

CHAPTER III : ARMY

3.1 Non-inclusion of Pre-Despatch Inspection

Non-inclusion of PDI clause in the contract resulted in procurement of non-compatible spares for L-70 Guns valuing Rs 4.99 crore which were yet to be replaced/rectified by the vendor.

Army Headquarter had issued instructions in March 2003 which necessitated pre-despatch inspection (PDI) by the Directorate General of Quality Assurance (DGQA) or ultimate consignee in the contracts for spares valuing more than Rs 3 crore. These instructions were not adhered to in a contract concluded in May 2007 for procurement of spares for L-70 Guns. Acceptance of stores without PDI resulted in receipt of non-compatible spares worth Rs 4.99 crore from a foreign vendor. The spares were neither repaired nor replaced by vendor and lying unutilized as of November 2009. The case is discussed below:

Army HQ concluded a contract with the firm in May 2007 for procurement of two types of spares for L-70 guns viz; Unit Oil Pump (66 qty) and Pump Oil Pisco (134 qty) at a total cost of EURO 805520 (Rs 4.68 crore) without incorporating the PDI clause in the contract.

The firm supplied the complete quantity in two batches by February 2008 without PDI and received payment of Rs 4.99 crore during January/ March 2008. During Joint Receipt Inspection (JRI) held in May 2008 and July 2008, both the spares were found unacceptable due to the following deviations:

- 1) In Unit Oil Pump the motor of assembly could not be fitted with the (specified) securing provision of central platform due to space constraints. The problems arose due to increased size of motor, shaft dia, cooling fan and coupling.
- 2) Pump Oil Pisco could not be assembled as there were only 6 to 7 threads provided against 10 threads specified in drawing.

Accordingly, two quality claims against the receipt of defective stores were raised in June 2008 and August 2008 respectively. In response to the quality claims, firm requested in October 2008 for repeating the trial of the assembly of the equipment and intimated that they would supply the 200 units of 'Nut' (66 for unit oil pump and 134 for pump oil pisco) free of cost. Based on the firm's request, DGQA Jabalpur carried out the trial of Unit Oil Pump in November 2008 and found that fitment of the complete assembly was not feasible due to above said deviations. Similarly, fitment and functional trial of Pisco Oil Pump could not be done with existing equipment due to non-receipt of 'Nut'. After receipt of special spanner from supplier fitment trial in respect of assembly of motor for pump oil Pisco and Unit oil pump was carried out in July 2009 but was not found satisfactory.

Thus Army HQ violated its own instruction of 2003 by not including PDI clause in contract for verification of dimension and quality of spares at seller's premises. This resulted in receipt of non-compatible spares valuing Rs 4.99 crore which were neither repaired nor replaced by vendor as of November 2009.

The matter was referred to the Ministry in September 2009; their reply was awaited as of April 2010.

3.2 Irregular procurement of Punched Tape Concertina Coil

Procurement of Punched Tape Concertina Coil from open market instead of through Rate contract of DGS&D led to extra expenditure of Rs 2.35 crore.

Regulations provide that if a store is available on Rate Contract (RC), the same will not be obtained from any other source. Punched Tape Concertina Coil-1A is a general item having industrial specification and is used for fencing. The item was available at Rate/running contracts of Director General of Supplies and Disposals (DGS&D) during the period from 1.2.2007 to 31.1.2009. Audit scrutiny revealed that Director General Ordnance Services (DGOS) and Chief Engineer (CE) of a Corps resorted to local purchase of these coils at higher rates resulting in extra expenditure of Rs 2.35 crore.

The cases are discussed below:

Case-I

DGS&D had concluded a rate contract (RC) on 01 February 2008 with ten suppliers for supply of Punched Tape Concertina Coil (coils) valid from 01 February 2008 to 31 January 2009. Rate per coil was Rs 938.83 inclusive of excise duty and exclusive of sales tax F.O.R.¹⁰ Delhi/New Delhi/Bahadurgarh (Haryana).

