

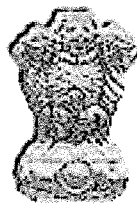
**IT MODERNIZATION PROJECT OF THE
DEPARTMENT OF POSTS**

**MINISTRY OF COMMUNICATIONS
(DEPARTMENT OF POSTS)**

**PUBLIC ACCOUNTS COMMITTEE
(2023-24)**

EIGHTY- THIRD

SEVENTEENTH LOK SABHA



सत्यमेव जयते

**LOK SABHA SECRETARIAT
NEW DELHI**

PAC NO. 2313

EIGHTY-THIRD REPORT

**PUBLIC ACCOUNTS COMMITTEE
(2023-24)**

(SEVENTEENTH LOK SABHA)

IT MODERNIZATION PROJECT OF THE DEPARTMENT OF POSTS

**MINISTRY OF COMMUNICATIONS
(DEPARTMENT OF POSTS)**



Presented to Lok Sabha on: 07-02-2024

Laid in Rajya Sabha on: 07-02-2024

**LOK SABHA SECRETARIAT
NEW DELHI**

February, 2024 /Magha, 1945 (Saka)

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COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (2023-24)

Shri Adhir Ranjan Chowdhury - Chairperson

MEMBERS

LOK SABHA

2. Shri Thalikkottai Rajuthevar Baalu
3. Shri Subhash Chandra Baheria
4. Shri Bhartruhari Mahtab
5. Shri Jagdambika Pal
6. Shri Vishnu Dayal Ram
7. Shri Pratap Chandra Sarangi
8. Shri Rahul Ramesh Shewale
9. Shri Gowdar Mallikarjunappa Siddeshwara
10. Shri Brijendra Singh
11. Shri Rajiv Ranjan Singh *alias* Lalan Singh
12. Dr. Satya Pal Singh
13. Shri Jayant Sinha
14. Shri Balashowry Vallabbhaneni
15. Shri Ram Kripal Yadav

RAJYA SABHA

16. Shri Shaktisinh Gohil
17. Dr. K. Laxman
18. Shri Derek O' Brien*
19. Shri Tiruchi Siva
20. Dr. M. Thambidurai
21. Shri Ghanshyam Tiwari
22. Dr. Sudhanshu Trivedi

SECRETARIAT

1. Dr.Sanjeev Sharma - Joint Secretary
2. Smt.Bharti Sanjeev Tuteja - Director
3. Shri Girdhari Lal - Deputy Secretary

* Elected w.e.f. 19.08.2023 consequent upon retirement of Shri Sukhendu Sekhar Ray, MP on 18.08.2023.

INTRODUCTION

I, the Chairperson, Public Accounts Committee (2023-24), having been authorised by the Committee, do present this Eighty Third Report (Seventeenth Lok Sabha) on 'IT Modernization Project of the Department of Posts' based on Para No.3.1 of C&AG Report 15 of 2022 relating to the Ministry of Communications (Department of Posts).

2. The C&AG Report No. 15 of 2022 was laid on the Table of the House on 08.08.2022.
3. The Public Accounts Committee (2023-2024), selected the aforesaid subject for detailed examination and took oral evidence of the representatives of the Ministry of Communications (Department of Posts) on the subject matter on 18 July, 2023.
4. The Public Accounts Committee (2023-2024) considered and adopted the Draft Report on the aforementioned subject at their Sitting held on 17.01.2024. The Minutes of the Sittings are appended to the Report.
5. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in thick type and form Part- II of the Report.
6. The Committee would like to express their thanks to the representatives of the Ministry of Communications (Department of Posts) for tendering evidence before them and furnishing the requisite information in connection with the examination of the subject.
7. The Committee also place on record their appreciation of the assistance rendered to them in the matter by the Committee Secretariat and the Office of the Comptroller and Auditor General of India.

NEW DELHI:
17th January, 2024
27 Pausha 1945 (Saka)

ADHIR RANJAN CHOWDHURY
Chairperson,
Public Accounts Committee

REPORT

PART-I

I. Introductory

This Report is based on Para 3.1 of C&AG Report No.15 of 2022 on the subject, "IT Modernization Project of the Department of Posts" pertaining to the Department of Posts.

II. IT Modernization Project

2. The Indian Government sanctioned the IT Modernization Project of the Department of Posts (DoP) in November 2012, allocating a budget of ₹4,909 crore. This project's primary objective is to enhance the operational efficiency and service delivery of both operational and administrative units within DoP by leveraging advanced technology and improved connectivity.

3. The project's vision involved the modernization and computerization of all Post Offices, including those in rural areas, such as Branch Post Offices. It encompassed the development of adaptable, integrated, and modular software that would cover all aspects of DoP's operations, including Post Office Savings Bank, Postal Life Insurance, Mail Operations, Accounts, and Establishment. Furthermore, the project aimed to establish essential IT infrastructure components, including a Data Centre, Disaster Recovery Centre, a Wide Area Network (WAN) for the Departmental Post Offices, and the implementation of Rural Information Communication Technology (Rural ICT) in rural Post Offices.

4. The project was implemented in eight project segments and executed by different vendors, including Reliance Communications Infrastructure Limited (Data Center Facility project), Sify Technology Limited (Network Integrator project), Tata Consultancy Services Limited (Core System Integrator & Change Management project), Infosys Technology Limited (Financial System Integrator & Rural System Integrator), Telecommunications Consultants India Limited (Rural ICT Hardware), and DGS&D (Mail Operations Hardware).

III. AUDIT FINDINGS:

5. Audit, covering the test check of records from 2012-13 to 2017-18 at DoP Headquarter at Delhi, Circle Headquarters, selected Postal Divisional Offices (DOs), Head Post Offices (HPO) and Sub Post Offices (SOs) across the country, noticed that ~~though the project was almost completed, with an expenditure of ₹3,447.98 crore~~ (September 2021) with balance liabilities of ₹1,376.83 crore to vendors, there were

significant delays in the completion of important segments of the project viz. Financial System Integrator (FSI), Core System Integrator (CSI), Network Integrator (NI) and Rural System Integrator (RSI), ranging from one to four years against the times lines for completion of the Project as detailed below:

Details of roll out of Project segments

Segment/ Vendor/ Date of Commencement/ Target date of Completion	Contract Value (₹ in crore)	Payments made (₹ in crore) (as on Sept.2021)	Remarks
1. Data Center Facility/ Reliance Communications Infrastructure Limited 14.05.2012/ 28.09.2013	75.00	65.59	Integration testing was completed (July 2020) and DC-DR drills also conducted at different intervals with last drill conducted in July 2021
2. Network Integrator/ Sify Technology Limited 16.05.2012/ 28.12.2013	951.53	946.93	As against a total target of 28,846 locations by December 2013, Networking for 28,290 locations (98 per cent) was completed by March 2019. However, due to closure of BSNL exchanges Technical Not Feasible Locations (TNF) increased to 2,694. Though the Steering Committee considered alternate ways of providing network for all these offices like OFC/ NOFN/ RF, the vendor could not provide the networking at these locations till that time.
3. Change Management/ Tata Consultancy Services Limited 25.06.2012/ 14.10.2014	12.96	4.90	Completed within the time limit.
4. Financial System Integrator/	703.58	685.48	As against target of 25,560 locations by May 2014, the

