National Library, India

सत्यमेव जयते

Report of the Comptroller and Auditor General of India

Union Government (Civil) Performance Audit No. 3 of 2010-11

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for the year ended March 2008

Union Government (Civil)
Performance Audit
No. 3 of 2010-11

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PREFACE

This report of the Comptroller and Auditor General of India containing results of performance audit on the following topics has been prepared for submission to the President of India under Article 151 of the Constitution:

1.	Activities of the National Library, India	Ministry of Culture
2.	Reimbursement of medical claims to pensioners under CGHS	Ministry of Health and Family Welfare
3	Payment of Claims under Transport Subsidy Scheme	Ministry of Commerce & Industry

These performance audits incorporate the results of test check of records of the above mentioned units conducted during 2008-09.

OVERVIEW

This Report contains results of performance audit of (i) Activities of the National Library, India (ii) Reimbursement of medical claims to pensioners under CGHS and (iii) Payment of Claims under Transport Subsidy Scheme.

MINISTRY OF CULTURE

Activities of the National Library, India

The National Library of India aims at preserving the cultural heritage of India through acquisition and conservation of all significant material produced and printed in India also foreign material required by the country. The library also renders bibliographical and documents services of current and retrospective material and also assists in research in various fields of knowledge. It also serves as a permanent repository of all reading materials produced in India and concerning India, wherever published. It functions under the Ministry of Culture, Government of India. A performance audit of the Library was conducted covering the period from 2003-04 to 2007-08.

The performance audit revealed that due to weak internal controls, absence of work norms and lack of automation, the Library has not been able to keep pace with the times in providing efficient readership services to the people. The quality of readership services provided by the National Library does not meet the requirement of modern-day readers. No centralized digital catalogue exists to enable efficient direct search.

The preservation and conservation practices of the Library are old and inadequate to preserve and protect the life of the precious books. Rare books and manuscripts in the library are not documented and accessioned properly, making them vulnerable to loss and theft. Periodic physical verification of the books is not conducted and therefore the actual number of books/documents in the possession of the library is not known. The digitization of books remained incomplete for want of supervision and monitoring. Out of an estimated 25 lakh books in the library, in the last nine years, the Library could digitize only 9141 books.

The Library is not well equipped and prepared for emergency situations like fire etc. to face emergency fire incidents. The fire extinguishers, mounted in different locations of the Library, had not been serviced and recharged for over five years. Security arrangements in the library are not adequate.

Though the Library is legally entitled under the Delivery of Books and Newspapers (Public Libraries) Act, 1954, to receive a free copy from the publisher of every publication in India, this provision of the law was not complied with by a majority of Indian publishers. Although the Library was aware of such significant default, the government had not initiated suitable penal action under Section 5 of the Act. The repository services of the Library, so far as collection of all significant printed materials produced in the country is concerned, is thus seriously frustrated. Moreover, there is lack of transparency in the procedure regarding purchase of foreign books and journals. There are significant delays in processing unprocessed books in the Library affecting timely availability of contemporary books to the readers.

MINISTRY OF HEALTH AND FAMILY WELFARE

Reimbursement of medical claims to pensioners under CGHS

The Central Government Health Scheme (CGHS), covers 24 cities of the country and provides comprehensive medical care including indoor and outdoor treatment facilities to Central Government employees and civilian pensioners through a network of dispensaries, polyclinics, laboratories etc. In addition, CGHS refers, where necessary, cases to State/ Central Government hospitals and referral hospitals. CGHS also has a panel of private hospitals and diagnostic centres that are recognized for extending services to the CGHS beneficiaries. The recognized private hospitals and diagnostic centres are required to extend credit facility to the pensioners.

The performance audit of reimbursement of medical claims to pensioners disclosed that the CGHS had not stipulated any time frame for settlement of medical claims of pensioners. The system of reimbursement suffered from delays in settlement of medical claims to the pensioners. Inordinate delays were also observed in granting of permission by the CGHS authorities to pensioners for expensive/unlisted treatment procedures. In many cases, the permission applications were pending for more than two years.

The medical reimbursement procedures were not transparent. Except for Delhi, a formal system for communicating the status of reimbursement of medical claims to the pensioners was not in place in the CGHS covered cities audited.

The causes for delay in settlement of claims were indifferent handling of cases by the CGHS authorities resulting in claims and files getting misplaced; forwarding of claims by local CGHS offices to Director (CGHS), Delhi for unnecessary clarifications; lack of effective initial scrutiny of claims by CGHS authorities leading to avoidable correspondence at the time of processing of claims and inadequate monitoring and accountability procedures for negligent and insensitive disposal of claims.

The effectiveness of the system of credit facility by recognized private hospitals was hampered due to lack of awareness among pensioners about extension of credit facility and substantial reduction in the number of recognized private hospitals in recent years.

The system did not afford adequate opportunity to the pensioners for registering their grievances/complaints. The grievance redressal system was not functional in five out of eight cities audited.

The medical claim reimbursement system, therefore, needs to be improved.

MINISTRY OF COMMERCE & INDUSTRY

Payment of Claims under Transport Subsidy Scheme

The Government of India introduced the Transport Subsidy Scheme in 1971, with a view to promoting industrialization of hilly, remote and inaccessible areas. Under the scheme, transport subsidy on movement of raw materials and finished goods to and from designated railheads is allowed to industrial units located in selected areas.

The performance audit of payment of claims under the Transport Subsidy Scheme revealed that despite issue of detailed guidelines and instructions from time to time by the Department of Industrial Policy and Promotion, Ministry of Commerce & Industry, there were significant systemic deficiencies and irregularities in the implementation of the scheme.

Procedures for pre-registration of units, periodic monitoring, physical inspection of units and receipt of information regarding movement of raw materials/finished goods, which were necessary to ensure the authenticity and genuineness of claims, were highly deficient. Audit scrutiny revealed numerous cases of non-compliance with the scheme guidelines and irregular/ inadmissible payments. Cross check by audit of the details recorded in the

subsidy claims with those indicated in the records of other Departments (Vehicle Licensing, State Excise and Taxation, Sales Tax and Central Excise Departments) also revealed serious instances of fictitious and doubtful payments.

While the Ministry has accepted most of the recommendations made by audit for strengthening the implementation of the scheme, and indicated that it had issued necessary directions to the State Governments and implementing agencies, it is the Ministry's responsibility to ensure and verify actual compliance with these directions. This is particularly so, in view of the inadequate follow-up action on the previous audit findings on this scheme, even after eight years.

The Ministry needs to take a proactive role to ensure that leakages and irregular payments are minimised, so as to serve the scheme's larger objective of promoting industrialisation of hilly, remote and inaccessible areas.

MINISTRY OF CULTURE

ACTIVITIES OF THE NATIONAL LIBRARY, INDIA

CHAPTER I : MINISTRY OF CULTURE

Activities of the National Library, India

The erstwhile Imperial Library (established in 1891) was renamed as National Library with the enactment of an Act in 1948. It is a subordinate office of the Ministry of Culture, Government of India. The Library serves as a permanent repository of all reading and information material produced in India and about India in other countries. Acquisition and conservation of all significant national as well as foreign material is one of its prime objectives. Besides, it renders bibliographical services and also serves as a referral centre.

Highlight of the major observations

- **Under the Delivery of Books and Newspapers (Public Libraries) Act, 1954, the Library is legally entitled to receive a free copy from the publisher of every publication in India, within a month of its publication. Though acquisition is one of the prime objectives of the Library, it received only five to 26 *per cent* of books published in India due to poor enforcement of penal provisions in DB Act[1]. The system of purchase of foreign publications is neither transparent and competitive nor directed by any need-based approach to cover gaps in the existing collection.**

  (Paragraph 1.8.1.1& 1.8.1.2)

- **Inordinate delay in processing[2] of books received from domestic publishers deprived readers benefit of an estimated 3,00,000 books which could not reach shelves, in time. Likewise, in foreign language divisions, out of 58 languages, books only in five languages[3] were processed. The huge processing lag was due to lack of automation in various processing activities, shortage of language experts and uneven distribution of manpower. Being not on record, the unprocessed books are vulnerable to the risk of loss/theft.**

  (Paragraph 1.8. 2.1, 1.8.2.2)

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[1] Delivery of Books and Newspapers (Public libraries) Act, 1954

[2] Processing activities include acknowledging, unwrapping, stamping, measuring dimension of books, accessioning, assigning call nos., filling up datasheet in MARC 21 format, labeling and cataloguing.

[3] Chinese, German, Russian, Arabic and Persian languages

- **Due to non-accessioning and deficient movement control, priceless possessions of the Rare Book Division like: world's smallest dictionary, century old manuscripts and letters of eminent personalities like Rabindranath Tagore, Subhash Chandra Bose, Sarojini Naidu were exposed to loss and theft.**

  (Paragraph 1.8.3.1)

- **The Library could digitize only 9141 books in a decade's time. Moreover, less than one *per cent* of the century old rare Newspapers could be microfilmed till date resulting in possible loss due to natural process of decay and destruction.**

  (Paragraph 1.8.3.2)

- **The library continued to use conventional methods and ingredients for preservation of books which proved detrimental to the life of books.**

  (Paragraph 1.8. 3.3)

- **The library does not have any contingency response plan to meet emergency situations. Besides, out of 83 fire extinguishers installed at the Annex building, 64 fire extinguishers had not been replaced/refilled for more than four years beyond their expiry rendering them unfit for use to meet any emergency.**

  (Paragraph 1.8. 3.4)

- **During the period under review stock verification was done in only two out of 39 divisions. Due to absence of the system of physical verification, the exact number of books in possession of the library was not known.**

  (Paragraph 1.8.4.2)

- **There is no centralized catalogue to help readers ascertain what was available in various reading rooms. Equipment for reading microfilms was obsolete. In 40 *per cent* cases, books were not issued to readers, despite being available on racks. Benefit of on-line journals was also not made available to the readers despite having adequate IT infrastructure.**

  (Paragraph 1.8.5 .1, 1.8.1.4)

Summary of important recommendations

- **The National Library should create and regularly update a database of books published in India. It should develop a transparent and competitive purchase procedure and select publications through wider consultation with experts.**
- **With a view to avoiding delays in processing activities, the Library should review and rationalize its manpower deployment in its divisions. Automation of processing activities also needs to be speeded up so that books may reach the shelves in time providing access to the readers.**
- **Rare books division should open an accession register and properly document all rare collections to avoid possible loss and theft due to non-accessioning.**
- **Digitization work needs to be accelerated in a planned manner in order to avoid duplication of manual cataloguing and to ensure wider accessibility to digital material of the Library.**
- **Modern conservation techniques may be adopted to prevent damage to books caused due to the use of substandard conventional binding ingredients**
- **The Library needs to draw up a contingency response plan and equip itself to meet emergency situations such as fire etc.**
- **The Library needs to put in place periodic system of physical verification, and also to develop a centralized cataloguing system to help readers know what is available.**

1.1 Introduction

With the enactment of the Imperial Library (change of name) Act 1948, the erstwhile Imperial Library (established 1891) was renamed and declared the National Library and opened to public on 1 February 1953. It grew from the collection of the Imperial Library and found a special mention in the Seventh Schedule of the Union list in the Constitution of India as an institution of national importance. The Library is located in the Belvedere Estate, the earlier vice regal palace, having an area of around 72 bighas[4] in Alipore, Kolkata. It has a collection of about 25 lakh books.

[4] **One Bigha = 1600 Square yards**

The National Library serves as a permanent repository of all reading and information material produced in India and of all printed material authored by Indians and those concerning India but authored by foreigners, wherever published and in whichever language. Delivery of books to Public libraries is governed by the Delivery of Books and Newspapers (Public Libraries) Act 1954. The Act mandates that the publisher of every book published in India is under obligation to deliver at his own expense a copy of the book to the National Library at Kolkata within 30 days of publication.

1.2 The Organisational Set-up

The National Library is a subordinate office of the Ministry of Culture, Government of India. The Director, being the Head of the Department and overall in charge of the Library, exercises administrative and financial powers. The Library has three main wings, the professional wing, conservation wing and administrative wing. The professional wing comprises 23 general divisions, 15 Indian language divisions and five foreign language divisions. The conservation wing consists of three divisions. The professional and conservation wings are managed by two Principal Library and Information Officers (PLIO) assisted by five Library and Information Officers (LIO). During the period covered in audit, the Library had only two LIOs on its roll, one in charge of all language divisions and the other of the conservation and remaining professional wings. One senior Administrative Officer and two Administrative Officers managed the administrative divisions.

1.3 Financial profile

The Budget allotment and expenditure there against were as follows:

(Rupees in crore)

Year	Budget allotment	Expenditure
2003-2004	14.30	12.90
2004-2005	15.30	15.17
2005-2006	17.00	16.78
2006-2007	19.85	19.10
2007-2008	20.18	18.98
2008-2009	25.67	23.17
Total	**112.30**	**106.10**

1.4 Functions

The National Library of India is engaged in the following activities:

a. Acquisition and conservation of all significant national production of printed material excluding ephemera

b. Collection of printed material concerning the country, the acquisition of photographic records of such material, not available within the country,

c. Acquisition and conservation of foreign materials required by the country,

d. Rendering of bibliographical and documents services of current and retrospective material, both general and specialized,

e. Acting as a referral center purveying full and accurate knowledge.

The Library also acts as a center for international book exchange and international loan.

1.5 Audit objectives

Performance audit of the activities of the National Library was taken up with the objectives of assessing whether:

- Acquisition of books was effective, need-based and had a holistic approach. Processing was efficient to provide timely access of the acquisitioned materials to the readers;
- Facilities to preserve the collection of the Library were proper, efficient and modernized;
- Quality of readership services has kept pace with time;
- The Library has been able to effectively act as a referral center purveying full and accurate bibliographic services.

1.6 Scope of Audit and Audit Methodology

The present audit covers activities of both the National Library and Central reference library on their following services during the period 2003-04 to 2007-2008:

a. Readership services

b. Conservation and security of books

c. Collection, acquisition and management of books, manuscripts and other objects.

Besides scrutiny of records and analysis of information available therein, audit undertook readers' surveys twice through structured questionnaires to assess user satisfaction in respect of the Library's services. Information regarding its functioning has also been collected by interviewing various library authorities and documented in discussion papers. Further Audit researched to identify good and best practices in other contemporary libraries in India and abroad.

1.7 Acknowledgement

We acknowledge the co-operation extended to the Audit team by the Library management during the course of audit.

1.8 Audit findings

1.8.1 Acquisition

The Library acquires books by means of procurement of books in Indian territory through Delivery of Books and Newspapers Act (DB Act), 1954, purchasing foreign publications from the open market and receiving books through gift and exchanges.

1.8.1.1 Acquisition of books published in India: under the Deposit legislation

The National Library serves as a permanent repository of all reading materials produced in India and concerning India, wherever published. For this, it is legally entitled, under the Delivery of Books and Newspapers (Public Libraries) Act, 1954, to receive a free copy from the publisher of every publication in India, within a month of its publication. We found that this provision of the law was not complied with by a majority of Indian publishers and the Library did not receive their publications. A list of major publishers who are persistent defaulters in this regard is enclosed as **Annexure-I**. Though acquisition is one of the prime objectives of the Library, a test check of books published in 2004 and received in the Library till March 2008 indicated that only 5 to 12 *per cent* of books published in Sanskrit, Hindi, Tamil, Telegu, Gujrati and Marathi were received in the Library. The compliance was marginally higher (20-26 *per cent*) in respect of publications in Assamese,

Bengali, Kannada, Malayalam, Punjabi and Urdu. Some information could be available from other libraries but there was no system of issuing default notices.

Although the Library was aware of such significant default, the government has not initiated suitable penal action under Section 5 of the Act. Further, the Library did not maintain any database on the number of books published in India. This precluded any follow up action on defaulting publishers.

In reply the Library had stated that there was no mechanism in place to ensure bibliographical control in India. The Act does not have any binding effect on the publishers to deposit books to the Library. A large number of default notices were routinely issued.

The reply was not tenable because the Act provides for imposition of penalty in cases of contravention of provisions of the Act. Moreover, although Section 8 of the said Act empowers the government to notify rules for the purpose of the Act, the provision had not been effectively utilized so far.

International Good practices:

In **Canada,** the defaulting publisher is subjected to 'summary conviction' and is liable to a fine not exceeding C$5000 for an individual or to a term of imprisonment not exceeding six months or to both. In the **United States**, it could reach US$2,500.

South African law provides for the establishment of a Legal Deposit Committee to look after the implementation of the provisions of the relevant Act. If a publisher fails to comply with the provisions of the law, he is liable to pay a fine not exceeding R 20,000.

In the **UK and Australia** the legal deposit requirement is linked to the Copyright act.

Countries such as **Canada, Denmark, Finland, France, Germany, Japan and Norway** have included provisions in their legal deposit laws to include electronic publications.

Recommendations :

- National Library must institute an effective system to closely monitor delivery of books by all major publishers in the country and initiate

suitable penal action against the defaulting publisher under the provisions of the DB Act in the cases of non-delivery of books by the publishers to the National library.

- The Central Government must immediately examine and reformulate rules in exercise of its powers under Section 8 of the DB Act to enable effective implementation of provisions the said Act.

- For the benefit of the readers and also for the effective implementation of the DB Act, the National Library should, on priority, create and regularly update the database of books published in India.

1.8.1.2 Acquisition of foreign publications in English

The Library spent on an average Rs. 1.40 crore *per annum* during the 10 Plan period on purchase of English language books published abroad. However, it had not formulated a specific policy for collection of books and publications. Nor was any feedback sought from readers, scholars or from other national institutions for selection of titles. A readers' suggestion form does exist, but it was not easily available to them and was indeed practically unknown to users. In the absence of such policy the Library could not ensure acquisition of critically acclaimed books such as the prize winning ones. Though a committee of 16 experts from 13 disciplines was set up in September 2004 for book selection but all purchases had been made in a non-transparent manner by the Director and the single subject expert nominated by him.

Scrutiny of books purchased during the last four years (till May 2008) showed that in 13 out of 27 cases, the expert did not belong to the approved book selection committee. In each of the 27 cases, the subject expert visited the Library just once and selected on an average 336 books. For procurement of the selected books the Library Management had enlisted 36 vendors in 2005 through an advertisement published in only two local newspapers. However, no procedure or criteria for selection have been laid on vendors. The Library had neither put up the list of approved vendors on its website nor had it disclosed any criteria for selection on the web. It was revealed that the existing list of vendors was not broad-based as 72 *per cent* of the vendors were based in Kolkata.

Audit also observed that all purchases of books were made by the National Library at a flat 10 *per cent* discount though other libraries such as Delhi University Library system (DULS) and IIMs were getting a discount of 15 *per cent* on their purchases of books. Thus there is substantial scope for

enhancing economy in procurements made by the library by adopting transparent and more competitive procedures.

The system of purchase of foreign publications is not directed by any need-based approach to cover gaps in the existing collection. The Book Selection Committee plays a minimal role, the procedures are not transparent and additions to the collection are largely supplier-driven.

In their reply of December 2009, the Library highlighted a number of initiatives taken by them after audit to strengthen and improve its procurement system. The Library stated that for its subsequent procurements an all India advertisement was issued and on the basis of specific criteria, 26 vendors had been enlisted. Following the audit observation, the Library widened its list of book selectors across the country from 2009-10 by way of requesting scholars to recommend books and other materials. It stated that library professionals have submitted lists of identified lacunae in its collection and assured Audit that these would be addressed on priority. It had also stated that the discounts on purchase of foreign books in English had been enhanced to 15 *per cent* from 2009-10.

Good Practices in India:

The Delhi University Library has ordered all the libraries under the Delhi University Library System (DULS) to purchase foreign English language books at a discount of 15 *per cent*. All these libraries avail of discount of as high as 30 *per cent* for foreign English language books published more than three years ago as against 10 *per cent* availed of by the National Library.

Best practices abroad:

At the **British Library** subject coverage gaps are assessed by categorizing the current holdings across various subjects as 'comprehensive', 'extensive', 'selective' or 'very selective'. The Collection Development policy of the Library seeks to fill up gaps in the historical record across all subjects, formats and periods. On music, for example, it selectively acquires literature and documentary material on musical traditions of all regions. It's sound archive keeps sound recordings from 19th-century cylinders to the latest CD, DVD and mini-disc recordings. The Library holds eight million stamps and other philatelic items as well. These Collections require over 625 km of shelves, and grow 12 km every year.

Recommendations :

- The National Library should identify the gaps in its collection and purchase books accordingly.
- The book selection and purchase procedure should be made more transparent and competitive. In purchasing books, the Library must conduct a proper market survey and maintain close liaison with other libraries to ascertain current levels of discount offered by various publishers and accordingly factor in such inputs in the process of bidding and placement of order for procurement of books.

1.8.1.3 Acquisition of books through gift and exchange:

The National Library has book exchange relations with 175 Libraries/Institutes of 78 countries. In a five-year period, the Library received on an average 900 books and serials each year, and it sent 252 books to its exchange partners. During the same period, the Library received 7335 books/microfilms as gift from various countries but it could not reciprocate by gifting a single book to any of them.

Given the rich heritage, cultural diversity, strong literary traditions, constituting about one fifth of humanity and creating huge amount of published material in the form of books, periodicals, research and other papers etc., the National Library does not seem to have put sufficient emphasis on using the exchange option to reach out and disseminate information about India to readers across the world.

