Chapter V : Business Operations

Audit Objective: To assess whether the business operations of CSD have been managed efficiently and effectively

5.1 Functioning of Base Depot, Mumbai

The Base Depot, Mumbai functions as a feeder Depot to all Area Depots for stores other than those which are dispatched directly to the Area Depots by the suppliers or are locally purchased. It thus plays a pivotal role in the business operations of CSD. Stores are received in the Base Depot in bulk and are then dispatched to all Area Depots by road as per the allocation of stores by Head Office. The value of goods routed through Base Depot and expenditure incurred on transportation of the same from Base Depot to all Area Depots during the year 2003-04 to 2008-09 was Rs. 2844.43 crore and Rs. 63.04 crore respectively. Audit scrutiny of the functioning of the Base Depot led to the following findings:

Inside Base Depot Mumbai

5.1.1 Uneconomical supply of stores ex-base Depot Mumbai due to transportation cost

For supply of goods ex-Base Depot Mumbai, some of the suppliers offered freight rebate to CSD. The percentage of rebate offered by vendors in most of the cases ranged from one to 3.5 *per cent*, while in a few cases, it was four to 9.2 *per cent* of the value of goods supplied.

37 consignments consisting of 588 items were checked in audit and it was seen that while the expenditure on transportation of these goods to Area Depots by Base Depot was Rs. 14.30 lakh, freight rebate received against these supplies was only Rs. 3.80 lakh. Since CSD maintained uniform selling prices throughout the country, the expenditure incurred on transportation of stores from Base Depot to the Area Depots was absorbed by CSD. Thus in allowing suppliers to supply goods through Base Depot, CSD was indirectly affording subsidy to the suppliers. Further, the imposition of VAT in Maharashtra had resulted in blocking of funds as CSD had to first pay VAT while procuring the items from the firms based in Maharashtra and after transfer of the stores to Depots located out of Maharashtra, CSD was to submit a set off claim for obtaining refund of the VAT paid.

In spite of the loss inherent in routing items through Base Depot, the number of items supplied through the Base Depot increased from 786 in 2003-04 to 1600 in 2008-09. About 50 *per cent* of the items listed in the CSD inventory were supplied through the Base Depot. As such, in the current scenario of extensive transport network and also in view of the fact that CSD was dealing in products commonly available in the civil market all over the country, supply of stores ex-Base Depot needed review.

CSD stated that if an average rate of freight rebate of three percent is assumed, the freight rebate availed of during the last five years would be Rs. 69.59 crore. It further stated that in the present market scenario and criticality of items to the service personnel serving at far flung areas it was not possible for majority of the suppliers to deliver items to Area Depots.

The reply furnished was not tenable as the CSD MIS did not capture the actual rebate received. The average of three percent worked was a hypothetical figure and was not borne out by the invoices that were actually checked in audit. Further, the contention of CSD that it was not possible for majority of suppliers to deliver items to Area Depots located at far flung areas was also not tenable as CSD had not attempted to segregate Base Depot supply between far flung and well located Area Depots.

The CSD accounts and management information system did not provide for recording of quantum of rebate received against Base Depot supplies and as such it was not possible to work out the exact amount of loss in its functioning. However, in view of incurring an amount of Rs. 63.04 crore on transportation of stores from Base Depot to Area Depots as compared to the meager amount received towards freight rebate, as also the expenditure being incurred on Depot operations, continuance of Base Depot appeared to be uneconomical.

5.1.2 Unnecessary procurement of stores through Base Depot

Examination in audit indicated that certain items supplied ex-Base Depot such as Shoes, Juicer/ Blender/ Grinder, Flexo Chappals, Nylon Socks, Iron, Mixi, Sandwich Toaster, Studd Helmet, Adidas Sportswear Floor Wiper/Duster, Basket Ball/ Football/ Tennis Ball/ Volley Ball etc., were manufactured by the suppliers based in North India. These items were received in the Base Depot and again transported to Area Depots located in the same region thereby incurring avoidable expenditure. Similarly some of the Fast Moving Consumer Goods (FMCG) viz Tooth Paste, Tooth Brush, Toilet Requisites, Sanitary Napkins manufactured by FMCG companies like Colgate Palmolive, Emami Ltd, Godrej Consumer goods, Malhotra and Sons, J K Helene Curtis etc which had a pan India supply chain were also procured at the Base Depot and then transported to Area Depots.