Infosys Technology Limited 09.08.2012/ 28.05.2014			Core Banking Solution (CBS) was implemented/ deployed by the vendor in 24,349 (97 per cent) Post Offices/ locations (September 2021). 643 Post Offices were functioning without CBS facility even after a lapse of seven and half years and 568 Post Offices were closed/ merged.
5. Core System Integrator/ Tata Consultancy Services Limited 15.04.2013/ 15.10.2014	1131.21	725.07	As against a target of 511 divisions by October 2014, the Core System Integration was completed in 511 (100 per cent) divisions (March 2019) including Postal, RMS and independent divisions. The work was completed during the years 2017 and 2018 against the target date for completion of October 2014. The vendor was responsible for integration of all the solutions to be supplied by other system integrators.
6 Rural System Integrator / Infosys Technology Limited 28.02.2013/ 27.02.2017	79.12	37.53	RSI vendor was responsible for design, build, supply, installation/ commissioning of applications in the RICT devices to be provided by the RH vendor at 1,29,390 BOs, hence, dependent on each other. Since the delivery of RH devices was to be aligned with the readiness of the RSI application the RSI vendor did not complete the deliverables in time leading to
7. Rural ICT Hardware / Telecommunications Consultants India Limited and RICOH India Limited 24.11.2014/ 23.09.2017	1361.73	663.48	

			delay in supply of solution by the RH vendor to the field offices of DOP. Rollout of Rural ICT Hardware devices was completed in 1,29,164 Branch Offices and remaining 226 BOs were closed or merged with other BOs (March 2019).
8. Mail Operations Hardware / DGS&D	401.61	210.93	The successful bidder for Mail Operations Hardware (MOH), M/s HCL Info Systems Limited did not sign the contract against Letter of Intent (LoI) issued on 03 February 2014. The Department blacklisted the firm and subsequently, procured Mail Operations Hardware through Directorate General of Supplies and Disposals (DGS&D) Rate Contract. For items not available in DGS&D, the procurement was decentralised to Circles and got completed.
Total	4,716.74	3,339.91	

6. Thus, various project components were completed ranging from 98 to 100 per cent as on September 2021, though there were delays in completion with reference to target dates. DoP had made payments up to 70.81 per cent of contract value to the vendors and balance payments (29.19 per cent) were kept pending for completion of the project items (September 2021).

7. Audit also noted that there were initial problems in pre-rollout preparatory activities, migration of data and non-availability of any Network in some areas, thereby delaying project activities. The Budget, Asset Accounting and Costing modules were not implemented in full until January 2022. Audit observed that though the modernisation Project achieved deliverables of anywhere, anytime banking, access to facilities like

ATMs, quick money transfers and Net banking, increased insurance facilities to the rural populace, better customer experience through end-to-end article visibility and provision for electronic intimation on a real-time basis, there were major deviations such as improper validation in migration of legacy data to the Core Banking Solution, integration and networking issues. These deficiencies led to misappropriation cases and have future potential too for irregularities unless corrective action is taken. It was seen that there were inadequate system controls in monitoring of prescribed norms, and business rules of DoP. Poor networking and connectivity issues in Post Offices compromised services to the public despite the computerisation efforts. There was wasteful procurement of Magnetic Stripe ATM cards, RICT devices not functioning properly due to poor network, there were abnormal delays in provision of alternate delivery channels i.e., Internet Banking, Mobile Banking, and its Core Sub-Committees concerned did not pursue properly with the vendors for proper customisation / implementation and adhering to the timelines for completion of the project.

A. Delays in completion of Project: Rollout of important segments of the IT Modernisation Project

8. Audit found that the IT Modernisation Project in DoP was taken up with eight different segments for computerisation of all the Departmental and Garmin Dak Sevak (GDS) Posts Offices in the country. Though, the Project were completed in major segments by the end of September 2021, there were delays of more than four years, in important segments Financial System Integrator (FSI), Core System Integrator (CSI), Network Integrator (NI) and more than one year in rural segment (Rural System Integrator (RSI)/ Rural Hardware Agreement (RH)), against the times lines for completion of the Project. All modules viz. Budget, Asset Accounting and Costing modules in CSI were tested and implemented with a delay of four years due to delay in acceptance testing by Department of Posts (DoP) though the vendor supplied the same in April 2017. Thus, the Project Implementation Committees/ Sub-Committees concerned could not ensure adherence to the timelines for completion of the project. Though, the penalties were charged to the vendors and their payments withheld for delayed completion of the project, the fact remains that the projects were incomplete in some locations and integration benefits of CSI were not available in totality to the DoP as well as its customers.

9. The Ministry in its reply stated (January 2022) that IT Modernisation Project had already been completed except some integration issues with Core Banking Solution (CBS) and Postal Life Insurance (PLI) with CSI which were being addressed.

10. When asked about reasons for delays in important segments viz FSI, CSI NI and RSI and corrective steps taken by the Department to address the issues, the Department replied as under:

“As pointed out in the C & AG Report, there were delays for more than four years

in CSI, FSI & NI and more than one year in rural segment RSI & RH. Various factors were causing the delay of the Project. The details are as below:

- i. The project was implemented on a massive scale across the length and breadth of the country in more than 25000 Departmental Post Offices and about 1,30,000 Branch Post Offices located in the rural areas including remote and hilly terrains. The Project also covered wide range of functionalities including Banking, Insurance, Mails, Parcel, Logistics, Retail Services, Human Resources and Finance & Accounts etc.
- ii. There was a large work force of more than 4 lakh staff/ Gramin Dak Sewaks, who were to be prepared for the complete change in the Department's working after implementation of the IT Project. Massive Training exercises were undertaken for Change Management to prepare employees/Gramin Dak Sewaks for accepting the technologies and technical skills to implement the technology. For instance, about 12.31 lakh man-hours of training for FSI module (covering Core Banking & Insurance) and 8.11 lakh man-hours of training for CSI modules (covering Mails, Human Resources and Finance & Accounts etc.) have been provided.
- iii. The project was implemented through eight different segments and multiple vendors were involved during implementation phase. There were interdependency among them.
- iv. There was dependency on the availability of the network connectivity in the locality particularly in the villages/ hilly areas.

Despite these challenges, the Department completed the Project and it has been mentioned in the C&AG report also that 98 to 100 percent of project components were completed. Also in respect of delay, as mentioned in the C & AG Report also, Liquidated Damages (L.D) has been levied on the vendors concerned. There was no cost overrun in implementing the project. Further, in order to address network connectivity issues, the Department provided alternate connectivity such as Fibre To The Home (FTTH), National Optical Fibre Network (NOFN), Radio Frequency (RF) Media, Very Small Aperture Terminal (VSAT) and 4G Dongles etc. The learnings of IT 1.0 are being addressed in the IT 2.0 Project of the Department which has already been approved by the Government.”

B. Integration issues under Core System Integrator-Delays in Implementation of Solutions/ Modules/ Sub-Modules and Non Integration of solutions

11. Audit noticed that though the vendor supplied all the modules during 2017-18 under Agreement, in the rolled-out offices through Enterprise Resource Planning (ERP)

of SAP, some of the important Sub-Modules such as Budgeting, Asset Accounting and Costing etc. were completed/ implemented in the Department of Posts after a delay of four years. Audit also noticed that the integration of various solutions/ core applications supplied by other System Integrators such as Financial Services System Integrator (FSI) and Rural System Integrator (RSI) with the Core System Integrator (CSI) solutions had not been completed by the vendor till September 2021.

12. As per Ministry's Background Note, there were three System Integrators involved in the IT Project 1.0 namely, Financial Services System Integrator (FSI – covering Core Banking & Insurance), Core System Integrator (CSI – covering Mails, Human Resources and Finance & Accounts etc.) and Rural System Integrator (RSI – covering applications for operating in RICT hand held devices). The Department had continuously monitored the progress of the integration of the applications to resolve the dependencies and issues among the vendors. Out of the total 35 integration items, 32 integration items have already been completed. Liquidated Damages (LD) has also been levied in case of delay / pendency in completion of these integration items within the timelines. The left over integration issues as well as the learnings of the IT 1.0 Project will be addressed in the IT 2.0 project of the Department, which has already been apprised by the Public Investment Board (PIB) & Expenditure Finance Committee (EFC) in meeting held on 23.11.2021 and approved by the Cabinet in January, 2022.