Audit scrutiny in two Engineer regiments 'A' and 'B' during June-July 2009 revealed that the CE had placed two orders for supply of 4500 coils each on DGS&D rates to M/s SG Engineers, Rohtak Road, New Delhi and M/s Perfect Drop Pins Mfg. Co. Rohtak Road, New Delhi¹¹ in May 2008 for delivery by 30 June 2008. Both the firms expressed their helplessness to supply the stores due to rise in steel prices. CE cancelled the supply order on both firms on 30 June 2008 without taking up the matter with the DGS&D regarding refusal of the firms to supply coils at the DGS&D rates. The firms subsequently made request to DGS&D on 4 July 2008 to foreclose the RC citing hike in raw material price when it had provision for adjusting price for regular hike. DGS&D agreed to short-close RC with effect from 18 August 2008 with the condition that supply orders placed on them prior to the date of foreclosure

¹⁰ Free on rail

¹¹ Both these firms have same address; H-48 Udyog Nagar Rohatak Road having same fax No. 91-11-25472576

were to be executed by the firms. But the CE resorted to local purchase of these coil from two vendors including M/s Perfect Drop Pins Mfq. Co. on which he had placed the order under RC in May 2008 and which did not supply the coil. The CE justified the local purchase at higher rates on grounds of operational requirement.

The Local purchase resulted in an extra expenditure of Rs 0.95 crore as evident from table below:

Engineer regiment	Supply order No and date	Name of supplier	Quantity	Rate per coil Rs.		Difference in rate per coil (Rs in lakhs)	Extra expenditure (Rs in lakh)
				As per supply order*	As per rate contract*		
1.	2.	3.	4.	5.	6.	7. (5-6)	8. (7x4)
A	16 dt 9 July 2008	Perfect Drop Pins Mfq.Co New Delhi	11450	1391	1089.63	301.37	34.51
B	22 dt 9 July 2008	Global Technocrafts, New Delhi	20000	1395	1093.68	301.32	60.26
Total			31450				94.77

*Inclusive of taxes/cartage

Say Rs 0.95 crore

The CE's act of cancelling the supply orders placed on M/s SG Engineers and M/s Perfect Drop Pins Mfg. Co. in June 2008 when the RC was still current was unjustified. DGS&D had stipulated in July 2008 while agreeing to short-close the RCs that all supply orders already placed under the RC have to be executed. Further, by resorting to local purchase at higher rate from the same vendor who defaulted in supply under a valid RC, the CE had extended undue benefit to the vendor. Audit had also observed that operational requirement projected as the reason for making local purchase at higher rate was unreasonable since Regiment 'B' had enough stock (61604) of the coils. Thus, the additional expenditure of Rs 0.95 crore incurred in the local purchase as above was avoidable.

Case-II

Based on the requirement worked out in February 2007, DGOS advertised a tender enquiry in December 2007 for purchase of 44531 Punched Tape Concertina coil though the item was available on DGS&D RC, which was valid up to 31.1.2008, at Rs 917 per coil, (F.O.R. Jalandhar City) inclusive of taxes. Seven vendors participated in bid and M/s Indian Quality Product Zone was found L-1 with quoted rate of Rs1386 each coil, inclusive of all taxes. L-1 firm, however, offered to supply only 10,000 coils. Tender Purchase Committee (TPC) decided on 20 March 2008 for capacity verification of L-I firm and to give counter offer to all remaining firms. Firm L-1 failed in capacity verification. Three firms accepted counter offer for supply of subject item. TPC perused the maximum production capacity (MPC) of three firms and decided to place the supply orders in proportion of their MPC. DGOS placed supply orders, inclusive of one order each on M/s SG Engineers and

M/s Perfect Drop Pins Mfg. Co., for procurement of 44531 coils costing Rs 6.17 crore at Rs 1386 per coil in June 2008 for delivery at Central Ordnance Depot Kanpur though it was available on a fresh RC of DGS&D at Rs 1056, inclusive of tax.

On being pointed out in audit, DGOS stated in April 2009 that specification of store available on RC was old and outdated and that the procurement made in June 2008 was on upgraded specification. Independent enquiry made by Audit from Controllerate of Quality Assurance (Engineering Equipment) revealed that the amendment in specification was only procedural for improvement of quality by changing testing procedure of galvanising coating thickness and it did not have any effect on the cost of equipment. DGOS should have ascertained this before advertising the open tender enquiry in December 2007 so that the procurement could have been made under the RC. Instead, DGOS resorted to open tender enquiry and agreed to pay Rs 1386 per coil. Further, Chief Engineer (CE) of a Corps had been making the procurement of coils through 2008 on the basis of older specification only even in Jammu area which is nearer to the border. Thus, the purchase at 31 *per cent* higher than RC rate resulted in extra expenditure of Rs 1.40 crore for procurement of 44531 coil.