During test check, 55 such items were identified and CSD was requested to provide economic rationale for supply of these items ex-Base Depot. CSD chose to cite an example of dispatch of Reebok shoes from Base Depot to Area Depot Delhi, where the rebate obtained from supplier was more than the expenditure incurred on transportation by Base Depot. But that was a one off case. CSD agreed there is need to cross check the freight rebate obtained versus actual payment on transportation.

5.1.3 Higher rates of Transportation contracts compared to those of Mumbai Sub Area

HQ Mumbai Sub Area (HQMSA) every year concludes contracts for civil hired transport with the concurrence of Principal CDA SC Pune for transportation of stores by the Units/ Formations located in Mumbai Station. A scrutiny of contracts concluded by them during the period 2003-04 to 2009-10 (up to September 2009) for load carriers Truck 9 Ton and 16 Ton indicated that the rates of contracts concluded by Base Depot Mumbai were exorbitantly higher when compared to the rates of contracts concluded by HQMSA. In some of the contracts, rates accepted by the Base Depot were higher by Rs. 15113.04, Rs. 16126.80, Rs. 17368.63, Rs. 18531.86 and Rs. 34718/- when compared with the rates of contracts concluded by HQMSA/ Army formation at Mumbai station. Even after ignoring the cases where the rates were higher up to Rs. 999/-, the extra expenditure incurred due to acceptance of contracts at higher rates in rest of the cases worked out to Rs. 7.46 crore.

CSD stated that contracts were concluded in consonance with the laid down rules and CVC guidelines and open tender system was resorted to obtain lowest and fair price. CSD, while stating that the facts as regards Headquarters Mumbai Sub Area (HQ MSA) were not known, contended that HQ MSA entered into contract for transportation on a much smaller scale and therefore the rates were not comparable. However, the reply overlooked the fact that for transportation on larger scale, lower rates were expected but rates accepted by Base Depot were consistently higher during last five years when compared to the rates of transport contracts concluded by HQ MSA.

5.1.4 Discrepancies in inventory balances

Base Depot furnishes a Monthly Information Report (MIR) to CSD HO indicating opening balance of inventory, inventory received, inventory dispatched and closing balance of inventory held at the end of the month. Similarly, Base Depot maintains a Monthly Receipts Stores Report (MRSR) wherein all stores received during the month are reflected along with the value. In addition, Monthly Transfer Invoice Report (MTIR) which indicates all issues made to Area Depots together with value of stores is also maintained.

Scrutiny of MIRs of March for the years 2003-04 to 2007-08 indicated that stores actually received, dispatched and held at the end of the Month did not tally with the quantity reflected in the Monthly Transfer Invoice Report (MTIR), Monthly Receipts Stores Report (MRSR) and Physical Stock Verification Report (PSVR). The difference in stores dispatched as reflected in MTIR and that reflected in MIR ranged from Rs. 0.95 crore to Rs. 2.17 crore, whereas the difference in respect of stores received as per MRSR was between Rs. 0.15 crore and Rs. 1.89 crore. The difference between Physical Stock Verification and Stock reflected in MIR ranged from Rs. 0.10 crore to Rs. 0.26 crore.

Interestingly, the closing balance of Rs. 2.75 crore as on 28 February 2007, was incorrectly carried forward as Rs. 4.22 crore as opening balance of March 2007. In case the correct figure of Rs. 2.75 crore had been considered as opening balance, after adding receipts of Rs. 7.12 crore the value of total stock available for dispatch during March 2007, would be Rs. 9.87 crore against which dispatches were reflected as Rs. 10.09 crore which was not possible.

No reconciliation of the discrepant figures was made available and CSD did not give any clear reply in this regard.

5.1.5 Deficiencies in submission of VAT returns by Base Depot.

As per relaxation given by the Government of Maharashtra from August 2006, all sales by the CSD to the URCs for resale to the members of the Armed Forces of India are exempted from payment of Value Added Tax except for liquor, Electric and Electronic goods, Motor vehicles, etc. Further, CSD was entitled to a set-off of VAT paid in excess of four *per cent* on consignment of tax paid goods to CSD Depots located in other states. The government reduced this to three percent with effect from April 2007 and further to two percent with effect from June 2008.

Examination in audit of the set-off claims by CSD indicated that Base Depot did not submit returns for set off claim for 2006-07 and 2007-08. On the basis of the data of Base Depot transactions, the set-off claim worked out in audit for the years 2006-07 and 2007-08 was Rs. 16.95 crore and Rs. 27.30 crore, respectively. On being pointed out in audit, CSD submitted the set off claim to state government for the year 2006-07 and 2007-08 in March 2009. Further set off claim for the year 2008-09 for an amount of Rs.22.61 crore was also submitted in November 2009. With introduction of VAT in the State CSD had to block funds to the extent of Rs.66.86 crore awaiting refund from the state government due to delay in filing VAT returns.

