CHAPTER VI: MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION

Food Corporation of India

6.1 Fixation of Incidentals on Procurement of Foodgrains

Introduction

The Food Corporation of India (FCI), setup under the Food Corporation Act 1964, is entrusted with the responsibility of execution of the food policies of the Government of India (GOI) in the areas of procurement, storage, movement and distribution of foodgrain.

The GOI fixes the procurement and issue prices of foodgrain. Difference between economic cost and sales realisation is reimbursed by the GOI as food subsidy which also includes carrying cost of buffer stock.

The FCI discharges its functions through a network of five Zonal offices, 23 Regional offices and 166 District offices spread all over the country.

The FCI procures wheat, paddy and rice for the Central Pool either independently or in association with the state Governments and their Agencies. While wheat is procured mainly from the states of Punjab and Haryana, of rice and paddy are procured from the states of Punjab, Andhra Pradesh, Haryana and Orissa. Procurement of wheat and paddy is made under Minimum support price (MSP) whereas rice is procured under levy as per levy orders issued by the state Governments.

The procurement price of the food grain, in addition to MSP announced every year by the GOI, includes incidental charges some of which are statutory (Market Fee, Arathia/ Society commission, Rural Development Cess and VAT etc.) and other non statutory such as mandi labour charges, driage allowance, storage charges, interest charges and milling charges for rice etc.

During 2004-05 to 2009-10, the following quantities of wheat and rice/ paddy were procured:

Table 1

Wheat (Quantity in lakh MTs)

Year	Punjab	Haryana	Other states	Total
2004-05	112.17	57.74	5.27	175.18
2005-06	92.10	43.96	2.41	138.47
2006-07	63.92	21.62	0.07	85.61
2007-08	56.55	31.52	7.58	95.65
2008-09	66.48	33.63	43.78	143.89
2009-2010	107.37	69.24	77.21	253.82

Table 2

Paddy and Rice in terms of paddy procurement (Quantity in lakh quintals)

Year	Punjab	Haryana	Andhra	Orrisa	Other States	Total
2004-05	1338.80	244.80	613.30	206.40	587.49	2990.79
2005-06	1255.9	305.60	586.10	227.10	817.54	3192.24
2006-07	1122.40	267.30	805.40	240.10	533.86	2969.06
2007-08	1141.6	234.00	949.40	181.30	434.43	2940.73
2008-09	1013.00	204.60	1250.00	190.70	837.64	3495.94
2009-2010	1260.00	232.70	1261.50	174.60	779.00	3707.80

In order to economise the cost of procurement, the FCI is expected to keep a constant watch on incidental charges incurred on procurements.

The graph and table below indicates percentage of incidental charges to the total procurement cost during the period 2004-05 to 2009-2010:

Graph 1

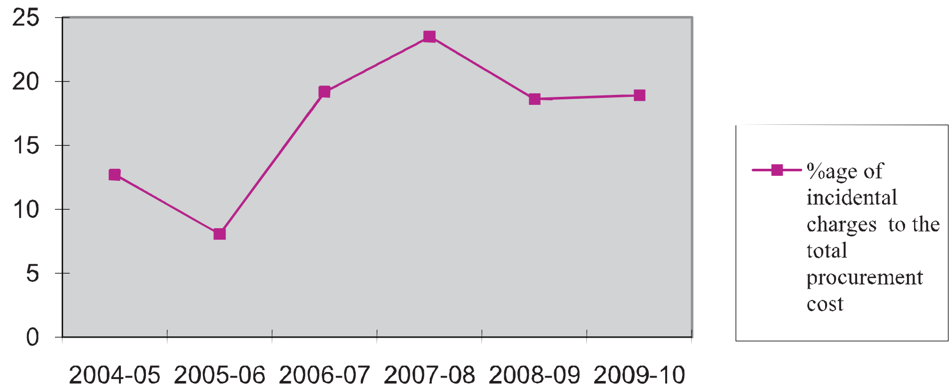

Table 3 **(₹ in crore)**

Year	Total procurement cost of wheat and rice	Incidental charges	Percentage of incidental charges to the total procurement cost
2004-05	35881.78	4552.19	12.69
2005-06	33624.48	2708.53	8.06
2006-07	29048.89	5573.46	19.19
2007-08	34634.56	8136.40	23.49
2008-09	46968.37	8736.04	18.60
2009-10	60462.70	11433.60	18.91

It may be seen that during the period of review the incidental charges varied from 8.06 percent in 2005-06 to 23.49 percent in 2007-08 which was the main consideration for taking up this thematic study by the Audit.