The National Library, while accepting the audit contention stated that policy review would be taken up with the Ministry in this regard.

1.8.1.4 Acquisition of journals

Few Indian journals were received at the Library under the DB Act. On a sample check, audit found that only 11 out of 64 prominent research journals published in India were received by the Library during the period covered under audit. Thesis papers published in India too were not collected. The Library, however, spent on an average Rs. three crore *per annum* on purchase of more than 745 foreign research journals. The subscription list too was not reviewed and revised. The enlisted journal vendors had not been selected on

the basis of any competitive bids. The usage pattern for these journals too was not recorded.

It was noticed that despite hundred *per cent* advance payment made to vendors, journals were often received late by six to seven months and many serial issues were not received. In spite of such defaults the same 11 agents had been retained for purchase of journals for the year 2009. Audit noted that the agents preferred supplementary bills to the Library for upward revision of prices on account of change in exchange rate applicable on the date of remittance. However, the Library on its part did not monitor exchange rate fluctuation to claim refund when it was due to it.

In May 2007, the Library installed 13 computers in the main reading room to provide access to online reading material to onsite users. Two months later, in July, the Library placed orders for 38 print journals for the year 2008 along with their electronic versions. However, as of December 2008 the Library was yet to provide access to any journal online or in CD-ROMs to its readers.

In our view, the National library, despite having adequate IT infrastructure, has not been able to provide to its readers the benefit of online journals in terms of wider access, freeing of stack space, saving of resources, etc. and has continued to adhere to the traditional approach of acquiring paper versions.

In reply, the Library stated that it has initiated action for setting up appropriate hardware for facilitating the process of subscribing to e-journals and is committed to introduce e-journals to readers by early 2010. As regards payment of advance subscription, the system has been revised from 2009-10 to provide for (i) abolition of advance payment system, (ii) submission of Bank guarantee/FDR by the vendor along with the invoice, (iii) retention of Bank guarantee till settlement of all issues.

Good practices in India:

The journal subscription at the **Central Library, IIT Kharagpur** exceeds 1,000 and the Library has electronic access rights to over 7,000 journals either through its own subscriptions or through consortia. The journal acquisition budget of the Library is Rs. 26.89 lakh, the journals acquisition department is staffed by fewer persons, and consortium buying is resorted to.

Libraries of leading research institutions like CSIR, ISI and IIMs subscribe to online journals.

Recommendation :

- On-line journals can be stored in the server of the Publisher and accessed at will through the terminal of the library or through laptops within the IP area. Existing IT infrastructure should be fully utilized for this purpose for providing online services to readers.

1.8.2 Processing activities

Following acquisition of any book that the Library decides to add to its collection a series of tasks are undertaken before the book is available on the stack for use by readers. The tasks include unwrapping, stamping, measuring the dimensions of the book, filling acknowledgement forms and filing copies, entering details in accession register, assigning call number after classification, filling up of datasheet in MARC 21 format[5], preparation of multiple copies of catalogue cards and putting them in catalogue cabinets, labeling and sending them to designated spots on the shelf. These tasks are collectively termed as book processing.

1.8.2.1 Processing of books in Indian language

In November 2008, the Library adopted the norm of processing six books per person per day. Given this norm and the flow of new acquisitions during the period covered under the review (2003-08), audit noted that in all but four divisions (Assamese, Marathi, Oriya and Tamil) the existing manpower was adequate. In respect of four divisions - Bengali, Hindi, Punjabi and Urdu the manpower was significantly in excess. Despite having excess manpower, Hindi division had the highest number of unprocessed books (49014 books) as of March 2008.

Till 2007 the entire processing job was done manually. Though the Library had installed VIRTUA software from M/s VTLS as a complete library solution, processing in only nine out of sixteen divisions had been automated by December 2008. Even in these nine Divisions shelf-cards were still being generated manually. This meant overlap and duplication of work. The library had not taken any steps to prevent duplication of efforts. Further, data prepared by acquisition or purchase Divisions were not being shared via LAN with the processing division. In the English Division a large number of books were lying bundled for over 10 years. In fact the Division could not ascertain

[5] Machine Readable Cataloguing-21 (MARC-21)

the precise quantum of the backlog. During the period under review, processing averaged one book a day.

Thus inordinate delay in processing of books in Indian and English languages deprived readers benefit of an estimated 3,00,000 books which could not reach shelves in time. Being not on record, the books are very vulnerable to the risk of loss/theft. The library had also not explored other alternatives to expedite clearance of backlog such as outsourcing, revision of work norms, redeployment of manpower etc.

Unprocessed books

Best Practices in India

In other Government funded libraries such as Indian Statistical Institute, Kolkata, RKM Institute of Culture, Kolkata, each and every aspect of library functioning is automated. Cataloging is also computerized. Manual catalog is only a by-product of the on line version.

In their reply in December 2009, the library stated that it has since stepped in to automation in processing and the manpower issues are also being addressed following the recommendations of the Ministry's Task Force and the Staff Inspection Unit. The library has cleared backlog in accessing of about 10,000 books by engaging students from universities and the process of clearing backlog through outsourcing is underway.

Recommendations :

- The National Library should review and rationalise its man power in various language divisions to facilitate faster processing of books and to address the issue of manpower shortage in some of its divisions.

- The entire process of purchase, acknowledgement, accessioning, cataloguing, and processing should be computerized in a timely manner with sharing of data through LAN.

- The National library must take effective steps to clear backlog in accessioning of books within a specific time frame. The new arrivals should be promptly processed and made available to readers.

1.8.2.2 Processing of books in foreign language

The Library had five foreign language divisions, namely German, East Asian Languages, Slavonic, Romance and Arabic and Persian divisions. These divisions took care of books written in 58 foreign languages while the Library had officials proficient only in Chinese, German, Russian and Arabic and Persian. As a result, books only in these five languages were processed. Other foreign language books were accessioned and simply kept in piles. Readers could not access these books for want of catalogues. A user could however, browse the racks and select a book of choice. Unprocessed books were often issued for reading. The Library had not made an attempt to plug the resource gap by either hiring experts or outsourcing the services of foreign language specialists.

In reply, the Library had stated that following the observation, foreign consulate offices, cultural centres and several universities had been contacted and some persons had been identified. Steps have been taken to engage them to organize the collections properly by accessioning and processing publications.

Recommendation :

- To clear the processing lag in the foreign language collection, the Library may explore the possibility of outsourcing the services of foreign language students and experts from Universities and other academic institutions.

1.8.3 Preservation practices

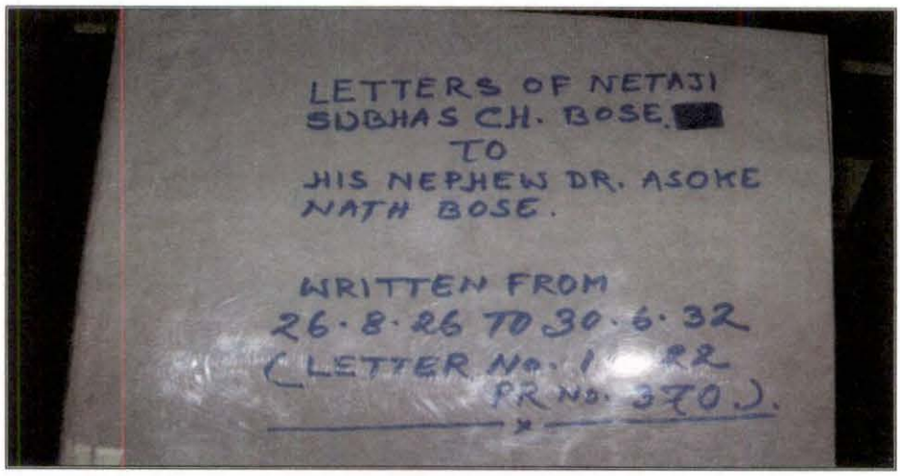
The National Library was established with the objective of preservation of the documented cultural heritage of India and according to the Management preservation was its core activity. For this purpose, the collection in the Library had been broadly categorized into 'rare' and 'general' items. While the rare books were kept in a separate building others were stored in multiple locations at the library.

1.8.3.1 Treatment of rare books

The Library had defined an item 'rare' if it was either published before 1860 or out of print or expensive. Audit noted that this definition was outdated and had remained unchanged for more than 35 years since the 'Rare Books Division' was established. Most of the books, manuscripts, letters and microfilms of this 'rare' category were stored in 12 alcoves at the 'Rare Books Division' located in a separate building in the campus.

Rare books in the showcase

Row of alcoves containing rare books



Letters of eminent personalities

World's smallest dictionary

However, it was observed that apart from those books stored in 12 alcoves, the Library had not been able to consolidate the stock of all rare books in the Rare Books Division. These rare books were lying scattered in some other divisions. The Division neither maintained any accession register, nor any authentic register to record the details of books it received from other sections upon declaration of a book 'rare'. Therefore, the size of the collection remained unclear.

The Division possessed priceless items like the world's smallest dictionary, as claimed by the Library, century-old manuscripts and letters of eminent personalities like Rabindranath Tagore, Sarat Chandra Bose, Subhash Chandra Bose, Sarojini Naidu, Bibhuti Bhusan Bandopadhyaya that were kept separately. However, no register or catalogue for these items was available. The microenvironment of the Storage Section was not being monitored and the Library stated that it was in the domain of another Central agency, the Central Public Works Department.

The Rare Books Division maintained movement register for sending rare books to binding or reprography divisions. However, proper control data like date of return were not being recorded.

Absence of accession register and complete documentation regarding movement of priceless rare books exposed them to loss and theft. Further, common visitors and readers had no way to know about these rare treasures in the Library. Though a large part of the collection was fragile and brittle, visitors were allowed access and handling through card catalogues.

The Library, while accepting the audit observations replied that action on preparation of separate stock registers of holdings had been initiated by specially posting of professionals for the work. While accessioning of the rare books has been done, the management assured audit that the accessioning of manuscripts would be completed by 2011. The Management also stated that the first meeting of the "Internal Committee for identifying rare books" comprising in eminent historians, archivists etc. for the purpose of determining the definition of rare books was held on 21 October 2009. A Draft paper titled 'Towards Evolving A National Standard for Rare Books: A Case Study at National Library of India' was also circulated in advance. It was resolved that this draft would be suitably modified into a Base Paper for an 'All India Consultation for Classifying Rare Books' slated in May-June 2010.

Best practices abroad:

At the **British Library**, some of the rarest books like the 'Magna Carta', have been entirely digitized in partnership with Microsoft. The electronic version is kept at the Permanent Exhibition Section of the Library where a visitor can turn the electronic pages of the document by using a touch screen.

Recommendation :

- The definition of 'rare' items needs to be revisited. Immediate attention should be paid to prepare a single accession register for rare printed material in the Library. These may be digitized with due care of the originals and countrywide access to the electronic versions may be provided.

1.8.3.2 Digitizing the Collection

In 2000, the National Library began digitizing the works published prior to 1900. The number of old, rare, and brittle books that needed digitization on priority had not been quantified, and only a relatively small number of books - 9141 in all - could be digitized in a decade's time. Though a target of digitizing and microfilming 10 lakh pages in the next phase had been set, no work had started since February 2006 as the matter is pending with NIC.

However, audit found that around 7000 books that were unbound and digitized using flatbed scanners were damaged in the process. These books were lying unbound and damaged. Audit also found instances where the original versions of the books that have been digitized and marked 'scanned' had been issued to readers.

The situation was similar in respect of preservation through microfilming. While no register to record the progress of microfilming could be found in audit, it was ascertained that less than one *per cent* of the old and rare news papers could be microfilmed till date, resulting in their possible loss due to natural process of delay and destruction.

In reply the Library stated that the terms of reference of the Committee for rare books include selection and prioritization for digitization apart from acquisition and sharing of digitized materials. The committee has resolved to explore the possibility of acquiring rare digitized materials available on commercial basis. Even the Advisory Board of National Library constituted by the Ministry of Culture had also stressed on sharing of digitized material with other institutions including foreign libraries. The Management assured Audit that a project on restoration of previously digitized books would be taken up

on priority basis. The Library also stated that it had already microfilmed more than 10 *per cent* of the old and rare newspapers, has considered a project for microfilming of old and rare newspapers through outsourcing. It further stated that the Library is planning to procure the most versatile hybrid microfilm camera by which both microfilming and digitization can happen with minimal damage to old, rare and brittle books.

Best practices abroad :

The **Australian National Library** aims to minimize duplication in cataloguing, indexing and digitization activity and to increase the quantity and diversity of digital content available to users by working collaboratively with other institutions. The Library reviews its digitization policy annually.

In 10 years the **National Library of Norway** has digitized more than 300,000 photographs, 150,000 hours of radio and more than 1,000,000 newspaper pages in addition to digitization of more than 25,000 books.

In 2005, the **British Library** entered into a strategic partnership with Microsoft to digitize twenty five million pages spanning around 100,000, of the Library's book collections. The year before the Library launched its Archival Sound Recordings Project (ASR) with an aim to become a major new online resource available free to everyone in Higher Education and Further Education, providing easy access to thousands of hours of rare and historic sound recordings. As a matter of policy the Library strives to reduce long-term preservation costs through web-archiving and by the use of large scale data storage technologies in collaboration with partner institutions.

In the **National Library of Singapore,** the Conservation and Access Project (2004-2007), that was largely outsourced, has successfully preserved, restored and made accessible more than 1 lakh rare and heritage material.

Recommendations :

- The National Library along with National Archives of India should frame a National Policy for preservation and digitization so that all documents requiring microfilming and digitization are identified and their catalogues made available across the country. This will avoid duplication and ensure wider accessibility to digital content.
- Sanctioned posts created for hiring IT experts may be filled up and the entire digitization exercise needs close monitoring at the highest level.

Special attention of the Ministry would be needed to avoid procedural delays.

1.8.3.3 Curative preservation: Binding

The Library had no guideline on the conservation process including binding and other related activities. Books were selected for conservation in an unplanned manner. The Library's Laboratory did not seek any expert opinion regarding use of modern techniques and equipment. Ingredients used for binding were not tested chemically before their use.

Consequently, the books were getting damaged by the substandard chemicals used in curative preservation work. Audit found that 155 books from the renowned Ashutosh Collection, restored at the lab at an average cost of Rs 6000 per book suffered damage shortly after binding due to use of substandard binding material.

Ongoing lab work in binding division

Use of flat bed scanner in laboratory

Dilapidated condition of few books in the book shelf

Books lying dumped in the Annexe building

A 'preparatory unit', consisting of binding experts had been set up to supervise the binding work. However, this unit had not functioned for the last 15 years. Binding Division continued to follow conventional methods and use substandard material instead of modern improved material. A continued use of a mixture of flour and copper sulphate as gum had proved detrimental to the physical condition of books.

In March 2003, the Laboratory installed three 'freezer dryer machines' for disinfection of books through non-chemical treatment at a cost of Rs. 8.30 lakh, but the same had not been utilized since August 2006, for want of manpower. The Library had six officials in this department.

Audit found no evidence of commensurate efforts having been made to upgrade the skill-set or techniques for better conservation. Although the Library had no training division, it conducted nine training programmes

during the period covered. However, the persons trained in lab work were not subsequently deployed for laboratory work.

Recommendations :

- A clear conservation policy may be put in place immediately. The level of co-ordination between the divisions and the laboratory should be increased for identification of books requiring conservation. A preparatory unit should be constituted to guide the binding works. Binding works may be outsourced onsite to reputed firms.

- The laboratory division was short of trained and efficient staff. This should be addressed by setting up a training division, regular training programmes, and workshops involving participation from other leading libraries. Modern technical know-how and advanced equipments should be employed for better conservation practices. The objective should be to ensure longer life of the books.

- The library should consider sponsoring a University course on preservation, digitization and related subjects in association with other institutions.

In reply, the Library stated that steps have already been taken to adopt modern technology in physical conservation of documents and the library is following standards identical to those in practice at the National Archives of India, National Museum etc. It has also issued necessary instructions to the binding divisions to use tested ingredients. The Management also noted the audit recommendations on establishing a training division and sponsoring University courses on preservation for future action.

1.8.3.4 Monitoring of macro environment

❖ Temperature and humidity

International norms for preservation require books to be preserved at a temperature range of 20^0 C - 22^0 C (+/- 1^0 C) under relative humidity of 55 - 60 *per cent*. It was found in Audit that the air-conditioning facility in the Bhasha Bhavan and the Annexe which house the collection remained switched off during non-library hours exposing the main stacks to tropical weather conditions. In the rare books division, where round the clock air-conditioning is required there was no power back up.

Monitoring the microenvironment (humidity control) of the collection was the responsibility of another agency, the Central Public Works Department. Temperature, but not humidity, was being monitored during Library hours at the Bhasha Bhavan. No microenvironment monitoring was being done at the building that houses the Rare Books Division.

Following the Audit observations, the Library had stated that round the clock air-conditioning of the book stacking and storing areas at the Bhasha Bhavan and the Annexe building had been ensured since April 2009. Two generators have also been installed for power back up.

❖ Termite

The Library discovered termite problem in 2003 and it carried out curative treatment in two selected Divisions. Though the problem still persists, no further assessment had been done for termite treatment.

❖ Dust

In the Sanskrit, Pali and Prakrit Divisions a large number of Sanskrit books, periodicals and manuscripts were lying bundled since 1961. These had not been moved and bound and were lying in an advanced state of decay. Old newspapers predating 1979 were kept in a separate offsite reading room in an old building at Esplanade East, a congested part of the city. As this location was not air-conditioned, old newspapers including those belonging to the Indian freedom movement era were exposed to dust, traffic fumes and humidity, and had indeed become brittle. A two-decade old decision to shift the newspaper reading room to the main campus to ensure better care was yet to be implemented.

A news paper dating 16 August 1947 in Esplanade East reading room

In reply, the Library stated that the efforts are on to shift the stock of old newspapers lying offsite to the Bhasha Bhawan on campus.

❖ Fire hazards

To safeguard the collection against emergency hazards like fire the Library did not have contingency response plan. Mock drills had not been organized and firefighting trainings not held in the last 5 years. Besides, out of 83 fire extinguishers installed at Annexe building, 64 of them had not been replaced/refilled for more than four years beyond their expiry rendering them unfit for use to meet any emergency.

The foregoing indicates that conservation attempts had been undertaken in an unplanned and *ad hoc* manner and signs of neglect were evident in many areas. Tendency of the Library Divisions to pass the responsibility of identification of books/documents requiring conservation measures to each other causing delay in action was evident. There was no regular dusting of all the racks. This made the collection vulnerable to decay.

Best practices abroad :

In the **National Library of Srilanka**, temperature and relative humidity of closed stack areas are controlled with central air conditioning so as to lend a dust free dry environment to the books. The library has launched a nation-wide conservation center project. Under this project, 126 conservation centers in other libraries have been established. The Library plays a lead role by organizing workshops on conservation and bookbinding for librarians and officers in charge of conservation centers at regular interval. It keeps a vigil on conservation of 'rare and important materials' in some selected libraries around their nation and also provides them advice. Information on conservation is disseminated through publication and distribution of pamphlets.

At the **British Library** Collections are classified under different categories, and for each collection type appropriate conditions of temperature and relative humidity are maintained and monitored round the clock.

Recommendations :

- Microenvironment of the collection stored at various locations needs to be maintained within the defined range and the Library itself should control the task of its monitoring to ensure long life of the prized collection.

- A fire response plan should be put in place and the staff involved in periodic mock drills.

The Library stated in reply, that an Internal Committee to formulate a Security Policy for National Library has been set up in September 2009 and it is looking into various potential security hazards including fire drills, digital surveillance, disaster management etc.

1.8.4 Control issues

1.8.4.1 Tracking movement of books

A study conducted by audit on the movement of books between acquisition, processing, binding and other Divisions indicated that often the sending division did not keep count or the particulars of the books sent (except Bengali division). The acknowledgment sent by the receiving Division only mentioned the number of bundles received. Acknowledgement was often delayed by some Divisions. It took the books months to be unbundled, details to be entered in the DB Act Acquisition Register, stamped and sorted. No specific norm of timeframe for these tasks had been prescribed. During the intervening period, books lay unaccounted for in bundles.

Test check in the Tamil and Bengali Divisions showed that large a number of bundles of books awaiting acknowledgement for months. The situation was similar in the case of books obtained through Gift and Exchange. Gifted books were kept bundled based on the month in which they were received. The Gift and Exchange Division did attempt to send acknowledgement for foreign publications on priority. Received books were then sorted and classified as 'books received as gifts' and 'books received as exchange'. Books other than in English were bundled and sent to the concerned language divisions for accessioning. Audit observed that often due to space shortage in those divisions, the bundles lay at the G&E Division for months. After being shifted, it would again take them months to be opened and for necessary entries to be made for individual titles into the 'gift' register. Audit found, for example, that the Bengali division was yet to make entry in the Acquisition register for 37 gifted books received in October 2000. Audit also found several instances where large volumes of printed material were lying dumped and unaccounted for at various locations within the Library premises such as the acquisition Division, the eighth floor of Annexe and the Director's old Bungalow.

