 2003) the Scheme of Integrated Development of Horticulture (IDH) in North Eastern States and released Rs.35.41 crore (November 2006 to December 2007) in ten installments to the Horticulture Department through the Small Farmer's Agri-Business Consortium (SFAC), for implementation of various components of Mini Mission –II of the Technology Mission during 2006-07 and 2007-08.

Scrutiny (April 2008) of records of the Director of Horticulture, Kohima revealed that the closing cash balance as on 31 March 2008 was shown as Rs.24.83 crore in the cash book as against the bank balance of Rs.3.40 crore<sup>1</sup> resulting in an overstatement of cash balance by Rs.21.43 crore.

The Department stated that this amount was paid as advance<sup>2</sup> for various purposes to the officials and suppliers without recording the transactions in the cash book. Scrutiny further revealed that Rs.1.59 crore<sup>3</sup> had been paid to two officers who had since retired from service.

Despite a mention in Para 4.7 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2006 regarding payment of Rs.5.58 crore as unaccounted advances to officials/suppliers during 2003-04 to 2006-07 for various purposes, the Department could regularise only Rs.3.04 crore (October 2006 to March 2008) leaving a balance of Rs.2.54 crore. Instead of taking corrective measures, the Department continued with the practice and allowed another amount of Rs.18.89 crore as advance (August 2006 to March 2008) resulting in accumulation of advances of Rs.21.43 crore (Rs.18.89 crore + Rs.2.54 crore paid prior to this period) as of April 2008. In the

<sup>1</sup> Vijaya Bank, Kohima (A/C No.1036)- Rs.2,21,88,930 and AXIS Bank (A/C No.385010200000550)- Rs.1,18,50,095

<sup>2</sup>

Amount of advances outstanding as of July 2006	Rs. 5,58,61,573
Less -Amount adjusted till February 2008	Rs. 3,04,61,070
<b>Balance</b>	<b>Rs. 2,54,00,503</b>
Advances paid from August 2006 to March 2007	Rs. 3,91,12,948
Advances paid from April 2007 to March 2008	Rs.14,97,85,730
<b>Total Advances outstanding</b>	<b>Rs21,42,99,181</b>

<sup>3</sup> Shri Y.Y. Kikon, Ex. Director (Retired compulsorily in November 2006)- Rs.32.60 lakh and Shri. Nukenchiba Ex. Jt. Director (Retired on Superannuation in July 2007)-Rs.1.26 crore.

absence of any details of expenditure of Rs.21.43 crore, the possibility of the money being misappropriated cannot be ruled out. Further, the chances of recovering Rs.1.59 crore from the two retired officers are remote.

The Government stated (August 2008) that advance of Rs.21.43 crore was paid to the suppliers/firms as per the terms and conditions of the work/supply orders and that Rs.10.97 crore had already been regularised, leaving a balance of Rs.10.46 crore.

The reply is not tenable as the Department continued to make advance payments without routing through the Cash Book as required under rules. Verification of the claims of the Government (18 &19 August 2008) revealed that against Rs.12.39 crore stated to have been regularised upto 13 August 2008, only Rs.5.45 crore was actually regularised leaving a balance of Rs.15.98 crore un-adjusted (August 2008). Further, the claim of the Government that advances were paid to the suppliers as per the terms and conditions of the contract were not factually correct, since MOU was signed with only two firms<sup>4</sup> where provision for payment of advance was envisaged. Other suppliers were not eligible for advance payment as there was no provision in the supply orders nor any specific agreement executed for the purpose.

## **AGRICULTURE DEPARTMENT**

### **4.2 Suspected misappropriation**

#### **Suspected misappropriation of Rs.2.17 crore released by the Director of Agriculture to the District Agricultural Officer, Tuensang for implementation of schemes.**

According to clause-II of Rule 13 of Receipts and Payments Rules 1983, all monetary transactions should be entered in the Cash Book as soon as they occur and attested by the Head of Office in token of check.