13. On being asked why the Department of Posts could not foresee the interconnectedness and interdependencies among various projects of IT modernization and come up with a policy at the planning stage itself to avoid the issue of change management, the Ministry replied as under:

i. "The interconnectedness and interdependencies among various projects of IT modernization were intricate and multifaceted, making it challenging to anticipate and address them at the planning stage itself. The IT scenario has been constantly evolving with new technologies, tools and methodologies emerging on a regular basis and the approach was accordingly modified to address these changes.

ii. Further, the IT projects experienced changes in requirements due to evolving business requirements, regulatory changes or unforeseen challenges. These changes resulted in new interdependencies that were not initially considered during the planning phase. Therefore, it was crucial to acknowledge these challenges and to address the unforeseen interdependencies effectively as projects progressed, in order to respond to emerging interdependencies.

iii. It may also be mentioned that the project was implemented on a massive scale across the length and breadth of the country in more than 25000 Departmental Post Offices and about 1,30,000 Branch Post Offices located in the rural areas including remote and hilly terrains. The Project also covered wide range of functionalities including Banking, Insurance, Mails, Parcel, Logistics, Retail

Services, Human Resources and Finance & Accounts etc and there was a large work force of more than 4 lakh staff/ Gramin Dak Sewaks, who were to be prepared for the complete change in the Department's working after implementation of the IT Project.

iv. There was dependency on the availability of the network connectivity in the locality, particularly in the villages/ hilly areas. However, Department provided alternate connectivity such as Fibre To The Home (FTTH), National Optical Fibre Network (NOFN), Radio Frequency (RF) Media, Very Small Aperture Terminal (VSAT) and 4G Dongles etc. based on availability.

v. Despite all these challenges, Department could complete the Project and it has been mentioned in the C&AG report also that 98 to 100 percent of project components have been completed. It is pertinent to mention that the project was completed without any cost overrun."

14. When asked whether the delayed integration of some of the modules impacted the effectiveness of the modernization project, the Department stated as under:

i. "While there were delays in integrating some of the modules as part of the IT modernization project, these delays have had negligible impact on the overall effectiveness of the project.

ii. It may be seen that Core System Integrator (CSI) solution has been implemented in all the departmental post offices and 523 divisions and 23 circles. Implementation of Core Banking Solution (CBS) and Core Insurance Solution (CIS) has also been completed in all departmental post offices.

iii. A total of 63.22 crore CBS transactions worth 1,10,706.18 crores, 2.02 crore Postal Life Insurance (PLI)/ RPLI transactions worth 2,444.18 crore and 108.19 crore CSI transactions worth 12086.00 crores have been performed in the departmental post offices in the FY 2022-23. Similarly, a total of 17.97 crore CBS transactions worth 41,805.20 crores, 1.96 crore PLI/ RPLI transactions worth 2,173.97 crores and 6.03 CSI transactions worth 77.41 crores have been performed through DARPAN devices in the FY 2022-23. This proves the successful implementation of the Project."

15. On being asked about the status of complete integration of these three modules viz. Financial Services System Integrator (FSI), Core System Integrator (CSI) and Rural System Integrator (RSI) remain to be integrated with the Core System., the Department replied as follows:

"All the three modules have been integrated except for PLI SSO integration. In this regard, it is submitted that the payment of 29.75 crores towards overall integration to the CSI vendor has not been released so far to the CSI vendor. A proportionate deduction will be made while sanctioning the amount to the CSI vendor for overall integration. The 79th meeting of the FSI Project Implementation committee has decided that the cost related to this integration will be borne by the CSI vendor since the delay is attributable to the vendor."

16. When enquired further about the functionality of all the modules, the Department replied as under:

"It has been acknowledged by the CAG in its Performance Audit Report that 98-100% components of the project have been completed. Further, it may be mentioned that the modules are functional. In respect of the pending integration, proportionate deduction is being made from the payment towards the overall integration of the solution. Further, the learnings of the IT 1.0 Project are being addressed in the IT 2.0 project of the Department, which has already been approved by the Cabinet."

17. Asked about the role of the Review Committees and reason for their failure to ensure the overall implementation and integration of the system as per schedule of the project, the Department stated as under:

- i. "Various committees were formed to monitor implementation and integration of the system under DoP Project IT 1.0. The composition and responsibilities of the Review Committees are detailed in Project Management Governance Structure which is enclosed as Annexure A.
- ii. The committees have functioned effectively. However, the project was implemented on a massive scale across the length and breadth of the country in more than 25000 Departmental Post Offices and about 1,30,000 Branch Post Offices located in the rural areas including remote and hilly terrains. The Project also covered wide range of functionalities including Banking, Insurance, Mails, Parcel, Logistics, Retail Services, Human Resources and Finance & Accounts etc and there was a large work force of more than 4 lakh staff/ Gramin Dak Sewaks, who were to be prepared for the complete change in the Department's working after implementation of the IT Project.
- iii. Moreover, the IT project experienced scope changes due to evolving business requirements, regulatory changes or unforeseen challenges and these changes result in new interdependencies that could not be envisaged during the planning

phase. However, these challenges were acknowledged and the unforeseen interdependencies addressed effectively as the project progressed.”

18. When enquired about the measures being taken to prevent delays and integration issues in future projects, the Ministry stated as under:

“In IT 2.0, a single unified interface is proposed across all access channels for all the applications and services extended in post offices in **API** based micro services architecture. This will facilitate application level and accounting level indications across the DoP IT 2.0 landscape.”

19. When the Committee asked about the status of Postal Life Insurance (PLI) – Single Sign On (SSO) integration, the Department replied as under:

“During the 79th meeting of FSI Project Implementation committee, held on 10-08-2022, it was decided that PLI SSO requirement will be taken up with the new vendor. The FSI project has already been handed over to **IPPB** since 29.08.2022 and IPPB has been requested to take necessary action in this regard. Furthermore, it is submitted that the payment of Rs. 29.75 Crore towards overall integration to the CSI vendor has not been released so far to the CSI vendor. A proportionate deduction will be made while sanctioning the amount to the CSI vendor for overall integration. The 79th meeting of the FSI Project Implementation committee has decided that the cost related to this integration will be borne by the CSI vendor since the delay is attributable to the vendor.

20. On being asked whether any formal agreement with existing CSI vendor has been reached regarding bearing of the cost related to its integration as the SSO requirement has been considered as non-delivered, the Department in its reply stated as under:

“There has not been any formal agreement with CSI vendor in this respect. However, the payment of 29.75 crores towards overall integration to the CSI vendor has not been released so far and deduction will be made proportionately while sanctioning the amount to the CSI vendor for overall integration, as decided in the 79th meeting of the FSI Project Implementation committee.”

C. Implementation, Validation and Migration issues in respect of Financial System Integrator

(a) Wasteful expenditure on Procurement of Magnetic Stripe ATM Cards

21. Audit scrutiny revealed that the DoP entered into an Agreement (April 2015) for supply of 1.55 crore Magnetic Stripe Cards or Chip based cards or a mixture or variation depending on its requirement of cards in a span of three years. Reserve Bank of India (RBI) issued an advisory (May 2015) that all new cards issued by banks should be EMV (Europay, Master Card and Visa) chip and pin-based cards with effect from September 2015. The same was extended up to January 2016 and for cards issued under Government Schemes up to September 2016.

22. Audit found that as against the total procurement of 29,90,813 magnetic stripe ATM cards from M/s CMS Info systems Ltd, Mumbai, Department of Posts procured 24,97,394 magnetic stripe ATM cards even after release of Reserve Bank of India (RBI) advisory (May 2015). Out of 24.97 lakh magnetic stripe cards procured, 4,57,458 cards lying unused with the Department and same were either blocked or closed by the Department in view of Reserve Bank of India (RBI) instructions. Audit observed that thus, by proper planning, Department could have avoided wasteful expenditure of ₹4.23 crore (@ ₹16.95 per card) on 24.97 lakh number of Magnetic Stripe ATM cards by procuring EMV chip cards, instead, since the Purchase Orders for magnetic stripe ATM cards were placed between August 2015 to April 2016 i.e. after RBI had issued the advisory (May 2015) regarding EMV Chip Cards.

23. When asked whether the Department has called back/replaced issued cards which were not in compliance of RBI advisory regarding EMV chip and pin-based cards, the Department replied as under:

“As all the magnetic stripes based ATM cards were required to be replaced by new EMV chip based cards in accordance with RBI directions issued in May 2015, all the magnetic stripe cards (issued and unused) were got blocked centrally, and were not usable in any ATM machines after that.”

