

**MISAPPROPRIATION OF PUBLIC MONEY IN
DEPARTMENT OF POSTS**

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

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

EIGHTY-FOURTH REPORT

SEVENTEENTH LOK SABHA



**LOK SABHA SECRETARIAT
NEW DELHI**

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PUBLIC ACCOUNTS COMMITTEE
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सत्यमेव जयते

Presented to Lok Sabha on:

07-02-2024
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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 Subhash Chandra Baheria
3. Shri Thalikkottai Rajuthevar Baalu
4. Shri Bhartruhari Mahtab
5. Shri Jagdambika Pal
6. Shri Pratap Chandra Sarangi
7. Shri Vishnu Dayal Ram
8. Shri Rahul Ramesh Shewale
9. Shri Gowdar Mallikarjunappa Siddeshwara
10. Dr. Satya Pal Singh
11. Shri Brijendra Singh
12. Shri Rajiv Ranjan Singh alias Lalan Singh
13. Shri Jayant Sinha
14. Shri Balashowry Vallabhaneni
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. Shri Sanjeev Sharma - Joint Secretary
2. Smt. Bharti S. Tuteja - Director
3. Shri Girdhari Lal - Deputy Secretary
4. Ms. Pragya Nama - Assistant Committee Officer

INTRODUCTION

I, the Chairperson, Public Accounts Committee (2023-24) having been authorized by the Committee, do present this Eighty-fourth Report (Seventeenth Lok Sabha) on “**Misappropriation of public money in Department of Posts**” based on Para 3.5 of the C&AG’s Report No. 15 of 2022 (Compliance Audit) relating to the Ministry of Communication (Department of Post).

2. The Report of Comptroller and Auditor General of India was laid on the Table of the House on 08 August 2022.

3. The Public Accounts Committee (2023-24) took oral evidence of the representatives of Ministry of Communication (Department of Post) on 18 July, 2023. The Committee considered and adopted this Report at their sitting held on 17 January, 2024. The Minutes of the sittings of the Committee are appended to the Report.

4. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in bold and form Part-II of the Report.

5. The Committee would like to express their thanks to the representatives of the Ministry of Communication (Department of Posts) for tendering evidence before them and furnishing the requisite information to the Committee in connection with the examination of the subject.

6. 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

A. Introductory

This Report is based on Para 3.5 of C&AG Report No.15 of 2022 on the subject, "Misappropriation of Public Money in Department of Posts" pertaining to the Department of Posts.

B. Misappropriation of Public Money in Department of Posts

The Post Office Savings Bank (POSB) caters to the investment needs of both urban and rural clientele. The Department of Posts (DoP) provides these services on an agency basis for the Ministry of Finance, Government of India. Offering a variety of products, DoP's POSB services are designed to meet diverse investment requirements for the convenience of the public.

C. AUDIT FINDINGS:

1. To ensure the integrity of Savings Bank Operations and prevent fraud, DoP has established internal checks as outlined in the Post Office Savings Bank Manuals. Responsibilities for fraud prevention are clearly defined for staff at various levels, including Sub Post Offices, S.O. Group, and the Saving Bank Control Organization (SBCO) in Head Post Offices, Divisional, Regional, and Circle Offices. DoP has also issued directions to Postal Circles through internal orders, specifying preventive checks and actions to avert fraudulent activities by its staff.
2. In pursuit of enhanced control and monitoring over POSB operations, DoP initiated the IT Modernization Project 2012. As part of this initiative, the implementation of Core Banking Solution (CBS) commenced in December 2013, replacing the existing "Sanchay Post" software in Post Offices. To verify the authenticity of Sanchay Post data migrated to CBS, DoP issued instructions in March 2016 for verification before and after migration in all post offices.
3. Despite these measures, complaints have been received regarding misappropriations and irregularities in investment schemes, leading to unauthorized withdrawal of funds by postal staff. An audit conducted between November 2002 and September 2021 revealed that the S.O. Branch and SBCO in Head Post Offices failed to conduct prescribed checks related to POSB operations. Coupled with delays in validating data migrated from Sanchay Post to CBS, this resulted in the misappropriation of at least ₹95.62 crore in various test-checked Post Offices across 14 Circles. Various fraudulent activities and misappropriations were identified, totaling ₹95.62 crore, with recovery efforts resulting in ₹14.39 crore (inclusive of penalty/interest of ₹40.85 lakh). However, ₹81.64 crore remained due for recovery. The audit analysis highlighted several modus operandi, including fraudulent withdrawals, database manipulation, uncredited cash deposits, fake signatures/thumb impressions, unauthorized use of User IDs, and connivance with outsiders to open fake accounts.
4. Despite actions taken against some delinquent officials and partial recovery, the lapses in conducting prescribed internal checks and monitoring failures were evident. Some Postal Circles reported issuing guidelines for settlement and investigation by Enforcement Directorate and Central Bureau of Investigation, while

others indicated actions were in process. Replies from several Postal Circles were still awaited as of the last update in February 2022.