The Director of Agriculture released an amount of Rs.3.21 crore (October 2004 to January 2007) in the form of Bank Drafts and Cash for implementation of thirteen schemes to the District Agriculture Officer (DAO), Tuensang during 2004-05 to 2006-07. The DAO, Tuensang acknowledged the receipt by submitting the Actual Payee's Receipts signed by him to the Director.

**Scrutiny (May 2007) of records of the DAO, Tuensang, revealed that against the total funds of Rs.3.21 crore released by the Directorate, only Rs.1.04 crore was accounted for by the DAO, Tuensang in the Cash Book. Valuables register or separate registers for schemes were also not maintained by the DAO. Besides, records in support of expenditure of Rs.2.17 crore did not exist. Thus, an amount of Rs.2.17 crore was misappropriated.**

The matter was discussed with the Commissioner & Secretary, Agriculture Department (November 2008) who assured investigation into the matter.

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<sup>4</sup> Zopar Exports, Bangalore and Florance Flora Bangalore.

**HEALTH AND FAMILY WELFARE DEPARTMENT**

**4.3 Suspected misappropriation and diversion of funds**

**The Principal Director, Health and Family Welfare Department diverted Rs.1.09 crore meant for procurement of AYUSH medicines towards procurement of allopathic medicines. Further, equipment worth Rs.93.61 lakh shown as issued to Naga Hospital Authority, Kohima, Civil Hospital, Dimapur and Homeopathic Treatment Centre/Dispensary, Dimapur was not received by them.**

Union Ministry of Health and Family Welfare (MHFW) introduced a Centrally Sponsored Scheme in 2002-03 for 'Promoting Development of Health Care Facilities' in AYUSH (Ayurveda, Yoga, Naturopathy, Unani, Siddha and Homeopathy) in order to make AYUSH systems available to the public at large and also to bridge the gap between AYUSH and modern medicine. The scheme provided for financial assistance to States for setting up specialised therapy centres with hospitalisation facility in AYUSH system, speciality clinics of AYUSH and AYUSH wing in district allopathic hospitals. The Scheme also envisaged purchase of essential drugs for identified AYUSH dispensaries in rural and backward areas.

(i) Scrutiny (July 2007) of records of the Principal Director, Health and Family Welfare Department revealed that MHFW, Department of AYUSH sanctioned (December 2005) Rs.5 crore as provisional grants-in-aid for setting up 50 Homeopathy Speciality Clinics in Nagaland. GOI also released (March 2006) Rs.50 lakh for supply of Homeopathy, Ayurveda, Unani and Naturopathy medicines to 200 AYUSH sub-centres in Nagaland. The Department drew (July 2006) the entire amount and paid Rs.3.50 crore to the local suppliers for supply of medicines, equipment and nursing sundries. The remaining amount of Rs.2 crore was utilised for training and contingent charges. A scrutiny of supplier's bills, etc., revealed that out of Rs.3.50 crore, Rs.1.09 crore was diverted towards procurement of allopathic medicines.

Thus, diversion of scheme funds of Rs.1.09 crore adversely affected the scheme objective of setting up Homeopathy Speciality Clinics and popularising Indian System of Medicine and Homeopathy in the State.

(ii) Scrutiny of records (July 2007) of the Principal Director, Health and Family Welfare Department revealed that the MHFW, Department of AYUSH sanctioned (March 2005) an amount of Rs.2.90 crore<sup>5</sup> for setting up Ayurvedic wings in eight Allopathic Hospitals and one Ayurvedic Specialty Clinic in Nagaland. The Department drew (August 2005) Rs.1.96 crore<sup>6</sup> and paid Rs.1.72 crore<sup>7</sup> to a local supplier for procurement of Ayurvedic medicines and equipment. The material was shown as received (date of receipt not recorded in the Stock Register) and issued to various hospitals/CHCs/PHCs. Out of this,

<sup>5</sup> Rs. 280 lakh for 8 Ayurvedic Wings @ Rs. 35 lakh each and Rs. 9.52 lakh for Speciality clinic.

<sup>6</sup> Equipment: Rs. 107.02 lakh; Medicines: Rs.64.75 lakh and Training: Rs.24 lakh.

<sup>7</sup> Balance Rs.24 lakh spent for orientation training of Para-medical staff.