Thus, the purchase of the coil at higher rates by the CE and DGOS involved an avoidable extra expenditure of Rs 2.35 crore. The cases merit investigation to fix responsibility for the lapse and consequential extra expenditure.

The matter was referred to the Ministry in September 2009; their reply was awaited as of April 2010.

3.3 Irregular procurement of short life drug

Simultaneous procurement of a drug¹², centrally by the DGAFMS and locally by the Commandant AFMSD Delhi Cantonment resulted in its over stocking. Consequently, 2121 vials costing Rs 2.13 crore remained unconsumed during shelf life. Besides, 1078 vials valuing Rs 1.08 crore were procured locally by the Commandant AFMSD violating the spirit of delegated financial powers.

Drugs are procured for the Army hospitals both centrally by the Director General, Armed Forces Medical Services (DGAFMS) and locally by the stores depots/units within their delegated powers. Indenting procedure for medical stores issued in December 2005 by the DGAFMS lays down that medical stores having shelf life up to two years will be treated as short life items and stocking of these items will be done for six months' requirement. The aim of this procedure was to ensure availability of adequate stock at all level and avoid over stocking.

¹² Injection Anti Lymphocyte Globulin (ALG) 250 mg /5 ml vial (PVMS No. 010702/Old PV No. 011005N)

Against a rate contract of August 2005, DGAFMS procured centrally during September 2005 to June 2006, 3606 vials of Injection Anti Lymphocyte Globulin, a short life drug valuing Rs 3.62 crore for Armed Forces Medical Stores Depot (AFMSD), Delhi Cantonment including Army Hospital (R&R) at the rate of Rs 9650 per vial plus VAT @ 4 per cent as under: -

Sl. No.	Date of Supply Order	Quantity (in vial)	Amount (Rs in crore)	Date of receipt
1.	22 Sept 05	690	0.69	28 Dec 05
2.	28 Feb 06	816	0.82	22 Mar 06
3.	15 June 06	2100	2.11	17 July 06
	Total	3606	3.62	

As of August 2006, out of 3606 vials procured centrally, 540 vial were issued and 55 vials were used in testing, leaving a balance of 3011 vials in stock. In spite of central procurement of such huge quantity of the drug by the DGAFMS, the Commandant AFMSD Delhi Cantonment through various supply orders, placed between October 2005 and September 2006, procured locally a quantity of 1078 vials of the same drug for Rs 1.08 crore from the same firm. He also split the purchase orders to keep the amount of each supply order within his delegated financial powers (Rs 1.5 lakh).

Further, the AFMSD Delhi Cantonment has been issuing the drug to Army Hospital (R&R) Delhi Cantonment as per their requirement. However, this hospital had been delinked for supply from AFMSD with effect from October 2006. The DGAFMS in May 2007 procured 1560 vials costing Rs 1.57 crore separately for the Army Hospital.

Due to less consumption of the drug, 2133 vials costing Rs 2.14 crore nearing expiry could not be issued by the AFMSD and were held in stock as of July 2008. This quantity of the drug was stated to have been replaced by the firm, free of cost during April/July 2008 although no such provision existed in the contract. Interestingly, no entry of replacement of the drug was available in the Stock Register and no inspection certificate of the Inspection Authority for replaced drug was available on record. As of April 2009, a quantity of 1233 vials costing Rs 1.24 crore was held with the AFMSD and 888 vials costing Rs 89.12 lakh by the Army Hospital.

The case revealed that:-

1. Procurement of the drug centrally by the DGAFMS and locally by the Commandant AFMSD, Delhi Cantonment without ascertaining the actual requirement had resulted in over stocking of the short life costly drug for over three years against stocking requirement of six months as per policy. Consequently, unconsumed quantity of 2121 vials of the drug costing Rs 2.13 crore was held in stock of the AFMSD and Army Hospital (R&R) Delhi Cantonment as of April 2009.
2. The replacement of the short life drug costing Rs 2.14 crore free of cost by the firm was questionable in the absence of test results and entry in the Stock Register.