Books dumped in the Director's old bungalow

At every point in the movement chain whenever and wherever books lay bundled for months the books were vulnerable to pilferage/loss for want of record of existence or location, as also damage. Absence of response norms for basic tasks like stamping and sorting, sending acknowledgement, unbundling books and making entries in register, etc exposed the Library collections to high degree of vulnerability.

Recommendation :

- During the course of the audit the Library framed norms for various processing works like Stamping and sorting books in the books receiving division, sending acknowledgement, unbundling the books and entering relevant information in the registers, receiving and sending the books to the divisions responsible for accessioning. This is a positive move and maybe implemented and followed up as a measure of internal control.

The Library stated in reply that, the Sanskrit, Pali and Prakrit books lying dumped at the Annexe Building have been cleaned and shelved. Further the library was planning to evolve a mechanism for reusing and recycling duplicate books and other reading materials. Due to shortage of manpower some of the processing activities of manual and routine nature have been done through occasional outsourced manpower support in 2009.

1.8.4.2 Stock verification

Although periodic stock verification is one of the prerequisites for sound collection management it has found that the Library had not laid down any norm for physical verification. The entire collection of the erstwhile Imperial

Library had been separately stacked at Bhasha Bhawan. The prized collection primarily contained English Language books published during the British era in India apart from books in Indian and foreign languages. However, the Library had not performed complete physical verification of the collection. Significant differences were noticed in the 'number of books under Imperial Library collection' quoted by different sources:

Annual Reports	Director's statement	Available catalogue cards for books in English	Estimates from the Main stack Division	Stock verification
3,50,000	75,000	1,10,000	1,00,000	Not known

The anomaly is indicative of the poor state of documentation and internal control at the Library. There was a possibility of loss/pilferage of collections of high historic value. Further, the extent of physical verification of stock done till date was low as detailed below.

During the period under review stock verification had been done in 2 out of the 39 divisions. More than 5 *per cent* of the 70,000 books in the Old English Division were 'missing'. Measured against international standards this was high. The Library Management had not taken effective action to trace the 'missing' books. While some of the books found missing during the stock count in the Science and Technology Division were traced subsequently, none could be found in the Old English Division.

Year of verification	Divisions for which stock verification conducted	No. of books according to accession register	No. of books found missing	No. of books traced later
2003-04	Old English division	70,000	3771	Nil
2004-05	Science and Technology	10535	371	158

The Library's practice was to declare a book lost only when it was reported so by a user. Even when a book was 'not found' in the racks for years, or not returned by a reader for a very long time it was not considered lost. Consequently such books missing from the collection were not replaced. The Library rules provided that if a book was not returned by a borrower within a month, the Library would serve a notice to the defaulter and the book replaced from the security deposit of the borrower. Audit found that the Library had no mechanism to trace books that had not been returned for as long as 20 years.

In a few cases, books issued on verbal instructions of the Librarian were not returned. Thus, due to absence of the system of physical verification, exact number of books in possession of the library was not known.

Recommendations :

- The Library should prepare an annual action plan for stock verification to cover all the divisions, and the entire collection verified in a phased manner. Stock of each of the division must be verified as per prescribed periodicity. To expedite the verification process the Management should seek technical advice for introduction of procedures like 'RFID (Radio Frequency Identification) tagging.
- Internal control mechanism of the Library should be strengthened.
- Random bar coding system should be adopted to deter possibility of theft of materials.

The Library in its reply in December 2009 accepted the shortcomings in inventory assessment and verification and initiated that the stock verification process has been initiated from October 2009 and nearly 157000 books in five Indian languages have been verified till December 2009. Moreover, as per audit recommendation, it had decided to introduce RFID technology for surveillance, searching and locating of books in its collection. RFID is a part of the second phase of the Project pertaining to Enhancement & Upgradation of ICT System at National Library which is expected to start by FY 2010-11.

1.8.4.3 Security System/Arrangement

Audit found that not enough had been done to secure the Library's collections. No modern technology such as close circuit televisions had been installed in the main storage sections and the reading rooms. Close circuit televisions were installed in the old building reading room which had since been abandoned and the CC televisions have not been shifted to the new reading room at Bhasha Bhawan building. Visitors exiting the reading rooms were not physically checked. There was a need for exclusive guarding of the Rare Books Division which had not been done. The 30 acre Library compound was easily accessible to all and sundry. There was no boundary wall separating the staff quarters, situated in the campus, and the Library.

Best practices abroad:

The British Library like other leading libraries in the world uses Close Circuit TV as a necessary and suitable tool to help reduce crime, protect staff and the public and to assist with maintaining the security of the Library's assets. For this purpose, a Closed Circuit Television (CCTV) system is in use at all British Library sites. The system comprises a number of cameras installed at strategic locations. Some of the cameras are fully operational with pan, tilt and zoom facilities, and others are fixed cameras.

Recommendation :

- Security of the Library needs to be adequately strengthened.

In reply, the Management stated that a CCTV project had been taken up and is expected to be completed by June 2010. At Strategic locations security personnel have been provided with modern wireless communications.

1.8.5 Readership services

1.8.5.1 On-site services

The Library had three main reading rooms - Bhasha Bhavan, the Annexe, and the Esplanade. Besides, there were 10 other reading rooms attached to various language and specialty divisions where users could access books for reference.

The average daily footfall in various reading rooms was:

Name of the division/reading room	Average daily footfall in 2007-08
Bhasha Bhavan reading room	139
Annexe building reading room	18
Science and technology division	3

Bhasha Bhavan reading room

Bhasha Bhavan catalogue shelves

But the Library had no services designed to meet the specific requirements of different categories of users. Equipment for reading microfilm was obsolete. Audit observed too that the Library did not offer any value-based service such as: supply of books at home as rendered by other leading national libraries.

❖ Cataloguing services

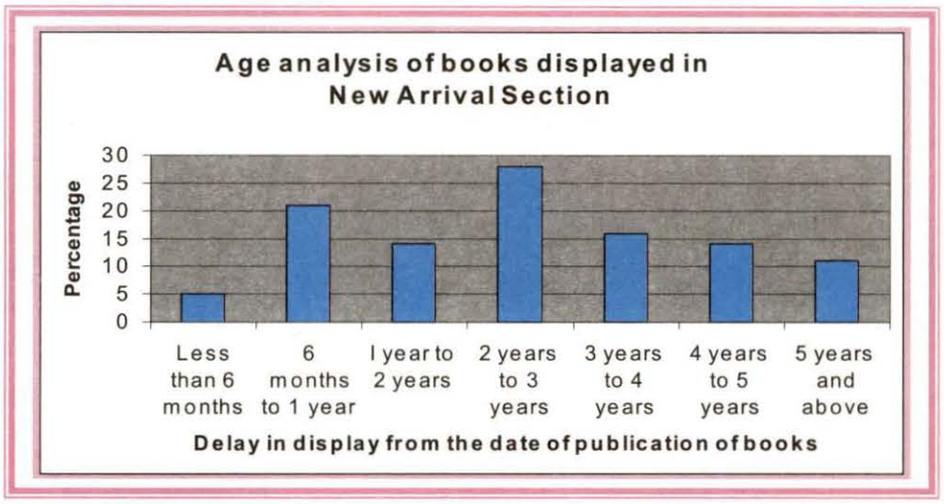
There was no centralized catalogue for all these reading rooms; a user was therefore unable to ascertain what was available in other reading rooms. In the ancillary reading rooms, readers could search books directly from the racks and unaccessioned books were often issued to them increasing the possibility of misplacement. In spite of the 13 PCs deployed for users at Bhasha Bhavan in May 2007, there was no electronic catalogues for the entire collection.

❖ Availability of foreign language books

In the Foreign language Divisions there were no language experts for books in 53 languages. Further, in many of these Divisions, the post of Assistant was unmanned for years and any reader visiting these Divisions was virtually sent back without being served. Even in two Indian language Divisions (Sanskrit and Marathi) there was no regular Assistant Library Information Officer. The Management had not explored the possibility of engaging part time assistants in the specialty Divisions.

❖ Availability of prize winning and contemporary books

Audit noted that the Library did not have a system of acquiring books that had won prestigious international literary awards such as Booker, Pulitzer and Nobel Prizes to attract readers. A sample check of 30 books in the new arrivals section revealed that books were not promptly displayed and 77 *per cent* of these sat over a year from the date of accessioning before being displayed. A scrutiny of the new arrivals section in February 2009 at the main reading room showed that a majority of the journals subscribed by the Library were not on display. Further, 63 *per cent* of the books displayed were published more than two years back.



❖ Lack of reader friendly services

The precious collection notwithstanding, the Library neither had a permanent exhibition area nor did it conduct tours in its premises as done by its contemporary libraries. Book exhibitions, lectures and research conferences were rare. The few workshops it held were not well publicized.

Audit conducted a test check for 10 days in November - December 2007 in course of which it collected all the requisitions of the readers which had been refused in a day by the Library, stating that the concerned books were not available. But in the very next morning, audit conducted physical verification of those books and found that for 40 *per cent* daily requisitions, which the Library staff had declared 'not found' were found in the stack in their allotted place. An audit check done for 55 days found that one of the main reading rooms – the Annexe building reading room – had often been closed 15-45 minutes before the scheduled time. The other 10 ancillary reading rooms were shut two hours before the scheduled weekday timings.

Though the Library had placed 'suggestion boxes' in the reading rooms for the users, audit did not find any evidence that the system was working and that such suggestions/complaints were ever considered by the Library authorities.

The audit examination indicated that the level of readership services had not kept pace with time. Given the growing availability of specialized published material on the net and websites of leading libraries of the world, the targeted services offered by institutions, the limited and cumbersome access offered by it, the National Library stood to lose its relevance.

While accepting the audit recommendations, the Management stated in its reply that it had issued standing orders to procure major prize winning books. In the 'new arrival' section, books are now being changed from the latest lot of purchase every month. The supply of books from stack has been made quicker and 'not found' cases have been reduced considerably. The Management has also modified and upgraded the microfilm readers, has stepped up photocopying and microfilming services, and has decided to procure state of the art microfilm cum microfiche readers shortly. Pending the relaunch and completion of the Retroconversion project, the Management has decided that a limited online database would be created, and all English books in its collection will be made searchable online within the current year. Further, the Library has launched book exhibition division in the ground floor of the Bhasha Bhavan. Subsequent to the audit observations, a team of 5-7 professionals have been formed for taking the visitors on conducted tours of the Library.

Good practices abroad:

At the British Library users are segregated into different categories. Services are designed and targeted for each user group.

User group	Target Group	Onsite services	Remote services
Research	Higher education Government Writers	Reading rooms Bookshop Publishing services	Library catalogues on the web/ web material Subject resources
Business	Biz R&D. Tech- industries. media sector. Science parks	Advisory services Conference Centre/Corporate services	Document supply Science, technology and Medicine information services,Reprographics
Education	Teachers. school students Primary group. Lifelong learners. Higher education	Exhibitions School tours Bookshop	Education pages on the website,Curriculum resources,Online bookshop Web resources
Library and information sector	Other libraries Public libraries Information societies	Training Visits Exhibitions Tours	Bibliographic services Library catalogues Documents Supply Librarianship services Virtual reference library
Public		Exhibitions,Events Tours,Bookshops	Web resources Online bookshop

In 2007, The **National Library of Russia** conducted 462 topical exhibitions, 936 exhibitions of recent acquisitions, 813 guided tours, 32 reader conferences and published 48 scholarly works. The Library also organizes monthly lecture series that are widely attended.

In The **National Libraries of Srilanka and Ireland** book exhibitions are held regularly.

Recommendations :

- The Library should offer various value added services to the readers and explore the scope of pricing such services.
- Immediate action needs to be taken to enable Online Public Access Cataloging to facilitate access to the collection to readers across the country.

1.8.5.2 Search services: Onsite and remote

When a book requisitioned by a user was not found, the Library enters its details in a register. On a sample study, audit found 193 entries in the register for May 2006. A physical check conducted in December 2008 revealed that 58 *per cent* (calculated with reference to correct call Nos.) of those books were still missing even after two and a half years:

Books not found	Correct call nos[6].	Books found later	Books not found	Books Lent out	Transferred to Rare books Div	Percentage of books not found till Dec 08
193	134	44	78	10	2	58

For facilitating direct search the National Library was yet to convert to On-line Public Access Cataloging (OPAC), an international standard widely used by national and public libraries, that enables remote searching of bibliographic information on the web. This was in spite of installation of the Library Management software (VIRTUA) in July 2001 that included OPAC options. The internal database on the Library server listed only 6 *per cent* of the collection. The Library's website, www.nationallibrary.gov.in (registered December 2008) did not provide any remote services to distant users save for response to mails. Thus search and readership services were only available onsite. Onsite, readers in various language divisions could know the existence of a particular book only by browsing them personally in the stacks of the concerned language divisions.

Good practices abroad :

In the **National Library of Australia**, registered readers can request most collection material through the Library's catalogue at its official website. The Library's most heavily used collections are stored onsite and are generally delivered to the reading rooms within 45 minutes. Collection material can be requested for use that day or in advance of a visit via phone/e-mail.

The **National Libraries of France, Iran, Japan, Egypt, Finland** and most others are Web catalogue (OPAC) enabled. On-site users at the **National Diet Library of Japan (NDL)** can search NDL-OPAC terminals and request materials for reading and copying. If one becomes a registered user, one can search and request copies of materials from the office and home PCs.

Online reference services like 'Ask A Librarian' provided by **National Libraries of Russia, Australia, New Zealand, Canada and US Library of Congress** are very popular. Requests on wide range of subjects are e-mailed via an online form. Reference librarians search the information using the collection of reference literature held by the National Library and bibliographical resources available on the web and furnish a reply.

[6] An alpha-numeric combination allotted to a book as per classification schedule, used to indicate its shelf location

Recommendations :

- The Library should make available all catalogues centrally.
- Readers may be categorized for better need based services. Searching of books to meet the request of a reader should be done more efficiently and closely monitored.

1.8.6 Bibliographic services

1.8.6.1 Retrospective conversion (Retrocon) project

In September 2002 the Library conceptualized the 'Retrocon' project for conversion of 25 lakh bibliographic records of the Library into Machine Readable Cataloguing (MARC-21) format and uploading the converted data into the Library's server so as to make all such data available online for readers. Audit found that in a period of over six years of this project, only 7 *per cent* data could be converted and even less validated and uploaded. Audit noted that retro conversion of books held in common with the US Library of Congress could have been avoided as catalogues in the requisite format for these were already available online. Audit further noted that the conversion records suffered from errors and were not fully validated, and yet the Management paid an advance payment of Rs. 25.81 lakh to the firms engaged for the project the amount remained unadjusted.

The Management in its reply stated that the outstanding adjustments have been made in four out of five metioned cases, and the 'Retrocon project'is expected to be relaunched shortly.

1.8.6.2 Duplication of bibliographic activities

Books received under the DB Act in various language Divisions were accessioned and sent to the Central Reference Library (CRL), located in the same campus. The CRL functioned as a National Bibliographic and Documentation Center and prepared the Indian National Bibliography (INB), a monthly publication that contains a bibliographic database collated from all the books received. Audit found instances where books received by the divisions were not sent to the CRL for inclusion in INB. In Punjabi division, although several new titles had been received not a single title had been sent to CRL during the last two years. Audit further noted that when a book was returned by the CRL after data compilation, the concerned division of the Library undertook similar compilation job for cataloging. The same AACR-II (Anglo-American Cataloguing Rules) in MARC format was adopted by both

CRL and the Library while undertaking the 'Retrocon' project. An analysis of the input sheets in audit revealed that the fields captured in the CRL's datasheet is a practical subset of the Library's sheet with only one minor difference.[7]

Though there was scope of better use of resources by sharing of data converted by one firm, the Library and CRL engaged separate firms for retro-conversion. While CRL had spent Rs. 28.38 lakh on retro-conversion of 3,78,341 records the Library had spent Rs 25.81 lakh on 1,75,690 records converted so far.

Since the National Library received a relatively low proportion of national publications, and some books received were not sent to the CRL, the Indian National Bibliography failed to serve as a full and complete bibliographic database for books published in India. Lack of synergy between the CRL and the Library resulted in duplication of efforts and suboptimal utilization of Government money.

Recommendations :

- National Library should take immediate step towards increasing the level of synergy with the Central Reference Library for sharing of databases. This will help the former to address the problem of dearth of experts in various Indian languages.

- The Library should play a nodal role in sharing the bibliographic activities with other designated public libraries across India.

The National Library Management stated in its reply that steps have already been taken in June 2009 to increase synergy with the Central Reference Library, and the CRL has assured to fill up MARC-21 datasheets for processing books received under the Delivery of Books Act. It also stated that the proposed amendments to the DB Act have incorporated suitable steps towards improvement in resource sharing. Following the practice in US, UK and many other countries the Library has proposesd to take up a 'Cataloguing

[7] A comparative study of the 'Input sheet', used during processing of books for MARC-21 cataloguing under retrocon project in the NL and Data sheet devised under retrocon project in the CRL, revealed that NL collects information primarily in 32 fields for a particular book whereas CRL collects the same for 20 fields. Out of the 20 fields that CRL deals with, NL does not collect information for two fields (084 and 270) only. Field # 084 deals with Colon Classification (CC) number and 270 deal with the address of the publishers. But CRL does not print this address in the INB. So, practically there is only one field (#084) of CRL for which NL does not collect the same information.

in Publication (CIP)' project which would help in generation of standardized bibliographic data across publishers and prompt dissemination of the same.

1.9 Conclusion

The performance audit revealed that due to weak internal controls, absence of work norms and lack of automation, the Library has not been able to keep pace with the times in providing efficient readership services to the people. The quality of readership services provided by the National Library does not meet the requirement of modern-day readers. No centralized digital catalogue exists to enable efficient direct search. The preservation and conservation practices of the Library are old and not adequate enough to preserve and protect the life of the precious books. Rare books and manuscripts in the library are not documented and accessioned properly making them vulnerable to loss and theft. Periodic physical verification of the books is not conducted and therefore the actual number of books/documents in the possession of the library is not known. The digitization work remained incomplete for want of supervision and monitoring. Out of an estimated 25 lakh books in the library, in the last nine years, the Library could digitize only 9141 books. Under the 'retrospective conservation' project, it has converted only seven *per cent* of the bibliographic records. There is no proper synergy with the Central Reference Library, which is located in its campus and also is carrying out similar conservation activities. The Library is not well equipped and prepared for emergency situations like fire etc. to face emergency fire incidents. The fire extinguishers, mounted in different locations of the Library, had not been serviced and recharged for over five years. Security arrangements in the library are not adequate. Security arrangements in the library are not adequate. The repository services of the Library, so far as collection of all significant printed materials produced in the country is concerned, is seriously frustrated due to lack of clarity regarding enforcement of penal provisions of the Delivery of Books and Newspapers (Public Libraries) Act, 1954. There is no transparency in the procedure regarding purchase of foreign books and journals. There are significant delays in processing unprocessed books in the Library affecting timely availability of contemporary books to the readers.

Annexure-I

(Refers to paragraph 1.8.1.1)

List of major publishers who do not send publications to National Library

S. No.	Name of Publication
1.	Rupa and Company 7/16, Ansari Road, Daryagang, New Delhi – 110 002
2.	All Bengal Teachers' Association P-14, GANESH Chandra Avenue, Kolkata – 700 013
3.	Mittal Publications A-110, Mohan Garden, New Delhi – 110 059
4.	Roli Books Pvt. Ltd., 47, Housing Society, South Extension, Pt.I, New Delhi – 110 049
5.	Handbook & Directory of Industry 208, Nadiadwala Market, Poddar Road, Malad East, Mumbai – 400 097
6.	Anu Books Publishers & Distributors Shivaji Road, Meerut – 250 001 (Uttar Pradesh)
7.	Penguin Books India Pvt. Ltd., 706, Eros Apartments, 56, Nehru Place, New Delhi – 110 019
8.	Screen World Publications Prakash Photo Studio, 295, N.C. Kelkar Road, Dadar (W), Mumbai – 400 028
9.	Himalaya Publishing House Ramdoot, Dr. Bhalerao Marg, Girgaon, Mumbai – 400 004
10.	Jaico Publishing House 121, Mahatma Gandhi Road, Mumbai – 400 023
11.	KSK Publishers & Distributors 4264/3, Ansari Road, Daryaganj, New Delhi – 110 002
12.	New Age Books A-44, Naraina, Phase-I, New Delhi – 110 028
13.	Viva Books Pvt. Ltd., 4262/3, Ansari Road, Daryaganj, New Delhi – 110 002

MINISTRY OF HEALTH AND FAMILY WELFARE

REIMBURSEMENT OF MEDICAL CLAIMS TO PENSIONERS UNDER CGHS

CHAPTER II : MINISTRY OF HEALTH AND FAMILY WELFARE

Reimbursement of medical claims to Pensioners under CGHS

Highlights and Recommendations

Highlights

- **The system of reimbursement of medical claims to the pensioners suffered from delays in their settlement by CGHS authorities. Further, the more serious the disease and the amount involved in the medical claim, greater were the delays faced by the pensioner.**

  (Paragraph 2.5.1)

- **Time limit for settlement of medical claims was not prescribed by the CGHS. For medical claims exceeding Rs. 2 lakh, which were to be settled by Director (CGHS)/Ministry, one third of the 163 claims sample checked by audit were pending for an average period of two years and seven months. Average time taken for the remaining two third claims was one year and two months. For medical claims below Rs. 2 lakh, which were to be settled by Additional/Joint Directors of local CGHS covered cities, average time taken to settle the medical claims was six months.**

  (Paragraph 2.5.1.1 & 2.5.1.2)

- **Out of 112 applications seeking permission for treatment for serious illnesses, test checked in audit 32 applications were pending in Director (CGHS) office/Ministry for an average period of two years.**

  (Paragraph 2.5.1.1(ii))

- **Causes for delay in settlement of claims were indifferent handling of cases by CGHS authorities resulting in claims and files getting misplaced; forwarding of claims by local CGHS offices seeking unnecessary clarifications; lack of effective initial scrutiny of claims leading to avoidable correspondence and inadequate monitoring and accountability.**

  (Paragraph 2.5.2.1(ii), 2.5.2.2, 2.5.2.3 & 2.5.2.4)

- **The effectiveness of the system of extension of credit facility by recognized private hospitals was hampered due to lack**

of awareness among pensioners about extension of credit facility and substantial reduction in the number of recognized private hospitals in recent years.

