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# Report of the Comptroller and Auditor General of India

for the year ended March 2006



## Union Government
## Civil and Postal Departments
## (Performance Audit)
## No.1 of 2007

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# PREFACE

This Report for the year ended March 2006 has been prepared for submission to the President of India under Article 151 of the Constitution.

This Report contains the results of two Performance Audits pertaining to the Department of Posts under the Ministry of Communications and Information Technology and one Information Technology Audit pertaining to the Office of the Development Commissioner (Small Scale Industries) under the Ministry of Small Scale Industries as shown below:

| | | |
|---|---|---|
| 1 | Performance Audit of Mail Management | Department of Posts |
| 2 | Performance Audit of Management of Cash in Post Offices | Department of Posts |
| 3 | IT Audit of Small Enterprise Information & Resource Centre Network | Office of the Development Commissioner (Small Scale Industries) |

# OVERVIEW

This Report contains the results of two Performance Audits pertaining to the Department of Posts under the Ministry of Communications and Information Technology and one Information Technology Audit pertaining to the Office of the Development Commissioner (Small Scale Industries) under the Ministry of Small Scale Industries.

**Ministry of Communications and Information Technology**

**Performance Audit Report of Mail Management in the Department of Posts**

Mail management involves mail collection, sorting, transmission and delivery of letters and other articles and is aimed at ensuring early delivery of mail, efficient utilisation of the resources and improved customer services. In view of the large volume of incoming and outgoing mail, efficient management of mail is one of the most important tasks of the Department of Posts (DoP).

Some of the major deficiencies observed by Audit in respect of mail management were as follows:

- Mail traffic registered a decline of nearly 50 *per cent* during last five years due to increased competition from private couriers and other modès of communication especially the value added services in telecom sector. Despite this, DoP failed to improve its operational efficiency, reduce staff costs and modernize its operations to render better services to the customer.
- DoP continued to incur losses during last five years and 16 out of the 20 postal services continued to sustain losses over the years. The net loss for the year ending 31 March 2006 was Rs 1207.71 crore.
- The projects for computerization of Head Records Offices, Computerised Registration Centres and Transit Mail Offices have fallen behind schedule and the computers installed were not being used for faster processing of mail and other articles in handling offices. Hardware worth Rs 6.72 crore remained idle due to inadequate infrastructure, non-preparation of site, etc.
- Department's efforts to modernize and mechanise mail sorting operations at Chennai and Mumbai to improve operational efficiency through introduction of Automatic Mail Processing machines and Culler-Facer-Cancellor machines also did not succeed despite investment of Rs 60.25 crore due to its failure to standardise mail and ensure adequate public awareness about the advantages of using standard postal stationery.
- Book Now Pay Later facility was allowed to customers without taking advance deposits from them which resulted in accumulation of

outstanding dues of Rs 1.36 crore in 12 Head Post Offices test checked.

- Business Post facility was extended to customers without taking advance which resulted in accumulation of outstanding dues of Rs 2.02 crore in eight Head Post Offices test checked.
- Agreement was signed with United Arab Emirates without taking into account weight and distance element which resulted in loss of Rs 9.15 crore during the period February 2002 to December 2002.

***(Chapter 1)***

**Performance Audit of Management of Cash in Post Offices**

DoP receives cash for rendering various services through the sale of postage stamps and stationery; agency services and deposits in various Post Office Savings Bank and other accounts. The cash so collected is remitted at the end of the day to the concerned head post offices (HPOs) by the post offices under their accounts jurisdiction, after retaining the authorized balance of cash. The HPOs remit the cash to the deficit post offices under their jurisdiction to meet their liabilities. The objectives of effective cash management are to ensure availability of liquid cash, promptness and accuracy in accounting, and safety.

Some of the major deficiencies observed by Audit in management of cash in post offices were as follows

- Divisional heads failed to review and revise cash balance limits of the post offices as 57 per cent of the post offices test checked were found to irregularly retain cash much in excess of authorized maximum limits. The problem of retention of excess cash balance was more severe in head post offices.
- An amount of Rs 1.90 crore was paid as demand draft charges to banks by 23 HPOs and their sub offices under 10 circles during the period 2003-06. This expenditure could have been minimized had the sub-post offices been delegated powers to draw/ remit cash directly from/into the banks.
- Security arrangements in post offices were found inadequate. Large cash amounting to more than rupees one crore was retained overnight in post offices without even providing an armed security guard. Such an arrangement is fraught with the serious risk of theft and robbery.
- Weak internal controls were resulting in large number of cases of suspected theft of cash in post offices and frauds. More than five thousand cases of loss and suspected fraud were registered in the department during the period 2003-04 to 2005-06 involving an amount of Rs 32.73 crore, out of which only 34 *per cent* was recovered.
- 7,625 cases of theft etc were pending for settlement at the end of March 2006. Out of this, 63 *per cent* cases i.e. 4,816 cases were pending due to non completion of departmental proceedings/investigations.

- An amount of Rs 1,819 crore remained unlinked in the bank scrolls and Rs 3,934 crore in the post office schedules in respect of drawings from banks at the end of March 2006. Similarly, an amount of Rs 4,645 crore remained unlinked in the bank scrolls and Rs 4,906 crore in the post office schedules in respect of remittances into banks.

***(Chapter 2)***

**IT Audit of Small Enterprise Information & Resource Centre Network**

An e-governance project "Small Enterprise Information & Resource Centre Network" (SENET) was conceived in 1993 by the Office of the Development Commissioner to provide an all-India and decentralized information network primarily for meeting the information requirement of small enterprises and other target groups. The project was implemented only by February 2002, and despite an expenditure of Rs 11.41 crore, it had not been able to fully achieve its objective of disseminating information in a timely manner to the intended users. Audit examination revealed weak application controls and data integrity over the SENET applications, ineffective control over operational costs, deficient general Information Technology controls and weaknesses in IT security. The information on the internet website 'SIDO Online' was not updated regularly, and the contents in respect of many categories were invalid and outdated.

***(Chapter 3)***

# MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGY

# DEPARTMENT OF POSTS

# Performance Audit of Mail Management

# CHAPTER 1
# MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGY

## DEPARTMENT OF POSTS

### Performance Audit of Mail Management in the Department of Posts

### HIGHLIGHTS

- **Mail traffic registered a decline of nearly 50 *per cent* during last five years due to increased competition from private couriers and other better modes of communication especially the value added services in telecom sector. Despite this, DoP failed to improve its operational efficiency, reduce staff costs and modernize its operations to render better services to the customer.**

***(Paragraph 1.6.1)***

- **The department continued to incur losses during last five years and sixteen out of the 20 postal services being provided by DoP continued to sustain losses over the years. The net loss for the year ending 31 March 2006 was Rs 1207.71 crore.**

***(Paragraph 1.6.2)***

- **According to National Test Letter Run conducted by the department, only 55 *per cent* of mail was delivered within the prescribed norms for delivery.**

***(Paragraph 1.6.3)***

- **The projects for computerization of Head Records Offices, Computerised Registration Centres and Transit Mail Offices have fallen behind schedule and the computers installed were not being used for faster processing of mail and other articles in handling offices. Hardware worth Rs 6.72 crore remained idle due to inadequate infrastructure, non-preparation of site, etc.**

***(Paragraph 1.13)***

- **Department's efforts to modernize and mechanise mail sorting operations at Chennai and Mumbai to improve operational efficiency through introduction of Automatic Mail Processing machines and Culler-Facer-Cancellor machines also did not succeed despite investment of Rs 60.25 crore due to its failure to**

**standardise mail and ensure adequate public awareness about the advantages of using standard postal stationery. As a result, the Automatic Mail Processing machines are being underutilized to the extent of 66.39 *per cent* to 71.78 *per cent* and Culler-Facer-Cancellor machines to the extent of 93.20 *per cent* to 98.54 *per cent*.**

*(Paragraph 1.14)*

- **Similar projects for introducing Automatic Mail Processing Centres at a total cost of Rs 84.27 crore at Delhi and Kolkata have been delayed due to deficient project management.**

*(Paragraph 1.11.3)*

- **Book Now Pay Later facility was allowed to customers without taking advance deposits from them which resulted in accumulation of outstanding dues of Rs 1.36 crore in 12 Head Post Offices test checked.**

*(Paragraph 1.9.2)*

- **Business Post facility was extended to customers without taking advance which resulted in accumulation of outstanding dues of Rs 2.02 crore in eight Head Post Offices test checked.**

*(Paragraph 1.10)*

- **Terminal dues amounting to Rs 2.84 crore were pending against 23 countries from 1999 to 2004.**

*(Paragraph 1.11.1)*

- **Agreement was signed with United Arab Emirates without taking into account weight and distance element which resulted in loss of Rs 9.15 crore during the period February 2002 to December 2002.**

*(Paragrah 1.11.2)*

- **The department also did not effectively monitor settlement of complaints to improve customer satisfaction.**

*(Paragraph 1.12)*

## SUMMARY OF RECOMMENDATIONS

- **In view of decline in mail traffic, DoP should review its manpower requirement for various postal services and revise staff norms taking into account automation and computerization introduced, new value added services started and substantial reduction in traffic of traditional postal service to bring down increasing cost of postal operations.**

- **To counter declining traffic and intense competition from private courier industry, DoP should take effective steps in a time bound manner to enhance its efficiency in terms of timely delivery of mail and improve customer satisfaction.**

- **DoP should evolve a mechanism to ensure that norms prescribed for handling of articles in mail offices and Computerised Registration Centres are strictly adhered to.**

- **DoP should take steps to make its operations relating to premium services more competitive by ensuring timely delivery. Departmental instructions for grant of rebate and collection of advance from BNPL and business post customers should be scrupulously followed.**

- **To improve their utility DoP should integrate all the three standalone software for HRO, CRC and TMO which will also obviate duplicate feeding of data and delays.**

- **DoP should standardize mail to ensure that Automatic Mail Processing Centres and Culler Facer Cancellor machines are optimally utilized. DoP could start with its registered mail sector.**

## 1.1 INTRODUCTION

Mail management involves mail collection, sorting, transmission and delivery of letters and other articles and is aimed at ensuring early delivery of mail, efficient utilisation of the resources and improved customer services. In view of the large volume of incoming and outgoing mail, efficient management of mail is one of the most important tasks of the Department of Posts (DoP). India has the largest postal network in the world with 1,55,516 post offices, out of which 1,25,148 post offices are situated in rural areas.

## 1.2 SCOPE OF AUDIT

Performance audit of Mail Management in DoP was conducted during April to August 2006, covering the period 2001-2002 to 2005-06. Twenty one out of 22 postal circles were reviewed in audit. In each of the circles, two Head Post

Offices (HPOs) and seven sub offices (SOs), including two rural SOs, under each HPO were selected randomly for the purpose of audit.

## 1.3 AUDIT OBJECTIVES

The main audit objectives were to verify that:

- mail collection, transmission and delivery system was prompt and efficient;
- management of collection, transmission and delivery of mail ensured optimal utilization of resources and customer satisfaction; and
- computerization and modernization of mail operations were effective and adequate.

## 1.4 AUDIT CRITERIA

The main audit criteria used for audit were as follows:

- Norms and instructions issued from time to time for collection, transmission and delivery of mail.
- Reports and returns prescribed in respect of transmission and delivery of mail.
- Benchmarks for operational and financial performance indicators fixed by DoP.
- Annual plans of DoP for computerization/modernisation of mail operations

## 1.5 AUDIT METHODOLOGY

The audit methodology included examination of records in DoP and in selected postal circles and post offices, issue of audit questionnaire and discussions with the auditee to evaluate the performance of the mail management on the basis of the audit criteria broadly outlined earlier.

## 1.6 AUDIT FINDINGS

Audit findings with regard to collection, transmission and delivery of mail and steps taken for computerization, mechanisation and modernisation of mail operations are discussed in the succeeding paragraphs.

### 1.6.1 Mail Traffic

The mail traffic vis-à-vis revenue of DoP for the past five years is given below:

| Year | Mail traffic (Registered and Unregistered mail) (in crore) | Percentage decline in traffic as compared to previous year | Revenue of DoP** (Rs in crore) | Staff strength * | Percentage decline in staff strength as compared to previous year |
|---|---|---|---|---|---|
| **2000-01** | **1420.32** | **10.00** | **1646.58** | **593878** | |
| **2001-02** | **1103.06** | **22.34** | **1818.60** | **573211** | **3.48** |
| **2002-03** | **909.41** | **17.56** | **1998.44** | **559408** | **2.41** |
| **2003-04** | **863.53** | **5.05** | **2050.59** | **542940** | **2.94** |
| **2004-05** | **736.77** | **17.00** | **2095.76** | **537614** | **0.98** |

**staff strength pertains to mail operations.*
***Revenue includes speed post and business post*
*Figures for 2005-06 not furnished by the department*

The mail traffic had registered a sharp decline of 48.12 *per cent* during last five years. The reasons for this significant decrease in mail traffic were tremendous growth of telecom services including value added services and steady rise in private courier industry. Though the mail traffic had declined by nearly 50 *per cent*, Audit observed that the staff strength had remained almost stagnant with only 9.47 *per cent* reduction during this period. Audit observed that the Postal Services Board had accepted in November 2001 the report of the Committee on Manpower Planning and decided to set up a core group to examine and draw up implementation plan for the committee's recommendations including suggestion for evolving new manpower norms on stabilization of computerized systems. But no new norms were evolved and implemented even after lapse of six years despite significant decline in mail traffic handled by the department. The percentage reduction in the staff strength vis-à-vis mail traffic was negligible, resulting in high cost of operations of postal services.

*Recommendation*

*In view of decline in mail traffic, DoP should review its manpower requirement for various postal services and revise staff norms taking into account automation and computerization introduced, new value added services started and substantial reduction in traffic of traditional postal service.*

Despite losing substantial traffic to private operators and telecom services, DoP's steps to arrest this trend to improve its operational efficiency, cost effectiveness has not been significant. Computerization and modernization of mail operations in DoP has not improved operations to the expected level.

### 1.6.2 Cost-effectiveness of postal operations

Audit observed that though the mail traffic was showing a declining trend over the years, the revenue showed an increasing trend mainly because of increase in traffic of value added services like speed post, business post, speed post passport service, express parcel post, media post, meghdoot post card, greeting post, data post, e-bill post and e-post, etc.