3. Despite availability of sufficient stock of the drug through central sources, the Commandant AFMSD Delhi Cantonment locally procured 1078 vials costing Rs 1.08 crore unnecessarily by splitting the requirement and thereby misusing his delegated financial powers.
4. There was no coordination between the DGAFMS and the Commandant AFMSD Delhi Cantonment with regard to purchase of medicines.

The Ministry stated in April 2010 that the supply orders placed by the Commandant AFMSD, Delhi Cantonment were prior to the receipt of stores under central supply and the drug received under both the mode, i.e. local purchase and central supply was accounted for in same stock sheet. The Ministry's statement is incorrect as stock of 690 vials and 816 vials was received by the AFMSD on 28 December 2005 and 22 March 2006 respectively through central source, whereas 504 vials of the drug were procured locally by the Commandant AFMSD from January to September 2006. Further, although supply order for procurement of 690 vials through central source was placed in September 2005, yet 574 vials of the drug were procured locally from the same firm through various supply orders placed between October and December 2005 instead of following up with the firm for supply of the drug against the supply order of September 2005. Secondly, during January 2006 to July 2007, the stocks of the drug received through both the mode were accounted for in separate sheets of the Stock Register under PVMS Nos. 10702 and 011005N.

3.4 Overprovisioning of ammunition for a weapon

Incorrect assessment of authorisation of ammunition for AK-47 Rifle resulted in excess provisioning of 234.23 lakh rounds of ammunition valuing Rs 44.50 crore.

Provision of weapons and ammunition for the Army is made by the Armament and the Ammunition Directorates respectively at Army HQ. Both the directorates function under Director General Ordnance Services (DGOS). Provisioning of ammunition is done on the basis of the Unit Entitlements (UE) and Unit Holdings of the weapon as per authorised scale. For AK-47 rifle, ammunition is authorised at the scale of 720 rounds per rifle.

The UE of AK-47 rifle, as reckoned in October 2006 by the Armament Directorate for provisioning of the rifle during 2007-08 was 44,327. However, Ammunition Directorate reckoned its UE as 1,24,012 for provisioning ammunition for the rifle during 2007-08. Thus, the two directorates of DGOS considered totally different UEs for the provision of weapon and its ammunition. As such 234.23 lakh rounds of ammunition valuing Rs 44.50 crore were overprovisioned.

When pointed out in audit, Army HQ accepted the facts and attributed the overprovisioning to non-realistic calculation of UE. Army HQ stated that Annual Provision Review (APR) was vetted by other directorates of Army HQ

and the Ministry, which implied that the irregularity was not noticed by those agencies as well. The fact, however, remains that the onus for provision of armament and ammunition lies on the DGOS. The irregularity was reconciled in November 2008 based on inputs from various directorates and the UE of the rifle reworked as 48,428 numbers. To minimise the surpluses caused due to the excess provisioning, the DGOS in February 2009 cancelled an indent for 200 lakh rounds of ammunition costing Rs 38 crore placed on the Director General Ordnance Factories in August 2007.

Though the provisioning of both the rifle and ammunition is carried out by the DGOS, yet the demand for ammunition of AK-47 rifles was grossly overestimated by computing the requirement on exaggerated UE of the rifle. The irregularity occurred despite the fact that DGOS was aware of the actual UE, as the same was being considered in the provisioning of rifles. The inaccuracy resulted in over-provisioning of 234.23 lakh rounds of ammunition costing Rs 44.50 crore and eventually led to the cancellation of an order placed on Ordnance Factory Board for 200 lakh rounds costing Rs 38 crore, to minimize the impact of overprovision.

The Ministry in April 2010 confirmed the aforesaid facts stated by the Army HQ.

3.5 Chronic delay in procurement of Boats

While the requirement of BsAUT was approved in 2003 for emergency, yet the supply order for its procurement could be placed in January 2010 despite ready availability of all necessary prerequisites for fast decision making. Reason for the inordinate delay was attributable to the insensitiveness in the functioning of the agencies involved.