(Paragraph 2.5.3.1 & 2.5.3.2)

- **The system did not afford adequate opportunity to the CGHS covered pensioners for registering their grievances/complaints as the grievance redress system was not functioning in five out of eight cities audited.**

(Paragraph 2.5.5)

- **The medical reimbursement procedures were not transparent. Except for Delhi, formal system was not in place in the audited CGHS covered cities for communicating the status of reimbursement of medical claims to the pensioners.**

(Paragraph 2.5.7)

Recommendations

- **An activity specific timeframe for processing and settling the medical claims of pensioners needs to be stipulated and followed in an accountable environment.**

- **Responsibility may be fixed for each case of negligent handling resulting in harassment to pensioners.**

- **Staff responsible for collection of medical claims should be trained to properly scrutinize the documents submitted along with medical claims at the time of initial submission of such claims. This would reduce avoidable correspondence later at the time of processing the claims.**

- **There is a need to increase awareness among pensioners about CGHS rules and facilities provided by it. A small compilation of useful information may be given to the pensioners at the time of issue of CGHS card.**

- **A transparent electronic system should be put in place to facilitate reporting of the status of the disposal of claims to the claimants. Online availability of the status of disposal of a medical claim, as prevalent in Delhi, should also be extended to other CGHS covered cities.**

2.1 Introduction

The Central Government Health Scheme (CGHS) is available for comprehensive medical care including indoor and outdoor treatment facilities to Central Government employees and civilian pensioners[1]. The scheme covers 24 cities of the country. 2.57 lakh pensioners with 5.67 lakh beneficiaries were registered with the CGHS as of March, 2008. The CGHS facilities are provided to the pensioners through a network of 329 dispensaries, 19 polyclinics, 65 laboratories, 17 dental units, 5 allopathic first aid posts and maternity hospital/centers. In addition, CGHS refers, where necessary, cases to State/ Central Government hospitals and referral hospitals.

CGHS has also recognized a number of private hospitals and diagnostic centres in the CGHS covered cities, where the beneficiaries can avail medical health facilities as per the package rates approved by the CGHS for a particular treatment. The recognized private hospitals and diagnostic centers are required to provide credit facilities to pensioners and their dependants holding valid CGHS card and valid permission from CGHS authorities. In case of an emergency, the recognized private hospitals and diagnostic centers are required to extend credit facility on production of only the CGHS card. Medical claim is also reimbursable in case treatment had to be taken by a pensioner in emergency in an unrecognized hospital.

This performance audit attempts to evaluate the performance of CGHS in reimbursement of the claims of pensioners.

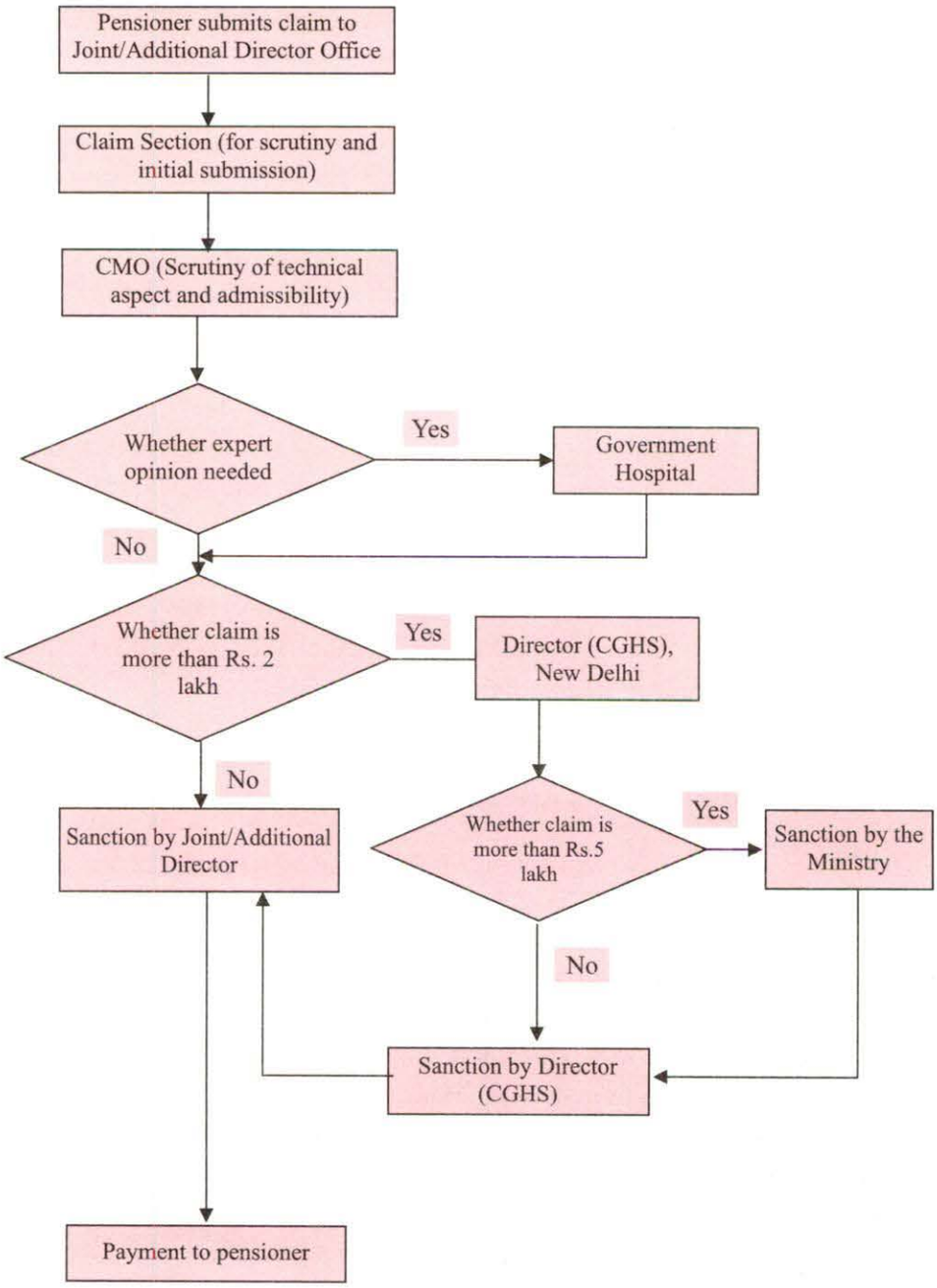
2.2 Organizational set up and procedure for settlement of medical claims

CGHS is headed by the Director (CGHS), stationed in Delhi, who works under the supervision of Director General Health Services (DGHS). In addition to administrative set up in Delhi, Director (CGHS) is assisted by Additional/Joint Directors in the CGHS covered cities. Medical claims of less than Rs. 2 lakh are settled by the respective Additional/Joint Director of CGHS covered cities. Claims exceeding Rs. 2 lakh are referred to Director (CGHS), Delhi for financial sanction. Claims between Rs. 2 lakh and Rs. 5 lakh are settled by Director (CGHS). Claims exceeding Rs. 5 lakh are referred to the Ministry for sanction. Cases requiring relaxation of rules, permission for expensive treatment procedures or interpretation of rules are also referred to the Director

[1] except those of Railways and Armed Forces

(CGHS). The process of settlement of medical claims is depicted in Flow Chart-I.

Flow Chart-I: Processing of medical claims in cities other than Delhi



The process of settlement of medical claims is somewhat different in the city of Delhi. The pensioners in Delhi, unlike other CGHS covered cities, submit their medical claims to the CMO-in-charge of the concerned dispensary, who after scrutiny of required documents forwards them to the concerned Zonal

Additional Director (CGHS) once in every week. There are four zones in Delhi viz. Central, East, South and North zone, each headed by Additional Director. Medical claims of pensioners exceeding Rs. 2 lakh are sent to Director (CGHS) through Additional Director (Headquarter for financial sanction unlike other CGHS covered cities, which send the claims directly to Director (CGHS) office.

2.3 Budget allocation and expenditure

The funds for reimbursement of medical claims of pensioners are provided by the Ministry of Finance under the Major Head 2071-Pensions and other Retirement Benefits. The details of allocation of funds and actual expenditure on reimbursement of medical claims of pensioners during 2004-05 to 2007-08 are as follows:

(Rupees in crore)

Year	Allocation	Actual expenditure
2004-05	250	248.77
2005-06	275	274.29
2006-07	350	346.06
2007-08	440	435.79

2.4 Audit Approach

2.4.1 Audit objectives

Performance audit of the "Reimbursement of medical claims to pensioners under CGHS" was conducted with a view to verify that:

- the medical claims of the pensioners were reimbursed in a reasonable time;
- the prescribed procedure was followed by all functionaries in the system and appropriate internal control procedures and effective management information system were in place;
- the pensioners were satisfied with the system of settlement of medical claims and were aware of the facilities provided by the CGHS; and
- the system of settlement of medical claims was transparent and the grievance redressal system instituted by the Ministry was effective and prompt.

2.4.2 Audit criteria

The performance of CGHS in settlement of medical claims of pensioners was evaluated against the CGHS rules, instructions issued by the Central Government from time to time and the provisions of Civil Services Manual of

Office Procedure (CSMOP) relating to maintenance of records and monitoring of cases.

2.4.3 Audit scope and methodology

The performance audit covered examination of claims and documents pertaining to the period 2005-06 to 2007-08. In addition to the Director (CGHS) office in New Delhi, nine other offices[2] of Additional/Joint Director were selected from 24 CGHS covered cities. These offices were selected on the basis of concentration of CGHS beneficiaries and accounted for 76.54 *per cent* of the total 2.57 lakh pensioners registered with CGHS.

2.4.4 Selection of sample of medical claims

All the 163 medical claims exceeding Rs. 2 lakh, preferred directly by the pensioners were examined. For medical claims below Rs. 2 lakh, a random[3] sample of 200 claims from each CGHS office was selected from the period 2005-06 to 2007-08.

2.4.5 Survey

Survey questionnaires were sent to pensioners by post to gather the satisfaction level of the beneficiaries with regard to the settlement of their claims and extension of credit facility by recognized private hospitals. Survey questionnaires were sent to 2101 pensioners[4] in eight CGHS covered cities including Delhi. Responses were received from 632 pensioners. While half of the sample size was drawn randomly from the CGHS card issue register, the remaining half of the sample size was selected randomly from the pensioners who had preferred medical claims during last three years. Since the records in CGHS offices were not maintained properly, selection of random sample based on scientific procedures could not be executed.

2.4.6 Exit conference

An exit conference was conducted with the Ministry, in April 2009, which was represented by the Director General Health Services (DGHS). The Ministry accepted the facts and figures of this report. The survey findings were accepted as indicative findings.

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[2] Joint/Additional Director (CGHS) Bangalore, Chandigarh, Chennai, Delhi (East Zone), Delhi (North Zone), Hyderabad, Kolkata, Mumbai and Pune

[3] Since the records in CGHS offices were not maintained properly, selection of random sample based on scientific procedures could not be executed.

[4] CGHS, Bangalore (100), Chandigarh (37), Chennai (150), Delhi (850), Hyderabad (158), Kolkata (352), Mumbai (151) and Pune (303).

2.5 Audit Findings

Audit findings have been presented under seven broad categories viz.

a) Delays in settlement of medical claims (Para 2.5.1)

b) Causes of delays (Para 2.5.2)

c) Weaknesses in the system of extension of cashless/credit basis medical treatment to pensioners (Para 2.5.3)

d) Satisfaction level of pensioners as per survey (Para 2.5.4)

e) Ineffective grievance redressal mechanism (Para 2.5.5)

f) Undue rejection/deduction from medical claims of pensioners for reasons beyond their control (Para 2.5.6)

g) Lack of transparency in the system of settlement of medical claims (Para 2.5.7)

2.5.1 Delays in settlement of medical claims of pensioners

CGHS has not stipulated any time limit for settlement of medical claims. Test check of medical claims disclosed considerable delays in their settlement by CGHS resulting in harassment and financial hardship to pensioners. More the seriousness of the disease and amount involved in the medical claim, greater was the delay in settlement. The extent of delay noticed during audit is discussed below:

2.5.1.1 Settlement of medical reimbursement claims above Rs. 2 lakh

A sample check of 163 claims with money value exceeding Rs. 2 lakh in eight[5] CGHS covered cities disclosed that 106 claims had been settled and 57 claims were pending for settlement. Analysis of these claims disclosed the following:

(a) Analysis of pending claims

57 claims (24 cases pertaining to Hyderabad) totaling Rs. 181.49 lakh were pending[6] for settlement for an average period of two years and seven months as indicated in **Annexure-II**. 22 out of these 57 cases were pending for more than three years with one claim that was more than seven years old. The individual claims ranged from Rs. 2 lakh to Rs. 27.22 lakh.

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[5] Bangalore, Chandigarh, Chennai, Delhi (EZ), Hyderabad, Kolkata, Mumbai and Pune.

[6] As of October, 2008

Since claims above Rs. 2 lakh are referred to Director (CGHS) office in Delhi for financial sanction, the delays were analyzed at two levels viz. (i) time taken by local CGHS office to refer the claim to Director (CGHS), Delhi and (ii) time taken by Director (CGHS)/Ministry. Table-I gives analysis of pending claims - 57 numbers.

Table-I (Analysis of delay in pending claims)

1.	Average time taken by local CGHS office to forward the cases to Director (CGHS)	6.5 months
2.	Average time for which the cases were pending in the Director (CGHS) office/Ministry	25.2 months
3.	Total average period of pendency of claims	31.7 months

(b) Analysis of settled claims

In the remaining 106 claims that had been settled, CGHS took an average one year and three months time to settle these claims. The minimum time taken to settle a claim was three months while the maximum time taken was five years.

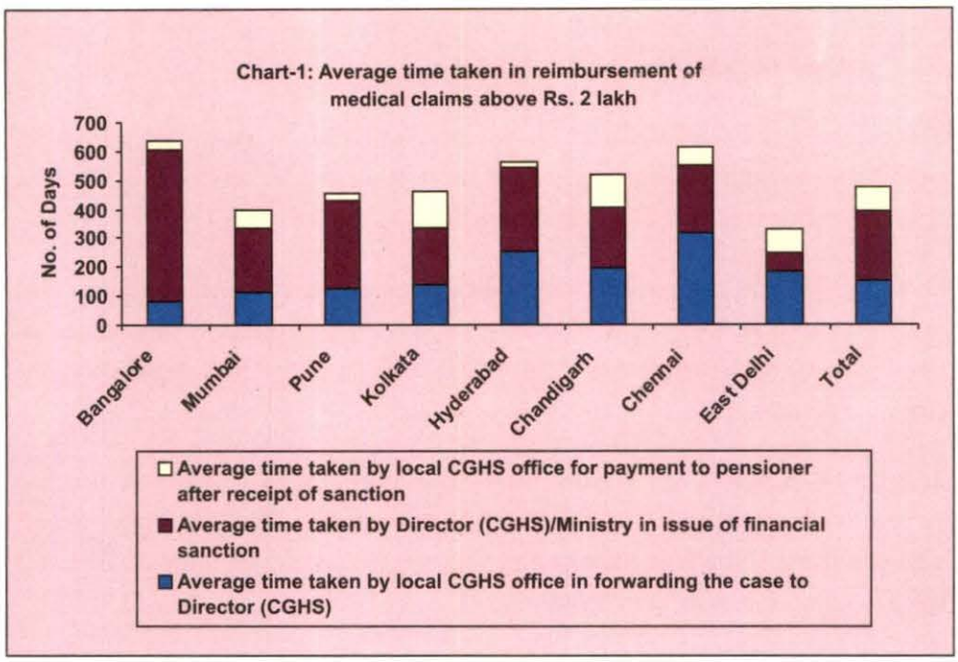
Time taken in settling the claims was further analyzed at three levels viz. (i) Average time taken by local CGHS office in forwarding the case to Director (CGHS), (ii) Average time taken by the Director (CGHS)/Ministry for issue of financial sanction and (iii) Average time taken by local CGHS office for payment to pensioner after receipt of financial sanction from the Director (CGHS)/Ministry. Table-II gives analysis of settled claims – 106 numbers.

Table-II (Analysis of delay in settled claims)

1.	Average time taken by local CGHS office to forward the case to Director (CGHS)	5.6 months
2.	Average time taken by the Director(CGHS)/Ministry for financial sanction	7.3 months
3.	Average time taken by local CGHS office for making payment to pensioner after receipt of sanction from Director (CGHS)/Ministry	2.3 months
4.	Total average time taken in settlement of claims exceeding Rs. two lakh	15.2 months

The age-wise analysis of pendency and time taken in settlement of medical claims is placed at **Annexure-II.**

Office wise audit findings are depicted in **Chart-1**.



The time taken by CGHS in providing reimbursement of medical claims to the pensioners was abnormally high ranging between 10 months to 22 months. Pensioners in CGHS Bangalore, Chennai, Hyderabad and Chandigarh had to wait for more than 500 days for the settlement of their claims. The average time taken by CGHS/Ministry in issue of financial sanction was highest in CGHS Bangalore (520 days) followed by CGHS Pune (301 days), CGHS Hyderabad (293 days), CGHS Chennai (234 days), and CGHS Mumbai (223 days). CGHS offices in Chennai and Hyderabad took considerably long time of 316 days and 250 days respectively in forwarding claims to the Director CGHS. Even after receipt of sanctions, CGHS Chandigarh and Kolkata took 114 and 126 days respectively in making payments to the pensioners. The above analysis indicated that CGHS authorities did not show any urgency in settling medical claims of the pensioners.

The Ministry cited (April, 2009) shortage of technical manpower in the local CGHS offices as one of the reasons for delay in settlement of claims. The Ministry further stated that in case of claims more than Rs. 5 lakh or involving relaxation of rules, the power was vested with the Ministry of Health and Family Welfare, Integrated Finance Division (IFD) and Minister's Office and such cases took longer processing time for disposal. In order to reduce the time taken in settlement of such claims, the Ministry added, a technical

committee had been formed under the chairmanship of the DGHS and power for relaxation of rules had been vested with the Secretary (H & FW).

(i) Delays in the Directorate/Ministry

Since Director (CGHS) office/Ministry accounted for a significant portion of time taken to settle claims exceeding Rs. 2 lakh, the records in the Director (CGHS) office were examined in detail.

Director (CGHS), in addition to medical claims for financial sanction, also receives cases seeking permission for expensive and unlisted procedures of treatment, clarifications from local CGHS offices and direct representations from the pensioners.

Test check of 400[7] files of pensioners[8] disclosed that 86 cases were pending for an average period of two years and two months. The pendency ranged between three and a half months and four years and eleven months. 23 cases were pending for more than three years.

Average time taken in the remaining 314 cases that had been decided by Director (CGHS)/Ministry was seven months. Minimum time taken to dispose off a case was 7 days while maximum was three years and eight months.

Delays were noticed in the initial submission of cases by the desk assistant and in dispatch of decided cases to the local CGHS offices. Average time taken by desk assistant in initial submission of cases[9] for processing was three months and the average time taken for dispatch of sanction or decision on permission/clarification cases was two months.

In 44 cases, the desk assistant took more than six months for initial submission of the file to CMO/ADDG. This included 11 cases where the time taken for initial submission of file was more than a year. In 30 cases, the decision/sanction of Director (CGHS)/Ministry was dispatched to local CGHS office after six months. This included two cases where delay in dispatch was more than one year. The details of audit findings are presented in **Annexure-III**.

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[7] These cases related to sanction of medical claims, sanction for permission for procedure of treatment, clarification cases and representations of the pensioners.

[8] of seven selected CGHS covered cities, other than Delhi, for the period 2005-06 to 2007-08.

[9] time taken by desk assistant to submit the case to first technical/higher authority after its receipt in the office.

(ii) Permission cases

Out of 112 applications (seeking permission for treatment including serious illnesses such as cardiac, cancer and transplantation cases etc.) test checked in audit, 32 applications were pending in the office of Director (CGHS)/Ministry for an average period of two years. Pensioners in such cases had no option but to either await permission from the CGHS authorities for such long periods of time or meet the cost of recommended treatment from their own sources. One such case is detailed in Case study-1. Average time taken by Director (CGHS)/Ministry in deciding the remaining 80 permission cases was five months.