5. Regarding the details of frauds in Small Saving Accounts, Sukanya Samridhi and other Term Deposit Accounts Schemes detected in last 15 years and the action taken by the Department against fraudsters involved along with the total recovery made therefrom, the Ministry responded as below:

“A fraud case may involve misappropriation spread across various products/schemes viz SB, RD, TD, PLI/RPLI, fraud associated with remittances etc. Details of frauds are not maintained at present under specific products/scheme heads. The Department of Posts maintains consolidated data of live cases of loss and fraud, even of live cases that are more than 15 years old. Similarly, the details of amount recovered is maintained and it includes recovery in all types of live loss and fraud cases. The headwise details of live loss and fraud cases relating to POSB as on 31.03.2023 is included in Col. 'Head –iv & v' of the annexed table. Besides the above recoveries, disciplinary action is taken against the primary/main identified offenders and subsidiary offenders like dismissal, compulsory retirement, withholding of increment, reduction to lower stages etc. under the CCS (CCA) Rules 1965 and recovery, reduction/withholding of pensionary benefits with respect to pensioners under CCS (Pension) Rules 2021 in the case of departmental officials and GDS (Conduct and Engagement Rules) 2020 with respect to GraminDakSevaks as applicable. In the case of penalties, there is indirect recovery. For example, when an employee is dismissed from service, all his pensionary benefits are ceased and thereby, there is substantial saving to the Government. This indirect recovery to the government exchequer is not exactly quantifiable. This indirect recovery is not included in the recovery column of the table at Annexure E.”

6. When sought to know about the internal checks placed at various hierarchical levels in Post Offices/DoP, the Ministry furnished the response as under:

The prescribed internal checks/inspections at different levels/offices of the Department is as follows:-

(1) Daily Audit by SBCO Branch

- (i) 100% transactions vouchers checking on daily basis
- (ii) Checking the genuineness of manually entered transactions in CSI F & A Module on daily basis

(2) Checking in Accounts Branch

Reconciliation of Bank Remittances and Drawals which includes POSB transactions

(3) Checking in Postal Accounts Offices

100% vouchers checking in respect of Savings Certificates issued before 01.07.2016

(4) Internal Check Inspection / Internal Audit

- (i) Inspection frequency has been revised to annual from once in 18 months w.e.f. 01.01.2022.
- (ii) Checking the accounting functions of Head Post Offices, one Sub Post Office and one Branch Post Office
- (iii) Inspection / Auditing of POSB operation and SBCO operation.

(5) Other checks and balances with respect to accounts

- (i) Verification of withdrawals of ₹ 10,000/- and above at the counters of BOs -Through Assistant Superintendent Posts (ASP) / Inspector Posts (IP) / Public Relation Inspectors (P)
- (ii) Verification of balances in the passbooks of Savings Account, Sukanya Samriddhi Accounts and Public Provident Fund accounts maintained in the BOs at the time of receipt of passbooks for posting of annual interest in SO
- (iii) Verification of balances of accounts standing at BOs the passbooks of which are not received for interest posting through Sub Divisional Heads
- (iv) Review of Sub Postmasters' Monthly Report (SMR) – Analysing the monthly deposits / withdrawals with the corresponding month of the previous year
- (v) Cent percent verification of one BO in one month in each Postal Division
- (vi) It is the special responsibility of the Heads of Circle to see that all the preventive measures / checks are exercised meticulously and every effort made to nip frauds in the bud. The Heads of Circles are also free to devise any further special checks they want to carry out in the light of local circumstances. However, the overall endeavour should be to minimise the incidents of SB frauds and tone up the Divisional Administrations.

