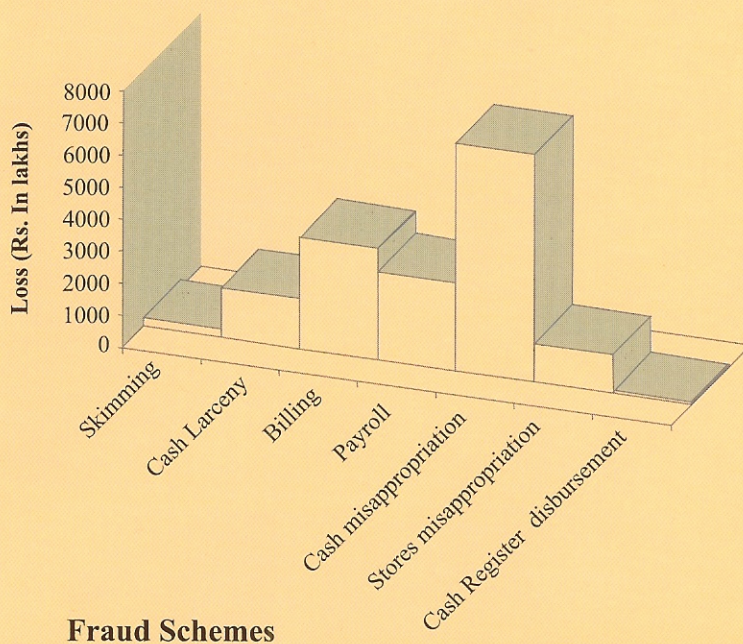




Frauds in Government Sector

*A Survey based on the
State Audit Reports of the C&AG of India*



Fraud Schemes

Indian Audit & Accounts Department
Regional Training Institute
26/1, Civil Lines, Nagpur



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FOREWORD

Today, Governments all over the world are working hard to bridle the economic slowdown. It is believed that there's a chance that the slowing economy may act as a catalyst for more fraud. There's probably an equal chance that it is not, since monitoring at all levels would be more stringent now than before. Though we will never be able to prove either argument, it is still important to talk about the issue of fraud and the magnitude of damage it can cause, if uncared for.

Undoubtedly, fraud is a significant issue for every organisation regardless of its size, budget, location, and nature of activity whether they are in the corporate or government sector. Sadly, it is also a threat that is very difficult to deal with. With continuous rise in developmental expenditure, particularly in the social sector programmes, implementing States need to review existence of adequate antifraud measures at all times. By educating their decision makers and employees about fraud risks, their overall exposure to frauds could be mitigated substantially, if not eliminated.

In October, 2003, the Comptroller & Auditor General of India declared this institute as the Centre of Excellence for specializing in the area of 'Audit of Frauds, Fraud Detection Techniques, and Forensic Audit' and to act as a repository of information on this subject. One of our missions is to educate our user offices about the frauds and develop effective anti-fraud measures for dealing with them. While enough work has already been done about dealing with frauds in the private corporate sector; unfortunately, there is a dearth of such information in the Government sector.

In this backdrop, with our experience of developing a bank of case studies from the State Audit Reports, it was decided to bring out this paper focusing on certain key information like the losses suffered, control weaknesses that enabled frauds, profile of the victim organisations/fraudsters etc. The task is mammoth, but challenging. To start with, on the lines directed, Shri D. Varghese, Sr.AO/Core Faculty of this institute had prepared a spreadsheet which immensely helped in drawing inferences. His assistance throughout this study is praiseworthy and commendable.

The results underline the fact that fraud is almost everywhere. Though there exist fairly strong internal controls, it is a matter of concern that they are bypassed, defeating the very purpose of having them. The study pointed out a need for strengthening the existing controls, particularly in assets (cash and stores) management function which is inherently prone to the risks of frauds. There are several other findings that merit immediate attention for remedial action.

I hope that the readers would find this study interesting and useful.

RTI, Nagpur
March, 2009


Dr. Sadu Israel
Principal Director

EXECUTIVE SUMMARY

Almost every State in the country suffered frauds. **The total reported loss suffered by various States worked to over Rs 203 crores in five years.** In about 86% of the cases, frauds involved losses at least Rs. 1 crore.

Bihar stood first amongst the States that had suffered maximum loss i.e. both in terms of the frequency of occurrence as well as the quantum of loss. Bihar is followed by Kerala and Manipur in terms of the frequency of fraud occurrence. **Bihar (47%), Assam (9%), Nagaland (9%), Madhya Pradesh (8%), and Chhattisgarh (5.17%) were the top five States that accounted for nearly 79% of the total frauds reported.**

Amongst the departments, Revenue (34%), Rural Development (14%), Home (10%), Welfare (8.9%), and Finance (7%) had suffered maximum (74%) frauds.

This report focuses on seven distinct categories of occupational frauds broadly classified under two categories, viz., *frauds involving revenue loss* and *frauds involving fraudulent disbursement of cash (expenditure)*. **Skimming (a scheme in which cash is stolen from an organization before it is recorded in the organization's books and records) was the most frequent (80%) category under revenue loss category, while Billing (A scheme in which a person causes his or her employee to issue a payment by submitting bills for fictitious goods and services, or inflated bills or invoices) was the most frequent (40%) scheme under expenditure category.**

Asset misappropriation constituted approximately 75% of all the fraud schemes. Amongst fraudulent disbursement of cash (expenditure), **20 % of the losses accounted for fraudulent Payroll schemes.** Ghost employee cases were noted in Punjab (25%), Kerala (17%) which accounted for over 40% of the cases and the remaining cases were noted in Assam, Gujarat, Manipur, Nagaland, Uttar Pradesh, and West Bengal.

A Comparison of various control weaknesses (*Absence of controls,*

Management failure to review, and Prescribed checks not exercised) revealed that **'failure to exercise prescribed checks' accounted for 61% followed by 'absence of internal controls' (34%)**. Further categorization of failure to exercise prescribed checks under various sub-categories viz., *Cashbook mismanagement, Excess drawls, Fictitious bills, Failure to carry out physical verification, and Unsettled accounts*, revealed that the scheme of *Fictitious Bills* accounted for over 38% of the total followed by *Cashbook mismanagement* (34%).

Profile of fraudsters indicated that in nearly 88% of the cases, the perpetrators were insiders. Fraud at Middle Management level accounted for nearly 56% of the total frauds committed. Remaining portion was shared between the Junior staff (34%) and the Senior Management (10%). Amongst the junior staff, cashiers were involved in 50% of the cases.

The study revealed that **replies to audit findings were received from the executive in nearly 53% of the cases** while there was no reply in respect of the others.

In 23% of the cases studied, the victim organizations had taken action against the perpetrators.

APPROACH AND METHODOLOGY

The quantifiable extent of fraud is sometimes estimated using surveys that refer to types of frauds or to geographical areas. Examples include Audit Commission Survey of Computer Fraud, which is done approximately every three years in the UK and Annual Survey of Occupational Frauds in USA by ACFE. In India, private audit firms like Ernst & Young, Pricewaterhouse Coopers, and KPMG bring out annual surveys on occupational frauds. Their focus, however, is limited to private corporate sector only. Similar effort in Indian Public Sector is long pending.

1.1 Need for the Study

Followed by the declaration of this institute as the centre of excellence in *Audit of Frauds, Fraud Detection Techniques, and Forensic Audit* in October 2003, the institute had been endeavoring to prepare, collect and analyze information on various fraud schemes committed and control weaknesses that led to frauds in the Government departments. Though there are a number of studies available on the Internet about frauds, they do not meet our requirement as their focus is on the private sector. As a result, the need for this information continued to grow. In this backdrop, it was decided to undertake this study with the following objectives.

1.2 Objectives of the Study

The study was conducted to,

- 1) determine the magnitude and the trend of losses suffered by the victim departments,
- 2) determine the profiles of the victim organizations and their control weaknesses that facilitated frauds,
- 3) determine the profiles of the fraudsters that perpetrated the frauds and methodology followed by them, and
- 4) assess the action taken by the victim organisations.

1.3 Source of Data

This study is based on audit paras reported in the State Civil Audit Reports of the Comptroller & Auditor General of India for the years 2002-03 to 2006-07. Covering all the States and Union Territories involving 23 departments of various State Governments, the study results are based on the scrutiny of 106 audit paras (*Annexure I*) on frauds reported during these years.