Case study-1

Negligent handling of files leading to failure to grant permission to a pensioner, who died without getting the recommended treatment

A pensioner was suffering from HCV, chronic liver disease with super added Hepatocellular Carcinoma. CGHS authorities in Hyderabad referred the case to Global Hospital, a private hospital recognized under CGHS. The hospital advised the pensioner on 15 July, 2005 for Orthotropic Liver Transplantation with an estimated cost of Rs. 20.95 lakh. The case was referred by CGHS, Hyderabad to Director (CGHS), Delhi on 25 July, 2005 for permission of competent authority in the Ministry. It was observed that:

- The file pertaining to the case got misplaced in the Director (CGHS) office in August, 2005 and was traced after a gap of one year in August, 2006.
- Director (CGHS) on 4 September, 2006 sought clarification from CGHS, Hyderabad.

By the time any action could be taken by CGHS, Hyderabad, the pensioner died on 11 September, 2006.

The Ministry, while accepting the audit findings, stated (April, 2009) that the backlog of medical claims and permission cases identified during audit had now been cleared by it. The reasons for delay in the Directorate/Ministry cited by the Ministry were shortage of manpower and inefficiency of available manpower. The Ministry stated that the permission cases took longer processing time for disposal as they were examined at various levels both in the Directorate and Ministry including examination by technical committee.

2.5.1.2 Reimbursement of medical claims upto Rs. 2 lakh

Medical claims upto Rs. 2 lakh are finalised by the respective Additional/Joint Director office in the CGHS covered cities. A random sample of 200 claims pertaining to the years 2005-06 to 2007-08 was selected from each of the eight[10] CGHS offices covered by audit.

[10] Bangalore, Chandigarh, Chennai, Delhi (EZ), Hyderabad, Kolkata, Mumbai and Pune.

A test check of 1529[11] medical claims disclosed that overall CGHS took on an average of six months to settle these claims. The lowest average time taken in settlement of claims was three months 22 days in CGHS, Chennai and the highest was approximately one year in CGHS, Kolkata. The maximum time taken to settle the claims was 10 years and two months as detailed in Case study-2.

Case study-2

Delay of more than 10 years in settlement of a medical claim

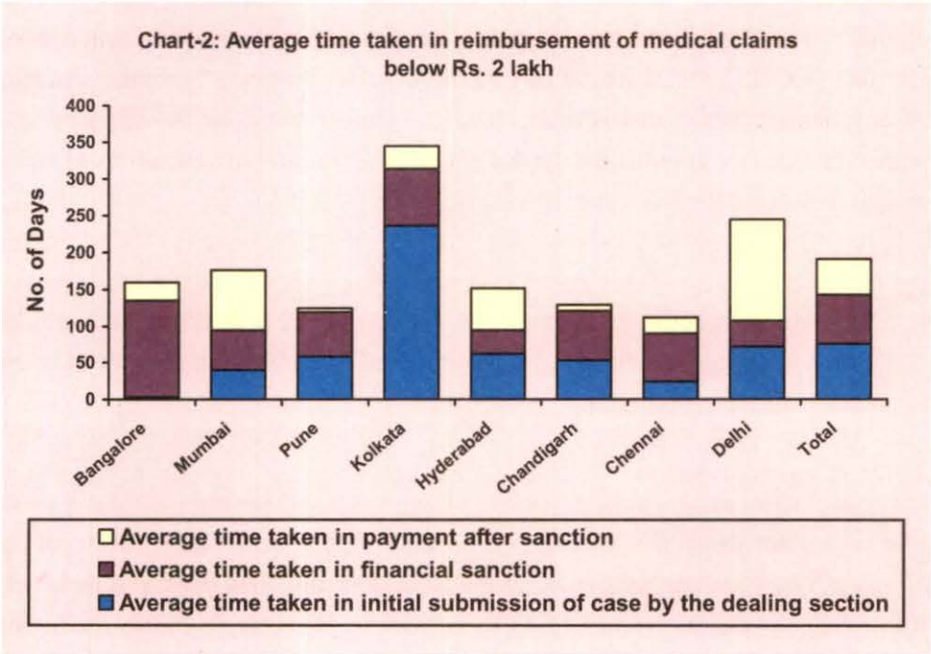
A pensioner from Mumbai met with an accident on 5 September, 1995 at Dombivli, a place not covered under CGHS. He was admitted in an emergency in a private hospital from 5 September, 1995 to 2 October, 1995. He submitted the claim on 20 November, 1995 for Rs. 25,482 to CGHS, Mumbai, which in turn referred it to Director (CGHS), Delhi. After protracted correspondence and having taking up the matter under Right to Information Act, the claim was passed by Additional Director CGHS, Mumbai after a lapse of more than 10 years in December, 2006 for payment of Rs. 11,928. It was observed that:

- After the claim was submitted by the pensioner in November, 1995, CGHS authorities took one year and five months to intimate the pensioner regarding rejection of his claim in April, 1997. The reasons for rejection of the claim were not communicated.
- On the case being submitted (July, 1997) for reconsideration, Director (CGHS), Delhi rejected the case in November, 1999 on the ground that the case could not be considered for relaxation of rules as treatment was taken beyond the CGHS covered area.
- Director (CGHS) did not consider this case for relaxation of rules in November, 1999 even when Ministry's OM of September, 1999 had allowed reimbursement in such cases of treatment taken in emergent cases in a non-CGHS area. Director (CGHS) considered this case for relaxation of rules, however, after receipt of application under RTI Act in November, 2006.

Local office, Kolkata took an average eight months for initial submission of a claim for processing as against CGHS, Bangalore, which took only three days for initial submission.

The average time taken for payment of sanctioned amount to the pensioner was highest in CGHS, Delhi (East Zone) at 4.6 months as against five days in CGHS, Pune.

[11] 171 and 158 cases were examined in CGHS, Chennai and Hyderabad, respectively, instead of 200, as 29 and 42 cases were found to have been returned back to the pensioners by the CGHS authorities.



Further, in Mumbai, Pune and Chennai, 26 cases were pending for an average period of one year and nine months as in October, 2008. 185 medical claims pertaining to 2004-05 and 2005-06 were pending for settlement in East Zone, Delhi (August, 2008). These cases were transferred to East Zone office as a result of decentralization of Additional Director (Headquarters), Delhi office in four zonal offices in September, 2005. During the six months between April, 2005 and September, 2005, when decentralization was being implemented, Additional Director (Headquarters) settled only 81 claims against the pendency of 5404 claims.

The reasons for delay in settlement of claims in Bombay, Chennai, Bangalore, Hyderabed and East Zone (Delhi) offices were stated to be shortage of manpower, lack of accountants or supporting staff for scrutiny of claims, inadequate availability of funds, incomplete claim submission and delay in response from pensioners on the queries raised by CGHS. The reasons for inordinate time taken in settlement of claims in Kolkata (approx. one year), Pune (four months) and Chandigarh (four months) were not furnished by the Ministry.

In order to keep check on delays, CSMOP provides that as a general rule, no official shall keep a case pending for more than seven working days unless higher limit has been prescribed for specific type of cases through departmental instructions. Keeping in view the number of authorities involved

in settlement of claims, the time for settlement of claims below Rs. 2 lakh at Additional Director level would be one month and cases requiring sanction of Director (CGHS), Delhi would be two months. In other words, in the absence of any departmental instructions, medical claims were to be disposed off within one or two months except for those which required relaxation of rules or approval from the Ministry.

Recommendation:

- An activity specific timeframe for processing and settling the medical claims of pensioners needs to be determined, stipulated and followed in an accountable environment.

2.5.2 Causes of delays

The causes for delay in settlement of medical claims were negligent handling of cases by CGHS authorities resulting in claims and files getting misplaced; forwarding of claims by local CGHS offices to Director (CGHS), Delhi for unnecessary clarifications; lack of effective initial scrutiny of claims by CGHS authorities leading to avoidable correspondence at the time of processing of claims and lack of monitoring and accountability procedures. Audit findings in this regard are as follows:

2.5.2.1 Negligent handling of medical claims/letters in CGHS offices

(i) Claims/letters received in Director (CGHS) office were found missing

Medical claims[12] received in the Director (CGHS) office, Delhi during the period 2005-06 to 2007-08 were not entered in the sectional diary for monitoring timely disposal. This was against the office procedure prescribed by the Government. There was, thus, no assurance that claims/letters received in the Director (CGHS) office were actually processed in the dealing section.

With a view to assessing whether all claims received in Director (CGHS) office during the three years (2005-06 to 2007-08) were actually processed, an attempt was made to trace claims/letters received in this office from the seven[13] CGHS covered cities. It was noticed from the diary of ADDG that 1272 claims/letters were received in the Director (CGHS) office from these seven cities during the three years. However, only 925 letters/claims could be

[12] Including clarification cases, permission applications, and representations from pensioners and serving employees.

[13] Bangalore, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and Pune.

traced by audit to the files maintained in the Director (CGHS) office [14]. Remaining 347 claims/letters (27.28 *per cent*) were, thus, not processed and found missing from the office.

Audit of Jt/Addl. Director offices in eight CGHS covered cities disclosed that sectional diary was not maintained in six offices viz. Chandigarh, Chennai, Delhi (EZ), Hyderabad, Mumbai and Pune offices.

The Ministry, while accepting the audit findings, stated (April, 2009) that disciplinary proceedings had been initiated against the official handling medical claims/letters in the section. The Ministry added that with the new set of persons handling of MRCs had improved.

(ii) Cases of files getting misplaced in Director (CGHS) office

Test check of the records in Director (CGHS) office disclosed that seven medical claim/permission files had been misplaced in the office resulting in undue delay in settlement of medical claims and granting of permission. Details of one such case are presented in Case study-1.

With a view to assessing the extent of misplaced files, 860 files opened during 2005-06 to 2007-08 in respect of seven selected cities were requisitioned from Director (CGHS) to ascertain whether any of these files was missing from the office. Director (CGHS) could not produce 172 files during the five month period of audit despite repeated reminders. These files were also not under submission to any of the officers/authorities involved in processing of medical claims. There is a risk that these files had been misplaced in the office.

The Ministry stated (April, 2009) that the files could not be provided to audit as some of them were under movement. The reply of the Ministry is not acceptable as it did not provide any details regarding the number of such files under movement or the officer(s) with whom these files were pending despite repeated reminders over a period of five months. Moreover, the Directorate had already accepted misplacement of these files. The reason given by the Directorate for misplacement of these files, in a separate reply (November, 2008), was their non-receipt from the Director concerned, to whom these files had been submitted, after his retirement in May 2008.

[14] A separate file is opened on receipt of a case/letter in Director (CGHS) office and the same is noted in the Index Register. Though 1272 claims/letters, which were being traced by audit pertained to the period 2005-06 to 2007-08, files opened since 2000-01 were examined to ward of any possibility of the file already being in existence in earlier years.

Recommendation:

- Responsibility may be fixed for each case of negligent handling resulting in harassment to pensioners.

2.5.2.2 Failure to monitor pending medical claims

Director (CGHS) office did not monitor the pendency of medical claims. None of the weekly, monthly or quarterly reports prescribed by the Government as a tool for effective monitoring were being prepared in the office. Similarly, out of the eight Jt/Addl. Director offices, covered in audit, monitoring of medical claims was not being carried out in five[15] offices.

These lapses denied the management of any feedback on pendency of medical claims so as to take timely corrective action to check delays and put in place accountability procedures for negligent and insensitive disposal of claims.

Further, none of the offices audited had prescribed any time limit for settlement of medical claims of pensioners. As per Central Secretariat Manual of Office Procedure (CSMOP), the Government departments are required to fix time limit for disposal of various type of cases being handled.

The Ministry, while accepting the audit findings, stated (April, 2009) that quarterly reviews were being held with Additional/Joint Directors to monitor settlement of medical claims. Details of such meetings were not provided by the Ministry. CGHS Kolkata in reply stated (August, 2008) that it was not possible to prepare monitoring reports with the existing staff strength and that the office was awaiting computerization.

2.5.2.3 Unnecessary clarification/referral of cases for advice

Scrutiny of cases involving clarification, received in Director (CGHS) office, disclosed that 21 out of 52 cases received during the three years were unnecessary as the settlement of medical claims was either within the financial power of Additional/Joint Director of the CGHS covered cities or the related orders were already available. This resulted in avoidable delay in settlement of claims. The details of medical claim of one such pensioner which was unnecessarily sent to the Director (CGHS) for clarification are presented in Case study-3.

[15] Joint/Additional Director of CGHS, Chandigarh, Chennai, Hyderabad, Kolkata and Pune.

Case study-3

Unnecessary clarification leading to delay of more than four years

- A freedom fighter took treatment for cancer and submitted his medical claim for Rs. 34,892 in July, 2002 to CGHS, Pune for reimbursement. The claim was referred to Director (CGHS) in October, 2002 for sanction on the ground that the treatment was in non-CGHS covered area.
- Director (CGHS) took one year and two months to call for certain clarifications in December, 2003. These were obtained from the pensioner and sent to Director (CGHS) in January, 2004.
- The case remained pending at Director (CGHS) office for more than two years. Finally, Director (CGHS) in May, 2006 intimated CGHS, Pune to settle the claim at their own level as it was within the delegated financial powers of Additional Director, Pune as per Ministry OM dated 7.4.1999 and 30.9.1999.
- The claim was finally sanctioned by CGHS, Pune in August, 2006.

Referring the case to Director (CGHS) despite clear instructions of the Ministry issued in the year 1999 and negligent handling of the case in Director (CGHS) office resulted in delay of four years in the settlement of this claim. The Ministry stated (April, 2009) that the case was referred to Director (CGHS) for vetting emergency and the Directorate after seeking certain information in December, 2003, advised AD, Pune (May, 2006) to settle the claim as per OM of 7.4.1999. The reply of the Ministry is factually incorrect as the case was referred by the AD (Pune) to the Directorate as a special case of treatment outside CGHS area and not for vetting emergency.

2.5.2.4 Lack of effective initial scrutiny of claims

CGHS has provided a check list of documents to be submitted by the pensioner along with the medical claim. In many cases, claims submitted by pensioners were not checked by the CGHS officials responsible for receiving them to ascertain whether all relevant documents were attached with the claims. This led to avoidable correspondence later at the time of processing of claims resulting in delays in settlement of claims. The details of one such case are presented in Case study-4.

Case study-4

Lack of effective initial scrutiny and delay in communication of requirement of documents led to pendency of a claim for more than eight years

- Medical claim of Rs. 2.72 lakh was submitted by the son of a deceased pensioner to Additional Director, Bangalore on 30 August, 2000. The claim was returned back for want of certain documents including legal heir certificate, which were submitted by the claimant in October, 2002.
- After a lapse of two years and eight months, CGHS asked the claimant (June, 2005) to submit succession certificate in lieu of the legal heir certificate, which the CGHS had earlier asked the claimant to submit in September, 2000.
- It was noticed that the AD, Bangalore had referred this case to the Director (CGHS) (February, 2003) seeking clarification whether payment of the claim could be made on the basis of legal heir certificate. The Director (CGHS)/Ministry took two years and three months to clarify to the CGHS, Bangalore that the Succession certificate would be required for settlement of this claim.

> ➢ The claimant submitted succession certificate in February, 2008 and the case was sent to Director (CGHS) in April, 2008 for approval. Sanction in this case was awaited from Director (CGHS) as of April, 2009.
>
> The Additional Director did not communicate actual requirements of the documents to the claimant in the beginning i.e. 16 September, 2000 leading to avoidable correspondence later resulting in pendency of this claim for eight years and seven months. Delay of five years and 11 months was attributable to CGHS.

It was observed during audit that in 10 *per cent* of the 400 medical claims test checked in Mumbai and Pune CGHS offices, one or more documents had to be called for at the time of processing of the claims. Effective scrutiny while receiving the claims by CGHS officials could have prevented delays in such cases.

Position in East Zone, Delhi was more serious in this regard. In Delhi, unlike other CGHS covered cities, pensioners are required to submit their medical claims to CMOs of their respective dispensaries. The claims are then sent on weekly basis to zonal office for sanction. As per instructions of the Additional Director (Headquarters), it was mandatory for the CMO-incharge of the concerned CGHS dispensary to ensure submission of all the required documents before acknowledging the receipt of medical claims from the pensioners.

It was noticed that out of 5593 claims received during 2005-06 and 2006-07 by the Zonal Office, East Delhi, 1291 (23.08 *per cent*) were returned in original to the dispensaries for want of documents. Initial scrutiny of documents submitted with medical claims was thus not done properly and resulted in avoidable correspondence leading to delay in settlement of medical claims.

The Ministry, while accepting the audit findings, cited (April, 2009) lack of staff in the dispensaries as the main reason for ineffective initial scrutiny of claims.

Recommendation :

- Staff responsible for collection of medical claims should be trained to properly scrutinize the documents submitted along with medical claims at the time of initial submission of such claims. This would reduce avoidable correspondence later at the time of processing the claims.

2.5.2.5 Forwarding the claim for sanction with incomplete documentation

The Director (CGHS) in May, 2005 communicated to all Addl./Jt. Directors, the details of documents that should accompany any claim/letter seeking sanction/clarification from it. Despite these instructions, the local CGHS offices did not send all the required documents to the Director (CGHS) office in many cases leading to avoidable and protracted correspondence between the two offices resulting in delay in settlement of claims. Eight such cases were observed out of 40 medical claims exceeding Rs. 2 lakh, which were test check during audit in Mumbai and Pune CGHS offices. The details are in **Annexure-IV**.

2.5.3 Weaknesses in the system of extension of cashless/ credit basis medical treatment to pensioners

Recognized private hospitals are required to extend credit facility to the pensioners. Weaknesses observed during audit in the implementation of this system are as follows:

2.5.3.1 Denial of credit facility by recognized private hospitals

Denial of credit facility not only forces the pensioner to pay the amount for treatment but it may also lead to deductions from the subsequent medical claim preferred by him as recognized private hospitals often charge in excess of the package rates admissible under CGHS rules.

During test check of claims, 13 cases of denial of credit facility were noticed in recognized private hospitals in Hydrabad and Pune. In five of these cases, CGHS, Hyderabad had referred the beneficiaries to recognized private hospitals with which the agreement of empanelment had already expired. In rest of the cases, the CGHS authorities did not initiate any penal action against the recognized private hospitals despite the cases having been brought to their notice by the pensioners. The details of one such case of denial of credit facility are indicated in Case Study-5.

Case study-5

Denial of credit facility

A pensioner from Pune submitted an application for his wife's treatment on 30 March, 2007 for permission of implantation of pacemaker with tentative date as 11 April, 2007 along with quotation for the cost of Rs.3,75,000. Meanwhile, the patient was admitted as an emergency case in the recognized private hospital on 24 April, 2007. The hospital advised implantation of pacemaker for Cardiac Resynchronization Therapy (CRT).

On the ground that the procedure was not in the approved CGHS list and lack of permission in this regard from CGHS, the hospital did not extend credit facility and treated the patient

only on depositing Rs. 3,15,000.

- Even though the hospital did not extend credit facility in this case, it refused to hand over original bills, essentiality certificate, etc., to the pensioner to enable him to submit the medical claim for reimbursement from CGHS. Instead, the hospital itself preferred the claim to CGHS, Pune for reimbursement of the amount, which it had already collected from the pensioner.
- Despite repeated directions by the CGHS, Pune, the hospital did not refund the amount to the pensioner.
- Though the CGHS, Pune had recommended to Director, CGHS for penal action against the recognized hospital in February, 2008, no action had been initiated by the CGHS in this regard as of October, 2008.

The Ministry stated (April, 2009) that the amount of Rs. 3,12,750 had been sanctioned in this case in March, 2009 and the payment would be made as soon as budget was available with the CGHS, Pune office. The Ministry did not furnish any reply regarding initiation of penal action against the recognized private hospital for denial of credit facility.

Scrutiny of records in Director, CGHS office disclosed that in two cases where pensioner had complained regarding denial of credit facility, the Director sought comments of the concerned Additional Director (CGHS) in August, 2005 and January, 2008 but did not follow up further.

As per survey findings, 42 *per cent* of the pensioners, who were aware of extension of credit facility, had replied that they were denied credit facility by the recognized private hospitals.

The Ministry stated (April, 2009) that one of the reasons for denial of credit facility could be the lack of information with the local CGHS authorities on whether a particular private hospital was on the panel of CGHS, resulting in many patients being referred to the private hospitals (recognized earlier) which were no longer empanelled. The reply of the Ministry is not acceptable as the list of private empanelled hospitals under CGHS is regularly updated on the website of the Ministry and the local CGHS authorities have an access to this information.

2.5.3.2 Substantial reduction in the number of recognized private hospitals

Another constraint noticed in extension of medical facilities to pensioners was substantial reduction in the number of recognized private hospitals in the recent years. In CGHS, Mumbai and Pune, downward revision in package rates in November, 2007 resulted in reduction of recognized hospitals and diagnostic centers from 25 to two in Mumbai and from 67 to 13 in Pune. In Kolkata, there was not even a single recognized private hospital or diagnostic

centre during February, 2006 to September, 2007 after the expiry of agreements with 31 hospitals/diagnostic centers in January, 2006. Against these 31 hospitals/ diagnostic centers recognized in January, 2006, only 10 private hospitals/diagnostic centres were on the panel of CGHS Kolkata in September, 2007. Similarly, in Chennai, only 19 private hospitals/ diagnostic centers were recognized in August, 2008 against 35 hospitals/ diagnostic centers recognized in the year 2007.