(6) Inspections

- (i) Quarterly visit to Branch Post Offices (BO) by the Mail Overseers
 - a) Checking of cash and balances of other valuable items
 - b) Checking of all the new accounts indexed with accounted receipts
 - c) Verification of specified number of passbooks balances with the balances in office records
 - d) Checking of all transactions
- (ii) Annual Inspection at Branch Post Offices (BO) & Sub Post Office (SO) by the Inspector Posts (IP) / Asst. Superintendent Posts (ASP) / Divisional Heads
 - a) Checking of cash and balances of other valuable items
 - b) Checking of accounted transactions randomly for four days
 - c) Verification of stock of passbooks / cheque books
 - d) Checking of balances in specified number of passbooks

- (iii) Second Inspection of BO & SO) by the Inspector Posts (IP) / Asst. Superintendent Posts (ASP) / Divisional Heads in case of non- satisfactory annual inspection
- (iv) Half-year verification (June & December) / Annual Inspection at Head Post Offices by Divisional Heads
 - a) Checking of cash and balances of other valuable items
 - b) Checking of accounted transactions randomly for four days
 - c) Verification of stock of passbooks / cheque books
 - d) Checking of balances in specified number of passbooks
- (v) Annual inspection of SBCO of each Head Post Office by Accounts Officer Internal Check Organization (SB) (AO ICO (SB))
 - a) Checking of accounts closed on transfer from other office for any selected days
 - b) Checking of balances in 20 pass books
 - c) Checking of stock of cheque books
 - d) Checking of inward and outward cheque clearance transactions with the transactions accounted in Treasury
 - e) Checking the functioning of SBCO
 - f) Checking of prescribed office accounts balances

(7) Visits:

Visits by various authorities including CPMGs are also prescribed as per a format during which cash and valuable items are checked. Previous day's transactions are also verified.

7. When asked about the measures prescribed by the Post Office Saving Bank Manuals for preventing frauds and fraudulent activities in Saving Bank Operations at various levels, the Ministry replied as under:

(i) Various technological steps were taken to make system more secure and avoid any chances of frauds. Most of the frauds listed in the C & AG report under reference relate to manual manipulation or alteration of the Sanchay Post database by official/s with malafide intent. CBS has been implemented in all post offices and Finacle is a highly secure system with proven security features across the banking system.

(ii) To make the process more secure and to facilitate secure customer access, the following initiatives after roll out of CBS have been taken by the department : -

(a) e-Passbook: - Account holders can view balance/mini statement of their account online through India Post website.

(b) Printing of passbooks has been mandated to be done only through passbook printers in CBS post offices.

(c) Collection of passbooks has been made mandatory for closure of accounts in single handed and double handed post offices.

(d) Account transfer, account freeze/unfreeze and silent account revival process is centralized at the HO level with two supervisor's roles identified.

(e) CBS-CSI GL integration has been implemented, which enables automatic accounting of all transactions carried out in Finacle in CSI.

(f) Common List of Transactions/Consolidated Journal have been implemented, which has improved efficiency in checking of vouchers at SBCO.

(g) Interactive Voice Response (IVR): - By calling toll free number 18002666868, customer can inquire about their account, balance and transactions.

(h) Customer Due Diligence: - For awareness of the customers, 'Safety Instructions for Depositors' have been issued and the same are being displayed on the India Post website, notice boards and counters to safeguard customers' money.

(i) Mobile Number Validation: - Mobile number has been made mandatory for opening of any account, modification of any account or to carry out any financial transaction.

(j) SMS alerts: - Free SMS alerts are issued automatically about various financial transactions as well as non-financial transactions to the customers. This includes all debit transactions and any credit transactions above Rs. 499. There are SMS alerts about change of mobile number and alerts one month before the maturity of any account.

(k) Fraud Risk Management Unit (FRMU):-

A separate Fraud Risk Management Unit (FRMU) has been established to scrutinize the alerts generated by the system about various transactions, on the basis of certain set of rules. In case of any deviation from the specified rules, alerts are generated and the same are verified through post offices, Inspectors of the Department.

(l) Online PAN Validation: - Online PAN validation has been implemented to verify PAN number with NSDL.

(m) DBT credit through ACH/NACH: - All state/central Government scheme/s beneficiaries' amount are being deposited in respective PO Savings Accounts online through ACH/NACH facility.

(n) ATM facility: 1000 ATMs have been installed across the country in post offices and these ATMs are inter-operable with banks.

(o) Internet banking/mobile banking: -

Customer can open and close accounts online (RD/TD/MIS/KVP schemes & NSC), transfer fund online through NEFT/RTGS and view online statements.

(p) 100% voucher checking by SBCO: - After implementation of CBS, 100% voucher checking is prescribed to scrutinize every transaction.

(q) Credit of interest earned in Time Deposit, Monthly Income Scheme, and Senior Citizen Savings Scheme Accounts is transferred directly into the Post Office/Bank Savings Account of the depositor.

(r) Maturity proceeds in all Small Savings Schemes is being directly credited into the Post Office/Bank Savings Account of the Account Holder.