1.4 Methodology followed

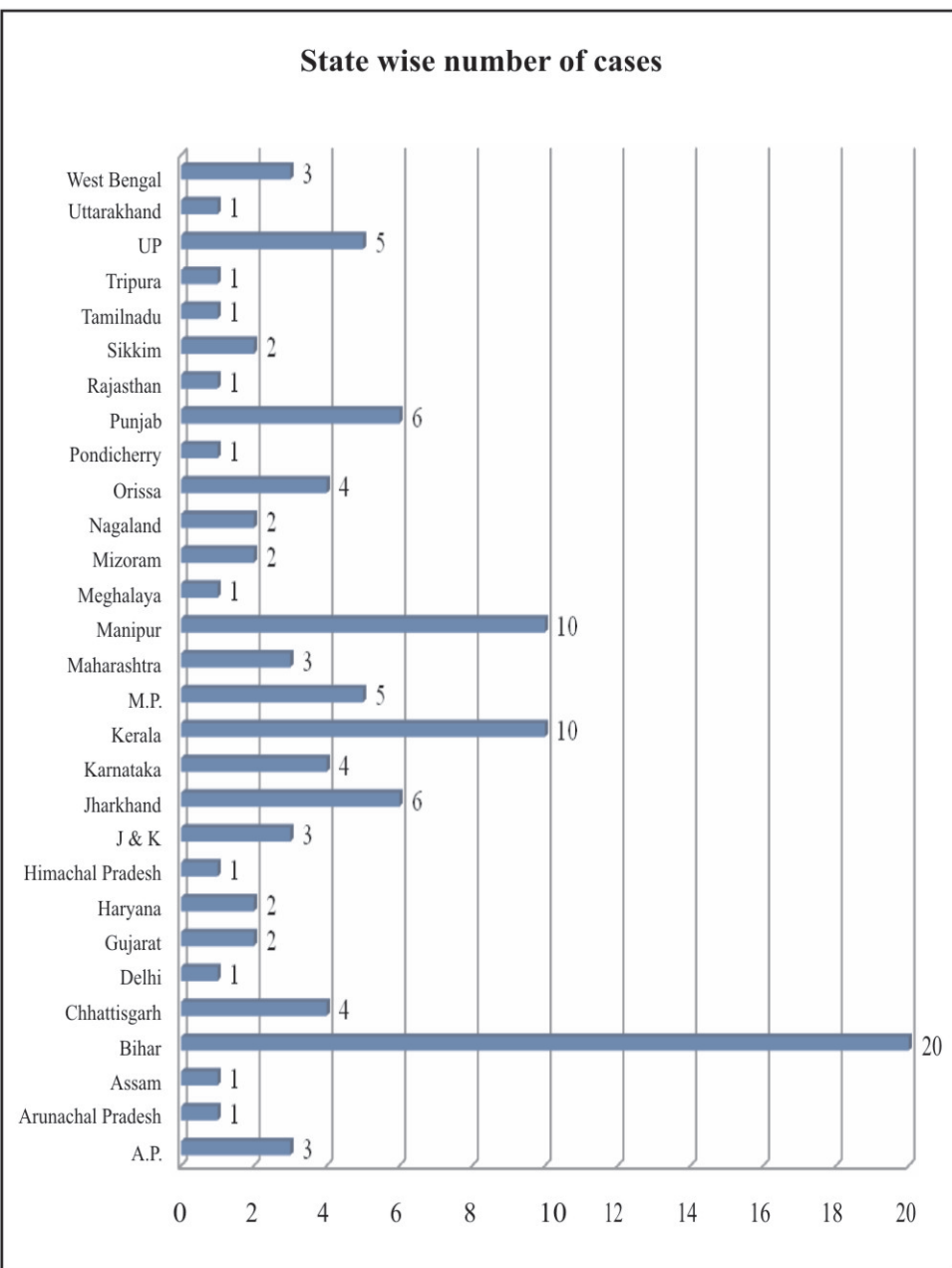
The study involved collection and analysis of data from the printed audit paras with regard to the quantum of loss suffered, profile of the perpetrators/victim departments, response of the entities to the audit findings and action against the fraudsters. Results of the analysis have been discussed under various headings of the report.

Information in respect of two most important parameters i.e. action taken against the fraudster/s, and the responses of the executive department/ministry to the audit findings was not reported in many cases, obviously due to their non-receipt at the time of reporting. The institute had, therefore, written to the concerned audit offices directly and obtained the same in majority of the cases.

1.5 A point worth mentioning

Frauds remain disguised until they are stumbled across them during the course of regular audit or special investigation. Therefore, quantification of the total losses suffered is impossible. Auditors give only a reasonable assurance which is based on a sample of transactions test checked. It is, therefore, pertinent to mention here that the results and conclusions drawn in this study are interpreted in the backdrop of these scenarios.

Graph 1: State wise number of cases of frauds reported in the Civil Audit Reports between 2002-03 and 2006-07



MAGNITUDE OF LOSSES

By its very nature, fraud, may not lend itself to be measured in an accurate manner. One of the key characteristics of fraud is that it is hidden, or covered by the perpetrator. In contrast to known or estimated fraud, no one has made a realistic attempt to quantify the extent of loss and frequency of their occurrence. Therefore, the cases reported officially are taken as a base for assessing the same.

2.1 Exact Amount of Loss

The most that can be assumed is that the known cases of fraud form but part of the total illegal or unjust actions of individuals. In the public sector, one of the most significant aspects of this problem is its close connection to value for money. Public money can be diverted to personal use or used for suspected purposes, without public awareness and control, often on a gradual, incremental basis. Sometimes such matters eventually come to light but they often remain hidden.

Unlike the private sector, there may be no obvious drop in profitability, no angry individuals clamoring to know what has happened to their money, or no proprietors facing bankruptcy. Therefore, while it is difficult to ascertain the total loss suffered by all the States throughout the country, the study focused up on only those cases that were detected and reported. As a result, for those cases that do not come to the light, the full amount defalcated cannot be ascertained. Therefore, fathoming the actual magnitude of losses suffered is an impossible task!

However, the study focused on those cases reported in the audit reports of the States and Union Territories that had suffered frauds. It may be seen from the

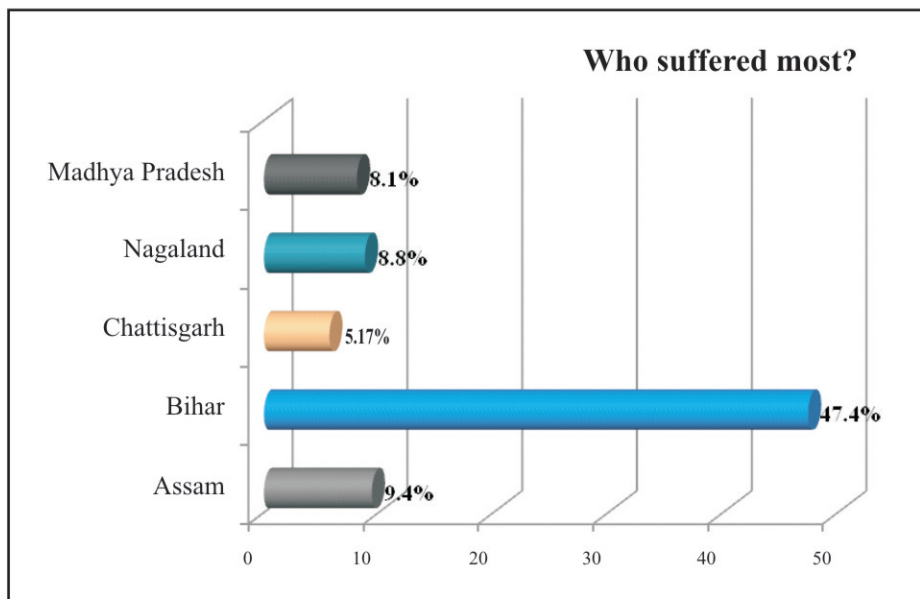
Annexure II that during the period under study, the States and the Union Territories had suffered a loss of over Rs.203.43 crores in five years. Out of this, as detailed below, Bihar accounted for over 47% of the loss followed by Assam, Nagaland, Madhya Pradesh, and Chhattisgarh.

Table 1: Top-5 States

Sr. No	State	Total loss (Rs. in crores)
1.	Assam	19.07
2.	Bihar	96.39
3.	Chhattisgarh	10.53
4.	Nagaland	17.97
5.	Madhya Pradesh	16.47
Total		160.43

It was noted that these States account for nearly 79% of the total loss suffered. The share of each State is depicted below.

Graph 2 : Top-5 States



2.2 What was the value of the Fraud?

All the 106 cases of occupational frauds our study compared involved monetary loss. As detailed in the following table, it is discouraging to note that nearly 86% of the cases involved a loss of at least Rs. 1 crore.

Table 2: Distribution of losses

Loss (in Rs. lakhs)	% of cases	States involved
0-25	5.66	Delhi, Maharashtra, Meghalaya, Rajasthan
26-50	6.60	Uttarakhand, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Tripura
51-75	0.94	Pondicherry
76-100	0.94	Tamilnadu
>100	85.85	Sikkim, Mizoram, Haryana, Gujarat, Jharkhand, Uttar Pradesh, Karnataka, Punjab, Kerala, Andhra Pradesh, West Bengal, Manipur, Orissa, Chhattisgarh, Madhya Pradesh, Nagaland, Assam, Bihar

METHODS USED TO COMMIT FRAUDS

There is usually an underlying reason why people commit frauds. Every fraud is an outcome of combination of three factors viz., pressure (to perform better, unrealistic deadlines, maintain high profits etc.), opportunity (poor internal controls), and rationalisation (developing a justification for wrong actions) which is commonly known as 'Fraud Triangle'. Capability (programming/ hacking/ cracking skills), could be a fourth factor, particularly relevant in case of technology related frauds.

3.1 Comparison of the methods used to commit frauds

Throughout this report, we will measure how different forms of fraud impact various types of departments, as well as the most common schemes associated with different categories of fraud perpetrators. For the purpose of this report, the cases were divided into the following three categories.



1. Cases involving loss of revenue
2. Cases involving fraudulent disbursement of cash (expenditure)
3. Cases involving fraudulent disbursement of cash and revenue loss.

Methods commonly noted in all the above categories were classified under the following sub-categories.

- Forgery
- Forgery & Misappropriation of cash
- Forgery & Misappropriation of store
- Misappropriation of cash
- Misappropriation of stores

A summary of category - wise frequency of their occurrence and loss suffered thereof is given below.