Recommendation 14:

With the uneconomical transportation of items, meager receipt of rebate amount and blockage of funds towards VAT, the concept of a centralized Base Depot needs to be reviewed. In the present scenario CSD has to block the funds in terms of VAT paid for the items routed through Base Depot to other States.

5.1.6 Delay in shifting of Base Depot to new location

Base Depot CSD is functioning at Sewree, Mumbai since 1971 on land taken on lease by Indian Navy from Bombay Port Trust (BPT). In 1988, Indian Navy required this land for their operational needs and accordingly asked CSD to vacate the land.

CSD obtained by July 1992, 80,000 Sqm. of land at Taloja for Base Depot and 9,666 Sqm. at Kalamboli for residential complex on a 60 year lease on payment of Rs. 6.12 crore to City and Industrial Development Corporation of Maharashtra Ltd (CIDCO). The agreement for lease was executed in March 1993 and the physical possession of the land was taken over by CSD in October 1996 (Kalamboli) and February 1997(Taloja). Even after 13 years of taking possession of the land, the Depot is still functioning from its old location.

Audit examination indicated that

(a) As per the Board of Officers convened in December 1999, for obtaining Government sanction for construction work, the actual requirement of land was worked out to 47589 Sqm for the Base Depot and 1888 Sqm for staff quarters, thereby rendering surplus 32411 Sqm of land at Taloja and 7778 Sqm of land at Kalamboli. The cost of excess land was Rs. 2.85 crore.

(b) CSD was required to submit building plans to CIDCO within six months of lease agreement and the construction was to be completed within four years of date of lease agreement i.e. by March 1997. Thereafter service charges at the rates fixed by CIDCO were payable by CSD. For any delay in adhering to the time frame, CSD was liable to pay penal charges.

Land at Taloja

Government sanction was issued only in May 2002 and December 2002 for construction works at Taloja and Kalamboli. When CSD approached CIDCO it did not grant permission as the permissible time limit for construction had expired in 1997. The plans also did not meet the requisite FSI. Subsequently, in August 2005 CIDCO agreed to waive the penalty charges provided CSD met the stipulated Floor Space Index (FSI) and surrendered vacant land in its possession. However, service charges amounting to Rs. 41.68 lakh (up to March 2003) and Rs. 10.63 lakh (up to March 2005) were paid in March 2003 and March 2005 respectively.

(c) To bring the plinth area of the construction within the stipulated FSI requirement, CSD in January 2004 put up a proposal to Army Headquarters for shifting the staff quarters also to Taloja and surrender 6000 Sqm of land at Kalamboli to CIDCO. The Army Headquarters approved the proposal in June 2004.

As of February 2007, extension for a period of four years from the date of grant of permission for construction by CIDCO had been sought by CSD and a Board of Officers had been ordered to be convened to reassess the requirement of Base Depot as well as Area Depot along with its residential accommodation.

The work awaits Government sanction pending finalization of Board of Officers. Despite spending Rs 6.12 crore, even after 13 years, the proposal to shift the location of the Base Depot is yet to fructify.

5.2 Unauthorized extension of CSD Benefits

5.2.1 Discrepancies in issue of Smart Cards

With a view to automating the URCs, facilitating better inventory management and arresting the misuse of the Canteen facilities, the Canteen Inventory Management Services (CIMS) interfaced with Smart card was developed in April 2004. It was observed that as against 44.12 lakh beneficiaries, 44.48 lakh smart cards had been issued. BOCCS stated that the 36482 excess cards were Silver, Bronze and Steel Smart Cards which have been issued to institutions and not to any individual. We could not verify the correctness of issue of such cards at BOCCS as the details of beneficiaries to whom these cards were issued were not made available.

5.2.2 Benefits of CSD accruing to ineligible beneficiaries

(i) As per Army Order 19 of 2003 sanction to operate a canteen could be accorded by Brigade /Sub Area or Formation Commander to only the units having requisite strength. Notwithstanding the above, we observed that Officers' Messes, Institutes etc. were allowed to register as URCs and groceries and liquor were issued.

(ii) Extension counters could not draw stores directly from the Area Depot but had to rely on the parent URC as a separate registration number could not be given to them. However, we came across extension counters given separate URC registration number leading to drawal of stores.

(iii) As per policy in vogue, requirement of liquor in respect of institute/ clubs was to be met from the authorization of the unit to which it belonged. However, we noticed that liquor was being issued to such Institutes.