Overall, 16 out of the 20[Ω] postal services being provided by DoP continued to sustain losses over the years. Only four services viz., Competition post cards, foreign mail, insurance and letters were making marginal profits. The comparative position of the net losses incurred by the Department on various postal services, including speed post during the period 2001-2006 was as follows:

| Year | Net loss (Rs in crore) |
|---|---|
| 2001-02 | 1352.93 |
| 2002-03 | 1173.53 |
| 2003-04 | 1162.21 |
| 2004-05 | 1289.11 |
| 2005-06 | 1207.71 |

### 1.6.3 Operational Efficiency

DoP norms envisage that mail should be delivered within two to five days following the day of posting.

The department conducts National Test Letter Run (NTLR) to determine the average time taken for delivery of mail. It gives the full picture of the time taken between collection of letters from post boxes in the originating stations and the delivery of letters to the addressees at the destination. There are 59 NTLR centres in all and each centre is expected to post a total of 400 test letters per month to other centres to determine the actual time taken in transmission of mail at the national level.

Audit scrutiny of the NTLR reports pertaining to the period from January to December 2005 revealed that only 55 *per cent* of mail was delivered within the prescribed norms for delivery.

Thus NTLR survey conducted by the department itself showed low level of operational efficiency in terms of delivery of mail.

Audit scrutiny of the records of DoP further revealed that the findings of the NTLR were not submitted to the Head of the Mail Management and Transport Section in the DoP headquarters defeating the very purpose of conducting these surveys intended to study and improve the efficiency of mail operations.

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Ω Post cards, Letters, Registration, Letter cards (Inland), Money orders, Newspapers (single), Newspapers (bundle), Indian Postal Orders, Printed Postcards, Value payable post, Other periodicals, Acknowledgements, Book packets and Sample packets, Telegraphic MOs, Printed books, Insurance, Parcels, Competition Post Cards, Speed post and Foreign mail.

*Recommendation*

*Due to declining traffic and intense competition from private courier industry, DoP should take steps to enhance its efficiency in terms of timely delivery of mail to improve customer satisfaction.*

## 1.7 Collection, transmission and delivery of mail

### 1.7.1 Non-observance of procedure relating to collection of unregistered mail

Departmental rules provide that articles posted in letter boxes should be brought to the post offices immediately before the hour fixed for the clearance of the letter boxes. In order to check the timely clearance of letter boxes, Postmasters are required to frequently post test letters and note the results in their order books. Postmasters are also required to frequently check whether the stamps affixed on letters are not used-up or fake and note these results in their order books. Departmental rules also provide that the sorting assistants are required to make entries in their error books for the articles collected with inadequate postage after calculating the due postage in respect of articles received with inadequate postage.

In delivery offices the total postage due on all unpaid/insufficiently paid unregistered articles of the letter mail received for delivery is required to be entered along with the realization particulars in the unpaid register by the delivery assistant.

Audit scrutiny of the records of 42 Head Post Offices (HPOs) and 294 Sub Offices (SOs) in 21 circles test checked showed that there were neither entries relating to posting of test letters in the order books nor any entries in the error books. However, entries were made in the unpaid register. It was further observed that postage to the extent of Rs 15.09 lakh was not collected in the following post offices:

**(Rs in lakh)**

| S.No. | Name of Post office | Postage due | Amount collected | Balance |
|---|---|---|---|---|
| 1. | Vijayawada | 0.42 | 0.27 | 0.15 |
| 2 | Bilaspur | 3.23 | - | 3.23 |
| 3. | Raipur | 3.67 | - | 3.67 |
| 4. | Indore | 7.33 | - | 7.33 |
| 5. | Bhubaneswar | 0.82 | 0.11 | 0.71 |
| | **Total** | **15.47** | **0.38** | **15.09** |

On this being pointed out by Audit, the concerned post masters accepted the facts.

Audit carried out a survey in August 2006 by posting test letters in 21 circles to verify whether due postage was calculated by the sorting assistants. Audit posted 750 letters with no postage or with less postage. Audit observed that the due postage was not calculated and collected on any of these letters. This may have become an endemic source of loss of revenue for DoP and can be attributed to inadequate monitoring by the sorting assistants and post masters.

## 1.8 Sorting

Sorting offices perform detailed sorting of mail received from post offices. Sorting offices function round the clock in two or three shifts. Departmental instructions stipulate that there should not be any transfer of unsorted mail from one shift to another for more than five occasions in a month and even in such cases, the quantum of each transfer should not exceed five to ten *per cent* of the total mail handled in the shift. Excessive transfers of unsorted mail from one shift to another shows less than optimal performance by the sorter and results in delay in transmission of mail. Audit noticed that there were shift to shift transfers and consequent delay in transmission and delivery as discussed below.

### 1.8.1 Delay due to holding of mail

Audit scrutiny in 21 circles disclosed that mail remained unsorted at the end of each day due to shift to shift transfers. Further test check in nine circle revealed that the pendency of mail ranged between 10 *per cent* to 83 *per cent* at the end of a day due to shift to shift transfers. Such transfers were abnormally high in Assam, Kerala and Orissa as shown in **Annexure-I**. This resulted in delay in sorting and delivery of mail. Audit further observed that the records pertaining to shift to shift transfers were not maintained in 12 circles.

On this being pointed out by audit, it was stated by Senior Superintendent of RMS Kochi and Orissa that shift to shift transfer of mail was due to shortage of staff, late running of trains, heavy rush of mail, etc. The ground of shortage of staff is not tenable in the face of declining mail traffic. Further, late running of trains in no way affects the sorting process in the mail office and heavy rush of mail is only an occasional feature.

### 1.8.2 Non-closure of unjustified mail offices

DoP instructions of December 1985 stipulated that a mail office shall handle a minimum of 30,000 articles and 500 registered articles per day. In November 2003, powers for closure/merger of mail offices with workload of less than the minimum were delegated to the Heads of Circles.

Audit observed that 65 out of 460 mail offices were not even handling 10000 articles, which was far below the prescribed limit as shown in **Annexure-II**. The number of unregistered articles handled by these offices ranged between 1238 and 9993.

Further test check in Kerala, Orissa, Tamil Nadu and West Bengal circles showed that though mail traffic was below the norms in 10 mail offices, they continued to function resulting in avoidable expenditure of Rs 1.51 crore as detailed below.

| S.No. | Name of circle/ Mail office | Expenditure incurred on running ten mail offices (Rs in lakh) |
|---|---|---|
| 1 | Kerala | 1.92 |
| 2. | Orissa | 17.42 |
| 3. | Tamil Nadu | 6.69 |
| 4. | West Bengal | 125.03 |
| | | **151.06** |

### 1.8.3 Poor performance of Computerised Registration Centres

DoP prescribed a norm of 1000 registered articles per day to be handled by a sorting assistant working in Computerised Registration Centre (CRC). Audit observed that during the period January to July 2006, 50 out of 100 CRCs were handling registered articles below the prescribed norms. It was further noticed that in 31 CRCs, the number of registered articles was even less than 500.

Continuation of these CRCs would entail avoidable expenditure on maintenance of office, rent, electricity apart from expenditure incurred on account of salary and wages etc.

## 1.9 Speed Post

Speed post guarantees time bound and assured delivery of all inland and international speed post articles. The deficiencies with regard to speed post are discussed below.

### 1.9.1 Irregular grant of rebate to bulk customers

As per the instructions issued by DoP in August 2001, rebate was to be allowed to only those bulk customers who signed the Speed Post contract. Departmental instructions (November 1995) stipulated that bulk customers of Speed Post were to be granted rebate of five *per cent* of the business if the monthly business ranged between Rs 10,000 and Rs 49,999 and 10 *per cent* for business of Rs 50,000 and above. As per terms and conditions of the agreement, customers would be served with monthly bills before 10$^{th}$ of the following month and they would be entitled to rebate at the above rates subject to the condition that they made payment by the end of the billing month.

Test check of the bill registers in 13 HOs in 10 circles revealed that the above condition of granting rebate to bulk customers was not being followed scrupulously and rebate was being granted to even those customers who failed to comply with the departmental instructions. This resulted in irregular grant of rebate of Rs 57.88 lakh as shown in **Annexure-III**.

### 1.9.2 Failure to take advance deposit from BNPL customers

In order to increase the market share for speed post by motivating bulk customers, department introduced in November 1990, the 'Book Now Pay Later' (BNPL) scheme. Speed post customers who provide an average monthly business of Rs 5000 or more can be provided with BNPL facility against a deposit, equivalent to the value of two months' transactions. Under this scheme, customers need not make payment at the time of booking; instead they could make payment at the time of presentation of bill which is to be issued by 10th of the following month.

Scrutiny of records by Audit in 12 HPOs revealed that BNPL facility was allowed to the customers without taking advance deposits from them resulting in accumulation of outstanding dues amounting to Rs 1.36 crore during 2000-01 to 2005-06 as shown in **Annexure-IV.** DoP stated that the services were allowed with the intention of enhancing the business and to meet the challenges from private couriers. Department's failure to take advance deposits was fraught with the risk of non-realisation of dues from the customers.

### 1.10 Business post

The Department launched Business Post with effect from 1 January, 1997 in order to meet the specific needs of bulk customers. It provides value addition to all traditional services offered by the Post in the form of collection, insertion, addressing, sealing, franking, etc. Departmental instructions stipulated that postage for the mail items as well as the charges for the Business Post activities should be realized from the customers in advance.

Test check by Audit in eight HPOs revealed that the Business Post facility was extended to the customers without taking advance. This resulted in accumulation of outstanding dues of Rs 2.02 crore during 2000-01 to 2005-06 as shown in **Annexure-V.** DoP stated that the services were allowed with the intention of enhancing the business and to meet the challenges from private couriers. Department's failure to take advance deposits is fraught with the risk of non-realisation of dues from the customers.

### 1.11 International Post

The facility for sending mail to foreign countries has been provided by the DoP at its Foreign Post Offices and sub-Foreign Post Offices. Audit observed the following deficiencies in the management of international mail.

#### 1.11.1 Non-collection of terminal dues

Letter Post Manual of the Universal Post Union specifies that the detailed accounts for collection of terminal dues i.e., payment for the costs incurred for international mail received from the dispatching administration, should be sent to the debtor administration[1] within one year of the closure of accounts.

Audit scrutiny of the records of Director, Airmail Accounts Office; Postal Directorate revealed that the terminal dues amounting to 4.73 lakh Special Drawing Rights (SDR)[2] (one SDR = Rs.60) i.e. Rs 2.84 crore pertaining to the period from 1999 to 2004 were pending against 23 countries. No detailed justification for pendency was furnished to audit by the department.

[1] Debtor administration is the one which owes terminal dues to the other administration being the difference between the letters sent and received

[2] SDR - An international type of monetary reserve currency created by the International Monetary Fund which operates as a supplement to the existing reserve of member countries.

On this being pointed out by Audit, DoP stated that settlement of terminal dues was a continuous process. The reply is not tenable as the dues should be settled promptly and should not be allowed to remain outstanding for such a long period.

### 1.11.2 Deficiency in agreement with UAE

The instructions issued by Ministry of External Affairs (MEA) stipulated that foreign aid agreements and commercial agreements required prior approval of MEA.

DoP entered into an agreement for Express Parcel Service in December 2001 with UAE (Emirates Post). As per the agreement, both the administrations agreed to apply the imbalance rate[3] of 3.5 SDRs inclusive of all charges concerned per express parcel.

Audit observed that DoP signed the agreement without the prior approval of MEA, which was mandatory. DoP had fixed rates for delivery of inland speed post articles based on the weight of speed post articles and distance to be covered. As per the rates fixed by DoP the rates for sending inland speed post of maximum weight covering maximum distance would cost Rs 1,785. However, according to this agreement only 3.5 SDRs i.e. Rs 210 were to be paid for any article irrespective of weight and distance. It was noticed that agreement was signed without taking into account this crucial weight and distance element. This resulted in loss of Rs 9.15 crore during the period February 2002 to December 2002. This agreement was terminated in December 2002.

On this being pointed out by Audit, DoP accepted the loss only to the extent of Rs 3.18 crore. It was further stated that the disciplinary proceedings against the then Secretary (Posts) and disciplinary case against the then Additional G.M. (BD) was under process and the same had not been finalized as yet.

The reply with regard to amount of loss is not tenable as the calculation worked out by Audit was based on the distance and weight elements, which were not taken into account by DoP.

*Recommendation*

> *DoP should ensure that norms prescribed for handling of articles in mail offices and Computerised Registration Centres are strictly adhered to.*
>
> *DoP should take steps to make its operations relating to premium services more competitive by ensuring timely delivery.*
>
> *Departmental instructions for grant of rebate and collection of advance from BNPL and business post customers should be scrupulously followed.*

[3] The administration which has received a larger quantity of international express mail items than it has sent during that year shall have the right to collect from the other administration as compensation, an imbalance charge for the surface handling and delivery costs it has incurred for each additional item received.

### 1.12 Settlement of complaints and customer satisfaction

For better customer satisfaction public complaints should be attended to promptly. As per DoP norms, the maximum period for settlement of complaints is three weeks for unregistered mail, 15 days for speed post and 12 weeks for Registered/Insured letter mail. DoP made the system of registration of complaints on-line in March 2006.

Quarterly analysis of complaints received, settled and pending for the quarter ending March 2006 disclosed that maximum number of complaints were received in respect of registered letters and speed post. The position of settlement of complaints in respect of these two major items (for quarter ending March 2006) is given in the table below:

| Item | Opening Balance | Received | Total | Settled | Pending |
|---|---|---|---|---|---|
| Registered Letters | 14,637 | 50,719 | 65,356 | 49,391 | 15,964 (24.43 %) |
| Speed Post | 4,456 | 32,073 | 36,529 | 31,968 | 4,561 (12.49 %) |

Thus, a significant portion of complaints received during the quarter remained unsettled. The major postal circles contributing to these complaints were Maharashtra, Tamil Nadu, Karnataka and Delhi.