Audit Approach

Past Coverage

The issues relating to the procurement incidentals for the years 2001-04 were earlier reviewed during the period from June 2005 to June 2006 and the findings were included in the C & AG's Performance Audit Report on Management of Foodgrains (Report no 16 of 2006, Union Government (Civil) Performance Audit). The audit recommendations and action taken there against by the Government of India are indicated below:

Audit Findings	Action Taken
1. Statutory charges: As persuasive measures may take time to yield results, the Ministry may consider implementing the recommendation of the High Level Committee (Abhijit Sen Committee on Long Term Grain Policy) and declare a procurement price inclusive of a uniform maximum limit of allowance for State levies.	The report was discussed (November 2010) by the Public Account Committee (2010-11. In response, the administrative Ministry informed that being a state subject, the matter was taken up with state Governments which did not agree to the proposal. Ministry further informed that a study on principles to be adopted for fixation of PICs was conducted by the Chief Adviser (Cost), Ministry of Finance (December 2008). The recommendations based on the study have been sent to State Governments for their comments which are awaited.
2. Non-statutory charges: The Ministry may fix final charges for non-statutory incidentals only on the basis of audited statements of actual expenditure incurred in support of such charges. Pending submission of such statements, FCI's rates may be treated as provisional rates, subject to adjustment on the submission of actual expenditure statements.	PICs are still being reimbursed as per the provisional rates determined by the GOI based on the proposals submitted by the respective States.

Scope, Coverage and Sampling

Audit examined the policies adopted for fixation and payment of Procurement Incidental Charges (PICs) for wheat and rice. Out of total 23 regional offices, four regions for paddy viz. Punjab, Haryana, Andhra Pradesh & Orissa and two regions for wheat viz. Punjab and Haryana were selected for detailed audit. The examination in the regions included the examination of records of district offices also falling under the respective regions. The period of the study was restricted to 2004-05 to 2009-10.

Audit Objectives

The objectives of the Audit were to:

- assess whether a transparent, objective and efficient system was in place for finalization of PICs for different states.
- assess the economy, reasonableness and comparability of PICs incurred by FCI on direct procurement and those paid to state Government Agencies.
- examine the efficiency and effectiveness of the system for considering process/activity/element in arriving at PICs.

Audit Criteria

- Food policy of Government of India.
- Norms laid down by the GOI for fixation of PICs
- PICs incurred by FCI vis a vis reimbursement of PICs to SGAs
- Market price of by-products for fixation of milling charges.
- Tariff Commission Report for fixation of milling charges

Audit Methodology

Audit commenced with an Entry conference with the FCI Management in August 2010, wherein the scope, objectives and methodology of audit were discussed and the criteria were agreed upon. This was followed by field audit wherein the records and data of the FCI as well as Ministry of Consumer Affairs & Public Distribution (Administrative Ministry) were examined. An Exit Conference was held in January 2011 to discuss audit findings. The replies of the Management and clarifications made during exit conference have been suitably incorporated in the report.

Audit Findings

6.1.1 Levy of statutory charges by state Governments

Statutory charges include market fee, rural development cess and infrastructure cess, nirashat shulk, *arhatia/dami* and purchase tax/VAT payable on procurement of foodgrains. These charges are fixed as a *percentage* of the MSP by the respective State Governments. Audit observed higher incidence of statutory charges by the state of Andhra Pradesh, Haryana and Punjab, the main procuring states in comparison to the other states. The tables below indicates the total statutory charges levied by the States as a percentage of MSP.