Engineer-in-Chief's (E-in-C) Branch at Army HQ carried out Annual Provisioning Review in May 2002 and determined a deficiency of 992 Boats Assault Universal Type (BsAUT). To meet the emergent needs of the Engineers for operational and flood relief requirements, it was decided in August 2003 to procure 492 BsAUT on priority. Remaining 500 numbers were required for Infantry for which a suitable boat was being identified. Proposal for procurement of 492 BsAUT was initiated in August 2003 and the budgetary support of Rs 5.90 crore for the procurement was confirmed in June 2004 by Ordnance Services Directorate. However, supply order for procurement of 992 BsAUT could be placed in January 2010, i.e. after six years. The BsAUT are scheduled for delivery within 18 months from the date of bulk production clearance to be given after evaluation of the pilot samples by the representatives of Director General of Quality Assurance.

Powers to purchase stores from indigenous sources up to Rs 25 crore based on scales and authorized by Provision Reviews were delegated to the Vice Chief of Army Staff (VCOAS) with effect from April 2002. Hence VCOAS was the competent financial authority (CFA) for the subject procurement. It was, however, observed that neither the Engineer Stores and Plant (ESP) Directorate in the E-in-C's Branch of Army HQ nor the Ministry of Defence

appeared to be aware of such delegation as the proposal for “acceptance of necessity” was sent by the Directorate to the Ministry, instead of VCOAS. The case was erroneously processed between the Directorate and the Ministry almost for two years, till August 2006, when the Ministry of Defence directed to process the case with appropriate CFA, i.e. VCOAS. Approval of the VCOAS was finally obtained in October 2006, i.e. after more than three years of the initiation of the proposal.

Pending the approval of CFA, Request for Proposal (RFP) had been issued by the Directorate in May 2005 to which three firms had responded in June 2005 with offers valid up to June 2006. As the approval for procurement was awaited till August 2006, all the three vendors were asked to extend the validity of their commercial bid up to 20 October 2006. Two vendors extended the validity. The third vendor M/s Shrachi Engineering and Industries Ltd. did not extend the validity of their offer. For finalizing the commercial offers, bids of all the three firms were opened by the Board of officers. The rate of Rs 8.44 crore quoted by M/s Shrachi Engineering and Industries Ltd. was the lowest (L-1). In spite of the fact that the L-1 was invalid, comparison of the rates offered by other bidders was done with reference to L-1. Without assessing the reasonability of the lowest valid offer, it was decided in January 2007 to retender the bid merely on the ground that the second lowest rate (L-2) was 53 *per cent* higher than the L-1.

Fresh RFP was issued to eight vendors in April 2007 to which three firms responded. The bids again indicated a huge difference of 85 *per cent* between the L-1 and L-2. The supply order for 492 BsAUT was placed on the L-1 viz. M/s DCM Hyundai Ltd. in March 2008 at a total cost of Rs 9.27 crore, but within two months of the order, the firm withdrew their offer due to escalation in the price of raw materials. The procurement action therefore failed yet again. The failure of the second tender revealed an absence of objective analysis in determining the viability of the rates before acceptance. The difference of 85 *per cent* between the L-1 and the other bidders and the fact that L-1 was a mere 10 *per cent* more than the two year old rate received in June 2005 from M/s Shrachi Engineering and Industries Ltd. which they had refused to extend its validity beyond June 2006 should have alerted the price negotiation committee to examine whether it was a viable bid.

The process for tendering was initiated for the third time in August 2008 and the supply order for procurement of 992 BsAUT for Rs 26.51 crore was placed in January 2010 on M/s Perfect Fabricators, New Delhi.

The case illustrates inordinate delay of more than six years caused mainly by projecting the case to the wrong CFA and repeated rejection of tender bids without plausible rate analysis. While all factors like, urgency for procurement, delegation of powers, availability of budget, adequate number of vendors etc. required for fast decision making were readily present yet delay took place at every stage and point. Even after ostensibly industrious effort the procurement could be finalised only after six years. The delay besides denying the equipment to the Engineers for its operational preparedness also exhibited the indifference in the functioning of the agencies involved.

The Ministry admitted in October 2009 that the procurement had been inordinately delayed and could have been avoided to some extent by processing the case initially with the appropriate CFA. Further, the considerable delay in procurement was attributed to backing out by the vendors. The Ministry should take action to avoid such cases.