Audit scrutiny of records revealed that 33,658 complaints were pending as on March 2006 in respect of various postal services. Age wise analysis of these complaints is given in the table below:

| Nature of complaint | Total pending | | | | |
|---|---|---|---|---|---|
| | Below 3 months | 3 to 6 months | 6 to 12 months | More than 12 months | Total |
| Unregistered mail | 712 | 169 | 19 | 0 | 900 |
| Speed Post | 3458 | 999 | 96 | 8 | 4561 |
| Registered letters | 14207 | 1563 | 134 | 60 | 15964 |
| Insured letters | 503 | 74 | 5 | 4 | 586 |
| Unregistered parcels | 81 | 6 | 3 | 2 | 92 |
| Registered parcels | 3254 | 536 | 8 | 140 | 3938 |
| Insured parcels | 47 | 0 | 0 | 0 | 47 |
| VPP articles | 6263 | 1182 | 123 | 2 | 7570 |
| **Total** | **28525** | **4529** | **388** | **216** | **33658** |

Audit observed that the Post offices did not maintain complaint registers to show the number and nature of complaints received, disposed and pending in the Post Offices. The compendium on Processing and Disposal of Public Complaints prescribes that the inspecting officers during the course of inspection/visit should review this register and record their remark in the Order

Book. There was no provision in the software package with the customer care center for recording complaints on unregistered articles necessitating maintenance of a separate register manually.

### 1.13 Computerisation of mail operations

In order to improve quality of services and to meet the growing challenges from couriers, it was imperative that DoP formulated an IT policy to streamline its mail operations and ensure better customer service.

#### 1.13.1 Inadequate computerization in the Tenth Five Year Plan

The Tenth Five Year Plan envisaged computerisation and networking of all Head Record Offices (HROs), CRCs and Transit Mail Offices (TMOs). DoP developed three standalone software packages to handle the operations of HRO, CRC and TMO.

The Standing Finance Committee (SFC) recommended an expenditure of Rs 4.35 crore for computerization of HROs, Rs 15.94 crore for CRCs and networking and Rs 0.38 crore for track and trace system of accountable articles in February 2003.

It was noticed that Rs 1.31 crore incurred on computerization till March 2006 was largely unfruitful as there was negligible utilization of these three stand alone software packages and the computers were used only for routine work of typing, etc.

#### 1.13.2 Idling of hardware

Under computerisation of post offices scheme, computer and peripherals were provided to the sub offices by the DoP.

In order to ensure that there was no delay in installation of computers, it was imperative that sites were kept ready. Audit scrutiny of records revealed hardware worth Rs 6.72 crore procured during 2004-05 to 2005-06 in the following circles remained idle as of August 2006.

| S.No. | Name of Circle/PO | Value of hardware lying idle (Rs in crore) |
|---|---|---|
| 1. | Assam | 0.20 |
| 2. | Bihar | 0.05 |
| 3. | Chhattisgarh | 0.05 |
| 4. | Gujarat | 6.16 |
| 5. | Jharkhand | 0.07 |
| 6. | Maharashtra | 0.10 |
| 7. | Orissa | 0.06 |
| 8. | West Bengal | 0.03 |
| | | **6.72** |

On this being pointed out by audit, it was stated that installation was held up for want of requisite accommodation and supporting equipment.

### 1.13.3 Information technology security related issues

Computer security guidelines issued by DoP in May 2001, July 2001 and July 2004 stipulated allocation of specific user IDs and passwords, regular revision thereof and effective controls thereon.

#### 1.13.3.1 Deficient password system

As per these guidelines, the passwords used to gain access to the packages and the system resources should not be easy to guess, should be changed regularly and should comprise a minimum of eight alphanumeric characters.

Audit scrutiny revealed the following deficiencies in password procedures in all the 21 circles:

- the system accepted passwords of single character,
- the user IDs and passwords were not changed,
- the system did not provide controls against unauthorised attempts to login,
- the system did not generate log reports on unauthorised attempts.

On this being pointed out, Senior Postmasters/ Postmasters of the respective Post offices replied that suitable instructions would be issued to follow the guidelines issued by DoP.

#### 1.13.3.2 Non formulation of disaster recovery and business continuity plan

DoP had issued orders for taking regular backup of data but did not have a documented disaster recovery and business continuity plan for all its computerized activities. Audit scrutiny in 21 circles showed that even the orders issued for regular backup of data were not being followed. It was also observed that the backup data was not being reviewed periodically in order to ensure that there was no problem in data retrieval. The backup data was also not stored in off site locations.

*Recommendation*

*DoP should integrate all the three stand alone software to avoid duplicate feeding of data and delays. Security related issues should also receive priority attention.*

### 1.14 Mechanisation and modernisation

Mail processing and delivery is the core activity of DoP. To undertake the task of expeditious sorting, transmission and delivery, DoP proposed to mechanise the mail processing system. In order to achieve the objective of mechanization it was imperative that the DoP considered and implemented standardization of mail, availability of adequate infrastructure and complete study of the pros and cons of the project. Audit observed that there were deficiencies at each of the stages which resulted in under-utilisation of machines introduced. These deficiencies are discussed below.

### 1.14.1 Underutilisation of Automatic Mail Processing System

To modernize and cut down delays in sorting of mail, DoP installed imported automatic mail processing system (AMPC) at Mumbai and Chennai costing Rs 42 crore in April 1993 and August 1995 respectively.

The under utilisation of AMPC Mumbai was commented in paragraph 3.1 of the report of Comptroller and Auditor General of India for the year ended 31 March 1994. The department in their reply to the Public Accounts Committee (PAC) stated that with the introduction of machineable three flap inland letter card from 1995, the output of AMPC would increase substantially.

Audit scrutiny of records (April-August 2006) in AMPC Mumbai and Chennai showed that against the projected target of sorting 9.88 lakh and 8.40 lakh mail daily, only 3.32 lakh mail were being sorted at Mumbai and 2.37 lakh at Chennai. Audit observed that even after lapse of more than 10 years from the date of installation of AMPCs, DoP did not achieve the envisaged target and only one fourth of the capacity of these machines was being utilised.

On this being pointed out by Audit, it was stated that due to non-availability of adequate quantum of machinable mail, these machines could not be utilised to the optimum level. It was further stated AMPC authorities had appealed to various companies, banks, firms, Government offices to make their mail machinable.

Thus, the modernization efforts of the Department, after incurring expenditure of Rs 42 crore on procurement of AMPCs, did not yield the desired results as AMPC did not have sufficient machinable mail to process.

### 1.14.2 Under utilisation of Culler-Facer-Canceller (CFC) machines

The Culler-Facer-Canceller (CFC) Machine performs the functions of segregating, facing and canceling. The primary function of these machines is to segregate or cull machinable mail for processing through AMPCs. Two CFCs each were procured and installed at AMPC Mumbai and Chennai in July 2002 at a cost of Rs 18.25 crore.

Audit scrutiny (April-August 2006) of records in Mumbai and Chennai revealed that against the projected target of 7 lakh and 2.34 lakh per day only 35,281 and 7762 mail were received at AMPC Mumbai and Chennai respectively during 2005-06. The percentage of mail culled through CFC per day was 6.80 *per cent* in Mumbai and 1.46 *per cent* in Chennai as shown in the table below.

| Name of the unit | Projection of mail to be received as per EFC per day | Mail received per day | Mail culled through CFC per day | Percentage of mail processed by CFC w.r.t no. of mail received per day |
|---|---|---|---|---|
| CFC Mumbai | 7,00,000 | 518605 | 35,281 | 6.80 |
| CFC Chennai | 8,40,000 | 530500 | 7,762 | 1.46 |

On this being pointed out by Audit, it was stated that due to various difficulties like non-fixing of postage stamps at proper place as per the specification of the machine, non-detection of embossed stamps, etc, the projected targets could not be achieved.

Thus the expenditure of Rs 18.25 crore on procurement of four CFC machines for automation of mail processing did not yield the desired results due to the failure of the department to adequately publicise the need for using standardized postal stationery and make the public aware of the advantage of such an automated system.

### 1.14.3 Deficient management of AMPC projects at Delhi and Kolkata

The project for AMPC Kolkata was approved by EFC in May 2001 at a cost of Rs 40.63 crore and was to be completed in two phases by 2002-03. Phase-I of the project was to be taken up during 2001-02 at an estimated cost of Rs 27.02 crore and Phase II during 2002-03 at an estimated cost of Rs. 13.61 crore. However, due to escalation in cost from Rs 27.02 crore to Rs 33.20 crore i.e. more than 20 *per cent* of the approved cost, the project could not take off as the guidelines of February 2002 of Ministry of Finance stipulated that if the costs increased in excess of 20 *per cent*, the matter was to be re-submitted to the EFC along with Revised Cost Estimate (RCE). The AMPC project for Kolkata was again approved by EFC only in May 2005 at an estimated cost of Rs 41.90 crore, along with the AMPC project for Delhi at a cost of Rs 42.37 crore. The projects were to be completed in the final year of Tenth Five Year Plan period i.e., 2006-07.

Audit observed that DoP incurred an expenditure of Rs 5.68 crore as of August 2006 on the construction of buildings at Delhi and Kolkata. Chances of implementation of the project within current five year plan (upto March 2007) were remote as the minimum projected time requirement for commissioning of the project was 15 months from the date of issue of global tender. Audit observed that only technical specifications were finalized and global tender had been issued as of August 2006.

### 1.14.4 Non-integration of weighing scales with MPCMs

DoP procured 1846 weighing scales at a cost of Rs 1.70 crore for its attachment with multi purpose counter machine (MPCM) during 1997-98 to 2001-02. The purchase order stipulated that the vendor was responsible for connectivity of these weighing scales to the MPCMs by integrating the weighing scales with the software of the department. The main justification for procurement of these weighing scales was that the sensors attached to these weighing scales would weigh the articles automatically instead of the weight being fed manually in the MPCM.

The vendor failed to integrate these weighing scales with the MPCMs. As a result, the weights were fed into the system manually defeating the purpose for which these weighing scales were procured.

DoP accepted the fact that the machines were not attached with the MPCMs and the weights were fed into the system manually.

### 1.14.5 Non-installation of electronic weighing scales

As a part of modernization programme during the Tenth Five Year Plan, DoP proposed in March 2005 to provide Electronic Weighing Scales to the Post Offices covered under computerisation networking.

DoP placed purchase orders for 5232 electronic weighing scales of different specifications in March 2005. The purchase order stipulated that the weighing scales were to be certified and stamped by Weights and Measures Department to the effect that they conform to IS 9281.

It was noticed that out of 1259 weighing scales received in Kerala circle during August to November 2005, only 196 scales were installed leaving a balance of 1063 scales as the required certificates were not furnished by the suppliers. Seventy Four scales received in damaged condition, were neither replaced nor repaired by the vendor. Further, these 196 weighing scales were not connected to the MPCMs due to non-integration with the 'Meghdoot' software.

Thus 1063 weighing scales costing Rs 86.51 lakh received between August to November 2005 remained uninstalled for more than a year. Moreover, the replacement of self indicating weighing scales by Electronic Weighing Scales could not be achieved.

*Recommendation*

*DoP should take more effective steps to standardize the mail to ensure that Automatic Mail Processing Centres and Culler Facer Cancellor machines are optimally utilized. DoP could start with its registered mail sector.*

## 1.15 CONCLUSION

During the period 2000-01 to 2004-05, there was 48.12 percentage decline in mail traffic. However, there was no commensurate redeployment of staff strength. There were delays in all stages of mail operations, like collection, sorting, transmission and delivery of mail. This was also corroborated by the National Test Letter Run Report of 2005 which showed that only 55 *per cent* of mail was delivered within the prescribed norms for delivery. On an average, 25 *per cent* mail remained unsorted at the end of a day due to shift to shift transfers which resulted in delay in sorting and delivery of mail.

There were instances of leakage of revenue as DoP allowed BNPL and business post facilities to the customers without taking advance deposits from them.

A total of 33,658 complaints were pending beyond the stipulated norms of settlement. Department's failure to address the complaints expeditiously can lead to further dissatisfaction to customers.

The main objective of computerization was not achieved as the data relating to accountable articles in the course of its journey from booking to delivery was not integrated. The installation of Automatic Mail Processing Centres and Culler Facer Cancellors did not yield the desired results as these machines remained grossly underutlised due to lack of sufficient machinable mail. The department needs to address these issues urgently to improve its mail operations.

**ANNEXURE-I**
**(Referred to in paragraph 1.8.1)**

**Shift to Shift Transfer per day in sorting offices during 2005-06**

| | Volume of mail received | Volume of mail held up | Percentage of mail held up |
|---|---|---|---|
| Assam | 16001 | 10275 | 64.21 |
| Chhattisgarh | 175819 | 1826 | 1.04 |
| Maharashtra | 85615700 | 5515100 | 6.44 |
| Uttaranchal | 30644 | 3740 | 12.20 |
| Madhya Pradesh | 42158 | 7120 | 16.89 |
| Kerala | 693080 | 368743 | 53.20 |
| Orissa | 39449724 | 32772490 | 83.07 |
| Punjab | 42640337 | 4160900 | 9.76 |
| Delhi | 128177591 | 326000 | 0.25 |

Source : Registers maintained in mail offices to show the details of articles received, transferred from the previous shift, disposed off in the shift and transferred to the next shift