Table 3: Category wise frequency of occurrence and loss suffered.

Sr. No.	Category	Percent of all cases	Loss (Rs. in lakhs)
1	Forgery	25.47	3719.73
2	Forgery & Misappropriation of cash	30.19	6011.83
3	Forgery & Misappropriation of store	2.83	801.00
4	Misappropriation of cash	36.79	9439.00
5	Misappropriation of stores	4.72	371.43
Total		100.00	20342.99

3.2 Scheme wise losses

The losses suffered on account of various schemes in all the five categories mentioned in para 3.1 have been sub-divided. Details are as under.

Table 4: Scheme wise losses

Category	No. of cases	Percent of all cases	Amount of loss (Rs. in lakhs)
Cases involving Revenue Loss			
Forgery	3	2.83	20.53
Forgery & Misappropriation of cash	5	4.72	165.56
Misappropriation of cash	11	10.38	1628.71
Misappropriation of stores	1	0.94	21.58
Total	20	18.87	1836.38

Cases involving fraudulent disbursement of cash (Expenditure)			
Forgery	24	22.64	3699.20
Forgery & Misappropriation of cash	25	23.58	5800.75
Forgery & Misappropriation of store	3	2.83	801.00
Misappropriation of cash	23	21.70	7632.71
Misappropriation of stores	4	3.77	349.85
Total	79	74.52	18283.51
Cases involving fraudulent disbursement of cash and revenue loss			
Forgery & Misappropriation of cash	2	1.89	45.52
Misappropriation of cash	5	4.72	177.58
Total	7	6.61	223.10
Grand Total	106	100	20342.99

From the above it is evident that *Forgery* scheme alone accounted for over 25% (2.83% plus 22.64%) of various categories of frauds. In over 74 % of the cases, the schemes involved fraudulent disbursement of cash and its misuse. Out of this, Forgery & Misappropriation of cash, Forgery & Misappropriation of stores, and Misappropriation of cash, and Misappropriation of store accounted for over 70% of the cases.

3.3 Asset Misappropriation sub-categories

As detailed above, Asset (cash and or store) misappropriation constituted approximately 75% of all the fraud schemes. The perpetrators misappropriated the cash/store either through forgery or otherwise. Therefore, there is a need to study this in greater detail in order to conduct a meaningful analysis of how fraudsters attacked their organizations.

In the following table asset misappropriation schemes have been divided into seven distinct categories based on the specific methodologies followed by fraudsters in committing them. It could be seen from the table below that cash theft before it is recorded in the cash book is the most common type of fraud. Cash revenue loss category because of the susceptibility of cash to theft.

Table : Asset misappropriation sub-categories

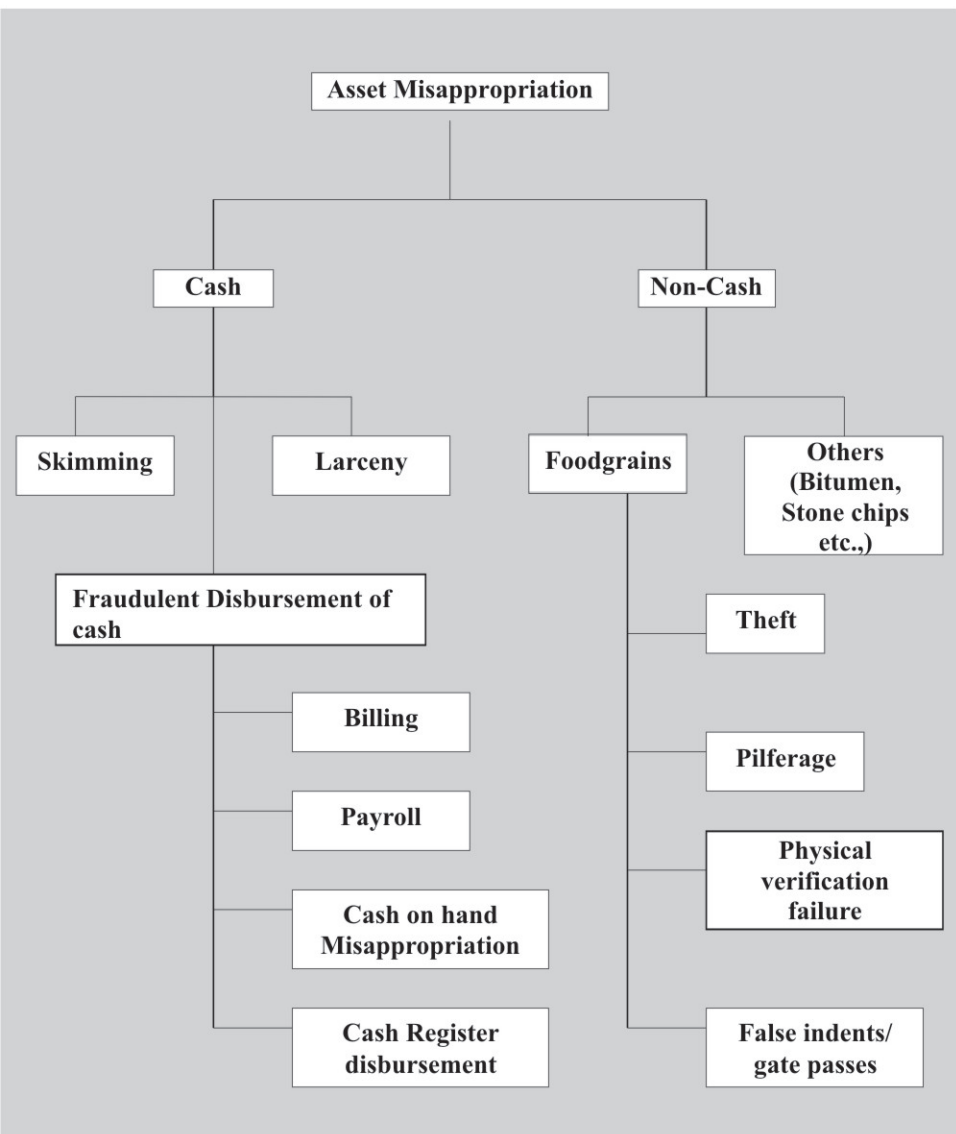
Category	Description	Examples	Number of cases reported	Percent of all asset misappropriation cases	Loss (Rs. in lakhs)
Schemes involving revenue loss					
Skimming	The scheme in which cash is stolen from an organisation <i>before</i> it is recorded in the organisation's books and records.	Fraudster (employee) accepts payment from those whom it is due but does not record the receipt.	16*	80	263.61
Cash Larceny	Any scheme in which cash receipts are stolen from any organisation after they are recorded in the organisation's books and records.	Fraudster (employee) steals cash and cheques from daily receipts before they can be deposited in the bank.	4	20	1572.77
Total			20	100	1836.38
Schemes involving fraudulent disbursement of cash					
Billing	Any scheme in which a person causes his or her employee to issue a payment by submitting bills for fictitious goods and services, or inflated bills or invoices.	DDO presents fictitious bills to the Treasury and obtains payment.	22*	40.00	3471.54

*See Annexure IV for details

Payroll	Any scheme in which an employee causes his or her employer to issue a payment by making false claim for compensation.	Salary or pension paid for employees/pensioners that did not exist. Fraudster adds ghost employee to the payroll.	11	20.00	2736.93
Cash on hand misappropriation	Any scheme in which the perpetrator misappropriates cash kept on hand at the victim's organisation's premises.	Employee steals cash from cash chest.	10	18.18	7102.31
Stores on hand misappropriation	Any scheme in which the perpetrator misappropriates stores kept on hand at the victim's organisation's premises or stores in transit after placing a purchase order.	Employee steals inventory from a warehouse or storeroom.	8	14.55	1201.14
Cash Register Disbursements	Any scheme in which an employee makes the false entries on a cash register to conceal the fraudulent removal of cash.	Employee fraudulently voids a disbursement on his cash register and steals the cash.	4	7.27	72.39
Total			55	100	14584.31

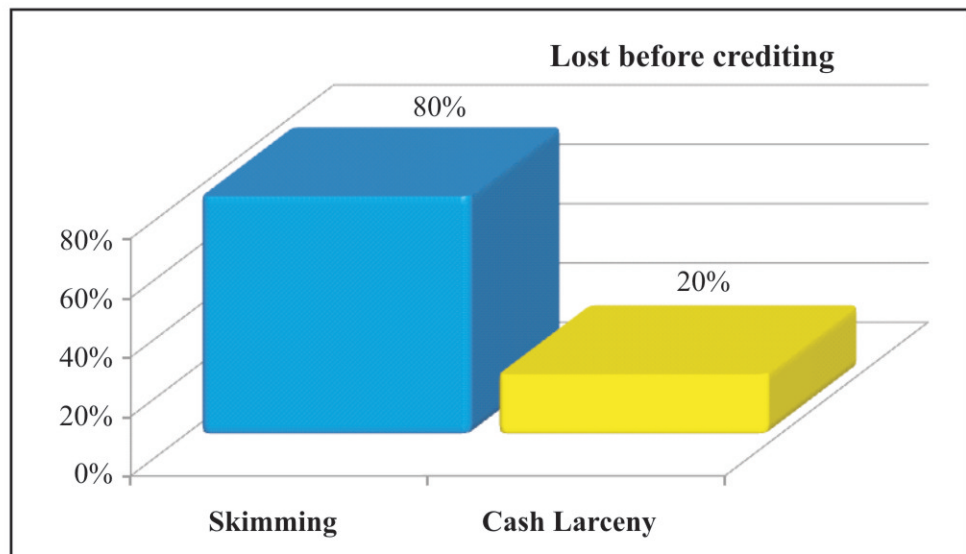
The following chart depicts the classification of fraud schemes under Asset Misappropriation category.