Table 4

Wheat

Year	Punjab	Haryana	UP	Rajasthan	MP
2004-05	11.50	10.50	6.5	3.6	2.2
2005-06	11.50	10.50	6.5	3.6	2.2
2006-07	11.50	10.50	6.5	3.6	2.2
2007-08	11.50	10.50	9.00	3.5	4.52
2008-09	12.50	10.50	9.00	4.1	4.70
2009-10	12.50	10.50	7.50	3.60	3.20

Paddy

Year	Punjab	Haryana	UP	AP	MP
2004-05	11.50	10.50	7.5	11.00	3.20

2005-06	11.50	10.50	7.5	11.00	3.20
2006-07	11.50	10.50	7.5	11.00	3.20
2007-08	11.50	10.50	8.0	11.50	3.70
2008-09	12.50	10.50	8.0	11.50	-
2009-10	**Not available**				

As the statutory charges have a wide impact on the quantum of food subsidy paid out of the Consolidated Fund of India, the GOI needs to take vigorous efforts to rationalise the magnitude of these taxes in consultation with the State Governments.

The Management assured (January 2011) to take up the issue with GOI.

6.1.2 Payment of charges without supporting evidence

Procurement price of levy rice for each state is fixed by GOI every year separately before commencement of the procurement season. GOI, while communicating levy rates, stipulated that 'payments relating to statutory charges by FCI to millers would be payable only on production of the relevant official/statutory receipts evidencing payments.

Audit, however, observed that during 2005-06 to 2009-10 in Andhra Pradesh region, VAT and Rural Development Cess amounting to ₹ 61.76 crore was paid without proof of evidencing payment.

The Management promised (January 2011) to look into the issue after collecting information from their Regional office.

6.1.3 Fixation of milling charges on the basis of unreliable inputs

Milling charges are paid to the rice millers for converting paddy into rice at the rates fixed by the GOI from time to time.

GOI entrusted (December 2004) Tariff Commission under Ministry of Commerce a study to determine normative milling charges for raw and par-boiled rice. The Commission, after collecting information and data from various private mills located in seven states viz AP, Chattisgarh, Haryana, Punjab, Tamilnadu, Uttar Pradesh and Orissa, made their recommendations for fixing milling charges at ₹ 15 per qtl. and ₹ 25 per qtl. for raw rice and parboiled rice respectively. The GOI accepted these recommendations, in *toto,* and accordingly notified (October, 2005) the rates.

Audit observed that the rates of milling charges fixed by the GOI needs to be reviewed in the light of the following facts:

- The Commission in its report had stated that data/information provided by the rice mills was mostly unreliable as the financial information provided by the mills included data on activities other than custom milling operations.
- The rates were fixed based on the information/data provided by the private millers only. The same from the mills operated by State Government agencies such as Punjab State Cooperative Marketing Federation Limited (MARKFED) and Haryana State Cooperative Supply and Marketing Federation Limited (HAFED) etc were either not called for or considered for determining the rates.
- The prices of by product of paddy milling taken by the Commission for arriving at the milling charges were apparently on a lower side as compared to the prevailing market price. In order to ascertain the actual market price of the by

product, Audit obtained the relevant data from a MARKFED Rice Processing mill at Goniana (Punjab) and observed that the market price of by-products extracted out of one quintal of paddy in the year 2005-06 was ₹ 81.47 as against ₹ 33.96 considered by Commission.

- The milling charges fixed by the Government of India on the recommendations of the Commission were based on the data for the year 2003-04. Though there has been tremendous increase in the prices of by-product thereafter, the same rates were still continuing.

The Management stated that the charges were fixed by the GOI and the FCI followed the Government's directions.

6.1.4 Undue benefit to millers in procurement of rice at revised rates

Due to increase in MSP of paddy, the GOI enhanced (July 2008) procurement price of levy rice effective from 24 June, 2008. As such the resultant levy rice from paddy procured up to 23 June 2008 was to be delivered at old rates. The details of old rates and revised rates are indicated below.