**ANNEXURE - II**
**(Referred to in paragraph 1.8.2)**
**Handling of traffic by mail offices**

| CIRCLE | S.NO. | NAME OF MAIL OFFICE | UNREGISTERED | REGISTERED |
|---|---|---|---|---|
| ANDHRA PRADESH | 1 | Hindupur RMS | 2807 | 202 |
| | 2 | Adoni RMS | 2022 | 193 |
| | 3 | Nandyal RMS | 9861 | 442 |
| | 4 | Chittor RMS | 6879 | 648 |
| | 5 | Gudur RMS | 3782 | 766 |
| | 6 | Chirala Stg | 5181 | 346 |
| | 7 | Vijaynagram RMS | 1965 | 450 |
| ASSAM | 8 | Lakhimpur RMS | 6355 | 700 |
| | 9 | Karimganj RMS | 4965 | 262 |
| | 10 | Dimaur RMS | 2298 | 1140 |
| | 11 | Mariani RMS | 4477 | 629 |
| | 12 | Lumding RMS | 3349 | 211 |
| CHHATTISGARH | 13 | Chindwara RMS | 6772 | 631 |
| | 14 | Jagdalpur Stg | 4739 | 362 |
| | 15 | Raigarh RMS | 5854 | 609 |
| GUJARAT | 16 | Amreli Stg | 8368 | 305 |
| | 17 | Dhola RMS | 3108 | 194 |
| | 18 | Ghandidham RMS | 9324 | 938 |
| | 19 | Porbandar RMS | 7240 | 401 |
| HARYANA | 20 | Panipat RMS | 8038 | 470 |
| | 21 | Sonipat RMS | 7238 | 1240 |
| HIMACHAL PRADESH | 22 | Una Stg | 5446 | 713 |
| | 23 | Hamirpur Stg | 6161 | 585 |
| | 24 | Kalka RMS | 4156 | 681 |
| | 25 | Rampur Stg | 1902 | 310 |
| JHARKHAND | 26 | Sahibganj RMS | 7109 | 509 |
| | 27 | Mahdupur RMS | 9993 | 746 |
| | 28 | Koderma RMS | 6784 | 525 |
| | 29 | Hazaribagh Rd RMS | 9054 | 1085 |
| KARNATAKA | 30 | Kumta Stg | 7344 | 847 |
| | 31 | Arsikere RMS | 6796 | 439 |
| KERALA | 32 | Muvattupuzha Stg | 6191 | 764 |
| MADHYA PRADESH | 33 | Bina RMS | 5035 | 325 |
| | 34 | Betul RMS | 3706 | 379 |
| | 35 | Khandwa RMS | 8244 | 624 |
| | 36 | Neemuch RMS | 2730 | 256 |

| | | | | |
|---|---|---|---|---|
| | 37 | Mandsaur RMS | 8504 | 514 |
| | 38 | Satna RMS | 9513 | 850 |
| | 39 | Rewa Stg | 6825 | 605 |
| | 40 | Chattarpur Stg | 5154 | 421 |
| | 41 | Pairia RMS | 1238 | 212 |
| MAHARASHTRA | 42 | Karad Stg | 4722 | 667 |
| | 43 | Manmad RMS | 4657 | 559 |
| | 44 | Parbhani RMS | 8675 | 781 |
| ORISSA | 45 | Puri RMS | 8929 | 473 |
| | 46 | Kendrapada Stg | 6843 | 1113 |
| | 47 | Keonjhargarh Stg | 6348 | 1313 |
| | 48 | Dhankanal Stg | 8871 | 965 |
| | 49 | Baripada Stg | 8310 | 816 |
| | 50 | Jajpur RMS | 8308 | 1453 |
| | 51 | Bhadrak RMS | 9900 | 893 |
| | 52 | Balasore RMS | 9195 | 1727 |
| | 53 | Rayagarh RMS | 4297 | 582 |
| | 54 | Parlakhemundi Stg | 2375 | 262 |
| | 55 | Phulbani Stg | 3185 | 300 |
| | 56 | Balangir Stg | 6200 | 512 |
| | 57 | Titalgarh RMS | 1975 | 232 |
| PUNJAB | 58 | Dhuri RMS | 6440 | 632 |
| | 59 | Ropar RMS | 9749 | 901 |
| RAJASTHAN | 60 | Dungarpur RMS | 7339 | 472 |
| | 61 | Pali Stg | 7384 | 834 |
| TAMIL NADU | 62 | Pattukotai Stg | 7070 | 207 |
| | 63 | Virdachalam RMS | 8562 | 846 |
| | 64 | Udagamandalam Stg | 9089 | 705 |
| | 65 | Kovilpatti Stg | 4465 | 434 |

**ANNEXURE –III**
**(Referred to in paragraph 1.9.1)**
**Statement showing irregular grant of rebate to bulk customers**

| Sl.No. | Name of circle | Name of the HO | Discount allowed (Rs in lakh) |
|---|---|---|---|
| 1 | Andhra Pradesh | Vishakhapatnam | 4.72 |
| 2 | Assam | Guwahati | 1.75 |
| 3 | Gujarat | | 11.77 |
| 4 | Jharkhand | Jamshedpur and Dhanbad | 2.03 |
| 5 | Kerala | Trivandrum | 3.33 |
| 6 | Madhya Pradesh | | 10.88 |
| 7 | Maharashtra | Pune | 0.23 |
| 8 | Orissa | Bhubaneswar | 3.23 |
| 9 | Tamilnadu | Chennai<br>Coimbatore | 2.58 |
| 10 | West Bengal | Howrah<br>Kolkata | 17.36 |
| | **Total** | | **57.88** |

Source : Registers showing the total number of articles booked on each day of the month

## ANNEXURE –IV
## (Referred to in paragraph 1.9.2)

### Statement showing outstanding amounts against BNPL customers

| S.No | Name of the Circle | Amount (Rs in lakh) |
|---|---|---|
| 1 | Andhra Pradesh | 2.96 |
| 2 | Assam | 13.97 |
| 3 | Bihar | 1.88 |
| 4 | Chhattisgarh | 15.42 |
| 5 | Delhi | 25.50 |
| 6 | Kerala | 11.67 |
| 7 | M.P Circle | 16.58 |
| 8 | Maharashtra | 27.80 |
| 9 | North East | 0.76 |
| 10 | Orissa | 1.88 |
| 11 | Punjab | 3.02 |
| 12 | Rajasthan | 3.22 |
| 13 | West Bengal | 11.90 |
| | **Total** | **136.56** |

Source : Registers maintained to show the BNPL deposits realized in advance

**ANNEXURE-V**
**(Referred to in paragraph 1.10)**

**Statement showing non-recovery of postage in advance for mail items from the customers**

| S.No | Name of the Circle | Amount (Rs in lakh) |
|---|---|---|
| 1 | Andhra Pradesh | 12.80 |
| 2 | Assam | 23.17 |
| 3 | Chhattisgarh | 1.10 |
| 4 | Gujarat | 11.88 |
| 5 | Kerala | 8.34 |
| 6 | Maharashtra | 40.35 |
| 7 | Orissa | 3.96 |
| 8 | Tamilnadu | 100.00 |
| | **Total** | **201.60** |

Source: Registers maintained for entering the details pertaining to business post activities, available in business post centres.

# MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGY

# DEPARTMENT OF POSTS

## Performance Audit of Management of Cash in Post Offices

# CHAPTER 2
# MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGY

## DEPARTMENT OF POSTS

### Performance Audit of Management of Cash in Post Offices

### HIGHLIGHTS

- **57 per cent of the post offices test checked were found to retain cash much in excess of authorized maximum limits. The problem of retention of excess cash balance was more severe in Head post offices.**

  ***(Paragraph 2.7.1.2)***

- **Divisional heads failed to exercise adequate control and monitoring over the post offices. Thirty eight percent of head post offices test checked did not send weekly statement of cash to the Divisional heads.**

  ***(Paragraph 2.7.1.3)***

- **An amount of Rs 1.90 crore was paid as demand draft charges to banks by 23 HPOs and their sub offices under 10 circles during the period 2003-06. This expenditure could have been minimized had the sub-post offices been delegated powers to draw/ remit cash directly from/into the banks.**

  ***(Paragraph 2.7.1.4)***

- **Security arrangements in post offices were found inadequate. Large cash amounting to Rs one crore or more was retained overnight in post offices without providing an armed security guard. Such an arrangement is fraught with the serious risk of theft and robbery.**

  ***(Paragraph 2.9 )***

- **Weak internal controls were resulting in large number of suspected frauds and theft of cash in post offices. More than five thousand cases of loss and fraud were registered in the department during the period 2003-04 to 2005-06 involving an amount of Rs 32.73 crore, out of which only 34 *per cent* was recovered.**

  ***(Paragraph 2.10.1)***

- **7,625 cases of loss and suspected fraud were pending for settlement at the end of March 2006. Out of this, 63 *per cent* cases i. e. 4,816 cases were pending due to non completion of departmental proceedings/investigations.**

  ***(Paragraph 2.10.2)***

- **An amount of Rs 1,819 crore remained unlinked in the bank scrolls and Rs 3,934 crore in the post office schedules in respect of drawings from banks at the end of March 2006. Similarly, an amount of Rs 4,645 crore remained unlinked in the bank scrolls and Rs 4,906 crore in the post office schedules in respect of remittances into banks. Delays in reconciliation with the bank and clearance of unlinked amounts is fraught with the risk of fraud and embezzlement.**

*(Paragraph 2.8.2)*

SUMMARY OF RECOMMENDATIONS

- **Cash balance limits should be reviewed regularly and revised for ensuring better cash management in post offices**
- **Effective measures should be taken to retain the cash balances within the authorized limits through better coordination, effective monitoring and by allowing post offices with large cash transactions to deal with banks directly and issue cheques instead of making cash payment.**
- **Reconciliation of unlinked items in the bank scrolls and post office schedules in respect of drawings from banks/remittances into banks should be ensured at the earliest to clear unlinked items.**
- **Security arrangements should be beefed up in post offices retaining substantial amount of cash overnight. Departmental instructions pertaining to provision of security should be reviewed and revised keeping in view the huge cash balances maintained in the post offices.**
- **Internal control and monitoring should be strengthened in view of the large number of frauds in Savings Bank operations and cases of theft/robberies in post offices.**

## 2.1 INTRODUCTION

The Department of Posts (DoP) provides a range of basic postal services to its customers through its postal network, together with agency services like banking and insurance. DoP receives cash for rendering various services through the sale of postage stamps and stationery; agency services and deposits in various Post Office Savings Bank and other accounts. The cash so collected is remitted at the end of the day through account bags* to the concerned head post offices (HPOs) by the post offices under their accounts jurisdiction after retaining the authorized balance of cash. The HPOs remit the cash through account bags to the deficit post offices under their jurisdiction to meet their liabilities. For this purpose, the HPOs use the cash collected from the counters and from the post offices under their jurisdiction. In case, the available cash falls short of the

* account bag - used to transport cash and other articles between a sub-office and its HPO. It contains cash bags and articles, documents, etc., connected with accounts as well as correspondence unconnected with accounts.

amount to be disbursed, cash is withdrawn from the banks with which the HPOs have current accounts. Surplus cash is deposited in the banks by the HPOs. The objectives of effective cash management are to ensure availability of liquid cash, promptness/accuracy in accounting, and safety.

## 2.2 ORGANIZATIONAL SETUP

DoP under the Ministry of Communications and Information Technology is managed by the Postal Services Board comprising the Chairman and three Members (Operations, Development and Personnel). Deputy Directors General, Directors and Assistant Directors General provide necessary support to the Board at the Headquarters.

The entire country has been divided into 22 postal circles and each circle is headed by a Principal Chief Postmaster General/Chief Postmaster General. Each circle is divided into regions comprising groups of field units, called divisions (Postal and Railway Mail Service Divisions). Each region is headed by a Postmaster General who is the post manager of the area. The post offices are headed by Postmasters who are under the supervision of Superintendents of Post Offices (SPOs). Post offices in the country are categorized as head, sub and branch post offices. A Head Post Office is the main office of a group of post offices consisting of itself and a number of sub-post offices and branch post offices which have been placed under its accounts jurisdiction. There are altogether 1,55,516 post offices as on 31 March 2005[@]; out of which 822 are HPOs, 25113 departmental sub-post offices, 2398 extra-departmental sub-post offices and 127183 branch post offices.

## 2.3 SCOPE OF AUDIT

Performance audit of "Management of Cash in Post Offices" was carried out during April to July 2006 covering the transactions for the years 2003-04 to 2005-06 in selected post offices under 21 Postal Circles, except Jammu & Kashmir Postal circle. Altogether 58 HPOs, 115 departmental and extra departmental sub-post offices and 57 branch post offices along with the concerned Postal Accounts Offices and Divisional offices were audited. One HPO under each Region subject to a minimum of two HPOs in a circle and one departmental sub-post office, one extra-departmental sub-post office and one branch post office under each HPO were selected for audit. The sub and branch post offices were selected at random.

## 2.4 AUDIT OBJECTIVES

The performance audit of Management of Cash in Post Offices was taken up with a view to ascertain that

- Collection, retention, disbursement and remittance of cash in post offices was efficient and effective to ensure availability of cash for smooth functioning of post offices, minimize unnecessary retention of

[@] The figures of 2005-06 is under compilation stage and not printed yet.

cash in excess of prescribed limits and render quality postal services to the customers.

- Cash related transactions were correctly accounted for and promptly settled.
- Norms for custody and safety of cash in post offices were being adhered; and
- internal control mechanism was effective to minimise frauds, thefts and misappropriation of cash in post offices.

## 2.5 AUDIT CRITERIA

The following criteria were used in evaluating performance:

- Norms pertaining to forecasting of cash requirement in post offices, fixation of minimum and maximum cash/stamp balances and revision of authorized balances;
- departmental rules pertaining to compilation and maintenance of accounting records, custody and security of cash including cash-in-transit; and
- prescribed internal control measures including norms on inspections and checks by departmental officers for preventing frauds and misappropriation of cash in post offices.

## 2.6 AUDIT METHODOLOGY

The audit methodology involved examination of documents and discussions with the Management to evaluate the management of cash in post offices based on the audit criteria broadly outlined earlier. A survey was also conducted by Audit to evaluate the customer satisfaction.

## 2.7 AUDIT FINDINGS

The deficiencies observed during audit with regard to retention and accounting of cash, security arrangements, internal control system and customer satisfaction are discussed in the succeeding paragraphs.

### 2.7.1 Retention of cash and stamps in post offices

Departmental rules stipulate that Divisional Heads shall fix the maximum cash and stamp balances that can be held by a post office under their jurisdiction. Cash in excess of the maximum limit should be remitted to the bank/cash offices on daily basis. In case it is necessary to keep cash in excess of the authorized limits the reasons for keeping such excess cash should be recorded. Similarly, if it is necessary to keep stamps in excess of the authorized limits, the reasons thereof should also be recorded. It was seen in audit that the above norms regarding efficient management of cash balances in post offices were not strictly observed as discussed in the succeeding paragraphs.

### 2.7.1.1 Non revision of cash balance limits in post offices

Departmental rules stipulate that Divisional Heads have to fix the maximum cash and stamp balances that can be held by each head post office, sub-post office and branch post office under their jurisdiction. The maximum cash balance limit of a post office is the highest sum that it should ever be allowed to have in its possession. The maximum limit is fixed to avoid retention of unnecessary large amounts of money in the post offices without authorization.

Audit scrutiny of 230 randomly selected post offices under 21 circles revealed that the cash balance limit was not revised in 154 post offices (67 *per cent*) though the cash transactions had increased manifold in these post offices during the intervening period. Of these 154 post offices, cash balance limit was not revised in 64 post offices for last one to three years, in 55 post offices for three to five years and in 35 post offices for above five years. Cases of delay in fixations of cash balance limit for more than three years are given in **Annexure-I**.