Chart 1: Asset Misappropriation Tree

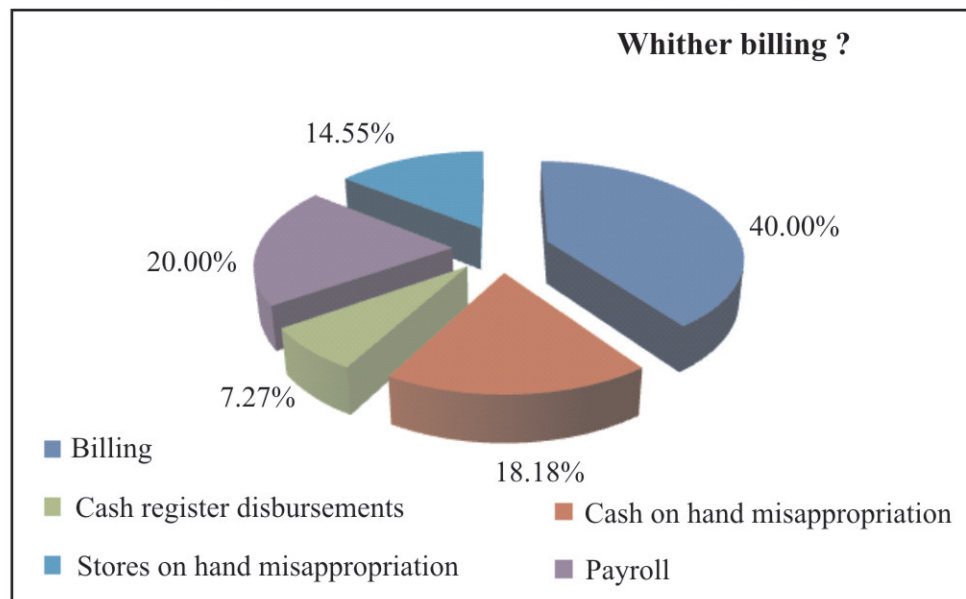


Once asset misappropriation is divided into distinct categories, analysis of particular fraud schemes takes on more meaning. The share of various categories in fraud in terms of frequency has been depicted below.

Graph 3: Revenue loss by frequency



Graph 4 : Cash disbursement loss by frequency

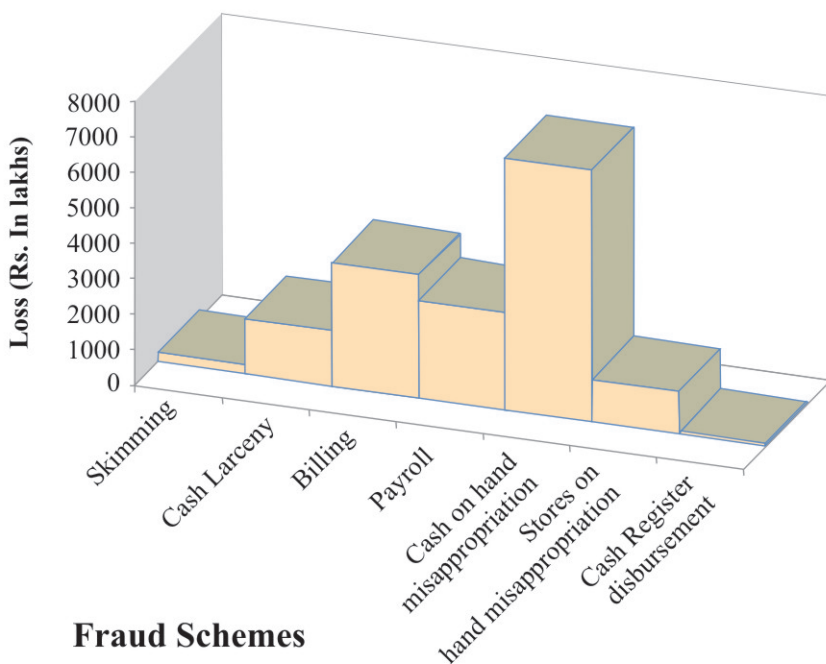


As the above chart illustrates, Skimming (80%) was the most commonly reported form of fraud scheme under revenue loss category, whereas Billing was the most commonly noted scheme under expenditure category (40%) followed by Payroll (20%).

3.4 Comparison of Frauds by Loss

When comparing the losses caused by each of the seven fraud schemes, the first glaring difference is the difference between the revenue loss category and disbursement category. While there are two categories (Skimming, Cash Larceny) under the former category there are five different types under cash disbursement category. The following chart depicts the category wise loss suffered.

Graph 5: Fraud schemes by loss



3.5 Ghost Employees

Interestingly, like their counterparts in the private set up, Government departments too had fallen victims of payroll schemes.

Further analysis revealed that there were 12 cases of Payroll schemes, out of which the following cases of ghost employees were noted in eight States. Kerala accounted for 17% of the total cases. Methodology followed by fraudsters in all these cases is detailed below.

Table 6: Fraud methodologies in Ghost Employee cases

State	Department/s	Number of cases/ percent to total cases	Fraud methodology in brief
Assam	Home	1 (8%)	Excess amount drawn by inflating acquittance rolls and inflated figures were shown in cash book as disbursed.
Gujarat	Panchayats, Rural Housing & Rural Development.	1 (8%)	Wages paid to people whose names did not figure in the job cards.
Kerala	General Education, Health & Family Welfare.	2 (17%)	(i) Drawal of fake salary arrears, GPF advance, surrender leave salary, medical re-imbursement claim. (ii) Withdrew excess amount of salary from the Treasury and disbursed the actual salary to the staff, by making alteration in the acquittance roll after disbursement. (iii) Claimed salary/arrears in the name of officers transferred or terminated.

Manipur	Finance	1 (8%)	Pension, Family Pension and Gratuity were paid on fake authorities.
Nagaland	School Education	1 (8%)	Pay & allowances were drawn for teachers in excess of actual deployment or double in case of some employees.
Punjab	Education Health & Family Welfare Irrigation & Power	3 (25%)	(i) Drew salary of transferred employees or employees not borne on the strength of the office. (ii) Drew fictitious bills on account of arrears of pay and allowances of working/retired/transferred officials supported with bogus sanctions. (iii) Drew salary of non-existent employees, double drawal of salary of newly appointed employees.
Uttar Pradesh	Medical & Health	2 (17%)	(i) Drew pay & allowances of six non-existent medical officers. (ii) Paid salaries to 42 fake employees posted on the basis of forged transfer orders and fake LPCs.
West Bengal	Health & Family Welfare	1 (8%)	Drew salaries on fake orders of appointment and transfer.
Total		12 (100%)	

VICTIM ORGANISATIONS

From the particulars available in the Audit Reports, profile of victim Ministries/Departments that were defrauded has been prepared. The purpose is to measure different ways in which frauds impacted different departments of the State Governments.

4.1 Entities that suffered most

It is expected that this analysis will help the policy makers and administrators of these departments to better identify where to strengthen or focus their anti-fraud measures based on the experiences of similar organizations. Findings in the table below highlight some interesting differences among the losses suffered by various departments.

Table 7: Department wise losses

Sr.No.	Department	Loss (Rs. In lakhs)	No. of cases	Percent of all cases
1	Agriculture	101.86	5	4.72
2	Animal Husbandry	16.62	1	0.94
3	Education	703.24	8	7.55
4	Finance	1450.03	4	3.77
5	Forest	270.25	4	3.77
6	Health	939.39	11	10.38
7	Health & Family welfare	702.11	5	4.72
8	Health & Medical Education	12.48	1	0.94
9	Home	2043.62	6	5.66
10	Human Resources Development	103.87	2	1.89
11	Irrigation	316.84	7	6.60
12	Public Health	12.56	1	0.94
13	Public Works	477.27	6	5.66
14	Revenue	6967.05	5	4.72
15	Rural Development	2858.33	18	16.98

16	Secondary, Primary and Adult Education	22.17	1	0.94
17	Social Welfare	19.11	2	1.89
18	Sports & Youth Affairs	28.41	1	0.94
19	Training & Technical Education	1.35	1	0.94
20	Transport	7.18	1	0.94
21	Tribal Welfare	300.00	1	0.94
22	Water Resources	1175.75	9	8.49
23	Welfare	1813.50	6	5.66
Total		20342.99	106	100.00

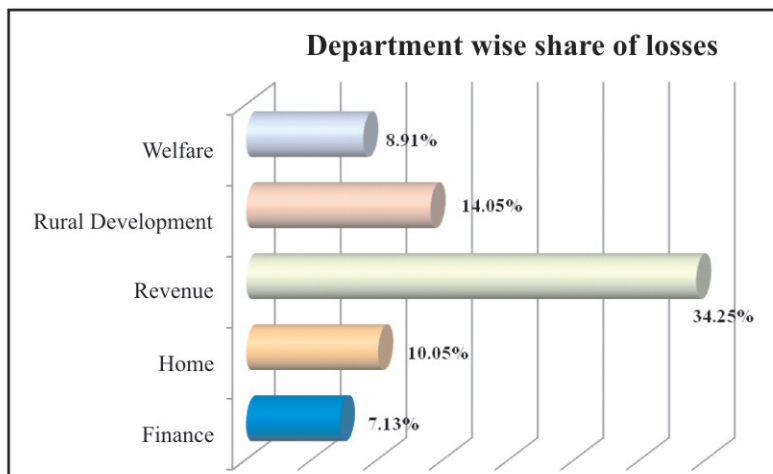
The top five departments that had suffered maximum losses are tabulated below.