(s) New POSB (CBS) Manual: - After implementation of CBS, various preventive measures have been taken. To spread awareness amongst operative staff, supervisory staff, inspecting authorities and internal audit, POSB (CBS) manual has been updated by incorporating all updated rules and procedures. It improves the knowledge of staff and facilitates better monitoring/control of POSB operations.

(t) e-KYC : - e-KYC is likely to be implemented shortly in POSB, which will facilitate the biometric authentication of customers, strengthening the existing system further. It will facilitate speedy account opening and avoid any chances of misappropriation, as identification of the customers will be established on the basis of biometric authentication through AADHAAR.

(u) Aadhaar authenticated payment: - After implementation of e-KYC module for Small Savings Schemes, the payment to customers will be made by authenticating biometrics through UIDAI. It will secure the complete payment system and avoid any chances of defalcation/misappropriation.

(v) Aadhaar/biometric authenticated login: - Biometric login by the postmaster/other authorised official is already implemented in 1.29 lakh Branch Post Offices. Biometric login in other Post Offices is under development. Thereafter, the risk of misuse of passwords due to sharing etc. will be eliminated.

8. On being asked how the Department of Posts (DoP) ensures the implementation of internal checks and preventive measures against fraud and whether any specific directions have been issued to the Postal Circles in this regard, the Ministry replied as follows:

"To ensure the implementation of internal checks and preventive measures against fraud, instructions are issued to all Postal Circles through SB orders from time to time, which have been detailed in the reply to question No. 89 above. In addition, as a preventive measure, as and when new Modus Operandi emerges in any of the frauds, the same along with systemic gaps identified, if any, are communicated to all the postal circles for taking corrective action to avoid any further re-occurrence. Case studies are also used for training."

9. Audit noticed that Savings Branch and the Saving Bank Control Organisation (SBCO) of DoP's Head Post Offices failed to implement internal checks codified by Department of Posts and orders issued by Directorate from time to time. Fraudulent activities such as withdrawals made from closed saving accounts by Postal staff, fake entries were made, fake accounts were opened, cash deposits taken from customers were not entered in their accounts and unauthorised use of user id and passwords by Postal staff, were found. These irregularities led to mis-appropriation

of public money amounting to ₹95.62 crore in Post Offices spread over fourteen Postal Circles over the period November 2002 to September 2021, of which ₹14.39 crore (including penalty/ interest of ₹40.85 lakh) was recovered and balance recoveries were yet to be effected.

10. In response to the audit observation regarding fraudulent activities in POSB accounts, Ministry contended that frauds committed using stated Modus Operandi, are not technology driven and frauds could not be detected for long due to failure in supervision on the part of Account Offices or/and SBCO, whereas there is appropriate control mechanism is already available.

11. Further when asked to briefly highlight the control mechanism put in place to detect such fraud risks and to address it in time, the Ministry's response was as under:

"The control mechanisms in place to detect such fraud risks are as follows:

(i) Various technological steps were taken to make system more secure and avoid any chances of frauds. Most of the frauds listed in the C & AG report under reference relate to manual manipulation or alteration of the Sanchay Post database by official/s with malafide intent. CBS has been implemented in all post offices and Finacle is a highly secure system with proven security features across the banking system.

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complete payment system and avoid any chances of defalcation/misappropriation.

(v) Aadhaar/biometric authenticated login: - Biometric login by the postmaster/other authorised official is already implemented in 1.29 lakh Branch Post Offices. Biometric login in other Post Offices is under development. Thereafter, the risk of misuse of passwords due to sharing etc. will be eliminated.”

12. On being asked as to whether the irregularities pointed out by Audit were flagged by the Internal Audit of the DoP or its circles as well, the Ministry responded as below:

“Whenever any irregularity is noticed at the field level in operational units, the same is being reported / flagged by Circles for taking remedial action across all the Postal Circles. Accordingly, procedural and technological changes required to prevent re-occurrence of such cases are carried out in the appropriate systems.

13. Since data from Sanchay Post software, was migrated to Finacle software as live accounts, the Committee desired to know how it is being ensured that such data are not tempered and manipulated. Also the Committee desired to be explained what safeguards, including data validation to the new systems coupled with, KYC verification of account holders/beneficiaries have been taken for the purpose. The Ministry in this regard, replied as below:

(i) Detailed instructions were issued from the technical team to all the Circles/post offices in respect of preparation of Go-Live in the shape of ‘Check-list for Go-Live’.

(ii) However, incorrect migration of closed accounts into Finacle might have occurred due to various reasons including carelessness by the operating staff at field level.