In case of Chapra, New Delhi, Tumkur and Tiruchirapalli head post offices; Karcheliya, Rajnagar, Thuruvikkal and Jaintipur sub post offices and Venkode branch post office, maximum limits of cash was fixed seven years back which had not been revised though the cash flow in these post offices had increased substantially in view of revision of rates of postal stationery and increased business. Non-revision or delay in the revision of the authorized balances highlight failure of supervisory officers (SPOs) to closely monitor the working of post offices under their control and take prompt action to revise cash balance limits, wherever necessary as per rules.

### 2.7.1.2 Retention of excess cash and stamps in post offices

Rules provide that the cash in excess of the maximum limit fixed by the competent authority should be remitted to bank on daily basis. Excess retention of cash beyond the prescribed limits is not desirable on the reasons of security in post offices. Audit test checked the position of cash balance in selected post offices for two randomly selected months for each of the last three years (2003-06). Audit scrutiny in 230 post offices under 21 postal circles disclosed that 57 *per cent* of the post offices test checked did not observe the prescribed maximum cash balance limit as per the details given in the table below:

| **Type of Post offices** | **Number of post offices test checked** | **Number of post offices having excess cash balance** | **Percentage of post offices having excess cash balance** |
|---|---|---|---|
| Head Post Offices | 58 | 55 | 94.83 |
| Sub post offices | 115 | 58 | 50.43 |
| Branch post offices | 57 | 19 | 33.33 |
| **Total** | **230** | **132** | **57.39** |

The problem of excess retention of cash was more acute in Head Post Offices (HPOs) throughout the country as about 95 *per cent* of the HPOs test checked were found to be holding cash much in excess of prescribed limits. The excess cash balance was retained without exhibiting any liability for the next day in the records of post offices.

It was also noticed that against the authorized maximum cash limit of Rs 30 lakh in 2004-05 (enhanced to Rs 35 lakh in August 2005), the Raipur HPO in Chhattisgarh circle retained excess cash balance between Rs 0.52 lakh to Rs 5.42 crore beyond the prescribed limits for 137 days out of 180 days test checked.

HPO-AU under Uttaranchal circle retained excess cash between Rs 25.53 lakh to Rs 339.38 lakh for 136 days over and above the authorized maximum limit of Rs 20 lakh (enhanced to Rs 40 lakh in May 2004). HPO L and M under Delhi circle with cash limits of only Rs 10 lakh and Rs 20 lakh retained cash up to Rs 1.51 crore and Rs 1.78 crore respectively. The position was also equally alarming in HPOs which retained large amount of cash much beyond their prescribed cash balance limits.

Similarly, rules provide that every office is required to keep a stock of stamps which would be fixed by the Divisional heads of the concerned post offices. Audit scrutiny in 58 HPOs revealed that 37 HPOs (64 *per cent*) retained stamps (postage stamps, revenue stamps and central recruitment fees) ranging from Rs 54 thousand to Rs 537.23 lakh in excess of the authorized limits during the months of February and October of 2003-04 to 2005-06.

In reply, the postmasters in different circles stated that the main reason for excess retention of cash was receipt of cash from the sub-post offices, customers, agents etc. after the banking hours. The reply indicates that DoP has not been able to address this persistent problem by ensuring better coordination between the HPOs and sub post offices, allowing more sub post offices to open accounts in the banks and working out special arrangements with the banks for depositing excess cash after banking hours, if necessary. Excessive retention of cash by post offices is not only irregular but also fraught with the serious risk of theft and robbery in the absence of adequate security arrangements in the post offices.

**2.7.1.3 Non-submission of statement of balances by the HPOs**

Each head post office is required to send a statement of cash balances every week to the Divisional heads for scrutiny. The Divisional heads should carefully scrutinize the cash balance statement of all the HPOs under them and the cases of frequent retention of excess cash more than the prescribed limits by head post offices must be investigated.

Audit scrutiny in 58 HPOs under 21 circles revealed that in 22 HPOs (38 *per cent*) weekly statements of balances were not prepared and in another 10 HPOs (17 *per cent*) the statements were not submitted regularly to the Divisional heads. **Annexure–II**. In the absence of statement of balances, the Divisional heads failed to monitor the cash balances and revise the limits wherever necessary. This also indicates weak internal controls of Divisional heads in monitoring the cash management in their subordinate offices.

### 2.7.1.4 Avoidable payment of demand draft charges

Audit observed that 23 HPOs and their sub offices under 10 circles paid an amount of Rs 1.90 crore as demand draft charges to nationalized banks on purchase of demand drafts for remittance of cash between post offices during the period from 2003-04 to 2005-06. This expenditure could have been minimized had the sub-post offices been delegated powers to draw or remit cash directly from/into the banks.

The Department permitted (September 1994) the post offices with annual turnover of Rs 60 lakh and above to open accounts with nationalized banks for their day to day cash transactions. This limit was lowered to Rs 40 lakh per annum in October 2001. However, it was observed that in Maharashtra Circle although 68 sub-post offices having turnover of Rs 40 lakh and above were identified in February 2004 for opening of accounts with Banks but pending approval from the DoP, the post offices were yet to open bank accounts as of July 2006. Similarly, 21 sub-post offices having annual turnover of more than Rs 40 lakh under Tiruvananthapuram North division in Kerala Circle were yet to open account with the banks.

Further, it was observed that out of 224 sub-post offices (SO) under 14 HPOs in five circles, only 40 sub-post offices were drawing cash directly from the banks while balance 184 sub-post offices were drawing cash from the concerned HPOs although these sub-post offices had a nationalized bank in their close neighbourhood. Circle-wise details of sub-post offices drawing cash from HPOs inspite of having a nationalized bank in the near vicinity is given in the table below:

| Name of the Circle | Number of HPOs audited | No. of SOs having nationalized bank nearby | No. of SOs drawing cash from the HPOs |
|---|---|---|---|
| Andhra Pradesh | 5 | 60 | 41 |
| Chattisgarh | 2 | 68 | 52 |
| Delhi | 2 | 38 | 38 |
| Rajasthan | 2 | 22 | 17 |
| Tamil Nadu | 3 | 36 | 36 |
| **Total** | **14** | **224** | **184** |

As the concentration of bank branches is much higher than the concentration of HPOs in the country, it would be logical to allow major sub post offices to open accounts with nationalized banks for their day to day cash transactions.

### 2.7.1.5 Savings/deposits payments made in cash instead of cheque

As per the provisions of Income Tax Act, payments exceeding Rs 20,000 are to be made through cheques. However, a test check in five HPOs in four circles as detailed in the table below revealed that in 232 cases payments in respect of small savings transactions were made in cash for amounts exceeding Rs 20,000 to customers in violation of rules:

| Name of the Circle | Name of the HPO | No of cases |
|---|---|---|
| Assam | Guwahati University | 24 |
| Gujarat | Gandhinagar | 33 |
| Tamil Nadu | Tiruvallur and Dharmapuri | 162 |
| Uttaranchal | Dehradun | 13 |
| **Total** | | **232** |

*Recommendations*

- *Cash balance limits should be reviewed regularly and revised, wherever necessary, for ensuring better cash management.*
- *Effective measures should be taken to retain the cash balances within the authorized limits through better coordination, effective monitoring and by allowing post offices with large cash transactions to deal with banks directly and issue cheques instead of making cash payments.*

### 2.8 Accounting of cash in post offices

Head post office is the primary accounting unit which renders accounts alongwith vouchers to the Postal Accounts office. The Postal Accounts office classifies the expenditure head-wise and prepares classified abstract for each HPO. It also pairs drawings from/remittances into banks made by the post offices. Deficiencies noticed in accounting of cash transactions are discussed in the succeeding paragraphs.

#### 2.8.1 Huge amounts pending under suspense head

Accounting procedures prescribe that if any transaction cannot be classified to the correct head of account for want of details such as date of payment, name of the person to whom it was paid, head of account, etc., such expenditure will temporarily be classified to the suspense head and taken to the objection book. On receipt of the details from the concerned postmasters, the same will be classified to the correct head and taken to the final head of account.

Test check of records in the Postal Accounts offices in 21 circles revealed that credit suspense of Rs 1,807.83 crore and debit suspense of Rs 2,262.34 crore were outstanding at the end of March 2006 for want of proper classifications and final settlement. Circle-wise details of outstanding balances under the Suspense head are given in **Annexure-III**. The total outstanding debit suspense for the year 2005-06 had increased by 213 *per* cent over the previous year. The position was alarming in the Maharashtra Circle since it accounted for 71 *per cent* of the total pending Suspense balances. Other circles having significant amounts under Suspense head are West Bengal, Tamil Nadu, Uttar Pradesh, Jharkhand and Bihar. The amounts were pending for proper classification since the cash accounts submitted by the field units were not properly supported by relevant schedules and vouchers. Continuance of huge amounts under suspense heads not only affects the accuracy of accounts but is also fraught with the risk of non-detection of irregularities for want timely settlement and reconciliation. In reply, the Postal Accounts offices stated that action would be taken to clear the pending suspense balances.

### 2.8.2 Unlinked items in respect of drawings from bank and remittance into bank

Drawings from and remittances into banks made by the post offices are adjusted by the banks against the balance of the latter. The daily scrolls of drawings from/remittances into bank are prepared by the dealing bank separately in quadruplicate and one copy sent to the concerned post office and two copies are sent to the 'focal point bank' with challans/cheques. The "focal point bank" consolidates the scrolls received from various branches and prepares a main scroll and sends it to the Postal Accounts Office. The Postal Account office verifies the scrolls with the post office schedules and notes the unlinked items in the registers, one for the items included in the PO schedules but not in the daily bank scrolls and the other for the items included in the daily bank scrolls but not in the post office schedules.

***Drawings from bank***

Audit scrutiny in 21 Postal Accounts offices revealed that a sum of Rs 1819.10 crore drawn from banks remained unlinked in the bank scrolls in the books of Postal Accounts offices at the end of March 2006. Similarly, drawings of Rs 3,934.40 crore from banks remained unlinked in the post office schedules at the end of March 2006. Substantial unlinked amounts of drawings existed in Maharashtra, Delhi, Bihar, Uttar Pradesh, Gujarat, and Andhra Pradesh circles. Reconciliation work in respect of drawings from banks in the bank scrolls and post office schedules had not been done in Chhattisgrh Circle since 2003-04, in five circles since 2004-05 and in nine circles since 2005-06 as shown in **Annexure-IV**.

***Remittances into banks***

An amount of Rs 4645.43 crore remitted into banks remained unlinked in the bank scrolls at the end of March 2006. Similarly, remittances of Rs 4906.43 crore remained unlinked in the post office schedules at the end of March 2006. Large amounts of unlinked remittances pertained to Delhi, Uttar Pradesh, West Bengal, Karnataka, Andhra Pradesh, Maharashtra, Madhya Pradesh, Kerala and Jharkand. Reconciliation work in respect of remittances into banks in the bank scrolls and post office schedules had not been done in Chhattisgarh and Madhya Pradesh Circles since 2003-04, in six circles since 2004-05 and in seven circles since 2005-06.

Circle-wise details of amounts remaining unlinked at the end of March 2006 in respect of drawings from and remittances into bank in the bank scrolls and post office schedules are given in **Annexure-IV**.

Non receipt of debit/credit bank scrolls in time from banks and postal schedules from the post offices was stated to be the reasons for pending reconciliation work. Outstanding in bank reconciliation could conceal frauds and embezzlements in the Government accounts defeating the very purpose of linking.

Large balances under Suspense heads awaiting settlement, and huge amounts of unlinked drawings/remittances from/into banks indicate the priority being accorded to bank reconciliation work in the post offices.

*Recommendations*

- *Amounts under suspense should be properly followed up and accounted for in the respective heads so as to clear pending suspense balance.*
- *Reconciliation of unlinked items in the bank scrolls and post office schedules in respect of drawings from banks/remittances into banks should get adequate attention.*

## 2.9 Security arrangements in post offices

Rule 120 of P&T Manual Vol. VIII stipulate that each head post office should be provided at the discretion of the Head of the Circle with a chowkidar, whole or part time, for guarding it at night. However, it was noticed in audit that security arrangements in the test checked HPOs were not adequate considering the volume of cash being retained by the HPOs. Test check during the month of February 2006 revealed that cash ranging from Rs 9.01 lakh to Rs 3.39 crore was retained overnight in 34 HPOs under 15 circles under inadequate security. Out of these 34 HPOs, in nine HPOs cash was retained overnight for more than one crore of rupees without even providing an armed security guard. Such an arrangement was fraught with the risk of theft and robbery. In fact the department had registered 1676 cases of theft and robbery involving an amount of Rs 5.33 crore across 21 circles during the period 2003-04 to 2005-06.

*Recommendations*

- *Security arrangements should be beefed up in post offices retaining substantial amount of cash overnight.*
- *The provisions relating to security aspect appearing in P&T Manual needs review.*

## 2.10 Failure of Internal controls

Internal control is an essential prerequisite for efficient and effective management of an organization/department. Establishing an effective internal control mechanism involves assessment of the risks the organization faces both externally and internally. Control measures such as close monitoring, timely reconciliations, systematic review and reporting, compliance with regulations; regular inspections and prompt investigations act as a major deterrent to the occurrence of fraud and thefts in an organization.

### 2.10.1 Large number of suspected fraud and theft cases

A total of 5,455 cases of loss and suspected frauds were registered in DoP during the period 2003-04 to 2005-06 involving an amount of Rs 32.73 crore, of which only 34 *per* cent was recovered i.e. Rs 10.98 crore. Audit observed that suspected frauds in Savings Bank/Recurring Deposit/Time Deposit and theft/robberies of cash accounted for 63 *per cent* of the total cases registered during the said period. It was also noticed that frauds in Savings Bank/Recurring Deposit/Time Deposit had increased during the last two years as detailed below

| Year | Number of suspected fraud cases detected | Increase over previous year | % increase over previous year | Amount involved (Rs in crore) |
|---|---|---|---|---|
| 2003-04 | 558 | -- | -- | 3.75 |
| 2004-05 | 583 | 25 | 4.48 | 7.55 |
| 2005-06 | 613 | 30 | 5.15 | 5.20 |

Maximum number of frauds relating to Savings Bank/Recurring Deposit/Time Deposits were noticed in Andhra Pradesh circle followed by Tamil Nadu and Maharastra/Gujarat circles. These circles accounted for 51 *per* cent of the total frauds in Savings Bank/Recurring Deposit/Time Deposit cases registered during the years 2003-04 to 2005-06. Similarly, maximum number of theft/robberies cases was noticed in Maharastra circle followed by Kerala and Tamil Nadu circles. These circles accounted for 40 *per cent* of the total theft/robberies registered during the said period.