Table 8: Top five departments in terms of loss

Sr. No	Departments	Loss (Rs. in lakhs)
1	Revenue	6967.05
2	Rural Development	2858.33
3	Home	2043.62
4	Welfare	1813.50
5	Finance	1450.03
Total		15132.63

It was noted that these five departments account for 74% of the total losses suffered by all the departments. The position is depicted below.

Graph 6: Department wise loss



4.2 Effectiveness of Controls

For an organisation to be in a position to proactively reduce the likelihood of fraud occurring, it is important to understand the types of frauds occurring in their organisation and the nature of control weaknesses that could facilitate frauds. The types of methods organisations have in place can be linked directly back to their perceptions of fraud both in their own organisations and in the sector. What organisations fail to realise is that without fraud prevention methods, detecting fraud becomes almost impossible unless you literally stumble across it.

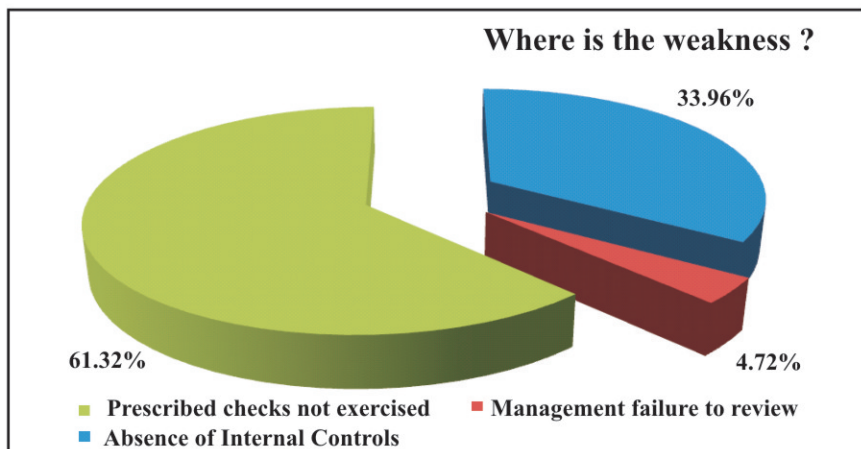
A comparison of control weaknesses that facilitated occupational frauds has been made. Results are as under

Table 9: Comparison of control weaknesses

Control weakness	Loss (Rs. in lakhs)	No. of cases	Percent of all cases
Absence of Internal Controls	2734.80	36	33.96
Management failure to review	1700.33	5	4.72
Prescribed checks not exercised	15907.86	65	61.32
Total	20342.99	106	100.00

The share of each category is depicted below.

Graph 6: Comparison of control weaknesses



4.2.1 Prescribed checks not exercised

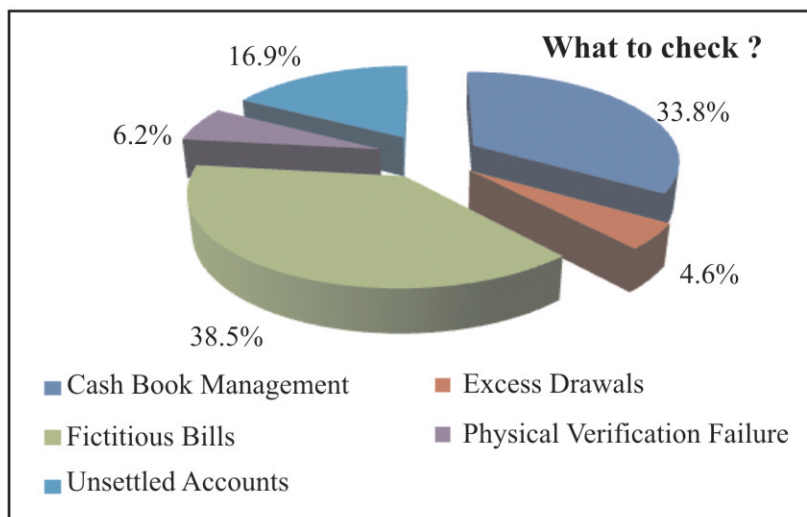
The table 9 and the graph 6 underline the fact that fairly strong control procedures do exist in almost all the departments, but they were not being implemented faithfully. This demonstrates existence of anti-fraud framework in the form of internal controls but they are overridden. In this case, in over 62% of the cases the prescribed control procedures were not exercised at various levels.

The position with regard to further analysis of the major category i.e 'Prescribed checks not exercised' is depicted below.

Table 10: Prescribed checks not exercised

Sr. No	Category	No. of cases	Percent of all cases
1.	Cash book mismanagement	22	33.8
2.	Excess drawals	3	4.6
3.	Fictitious bills	25	38.5
4.	Physical verification failure	4	6.2
5.	Unsettled accounts	11	16.9
Total		65	100

Graph 7: Prescribed checks not exercised



WHO IS THE FRAUDSTER

Information was collected from the audit reports about the individuals responsible for committing the frauds. The purpose is to understand their position and to see how certain types of fraud are related to different job types or positions of authority.

5.1 Why do they commit frauds?

There are various reasons why people commit frauds. Some perpetrators believe committing fraud is the only way to solve a problem they are facing while others simply see committing fraud as a challenge to demonstrate their

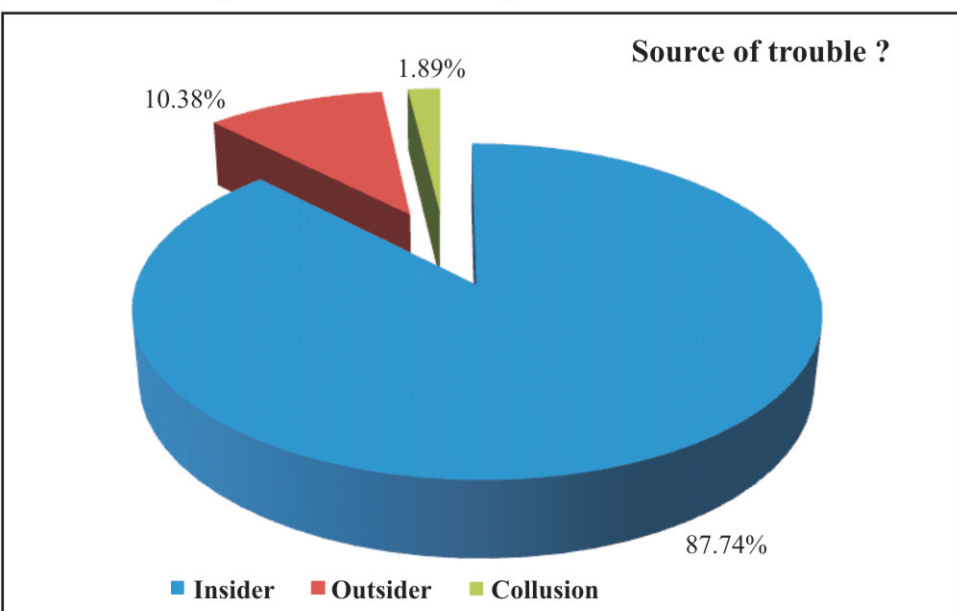


capabilities to hack the systems or to crack the passwords. The challenge comes about by determining a way to breach controls and then to not have the fraud discovered.

Considering that the study is based on the findings reported in the audit reports the aim is to capture the particulars of motivation that led to the frauds could not be fulfilled. However, the following key findings on the subject are available.

5.2 Insider Impact

Shockingly, in nearly 88% of the cases studied, the perpetrators were insiders. This finding may reflect the facts that as explained elsewhere in this study that in 61% of the cases; the prescribed checks were not followed. Since insider is the real culprit it becomes easier for him to over ride the controls.

Graph 8: Fraudsters responsible for the fraud

5.3 Collusion Impact

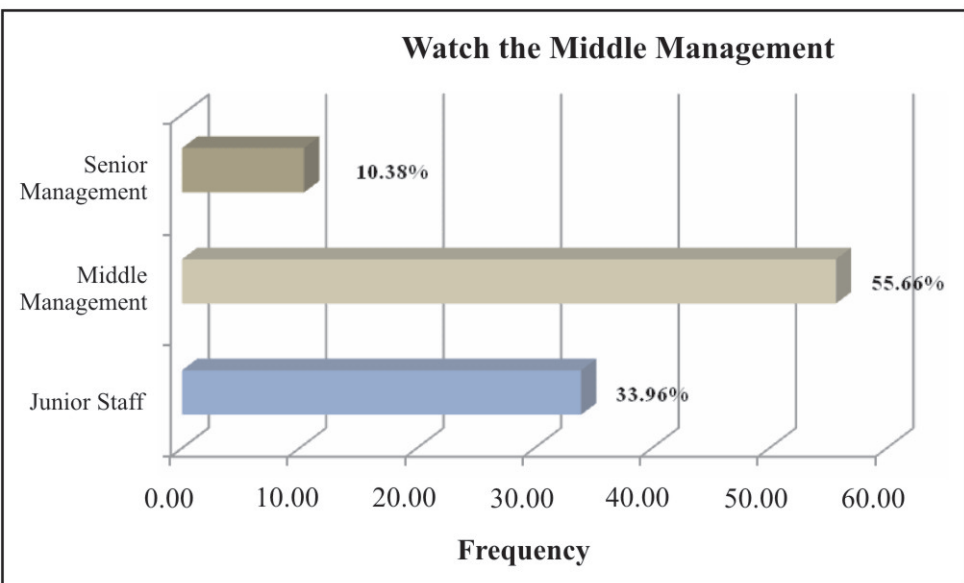
In terms of their occurrence, collusion was noted in over 10% of the cases studied, whereas the loss due to this factor accounted for 9.28% of the total losses suffered. State wise details of loss are as under.