***Audit Report (Civil) for the year ended 31 March 2008***

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equipment worth Rs.93.61 lakh<sup>8</sup> was shown as issued to Naga Hospital Authority, Kohima, Civil Hospital, Dimapur and Homeopathic Treatment Centre/Dispensary, Dimapur. Cross verification of records in these hospitals/dispensaries, however, revealed that the material shown as issued by the Directorate had not been received by them.

Thus, non receipt of equipment by these hospitals/dispensaries rendered the expenditure of Rs.93.61 lakh doubtful. Further, the possibility of fraud/embezzlement cannot be ruled out.

The matter was reported to the Government/Department (June 2008); replies had not been received (November 2008).

**IRRIGATION AND FLOOD CONTROL DEPARTMENT**

**4.4 Suspected misappropriation of NABARD loan**

**NABARD loan amounting to Rs.44.17 lakh meant for implementation of Minor Irrigation Projects in Wokha District is suspected to have been misappropriated.**

The Chief Engineer (CE), Irrigation and Flood Control (I&FC) Department received Rs.6.65<sup>9</sup> crore as loan from the National Bank for Agriculture and Rural Development (NABARD) for implementation of various Minor Irrigation (MI) projects in Nagaland during 2003-04 to 2006-07. The CE released an amount of Rs.50.07 lakh from this fund during March 2003 to March 2006 to the Executive Engineer (EE), (I&FC), Wokha Division for implementation of MI projects in Wokha District. Out of Rs.50.07 lakh claimed to have been released, the CE could produce Actual Payee's Receipts only for Rs.44.17 lakh. Records in respect of the balance amount of Rs.5.90 lakh could not be produced to audit even after repeated reminders.

**Scrutiny of records (August 2007) of the EE, (I&FC), Wokha, revealed that the funds stated to have been released by the CE in cash were not recorded in the cash book. Besides, records in support of the expenditure of Rs.44.17 lakh could not be furnished to audit either by the CE or EE.**

**On this being pointed out, the EE, (I&FC), Wokha stated that the Division had not received any funds from the CE, (I&FC) for implementation of MI Projects during the above period.**

**Thus, an amount of Rs.44.17 lakh shown as disbursed by the CE for implementation of MI projects is suspected to have been misappropriated at either end.**

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<sup>8</sup> Drier (2 Nos.); Rs.88.88 lakh; Electric Furnace (1 No.):Rs.0.79 lakh; Thoni (5 Nos.):Rs.1.13 lakh and Steam Chamber (5 Nos.):Rs.2.81 lakh.

<sup>9</sup> 2003-04:Rs.2.20 crore; 2004-05:Rs.0.36 crore; 2005-06:Rs.1.89 crore and 2006-07:Rs.2.20 crore.

The CE during discussion stated (November 2008) that the amount was available with the EE. But he failed to produce any records like Cash Book, Bank Pass Book etc., to substantiate his statement.

The matter was reported to the Government (April 2008); reply had not been received (November 2008).

## **HOME/POWER DEPARTMENTS**

### **4.5 Fraudulent drawal**

**Commandants of three NAP Battalions and the Executive Engineer, Electrical Division, Phek fraudulently drew an amount of Rs.12.19 lakh by inflating the totals of pay bills.**

Rule 66 (3) of the Central Government Accounts (Receipts and Payments) Rules, 1983 provides that entries in all the money columns of the pay bill are to be totalled separately under each section and part and totals written in red ink. The totals must be checked by the drawing officer himself or by some responsible person other than the person preparing the bill.

**(A) Scrutiny (Central Audit) of pay bills (April 2006, December 2006, January, February, April & May 2007) of three Nagaland Armed Police (NAP) Battalions<sup>10</sup> revealed that against the actual admissible net total of Rs.482.11 lakh, the Commandants drew Rs.492.30 lakh by inflating the net totals (Appendix-4.1) resulting in fraudulent drawal of Rs.10.19 lakh<sup>11</sup>.**

**(B) Scrutiny of pay bills in Central Audit (February and March 2007) further revealed that against the actual admissible net total of Rs.3.64 lakh, the Executive Engineer (EE), Electrical Division, Phek drew Rs.5.64 lakh by inflating the net payable amount resulting in fraudulent drawal of Rs.2 lakh (Appendix-4.1).**

**Thus, failure of the Commandants/ EE (DDOs) and the Treasury Officers in exercising the necessary statutory checks prescribed under rules resulted in fraudulent drawal of Rs.12.19 lakh.**

The three commandants in reply (June/July 2008) accepted the facts and stated that Rs.10.08 lakh had been recovered by two commandants and deposited into Government account in May/June 2008.