Table 5 ***(₹ per quintal)***

Period	**Raw rice**		**Par Boiled rice**	
	Common	**Grade A**	**Common**	**Grade A**
Upto 23-6-2008	1239.10	1286.50	1236.10	1282.90
Wef 24-6-2008	1414.20	1461.60	1408.60	1455.40
Difference	175.10	175.10	172.50	172.50

Audit observed that the various rice mills located in Andhra Pradesh had short delivered 129237 MT of levy rice in Kharif year 2007-08 against levy rice due from these mills in accordance with the AP Rice Procurement (Levy) Order, 1984. The FCI instead of making payments at the old rates, procured the same at revised rates and thereby extended undue benefit of ₹ 22.44 crore to the millers.

The Management stated that the Region had been directed to initiate action for recovering the excess amount from the State Government (January 2011)

6.1.5 Custody and Maintenance Charges

(a) Undue payment of ₹ 158.06 crore on procurement of paddy

The charges incurred by the SGAs for storage and preservation of paddy/wheat after procurement for a specified period are known as Custody & Maintenance (C&M) Charges. In order to compensate these expenses, FCI reimburses C&M charges in accordance with the Principles of 2003. Obviously, these charges should not be paid if the stocks are delivered directly to FCI / millers from mandis.

Audit observed that during the period under review, 7250.3 lakh qtls. of paddy procured by the SGAs in Punjab, Haryana and Andhra Pradesh was moved directly from mandis to the rice mills and the resultant rice was also delivered directly to FCI godowns. The FCI, however, paid custody & maintenance charges of ₹ 158.06 crore for this stock to SGAs.

As the SGAs neither incurred any expenditure on the custody or maintenance of these stocks nor any such charges was payable to the millers as per the milling agreement entered into by the SGAs, the payment of these charges to the SGAs was unjustified.

Audit also observed that the FCI while releasing the payment did not insist upon the SGAs for documentary evidence in support of incurring expenditure on this account.

The Management assured (January 2011) to ascertain the position from the regions.

(b) Excess payment of ₹46.23 crore on procurement of wheat

Audit observed that till 2007-08, these charges were being paid to SGAs even on the quantities of wheat delivered directly from mandis to FCI godowns. Though in May 2008, the GOI fixed (May 2008) separate rates for direct delivery of wheat from mandi after excluding the C&M charges, in Haryana region, even after receipt of these orders payment of ₹ 15.34 crore on this account was made for the crop year 2008-09 to the SGAs. The FCI also failed to recover/adjust the excess amount of ₹ 30.89 crore paid in the earlier years (2004-05 to 2007-08) on this account.

The Management assured (January 2011) to ascertain the position from the regions.

6.1.6 Excess fixation of interest charges

As per Principles decided by GOI (July 2003), the SGAs are to be reimbursed interest charges at FCI cash credit rates for procurement of food grains. It was, however, observed that in contravention of the decided principle, GOI had allowed higher rate of interest charges to the State Governments during the years 2004-05 to 2009-10. This resulted in extra burden of ₹ 188.98 crore on food subsidy.

Management stated that the higher rates of interest to the State Governments was due to the fact that the FCI had been given concessional rates because of default bank guarantee by the Government of India whereas no such system prevailed in case of State Governments.

6.1.6.1 Non achievement of procurement targets by FCI

Before commencement of each procurement season, the State Governments in consultation with FCI fix the procurement targets for SGAs and FCI. The table below indicates the targets set for FCI for procurement of paddy and wheat and actual procurement there against during 2004-05 to 2008-09:

Table 6 ***(quantity in Lakh MTs)***

Year	Paddy			Wheat		
	Target	Achievement	Percentage	Target	Achievement	Percentage
Punjab						
2004-05	24.00	11.49	48	33.00	21.69	66
2005-06	22.00	10.58	48	22.00	14.28	65
2006-07	21.80	2.42	11	17.00	10.67	63
2007-08	11.00	1.45	13	9.00	7.26	81
2008-09	12.50	2.15	17	11.55	10.85	94
Haryana						
2004-05	1.50	1.00	67	11.00	8.80	80
2005-06	1.50	0.95	63	12.00	6.17	51
2006-07	1.50	0.11	7	6.30	2.69	43
2007-08	1.00	0.10	10	4.50	3.50	78
2008-09	0.50	0.10	20	4.00	7.85	196

It may be seen from above that in almost all the years (except in the 2008-09 for wheat) the main procuring regions of Punjab and Haryana of FCI could not achieve the targets set for them. The shortfall in the targets by FCI were fulfilled by the SGAs. Audit observed that PICs reimbursed to SGAs were higher than those of the FCI. This led to incurring of higher incidental charges of ₹ 144.28 crore.