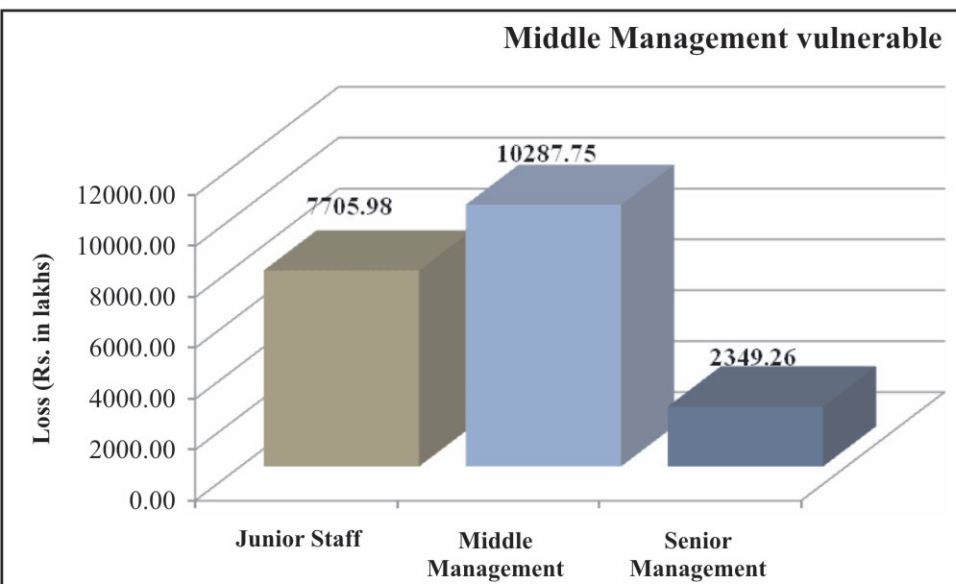
State	Loss (Rs. In lakhs)
Bihar	16.48
Chhattisgarh	784.00
Gujarat	149.00
Orissa	801.00
Pondicherry	53.49
Punjab	15.30
Sikkim	12.35
Uttar Pradesh	57.74
Total	1889.36 (9.29% % of Rs. 203.43 crores)

5.4 Perpetrator's position in the Organization

It was noted that majority of occupational frauds were committed by Middle Management (55.66%) followed by Junior staff (33.96%) and Senior Management (10.38%). For the purpose of classification, frauds committed by Drawing and Disbursing Officers, Executive Engineers, Administrative Officers etc., were categorized as Middle Management, whereas positions like District Tribal Welfare Officers, Directors, etc. were categorized as Senior Management. Details are shown at *Annexure V*.

Graph 9: Position of perpetrator -Frequency



Graph 10: Position of perpetrator - Loss

5.5 Fraud schemes by the perpetrators

5.5.1 Junior Staff

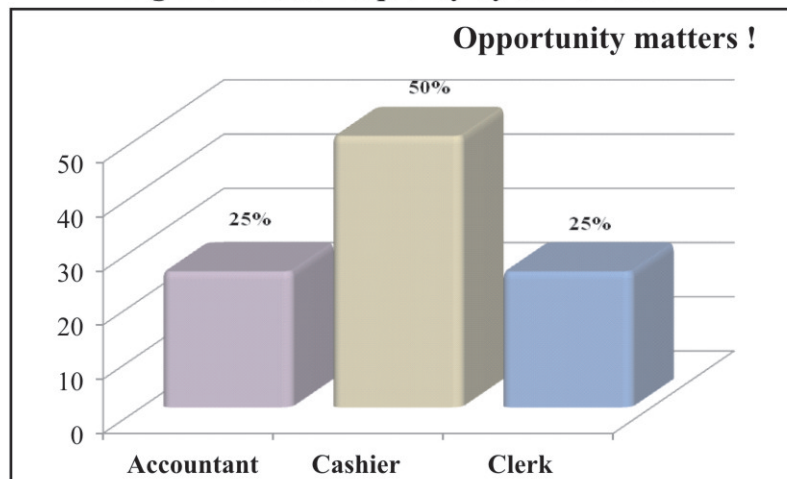
Analysis of fraud schemes committed by junior staff revealed that cash on hand misappropriation accounted for the maximum loss. Other details are as under.

Table 11: Frauds by Junior Staff

Fraud Category	Percent of total loss
Billing	1.77
Cash Larceny	0.16
Cash on hand misappropriation	91.27
Cash Register disbursement	0.17
Payroll	0.79
Skimming	1.82
Stores on hand misappropriation	4.02
Total	100.00

Further analysis of this category revealed that frauds by Cashiers accounted for 50% of the total frauds committed by junior staff. Other details are as under.

Fig 11: Frauds frequency by Junior Staff



5.5.2 Middle Management

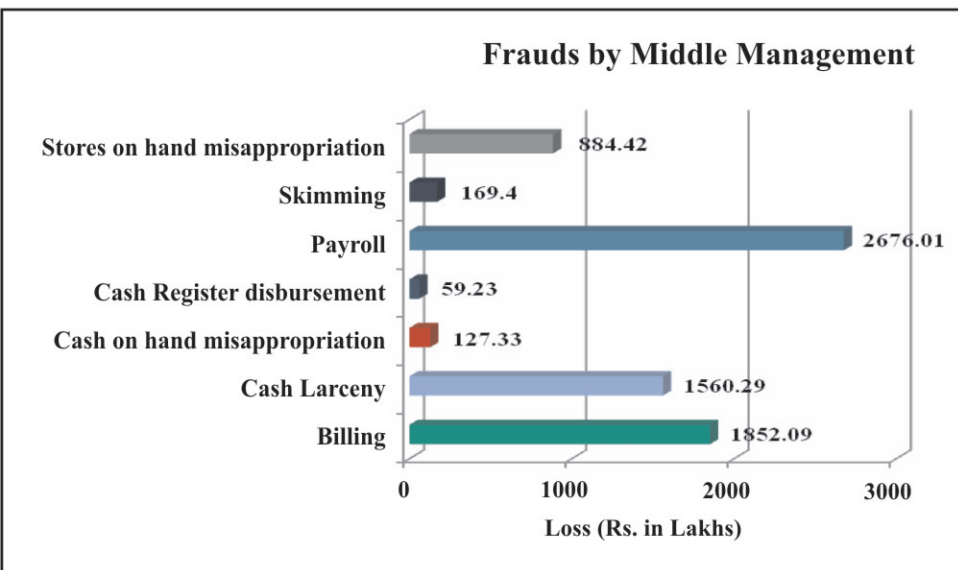
A comparison of fraud schemes committed by the middle management is detailed below.

Table 12 :Frauds by Middle Management

Fraud Category	Number of cases	Percent of total loss
Billing	7	25.27
Cash Larceny	3	21.29
Cash on hand misappropriation	5	1.74
Cash Register disbursement	3	0.81
Payroll	8	36.51
Skimming	11	2.31
Stores on hand misappropriation	5	12.07
Total	42	100.00

It may be seen from the above table that the middle management was involved in Payroll schemes followed by Billing and Cash Larceny. Cases of Payroll pertain to Assam (para No. 4.12. of AR 2006-07), Gujarat (para No. 4.1.1 of AR 2006-07), Kerala (4.1.1 of AR 2006-07), Manipur (4.1 of AR 2006-07), Nagaland (4.3 of AR 2005-06), Punjab (para No. 4.4.2 of AR 2003-04) and Uttar Pradesh (paras 4.1.1 and 4.1.2 of AR 2005-06).

Graph 11: Losses due to frauds at Middle Management level



5.5.3 Senior Management

Study of the schemes perpetrated by Executive and Senior Management level employees revealed the following.

Table 13 :Category-wise frauds by Senior Management

Fraud Category	Number of cases	Loss (Rs. In lakhs)	Loss percent to the total
Billing	6	1533.09	92.80
Cash Larceny	Nil	Nil	0.00
Cash on hand misappropriation	Nil	Nil	0.00
Cash Register disbursement	Nil	Nil	0.00
Payroll	Nil	Nil	0.00
Skimming	Nil	Nil	0.00
Stores on hand misappropriation	1	119.00	7.20
Total	7	1652.09	100.00

It may be seen from the above table that Senior Management was involved in only two schemes i.e Billing and Stores on hand misappropriation. Billing scheme accounted for the maximum both in terms of frequency as well as the quantum of loss suffered. It is interesting to note that there were no other schemes under this category.

EXECUTIVE'S RESPONSE

Timely and appropriate action against the perpetrators acts as a deterrent. In over 75% of the cases, the executive departments had not taken any action against the perpetrators. Replies were submitted after submitting the Audit Reports to the legislature.