(iii) After such errors were noticed, corrective action is being taken including identification of such accounts and marking closure of such identified accounts. Various instructions have been issued to the Circles in this regard.

(iv) To obviate fraud in wrongly migrated accounts, all accounts that matured, but were not seen as closed after 3 years have been marked ‘FREEZE’. The closure of such freeze account is allowed only through Head Post Offices and with the approval of two supervisors after obtaining proper KYC and other necessary documents.

(v) No manipulation / data entry in the existing data base is allowed in Finacle which is a standard banking application used by various banks across the banking sector.

(v) e-KYC is likely to be implemented shortly in POSB, which will facilitate the biometric authentication of customers, strengthening the existing system further. Biometric login by the postmaster/other authorised official is already implemented in 1.29 lakh Branch Post Offices. Biometric login in other Post Offices is under development. Thereafter, the risk of misuse of passwords due to sharing etc. will be eliminated.

14. When asked to explain the effectiveness of the Fraud Risk Management Unit (FRMU), an IT initiative taken by the Department to prevent fraudulent/manipulative

practices and ensure disbursement of money to the rightful claimants, the Ministry's response was as below:

"The FRMU analyses the data of FINACLE Database, studies the frauds/modus operandi and develop the scenarios wherever possible in the risk areas in the operation of Small Savings Schemes. Based on the scenarios, alerts are generated by FRMU and sent to Divisional Office (DO) for verification. DO in turn sends the alerts to Head Post Offices for verification. Alerts are thoroughly verified by Head Post Offices and reported back to DO for further action. The Circle Office monitors the FRMU alerts attended by DOs/HOs.

FRMU alerts are generated during the following scenarios:-

Revival of Silent A/c, pre-mature closure of RD/TD/MIS/PPF/SCSS accounts, NSC/KVP discharged at office other than the registration office, agent transactions like closure of discontinued RD accounts/RD loans/premature closure of RD accounts/idle RD accounts, closure of all discontinued schemes, operation in idle accounts, online transactions like E-banking/M-banking and channel transactions etc.

The Department has defined risk categories for Small Savings Schemes. The risks are categorized as:-

1. Low risk - All transactions with value less than Rs.50000/-
2. Medium risk - All transactions with value less than Rs.10 lakh and \geq Rs.50000/-
3. High risk - All transactions with value greater than and equal to Rs.10 lakh."

15. To a query whether the Department proposes to sign any Memorandum of Understanding with the RBI with regard to its supervisory function related to Post Office Saving Bank, the reply of the Ministry was as under:

"The rules and regulations for POSB Schemes are issued by Ministry of Finance under the provisions of the 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. Therefore, regulations and advisories of RBI are not applicable to POSB operations as such. 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."

16. Giving summary of Action taken on offenders in the 60 cases as pointed out in Audit Para, the Department explained as under:

	Main Offenders	Co-Offenders	Subsidiary offenders
Total number of offenders	98	37	782
Action completed	27	6	313
Action initiated	37	2	91
Yet to be initiated	34	25	342

From the above, it is noted that out of 98, action on 27 offenders has since been completed while action has been initiated in respect of 37 offenders.

17. Further on being asked to briefly share the details of the actions taken or being taken against the offenders, the Ministry detailed as under:

“Action has been completed against 34 offenders, as per details below:-

Type of Action	Number of offenders
Dismissal	24
Removal	06
Compulsory retirement	03
Reduction to lower stage	01

Further, action has now been initiated against 45 offenders and detail of proceedings initiated against them is as under:-

Action Initiated	Number of offenders
Rule 10 of GDS (Conduct & Engagement) Rules	06
Rule 14 of CCS (CCA) Rules	37
Rule 9/Rule 8 of CCS (Pension) Rules	01
Rule 16 of CCS (CCA) Rules	01

18. On being asked to specify what actions are being taken to expedite the enquiry against the offenders and complete it in a time bound manner, the Ministry's response was as below:

"Based on the amount of misappropriation involved, loss and fraud cases are periodically reviewed at Directorate. Similar action is done across field establishments. Necessary instruction for completion of pending aspects of the cases are issued on case-to-case basis. Status of action against offenders are also reviewed and Circles and Regional Offices are instructed for timely action as per CVC guidelines."

19. The Committee noted that a new system has been proposed under Core System Integration for monitoring cash balances in post offices whereby an alert message could be automatically sent to the concerned Divisional Head for taking action in case that cash balance of the post office varies from its authorized cash balance, thereby limiting human intervention, as a pilot project in three Postal Divisions, Hoshiarpur Division, Karnal Division and South-West Division in Delhi Circle.