Audit also observed that frauds in Savings Bank/Recurring Deposit/Time Deposit cases were mainly due to short/non-crediting of money received from customers into their accounts and fraudulent withdrawal of money from their accounts. In case of cash certificate frauds, the certificates were sold to the public but the sale proceeds were misappropriated instead of crediting them into government accounts. Theft and robbery cases involved theft of cash retained in post offices as well as theft of cash-in-transit. Two cases of fraud are discussed below to highlight internal control failures:

**a) Suspected fraud case in Kasturba Gram sub-post office of Madhya Pradesh circle**

While the minimum and maximum authorized cash balance limits of Kasturba Gram sub-post office, Madhya Pradesh circle were Rs 5,000 and 7,500 respectively, cash was retained in excess of the authorized limits ranging from Rs 75,138 to Rs 2,80,423 during the period 13 June 2005 to 29 June 2005. The sub-postmaster committed a serious irregularity by utilizing the excess cash for his personal end. He made good the shortage of cash by sale of Kisan Vikas Patras (KVPs) for which entries were not made in the accounts. The suspected fraud occurred because the excess retention was not pointed out by the senior postmaster of Indore GPO while checking the daily account of the sub-post office. The case was detected by the deputy postmaster on 16 August 2005 and the investigation was yet to be finalized as of October 2006.

**b) Suspected fraud at sub-post offices under Chhattisgarh circle and Kerala circle**

The sub-postmaster withdrew Rs 4.11 lakh from the account of a depositor by forging the signature of the depositor. Audit observed that the savings bank accounts at Sundernagar sub-office were not updated due to non posting either in the savings branch at the HPO or at the savings branch at Circle Office (SBCO). This non updation of accounts might have been a contributory cause for wrongful withdrawl.

In Kerala circle, wrongful withdrawals of Rs 11.45 lakh by the sub-postmaster of Chottanikkara sub-post office during the July 2000 to May 2004 from the Savings Bank accounts of the depositors were also noticed.

**c) Theft at Kanpur HPO under Uttar Pradesh circle**

A cash advance of Rs 8.01 lakh drawn by the counter assistant in Kanpur HPO in March 2003 for discharge of National Savings Certificates (NSC) was reported lost from the postal counter. Audit observed that the advance was drawn for making payment to the depositors through an agent which was irregular. Further, such large amounts were drawn for making cash payment though payments exceeding Rs 20,000 are required to be made by cheque.

**2.10.2 Delay in finalization of departmental investigations**

Control measures such as prompt finalization of the departmental investigations and timely initiation of disciplinary action acts as a major deterrent for others. The Central Vigilance Commission while observing the delay in disposal of disciplinary cases had instructed all the Ministries and Departments in May 2000 to complete departmental inquiry within a period of six months from the date of appointment of inquiry officers.

It was noticed in audit that 7,625 suspected fraud and theft cases were pending for settlement at the end of the March 2006. Out of these cases, 2895 cases were pending between one and five years, 1226 cases between five and ten years, 789 cases between 10 and 15 years, 470 cases between 15 and 20 years and 460 cases above 20 years. Cases pending for settlement for more than one year constituted 77 *per* cent whereas cases pending for more than five years constituted 39 *per* cent of the total pending cases. Further, out of the total pending cases, 2,809 cases were pending due to non completion of police and court proceedings and 4,816 cases i.e. 63 *per cent* of the total cases were pending due to non completion of departmental proceedings/investigations. The details of pending cases are given in **Annexure-V**.

*Recommendations*

- *Internal controls, monitoring and review mechanism should be reviewed and enforcement strengthened in view of the large cases of frauds in Savings Bank operations, theft and robberies.*
- *Measures should be taken to expedite finalisation of loss and fraud cases pending for more than one year due to non completion of departmental proceedings/investigations.*

## 2.11 CONCLUSION

Management of cash in post offices plays a key role in the operational performance of DoP, both in terms of revenue generation and customer satisfaction. An efficient management of cash implies easy availability of liquid cash, promptness and accuracy in accounting, and safety. However, as brought out in the above report, the limits fixed for cash balances in post offices did not reflect the actual volume of cash being handled by various post offices. Most of the post offices retained cash far in excess of the limits prescribed. The limits were not being reviewed and revised periodically. This coupled with inadequate security and failure in following the accounting procedures and carrying out the supervision and inspections effectively has exposed the system to misappropriation, frauds and thefts. As many as 5,455 cases of suspected fraud and loss were registered in DoP during the period 2003-04 to 2005-06 involving an amount of Rs 32.73 crore.

There is an urgent need for DoP to review the prescribed cash limits and revise them to reflect the actual volume of cash being handled in post offices. Efforts would also have to be made to strengthen the internal controls and security arrangements. Amounts under suspense head should be brought down and arrears in reconciliation cleared.

## ANNEXURE – I

**(Referred to in paragraph 2.7.1.1)**

**Statement showing non fixation of cash balance limit in post offices**

| Category of POs | Cash balance limit not fixed | | | |
|---|---|---|---|---|
| | **Between 1 & 3 years** | **Between 3 & 5 years** | **Above 5 years** | **Total** |
| HPOs | 21 | 15 | 10 | 45 |
| SOs | 27 | 28 | 20 | 75 |
| BOs | 16 | 12 | 5 | 33 |
| **Total** | 64 | 55 | 35 | 154 |

## ANNEXURE – II

**(Referred to in paragraph 2.7.1.3)**

**Statement on non submission of weekly statement of balances by HPOs for the period 2003-04 to 2005-06**

| Sl. No. | Name of the Circle | Name of the HPO | Whether statements of balances were submitted weekly |
|---|---|---|---|
| | **Statements not prepared** | | |
| 1 | Assam | 1. Guwahati University | NO |
| 2 | Bihar | 2. Chapra | NO |
| | | 3. Arrah | NO |
| 3 | Chhattisgarh | 4. Raipur | NO |
| | | 5. Bilaspur | NO |
| 4 | Delhi | 6. New Delhi | NO |
| | | 7. Kalkaji | NO |
| 5 | Jharkhand | 8. Jamshedpur | NO |
| 6 | Kerala | 9. Trivandrum | NO |
| 7 | Madhya Pradesh | 10. CTT Nagar | NO |
| | | 11. Indore | NO |
| 8 | Maharastra | 12. Alibag | NO |
| | | 13. Panjim | NO |
| | | 14. Pune | NO |
| | | 15. Nagpur | NO |
| | | 16. Latur | NO |
| 9 | Punjab | 17. Dasuya | NO |
| 10 | Uttaranchal | 18. Dehradun | NO |
| 11 | Uttarpradesh | 19. Kanpur | NO |
| | | 20. Allahabad | NO |
| | | 21. Barabanki | NO |
| | | 22. Hardoi | NO |
| | **Statements not submitted regularly** | | |
| 12 | Gujarat | 23. Surendranagar | Not submitted from April 2003 to June 2004 & September 2005 to November 2005 |
| 13 | Haryana | 24. Ambala | Submitted monthly instead of weekly |
| 14 | Himachal Pradesh | 25. Shimla | Submitted monthly instead of weekly |
| 15 | Karnataka | 26. Tumkur | Not submitted from December 2005 to April 2006 & August 2005 to September 2005 |
| 16 | North Eastern | 27. Shillong | Partially submitted |
| | | 28. Itanagar | Partially submitted |
| 17 | Rajasthan | 29. Sikar | Submitted fortnightly instead of weekly |
| 18 | West Bengal | 30. Barasat | Partially Submitted |
| | | 31. Midnapore | Partially submitted |
| | | 32. Malda | Partially submitted |

## ANNEXURE-III

**(Referred to in paragraph 2.8.1)**

**Statement showing pending suspense balances from 2003-04 to 2005-06**

**(Rs.in crore)**

| Name of the Circle | Up to 2003-04 | | Up to 2004-05 | | Up to 2005-06 | |
|---|---|---|---|---|---|---|
| | Credit | Debit | Credit | Debit | Credit | Debit |
| Andhra Pradesh | 0.6 | 0.009 | 1.61 | 0.02 | 10.76 | 0.11 |
| Assam | 10.42 | 24.48 | 6.73 | 16.02 | 9.01 | 27.58 |
| Bihar | 38.48 | 59.74 | 35.3 | 80.25 | 40.38 | 67.16 |
| Chhattisgarh | 31.15 | 25.39 | 39.63 | 31.44 | 17.38 | 31.41 |
| Delhi | 541.43 | 22.8 | 6.37 | 0.1 | 6.51 | 0.1 |
| Gujarat | 36.22 | 42.99 | 24.53 | 41.29 | 16.54 | 41.57 |
| Haryana | 0.13 | 0.001 | 0.91 | 0.11 | 0.09 | 0.00 |
| Himachal Pradesh | 839.76 | 152.02 | 1058.79 | 149.63 | 10.34 | 10.89 |
| Jharkhand | 29.05 | 57.37 | 43.4 | 74.4 | 37.16 | 77.87 |
| Karnataka | NA | NA | 0.44 | 0.3 | 0.7 | 0.33 |
| Kerala | 0.57 | -- | 0.09 | 0.22 | 0.26 | 0.08 |
| Madhya Pradesh | 28.47 | 34.91 | 23.65 | 23.19 | 18.07 | 5.8 |
| Maharashtra | 7.72 | 46.46 | 44.67 | 85.17 | 1299.22 | 1606.35 |
| North Eastern | 4.23 | 7.19 | 4.27 | 7.89 | 5.45 | 9.94 |
| Orissa | 1.99 | 4.06 | 4.25 | 4.36 | 0.83 | 1.13 |
| Punjab | 7.79 | 0.06 | 1.14 | 0.12 | 0.43 | 0.06 |
| Rajasthan | 0.01 | 0.03 | 0.03 | 0.03 | 0.35 | 0.19 |
| Tamil Nadu | 0.04 | -- | 0.07 | 0.85 | 166.01 | 25.41 |
| Uttaranchal | 3.25 | 12.09 | 7.08 | 3.52 | 5.07 | 1.8 |
| Uttar Pradesh | 1039.88 | 178.19 | 75.13 | 110.53 | 66.99 | 77.92 |
| West Bengal | 23.48 | 61.12 | 29.95 | 93.02 | 96.28 | 276.64 |
| **Total** | **2644.67** | **728.91** | **1408.04** | **722.46** | **1807.83** | **2262.34** |

**ANNEXURE-IV**

**(Referred to in paragraph 2.8.2)**

**Statement showing amounts remaining unlinked in respect of the drawings from and remittances into the banks at the end of March 2006. (Rs in crore)**

| Name of the Circle | Unlinked drawings from banks | | | Unlinked remittances into banks | | |
|---|---|---|---|---|---|---|
| | In the bank scrolls | In the post office schedules | Status of reconciliation work | In the bank scrolls | In the post office schedules | Status of reconciliation work |
| Andhra Pradesh | 187.95 | 260.21 | ------ | 367.88 | 437.16 | ------ |
| Assam | 79.22 | 100.18 | Not done since Nov. 2003 | 295.73 | 147.05 | Not done since Nov. 2003 |
| Bihar | 324.89 | 323.49 | Not done since 2004-05 | 60.05 | 142.35 | Not done since 2004-05 |
| Chhattisgarh | 9.64 | 90.28 | Not done since 2003-04 | 60.42 | 109.8 | Not done since 2003-04 |
| Delhi | (-)14.00 | 896.43 | ------ | 2.08 | 1019.24 | ------ |
| Gujarat | 139.15 | 311.21 | Not done for 2005-06. | 167.06 | 115.35 | Not done for 2005-06 |
| Haryana | 5.51 | 35.43 | Not done for 2005-06. | 13.28 | 19.07 | Not done for 2005-06 |
| Himachal Pradesh | 1.23 | 11.13 | Not done for 2005-06. | 0.79 | 1.15 | Not done for 2005-06 |
| Jharkhand | 62.91 | 71.68 | Not done since 2004-05 | 172.07 | 322.65 | Not done since 2004-05 |
| Karnataka | 91.55 | 146.82 | ------ | 380.51 | 645.23 | ------ |
| Kerala | 39.68 | 88.10 | Not done for 2005-06. | 225.05 | 258.53 | Not done for 2005-06 |
| Madhya Pradesh | 22.53 | 40.68 | Not done for 2005-06. | 278.58 | 290.89 | Not done since 2003-04 |
| Maharashtra | 152.22 | 1067.91 | Not done for 2005-06. | 342.81 | 511.35 | Not done for 2005-06 |
| North Eastern | 17.94 | 10.84 | Not done since 2004-05 | 88.13 | 60.72 | Not done since June 2003 |
| Orissa | 2.92 | 0.19 | Not done since Feb. 2005 | 476.11 | 99.4 | Not done since 2004-05 |
| Punjab | 38.96 | 41.39 | Not done for 2005-06. | 232.80 | 152.61 | Not done for 2005-06 |
| Rajasthan | 71.48 | 71.48 | Not done for 2005-06. | 16.84 | 16.84 | Not done for 2005-06 |
| Tamil Nadu | 1.14 | 206.54 | ------ | 6.50 | 139.74 | ------ |
| Uttaranchal | 1.20 | 2.02 | ------ | 2.57 | 2.46 | ------ |
| Uttar Pradesh | 466.4 | 4.41 | ------ | 922.02 | 23.39 | ------ |
| West Bengal | 116.58 | 153.98 | Not done since 2004-05 | 534.15 | 391.45 | Not done since 2004-05 |
| **Total** | **1819.10** | **3934.40** | | **4645.43** | **4906.43** | |

## ANNEXURE-V

**(Referred to in paragraph 2.10.2)**

**Statement on outstanding fraud and theft cases for the years 2003-04 to 2005-06**

**Break-up of pending cases**

| Sl. No. | Year | No. of cases pending at the end of the year | Break-up of pending cases | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Below one year | Between one and five years | Between five and ten years | Between ten and fifteen years | Between fifteen and twenty years | Above twenty years |
| 1 | 2003-04 | 8255 | 2023 | 6232 above one year | | | | |
| 2 | 2004-05 | 7480 | 1656 | 2879 | 1265 | 783 | 451 | 446 |
| 3 | 2005-06 | 7625 | 1785 | 2895 | 1226 | 789 | 470 | 460 |

**Reasons for pendency**

| Sl. No. | Year | No. of cases pending at the end of the year | Reasons for pendency | | | | |
|---|---|---|---|---|---|---|---|
| | | | Departmental proceedings/investigations | | | | Others (non completion of Police and Court proceedings) |
| | | | Departmental investigation | Adjustment of loss | Disciplinary cases | Total | |
| 1 | 2003-04 | 8255 | 1153 | 1998 | 1572 | 4723 | 3532 |
| 2 | 2004-05 | 7480 | N/A | N/A | N/A | -- | N/A |
| 3 | 2005-06 | 7625 | 1348 | 1877 | 1591 | 4816 | 2809 |

5840 i.e. 76.59 per cent of cases were pending for more than one year; 2945 i.e. 38.62 per cent of cases were pending for more than five years; 1719 i.e 22.54 per cent of cases were pending for more than ten years; 930 i.e. 12.20 per cent of cases were pending for more than fifteen years and 460 i.e. 6.03 per cent of cases were pending for more than twenty years.