6.1 Replies to Audit Findings

The executive departments in many cases did not furnish replies to the audit findings reported after completion of each audit. In some cases replies were received after submission of the reports to the legislature. *Annexure III* gives more details in this regard.

6.2 Action taken against the perpetrators

The study revealed that the executive departments had taken action against the perpetrators in mere 25 cases (23%). Details are as under;

Table 15 :Details of action taken against fraudsters

Nature of action Taken	No. of cases	States and the number of cases involved
Initiated Departmental Enquiry	11	Haryana (1), Himachal Pradesh (1), Karnataka (2), Kerala, M.P., Meghalaya, Rajasthan and U.P -(1) case each and Orissa (2)
Under judicial remand	1	Madhya Pradesh
Levied penalty	1	Andhra Pradesh
Loss recovered	8	Assam (1), Andhra Pradesh (1), Bihar (3), Delhi, Haryana, and Tripura- (1) case each.
Suspended	4	Kerala, Manipur (2), Punjab
Total	25	

In the following cases, at the time of finalizing this report, the cases were at various stages of their scrutiny.

Table 16 : Action in progress against fraudsters

Nature of action Taken	No. of cases	States and the number of cases involved
Action initiated to recover loss	4	Jharkhand (3), Kerala (1)
Action sought by PAC/Secretary	2	Jharkhand (1), Uttar Pradesh (1)
FIR Lodged	7	Bihar, M.P, Manipur, and UP - (1) case each and Punjab - (3)
Proposed to lodge FIR	1	Bihar
Proposed to initiate DE	3	A.P, Bihar and J&K
Recovery action initiated	4	Bihar
Under police investigation	1	Manipur
Pending with Vigilance & ACB	1	Kerala
Total	23	

Annexure I

**State wise cases reported in the Audit Reports
between 2002-03 and 2006-07**

Sl. No.	State	Loss suffered (Rs)	Para no. & year of Audit Report	Department
1	Andhra Pradesh	30000000	4.1.1 of 2006-07	Tribal Welfare
2	Andhra Pradesh	1256000	4.1.2 of 2006-07	Public Health
3	Andhra Pradesh	454000	4.1.1 of 2005-06	Education
4	Arunachal Pradesh	2841000	4.2 of 2005-06	Sports & Youth Affairs Department
5	Assam	190700000	4.1.2 of- 2006-07	Home
6	Bihar	932000	4.1.1 of 2006-07	Rural Development
7	Bihar	686800000	4.1.2 of 2006-07	Revenue
8	Bihar	1784000	4.1.1 of 2005-06	Water Resources
9	Bihar	351000	4.1.1 of 2005-06	Water Resources
10	Bihar	1032000	4.1.2 of 2005-06	Rural Development
11	Bihar	7011000	4.1.1 of 2004-05	Water Resources
12	Bihar	79400000	4.1.2 of 2004-05	Rural Development
13	Bihar	13300000	4.1.3 of 2004-05	Water Resources
14	Bihar	3177000	4.1.4 of 2004-05	Rural Development
15	Bihar	2217000	4.1.5 of 2004-05	Secondary, Primary and Adult Education
16	Bihar	2162000	4.1.1 of 2003-04	Rural Development
17	Bihar	147999000	4.1.3 of 2003-04	Rural Development
18	Bihar	6465000	4.1.4 of 2003-04	Rural Development
19	Bihar	1000000	4.1.5 of 2003-04	Rural Development
20	Bihar	1918000	4.1.2 of 2002-03	Home
21	Bihar	1648000	4.1.3 of 2002-03	Health
22	Bihar	593000	4.1.4 of 2002-03	Revenue
23	Bihar	1182000	4.1.5 of 2002-03	Rural Development
24	Bihar	3562000	4.1.6 of 2002-03	Rural Development
25	Bihar	1316000	4.1.7 of 2002-03	Welfare
26	Chhattisgarh	78400000	4.1.1 of 2006-07	Health

27	Chhattisgarh	2468000	4.1.1 of 2005-06	Forest
28	Chhattisgarh	22900000	4.1.1 of 2004-05	Forest
29	Chhattisgarh	1484000	4.1.2 of 2005-06	Forest
30	Delhi	135000	3.13 of 2006-07	Training & Technical Education Department
31	Gujarat	4104	4.1.1 of 2006-07	Rural Development
32	Gujarat	14900000	4.1.1 of 2004-05	Rural Development
33	Haryana	1438000	4.1.1 of 2005-06	Revenue
34	Haryana	11900000	4.1.1 of 2004-05	Rural Development
35	Himachal Pradesh	3313000	4.1 of 2005-06	Agriculture
36	Jammu & Kashmir	1775000	3.8 of 2002-03	Home
37	Jammu & Kashmir	1248000	4.2 of 2003-04	Health & Medical Education Department
38	Jammu & Kashmir	1022000	4.2.10 of 2006-07	Social Welfare Department
39	Jharkhand	6346000	4.1.1 of 2006-07	Revenue
40	Jharkhand	531000	4.1.2 of 2006-07	Rural Development
41	Jharkhand	2639000	4.1.3 of 2006-07	Public Works
42	Jharkhand	293426	4.1.4 of 2006-07	Education
43	Jharkhand	862000	4.1.1 of 2005-06	Rural Development
44	Jharkhand	4955000	4.1.1 of 2004-05	Rural Development
45	Karnataka	16700000	4.1.1 of 2006-07	Education
46	Karnataka	173000	4.1.3 of 2006-07	Forest
47	Karnataka	5029000	4.1.4 of 2004-05	Water Resources
48	Karnataka	2522000	4.1.2 of 2003-04	Health
49	Kerala	210000	4.1.1 of 2006-07	Education
50	Kerala	12200000	4.1.2 of 2006-07	Water Resources
51	Kerala	3965000	4.1.1 of 2005-06	Home
52	Kerala	889000	4.1.1 of 2005-06	Social Welfare Department
53	Kerala	774000	4.1.1 of 2005-06	Health & Family welfare
54	Kerala	1019000	4.1.1 of 2003-04	Health
55	Kerala	298000	4.1.1 of 2002-03	Education

56	Kerala	203000	4.1.1 of 2002-03	Agriculture
57	Kerala	207000	4.1.1 of 2002-03	Health
58	Kerala	11700000	4.1.2 of 2002-03	Water Resources
59	Madhya Pradesh	1055000	4.1.1 of 2006-07	Health
60	Madhya Pradesh	184000	4.1.1 of 2005-06	Agriculture
61	Madhya Pradesh	3520000	4.1.2 of 2004-05	Rural Development
62	Madhya Pradesh	2170000	4.1.1 of 2003-04	Welfare
63	Madhya Pradesh	157800000	4.1.2 of 2003-04	Welfare
64	Maharashtra	167000	4.1.1 of 2006-07	Health
65	Maharashtra	42668	4.1.1 of 2006-07	Health
66	Maharashtra	12000	4.1.1 of 2006-07	Health
67	Manipur	9231000	4.1 of 2006-07	Finance
68	Manipur	1045000	4.2 of 2006-07	Finance
69	Manipur	3290000	4.3 of 2006-07	Irrigation
70	Manipur	739000	4.9 of 2006-07	Irrigation
71	Manipur	1528000	4.11 of 2005-06	Revenue
72	Manipur	2288000	4.2 of 2004-05	Irrigation
73	Manipur	19300000	4.4 of 2006-07	Public Works
74	Manipur	2706000	4.6 of 2006-07	Public Works
75	Manipur	1994000	4.7 of 2006-07	Welfare
76	Manipur	15100000	4.8 of 2006-07	Welfare
77	Meghalaya	833000	4.6 of 2004-05	Home
78	Mizoram	11000000	4.1 of 2006-07	Health & Family Welfare
79	Mizoram	718000	5.19 of 2002-03	Transport
80	Nagaland	131900000	4.1 of 2005-06	Finance
81	Nagaland	47800000	4.3 of 2005-06	Education
82	Orissa	49400000	4.1.1 of 2006-07	Water Resources
83	Orissa	13900000	4.1.2 of 2006-07	Irrigation
84	Orissa	16800000	4.1.1 of 2005-06	Water Resources
85	Orissa	2390000	4.1.2 of 2003-04	Agriculture
86	Pondicherry	5349000	4.1.1 of 2002-03	Public Works
87	Punjab	1662000	4.1.1 of 2006-07	Animal Husbandary

88	Punjab	7030000	4.1.1 of 2005-06	Irrigation
89	Punjab	1530000	4.1.2 of 2005-06	Irrigation
90	Punjab	2907000	4.4.1 of 2003-04	Irrigation
91	Punjab	10790000	4.4.2 of 2003-04	Health & Family Welfare
92	Punjab	2411000	4.2.1 of 2002-03	Education
93	Rajasthan	2158000	4.1.1 of 2006-07	Education
94	Sikkim	9152000	4.1.2 of 2005-06	Human Resource Development
95	Sikkim	1235000	4.1.3 of 2005-06	Human Resources Development
96	Tamilnadu	9661000	4.1.1 of 2005-06	Public Works
97	Tripura	4096000	4.1 of 2005-06	Agriculture
98	Uttar Pradesh	2250000	4.1.4 of 2006-07	Rural Development
99	Uttar Pradesh	5342000	4.1.1 of 2005-06	Health
100	Uttar Pradesh	3524000	4.1.2 of 2005-06	Health
101	Uttar Pradesh	8072000	4.1.1 of 2004-05	Public Works
102	Uttar Pradesh	2970000	4.1.1 of 2002-03	Welfare
103	Uttarakhand	2827000	4.1 of 2006-07	Finance
104	West Bengal	1047000	4.1.1 of 2002-03	Health & Family Welfare
105	West Bengal	46600000	4.1.1 of 2005-06	Health & Family Welfare
106	West Bengal	5171000	4.1.2 of 2002-03	Home
	Total	2034299198		