20. When enquired about the status of the outcome of the implementation of the proposed pilot project in the three Postal Divisions and possibility of extending it to all the Postal Circles at the earliest for strict monitoring of the excess cash retention in post offices, the Ministry's response was as under:

"A user-friendly MIS (consolidated report) is available under Core System Integrator (CSI) to the Postal Divisional Heads, pan India to monitor the maximum/minimum cash balances of the Post Offices and to identify the excess cash held by Post Offices on a daily basis, beyond the maximum authorized cash limit. Further, an alert mechanism has also been developed across the country in which alert is sent via e-mail to the Divisional Head by CEPT whenever the Post Offices within the jurisdiction of a division breaches the cash limit for more stringent system of monitoring of cash balances."

PART - II

OBSERVATIONS/ RECOMMENDATIONS OF THE COMMITTEE

Report No. 15 of 2022 of the Comptroller and Auditor General of India (CAG) on Finance and Communication of the Union Government contained significant results of Compliance Audit of the Ministry of Communications, Ministry of Electronics & Information Technology, Ministry of Finance and the Departments/ Public Sector Undertakings under these Ministries. The Committee selected Para 3.5 of the aforementioned Report which dealt with the subject, "Misappropriation of public money in Department of Posts" for detailed examination and report.

Audit Report had highlighted mis-appropriation of public money amounting to ₹95.62 crore in Post Offices spread over fourteen Postal Circles, due to failure of the Head Post Offices under DoP in implementing internal checks codified for prevention of Fraudulent Activities in operation of Post Office Saving Bank (POSB) Schemes. The Committee's examination of the subject and their observations/ recommendations are detailed in the succeeding paragraphs.

1. Internal Control and Monitoring

The Committee observe that Post Office Saving Bank Manuals issued by Department of Posts (DoP) prescribes the internal checks and clearly defines the responsibilities for prevention of frauds and fraudulent activities in Saving Bank Operations for various levels of staff in Sub Post Offices, S.O. Group and Saving Bank Control Organization in Head Post Offices, Divisional, Regional and Circle Offices. However, Audit scrutiny revealed misappropriation of public money amounting to ₹95.62 crore in Post Offices spread over fourteen Postal Circles, due to failure of the Head Post Offices in implementing internal checks codified for prevention of Fraudulent Activities in operation of Post Office Saving Bank (POSB) Schemes. The DOP added that most of the cases pointed out by Audit relate to manual manipulation or alteration of the Sanchay Post database by official/s with malafide intent. The Committee are shocked to note that despite having prescribed internal checks/inspections at different levels/offices such as Daily Audit by SBCO Branch; Checking in Accounts Branch; Checking in Postal Accounts Offices; Internal Check

Inspection / Internal Audit; Verification of withdrawals of ₹ 10,000/- and above at the counters of BOs; Quarterly visit to Branch Post Offices and Visits by various authorities including CPMGs etc. instances of misappropriation of money were observed. As regards the measures taken for preventing frauds and fraudulent activities in Saving Bank Operations at various levels, the Department explained that various technological steps have been taken to make the system more secure and avoid any chances of fraud. Besides, rollout of Core Banking Solution (CBS) in all post offices, Finacle, a highly secure system with proven security features across the banking system has been introduced. Also, various other initiatives have reportedly been taken that include introduction of e-Passbook; CBS-CSI GL integration, which enables automatic accounting of all transaction carried out in Finacle in CSI; Fraud Risk Management Unit (FRMU); Online PAN Validation; e-KYC; Aadhaar authenticated payment etc. The Committee, while noting the steps being taken by the Department to secure customer access, desire that check/inspection done by each of the levels/offices may be tracked through an integrated online portal, so that deviations if any are brought to the notice of higher ups at an early stage and timely action taken thereon to prevent frauds and fraudulent activities in Saving Bank Operations. The Committee also recommend stringent punitive action against the officials who failed to ensure implementation of the internal checks codified for prevention of Fraudulent Activities in operation of Post Office Saving Bank (POSB) Schemes.

2. As regards applicability of the RBI Guidelines with respect to the Post Office Saving Bank (POSB) operations, the Committee have been apprised that the traditional post office savings bank was under the purview of Ministry of Finance and has been functioning as an agency. However, POSB is now covered under the Payment and Settlement Systems Act, 2007 and hence RBI guidelines are required to be 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. The Department also stated that technology management of POSB Operations has been handed over to India Post Payment Bank (IPPB) from August, 2022, which is regulated by the RBI. The Committee, while noting the large volume of transactions involved in the POSB desire that DOP should also enter into an MOU with RBI for undertaking a review of the internal controls/ internal checks in place at regular intervals to arrest fraudulent activities in operation of Post

Office Saving Bank (POSB) Schemes and ensure safety of the hard earned money of customers and ensure that they do not become vulnerable to fraudulent activities.