One of the Area Depots stated that these units were registered as URCs and their indents were countersigned by the respective Sub Area Commanders. CSD stated that currently neither any Club/Mess nor any Extension counter was given URC registration number. The reply was not tenable as institutes could not be registered as URCs and the existing URCs registered in the name of Clubs and Officers Messes still continued unauthorized drawal of liquor.

5.2.3 Issue of liquor in excess of authorization

In view of the numerous complaints regarding CSD liquor finding its way to the civil market, AHQ in 1971 had directed all formations to issue necessary instructions to avoid abuse of CSD facility. Further, rules stipulated that every liquor indent, based on which Area Depot issued liquor, was required to be signed by an officer holding the rank of Lt. Col. /equivalent or above and should bear a certificate from the Sub Area/ Administrative Commandant concerned to the effect that the quantity had been indented correctly based on the strength of the unit. The Unit Commanders would also send the specimen signature of the indenting officer to the CSD Area Depot in advance to verify the authenticity of the indenting authority. Army Headquarters in September 1962 had also issued instructions that stock of liquor at the end of each month was to be taken in to account for assessing the requirements for the following month. It was noticed that the URCs were not complying with this instruction while placing the indents which had resulted in excess issue of liquor to URCs. The quantum of excess issue due to this failure could not be ascertained in the absence of details of closing stocks held by the URCs.

Inside a URC

In five Area Depots, we observed that units were drawing liquor in excess of that authorized on the strength of the unit. The value of such excess drawal of concessional liquor was Rs 7.82 crore. The market value of the excess liquor was Rs 19.45 crore. The units responsible for the overdrawal were mainly Station HQ Dehu Road, Rajputana Rifle Regiment Centre, Delhi, Station HQ Jabalpur. Of the Rs 5.26 crore worth of liquor overdrawn at Delhi, Rajputana Rifle Regiment Centre, Delhi alone had overdrawn 57076 cases of liquor valuing Rs.4.79 crore. Besides, Station HQ Dehu Road had overdrawn 26259 cases valuing Rs.1.75 crore.

Several instances of drawal of liquor in excess of authorization based on the unit strength came to notice of audit. These are highlighted in the box above.

Recommendation 15

CSD and the Services should ensure that liquor is demanded by and issued to the URCs strictly as per their authorization to prevent its leakage into the civil market.

5.3 Time and Cost overrun in Implementation of Inventory Management System

Ministry in April 1993 accorded sanction for the computerization of CSD on a turnkey basis in two phases for Rs. 7.11 crore. Phase I of the project envisaged developing application software, related hardware and system software for its implementation in CSD HO, Base Depot and two Area Depots. Phase II of the project envisaged development of comprehensive module to implement the computerization concept across all 40 nodes of the CSD so as to achieve an effective and efficient Inventory Control and Management System. Contract for Phase I was concluded in June 1998 with M/s Tata InfoTech at a cost of Rs. 2.12 crore. The contract envisaged to be completed by December 1998 was however completed only in June 2001.

MOD accorded sanction in May 2003, for Phase –II of the Computerization for Rs. 4.99 crore which consisted of procurement of hardware, software, networking, training, site preparation, installation of software at all CSD Depots and inter-connecting them through CSD owned Intranet. Supply order for Rs. 7.00 crore was placed on M/s Wipro Ltd., in August 2006 only with period of completion as 52 weeks from the date of commencement of contract. As the firm could not complete the job as per the original delivery schedule, extension was granted up to 21.06.08. The firm could not complete the work even by the extended schedule and hence asked for extension up to end of November 2008 which was not granted. Though no further extension was granted the work was completed and handed over to CSD HO only on 01.9.2009. However, the project is in the process of implementation and yet to be fully functional.

Even after 17 years of initial sanction of the project by the Ministry and incurring an expenditure of Rs.2.12 crore and committing an expenditure of Rs. 7.00 crore, it is yet to be completed and made fully operational. Such abnormal delay highlights inefficient project execution and lack of effective monitoring affecting timely modernization of inventory management in CSD.

Recommendation 16

Computerized Management Information System, with automated documentation and control functions should be implemented early. This should included operations of URCs.

The findings were referred to the Secretary Ministry of Defence on 30 December 2008. The reply of the Ministry was awaited as of June 2010.

(Gautam Guha)
Director General of Audit
Defence Services

New Delhi
Dated July 2010

Countersigned

(Vinod Rai)
Comptroller and Auditor General of India

New Delhi
Dated July 2010