24. It was mentioned in Background Note that all the magnetic cards were destroyed by respective SOLs/Divisions. In this regard, when the Committee asked how many and how cards have been destroyed, the Department replied as under:

“The 4,22,878 unused ATM magnetic cards were destroyed by the respective SOLs/Divisions. As such, these were not usable in ATMs after being blocked centrally.”

25. As regard the ways to recover the wasteful expenditure on procurement of the magnetic stripe cards by recycling etc., the Ministry in its reply stated as under:

“In line with RBI's instructions, the unused magnetic stripe cards were to be destroyed by cutting the cards into four pieces; recycling or re-use of such cards were not permitted.”

26. When enquired about the measures that have been implemented to ensure timely compliance with the regulations and advisories by RBI, the Ministry stated as below:

“The Post Office Savings Bank (POSB) schemes rules and regulations are defined by Ministry of Finance under the provision of Government Savings Promotions Act 1873. POSB functions as an agency under Department of Economic Affairs (DEA), MOF. POSB Schemes are defined by MOF and the funds collected are accumulated in National Small Savings Fund (NSSF), which is a Public Account established in 1999. POSB is not defined as a bank under the provisions of “The Banking Regulation Act, 1949” and thus, POSB does not come under the supervision of RBI and therefore, regulations and advisories of RBI are not applicable to POSB operations. However, POSB is covered under The Payment and Settlement Systems Act, 2007 and hence RBI guidelines are followed in case of all digital modes of transactions. Besides, while defining Operating Procedure for POSB operations, RBI guidelines are also taken into consideration wherever feasible. Technology management of POSB Operations has been handed over to India Post Payment Bank (IPPB) from August, 2022, which is regulated by the RBI and IPPB complies with guidelines of RBI.”

(b) Improper Validation and Migration of existing data from Old System

27. According to Audit, review of records relating to migration of data at 23 Circles, revealed that the FSI Project Implementation Committee and its Core Sub Committees did not ensure that the migration of existing data from the old system of Sanchay Post to the new system of Finacle (CBS), after proper validation as per Agreement conditions. As a result, Audit noticed various Circles that closed and discontinued POSB accounts/ certificates including public accounts (discontinued in December 2005) amounting to ₹256.89 crore were migrated from Sanchay Post to Finacle during implementation of Core Banking Solution and shown as live status. During subsequent audit conducted in November 2021, it was noticed that cases were still continuing in some Circles. On the other hand, Audit noticed in various Circles that 34,656 cases of Post Office Saving Bank (POSB) accounts and certificates having live status amounting to ₹42.97 crore were not migrated from Sanchay Post to Finacle during implementation of Core Banking Solution. During subsequent audit in November 2021, Audit observed similar cases in other circles as well.

28. Ministry in their Background Note mentioned that all Circles were requested to re-verify the pre and post migration balances as a precautionary step to avoid any chances of misappropriation of Govt. money as well as cleansing of data. Further, a D.O letter dated 19.11.2018 was also issued to Circles by DG (Posts) regarding

verification of data migrated from Sanchay Post to Finacle. Further, the process of re-verifying the pre and post migration balances is continuing and the matter was followed vide DO letter No. 25-31/2017-F-CBS dated 06.01.2022. In this connection it is also stated that, Gujarat Circle has submitted its report vide e-mail dated 29.03.2023 whereas preliminary reports have been received from Madhya Pradesh, Maharashtra, Tamil Nadu and Karnataka Circles. Exercise is under progress with respect to other Circles and will be completed in due course.

29. To a query whether any alternate delivery channel i.e., networks was provided, when the whole operation was being shifted to the application of Finacle, the Ministry replied as below:

“The activity of shifting to the application of the Finacle was carried out in a phased manner and no alternate delivery channel was required during the migration/shifting.”

30. About the steps that have been taken by the Department to provide all the post offices with network access so that the banking operations go on without any disruption during the transition, the Ministry submitted as under:

“Two types of networks are provided in the Post Offices i.e. NSP-I (Primary Network) and NSP-II. Further, there was dependency on availability of the network connectivity (NSP-I) particularly in villages/hilly areas. However, Department provided alternate connectivity such as Fibre to the Home (FTH), National Optical Fibre Network (NOFN), Radio Frequency (RF) Media, Very Small Aperture Terminal (VSAT) and 4G Dongles etc based on availability.”

31. As for status of the re-verification exercise of the pre and post migration balances in all Circles, the Ministry furnished as below:

“Re-verification of pre and post-migration balances is under progress. As on date, re-verification work for identification of discrepancies in total 503 Hos and 5457 Sos has been completed.”

32. On being asked about the systems, those have been put in place to check veracity of the migrated data, the Ministry replied as under:

“Data were migrated from Sanchay Post to Finacle in accordance with detailed check lists. It was also informed by the Ministry that re-verification of the migrated data was in progress.”

33. When enquired about the cases those have been identified by the Audit and

rectified, the Ministry replied as under:

'Rectification to the extent of identified discrepancies had been carried out in the Finacle data base.'

34. Upon the enquiry about measures that have been implemented to prevent similar data migration issues in the future and to ensure accurate and complete migration of data during system implementation, the Ministry in a written reply stated as under:

"The data migration work was completed by Aug-2022 and the experience gained in this respect will be kept in view for any future migration work."

(c) Irregularities in maintenance of accounts after migration of data

35. On scrutiny of records relating to various POSB schemes test checked at Head/ Sub Post Offices in various circles, Audit noticed various irregularities in opening and maintenance of POSB accounts, contrary to the POSB rules, in 8,523 cases viz. SSA/ PPF/ SCSS and TD accounts were opened and continued with zero balance; PPF subscription was below the prescribed minimum and PPF accounts were also opened with joint names etc

36. Ministry stated (January 2022) Data Migration Command Centre, Chennai has already issued necessary instructions for proper validation and migration of existing data in the Sanchay Post to CBS platform. The fact remains that the irregular accounts were still continuing and Finacle System did not find the irregularities automatically. Further, as per Ministry's Background Note, DOP has already taken measures for making Finacle free from irregularities proactively by making necessary changes/customization in Finacle Software for CBS operation in a time bound manner.

37. When the Committee desired to know why FSI Project Implementation Committee and its Sub Committees were not able to curb the irregularities in validation and migration of data in Finacle Software, the Ministry stated as below:

"In this context, it is submitted that prior to migration of data into Finacle software of CBS, the data was highly decentralised and largely manual which was very voluminous and was digitised for the migration process by the circle teams. It is not feasible to identify any lapses directly attributed to the FSI project implementation committees and its sub committees."

38. When enquired how the Department will ensure that necessary changes/ customization in Finacle Software for CBS operations is being carried out in a time bound manner, the Ministry outlined as under:

“The Finacle software has been customised for CBS operations in the Post Offices and changes are carried out from time to time as per the requirements of stakeholders. A tracker has been devised for monitoring of timely implementation of necessary changes in Finacle CBS. Further, various committees are functioning at different levels to recommend, review and monitor the implementation.”

(d) Migration of POSB accounts without KYC data

39. Audit noticed during test check of data at various Head/ Sub Post Offices in a number of Circles that the details of the account holders like name, address and other personal details, were either incomplete or KYC non-compliant. The issue of operation of Savings Bank accounts without details was brought out in the CAG Report No. 1 of 2006 (Para 2.7.2.5) and the discrepancy was not rectified and got migrated from Sanchay Post on as is basis to Finacle of Core Banking Solution.

40. As per Ministry's Background Note, DOP has implemented the guidelines of GSPR 2018 rules vide SB order No. 13 dated 18.12.2019 and thereafter all the new accounts are opened with appropriate KYC Documents. Meanwhile, the Department has also implemented online e-PAN validation in the Finacle system w.e.f. 25.01.2022 as a result of which PAN Number provided at the time of opening of account is being validated through NSDL. Regarding suggestions for taking adequate corrective actions to rectify/validate the data with respect of KYC in older accounts, it is to intimate that necessary KYC updations are being done in the field units as and when customer approach for any transactions.