During the year 2005-06, 4816 cases i.e. 63 per cent of the cases were pending for non completion of departmental proceedings.

# MINISTRY OF SMALL SCALE INDUSTRIES

# OFFICE OF THE DEVELOPMENT COMMISSIONER (SMALL SCALE INDUSTRIES)

# IT Audit of Small Enterprise Information & Resource Centre Network

# CHAPTER 3
# MINISTRY OF SMALL SCALE INDUSTRIES

## OFFICE OF THE DEVELOPMENT COMMISSIONER (SMALL SCALE INDUSTRIES)

### Information Technology (IT) Audit of Small Enterprise Information & Resource Centre Network

Small Enterprise Information and Resource Centre Network (SENET) project was implemented by the Small Industry Development Organisation (SIDO) in 2002 as an e-governance project to provide an all India and decentralised information network for meeting the information requirements of small enterprises and other target groups. Major findings of the IT audit of this project are as follows:

### HIGHLIGHTS

- **There was no policy for updating the information regularly on the website and the content regarding trade policy, clusters, state industrial policies, reservation policies, policies for small sector industries, annual reports and trainings was not being updated regularly.**

*(Paragraph 3.4.1)*

- **The SENET application did not provide for adequate input validation checks, which made the system prone to erroneous data entry resulting in unreliable information.**

*(Paragraph 3.4.2)*

- **There were significant deficiencies in the security of the IT system, covering restriction of unauthorized login attempts, review of logs, password policies, network security and logical access controls.**

*(Paragraph 3.4.5)*

- **SIDO was relying on external agencies for the management of the IT system, and had incurred an expenditure of Rs 183.65 lakh till March 2006, with a further commitment of Rs 39.80 lakh for the next two years.**

*(Paragraph 3.4.3.1)*

- **SIDO did not have a uniform policy regarding hosting of web sites and their maintenance by SISIs and a total expenditure of Rs 114.33 lakh was incurred on ISDN / leased line connectivity and web site hosting and maintenance by SISIs and reimbursed by SIDO during 2002-2006. Further, SIDO incurred an expenditure of Rs 48.99 lakh till 31 March 2006 on leased line connectivity for SIDO headquarters without conducting a formal technical feasibility study.**

*(Paragraph 3.4.3.2)*

- **Neither internal audit nor any independent auditor was associated at any stage with the SENET project. There was no documentation evidencing the setting up of a quality assurance mechanism by SIDO. Further, there was no evidence of system testing for the applications implemented in SIDO, and the user and system documentation was inadequate.**

*(Paragraph 3.4.4.1)*

- **Only three modules – namely payroll, ISO 9000 reimbursement and entrepreneurial training – out of the 16 Office Automation (OA) modules were being used. Even in respect of these modules, SIDO was not relying on the electronic data and was still relying on the manual system.**

*(Paragraph 3.4.6)*

## SUMMARY OF **RECOMMENDATIONS**

- **SIDO may take steps to ensure that the different Office Application (OA) modules are utilised and also that adequate input validation checks are built in to ensure correct and complete data so that the IT system can be relied upon instead of resorting to manual records.**

- **SIDO may ensure effective implementation of measures to ensure that the data on SIDO online is kept uptodate, and also monitor the website on a periodical schedule to ensure that old and outdated information is detected and updated.**

- **SIDO may formulate a uniform policy for web related services for all SISIs, as well as SIDO Headquarters and evaluate alternatives for choosing the most cost-effective solution meeting its requirements.**

- **SIDO may formulate and implement a formal IT security policy and detailed IT security procedures to ensure the confidentiality, integrity and availability of IT assets (including data).**

## 3.1 INTRODUCTION

The Office of the Development Commissioner (SSI), an attached office of the Ministry of Small Scale Industries, also known as Small Industry Development Organisation (SIDO), is an apex body for formulating and overseeing implementation of policies for the development of small scale industries in the country.

SIDO also:

- provides techno-economic and managerial consultancy;
- provides common facilities and extension services to small scale units;
- provides facilities for technology upgradation, modernisation, quality improvement and infrastructure;
- develops human resources through training and skill upgradation; and
- implements and monitors various schemes such as credit linked capital subsidy scheme for technology upgradation, credit guarantee scheme, ISO 9000/ISO 14001 certification reimbursement scheme, small industry cluster development programme, and assistance to entrepreneurship development institutes.

SIDO has a network of 30 small industries service institutes (SISIs), 28 branch SISIs, seven field testing stations (FTSs) and four regional testing centres (RTCs).

## 3.2 SENET Project

### 3.2.1 Overview

SIDO conceived (1993) and commenced (April 1997) with the approval of Standing Finance Committee of SIDO an e-governance project, Small Enterprise Information and Resource Centre Network (SENET) at a cost of Rs 4.35 crore. The project was modified in March 2000 and its scope was enlarged to include office automation applications and website at a project cost of Rs 11.40 crore.

The objectives of the project, as stated in April 1997 by SIDO, were:

- to provide an all India and decentralized information network, primarily for meeting the information requirement of small enterprises and other target groups such as the State Governments, directorate of industries, state industries development corporations, technology institutions, CSIR laboratories, industry associations and NGOs in their decision making process;
- to provide appropriate training inputs to the personnel in SIDO and its associate institutions; and
- to provide limited financial assistance to information agencies to implement information software packages.

The expanded project consisted of three applications viz., SENET Applications, Web Hosting, and Office Automation (OA) Applications. These applications were developed by CMC Ltd. and implemented during February 2002.

The network comprised of 31 electronic 'nodes', with the Main Node located at the headquarters of SIDO. Out of the 30 SISIs, 5 SISIs had Technology Nodal Centres[1] (TNCs) and 25 SISIs had User Centres (UCs)[2].

### 3.2.2 SENET Applications

SENET Applications provide a user interface to Main Centre (MC)/TNC/UCs for entering information on twenty six information categories, which is displayed on the web site to meet the requirements of entrepreneurs, SIDO and consumers. Some of the important modules are:

- 'Product Profile' module, which allows entrepreneurs to enter details of various SSI related products;
- 'Project Profiles' module, which contains the details of projects with regard to the product, financial outlay, production capacities and suppliers of raw materials /items profiles etc., which are prepared and updated by the technical officials of SIDO;
- Clusters[3] module, which provides information about the clusters and the small-scale enterprises comprising the clusters in India;
- Directories module, which provides names, addresses and other details of various organizations under SIDO and related to its business;
- Events module, which serves as a calendar for the various Training Programmes, Workshops and Awareness Programmes which are conducted by SIDO, or on which information may be available; and
- Yellow Pages, which provide individual firms a forum to advertise their business and marketing information.

### 3.2.3 Website

SIDO's Internet website, also called SIDO Online, was set up for providing value added information to Indian small and medium enterprises (SMEs) and acting as a resource centre for bringing together diverse Small and Medium Enterprises (SME) related groups, entrepreneurs (existing and potential), associations, buyers, sellers, technocrats, training cells, technology developers and academia. It has been hosted on servers installed in the SIDO.

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[1] SISI Calcutta, Mumbai, Chennai, Bangalore and Ahmedabad

[2] SISI, New Delhi, Guwahati, Patna, Panjim, Solan, Jammu, Trichur, Indore, Cuttack, Ludhiana, Jaipur, Kanpur, Hyderabad, Karnal, Gangtok, Agartala, Agra, Allahabad, Muzaffarpur, Haldiwani, Ranchi, Hubli, Imphal, Nagpur, Raipur.

3 A Cluster is generally identified by the product (or product range) and the place where it is located Examples of SSI Clusters in India are : Ceramic Pottery Cluster at Khurja, Leather & Leather Garments Cluster at Chennai, Hosiery Cluster at Calcutta etc

### 3.2.4 Office Automation Applications

These consisted of 16 Office Automation modules listed below:

Personnel Information System; Payroll; Financial Accounting System; Budget; Parliament Questions; Audit Paras; Human Resource Management System; Entrepreneurial Training; General Administration; Publicity; Meetings (ISO 9000 reimbursement); Statistics of Small Scale Industries; Progress Monitoring; Diary Dispatch and File Tracking System; Complaints and Grievances System; and Court Cases System.

## 3.3 AUDIT SCOPE AND METHODOLOGY

An IT audit of SIDO covering the period from April 1997 to March 2006 was conducted from April 2006 to July 2006, using audit guidelines under the CobiT[4] framework. Data for the period April 2002 to March 2006 pertaining to SENET was analysed using Microsoft Access.

The draft report was issued to SIDO in September 2006, and an exit conference was held with the Development Commissioner (SSI) in October 2006. Responses from the Department were received in September and October 2006 which have been incorporated, as appropriate, in the report.

## 3.4 AUDIT FINDINGS

### 3.4.1 Invalid and Outdated Content on SIDO Online

There was no policy for updating the information regularly on the website to ensure timely dissemination of relevant information to the users which was the main objective of the project. Audit noted that the content regarding trade policy, clusters, state industrial policies, reservation policies, policies for small sector industries, annual reports and trainings was not being updated regularly. For example:

- The Trade Policy on the website referred to the previous EXIM policy 1997-2002, while the section on India's Industrial Policies contained policies only upto July 1991. The section on SSI Policy Statements contained the Statement issued in August 1991.
- Information on participation in international trade fairs, exhibitions and training sessions pertained to the year 2000-01.
- While the "Know SSI" Version 3.0 CD had already been issued, the website gave details of the Version 2.0 CD.
- The data on handtools industry – import and export, export destinations, number of units and number of workers – pertained to the years from 2000-01 to 2002-03.

[4] The Information Systems Audit and Control Foundation has developed standards known as CobiT (Control Objectives for Information and Related Technology). CobiT standards are tools generally applicable to, and are an accepted standard for IT governance.

- Expenditure incurred on the ISO 9000 reimbursement scheme was available only upto March 2002.
- Information on technology requests and technology offers pertained to the period upto March 2001.
- The list of Annual Reports contained Annual Reports only upto 2002-03.

Audit also noted that the Application Server was found to be down frequently which restricted use of various web-based facilities. Also, a test of the website conducted on 30 June 2006 revealed that out of a total of 3068 hyperlinks[5] on the website, 42 hyperlinks were invalid.

In their response, SIDO stated as follows:

- In the course of Government business, there were requirements and demands from time to time about hosting websites for certain specific purposes within specified time schedules. Updating these websites on a regular basis was often not attended to with the same promptness with which they were created.
- The audit observations had been noted carefully and remedial action was being taken. All steps had been initiated to ensure that proper updating was done on a regular basis. The "MSMED Act, 2006" and "List of National Awardees" had been added to the website, while the web data pertaining to RTC division had been updated. The existing format of the Entrepreneurs Memorandum (in PDF[6] format) was under conversion into a writeable format for enabling online filing. Also, certain documents on the web were gradually being converted into downloadable format.
- A team of officers in SENET had been entrusted with the specific task of updating and monitoring the Web content regularly and continuously. Also, all the Divisions had been requested to go through the web content pertaining to their Divisions, and suggest modifications and deletions, if any, regularly to keep the content upto date.

Audit notes the action being taken by SIDO in response to its audit observations, and looks forward to full implementation of measures, whereby the data on SIDO online is continuously kept upto date.

*Recommendation*

*SIDO may ensure effective implementation of measures to ensure that the data on SIDO online is kept upto date, and also monitor the website on a periodical schedule to ensure that old and outdated information is detected and updated.*

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[5] **Hyperlink,** also referred to as a link, automatically brings the referred information to the user when the navigation element is selected by the user. Combined with a data network and suitable access protocol, a computer can be instructed to fetch the resource referenced.

[6] **PDF – Portable Document Format**, an open file format created and controlled by Adobe Systems.

### 3.4.2 Weak Application Controls and Data Integrity for SENET Applications

Audit noted that the SENET application did not provide for adequate input validation checks. This made the system prone to erroneous data entry resulting in unreliable information as indicated below:

- The application accepted invalid characters ( like *,#, %) in the data entry by users for division, designation, office type and office name, category of events, product codes, acknowledgement type and subject fields.
- SENET allowed fields like pin code, phone number, fax number, email address, details of turnover, registration numbers, registered office and details of quality certificates to accept blank or invalid characters and numerical fields to accept text also.
- Out of a total of 4351 records, blank data was found in:
  - 2211 cases in respect of name of contact person, phone, address, username and password
  - 245 cases in respect of pin code ( in addition, 4 cases had text data);
  - 3763 cases, 3626 cases and 4351 cases in respect of turnover field, registration agency and registered office/ registration number respectively;

Further, in case of 4351 users, payment details of only 374 cases were available, indicating incomplete data entry. Also, control fields used by administrator for validation were all blank, signifying the fact that the information was being uploaded without any verification.

In response, SIDO offered no specific comments on the audit observations, but stated that the observations had been noted carefully and remedial action was being taken.