3. With respect to the poor monitoring mechanism in the Department of Posts, the Committee in their 89th Report (16th Lok Sabha) on the subject "Non-Compliance by Department of Posts" and 15th Report on action taken by the Government on the Observations and Recommendations contained in the 89th Report, had *inter alia* highlighted monitoring issues viz. 'pension disbursement' and 'retention of excess cash in post offices' and recommended evolving and implementing a more stringent system of monitoring and stricter norms of compliance to the Department's own code of financial conduct. The Committee would also like to be apprised of the updated account of details of action taken in this regard.

4. Sanchay Post Data Migration

The Committee observe that to safeguard the public money and enable better customer experience, DoP decided to computerise the banking operations through one central platform under IT Modernisation Project 2012. Accordingly, DoP started implementation of Core Banking Solution (CBS) from December 2013 to enable customers to operate their accounts to achieve "Anywhere, Anytime Banking" by replacing the existing banking platform of "Sanchay Post" software in Post Offices. Since data from Sanchay Post software, was migrated to Finacle software as live accounts, and to ensure that such data was not tampered and manipulated, the Department stated that detailed instructions were issued from the technical team to all the Circles/post offices in regard to preparation of Go-Live in the form of 'Checklist for Go-Live'. DoP however, indicated that incorrect migration of closed accounts into Finacle might have occurred due to various reasons including carelessness by the operating staff at field level. Further, after such errors came to notice, corrective action is being taken including identification of such accounts and marking such identified accounts for closure. To obviate fraud in wrongly migrated accounts, all accounts that matured, but were not seen as closed after 3 years have been marked 'FREEZE'. The closure of such frozen accounts is allowed only through Head Post Offices and with the approval of two supervisors after obtaining proper KYC and other necessary documents.

No manipulation / data entry in the existing data base is allowed in Finacle which is a standard banking application used by various banks across the banking sector. Observing that the Department is itself not confident of accuracy of data migrated from Sanchay Post to Finacle and the identification process of tampered and manipulated accounts is still underway, the Committee cannot help expressing apprehension over ensuring hassle free delivery of services till the last mile. The Committee desire that the process of verification of sanchay data be completed in a time bound manner so that the confidence of both urban and rural clientele in the country's oldest banking system is ensured and public money safeguarded. The Committee while noting that e-KYC is likely to be implemented shortly in POSB, which will facilitate biometric authentication of customers, strengthening the existing system further, desire that the same be completed at the earliest and the Committee be apprised thereof.

5. Un-authorized withdrawal of funds by postal staff

The Committee note that the S.O. Branch as well as SBCO in Head Post Offices failed to carry out the prescribed checks relating to the POSB Operations. This, coupled with delays in timely validation of data migrated from Sanchay Post to CBS led to misappropriation of public money of at least ₹95.62 crore in various Post Offices of 14 Circles, as test checked by Audit. Further in some cases, inspecting authorities of the Department also failed to detect the fraud/ misappropriations even after a lapse of more than five years and frauds came into light only after customer complaints. In response, the Department contended that the frauds committed by using the stated modus operandi, are not technology driven and could not be detected for long due to failure in supervision on the part of Account Offices or/and SBCO. This has happened despite appropriate control mechanism being already available. Regarding the product/ scheme wise fraud details and the extent of public money lost due to this, the Department informed that a fraud case may involve misappropriation spread across various products/schemes viz SB, RD, TD, PLI/RPLI, fraud associated with remittances etc. and their specific details are not maintained at present. The Department of Posts however, maintains consolidated data of live cases of loss and fraud, inclusive of cases that are more than 15 years old. Similarly, the details of amount recovered is

maintained which includes recovery in all types of live loss and fraud cases. As regards the action taken against the fraudsters, the DOP stated that besides the recoveries being made, disciplinary action is taken against the primary/main identified offenders and subsidiary offenders with penalties like dismissal, compulsory retirement, withholding of increment, reduction to lower stages etc. imposed under the CCS (CCA) Rules 1965; and measures such as recovery, reduction/withholding of pensionary benefits taken with respect to pensioners under CCS (Pension) Rules 2021 in the case of departmental officials and GDS (Conduct and Engagement) Rules 2020 as applicable with respect to Gramin Dak Sevaks. DOP also added that cases of imposition of penalties, there is indirect recovery as when an employee is dismissed from service, all his pensionary benefits are ceased thereby resulting in substantial saving to the Government. This indirect recovery to the Government exchequer is not exactly quantifiable. The Committee desire the Department to take measures for maintaining details of frauds and amounts involved under specific products/scheme heads so as to enable pointed monitoring; and immediate introduction of preventive measures as and where required. The Committee also recommend that major reasons/modus operandi of frauds may be studied and besides plugging the loop holes, all branches may be directed to introduce checks to avoid a repeat of similar frauds in their areas. Also, the general public may also be made aware of the modus operandi of the frauds to with a view to ensuring safety of their money.