41. Asked why the discrepancies were not rectified despite the issue of operation of Savings Bank accounts without details was highlighted by Audit in their earlier Report No. 1 of 2006, The Ministry clarified as under:

“The ratification of discrepancies involved challenges i.e. availability of records/documents. However, in the present system restrictions are available to avoid such discrepancies. Aadhaar and PAN have been made mandatory for all types of accounts including existing old accounts. Further, re-KYC is being done after 2 years, 5 years and 8 years in respect of High, Medium and Low risk category customers respectively.”

42. When desired to know the progress of rectification and validation of data in older accounts, the Ministry replied as below:

“Regarding suggestions for taking adequate corrective actions to rectify/validate the data with respect of KYC in older accounts, necessary KYC updations are being done in the field units before transactions are carried out”.

(e) **Inadequate system controls in opening of more than one account**

43. As per Post Office Savings Bank (POSB) Rules, number of accounts that may be allowed to a customer/ depositor in various capacities were prescribed by Ministry of Finance in respect of Savings Bank, Public Provident Fund, Sukanya Samriddhi Yojana and Senior Citizen Saving Scheme. Further, RBI in the monetary policy statement for the year 2012-13 advised to initiate steps to allot Unique Customer Identification Code (UCIC) since this would facilitate proper customer identification across the banking system for monitoring the financial transactions in various accounts. DoP accordingly incorporated in the Functional Requirements of FSI Agreement features for creation, de-duplication and merging of Customer Information Files (CIFs).

44. Audit noticed in various Circles that in 133 cases more than one account was opened in the name of same depositor in contravention of rules. These accounts were migrated to Finacle during implementation of Core Banking Solution. During subsequent audit in November 2021 also similar cases were noticed in other Circles as well. Similarly, Audit also noticed in some circles that allotment of multiple CIFs for the same customer was made in 5,383 cases for same or different types of accounts. However, during subsequent audit also in November 2021, allotment of multiple CIFs for the same customer was noticed in other Circles as well.

45. The Committee noted that RBI in monetary policy statement for the year 2012-13 had suggested allotment of Unique Customer Identification Code (UCIC). Yet, as per Background Note provided by the Ministry, prior to Government Savings Promotion Rules, 2018, account could be opened by furnishing any form of identity and address proof. When asked why the Department has failed to take concrete steps to comply with RBI guidelines, the Ministry updated as under:

“The POSB schemes rules and regulations are defined by Ministry of Finance under the provision of Government Savings Promotions Act, 1873. Post Office Savings Bank (POSB) functions as an agency under Department of Economic Affairs (DEA), MOF. POSB Schemes are defined by MOF and the funds collected are accumulated in National Small Savings Fund (NSSF), which is a Public Account established in 1999. POSB is not defined as a bank under the provisions of “The Banking Regulation Act, 1949” and thus, POSB does not come under the supervision of RBI and therefore, regulations and advisories of RBI are not applicable to POSB operations. Now, accounts are being opened as per the schemes rules notified in 2019 and Government Saving Promotion General Rules (GSPR), 2018. Prior to this, accounts were opened in accordance with the Post Office Savings Bank Rules, 1981 issued by Ministry of Finance. The Department of Posts has also implemented online e-PAN validation in the Finacle

System w.e.f 25.01.2022, as a result of which PAN provided, at the time of opening of account, is being validated through NSDL.”

46. As per the Ministry's Background Note, the Department has already introduced de-duplication based on Aadhaar since inception of Finacle and PAN number. In this regard, the Department updated as under:

“Department of Posts has already introduced deduplication based on Aadhaar since inception of Finacle and PAN number. Total 9.78 Cr. Aadhaar are linked to Active CIFs and 45.74 Lakh Aadhaar are linked to multiple CIFs, which is only 4.68 % of total Aadhaar linked to Active CIFs. Similarly, 6.03 Cr. PAN are linked to active CIFs and out of these PAN, only 7.13% PAN are linked to multiple active CIFs.”

D. Contractual Obligations under FSI

(a) Non provision of alternate delivery channels for banking solutions & Non-seeding of mobile number in Post Office Savings Bank (POSB) accounts

47. As per Agreement, FSI was responsible for supply, customisation, enhancement, installation and commissioning of solutions for alternate delivery channels for Postal Banking viz. Internet Banking, Phone Banking (IVR), Banking through Call Centre, Mobile Banking, SMS tracking and alerts and ATM. The Ministry's reply indicated that compliance to the Agreement conditions as well as Functional Requirement were delayed for more than five years from the implementation of the CBS, thereby delaying benefit of facilities to the public.

48. Audit noticed that the percentage of mobile number seeding by DoP with the Customer Information File (CIF) of the POSB Account holders is on very lower side and the overall status of Mobile number seeding as at the end of September 2021 was 64.61 *per cent* only. It was also noticed that even Customer Information File (CIF) IDs linked with DoP ATM Debit Cards were not updated with mobile numbers in 1,80,494 cases.

49. With regard to the current status of Mobile Number Seeding in terms of percentage, the Ministry stated as under:

“till 30.08.2023, mobile number had been seeded in 10.77 crore out of 22.53 crore active CIFs, which was 47.80% and no transactions in accounts without mobile number seeding were being allowed after 01.04.2023.”

(b) **Networking and connectivity issues under Rural Systems Integrator**

50. As per Agreement, the RSI vendor was to be responsible for deployment of complete Rural ICT Solution including Design, Build, Supply, Installation and Commissioning of Rural ICT Service Delivery Platform (SDP) and Integration with overall solution architecture and other core applications such as Mail Operations, Core Banking Solution, Postal Life Insurance Solution and e-MO etc. whereas the RH vendor was responsible for Supply of the Rural ICT devices with connectivity from the local network services including maintenance. However deviations from the Agreement conditions were noticed in respect of Non-functional Rural Information Communication Technology (RICT) devices

51. As per Ministry's Background Note, Network connectivity to Branch Post Offices will be provided by IPPB w.e.f. 01-10-2023 under DoP IT 2.0 Project.

52. Detailing the efforts being made by the Ministry to improve network connectivity inside the Branch Post Offices in Rural Areas, it was informed as below:

IPPB's field banking IT infrastructure is based upon combination of mobile phones, biometric authentication riding on mobile internet connectivity provided by telecom operators. The model has proved to be frugal and successful in providing seamless connectivity. Considering growing 5G-network, IPPB has invested in procurement of 140,000 5G-enabled mobile phones for deployment in existing as well as upcoming new post-offices to ensure improved connectivity in rural areas.

53. To ensure round the clock network connectivity to Branch Post Offices, the Committee was curious to know about the details of the measures that IPPB was planning. In this regard, the Ministry stated as under:

"To continue expansion of banking services through DOP's branch post offices in rural areas, IPPB has renewed agreement with telecom service providers with contracts for higher data volume. All major telecom service providers like Bharati-Airtel, Reliance-Jio and Vodafone-idea are on-board providing diversification and risk mitigation for ensuring continued connectivity. BSNL is yet to come on board at existing commercial terms offered by other telecom service providers. The delivery of SIMs will be made available based on the network connectivity prevalent in that region, based on inputs from the Circles."

(c) Networking and connectivity issues under Network Integrator

54. Network Integrator Agreement stipulated the provision of connectivity for each departmental post office location from two different network service providers (NSPs) i.e., Primary network should be from BSNL (NSP-I) and secondary (NSP-II) from vendor's (M/s Sify) own network, so as to ensure uninterrupted network connectivity through one single WAN. However, review of records revealed Post Offices working with single Network Service Provider (NSP) and inadequate primary bandwidth.

55. Audit noticed that 2,308 locations of DOP were working with single bandwidth connectivity i.e. 663 locations with primary network and 1645 locations with secondary network only as at the end of January 2019 which was in violation of Agreement conditions that two levels of network were to be provided for continuous services. Regarding provision of single NSP bandwidth, the Ministry stated (January 2022) that efforts were taken to provide both connectivity at all the locations but there were field challenges/ dependency on telecom infrastructure from BSNL and withdrawal of 3G services. Regarding less Primary bandwidth connectivity, it was stated that upgradation by BSNL was not feasible at these locations.

56. As per Ministry's Background Note, through the alternate options, it has been ensured that at least one stable connectivity is available at the Post Office. Due to these efforts, all the 25,000+ Post Offices could be interconnected and brought on Core Banking Solution. As on date, there is not a single departmental Post Office without network connectivity.