*Recommendation*

*SIDO may ensure that adequate input validation controls are introduced in the SENET applicatio, to minimise entry of invalid data.*

### 3.4.3 Ineffective Control over Operational Costs

#### 3.4.3.1 Cost of Management of IT System

Audit examination revealed that SIDO was relying on external agencies for the management of the IT system and had incurred an expenditure of Rs 1.84 crore till March 2006 with a further commitment of Rs 39.80 lakh for the next two years, as indicated below:

- SIDO failed to develop its own team to take over the project after the extended support period for the completed project ended in September 2002. SIDO decided to outsource the maintenance of the project (facility management) to CMC at an annual cost of Rs 70 lakh on the basis of a single tender, without performing any benchmarking or study to judge the reasonableness of the cost of services. The contract with CMC was renewed for the year 2003-04 at a cost of Rs 69 lakh after inviting open tenders.

- Audit noted that the contract for the year 2004-05 was assigned to another firm for Rs 24.75 lakh (being the lowest bid); this contract was further extended for a period of 3 years at the rate of Rs 19.90 lakh per annum subject to satisfactory service.

Audit noted that SIDO had failed to train its own manpower, or consider the option of hiring NIC for maintenance of the system for cost effective maintenance..

In response, SIDO stated as follows:

- Under the agreement, the Annual Maintenance Contract (AMC) was to be given to CMC for at least two years. As SIDO staff had not been trained fully to take up maintenance work, the AMC was awarded to external agencies (as per the prescribed procedure).
- SIDO had since associated their own staff, and it was expected that they would be able take up the job of maintenance to a limited extent, after the existing AMC ended on 31st March 2008.
- After the completion of the existing AMC in March 2008, SIDO would consider NIC for further maintenance.

The reply of SIDO confirms the audit contention that the project planning and implementation were deficient as staff for maintenance job is still not equipped for maintenance a decade after its commencement.

### 3.4.3.2 Expenditure on Web Services

Audit noted that a total expenditure of Rs 1.14 crore was incurred on ISDN / leased line connectivity and web site hosting and maintenance by SISIs and reimbursed by SIDO during 2002-2006. Further, SIDO did not have a uniform policy regarding hosting of web sites and their maintenance by SISIs as depicted below:

- There was significant variation in expenditure incurred by SISIs on leased line connectivity and hosting and maintenance of websites.
- During 2004-05, four SISIs, namely, Goa, Gangtok, Agartala and Imphal tied up with NIC to avail the services free of cost.
- Thereafter, other SISIs were instructed by SIDO (August 2004) for exploring the possibility with their local state NIC authorities for hosting and maintenance of their web sites, however, without any positive outcome.

Further, SIDO incurred an expenditure of Rs 48.99 lakh till 31 March 2006 on leased line connectivity for SIDO headquarters without conducting a formal technical feasibility study. Audit noted that NIC had given (March 2004) details of available facilities for providing requisite connectivity. However, SIDO outsourced the facility at a high cost and did not conduct a formal detailed technical feasibility study.

In response, SIDO stated that while allocating funds for web hosting and maintenance to SISIs during 2006-07, it had attempted to bring in a uniform policy to the extent possible, by advising SISIs to use the services of NIC wherever available. There was no response on the issue of leased line connectivity for SIDO headquarters.

*Recommendation*

*SIDO may formulate a uniform policy for web related services for all SISIs as well as SIDO Headquarters and evaluate alternatives for choosing the most cost-effective solution meeting its requirements.*

### 3.4.4 Other General IT Controls

#### 3.4.4.1 Deficient IT Strategy

SIDO and National Informatics Centre (NIC) had jointly prepared a five year IT Plan (August 1998). Audit however noted that:

- The plan did not cover the field offices, i.e. SISIs, RTCs, FTIs and tool rooms. Also, although SENET was launched in April 1997, the Plan had only a brief description of SENET and did not include SENET's relation with existing or proposed databases and the role of SENET in overall IT effort of SIDO. Further, no time frame was set for realization of objectives.
- Neither internal audit nor any independent auditor was associated during the development, implementation, testing, monitoring and review of SENET. Association of these agencies would have helped in early detection of shortcomings.

While accepting the audit observations relating to internal audit/ independent auditor, SIDO stated that joint audit with NIC would be arranged for addressing the issues raised by audit.

SIDO also stated that due to financial and other administrative reasons, the Government decided to start the project with limited scope and develop it gradually.

#### 3.4.4.2 Poor Project Monitoring and Quality Assurance

As per the revised SENET project approved in March 2000, two committees were to be formed for monitoring the project:

- a Project Implementation Committee (PIC) under the chairmanship of AS&DC (SSI), which was to ensure implementation of SENET in accordance with the approved milestones; and
- a Project Steering Committee (PSC) under the chairmanship of Secretary (SSI and ARI), which would review the implementation of SENET.

Audit noted that PIC met only twice during the implementation of the project, and there was no meeting held by PSC. Another committee – the SENET

Implementation Committee (SIC) was formed in June 2003 (i.e. after the implementation of SENET in February 2002) for supervising and guiding activities relating to the SENET project.

Further, as per the Detailed Project Report submitted by CMC:

- a quality assurance group was to be formed;
- project review teams were to be identified;
- peer level reviews and project status reviews were to be conducted at regular phases of the project life cycle; and
- standards for coding, documentation and error reporting were to be developed and followed.

However, audit could not find any documentation evidencing the setting up of such quality assurance mechanism.

In response, SIDO stated that they did not have IT trained staff when the project was taken up. It was for that reason that the competent authority preferred to engage CMC (a Public Sector Undertaking) to implement the project, and it was expected that CMC would take care of the quality assurance plan.

The reply is not tenable, as it was inappropriate to place complete reliance on the vendor responsible for the system design, development and implementation and expect that the vendor's own quality assurance mechanism would be adequate without a monitoring mechanism from SIDO's side.

**3.4.4.3 System Testing**

There was no evidence of system testing for all the applications implemented in SIDO. Only an Acceptance Test Plan (ATP) of the Office Automation modules, which was a mere description of the system, was available.

SIDO, in their reply (September 2006), stated that the observations of audit had been noted carefully and remedial action was being taken.

**3.4.4.4 Lack of documentation**

Audit examination revealed that:

- SIDO did not have a formal documentation policy.
- System design specifications and user manuals of SENET and OA Applications were not available.
- No documents relating to users' participation in development / implementation / testing of applications were available. Sign offs on completion of various modules were not obtained from actual users (to signify their acceptance of the completed modules).

In their response, SIDO did not offer any specific comments on the audit observations but stated that the observations of audit had been noted carefully and that remedial action was being taken.

#### 3.4.4.5 Deficient Inventory Management

SIDO did not maintain an accurate record of its IT assets, as follows:

- SIDO did not maintain records of IT assets in various SISIs purchased for the SENET project in the following respects:
- SIDO could not provide a complete year-wise break up of expenditure under heads like AMC, leased lines, web site, computers, printers, networking equipment and software.

In response, SIDO stated that there may have been some inadequacies in maintaining the stock registers in respect of assets in SIDO Headquarters. However, the complete inventory had since been prepared, and the stock register and the head-wise expenditure registers were now being maintained.

### 3.4.5 Weak Security of IT system

Audit examination revealed significant deficiencies in the security of the IT system, as summarised below:

#### 3.4.5.1 Restricting unauthorized login attempts

- No procedure to log unauthorized login attempts was in place.
- The application did not restrict the number of login attempts and the user id was not suspended after a specified number of attempts
- Concurrent sessions of the same user were not restricted.
- No advisory messages on log-on regarding list of successful/unsuccessful attempts, legal warnings etc. were available.

#### 3.4.5.2 Logging

There was no formal system to review logs, in the absence of which, threats to system security would go undetected.

#### 3.4.5.3 Password policy

- The passwords were not based on 'single use authentication', i.e., passwords were reusable, and the application did not enforce password change at specified intervals.
- SIDO did not have a policy of deactivation of former employee passwords.
- No formal system was in place for creating new users and passwords; and passwords were also being shared.

#### 3.4.5.4 Security Policies and Procedures

- No written policy existed on downloading, acceptance, and use of freeware and shareware.
- Users had not received instructions on the detection and reporting of viruses, such as sluggish performance or mysterious growth of files.

- SIDO had not formulated a formal IT security policy and supporting procedures. No data classification schema was in place to ensure that all system resources had an owner responsible for security and content.

### 3.4.5.5 Network Security and Logical Access Controls

SIDO had selected (December 2002) the Centre for IT Security, CMC Limited, Hyderabad for conducting a security audit of the IT system. The report prepared (March 2003) brought out several weaknesses in the IT security set up of SENET like open ports, service packs/ patches/ hot fixes not installed on critical machines etc. As per the recommendations of the report, SIDO installed security devices like firewall and intrusion detection system at a cost of Rs 15.25 lakh. However, audit noted several weaknesses in the IT Security of SIDO, as detailed below:

- The traffic of SSI Network to internet was through a router[7], which had no logical security. As a result, Audit could easily access critical configuration details of the router and network from the router and was able to ping[8] the web server from the router. Similarly, the second router was also found accessible.
- The back up web server was remotely (logically) accessible with full access permissions from SIDO's intranet.
- Two switches[9] critical to the networking were accessible without any restriction which had the potential risk of making web servers, application servers and RDBMS server unavailable to users.
- The Oracle database server with default passwords and Norton Antivirus Server were accessible with full access permissions. Audit noted that various unnecessary programs were running on antivirus server which was very risky for the virus protection of entire network and web server.

Thus the setup contained significant vulnerabilities, potentially exploitable by a malicious user over the Internet.

In response, SIDO stated as follows:

- The servers were installed in the SENET room in Nirman Bhawan, which was a highly protected area. Moreover, no case of exploitation by a malicious user over the internet had come to their notice.
- Though the IT security of the organization was not perfect, in a developmental organization like SIDO, there was hardly any closed information that required to be guarded. However, the organization would take abundant caution.

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[7] A **router** is a computer networking device that forwards data packets across a network toward their destinations, through a process known as routing. Routing occurs at layer 3 (the Network layer e.g. IP) of the OSI seven-layer protocol stack.

[8] **ping** is a computer network tool used to test whether a particular host is reachable across an IP network.

[9] A network **switch** is a computer networking device that connects network segments.

- SENET Division had installed an intrusion detection system to prevent unauthorized access to data.

The response of SIDO is not relevant as it does not cover the real issues as below:

- Physical security of the location is inadequate to prevent unauthorized access over the Internet or other networks.
- No data classification scheme was in place, which would enable identification of open and confidential/ secret information.
- The effectiveness of the intrusion detection system and other controls may be judged in the context of the security loopholes identified by audit.
- Information is not the only reason for attacks on networks. Various attacks result in defacement of websites, interruption in service, non availability of applications for data entry and reporting. Further, reinstating these services requires considerable time and cost.

*Recommendation*

*SIDO may formulate and implement a formal IT security policy and detailed IT security procedures to ensure the confidentiality, integrity and availability of IT assets (including data).*

### 3.4.6 Non-utilisation of Office Automation Applications

Even after implementation of the project in February 2002, only three modules -namely payroll, ISO 9000 reimbursement and entrepreneurial training - out of the 16 Office Automation (OA) modules were being used (September 2006). Even in respect of these three modules, audit analysis revealed that SIDO was not relying on the electronic data and was still relying on the manual system as described below:

#### 3.4.6.1 Payroll

Crucial fields for generating monthly pay bills were not made mandatory e.g. basic pay, transport allowance, city compensatory allowance (CCA), dearness allowance (DA), dearness pay (DP), GPF contribution and pay bill number. Data analysis revealed that the database was deficient in the following respects:

- Out of 12159 records, there were blanks in 22 cases of Basic Pay, 57 cases of CCA, 101 cases of DA, 484 cases of provident fund number, 18 cases of DP and 18 cases of designation.
- DP was less than 50 per cent of basic pay in 42 cases and HRA was not equal to 30 per cent of Basic Pay plus DP (as required) in 41 cases.

#### 3.4.6.2 ISO 9000 reimbursement scheme

Under the scheme, SIDO provides incentives to those small scale/ ancillary undertaking who have acquired ISO 9000/ISO 14001 certifications. An amount of Rs 48.53 crore was disbursed through this module during the period

2002-03 to 2005-06. Audit analysis of the database reflected duplicate certificate numbers in 137 out of 11519 cases of reimbursement against which approvals for making reimbursement was indicated, which the software/application was not able to detect. However, physical records did not reveal duplicate payment, which indicated that SIDO was relying on the manual records and not on the IT system before releasing the payments.

### 3.4.6.3 Entrepreneurial Training

The module is being used for storing information related to various training programmes organized by SIDO. Audit analysis, however, revealed following deficiencies in the database/application:

- In the table (3855 records) containing details of the entrepreneurial training course, the fields for name of the course and place of the course accepted blank or invalid characters.
- Fields like venue of training, and capacity of the course were not made mandatory, as audit noted blanks in 12 cases and 141 cases respectively.
- Details of expenditure and receipt realized in 243 cases and 1345 cases respectively were not entered in the database. As a result, generation of a report depicting correct status from the system was not possible.

In response, SIDO stated as follows:

- As per the objectives of Office Automation, it was intended to computerize the entire office, and hence 16 OA modules were got developed. However, due to non-availability of trained staff, only three out of 16 OA modules were being used.
- The remaining modules were being evaluated, and would be put to use in due course. Also, the existing staff would be got trained to use more OA modules. Further, they had requested NIC to study the existing infrastructure in SENET from the point of view of using available tools.
- The office had initiated the concept of network shared storage data, which would facilitate better server management, data management and data security.

The response of the Department is not tenable, as these factors – in particular, training and re-orientation of staff – should have been considered and planned before the implementation of the project. This is especially so, considering that SIDO took more than four years after conceiving the project to finally entrust the work to CMC.

*Recommendation*

*SIDO may take steps to ensure that the different Office Application (OA) modules are utilised, and also that adequate input validation checks are built in to ensure correct and complete data, so that the IT system can be relied upon, instead of resorting to manual records.*

## 3.5 CONCLUSION

Even after four years of implementation of the project, SIDO was not able to place reliance on the information being generated through the IT system and was relying on manual records. Network security was weak and SENET application did not provide adequate input validation checks. Office automation system was not implemented fully. Further, the information on the SIDO online was outdated and not being updated regularly. Thus, after incurring an expenditure of Rs 11.41 crore, the SENET project had not been able to fully achieve its objective of disseminating uptodate information in a timely manner to the small enterprises and other intended users.

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**Dated** 27 Feb. 2007

**Countersigned**

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**Comptroller and Auditor General of India**

**New Delhi**
**Dated :** 27 Feb. 2007