The matter was reported to the Government (May/August 2008); reply had not been received (November 2008).

<sup>10</sup> 3<sup>rd</sup> NAP, Tuensang, 10<sup>th</sup> NAP, Chumukedima and 1<sup>st</sup> NAP, Chumukedima

<sup>11</sup> 1<sup>st</sup> NAP-Rs.0.11 lakh ; 3<sup>rd</sup> NAP-Rs.5.69 lakh; 10<sup>th</sup> NAP-Rs.4.39 lakh

## **EDUCATION/FINANCE DEPARTMENTS**

### **4.6 Fraudulent drawal**

**Deputy Inspector of Schools, Mon fraudulently drew HRA arrears amounting to Rs.19.92 lakh.**

As per the norms prescribed (October 2000) by the Finance Department, all arrear bills above Rs.25000 are to be pre-audited by the Directorate of Treasuries and Accounts. The Drawing and Disbursing Officer concerned is responsible for getting the bills pre-audited before sending them to the Treasury. The Treasury Officers (TOs) are empowered to reject the arrear bills if submitted without the required pre-audit.

**Scrutiny (April 2008) of pay bills in Central Audit revealed that House Rent Allowance (HRA) in respect of 212 teachers for the period April 2003 to February 2007 amounting to Rs.19.92 lakh was drawn (March 2007) by the Deputy Inspector of Schools (DIS), Mon through 11 bills (Appendix-4.2) stating them to be arrear HRA bills though there was no revision in pay and allowances of the teachers during this period. Cross check with the regular pay bills, however, revealed that all the teachers had been drawing the HRA due to them regularly along with their pay and allowances for the period for which the arrears were drawn. It is therefore evident that the arrear HRA bills were fraudulent. Further scrutiny revealed that all the bills were in excess of Rs.25,000 and were presented by the DIS to the Treasury and passed by the concerned TO without the required pre-audit by the Directorate of Treasuries and Accounts.**

**Thus, non adherence to the norms prescribed by the Finance Department, DIS and the TO facilitated fraudulent double drawal of Rs.19.92 lakh as HRA.**

The Director during discussion (November 2008) informed that at the instance of Audit a special audit by the Directorate of Treasury & Accounts had been initiated. Final outcome is awaited. Reply from the Government had not been received (November 2008).

## **HOME (GENERAL ADMINISTRATION) DEPARTMENT**

### **4.7 Idle expenditure**

**The Government took up the construction of infrastructure for District Headquarters at Dimapur at a new site though infrastructure created for the same purpose at a cost of Rs.11.90 crore was lying idle since September 2006. Besides, the Government incurred an avoidable interest payment of Rs.7.09 crore.**

Government of Nagaland acquired (November 2000) a plot of land at Chumukedima, Dimapur for setting up District Headquarters and entrusted the Civil Administrative Works Division (CAWD), with the work of construction of the DC's Office Complex and General Administration Housing Complex for employees in 2001-02 at an estimated cost

of Rs.10.90 crore which was revised to Rs.14.35 crore<sup>12</sup> in 2002-2003 after including the additional component 'Site and Services'<sup>13</sup>. The project was partly financed by negotiated loan from HUDCO. The works commenced in May 2001 and were completed in all respects in September 2006.

Scrutiny (December 2007) of records of the Executive Engineer, CAWD revealed that the Government released Rs.13.90 crore<sup>14</sup> between March 2002 to March 2006 against the project and the Division paid Rs.11.90 crore to the contractors for works done and measured as detailed in **Appendix-4.3**. The works were completed (September 2006) and taken over by the CAWD in October 2006. However, the infrastructure created has not been utilised and is lying idle (November 2008). Reason for keeping the infrastructure unutilised was neither found on record nor stated.