57. When enquired about the monitoring mechanism that was envisaged by the DoP for ensuring that prescribed norms of Network Integrator Agreement are being followed, the Ministry replied as under:

"Network Integration Project was one of the silos under the IT Modernizations Project 1.0, wherein BSNL was the primary network service provider and M/s Sify was the secondary network service provider. With respect to the monitoring mechanism under NI Project, as per the RFP, the vendor was required to establish Network Operations Centre (NOC) in order to allow proactive monitoring of the Network devices, links etc, performance management. Further, the various parameters identified were also included in the SLA reports and Liquidated Damages (LD) were imposed on the vendor for non-adherence to the said norms."

58. When desired to know what steps were being taken by the Ministry to further integrate Post Offices still working with Single network (Single NSP) considering that Network Integrator Agreement conditions required that two levels of network were to be provided for continuous services, the Ministry stated as under:

“Continuous efforts were being taken to provide the connectivity at all the post offices. Alternate network connectivity options (FTTH, NOFN, RF Media, 4G, VSAT) were being explored and provisioned to ensure at least one stable connectivity is available at the Post Office to enable them to connect the Data Center for accessing applications to provide services to the customers.

59. Further, when asked what alternate network connectivity options had been used in North East, hilly and remote areas to extend Network Services there, the Ministry replied as under:

“Various alternatives had been explored and provided with network connectivity through VSAT, FTTH/NOFN, VPN and 4G at Post Offices as per availability to meet the Telecom infrastructure challenge in such difficult areas”.

PART-II

OBSERVATIONS/ RECOMMENDATIONS OF THE COMMITTEE

Introduction

IT Modernization Project of the Department of Posts (DoP) was sanctioned in November 2012 with a budget of ₹4,909 crore with the primary objective of enhancing the operational efficiency and service delivery of both operational and administrative units within DoP by leveraging advanced technology and improved connectivity. The Project was implemented in eight project segments and executed by different vendors, who included Reliance Communications Infrastructure Limited (Data Center Facility project), Sify Technology Limited (Network Integrator project), Tata Consultancy Services Limited (Core System Integrator & Change Management project), Infosys Technology Limited (Financial System Integrator & Rural System Integrator), Telecommunications Consultants India Limited (Rural ICT Hardware), and DGS&D (Mail Operations Hardware). Against the sanctioned cost of ₹4,909.00 crore, the actual expenditure incurred on the Project was ₹3,447.98 crore as on September 2021.

1. Roll-out of important segments of the IT Modernisation Project

The Committee note from the Audit observation that IT Modernization Project was nearing completion, with an expenditure of ₹3,447.98 crore (September 2021) and balance liabilities of ₹1,376.83 crore due to the vendors. As per Audit, there were significant delays in the completion of important segments of the project viz. Financial System Integrator (FSI), Core System Integrator (CSI), Network Integrator (NI) and Rural System Integrator (RSI), ranging from one to four years against the timelines for completion of the Project. The Ministry have in their explanatory note stated that except for PLI SSO integration, the other modules have since been integrated. Further, at the 79th meeting of the FSI Project Implementation committee, it has been decided that the cost related to this integration will be borne by the CSI vendor as the delay is attributable to the vendor and the payment of 29.75 crores towards overall integration to the CSI vendor is yet to be released and deduction is to be made proportionately while sanctioning the amount to the vendor for overall integration. Regarding the PLI SSO integration that remains, Ministry stated that PLI SSO requirement will be taken up with the new vendor and the FSI project has already been handed over to IPPB since 29.08.2022 for necessary action to be taken. Moreover, the learnings of the IT 1.0 Project are being addressed in the IT 2.0 project of the

Department which has already been approved by the Cabinet by proposing a single unified interface across all access channels for all the applications and services extended in post offices in API based micro services architecture to facilitate application level and accounting level indications across the DoP IT 2.0 landscape. Though the responsibility for delay in overall integration has been fixed against the CSI vendor by withholding the payments due by the FSI Project Implementation committee, evidently the monitoring by the Project Implementation committee has not been up to the mark as it failed to ensure completion of the project within the timelines. The Committee, therefore, while emphasising the need to strengthen the Project Implementation Committee mainly on account of the fact that the leftover work of PLI SSO integration and IT 2.0 project is to be taken up, desire that necessary action should also be taken in regard to pre-rollout preparatory activities by both the DoP field units and the vendors and ensure their timely execution.

2. Wasteful expenditure on Procurement of Magnetic Stripe ATM Cards

The Committee note that the DoP entered into an Agreement (April 2015) for supply of 1.55 crore Magnetic Stripe Cards or Chip based cards or a mixture or variation depending on the requirement of cards over three year period. Reserve Bank of India (RBI) issued an advisory (May 2015) that all new cards issued by banks should be EMV (Europay, Master Card and Visa) chip and pin-based cards with effect from September 2015. The timeframe was subsequently extended up to January 2016; and for cards issued under Government Schemes up to September 2016. The Committee, however, note that even after release of RBI advisory, the DoP procured 24,97,394 magnetic stripe ATM cards as against the total procurement of 29,90,813 magnetic stripe ATM cards from M/s CMS Info systems Ltd, Mumbai resulting in wasteful expenditure of ₹4.23 crore (@ ₹16.95 per card) as the Purchase Orders for magnetic stripe ATM cards were placed between August 2015 to April 2016 i.e. after RBI had issued the advisory (May 2015) regarding EMV Chip Cards. As regards the measures taken to ensure timely compliance with the regulations and advisories by RBI, the Ministry stated that the Post Office Savings Bank (POSB) schemes rules and regulations are defined by Ministry of Finance under the provisions of Government Savings Promotions Act 1873 and not as a bank under the provisions of "The Banking Regulation Act, 1949". Thus, POSB does not come under the supervision of RBI and therefore, regulations and advisories of RBI are not applicable to POSB operations. However, POSB is covered under The Payment and Settlement Systems Act, 2007 and hence RBI guidelines are followed in case of all digital modes of transactions. Besides, while defining Operating Procedure for POSB operations, RBI guidelines are also taken into consideration wherever feasible. Technology

management of POSB Operations has been handed over to India Post Payment Bank (IPPB) from August, 2022, which is regulated by the RBI and IPPB complies with guidelines of RBI. The Committee are not convinced with the Ministry's explanation in this regard mainly on account of the fact that as per the Agreement (April 2015) entered into by the DOP for supply of 1.55 crore Magnetic Stripe Cards or Chip based cards, there was provision for making variations in the order depending on the requirement of cards in a span of three years. The Committee while noting that all the magnetic stripe cards (issued and unused) were blocked centrally, and were not usable in any ATM machines following the blockage, are of the view that DOP should have known that change in the specifications for the cards by RBI having supervision over all the banks will eventually result in restricting their acceptability on ATMs of the banks and other machines irrespective of whether the guidelines were applicable to POSB or not. The Committee also while taking note of the fact that no serious efforts were taken against such act of commission leading to wasteful expenditure of ₹4.23 crore, desire that an inquiry should be instituted and responsibility fixed against the officers concerned for the lapse with due promptitude.