The Ministry stated (April, 2009) that many private hospitals in Mumbai were now coming forward to get empanelled consequent on revision of rates and reduction in performance guarantee after considering their representations in this regard. However, in some cities where the number of empanelled hospitals was far too less, the pensioners had been allowed to take treatment in any of the private hospital with reimbursement restricted to CGHS rates.

Recommendation:

- Ministry should ensure sufficient number of empanelled private hospitals and diagnostic centers in the CGHS covered cities for smooth functioning of cashless/ credit basis medical treatment facilities. In cities where there are very few recognized private hospitals, pensioners should be allowed to take treatment in any of the private hospital with reimbursement restricted to CGHS rates.

2.5.3.3 Delay in settlement of claims of recognized private hospitals

Delay in settlement of claims of hospitals by CGHS authorities is another area which may have an adverse impact on the system of extension of credit facility to pensioners. As per agreement signed with the private hospitals recognized by CGHS, claims of the hospitals are required to be settled within 60 days of their receipt.

In CGHS, Hyderabad, none of the test checked bills was settled in 60 days. The average time taken to settle the bills was nine months. In CGHS, Delhi, hospital bills of May, 2008 were pending as of October 2008. The average time taken in settlement of the claims of private recognized hospitals was approximately four months in CGHS, Mumbai and Pune.

The Ministry stated (April, 2009) that the delays were mainly due to shortage of technical manpower. It was stated that arrangements were being made to outsource the work related to scrutiny of medical claims of hospitals so as to expedite their settlement.

2.5.3.4 Lack of awareness about credit facility

34 *per cent* of the pensioners, who responded to the survey questionnaire, were not aware of extension of credit facility by recognized private hospitals. While all the pensioners in CGHS Bangalore, who responded to survey, were aware of credit facility, the awareness was least in CGHS Kolkata, where only 37.5 *per cent* of pensioners were aware of the credit facility.

The Ministry stated (April, 2009) that awareness about CGHS rules and facilities was being enhanced through mass media, interpersonal communication, print and electronic media and that the rules and facilities were also available on the CGHS website, which was regularly updated for public viewing.

Recommendation :

There is a need to increase awareness among pensioners about CGHS rules and facilities provided by it. A small compilation of useful imformation may be given to the pensioners at the time of issue of CGHS card.

2.5.4 Satisfaction level of pensioners as per survey

Out of 632 pensioners who responded to the survey questionnaire, 271 (42.88 *per cent*) stated that they were not satisfied with the time taken by CGHS authorities to settle their claims. In rating the overall performance of CGHS in settlement of their claims on a five point scale from 'very good' to 'below average', 37.83 *per cent* of the pensioners rated the performance 'good' or above. 28.91 *per cent* rated the performance as 'average' while 27.03 *per cent* rated the performance as 'poor' or 'very poor'. 6.23 *per cent* did not respond.

The pensioners who responded felt that the average time taken by CGHS authorities to settle their medical claims was approximately six months against their expectation of average two months.

15 pensioners (2.37 *per cent*) in response to survey questionnaire had alleged that they were asked for extraneous favour in settlement of their medical claims. The percentage was the highest in Mumbai at 6.3 *per cent.* Mumbai was followed by Pune where five pensioners out of 106 alleged to have been asked for extraneous favour. The details of medical claim of one such pensioner are presented in Case study-6.

Case study-6

Suspected use of extraneous favour in settlement of medical claim

A pensioner from Delhi was admitted under emergency in a private unrecognized hospital on 8 July, 2006, as he had suffered a heart attack. He was operated for open heart surgery-Coronary Artery Bypass Graft (CABG) the next day on 9 July, 2006 by the hospital. The pensioner submitted medical claim of Rs. 1.8 lakh to Additional Director, CGHS (East Zone) on 23 August, 2006. The claim was rejected by Additional Director, CGHS (East Zone), Delhi on 25 August, 2006 on the ground that it was not an emergency case.
The pensioner re-submitted the medical claim after seven and a half months on 9 April, 2007 to Additional Director, CGHS (East Zone). The claim was admitted and was passed for payment of Rs. 1. 2 lakh.

- The reasons for readmitting the claim were not furnished by the Additional Director (East Zone).
- Additional Director, CGHS (East Zone) rejected the case as non-emergency case in the first instance only on the basis of use of the words 'elective procedure' in the discharge summary of the hospital without ascertaining full facts of the case as given in the discharge summary. After admitting the case later it was sent for expert opinion to a Government hospital. This could have been done in the first instance.

The Ministry stated (April, 2009) that the reason for reconsideration of this case after seven and a half months was submission of emergency certificate by the pensioner, which he did not submit earlier. However, the communication to the pensioner regarding rejection of his claim did not mention lack of emergency certificate as the reason for rejection of the medical claim. Further, had this been the case, the Additional Director CGHS (East Zone) should have asked the pensioner to submit the emergency certificate rather than rejecting his medical claim.

The Ministry accepted the survey findings as indicative findings and did not offer any further comments.

2.5.5 Ineffective grievance redressal mechanism

2.5.5.1 Grievance redressal mechanism in local CGHS offices

The status of functioning of grievance redressal system in eight selected CGHS cities as in August, 2008, is detailed in Table-III.

Table-III

	Banagalore	Chandigarh	Chennai	Hyderabad	Kolkata	Mumbai	Pune	Delhi
Whether Grievance Cell existed?	Yes	NA	No	No	NA	No	No	Yes
Whether Grievance Officer was designated?	Yes	No	NA	No	No	NA	NA	Yes

Whether information was displayed on the Notice Board?	NA	NA	No	NA	No	NA	NA	Yes
Whether complaint register was maintained?	Yes	NA	No	No	No	NA	NA	NA

NA- Not available

As depicted in Table-III, grievance redressal system was not in place in the audited local CGHS offices except for Bangalore and Delhi. Most of the offices did not even monitor the complaints/ grievances received from the pensioners.

As per survey findings, out of 77 pensioners who replied to have complained to the CGHS authorities, only 29 (37.67%) got replies to their complaints.

The Ministry stated (April, 2009) that the grievance redressal system in Bangalore had been strengthened at the instance of audit and a complaint register had been opened. It was also stated that local advisory committees had been constituted in many cities and were functioning effectively at dispensary level.

2.5.5.2 Grievance redressal mechanism in the Ministry

Director (Admn. & Vig.) in the office of the Director General Health Services (DGHS) has been designated as Director (Grievances). Grievances received by the Department of Public Grievances (DPG) are forwarded to Director (Grievances), who in turn forwards these grievances to Director (CGHS) for taking action.

It was disclosed that the interim reply, as required under the grievance redressal mechanism prescribed by the Government, was neither sent by Director (Grievances) nor Director (CGHS) in token of receipt of the complaint.

Scrutiny of the report sent by Director (CGHS)[16] in September, 2008 to Director (Grievances) disclosed that average time taken to dispose of 23 grievance cases out of 25 was more than eight months. The remaining two grievance cases were pending for a period of two months and five months.

[16] This report was sent to Director (Grievances) in response to DPG's letter of May, 2008 communicated list of pending cases, which included 25 cases pertaining to Director (CGHS).

Only eight cases out of the 23 disposed of cases were within the stipulated period of three months.

2.5.6 Undue rejection/ deduction from medical claims of pensioners for reasons beyond their control

Cases were noticed during audit where treatment was taken by a pensioner in an emergent situation from a government hospital or recognized private hospital, yet the claims submitted by him/her were rejected or amounts deducted on the grounds that were beyond the control of the pensioner. One such case of undue rejection of a medical claim is detailed in Case study-7. Further, there was no uniformity in rejection of claim or deduction of amount in such cases.

Case study-7

Undue rejection of medical claim

A pensioner from Hyderabad was diagnosed with lung cancer with liver and bone metastates. He underwent treatment from a recognized private hospital from August, 2006 to February, 2008. After radiation treatment and chemotherapy, the specialist doctor on 31 July, 2007 prescribed TARCEVA 150 mg tablet, a life saving drug to the pensioner, once in a day. The pensioner su bmitted his application on 1 August, 2007 for the issue of tablets. CGHS dispensary in Hyderabad issued 30 tablets after a gap of 24 days and another 60 tablets after a delay of more than five months in February and March, 2008 after obtaining sanction of Director (CGHS), New Delhi in February, 2008.

Due to non supply of tablets by CGHS, Hyderabad, the pensioner had no option but to purchase them from market. Pensioner utilized 179 tablets during August, 2007 to March, 2008 by purchasing them at a cost of Rs. 5.96 lakh. The claim of the pensioner was rejected by Director (CGHS) in August, 2008 on the ground that direct purchase of medicines by the pensioner from market was not allowed in OPD treatment as per Ministry's OM of July, 1995. Audit observed that:

- Additional Director, Hyderabad unnecessarily forwarded the case to Director (CGHS) for permission to supply tablets to the pensioner as Ministry's OM of September, 1998 had already allowed CGHS dispensaries to supply costly medicines for treatment of diseases like cancer on the basis of prescription of the specialist of the recognized private hospital and after obtaining copy of utilization certificate from the treating specialist, which was duly submitted by the pensioner.
- The rejection of medical claim by Director (CGHS) on the ground that tablets were purchased directly from the market was not valid as the pensioner was compelled to purchase these life saving tablets from the market after denial of supply by CGHS authorities in Hyderabad. The actual reason for direct purchase of tablets by the pensioner from market was delay in their supply by the CGHS, Hyderabad. The pensioner should not have been allowed to suffer because of lapse on the part of CGHS authorities.
- Further, the rejection of this claim by the Director (CGHS) was not even as per the CGHS Rules as Ministry's OM dated 30 April, 2001 had already allowed reimbursement of medicines purchased directly from the market in case of serious illness such as cancer.

The Ministry stated that the pensioner had now been permitted reimbursement of the cost of medicines procured from open market and the admissible amount had been reimbursed to him.

Two pensioners, who took treatment in emergency situation from a Government hospital[17], were not allowed full cost of cipher stents implanted by the hospital on the ground that cipher stents used in these cases were not on the site approved by the CGHS. The ground of disallowance of full cost by the CGHS in these cases was beyond the control of the pensioners, as the decision to implant a particular stent was that of the government hospital. CGHS in these two cases restricted the reimbursement of cost of cipher stents to the low cost bare metal stents.

While full reimbursement was not allowed in these cases for reasons beyond the control of the pensioner, full reimbursement was allowed in excess of the approved rates to another pensioner including items such as room rent/bad charges, consultancy fee etc., for treatment taken by him in emergency in an un recognized hospital. Full reimbursement was allowed with the approval of the Health Secretary on the ground that the treatment was taken in emergent and compelling circumstances beyond the control of the beneficiary.

The Ministry, while accepting the audit findings, agreed (April, 2009) that deductions should not be made in respect of treatment taken in government hospitals for the reasons beyond the control of the pensioners.

2.5.7 Lack of transparency in the system of settlement of medical claims

Except for Delhi, a formal system for communicating the status of reimbursement of medical claims to pensioners was not in place in the CGHS covered cities audited. It was only on personal or telephonic enquiries from the pensioners that the status of their claims was conveyed to them. The system of communicating the status of claims online, which was prevalent in Delhi, was not operational in other local CGHS offices.

Further, computerized or manual systems were not in place to record the stage-wise status of pending claims for ascertaining the status of a claim at a glance. Thus, in the intervening period from submission of a claim to its final outcome, CGHS offices, other than zonal offices in Delhi, were not in a position to readily aware of the status of a claim.

Recommendation :

- A transparent system should be put in place to facilitate reporting of the status of the disposal of claims to the claimants. Online availability of the

[17] Dr. Ram Manohar Lohia Hospital, New Delhi

status of disposal of a medical claim, as prevalent in Delhi, should also be extended to other CGHS covered cities.

The Ministry stated (April, 2009) that computerization of the CGHS covered cities had been planned in a phased manner. The Ministry, however, did not furnish any time schedule or the details of the computerisation plan to be implemented in CGHS covered cities other than Delhi.

2.6 Conclusion

The medical claim reimbursement system as administered by the CGHS is fraught with delays and needs to be made more efficient and effective. The process of making available adequate number of recognized private hospitals and diagnostic centres for use by the pensioners needs to be reviewed and improved. Efforts need to be made to inform pensioners of the availability of credit facilities. An effective and transparent grievance redressal system needs to be put in place.

Annexure-II

(Refers to paragraph 2.5.1.1)

Age wise analysis of pendency and settlement of 163 claims sample checked in audit			
Time taken	**Claims settled**	**Claims pending**	**Total claims**
Within one month	Nil	Nil	Nil
1 to 3 months	1	Nil	1
3 to 6 months	9	Nil	9
6 months to 1 year	40	1	41
1 to 2 years	41	17	58
2 to 5 years	15	37	52
More than 5 years	Nil	2	2
Total	106	57	163
Average time taken	15.2 months	31.7 months	

Annexure-III

(Refers to paragraph 2.5.1.1(i))

Audit findings in respect of 400 files checked in Director (CGHS) office

	Claims	Clarifications	Permissions	Representations	Total
Total No. of files checked	111	52	112	125	400
Cases pending for settlement					
No. of cases pending	26	2	32	26	86
Pending for more than 3 years	7	2	6	8	23
Average period of pendency	26.03 months	41.87 months	24.33 months	28.43 months	26.5 months
Decided cases					
No. of cases decided	85	50	80	99	314
Average time take in finalization of cases	8.3 months	6.03 months	5.33 months	7.93 months	7.09 months
Time taken in initial submission of the case					
Average time in initial submission	52.37 days	70.31 days	46.40 days	116.58 days	76.3 days
More than 6 months	6	7	7	24	44
Time taken in dispatch of case					
Average time taken in dispatch	52.69 days	64.34 days	38.30 days	54.57 days	51.40 days
More than 3 months	14	8	9	22	53

*** As on 31st August 2008**

Annexure – IV
(Refers to paragraph 2.5.2.5)
Incomplete claims sent to Director (CGHS) for sanction.

Sr. No.	Name of the pensioner	City	Card No.	Amount claimed	Date of receipt of claim	Date of payment of claim	Remarks
1.	Shri G. S. Nair	Mumbai	306776	215262	30.01.2006	31.03.2008	Claim sent without obtaining the justification of Government cardiologist and also without condoning the claim for delay in submission
2.	Shri. S. G. Godse	Mumbai	305047	365234	11.03.2002	17.11.2005	Claim sent without obtaining the Government Cardiologist justification for emergency and without granting ex-post facto sanction.
3.	Shri. Balbir Singh Yadav	Mumbai	310656	391162	23.03.2007	18.06.2008	Claim sent without furnishing (i) break-up of admissible amount. (ii) Status of the Hospital (iii) Pouch & Batch No. of stent (iv) CD for Angiography.
4.	Shri. C. T. Dighe	Mumbai	307050	300987	26.01.2007	20.11.2007	Claim sent without furnishing the copy of CGHS card, copy of discharge summary, copy of document indicating stenting of CAD.
5.	Late Shri Nancy R. Maneksha	Pune	73308	305553	24.02.2005	21.12.2005	Claim sent without furnishing calculation sheet. Also ex-post facto approval not accorded by the J.D.
6.	Shri H. A. Samtani	Pune	71278	316367	19.03.2003	13.06.2005	Claim sent without CD Roll & other clinical investigations/records of the patient.
7.	Shri N. B. Sutar	Pune	62797	250985	31.01.2007	Claim pending	Claim sent without according ex-post facto approval by the J.D.
8.	Shri Y. L. K. Indira	Pune	80987	379835	28.09.06	Claim pending	Claim sent without (i) corrected admissible amount.(ii) ex-post facto approval by J.D. (iii) pouch & batch no. of stents (iv) Government Specialist certificate justifying the emergency.

MINISTRY OF COMMERCE & INDUSTRY

PAYMENT OF CLAIMS UNDER TRANSPORT SUBSIDY SCHEME

CHAPTER III : MINISTRY OF COMMERCE & INDUSTRY

Payment of Claims under Transport Subsidy Scheme

Transport Subsidy Scheme

The Government of India introduced the Transport Subsidy Scheme in 1971, with a view to promoting industrialization of hilly, remote and inaccessible areas. Under the scheme, transport subsidy on movement of raw materials and finished goods to and from designated railheads is allowed to industrial units located in the North Eastern Region (including Sikkim), Jammu & Kashmir, Himachal Pradesh, Andaman & Nicobar Islands, Lakshadweep, and selected districts of Uttarakhand and West Bengal. The scheme is administered by the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce & Industry.

The performance audit of this Scheme was taken up at the request of the Secretary to Government of India, Department of Industrial Policy and Promotion, Ministry of Commerce and Industry. Our findings are discussed below:

Highlight of the major observations

- **The stipulated procedures for pre registration of units intending to claim transport subsidy with the Directorate of Industries of the States; monitoring and inspection of units and receipt of regular information regarding movement of finished goods and raw material were not effectively implemented, significantly weakening the controls associated with the scheme and increasing the potential risk of fictitious and ineligible claims.**

  (Paragraph 3.4.1)

- **Cross check by Audit of the details recorded in the subsidy claims with reference to the corresponding records with other agencies viz. Vehicle Licensing Department, State Excise and Taxation Department, Sales Tax and Central Excise Department revealed several cases of payment of suspected fictitious and doubtful claims for transport subsidy amounting to Rs. 6.32 crore.**

  (Paragraph 3.4.2)

- **Audit noticed numerous instances of deviation from the guidelines, which stipulated submission of claims for transport subsidy by the industrial unit on a quarterly basis and within one year of the date of incurring expenditure on transportation, with admissibility restricted to a period of five years from the date of commencement of commercial production.**

  (Paragraph 3.4.3)

- **Audit noticed numerous instances of insufficient documentation in support of subsidy claims e.g. Sales Tax/ VAT assessment not available; no proof of adjustment of outstanding dues of Government/ Financial Institutions; claims not submitted in prescribed proforma; vehicle numbers not indicated. Audit scrutiny also revealed several cases of payment of subsidy claims, which were not in compliance with the scheme guidelines and instructions e.g. payment in respect of non-manufacturing activities, illegal wood-based activities, inadmissible raw materials, by-products and intermediaries; incorrect determination of freight rates; payment without checking of claims etc.**

  (Paragraph 3.4.4)

- **Audit scrutiny revealed numerous instances of delay in payment of transport subsidy in almost all the selected States.**

  (Paragraph 3.4.5)

- **Follow-up action on the earlier audit findings reported in paragraph 1.1 of the CAG's Audit Report No. 2 of 2001 (Civil) had not been completed, even after eight years of submission of the Report to the Parliament.**

  (Paragraph 3.5)

Summary of important recommendations

- **To minimize the potential risk of fictitious and ineligible claims DIPP must initiate concrete action immediately to ensure that the State Governments fully implement procedures for regular inflow of information regarding actual movement of raw materials and finished goods and periodic inspection of units, and take punitive action in appropriate cases.**

- The delegation of power to grant waiver in cases of lack of pre-registration may be reviewed immediately. Such powers may be exercised by the DIPP rather than being delegated to SLCs.
- To ensure the authenticity and genuineness of claims, DIPP may put in place a system to provide for conduct of cross verification of subsidy claims by State Level Committees with records of other Departments (Sales Tax, Vehicle Licensing, and State Excise and Taxation Departments) before approving claims for reimbursement.
- DIPP needs to ensure that the nodal agencies actually conduct scrutiny of 10 *per cent* of the claims, not only with reference to documents but also with reports of physical inspection of units and checking of movement of raw materials and finished goods, and take necessary action against defaulting nodal agencies in cases of non-compliance. Also, the method of selection of 10 *per cent* of claims for physical inspection and checking needs to be laid down, to minimize arbitrariness and excessive discretion in excluding/ including units.
- DIPP should develop a web-based MIS, which would make details of unit-wise subsidy releases transparently available to the public at large, and also ensure that all nodal agencies promptly upload details of subsidy released by them onto this web-based MIS. In the absence of such an MIS with public access, reporting of release data by nodal agencies would only serve a limited purpose.
- Delayed payment of transport subsidy by several years adversely affects the achievement of the main objective of the scheme of promoting industrialization in hilly, remote and inaccessible areas. DIPP must ensure that adequate funds are made available on a timely basis to the nodal agencies. It should also be ensured that claims are paid by the nodal agencies promptly.
- DIPP may prepare a time-bound action plan to address deficiencies in the Transport Subsidy Scheme, including those pointed out by Audit for effective promotion of industrialization in hilly, remote and inaccessible areas of the country covered under this Scheme.

3.1 Transport Subsidy Scheme

The Government of India (GoI) introduced the Transport Subsidy Scheme in July 1971[1], with a view to promoting industrialization of hilly, remote and inaccessible areas. Under the scheme, transport subsidy is allowed to industrial units in selected areas, on movement of raw materials and finished goods to and from the designated railheads. The scheme was extended beyond 31 March 2008, till completion of the evaluation of the scheme.