The State Cabinet had decided (September 2006) to construct a new District Headquarter Complex<sup>15</sup> for Dimapur at another site located in Chumukedima. The CAWD included the work in the works programme for 2006-07 at an estimated cost of Rs.18.79 crore to be funded under State Plan Scheme. The works were awarded to five contractors between March and September 2007 and an expenditure of Rs.22.34 lakh was incurred (August 2007) by the Division as consultancy charges. The work was in progress as of the date of audit. However, the Government/Department did not initiate any action to utilise the infrastructure created earlier for the same purpose at a cost of Rs.11.90 crore. The Government also incurred avoidable interest payment of Rs.7.09 crore<sup>16</sup> on the loan amount of Rs.11.72 crore (March 2002) obtained from HUDCO.

Thus, infrastructure created at a cost of Rs.11.90 crore was lying idle since September 2006 as the Government/ Department had not taken a decision on alternative use of the infrastructure already created. Besides, keeping it idle for further period will lead to unnecessary restoration expenditure. The Government also incurred avoidable interest payment of Rs.7.09 crore.

The matter was reported to the Government/Department (May 2008); replies had not been received (November 2008).

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<sup>12</sup> HUDCO Loan –Rs.11.72 crore and State Share – Rs.2.63 crore

<sup>13</sup> Site Development, Protection Walls, Installation of Transformer, LT Lines, Street lights, etc

<sup>14</sup> HUDCO Loan – Rs.11.72 crore and State Share – Rs. 2.18 crore

<sup>15</sup> Consisting of Dy. Commissioner's Office , District Offices for other Departments and GA Housing Complex

<sup>16</sup> Calculated at the re-set interest of 8.25 per cent per annum for the period from April 2002 to July 2008.

**FISHERIES DEPARTMENT**

**4.8 Loan obtained on false expenditure statement**

**The Director of Fisheries, Tuensang obtained loan of Rs.96.80 lakh by furnishing false expenditure statement. Besides, Rs.65.69 lakh was retained in cash resulting in locking up of Government money.**

The National Bank for Agriculture and Rural Development (NABARD) provided (October 2005) Rs.1.58 crore<sup>17</sup> under the Rural Infrastructure Development Fund-XI to the Department of Fisheries at 6.5 *per cent* interest per annum. The loan was released by NABARD in two installments during March 2006 and March 2007 on the basis of the expenditure statement submitted by the Department that Rs.87 lakh had actually been spent upto March 2006 out of Rs.96.80 lakh<sup>18</sup> provided in March 2006 and March 2007 for the development of the Laang Riverine Project at Tuensang.

The work for development of riverine fisheries project at Laang was awarded (March 2006) to M/S Diethozo Khape without calling tenders. The work was to be completed by March 2007. The contractor was paid the first running account bill of Rs.31.11 lakh (November 2006) for construction of approach road and earth work and materials brought to site. The work was, however, suspended in November 2006 without any recorded reason.

Scrutiny (June 2008) of the records of the Director of Fisheries, Tuensang revealed that, the Department had drawn the money in full (March 2006 & March 2007) and retained Rs.65.69 lakh in current A/c with the Bank for period ranging from 15 to 27 months.

Thus, drawal of Rs.96.80 lakh on the basis of false expenditure statement and continued retention of Rs.65.69 lakh in the Bank resulted in locking up of the fund.

The Government stated (November 2008) that the work has been restarted and is expected to be completed in April 2009. The fact, however, remains that the work was awarded without following the tendering procedures and funds were drawn on the basis of false expenditure statement which needs to be investigated.

<sup>17</sup> La-ang Riverine Fishery Project: Rs.96.80 lakh and Dzulakie Riverine project, Kohima: Rs.60.82 lakh.

<sup>18</sup> Rs.66 lakh in March 2006 and Rs.30.80 lakh in March 2007.