Annexure II

**State wise number of cases reported between
2002-03 and 2006-07 and losses thereof**

Sr. No	State	No. of cases	Total loss in five years (Rs. In lakhs)	Average (Rs. In lakhs)
1	Andhra Pradesh	3	317.10	63.42
2	Arunachal Pradesh	1	28.41	5.68
3	Assam	1	1907.00	381.40
4	Bihar	20	9638.49	1927.70
5	Chhattisgarh	4	1052.52	210.50
6	Delhi	1	1.35	0.27
7	Gujarat	2	149.04	29.81
8	Haryana	2	133.38	26.68
9	Himachal Pradesh	1	33.13	6.63
10	J & K	3	40.45	8.09
11	Jharkhand	6	156.26	31.25
12	Karnataka	4	244.24	48.85
13	Kerala	10	314.65	62.93
14	M.P.	5	1647.29	329.46
15	Maharashtra	3	2.22	0.44
16	Manipur	10	572.21	114.44
17	Meghalaya	1	8.33	1.67
18	Mizoram	2	117.18	23.44
19	Nagaland	2	1797.00	359.40
20	Orissa	4	824.90	164.98
21	Pondicherry	1	53.49	10.70
22	Punjab	6	263.30	52.66
23	Rajasthan	1	21.58	4.32
24	Sikkim	2	103.87	20.77
25	Tamilnadu	1	96.61	19.32
26	Tripura	1	40.96	8.19
27	UP	5	221.58	44.32
28	Uttarakhand	1	28.27	5.65
29	West Bengal	3	528.18	105.64
	Grand Total	106	20342.99	4068.60

Annexure III

**Statement showing status of Executive's replies to
audit findings**

Sr. No	States	No. of cases
	a) No reply received	
1	Arunachal Pradesh	1
2	Assam	1
3	Bihar	9
4	Chhattisgarh	2
5	Gujarat	2
6	J & K	1
7	Jharkhand	3
8	Karnataka	2
9	Kerala	5
10	M.P.	4
11	Maharashtra	3
12	Mizoram	2
13	Nagaland	2
14	Pondicherry	1
15	Punjab	3
16	Rajasthan	1
17	Tamilnadu	1
18	Uttar Pradesh	3
19	Uttarakhand	1
20	West Bengal	3
	Total	50 (47.17% of the total)

b) Reply received

1	A.P.	3
2	Bihar	11
3	Chhattisgarh	2
4	Delhi	1
5	Haryana	2
6	Himachal Pradesh	1
7	J & K	2
8	Jharkhand	3
9	Karnataka	2
10	Kerala	5
11	M.P.	1
12	Manipur	10
13	Meghalaya	1
14	Orissa	4
15	Punjab	3
16	Sikkim	2
17	Tripura	1
18	Uttar Pradesh	2
Total		56 (52.83% of the total)

Annexure IV**Statement of cases on Skimming and Billing**

Sr. No	State	Para No. & Year of Report	Loss (Rs.)	Department
A. Skimming				
1	A.P.	4.1.1 of 2005-06	454000	Education
2	Bihar	4.1.1 of 2005-06	351000	Water Resources
3	Bihar	4.1.4 of 2004-05	3177000	Rural Development
4	Bihar	4.1.4 of 2003-04	6465000	Rural Development
5	Bihar	4.1.2 of 2002-03	1918000	Home
6	Delhi	3.13 of 2006-07	135000	Training & Technical Education
7	Jharkhand	4.1.2 of 2006-07	531000	Rural Development
8	Jharkhand	4.1.4 of 2006-07	293426	Human Resource Development/Health, Medical Education & Family Welfare
9	Karnataka	4.1.2 of 2003-04	2522000	Health & Family Welfare
10	M.P.	4.1.1 of 2005-06	184000	Agriculture
11	Maharashtra	4.1.1 of 2006-07	167000	Public Health
12	Mizoram	5.19 of 2002-03	718000	Transport
13	Punjab	4.1.1 of 2006-07	1662000	Animal Husbandry
14	Punjab	4.1.2 of 2005-06	1530000	Irrigation & Power
15	Rajasthan	4.1.1 of 2006-07	2158000	Higher Education
16	Tripura	4.1 of 2005-06	4096000	Agriculture
	Total		26361426	
B. Billing				
1	A.P.	4.1 of 2006 -07	30000000	Finance, Tribal Welfare and Women Development, Child Welfare and Disabled Welfare
2	Arunachal Pradesh	4.2 of 2005-06	2841000	Sports & Youth Affairs

3	Bihar	4.1.5 of 2004-05	2217000	Secondary, Primary and Adult Education
4	Bihar	4.1.3 of 2002 -03	1648000	Public Health Engineering
5	Bihar	4.1.5 of 2002-03	1182000	Rural Development
6	Chhattisgarh	4.1.1 of 2006 -07	78400000	Public Health & Family Welfare
7	Chhattisgarh	4.1.1 of 2005-06	2468000	Forest
8	Chhattisgarh	4.1.1 of 2004-05	22900000	Forest
9	Gujarat	4.1.1 of 2004-05	14900000	Panchayats, Rural Housing and Rural Development
10	Karnataka	4.1.1 of 2006-07	16700000	Education
11	Karnataka	4.1.3 of 2006-07	173000	Forest, Ecology and environment
12	Kerala	4.1.1 of 2005-06	3965000	Home
13	Kerala	4.1.1 of 2005-06	889000	
14	Kerala	4.1.1 of 2003-04	1019000	General Education
15	Kerala	4.1.1 of 2002-03	298000	General Education
16	M.P.	4.1.1 of 2006-07	1055000	Public Health & Family Welfare
17	M.P.	4.1.2 of 2003-04	157800000	Mahila Evam Bal Vikas
18	Maharashtra	4.1.1 of 2006-07	42668	Revenue & Forest
19	Maharashtra	4.1.1 of 2006-07	12000	Medical Education & Drugs
20	Pondicherry	4.1.1 of 2002-03	5349000	Public Works
21	UP	4.1.4 of 2006-07	2250000	Rural Development
Total			346108668	

Annexure V

Position of Fraudsters

Sr. No.	Position and designation of perpetrator	No. of cases
1	Junior Staff	
	1. Cashiers	36
	2. Assistant Accountants (categorised as 'Accountants')	
	3. UDCs (categorised as 'Clerks')	
	4. Junior Clerks (categorised as 'Clerks')	
	5. Forest Guards (categorised as 'Clerks')	
	6. Stores in charge (categorised as 'Clerks')	
	7. Agriculture Assistants (categorised as 'Accountants')	
	8. Officers under Executive Engineers (categorised as 'Accountants')	
	9. Game Rangers (categorised as 'Accountants')	
2	Middle Management	
	1. Additional Director of Health	59
	2. Deputy Registrars	
	3. Personnel under Commander of Assam Police Battalion	
	4. Executive Engineers	
	5. Executing Agencies	
	6. Deputy Development Commissioner-cum-Chief Executive Officer	
	7. District Superintendent of Education	
	8. Block Development Officers	
	9. Officers under Superintendent Commercial Taxes	
	10. Foreman Instructor of ITI	
	11. Range officers	
	12. Extra Assistant Engineers	
	13. District Social Welfare Officers	
	14. Assistant Engineers & Junior Engineers	
	15. Headmasters /Principals	
	16. Deputy Directors	

	17. Lay Secretary & Treasurer	
	18. Assistant Directors	
	19. Divisional Officials	
	20. Treasury Officers	
	21. Divisional Officers	
	22. Accounts/Administrative Officers	
	23. Officers in Directorate of Minorities & other Back ward classes	
	24. Officers under the Commandant Central Training Institute	
	25. Deputy Inspector of Schools	
	26. Senior Medical Officers	
	27. Controller of Exams	
	28. Officers of District Administration	
	29. Officers under Director General of Police & Commissioner of Police	
3	Senior Management	
	1. District Tribal Welfare Officers, Project Officers	11
	2. Directors & Joint Directors	
	3. Divisional Forest Officer & Conservator of Forests	
	4. District Rural Development Agency	



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Our other products in this series...

Red flags & Anti-fraud Measures in Public Works

This paper, released in October 2007, presents with practical examples various fraud indicators and anti-fraud measures commonly noted at various key stages of public works. An informative and useful guide for the local audit teams dealing with audits of public works. It is also useful for the Public Works Department authorities as it contains exhaustive list of measures for preventing frauds.

The paper received wide appreciation from several offices.

Auditing Through VLC System

Released in March 2008, the paper aims to demystify the 'art' of querying the Voucher Level Computerization database. It deals with queries required for generating reports based on Ganapati Committee recommendations. Divided into five chapters, the paper discusses the concepts of auditing in VLC scenario and interfaces between the Civil Audit and Accounts wings. A CD provided in the back cover of the paper has ready syntaxes (SQL) for firing the VLC database for central audit purpose.

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