The scheme is applicable to all industrial units (excluding plantations, refineries and power generating units) located in the North Eastern Region (Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Tripura and Sikkim), Jammu & Kashmir, Himachal Pradesh, eight hilly districts[2] of Uttarakhand, one district[3] of West Bengal, Andaman & Nicobar Islands, and Lakshadweep.

Currently, transport subsidy is payable at 90 *per cent* of the expenditure incurred on transportation of raw materials and finished goods from the designated rail heads/ ports to the industrial units and vice versa. The subsidy is also payable, under certain conditions, for transport cost on inter-State movement of raw materials and finished goods within the North Eastern Region, as well as for air freight for movement of electronic products/ components to and from Kolkata, and from Delhi to Srinagar/ Shimla and vice versa.

The subsidy is payable for a period of five years from the date of commencement of commercial production. Subsidy is also available for transportation cost of additional raw materials and finished goods as a result of substantial expansion or diversification[4] of an existing industrial unit, but is restricted to 50 *per cent* of the additional transport cost.

The scheme is administered by the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce & Industry. Each State Government/ UT Administration is required to set up a State Level Committee (SLC), to scrutinize and settle all claims of transport subsidy arising within the

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[1] Although the scheme was introduced in 1971, States/ UTs started claiming transport subsidy only from 1976 onwards.

[2] Almora, Chamoli, Dehradun, Nainital, Pauri Garhwal, Pithoragarh, Tehri Garhwal and Uttarkashi

[3] Darjeeling

[4] Substantial expansion refers to an increase in production by 25 *per cent* or more, while diversification refers to new articles constituting 25 *per cent* or more of the value of the approved licensed capacity.

State/ UT. The SLC consists of representatives of the State Industries and Finance Departments, as well as a nominee of the DIPP.

Funds are released to the nodal agency nominated by the State Government[5], which makes final payment of subsidy to the industrial units, after approval by the SLC. In the case of North Eastern Region, the North Eastern Development Finance Corporation (NEDFi) is the nodal agency for all eight States.

3.2 Expenditure on Transport Subsidy

During the period from 2002-03 to 2007-08, the Government of India (GoI) released Rs. 949.81 crore under the scheme to NEDFi and other nodal agencies; an amount of Rs. 996.95 crore was shown as disbursed to industrial units during the same period in the records of the Ministry/implementing agencies. The position of the year-wise release and reported disbursements was as follows:

Table 1 – Release and Disbursement of Transport Subsidy

(Rupees in crore)

Year	Opening Balance	Funds released	Funds disbursed	Closing Balance
2002-03	37.25	109.01	66.13	80.13
2003-04	80.13	17.2	63.58	33.75
2004-05	33.75	70.19[6]	75.32	28.62
2005-06	28.62	97.1	71.70	54.02
2006-07	54.02	37.02	97.18	-6.14
2007-08	-6.14	619.29	58.43	554.72
2008-09	554.72	-	564.61	-9.89
Total		**949.81**	**996.95**	

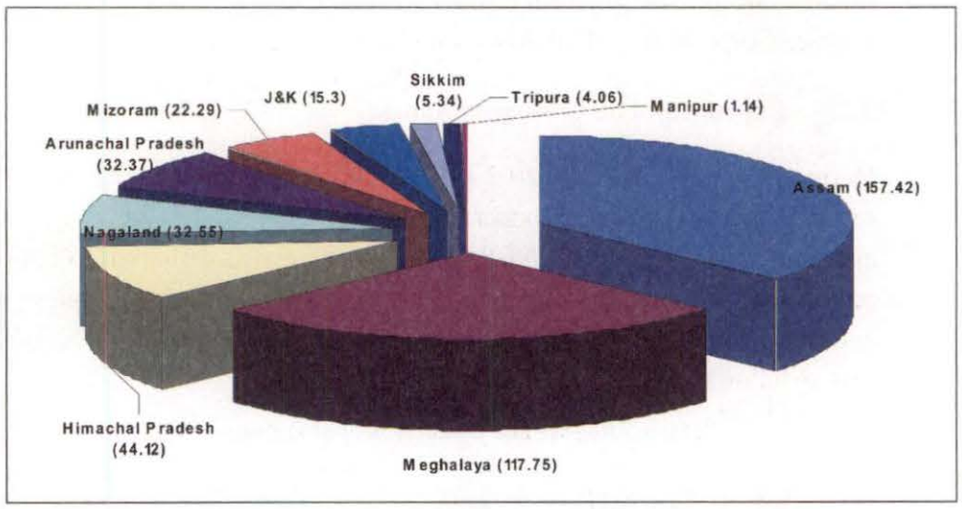
During 2008-09, the Ministry made no releases, but the nodal agencies reportedly made disbursements of Rs. 564.61 crore out of the closing balance of funds of 2007-08, which was only Rs. 554.72 crore. The difference of Rs. 9.89 crore between the disbursements during 2008-09 and the closing balance as of March 2008 was due to lack of reconciliation between the Ministry and the nodal agencies.

[5] In respect of units located in A&N Islands, Lakshadweep and Darjeeling, no nodal agency is involved, and funds are released directly by the Ministry to the Directorate of Industries.
[6] Rs. 4.42 crore pertaining to Uttarakhand was refunded to GoI.

A State-wise profile of reported disbursements during 2002-08 is given below:

State-wise Disbursements during 2002-08

(Rupees in crore)



Details of State-wise releases and disbursements are given in **Annexure-V**.

3.3 Objectives, Scope and Methodology of Current Audit

3.3.1 Request for Audit

An audit of the transport subsidy scheme was carried out earlier and reported in paragraph 1.1 of the CAG's Audit Report No. 2 of 2001 (Civil). In September 2008, the GoI requested the CAG of India to conduct a performance audit of the Transport Subsidy Scheme, in the light of a suggestion made by the Planning Commission in this regard.

Consequent to this request, a limited scope audit of the scheme, which was already being undertaken by the CAG to verify the accuracy and genuineness of transport subsidy claims, was expanded to include a review of the processes and testing of adequacy of internal controls to check possible leakages, and misuse of subsidy disbursed. The scope of Performance Audit did not, however, include an assessment of the ultimate impact of the Transport Subsidy Scheme in terms of increased industrialization in the hilly, remote and inaccessible areas targeted under the Scheme, due to the multiplicity of tax and non-tax incentives for industrial development in such regions and the difficulty involved in identifying separately the impact of transport subsidy.

The performance audit, which was carried out between July and November 2008, covered the implementation of the scheme in six selected States (Assam, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Meghalaya, and Nagaland) through test check of 118 cases of payment between 2002-03 and 2007-08.[7]

3.3.2 Audit Objectives and Criteria

The objectives of the Performance Audit were to verify whether there were adequate and effective controls for:

- Ensuring pre-registration of the industrial units and for verifying the authenticity of existence of the units claiming disbursement of transport subsidy;
- Periodic monitoring/ inspection of the claiming units, and for the receipt of information regarding movement of raw materials and finished goods from the units;
- Ensuring the authenticity and genuineness of the transport subsidy claims; and Ensuring that the claims were properly scrutinized and accurately paid in compliance with the provisions of the scheme;

The criteria for the performance audit were derived from the notifications of the scheme and amendments thereto, and instructions/ communications from the GoI to State Governments/ UTs for administering the scheme.

3.4 Audit Methodology

An entry conference was held with the DIPP in November 2008, where the broad audit scope and objectives were explained by Audit, and the Department made a presentation on the salient features of the scheme.

Field audit of the implementation of the scheme in the six selected States through examination of records in the State Government Departments, District Industries Centers (DICs), nodal agencies etc. and cross verification with records of the Sales Tax, Central Excise and Vehicle Licensing Departments was carried out between July and November 2008.

[7] Although the test checked payments were made between 2002-03 and 2007-08, many of the claims pertain to periods prior to 2002-03; the delay in payment of claims has been highlighted in paragraph.

An exit conference was held with the DIPP in February 2009, where the main audit findings were presented and discussed.

The audit findings were reported to the Ministry in March 2009; the Ministry's responses on these findings were received between May 2009 and October 2009, which have been incorporated, as appropriate, in this report.

Audit acknowledges the co-operation and assistance extended by the Department of Industrial Policy and Promotion, Ministry of Commerce & Industry as well as the State Governments and their agencies during the conduct of the audit.

3.4 Audit Findings

3.4.1 Pre-registration and periodic monitoring & inspection

3.4.1.1 Scheme Guidelines

According to the scheme guidelines of 1971, the Directorates of Industries of the States and UTs concerned were to lay down a system of pre-registration of industrial units which were eligible for transport subsidy. At the time of registration, the Directors of Industries would fix and indicate the capacity of such units. They would also lay down procedures to ensure regular inflow of information regarding the movement of raw material and finished goods to and from the industrial units. They should also lay down that statistics of production and utilization of raw materials should be maintained and kept open for inspection on request by the Directorate of Industries.

Further, in order to check any misuse of transport subsidy, the Directorates would carry out periodical checks to ensure that the raw materials and finished goods in respect of which transport subsidy had been given were actually used for the purpose by a system of scrutinising the raw materials and the output of the finished goods.

In November 1991, DIPP further clarified that before an intending entrepreneur applied for transport subsidy, he should be asked to apply for a registration under the Scheme. It was to be ensured that only claims relating to the period after the date of registration were to be entertained. However, if there were sufficient reasons for entertaining a claim relating to the pre-registration period, the matter could be placed before the SLC for granting waiver of the requirement of registration. Further, the States/UTs were advised to give wide publicity to the requirement of pre-registration so that the entrepreneur became aware of this requirement. Audit examination disclosed

that the above provisions of the scheme guidelines were not adhered to in many cases as discussed below:

3.4.1.2 Pre-registration

Audit scrutiny revealed that in the case of Arunachal Pradesh, the SLC had granted waiver of the requirement of pre-registration in 12 cases (amounting to Rs. 9.86 crore of subsidy) on general grounds like procedural lapse, lack of awareness about the procedure of the Scheme, pending court cases, backwardness of the States and illiteracy of the entrepreneur etc. Similarly in Meghalaya, after being pointed out in Audit, SLC granted (August 2009) ex-post facto waiver of the requirement of pre-registration to four units on the grounds that the units were not aware of the pre-requisite of registration and paid subsidy of Rs. 1.75 crore between January 2003 and May 2006.
In audit's view, the exercise of discretion by the SLC has to be based on clear, transparent, and laid-down norms, and not an ad hoc basis.

3.4.1.3 Monitoring and Inspection

Audit scrutiny also revealed significant deficiencies in the processes for periodic monitoring and inspection of units by the Directorate of Industries of States/UTs and receipt of regular information regarding movement of raw materials/ finished goods etc., as summarized below:

Procedures for ensuring regular inflow of information regarding movement of raw materials and finished goods had not been laid down by the Directorate of Industries in the States of Arunachal Pradesh and Meghalaya.

In Assam, Jammu & Kashmir, Himachal Pradesh and Nagaland, there was no system of periodic inspection of the units and checking of raw materials and finished goods, which would have provided additional assurance on authenticity.

In audit's opinion, lack of pre-registration of units and ineffective monitoring and inspection of units, and non-receipt of regular information regarding movement of finished goods and raw materials significantly weakened the controls associated with the scheme, and increased the potential risk of fictitious and ineligible claims.

3.4.1.4 Ministry's Response

In response to audit's recommendation that DIPP should ensure that the State Governments immediately stipulate procedures for regular inflow of

information regarding movement of raw materials and finished goods, and also institute a system of periodic inspection of units, with periodic reports to DIPP, the Ministry stated that the State Governments had been asked to stipulate such procedures and institute a system of periodical inspections, failing which the payment of transport subsidy in respect of the units in the respective States was liable to be withheld.

Recommendations :

- **To minimize the potential risk of fictitious and ineligible claims DIPP must initiate concrete action immediately to ensure that the State Governments fully implement procedures for regular inflow of information regarding actual movement of raw materials and finished goods and periodic inspection of units, and take punitive action in appropriate cases.**
- **The delegation of power to grant waiver in cases of lack of pre-registration may be reviewed immediately. Such powers may be exercised by the DIPP rather than being delegated to SLCs.**

3.4.2 Cross-verification of subsidy claims with records of other Departments

In the absence of effective procedures for pre-registration of units, periodic monitoring and inspection, and regular inflow of information regarding movement of raw materials and finished goods, audit conducted cross-check of the details recorded in the subsidy claims with reference to corresponding records with other agencies such as:

Vehicle Licensing Department (to verify the authenticity of the vehicle numbers quoted in the claim);

State Excise and Taxation Department barriers/ check gates (to verify records of movement of trucks through the barriers); and

Sales Tax and Central Excise Departmental records (to verify records of import/ export of raw materials and finished goods reported by the units to these Departments)

Our cross-verification revealed several cases of payment of suspected fictitious and doubtful claims for transport subsidy amounting to Rs. 6.32 crore, as summarized below.

3.4.2.1 Nagaland

Audit scrutiny revealed that Rs. 5.56 crore was paid between 2002-07 to nine industrial units, though no raw material/finished goods were imported or exported as per the records of the Sales Tax Department.

3.4.2.2 Himachal Pradesh

Audit scrutiny revealed the following:

In the case of five industrial units, payment of Rs. 21.09 lakh was claimed for transportation of material by trucks at Nahan, Kullu and Mandi. However, on verification by Audit with the Vehi cle Licencing Authority, the vehicle numbers were found to be registered as two-wheeler and light motor vehicles. Further, in one case, the ST-XXVI-A form numbers [8], indicated on record as proof of transportation of goods through the barriers, were found issued to another firm, as per the records of the Assistant Excise & Taxation Commissioner (AETC) , Nahan, and in three other cases, the form numbers indicated on the claim documents were not available in the concerned AETC Offices. Thus, the subsidy payment was evidently allowed on fictitious claims.

The Ministry stated (July 2009) that the General Managers (GMs) of the concerned District Industries Centres were cross checking the documents with the licensing authority to arrive at the amount involved in each case so as to work out interest on the amount @ 15 *per cent* before initiating recovery of the amount. An amount of Rs. 3.26 lakh had already been recovered from one unit, and a recovery notice for an amount of Rs. 22.39 lakh had also been served on the unit.

Transport subsidy of Rs. 16.57 lakh was irregularly paid to two units in Kullu and Mandi, without obtaining the ST-XXVI-A forms; these forms were also not available in the office of AETC, Kullu, for the purpose of Sales Tax assessment. In another case, transport subsidy of Rs. 29.56 lakh was paid to a unit in Paonta Saheb on the basis of ST-XXVI-A forms, which did not tally with the records of barriers maintained in the office of AETC, Nahan.

The Ministry stated (July 2009) that documents were being cross-checked for working out interest on the amount to be recovered.

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[8] ST-XXVI-A forms are issued at the barriers by the Excise & Taxation Department as proof of transportation of material by the units concerned.

3.4.2.3 Meghalaya

Audit scrutiny revealed that transport subsidy of Rs. 9.06 lakh paid in December, 2003 to a unit for the period March-September 2002 was doubtful, as an enquiry conducted by Central Excise Department revealed that 80 *per cent* of transportation of finished products for the period May 2002 – June 2004 was not found genuine and a case had been registered against the industrial unit for evasion of central excise duty. However, no enquiry was conducted by the State Industries Department, and the records thereof were also not produced to Audit.

Recommendation :

- **To ensure the authenticity and genuineness of claims, DIPP may put in place a system to provide for conduct of cross verification of subsidy claims by State Level Committees with records of other Departments (Sales Tax, Vehicle Licensing, and State Excise and Taxation Departments) before approving claims for reimbursement.**

3.4.3 Submission and Validity of Claims

3.4.3.1 Guidelines

As per DIPP's circular of 4 May, 1993, claims for transport subsidy are to be submitted quarterly, and no claims should be entertained beyond one year of the date of incurring expenditure on transportation. Further, as per DIPP's notification of 28 July 1993, subsidy is admissible only for five years from the date of commencement of commercial production by an industrial unit. Following cases of deviation from the above guidelines were noticed.

3.4.3.2 Payment for claims submitted after one year

Audit scrutiny revealed the following cases of payment for claims which were submitted after the stipulated period of one year:

In Arunachal Pradesh, subsidy of Rs. 1.86 crore was paid by NEDFi between December 2003 and May 2006 to eight industrial units who submitted their claim after expiry of the stipulated period of one year.

In Nagaland, test check of records revealed that no industrial unit submitted its claims quarterly and the Government accepted claims from five industrial units, more than two to five years old after the date of incurring expenditure.

3.4.3.3 Payment for periods beyond five years of commencement of commercial production

Audit scrutiny also revealed cases of payment beyond five years of commencement of commercial production[9], which are discussed below:

In Arunachal Pradesh, the date of commencement of commercial production of a unit was 22 January, 1991, and the unit was thus eligible for subsidy up to 21 January, 1996. However, out of the total payment of Rs. 1.26 crore for the period from October 1992 to October 1996, subsidy amounting to Rs. 15.86 lakh for the period after 21 January 1996 was not admissible.

In Nagaland, in case of a unit at Dimapur, the date of commercial production was 18 February 1993, and hence the subsidy was admissible only up to 17 February 1998. Out of the claim for the period from 1 April 1993 to 31 March 1998, subsidy of Rs. 2.98 lakh paid in October 2006 for the period from 18 February 98 to 31 March 1998 was not admissible.

3.4.3.4 Payment for period prior to date of commencement of commercial production

Audit scrutiny revealed that in Nagaland, out of a payment of Rs. 76.25 lakh to a unit, Rs. 61.96 lakh released between June 2001 to August 2007 pertained to the period from April 2000 to April 2001, which was prior to the date of commencement of commercial production of 1 May 2001 indicated in the registration certificate, and was evidently an inadmissible payment.

3.4.4 Improper documentation, inadmissible and irregular payments

3.4.4.1 Guidelines

According to the 1971 scheme guidelines,

The Directorate of Industries of the State/ UT was required to draw up procedures and arrangements for scrutiny and prompt payment of claims. Further, DIPP would continuously review the arrangements made by the Directorate of Industries and suggest modifications, if necessary, in the procedure for scrutinizing the claims, payment of transport subsidy etc.

The State Government/ UT Administration would set up a State Level Committee (SLC) consisting of the Director of Industries, a representative

[9] Although the claims pertained to periods upto 1998, they were paid only during the period 2002-03 to 2007-08.

each of the State Industries Department and the State Finance Department, and a representative of DIPP. The SLC would scrutinize and settle all claims of transport subsidy arising in the State/ UT.

The claimants were to be asked to provide proof of raw materials imported into, and finished goods exported out of the State/UT from registered Chartered Accountants. From February 1974, this requirement was waived where the capital investment was Rs. 1 lakh or less and verification may be done by the appropriate State Government authorities.

The SLC may also lay down the production of any other document, which, in their opinion, was necessary to decide the eligibility of the claimant for transport subsidy.

As regards the admissibility of claims, in addition to payment of 90 *per cent* of the transport costs on raw materials and finished goods to the industrial units and vice versa, subsidy would also be available under the following conditions:

90 *per cent* and 50 *per cent* of the transport cost for inter-State movement of raw materials and finished goods respectively within the North Eastern Region (NER);

- 75 *per cent* of the air freight for movement of electronic components / products by air to and from Kolkata, and thereafter 90 per cent for movement by rail/road upto the location of industrial unit and vice versa;
- 75 *per cent* of the air freight for movement of electronic components / products by air to and from Delhi to Srinagar and vice versa, and thereafter 90 *per cent* for movement by rail/road upto the location of industrial unit and vice versa; and
- 75 *per cent* of the air freight for movement of electronic components / products by air to and from Delhi to Shimla and vice versa; in case of movement of goods moving partly by air and partly by rail/road, transport subsidy would be admissible @ 75 *per cent* on the air freight from Delhi to Shimla and thereafter also 75 *per cent* for movement by road/ train, upto the location of Industrial unit.

3.4.4.2 Insufficient documentation in support of subsidy claims

In order to ascertain the extent of checks exercised at different levels by the implementing and monitoring agencies regarding the correctness and genuineness of the subsidy claims; compliance to some of the aspects regarding documentation, collateral evidence, timeliness of the claims, and transportation by other modes etc. were checked on sample basis in the States. The main findings of the sample check are summarised in Table 2 below.