## HORTICULTURE DEPARTMENT

### 4.9 Loss of interest

**Director of Horticulture incurred loss of interest of at least Rs.42.24 lakh due to depositing Horticulture Technology Mission funds in Current Bank Accounts instead of interest bearing deposits in violation of the scheme guidelines.**

A Centrally Sponsored Scheme “Technology Mission for Integrated Development of Horticulture in the North-Eastern States” was launched by the GOI in 2001-02 to promote horticulture and foster socio-economic development. The scheme is being implemented in Nagaland from 2003-04. As per paragraph 6.19 of the Scheme guidelines, the Directorate of Horticulture (DOH) was required to operate interest bearing accounts for management of funds received from the GOI under the scheme. The interest so earned was to be appropriated towards emergent expenditure, a sub component of the scheme, by the Technology Mission Cell, Department of Agriculture and Co-operation, Ministry of Agriculture on the basis of reports on interest earned and proposals submitted by the DOH.

Scrutiny (April 2008) of records of the DOH, Nagaland revealed that the Department deposited all the funds received<sup>19</sup> from GOI including the unspent balances<sup>20</sup> of previous years under the scheme in two Current Bank Accounts<sup>21</sup> instead of interest bearing accounts in violation of scheme guidelines. Transactions relating to implementation of the Scheme were carried out through these accounts. Scrutiny further revealed that the minimum monthly balances in these accounts ranged from Rs.0.18 lakh to Rs.9.83 crore during August 2006 to March 2008. Had the scheme funds been deposited in Savings Bank Accounts, the Department could have earned interest of at least Rs.42.24 lakh<sup>22</sup> during August 2006 to March 2008 (**Appendix-4.4**) and appropriately utilised it for Horticulture Mission Programmes as envisaged in the scheme guidelines.

Thus, failure of the Department to operate interest bearing accounts for managing Technology Mission funds as envisaged in the Scheme guidelines resulted in loss of interest of Rs.42.24 lakh and adversely affected the implementation of the scheme to that extent.

While accepting the fact the Government stated (June 2008) that the balance amount had been transferred to two new Saving Bank Accounts with Vijaya Bank and AXIS Bank. Thus, again the action of the Department in opening a savings bank account in a private bank (AXIS Bank) was not in order as Government accounts are to be operated in a nationalised bank.

<sup>19</sup> Fund received from GOI from August 2006 to March 2008- Rs.35.41 crore

<sup>20</sup> Rs.9.38 crore

<sup>21</sup> Vijaya Bank, Kohima (A/C No.1036) and AXIS Bank (A/C No.385010200000550).

<sup>22</sup> Interest calculated on monthly minimum balances at 3.5 per cent per annum (rate of interest allowed for S.B deposits by banks).

**INDUSTRIES AND COMMERCE DEPARTMENT**

**4.10 Payment made on the basis of false claim**

**Director of Industries and Commerce paid Rs.12.63 lakh to four societies as a one time rebate of 10 per cent on sale of handloom products on the basis of false claims.**

Government of India introduced (January 2004) a Scheme for reimbursement of one time rebate of 10 per cent on sale of handloom products by handloom agencies in order to encourage the marketing of handloom products particularly in the wake of stiff competition with products of power loom and mill sectors. The scheme was discontinued in March 2005 and reintroduced in August 2006 for a period of three years from 2006-07 to 2008-09 as a 100 per cent Centrally Sponsored Scheme. The scheme envisaged reimbursement upto 10 per cent of the value of handloom cloth sold by handloom agencies during specific special events/festivals (April 2006 to August 2006) on the basis of claim duly certified by a Chartered Accountant (CA) and countersigned by the Director in charge of Handloom in the State. The ultimate beneficiaries were to be the handloom weavers.

The Union Ministry of Textiles sanctioned (January 2007) Rs.2.40 crore as a one time rebate of 10 per cent on sale of handloom products during the festivals of Good Friday and Independence Day (April 2006 and August 2006) by 80 handloom agencies/societies of Nagaland on the basis of the claim submitted by the Department on reported sales by these agencies/societies.