3. Improper Validation and Migration of existing data from Old System

According to Audit, review of records relating to migration of data at 23 Circles, revealed that the FSI Project Implementation Committee and its Core Sub Committees did not ensure that the migration of existing data from the old system of Sanchay Post to the new system of Finacle (CBS), after proper validation as per Agreement conditions. As a result, various Circles that closed and discontinued POSB accounts/ certificates including public accounts (discontinued in December 2005) amounting to ₹256.89 crore were migrated from Sanchay Post to Finacle during implementation of Core Banking Solution and the status shown as live. In the subsequent audit conducted in November 2021, it was noticed that cases were still continuing in some Circles. On the other hand, 34,656 cases of Post Office Saving Bank (POSB) accounts and certificates having live status amounting to ₹42.97 crore were not migrated from Sanchay Post to Finacle during implementation of Core Banking Solution. Moreover, similar cases in other circles were observed as well. The Ministry in their reply mentioned that all Circles were requested to re-verify the pre and post migration balances as a precautionary step to avoid any chances of misappropriation of Govt. money as also cleansing of data. Further, Gujarat Circle has since submitted its report on 29.03.2023 whereas preliminary reports have been received from Madhya Pradesh, Maharashtra, Tamil Nadu and Karnataka Circles and with respect to other Circles, the exercise is under progress and will be completed in due

course. As on date, re-verification work for identification of discrepancies in total 503 HOS and 5457 SOS has been completed. Further, rectification to the extent of discrepancies identified by Audit had been carried out in the Finacle data base. Due to poor monitoring by FSI Project Implementation Committee and its Core Sub Committees in ensuring proper validation in the new system of Finacle while migrating data from the old system of Sanchay Post, not only the closed and discontinued POSB accounts/ certificates including public accounts (discontinued in December 2005) amounting to ₹256.89 crore were migrated to “live status”, but also live accounts remained unmigrated. Even after the lapses were brought to the notice of the Department by Audit, the Ministry could not identify the areas of discrepancy in their circles as re-verification process of the pre and post migration balances in the new system is still under progress and only Gujarat Circle has since submitted its report on 29.03.2023 whereas only preliminary reports have been received from Madhya Pradesh, Maharashtra, Tamil Nadu and Karnataka Circles. In view of the slow progress of the re-verification process by the circles, the Committee wish to point out that already a lot of time has lapsed for rectification of the identified discrepancies in the migrated data in new system. Since prolonged delay may result in misappropriation of savings of common man by unscrupulous elements, the Committee desire that the entire process of re-verification and rectification of discrepancies noticed in the system should be completed in a time bound manner. Based on the experience, the new system should also be reviewed and regulated through proper validations to ensure error free transfer of funds during the transactions by the customers. The Committee would like to be apprised of the concrete steps taken in this regard. To prevent similar data migration issues in the future and to ensure accurate and complete migration of data during system implementation, the Committee hope that the experience gained in this respect will be kept in view for any future migration work.

4. Irregularities in maintenance of accounts after migration of data

According to Audit, scrutiny of records relating to various POSB schemes test checked at Head/ Sub Post Offices in various circles, revealed various irregularities in opening and maintenance of POSB accounts. Contrary to the POSB rules, in 8,523 cases viz. SSA/ PPF/ SCSS and TD accounts were opened and continued with zero balance; PPF subscription was below the prescribed minimum and PPF accounts were also opened with joint names etc. The Ministry stated (January 2022) that Data Migration Command Centre, Chennai has already issued necessary instructions for proper validation and migration of existing data in the Sanchay Post to CBS platform. Audit observed that the fact remains that

the irregular accounts were still continuing and Finacle System did not find the irregularities automatically. In this regard, the Ministry stated that DOP has already taken measures for making Finacle free from irregularities proactively by making necessary changes/customization in Finacle Software for CBS operation in a time bound manner. Explaining why FSI Project Implementation Committee and its Sub Committees failed to detect the lapses in validation and migration of data in Finacle Software, the Ministry stated that prior to migration of data into Finacle software of CBS, the data was highly decentralised and largely manual which was very voluminous and was digitised for the migration process by the circle teams. To ensure that necessary changes/ customization in Finacle Software for CBS operations is being carried out in a time bound manner, the Ministry outlined that the Finacle software has been customised for CBS operations in the Post Offices and changes are carried out from time to time as per the requirements of stakeholders. A tracker has been devised for monitoring of timely implementation of necessary changes in Finacle CBS. Further, various committees are functioning at different levels to recommend, review and monitor the implementation. The Committee, while noting the initiatives taken by the DOP for ensuring time bound implementation of necessary changes/ customization in Finacle Software for CBS operations, desire that the Ministry appoint an independent agency to ascertain the effectiveness of the new Finacle software.

5. Migration of POSB accounts without KYC data

According to Audit, during test check of data at various Head/ Sub Post Offices in a number of Circles, it was noticed that the details of the account holders like name, address and other personal details, were either incomplete or KYC non-compliant. Audit also pointed out that the issue of operation of Savings Bank accounts without details was brought out in the CAG Report No. 1 of 2006 (Para 2.7.2.5) and the discrepancy was not rectified and got migrated from Sanchay Post on as is basis to Finacle of Core Banking Solution. As per Ministry's reply, DOP has implemented the guidelines of GSPR 2018 rules vide SB order No. 13 dated 18.12.2019 and thereafter all the new accounts are opened with appropriate KYC Documents. Meanwhile, the Department has also implemented online e-PAN validation in the Finacle system w.e.f. 25.01.2022 as a result of which PAN Number provided at the time of opening of account is being validated through NSDL. Regarding suggestions for taking adequate corrective actions to rectify/validate the data with respect of KYC in older accounts, the DOP stated that necessary KYC updations are being done in the field units as and when customers approach for any transactions. Explaining why the discrepancies were not rectified despite the issue of operation of Savings Bank

accounts without details being highlighted by Audit in their earlier Report No. 1 of 2006, the Ministry clarified that the rectification of discrepancies involved challenges i.e. availability of records/documents. The Committee are of the considered view that as the issue of operation of Savings Bank accounts without details had already been brought to the notice of the Department by Audit {through the CAG Report No. 1 of 2006 (Para 2.7.2.5)}, rectificatory action by circles at that point of time in 2006 itself could have avoided such a situation/ ensured error free data at the time of migration from Sanchay Post. However, to make the case worse, the DOP allowed migration of data from Sanchay Post on as is basis to Finacle of Core Banking Solution. The Committee, while expressing dissatisfaction with reply of the Ministry that the rectification of discrepancies involved challenges i.e. availability of records/documents, observe that the rectification process across the circles could have been completed well within time as IT modernization project was implemented pursuant to the guidelines of GSPR 2018 rules since 18.12.2019. The Committee, therefore, feel that an inquiry be made to ascertain reasons for not carrying out rectification of the discrepancies highlighted by Audit and migrating the data from Sanchay Post on as is basis to Finacle of Core Banking Solution and to fix the responsibility against the officials found responsible.

6. Inadequate system controls in opening of more than one account

The Committee note that as per Post Office Savings Bank (POSB) Rules, number of accounts that may be allowed to a customer/ depositor in various capacities were prescribed by Ministry of Finance in respect of Savings Bank, Public Provident Fund, Sukanya Samriddhi Yojana and Senior Citizen Saving Scheme. Further, RBI in the monetary policy statement for the year 2012-13 advised to initiate steps to allot Unique Customer Identification Code (UCIC) since this would facilitate proper customer identification across the banking system for monitoring the financial transactions in various accounts. DoP accordingly incorporated in the Functional Requirements of FSI Agreement features for creation, de-duplication and merging of Customer Information Files (CIFs). However, Audit noticed in various Circles that in 133 cases more than one account was opened in the name of same depositor in contravention of rules and were migrated to Finacle during implementation of Core Banking Solution. Audit pointed out that during subsequent audit in November 2021 also similar cases were noticed in other Circles as well. Similarly, Audit also noticed in some circles that allotment of multiple CIFs for the same customer was made in 5,383 cases for same or different types of accounts. However, during subsequent audit also in November 2021, allotment of multiple CIFs for the same customer was noticed in