Table 2: Insufficient Documentation in Support of Subsidy Claims

Deficiencies in documentation	Brief Description
Sales Tax/ VAT assessment not available	Out of 120 test-checked cases, the SLC had passed claims worth Rs. 61.78 crore without availability of State Sales Tax/ VAT assessments (which would have provided corroborating evidence of the size of the operations of the unit) in 67 cases (55 per cent) (Arunachal Pradesh – 10, Assam – 27, Himachal Pradesh – 2, Jammu & Kashmir – 6, Meghalaya – 13, and Nagaland – 9).
Other supporting documents not available	Out of 79 test-checked cases, claims for Rs. 147.86 crore were passed without other supporting documents (Bank certificates, indemnity bonds, NOC from State Sales Tax Department) in 77 cases (97 *per cent*) (Arunachal Pradesh – 10, Assam – 45, Meghalaya – 15, and Nagaland – 7). Further, transport subsidy of Rs. 17.08 crore was paid to 25 units in Himachal Pradesh, in respect of which annual accounts had not been obtained.
No proof of adjustment of outstanding dues of Government/ Financial Institutions	Out of 95 test-checked cases, no proof of adjustment of outstanding dues of Government/ Financial Institutions was available in 64 cases (66 *per cent*) (Arunachal Pradesh – 3, Assam – 37, Jammu & Kashmir – 11, Meghalaya – 7, and Nagaland – 6), wherein transport subsidy of Rs. 135.27 crore was paid.
Claims not submitted in prescribed proforma	Out of 86 test-checked cases, 26 claims (31 *per cent*) for Rs. 17.92 crore were not submitted in the proforma prescribed by DIPP (Assam – 9, Himachal Pradesh -1, and Jammu & Kashmir – 16).
Vehicle numbers not indicated	Out of 54 test-checked cases, the registration number of vehicles through which material was transported was not available in 11 cases (20 *per cent*) (Assam – 5 and Nagaland - 6). A subsidy of Rs. 5.33 crore was paid in these 11 cases.
Cost of Loading/ Unloading and Handling Charges not excluded	Out of 69 test-checked cases, the guidelines regarding exclusion of the cost of loading/ unloading and other handling charges were not adhered to in 17 cases (25 cent) (Assam – 3, Meghalaya – 5, and Nagaland – 9).

3.4.4.3 Non-compliance with Scheme Guidelines and Inadmissible Payments

Audit scrutiny revealed several cases of payment of subsidy claims, which were not in compliance with the scheme guidelines and instructions. Such cases of irregular/ inadmissible payment of transport subsidy have been summarized below under different categories.

3.4.4.3.Payment in respect of non-manufacturing activities, illegal wood-based activities, inadmissible raw materials, by-products, intermediates etc.

Other major conditions governing eligibility for subsidy are as follows:

Subsidy is payable only in respect of manufacturing activities, and not for by-products;

Subsidy is not payable to flour mills, if they have procured wheat from the Food Corporation of India;

Subsidy is payable only to those wood based units, which fulfill the conditions laid down in the Supreme Court's order of December 1996, according to which non-forest activities (e.g. running of saw mills) in forest areas without the prior approval of GoI is prohibited.

Subsidy is not payable for movement of finished goods within the State (except for inter-State movement of finished goods within the North Eastern Region);

Subsidy is not payable for transportation of raw material and finished goods in the industrial unit's own vehicles; and

Cost of loading/ unloading and other handling charges would not be taken into consideration for determining transport costs.

Freight charges for movement by road would be determined on the basis of transport rates fixed by the Government of the State/ UT concerned or actual freight paid, whichever was lower.

Audit scrutiny revealed several instances, where payment of transport subsidy was made for non-manufacturing activities, wood-based units acting in violation of the Forest Conservation Act and the Supreme Court's order; as

well as transportation of raw materials, by-products and intermediates not falling within the purview of the scheme guidelines, as summarized below:

In Arunachal Pradesh, two saw mills at Chowkham and Miao were engaged in illegal wood based industries within the forest land and were penalized for violation of the Forest Conservation Act, 1980 by the High Powered Committee set up by the Hon. Supreme court. These were ineligible for transport subsidy; nevertheless, subsidy of Rs. 1.50 crore between February 2004 and February 2008 was paid to these industries by NEDFi, on approval of the SLC.

As per DIPP's orders of March 1988, transport subsidy was not be admissible on Calcined Petroleum Coke (CPC), which was a product of refineries. However, two industrial units in Assam were given subsidy of Rs. 7.38 crore during 2002 to 2009 for transportation of CPC from the factories of the units to outside the NER, which was not admissible.

An amount of Rs. 34 lakh was released to an industrial unit in Assam for transportation of alcohol, spirit etc., as raw material and India Made Foreign Liquor (IMFL) as finished products between June 2005 and April 2008. The subsidy for the items was not permissible, as there were no specific orders of Government of India regarding admissibility for this activity.

3.4.4.3.2 Inadmissible Payments

Audit scrutiny revealed several cases of inadmissible payments, as summarized below:

In Arunachal Pradesh, transport subsidy of Rs. 44.56 lakh for the period September 1993 to March 1995 was paid in June 2006 to an industrial unit for transportation of finished products from the industrial unit to different destinations outside NER. Scrutiny revealed that the cost of transportation was based on the agreement between the unit and the consigner/ purchaser that initially the consigner would pay the cost of transportation, which would be finally borne by the industrial unit. However, the transport subsidy claim was allowed without any documentary evidence like records of book adjustment or refund of freights paid by the unit. Similarly, in another case, transport subsidy of Rs. 29.88 lakh for the period September 1992 to January 1995 was paid during January 2006 for transportation of sawn timber from the factory site to the nearest railway station for onward transportation by rail to 227 firms/ individuals outside the NER. However, the railway receipts (RRs) submitted along with the claim indicated that the goods were transported

through rail on "freight to pay basis", and the freight charges were paid by the consignee and not by the industrial unit. Hence, as no expenditure was incurred by the industrial unit, the reimbursement was not admissible.

As per the manufacturing capacity recorded in the registration certificates of two[10] industrial units in Arunachal Pradesh, only 1193.20 MT of raw materials could have been utilized during the period April 2001 to March 2003, with eligible transport subsidy of Rs. 8.12 lakh. However, subsidy of Rs. 17.62 lakh for import of 2226.616 MT of raw material was paid between April 2006 and August 2007, resulting in inadmissible subsidy of Rs. 9.50 lakh.

As per DIPP's circulars of March 1987 and May 1988, transport subsidy would be available for inter-State movement of finished goods within the NER, but subsidy would be admissible only at 50 *per cent* of the transport cost on movement of goods from the location of the industrial unit to the nearest railway station by road & thereafter by rail and vice versa. However, the claims submitted by two[11] industrial units in Assam between 2002-03 and 2007-08 revealed that subsidy on movement of finished goods within the NER was allowed between June 2004 and April 2008, without limiting the same to 50 *per cent* of transport cost; this resulted in excess payment of subsidy of Rs. 97.67 lakh.

Transport Subsidy was not permissible on transportation of raw material/finished goods by vehicles owned by an industrial unit. However, in Jammu & Kashmir audit revealed that a quantity of 109670.50 quintals of raw material was transported between April 1998 and September 2002 by private vehicles. The Directorate of Industries and Commerce deducted only 9068.70 quintals from the claim, resulting in inadmissible payment of Rs. 14.08 lakh on 15 June 2004.

Transport subsidy would cover only inter-State movement of finished goods within the NER. However, transport subsidy of Rs. 3.51 lakh was irregularly paid to two industrial units in Nagaland for movement of finished goods within the State.

In Nagaland, a unit at Dimapur submitted a subsidy claim for transportation costs of Rs. 29. 40 lakh for 51110 quintals of raw materials during 1990-91 to 1994-95. The eligible transport subsidy @ 90 *per cent* of the transportation

[10] M/s Lida Steel Fabrication, Daporji and M/s Taba Engineering, Naharlagun.
[11] M/s Barak Valley Cements Ltd., Badarpur and M/s Balaji Cement, Jorhat

cost was Rs. 25.63 lakh. However, the amount of subsidy paid in October 2006 was Rs. 27. 26 lakh, resulting in excess payment of Rs. 1.63 lakh.

A Chartered Accountant's Certificate is required as proof of raw material/finished goods transported, if the capital investment is more than Rs. 1.00 lakh. However, transport subsidy of Rs. 86.68 lakh was paid in August 2006 to three units in Nagaland, which submitted neither a Chartered Accountant's Certificate nor Balance Sheet and manufacturing accounts, although their capital investment were more than Rs. 1 lakh.

The above cases indicate that the admissibility of subsidy payments were not properly verified by the paying authorities in states indicating weak payment controls.

3.4.4.4 Incorrect determination of freight rates

Audit scrutiny revealed several cases of incorrect determination of freight rates, leading to excess payments, as summarized below:

In Himachal Pradesh, as per guidelines of the scheme, the freight charges for transportation of material by road were to be determined on the basis of rates fixed by the State Government from time to time, or the actual freight paid, whichever was less. However, excess subsidy payment of Rs. 2.15 lakh was made to a unit to Kala Amb, by not limiting the same to the actual freight paid. Similarly, excess subsidy of Rs. 1.82 lakh was paid in to a unit in Shamsi (Kullu), by allowing rates higher than those fixed by the State Transport Department. Excess payment of Rs. 2.15 lakh was recovered, after being pointed out by Audit.

The SLC in Jammu & Kashmir had approved rates of Rs. 73.45 and Rs. 81 per quintal of raw material & finished goods transported by truck from designated rail head to the location of an Industrial unit in Budgam and vice versa. However, the industrial unit was allowed transportation charges at the rate of Rs. 218.18 per quintal on 19337.15 quintals of finished goods, resulting in excess payment of subsidy of Rs. 24.35 lakh in June 2004 for the period from July 2000 to March 2003.

Transport subsidy of Rs. 72.74 lakh was paid to four units for transportation of raw material from outside Jammu & Kashmir, without restricting the fare to rail freight up to the designated rail heads (Kathua and Jammu). The Department allowed transportation at varying rates of Rs. 15.15 per quintal and Rs. 25 per quintal between Pathankot and Kathua (26.5 kms) and Jammu

to Udhampur (66 Kms) respectively, which were not fixed by the State Transport Authority of the Government. The criteria for allowing the claims at rates allowed were not intimated/ on record. In response, the DIC stated (December 2008) that the rates were fixed by the State Level Committee (SLC). However, the SLC was not authorized to fix these rates, which should have been fixed by the State Transport Authority.

3.4.4.5 Payment of transport subsidy without checking of claims

Transport Subsidy of Rs. 1.40 lakh was paid during 2006-07 to an industrial unit[12] in Assam for transportation of wheat to a flour mill on the basis of fictitious vehicle numbers pertaining to two wheeler and light motor vehicles.

After being pointed out in Audit (January 2009), the Directorate of Industries[13], Assam stated that there was a mistake in recording correct vehicle numbers. However, the facts remains that claims were processed and passed for payment on the basis of fictitious vehicle numbers which indicates that adequate checks were not being exercised by the competent authority.

3.4.4.6 Ministry's Response

In response to audit's recommendation that DIPP should ensure that NEDFi, being the nodal agency for NER, actually conducts scrutiny of 10 *per cent* of the claims, not only with reference to documents but also with reports of physical inspection of units and checking of movement of raw materials and finished goods (to ascertain the genuineness of the claims) and provide periodic reports to DIPP with regard to the results of such inspections and examination, the Ministry stated that the concerned nodal agencies had been requested to carry out such scrutiny of claims and provide periodic reports to DIPP.

In response to audit's recommendation to DIPP for examination and recovery of overpayment and irregular payment in the cases highlighted by audit, the Ministry stated that State Governments had been directed, as advised, to enquire thoroughly into the reasons for irregular approval of claims and also to initiate criminal/legal action against the erring units, besides effecting immediate recovery of subsidy from such units, and fix responsibility and take appropriate action against the officials concerned.

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[12] Shri Vinayak Flour Mills

[13] Additional Director of the Directorate of Industries

The Ministry, further, stated that NEDFi had been asked to withhold payment of subsidy in respect of all cases where irregularities had been detected by the CAG, and subsidy in these cases would be released only after the audit objections were dropped by CAG. Audit notes that the Ministry was complying with this assurance.

In response to audit's recommendation that DIPP may consider initiating action for developing a web-based Management Information System for ensuring transparency by providing full unit-wise details of all payments of transport subsidy and make the nodal agencies for ensuring prompt uploading of payment data, the Ministry stated that all nodal agencies would be requested to upload details of subsidy released by them within 30 days of release.

Recommendations:

- **DIPP needs to ensure that the nodal agencies actually conduct scrutiny of 10 *per cent* of the claims, not only with reference to documents but also with reports of physical inspection of units and checking of movement of raw materials and finished goods, and take necessary action against defaulting nodal agencies in cases of non-compliance. Also, the method of selection of 10 *per cent* of claims for physical inspection and checking needs to be laid down, to minimize arbitrariness and excessive discretion in excluding/ including units.**
- **DIPP should develop a web-based MIS, which would make details of unit-wise subsidy releases transparently available to the public at large, and also ensure that all nodal agencies promptly upload details of subsidy released by them onto this web-based MIS. In the absence of such an MIS with public access, reporting of release data by nodal agencies would only serve a limited purpose.**

3.4.5 Delay in Payment of Claims

According to the 1971 scheme guidelines, the Directorate of Industries of the State and Union Territory concerned had to draw up procedures and arrangements not only for scrutinizing the claims but also arrange for prompt payment of the claims. The claims were to be settled by the concerned nodal agencies within three months of receipt of the claims/recommendations from SLC/DLC. Audit scrutiny revealed numerous instances of delay in payment of transport subsidy in almost all the selected States:

In Arunachal Pradesh, 15 units received transport subsidy of Rs. 10.79 crore after a delay of 8 to 12 years.

In Assam, transport subsidy of Rs. 17.96 crore in 108 cases was paid after a delay of 5 to 12 years.

In Jammu & Kashmir, there were delays in scrutiny of claims at the District Industries Centers and Directorate of Industries ranging from 49 to 69 months and 2 to 17 months, respectively, resulting in delay of 83 months and 19 months in disbursement of funds.

In Meghalaya, transport subsidy of Rs. 32.58 lakh was paid to three units after a delay of four to five years.

In Nagaland, in nine cases, payment of subsidy was delayed by three to twelve years.

In most cases, the delay was attributed by the States to delayed receipt of GoI funds. However, the position of release and disbursement of GoI funds indicated in Table - 1 under paragraph 2 reveals that, except for 2006-07, the closing balance of unutilized funds with the concerned nodal agencies between 2002-03 and 2007-08 ranged from Rs. 28.62 crore to Rs. 554.72 crore. Clearly, the nodal agencies could have, at least partially, minimized the delay in payment of outstanding claims by utilizing available funds.

Recommendation:

- **Delayed payment of transport subsidy by several years adversely affects the achievement of the main objective of the scheme of promoting industrialization in hilly, remote and inaccessible areas. DIPP must ensure that adequate funds are made available on a timely basis to the nodal agencies. It should also be ensured that claims are paid by the nodal agencies promptly.**

3.5 Follow-up on Previous Audit Findings

An audit of the scheme was earlier carried out and reported in paragraph 1.1 of the CAG's Audit Report No. 2 of 2001 (Civil). Audit had found cases of questionable payment of transport subsidy of Rs. 177.68 crore; in States like Assam and Arunachal Pradesh, these questionable claims constituted 73 to 83 *per cent* of the total expenditure. Further, the claims of industrial units were admitted without verifying the relevant documents and District/ State Level Committee meetings were held at unduly long intervals, leading to numerous legal cases. Consequently, audit had recommended that there was a strong case for immediate review and closure of the scheme.

The follow-up action reported by the Ministry on the previous audit findings is summarized below:

Nature of irregularity reported	Action taken by the Department
Payment of Rs. 31.05 crore beyond prescribed period of five years from date of commercial production	The Department stated (July 2009) that: The case of M/s Associated Cement Manufacturing Company for recovery of Rs. 30.22 crore was pending with the Supreme Court. Recoveries were not made from M/s JR Brother Offset Printer and Paper Works, Mizoram (0.09 crore) and M/s Mullum Saw Mills, Meghalaya (0.01 crore). Subsidy of Rs. 1.01 lakh paid to M/s J R Brothers prior to 17 March 1993 was recovered from him. Also, an amount of Rs. 1 lakh was rightly paid to M/s Mullum Saw Mills, Meghalaya and intimated to the monitoring cell on 23 December 2002, and no further directions were received.
Payment of Rs. 11.70 crore to 60 industrial units in violation of the Forest Conservation Act	The Department stated (July 2009) that out of 60 units, four units of Nagaland were under consideration for remedial action, for violating the Forest Conservation Act.
Irregular, inadmissible and excess payment cases amounting to Rs. 8.21 crore	The Department stated (July 2009) that: • Recovery of Rs. 3.25 crore was still pending from the industrial units pertaining to the States of Tripura, Assam, Meghalaya and Mizoram. • For irregular payment of Rs.3.47 crores to an industrial unit in Mizoram, the PAC was requested for condoning the same, but the case was still pending, and the issue had not yet been finalized.
Direct payment of Rs. 85.13 crore by Ministry to industrial units and disbursing authorities without any scrutiny.	Outstanding Utilisation Certificates (UCs) amounting to Rs. 49.28 crore had been received, and reconciliation statement in respect of the advance payment of Rs. 35.40 crore had been furnished by Assam Industrial Development Corporation.
Advance payment of subsidy of Rs. 37.35 crore	UCs for Rs. 3.08 crore were still pending from the Governments of Assam and Arunachal Pradesh.
Payment of Rs. 2.03 crore without approval of competent authority	The Department stated that the payment was made with the approval of AS&FA; there was a procedural lapse, as the competent authority was Secretary (DIPP).
Payment of time-barred claims of Rs. 2.21 crore	The Department stated (July 2009) that the Government of Mizoram and Arunachal Pradesh were asked to recover the amount. However, no replies had been received from the State Governments.

As can be seen from the above, follow up action on the previous Audit Report had still not been completed, even after eight years of submission of the Report to the Parliament.

3.6 Ministry's Response to Audit Recommendations

The findings of the audit were pointed out to the Ministry in March 2009. In its general response (May 2009), the Ministry accepted most of the recommendations made by Audit; their responses to the individual audit findings have been incorporated, as appropriate, under the relevant sections.

The Ministry also indicated that the scheme was also proposed to be evaluated by an independent consultant to suggest necessary safeguards to prevent possible leakages and misuse, if any. Some of the suggestions in the Performance Audit Report were proposed to be implemented, along with the recommendations/ suggestions to be made in the evaluation report, based on which a revised scheme would be placed before the Cabinet Committee on Economic Affairs for approval.

Recommendation :

- **DIPP may prepare a time-bound action plan to address deficiencies in the Transport Subsidy Scheme, including those pointed out by Audit for effective promotion of industrialization in hilly, remote and inaccessible areas of the country covered under this Scheme.**

3.7 Conclusion

The Government of India introduced the Transport Subsidy Scheme almost four decades ago to promote industrialization of hilly, remote and inaccessible areas. Despite issue of detailed guidelines and instructions from time to time by the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, the performance audit revealed significant irregularities and systemic deficiencies in the implementation of the scheme. Procedures for pre-registration of units (before claiming transport subsidy) and periodic monitoring and physical inspection of units as well as movement of raw materials and finished goods were highly deficient, and failed to provide adequate assurance as to the authenticity and correctness of subsidy claims which had been paid. Such lack of assurance was evidenced by the numerous cases of irregular payments detected by audit, which covered payments for time-barred claims, inadequate documentation in support of the claims, and

inadmissible/ irregular payments. Such systemic deficiencies and irregularities were also confirmed during cross-verification of details of subsidy claims with the records of other Departments (Vehicle Licensing, State Excise and Taxation, Sales Tax and Central Excise Departments).

While the Ministry has accepted most of the recommendations made by audit and indicated that necessary directions had been issued to the State Governments and nodal agencies, it is the Ministry's responsibility to ensure and verify actual compliance by the implementing agencies with these directions. This is particularly in view of the inadequate follow up action on the previous Audit Report on this scheme, even after eight years. The Ministry's active monitoring to ensure compliance is necessary to minimize leakages and irregularities in payment of transport subsidy and ensure the scheme's larger objective of promoting industrialization in hilly, remote and inaccessible areas.

New Delhi
Dated: 28.04. 2010

(A.K. PATNAIK)
Director General of Audit
Central Expenditure

Countersigned

New Delhi
Dated: 28.04. 2010

(VINOD RAI)
Comptroller and Auditor General of India

Annexure-V

(Refers to paragraph 3.2)

Statement showing State-wise release and disbursement of funds

(Rupees in crore)

Name of the State	Year	Fund released	Fund disbursed
Arunachal Pradesh	2002-07	*	26.79
	2007-08	37.01	5.58
Assam	2002-07	*	122.87
	2007-08	298.86	34.55
Manipur	2006-07	*	1.14
	2007-08	2.93	NIL
Meghalaya	2002-07	*	105.81
	2007-08	166.84	11.94
Mizoram	2002-07	*	22.29
	2007-08	25.95	NIL
Nagaland	2002-07	*	30.37
	2007-08	55.45	2.18
Sikkim	2005-07	*	3.22
	2007-08	2	2.12
Tripura	2002-07	*	3.66
	2007-08	6.6	0.40
Jammu & Kashmir	2002-08	25.01	15.3

Name of the State	Year	Fund released	Fund disbursed
Himachal Pradesh	2002-08	58.22	44.12
Andaman & Nicobar Islands	2002-08	1.02	NA
West Bengal, Darjeeling district	2002-08	0.72	NA

Note:

** State-wise release of fund is not available for 2002-07, since funds were released in lump sum to North East Development Finance Corporation (NEDFi), which has been designated as the nodal agency for disbursement of subsidy in entire NER. The funds released to NEDFi for the NER (including Sikkim) during 2002-07 are given below:*

(Rupees in crore)

2002-03	94.98
2003-04	2.24
2004-05	54.00
2005-06	92.46
2006-07	25.52

However, during 2007-08, funds were released to NEDFi with specific State-wise allocation, which has been suitably reflected.

PRICE: INLAND : **Rs 65.00**
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