3.6 Recoveries and savings at the instance of Audit

Recoveries

Based on audit observations the audited entities recovered or agreed to recover excess payments, non-recoveries of rent, electricity/ water charges and departmental charges, etc. amounting to Rs 14.86 crore.

Test check of records of FOL¹³/Supply Depots, Controllers of Defence Accounts (CsDA), Pay and Accounts Offices, Area HQ, DRDO Lab, Military Engineer Services and Border Road Task Force revealed instances of non-refund of interest, excess payments, short recoveries/non-recoveries of rent, electricity and water charges etc aggregating Rs 14.86 crore as per details given in **Annexure-II**. On being pointed by Audit, the units/ formation concerned recovered/agreed to recover the irregular payments.

Savings

HQ Corps, Divisions, Sub Area HQ and Station HQ and certain other units cancelled irregular administrative approvals/sanctions at the instance of Audit, resulting in savings of Rs 3.24 crore.

Consequent upon a test check of accounts at units and formations, Audit noticed instances of irregular sanctions. On being pointed out, the audited units took corrective measures, resulting in savings of Rs 3.24 crore as indicated in **Annexure-III**.

The matter was referred to the Ministry in October 2009; their reply was awaited as of April 2010.

3.7 Irregularities in procurement of slit lamps

Conflicting evaluation¹⁴ of slit lamp offered by the same firm by different Technical Evaluation Committees of DGAFMS within a short period led to rejection of low priced indigenous make though it had been procured earlier, having been found technically acceptable. This led to excess expenditure of Rs 1.65 crore.

Director General Armed Forces Medical Services (DGAFMS), invited tenders in June 2006 for procurement of 76 slit lamps, based on broad qualitative

¹³ Fuel Oil and Lubricants

¹⁴ Conflicting verdicts in the evaluation

requirements (QRs). The slit lamps were required for use by Ophthalmologists in Military Hospitals.

On technical evaluation of the four offers received, a Technical Evaluation Committee (TEC) in July 2006 found two offers, viz, those of M/s Appasamy Associate and M/s Rohit Surgical as acceptable. However, Rohit Surgical who had offered imported equipment did not produce copy of Agency Agreement with the foreign supplier. DGAFMS therefore ordered re-tendering in August 2006 on the plea of single vendor situation (SVS), without referring the matter to the Ministry of Defence which was the competent authority in this regard. In October 2006 DGAFMS, however, placed a separate supply order on M/s Appasamy Associate for procurement of 10 slit lamps at a unit rate of Rs 1.51 lakh after following the due procedure of invitation of tender.

In the re-tendering, in October 2006 five firms responded. These included M/s Appasamy Associate and M/s Rohit Surgical whose offers had been found technically acceptable earlier. The TEC convened in November 2006, however recorded that only one offer, i.e., that of M/s Deepak Enterprises was technically acceptable. M/s Rohit Surgical did not put its equipment for demo in November 2006 for the TEC's evaluation. However, later in January 2007 they demonstrated the product in a civil institute (Venu Eye Institute) and a board of officers found it acceptable. Audit found that the TEC which was convened within two months of placing supply order on M/s Appasamy Associate appeared to be oblivious of the order placed on them as there was no mention regarding the performance of the item procured from that supplier. The contract negotiations committee (CNC), in July 2007, however acknowledged the last purchase from M/s Appasamy Associate and also that the TEC did not accept their offer received in response to the re-tender. CNC recommended, in July 2007, acceptance of the negotiated unit rate of Rs 3,67,500 offered by Deepak Enterprises, being the L1 offer. DGAFMS, with the approval of the Ministry, concluded the contract with M/s Deepak Enterprises in July 2008 for the procurement of 76 slit lamps at a total cost of Rs 2.79 crore.