other Circles as well. Explaining why the Department failed to take concrete steps to comply with RBI guidelines regarding allotment of Unique Customer Identification Code (UCIC), the Ministry stated that the POSB schemes rules and regulations are defined by Ministry of Finance under the provision of Government Savings Promotions Act, 1873. Post Office Savings Bank (POSB) functions as an agency under Department of Economic Affairs (DEA), MOF. POSB Schemes are defined by MOF and the funds collected are accumulated in National Small Savings Fund (NSSF), which is a Public Account established in 1999. POSB is not defined as a bank under the provisions of "The Banking Regulation Act, 1949" and thus, POSB does not come under the supervision of RBI and therefore, regulations and advisories of RBI are not applicable to POSB operations. Now, accounts are being opened as per the schemes rules notified in 2019 and Government Saving Promotion General Rules (GSPR), 2018. Prior to this, accounts were opened in accordance with the Post Office Savings Bank Rules, 1981 issued by Ministry of Finance. The Department of Posts has also implemented online e-PAN validation in the Finacle System w.e.f 25.01.2022, as a result of which PAN provided, at the time of opening of account, is being validated through NSDL. The Ministry also stated that the Department has already introduced de-duplication based on Aadhaar since inception of Finacle and PANs number. Ministry added that total 9.78 Cr. Aadhaar are linked to Active CIFs and 45.74 Lakh Aadhaars are linked to multiple CIFs, which is only 4.68 % of total Aadhaar linked to Active CIFs. Similarly, 6.03 Cr. PANs are linked to active CIFs and out of these PANs, only 7.13% PANs are linked to multiple active CIFs. In view of the submission of DOP that only 4.68 % of total Aadhaars linked to Active CIFs and only 7.13% PAN are linked to multiple active CIFs, the Committee gather an impression that Department is content with their e-verification process. The Committee opine that since even these small proportions run into lakhs, there is an urgency for ensuring robust Financial system to prevent irregularity of even a single penny. It will not be out of context to mention here that some of old existing customers might not have registered themselves for Aadhar and PAN as yet. So there is likelihood that the data provided by the Department may require updation as well. E-KYC of old customers whose saving accounts are not linked to Aadhar and PAN may be done at customers 'doorstep' through its field office staff. They may be sensitized about the benefits of e-KYC to service their accounts. Efforts should also be made to complete E-KYC process on mission mode by stipulating a timeline.

Contractual Obligations under FSI

8. Non-provision of alternate delivery channels for banking solutions & Non-seeding of mobile number in Post Office Savings Bank (POSB) accounts

The Committee note that as per Agreement, FSI was responsible for supply, customisation, enhancement, installation and commissioning of solutions for alternate delivery channels for Postal Banking viz. Internet Banking, Phone Banking (IVR), Banking through Call Centre, Mobile Banking, SMS tracking and alerts and ATM. Further, compliance to the Agreement conditions as well as Functional Requirement was delayed for more than five years from the implementation of the CBS. Audit noticed that the percentage of mobile number seeding by DoP with the Customer Information File (CIF) of the POSB Account holders is on a lower side and the overall status of Mobile number seeding as at the end of September 2021 was 64.61 *per cent* only. It was also noticed that even Customer Information File (CIF) IDs linked with DoP ATM Debit Cards were not updated with mobile numbers in 1,80,494 cases. With regard to the current status of Mobile Number Seeding in terms of percentage, the Ministry stated that till 30.08.2023, mobile numbers had been seeded in 10.77 crore out of 22.53 crore active CIFs and no transactions in accounts without mobile number seeding were being allowed after 01.04.2023. The Committee note that the percentage of mobile number seeding by DoP with active Customer Information File (CIF) of the POSB Account holders is less than 50 per cent till 30.08.2023. To ensure that benefit of postal banking facilities reaches to the public without any difficulty, not only seeding of mobile numbers with the Customer Information File (CIF) of the POSB account holders is essential but also their updation in the service delivery system, ATM Debit Cards etc. of the Postal banks from time to time. Taking note of the sluggish pace of the mobile number seeding process, the Committee recommend that the Ministry should take earnest efforts to ensure that whole exercise of mobile number seeding is completed in a stipulated timeframe so that alternate delivery channels for Banking may be provided to the public at the earliest.

9. Networking and connectivity issues under Rural Systems Integrator

The Committee note that as per Agreement, the RSI vendor was to be responsible for deployment of complete Rural ICT Solution including Design, Build, Supply, Installation and Commissioning of Rural ICT Service Delivery Platform (SDP) and Integration with overall solution architecture and other core applications such as Mail Operations, Core Banking Solution, Postal Life Insurance Solution and e-MO etc. whereas the RH vendor was responsible for Supply of the Rural ICT devices with connectivity from the local network services

including maintenance. However, deviations from the Agreement conditions were noticed in respect of Non-functional Rural Information Communication Technology (RICT) devices. Audit noticed that RICT devices were not functioning properly due to poor network connectivity provided by the vendor resulting in frequent disruptions in provision of services to rural customers through RICT devices at Branch Post Offices. The issue of connectivity problems was seen by Audit in Branch Post Offices of Bihar, Gujarat, Haryana, Himachal Pradesh, Jharkhand, Kerala and Madhya Pradesh Circles during test check in 4638 cases. To improve network connectivity inside the Branch Post Offices in Rural Areas, the DOP stated that PPB's field banking IT infrastructure is based upon combination of mobile phones, biometric authentication riding on mobile internet connectivity provided by telecom operators. The model has proved to be frugal and successful in providing seamless connectivity. Considering the growing 5G-network, IPPB has invested in procurement of 140,000 5G-enabled mobile phones for deployment in existing as well as upcoming new post-offices to ensure improved connectivity in rural areas. Further, to ensure round the clock network connectivity to Branch Post Offices, the Ministry stated that to continue expansion of banking services through DOP's branch post offices in rural areas, IPPB has renewed agreement with telecom service providers with contracts for higher data volume. All major telecom service providers like Bharati-Airtel, Reliance-Jio and Vodafone-idea are on-board providing diversification and risk mitigation for ensuring continued connectivity. BSNL is yet to come on board at existing commercial terms offered by other telecom service providers. The delivery of SIMs will be made available based on the network connectivity prevalent in that region, based on inputs from the Circles. While acknowledging the initiatives taken for providing round the clock and better connectivity by making investment in procurement of 140,000 5G-enabled mobile phones for deployment in existing as well as upcoming new post-offices by IPPB, renewal of agreement with telecom service providers with contracts for higher data volume, the Committee would like to be apprised of the efforts taken for ensuring expeditious delivery of SIMs to the circles besides on boarding of BSNL. The Committee are hopeful that with the initiatives taken by the Department, the connectivity issues would be duly addressed in the Branch Post Offices.

10. Networking and connectivity issues under Network Integrator

The Committee note that Network Integrator Agreement stipulated the provision of connectivity for each departmental post office location from two different network service providers (NSPs) i.e., Primary network should be from BSNL (NSP-I) and secondary (NSP-II) from vendor's (M/s Sify) own network, so as

to ensure uninterrupted network connectivity through one single WAN. However, Audit pointed out that review of records revealed that Post Offices were working with single Network Service Provider (NSP) and inadequate primary bandwidth. Audit noticed that 2,308 locations of DOP were working with single bandwidth connectivity i.e. 663 locations with primary network and 1645 locations with secondary network only as at the end of January 2019 which was in violation of Agreement conditions that two levels of network were to be provided for continuous services. In this regard, the Ministry stated (January 2022) that efforts were taken to provide both connectivity at all the locations but there were field challenges/ dependency on telecom infrastructure from BSNL and withdrawal of 3G services. Further, upgradation by BSNL was not feasible at these locations. As per Ministry's reply, through the alternate options, it has been ensured that at least one stable connectivity is available at the Post Office. Due to these efforts, all the 25,000+ Post Offices could be interconnected and brought on Core Banking Solution. As on date, there is not a single departmental Post Office without network connectivity. Elaborating further, the Ministry stated that continuous efforts were being taken to provide the connectivity at all the post offices. Alternate network connectivity options (FTTH, NOFN, RF Media, 4G, VSAT) were being explored and provisioned to ensure at least one stable connectivity is available at the Post Office to enable them to connect the Data Center for accessing applications to provide services to the customers. While noting that all the 25,000+ Post Offices are interconnected and brought on Core Banking Solution working with at least one stable connectivity, the fact remains that the stipulation of the Network Integrator Agreement regarding provision of connectivity for each departmental post office location from two different network service providers (NSPs) has not been achieved. Moreover, in the opinion of the Committee, failure of single available network in the absence of alternate arrangement may bring the operations to a halt. The Committee, therefore, desire that besides taking stringent action against the vendors for failing to meet the contract commitments, all out efforts should be taken to ensure arranging of another network to deal with any functional eventuality.

NEW DELHI:
17th January, 2024
27 Pausha 1945 (*Saka*)

ADHIR RANJAN CHOWDHURY
Chairperson,
Public Accounts Committee