6. The Committee, while expressing their dissatisfaction over the manner in which the Department has claimed that with indirect recovery effected by withholding pensionary benefits of a dismissed employee, there is substantial saving to the Government, would like to emphasise that concrete steps should be taken to plug the loopholes in the existing monitoring system. The Committee are also of the considered opinion that not only disciplinary action needs to be taken against the erring employees, but appropriate measures taken for recovering the misappropriated amounts urgently. Further, the Committee desire to be apprised of cases where criminal proceedings have been initiated against the employees found involved in misappropriation of funds.

7. Fraud Risk Management Unit (FRMU)

The Committee note that a separate Fraud Risk Management Unit (FRMU) has been established to scrutinize the alerts generated by the system about various transactions, on the basis of certain set of rules. In case of any deviation from the specified rules, alerts are generated and the same are verified through Post Offices and Inspectors of the Department. In this regard, DOP also stated that the FRMU analyses the data of FINACLE Database, studies the frauds/modus operandi and develops the scenarios wherever possible in regard to the risk areas in the operation of Small Savings Schemes. Based on the scenarios, alerts are generated by FRMU and sent to Divisional Office (DO) for verification. DO in turn sends the alerts to Head Post Offices for verification. Alerts are thoroughly verified by Head Post Offices and reported back to DO for further action. The Circle Office monitors the FRMU alerts attended by DOs/HOs. FRMU alerts are generated during the following scenarios:-Revival of Silent A/c, pre-mature closure of RD/TD/MIS/PPF/SCSS accounts, NSC/KVP discharged at offices other than the registration office, agent transactions like closure of discontinued RD accounts/RD loans/premature closure of RD accounts/idle RD accounts, closure of all discontinued schemes, operation in idle accounts, online transactions like E-banking/M-banking and channel transactions etc. While noting the growing complexities of the frauds, the Committee recommend that FRMU should also be aptly augmented by strong internal controls and regular updating/strengthening. To ascertain and maintain the effectiveness of the FRMU, the Committee also recommend that a review of the functioning of Unit should be conducted at periodic intervals. Concrete steps should also be taken to reduce the average time taken for processing and redressal of the fraud cases under the new dispensation.

8. Action taken on offenders

As regards the action being taken against the offenders found involved in misappropriation of public money, the Department appraised the Committee that out of 98 Main offenders, 37 Co-offenders and 782 Subsidiary offenders, action was yet to be taken in case of 34 Main offenders, 25 Co-offenders and 342 Subsidiary offenders. The Committee note from Department's response that out of a total of 917 offenders whose involvement is of varying degrees, action was yet to be initiated in as many as 401 cases i.e., about 44 percent of

cases. Considering these facts, the Committee are of the considered view that the approach of Department while dealing with the serious offences of misappropriation of public money has been lackadaisical. The Committee also note from the reply of the Ministry that based on the amount of misappropriation involved, loss and fraud cases are periodically reviewed at the Directorate and similar action is taken across field establishments. Further, necessary instructions for completion of pending aspects of the cases are issued on case-to-case basis. Status of action taken against offenders is also reviewed and Circles and Regional Offices are instructed to take timely action as per CVC guidelines. The Committee are not satisfied with the action taken by the Department against the offenders and desire that a special cell be created in the Department to monitor and expedite these cases with immediate effect and complete the proceedings and book the culprits in a time bound manner. Further, on account of slow process of action being taken, the Committee would also like to be apprised of the reasons for the delay in the matter.

9. Recovery in the cases of fraud

The Committee observe that out of the frauds/ misappropriation of public money amounting to ₹95.62 crore, DoP has only been able to recover ₹14.39 crore (inclusive penalty/ interest of ₹40.85 lakh) and an amount of ₹81.64 crore remains to be recovered. Taking exception to the sluggish pace of recoveries from the fraudsters, the Committee may be apprised of the reasons for the same and the measures being taken to recover the dues with promptitude.

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

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