Audit observed instances of conflicting verdicts in the process of procurement, leaving the *bona fides* of technical evaluation open to question. These are specified below:

- The first TEC of July 2006 observed that the offer of M/s Appasamy Associate, the single acceptable offer, met all the parameters of the QRs and adjudged the supplier's past service and equipment as satisfactory. In contrast, the TEC of November 2006, which had a different set of members, gave the verdict that their offer (same model as given in the first offer) was unacceptable due to poor quality of optics and resolution. The second TEC did not record anything about the performance of their equipment, contrary to the satisfaction recorded by the first TEC and also disregarded the order for supply of 10 slit lamps already placed on them in October 2006;
- The offer of Rohit Surgical was rejected in the first call, since they did not produce a copy of the agency agreement with the foreign firm, whose

product was offered by them. Nothing was mentioned about the production of a valid agency agreement by them in the second call;

- The broad QRs adopted for invitation of tender and evaluation was deficient regarding resolution, which was shown as “excellent optics to give resolution quality matching that of standard international bio-microscopes”. This introduced an element of subjectivity in evaluation and gave room for arbitrariness in decision making by TECs.

Thus, the element of subjectivity introduced in the QRs enabled the TECs within a short period of six months to give conflicting verdicts during technical evaluation. It also resulted in rejection of the low priced indigenous slit lamp offered by M/s Appaswamy Associate, though it had been found acceptable in July 2006 and again in October 2006. The acceptance of the imported slit lamp offered by M/s Deepak Enterprises, despite it being costlier by about 143 *per cent* ended up in an extra expenditure of Rs 1.65 crore in an order valuing Rs 2.79 crore.

The Ministry stated in April 2010 that due to oversight, DGAFMS did not submit the case of single vendor situation that emerged from the first tendering/technical evaluation before ordering re-tendering. The Ministry added that the evaluation, both in the initial tender evaluation and in the re-tender, was based on the same broad QR. However, the model (USA Origin) offered by M/s Deepak Enterprises in the re-tender was found to be superior with outstanding optical performance, superior features and quality, compared to which the slit lamp offered by M/s Appaswamy Associate appeared inferior and not matching international standards.

The Ministry’s contention reaffirms the Audit observation of the element of inbuilt subjectivity in evaluation of the characteristics of the slit lamps. Evidently, the indigenous slit lamps offered by M/s Appaswamy Associate, although purchased in October 2006 and also found acceptable in the first technical evaluation got rejected due to its inferiority when compared to the imported slit lamps offered by M/s Deepak Enterprises.

3.8 Extra expenditure due to unrealistic evaluation of rates

Incorrect evaluation of rates resulted in repeated rejection of cheaper offers in procurement of Naphthalene balls. The item was finally procured by the DGOS after more than two years at 1.59 times of the initially offered rates by incurring an extra expenditure of Rs 69.15 lakh. The initial cheaper offer was rejected anticipating better bargain in retendering.

Central Procurement (CP) of Naphthalene balls, which fall in the inventory of general stores held by the Army is carried out by the Director General Ordnance Services (DGOS).

For procurement of 137092 Kg of Naphthalene balls approved for two years requirement, the DGOS invited open tender in April 2006 which generated

response from only two firms. The rate of Rs 82.10 per Kg excluding taxes, with the total bid amounting to Rs 1.18 crore as quoted by M/s Jai Chemical Industries Kanpur (JCI) was the lowest (L-1). The Price Negotiation Committee (PNC) however, rejected the offer on the grounds that the rate was high and that the attitude of the firm was monopolistic. Tenders were re-invited in December 2006 and again two bids including one from M/s JCI, were received. The lowest bid of Rs 118.60 per Kg excluding taxes quoted by M/s JCI was again rejected on the grounds of high rates and poor competition. The open tenders were invited for the third time in November 2007 which yet again generated response from only two firms with the lowest quote of Rs 116.90 per Kg excluding excise duty @ 16.48 *per cent* and VAT @ 12.5 *per cent*, offered by M/s JCI. Notwithstanding the reasons for cancellation of previous bids, the rate of Rs 116.65 per Kg achieved after negotiations was considered reasonable and the supply order placed in June 2008 despite the rates being much higher than those received in the first offer. Meanwhile, COD Chheoki had made local purchase of Naphthalene balls in March & July 2008 at the rate of Rs 97 per Kg, which was also suggestive of the fact that the rate of Rs 116.65 per Kg accepted by the DGOS for central purchase was considerably higher.