Scrutiny (April 2008) of records of the Director of Industries and Commerce, Nagaland revealed that the Department drew (March 2007) and disbursed Rs.2.40 crore to these agencies during 2007-08 on the basis of certified sales reported by these societies. Further scrutiny, however, revealed that Rs.12.63 lakh was disbursed to four agencies/societies<sup>23</sup> on sales made during 2004-05 though the rebate was admissible only on sales made during April 2006 to August 2006. Scrutiny of Annual Accounts of these four agencies/societies also revealed that the sales reflected in their Trading and Profit & Loss Account for the year 2004-05 did not agree with the sales shown in the claim certified by the CA and countersigned by the Director in charge of Handloom. Further, all the facts and figures reflected in the Annual Accounts of all the four agencies/societies were identical which raises questions about the genuineness of the payment.

Thus, the Department had drawn and disbursed Rs.12.63 lakh as 10 per cent one time rebate to four societies/agencies on the basis of false claims submitted by them. Further, the ultimate beneficiaries i.e., the handloom weavers were deprived of the intended benefits to that extent.

<sup>23</sup>(1) M/S K.K.Children MPCs Limited, Dimapur: Rs.3.26 lakh; (2) M/S Chishi Bolomi MPCs Limited, Dimapur:Rs.3.37 lakh; (3) M/S Ghabo MPCs Limited, Zunheboto:Rs.2.84 lakh and (4) M/S Luthomo MPCs Limited, Zunheboto:Rs.3.16 lakh.

The Department accepted the fact (July 2008). Reply of the Government had not been received (November 2008).

## EDUCATION DEPARTMENT

### 4.11 Excess expenditure

**Director of School Education incurred an excess expenditure of Rs.40 lakh due to forgoing discount of 15 per cent on procurement of text books for free distribution from a local supplier instead of procuring directly from the publishers.**

The State Council of Educational Research and Training (SCERT), responsible for prescribing textbooks for schools in Nagaland has an agreement with all Nagaland School Textbook Publishers for a discount of 15 per cent for every textbook on bulk purchases. It directed (September 2005) the Education Department to procure books directly from the publishers and claim 15 per cent discount. Government of Nagaland sanctioned (January 2007) an amount of Rs.3 crore for providing free text books to Government School students for the year 2006-07.

Mention was also made in para 4.4.2.1 of the Report of the Comptroller and Auditor General of India for the year ending 31 March 2006 regarding excess expenditure due to procurement of text books from local firm and loss of revenue as royalty to the tune of Rs.26.51 lakh and Rs.8.83 lakh respectively. However, no corrective action was taken by the Government.

Scrutiny (August 2007) of the records of the Director of School Education, Kohima revealed that the Department, in violation of SCERT directives, procured (December 2006 to January 2007) 2,07,797 sets of text books for free distribution from a local supplier without following the codal formalities relating to tendering etc., at a cost of Rs.3 crore<sup>24</sup> and paid (February 2007) Rs.2.75 crore to the supplier. The balance Rs.25 lakh was spent on freight and distribution charges. This resulted in an avoidable excess expenditure of Rs.40<sup>25</sup> lakh and undue benefit to the local supplier as the Department failed to avail of the discount of 15 per cent from the publishers.

During discussion, the Additional Chief Secretary (ACS), Education Department stated (November 2008) that there was lack of coordination between the SCERT and Education Department. As a result, the Department was not in a position to avail of discount while purchasing the text books. The ACS, however, assured that the matter will be looked into so that there will be no loss to Government on procurement of books for the ensuing sessions.

<sup>24</sup> Cost of Text Books:Rs.2.70 crore, Freight Charges:Rs.0.17 crore and Distribution charges: Rs.0.13 crore

<sup>25</sup> 15 per cent of Rs.2.70 crore

**FOOD AND CIVIL SUPPLIES DEPARTMENT**

**4.12 Undue benefit to the Stockist**

**Non-revision of retail price of atta commensurate with the revised conversion ratio of wheat resulted in undue benefit of Rs.29.18 lakh to the Stockist. Besides, the BPL beneficiaries were burdened with an extra cost to that extent.**