Audit analysed the reasons for rejection of cheaper offers and found that:

- The first offer of Rs 82.10 per Kg was rejected purely for the failure of the firm to attend PNC meeting. Though the rates were stated to be higher than the last purchase price, yet the PNC opined that there was corresponding hike in petroleum prices as well. A comparative analysis of the lowest quoted rate carried out with the Delhi Chemical Market Index (DCMI) rate also justified the fact that the rejected rate in the first offer was more reasonable than that was finally accepted. In case of the rejected offer, the L-1 of Rs 82.10 per Kg was only 28 *per cent* higher than the corresponding DCMI rates whereas the rate of Rs 116.65 per Kg accepted in the second recall was 39 *per cent* higher than the corresponding DCMI rates.
- Poor competition, as stated to be the reason for scrapping the tenders on first two occasions was very much evident in the final tender as well, indicating inconsistency in the decision making; and
- Local purchase rate of Rs 97 per Kg, as accepted by COD Chheoki, was also not considered while accepting the CP rate.

Again, Audit found that a total payment of Rs 202.64 lakh was made to supplier at variable rate of taxes and duties, as notified from time to time. In the process a sum of Rs 15.30 lakh was overpaid to the supplier on account of incorrect application of Value Added Tax (VAT). While the VAT on Naphthalene balls was admissible at the rate only 4 *per cent*, yet the supply order stipulated the rate as 12.5 *per cent*. The supplier also claimed VAT at the rate of 12.5 *per cent*. The overpaid amount was, however, recovered in August 2009 after being pursued by Audit.

The Army HQ in November 2009 stated that the initial bids were rejected on the hope that retender would generate lower rates but when the market trend was seen to be upward the third offer was accepted. The reply was not only suggestive of poor and speculative market analysis by the DGOS but also demonstrated absence of realism in rejection of the offer which was 28 *per cent* above the DCMI rate and acceptance of the offer which was 39 *per cent* above the DCMI rate.

The unrealistic evaluation of the rates in the procurement of 137092 kg of Naphthalene balls at Rs 116.65 per Kg instead of Rs 82.10 per Kg of basic rate resulted in an extra expenditure of Rs 47.37 lakh, and Rs 21.78 lakh in taxes, etc paid.

The matter was referred to the Ministry in September 2009; their reply was awaited as of April 2010.

3.9 Non-identification of imported stores

Acceptance of the imported stores worth Rs 32.21 lakh by the Army without ascertaining basic information such as the indentor, supply order, source of the consignment and what the stores were meant for, led to non-utilization of the stores for over five years. Besides, it reflects weak internal controls and inadequate security controls in the organization.

Embarkation HQ Mumbai in September 2004 collected from DHL Worldwide Express (I) Pvt. Ltd. a consignment worth Rs 32.21 lakh from USA, intended for delivery to Engineer Park, Ambala Cantonment. However, since the Engineer Park had been disbanded way back in 1992, an engineer regiment collected the consignment from Embarkation HQ in May 2005 on the directions of Engineer-in-Chief Army HQ and kept it unaccounted as the stores were neither demanded nor required by them.

Since Embarkation HQ could not provide the details of the indentor or contract for import of the stores as the Airways bills mentioned no contract details, HQ 474 Engr. Brigade, convened a Board of Officers to open the consignment and identify the stores. The Board having failed to identify the stores recommended in November 2005 for their disposal. The Engineer Brigade sought disposal instructions from Engineer-in-Chief, Army HQ in January 2006. The items could not be disposed off for over three years since then. Chief Engineer Western Command convened another Board of Officers in April 2008. The Board could neither identify the items nor their use and recommended in April 2008 their write off through a loss statement. The stores were, however, not disposed off as of February 2010.

Army HQ admitted in February 2010 that inspite of their best efforts, they have not been able to identify the imported stores as airways bills did not mention contract details nor any ordnance consignees has reported non receipt of stores to them.

Thus, due to acceptance of the imported goods without getting even the basic information such as the consignee/indentor, supply order, source from where the consignment was despatched and what the stores were meant for, Army HQ could not gainfully utilize the imported goods worth Rs 32.21 lakh in the last five years. The case therefore not only indicates poor internal controls in the Army, but more seriously also reflects inadequate security controls leading to the acceptance of unidentified object/item from a foreign source.

The case was referred to Ministry in June 2009; their reply was awaited as of April 2010.