In view of the shortage of flour milling facilities and in order to prevent the misuse of wheat as animal fodder, the Government of Nagaland (GON) decided (May 1999) to supply whole-meal atta to the BPL beneficiaries in lieu of wheat. The GON also fixed (May 1999) the conversion ratio of atta at 90 *per cent* after allowing 10 *per cent* deduction as wastage and the retail price at Rs.6.65 per kg. The GOI revised (December 2005) the conversion ratio to 95-98 *per cent* and also instructed the States to fix the rates in such a manner that there was no unintended benefit to the Millers/Agencies. Pursuant to this, the GON also revised (January 2006) the average recovery/conversion rate of wheat to 96 *per cent*. However, the Department did not revise the retail price of atta to Rs.6.23<sup>26</sup> per kg commensurate with the revised conversion ratio.

Scrutiny (June 2008) of records of the Director of Food and Civil Supplies, Dimapur revealed that the Government allotted 7238 MT of wheat to the only authorized Agency/Stockist during April 2007 to May 2008 for conversion and distribution to BPL beneficiaries as atta through the Fair Price Shops (FPS). The Agency/Stockist distributed 6947 MT of atta to the BPL beneficiaries after conversion at Rs.6.65 per kg and received an undue benefit of Rs.29.18 lakh<sup>27</sup>.

Thus, the Department's failure in revising the retail price commensurate with the revised conversion ratio of wheat as instructed by the GOI, resulted in an undue benefit of Rs.29.18 lakh to the Agency/Stockist. Besides, the BPL beneficiaries were burdened with an extra cost to that extent.

The Department stated (November 2008) that at the instance of Audit, the matter had been taken up with the Government for re-fixing the rate.

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Particulars	Rate, when recovery rate of atta was 90 % (Rs. Per qtl)	Rate, when recovery rate of atta is 96% (Rs. Per qtl)
Central Issue Price (CIP)	415	415
Milling charges of conversion into whole meal Atta	108	108
Handling Commission	20	20
Transportation Charges	35	35
Fair Price Shop (FPS) commission	20	20
Retail end Price	598 per 90 kg	598 per 96 kg
Consumer end/ retail Price	<b>i.e. Rs.6.65 per kg</b>	<b>i. e. Rs.6.23 per kg</b>
Difference in price (Rs. Per kg)	<b>Rs.6.65 –Rs.6.23 = Rs.0.42 per kg</b>	

<sup>27</sup> 6947024 kg X Rs.0.42 per kg. (Rs.6.65-Rs.6.23) = Rs.2917750 say Rs.29.18 lakh.

**General**

**4.13 Outstanding Inspection Reports and Audit Committee meetings**

Audit observations on financial irregularities and defects in maintenance of initial accounts noticed during local audit and not settled on the spot are communicated to the auditee departments and to the higher authorities through Inspection Reports (IRs). The more serious irregularities are reported to the department and to the Government.

The position of outstanding reports in respect of the Civil and Public Works Departments is discussed below.

As of March 2008, 7746 paragraphs included in 1362 IRs issued upto 2007-08 were pending settlement. The year-wise break up of the outstanding IRs and paragraphs is given below:

Year	Number of outstanding	
	IRs	Paragraphs
Upto 2002-2003	527	2681
2003-2004	102	623
2004-2005	159	932
2005-2006	265	1428
2006-2007	174	1183
2007-2008	135	899
<b>Total</b>	<b>1362</b>	<b>7746</b>

The major departments where a large number of IRs and paragraphs are outstanding are given in the table below:

Name of the Department	Number of IRs	Number of Paragraphs
School Education Department	267	1188
Public Health Engineering Department	53	650
Rural Development Department	159	929
PWD (Housing)	64	1057
PWD (Roads and Bridges)	83	773
General Administration Department	92	582
<b>Total</b>	<b>718</b>	<b>5179</b>

It is recommended that the Government look into the matter and ensure that the system is streamlined to ensure proper response to audit observations. Action may be taken against the officials who fail to send replies to IRs/paragraphs as per the prescribed time schedule and the losses/outstanding advances/overpayments may be recovered in a time bound manner.

No Audit Committee Meeting was held during the year 2007-08. However, an intensive review of pending IRs was undertaken in 2007-08 and 239 IRs containing 1452 paragraphs were settled.