Management contended that mandis allotted to FCI by the State Government are generally at disadvantageous places.

The fact remained that the FCI failed to achieve the targets which were fixed in consultation with it and it resulted in extra burden to the food subsidy by ₹ 144.28 crore.

Conclusions

Audit of fixation of procurement incidentals revealed that the statutory charges fixed by the State Governments vary from state to state and the rates of the main procuring states viz Punjab, Haryana and Andhra Pradesh were significantly higher than those of the other States. As these charges impacted the quantum of food subsidy adversely, there was a need to evolve consensus among all the states to have uniform, rationalised and capped rates of state levies. Further, audit observed that reimbursement of various claims of State Government Agencies was without proof of payment, payment of milling charges to rice millers were based on unreliable and inadequate data particularly as regards value of by-products retained by the millers.

In order to address the deficiencies the following recommendations are made:

Recommendations

- ***The GoI and FCI need to take vigorous efforts to rationalise statutory taxes in consultation with the State Governments.***
- ***The FCI, while making payments, should ensure that the claims of State Government Agencies for procurement incidentals were supported by proper evidences.***
- ***The GoI while fixing the milling charges should ensure that these were based on reliable inputs.***
- ***The GoI and State Governments may deliberate upon the issue of extending default bank guarantee to have identical interest rates on bank finances availed for procurement of food grains.***

The matter was reported to the Ministry in February 2011; reply was awaited (February 2011).

6.2 Import of food grains

Introduction

In view of the depleting stock position in the buffer stock, the Government of India (GOI) decided (February 2006) to import wheat. The import was planned in two phases, 55 lakh MT in Phase-I in 2006-07 and 18.06 lakh MT in Phase-II in 2007-08. The import operations were to be undertaken by STC Limited/MMTC Limited/PEC Limited[♣] (importer) on behalf of Food Corporation of India (FCI) on High Sea Sales basis. In

[♣] ***In Phase –I import was through STC only. In Phase-II import was through STC/MMTC/PEC***

Phase-I, 54.54 lakh MT and in Phase-II, 17.69 lakh MT of wheat was received during early 2006 to April 2008 was 54.54 lakh MT in Phase I and 17.69 lakh MT in Phase II.

The price of import during the Phase-I varied from \$178.75 to \$237.90 per MT and from \$317.95 to \$408.43 per MT in Phase-II. The importer was eligible for administrative overhead of 1.2 *per cent* of the CIF[1] cost of each cargo during Phase-I and 1.2 *per cent* of the value of import at \$178.65 per MT (fixed) for Phase-II. The import was done as bulk cargo and SCH&T[2] contractors were appointed for handling at each port by the FCI.

Scope of Audit

The scope of thematic audit was to assess the role of FCI in planning, scheduling and implementation of import operations. Audit was carried out through test check of records and analysis of data at all the eight[3] ports where wheat was received.

Audit Objectives

The main objective was to examine the:

- Effectiveness of import through high sea sales basis.
- Efficiency in the performance of SCH&T contractors and transportation by road/railways.
- Economy in SCH&T contracts and imports

Audit criteria

The audit criteria were:

- Government of India (GOI) instructions, Agenda and Minutes of Board of Directors and executive body of FCI.
- Agreements with importer and SCH&T contractors.
- Claims of importer and SCH&T contractors.
- Scheduling, arrangement of logistics and actual implementation of import.

Audit findings:

6.2.1 Improper planning of berthing of vessels at ports

Out of 72.23 lakh MT wheat import throughout India, 55.10 lakh MT (76 *per cent*) was routed through Mundra and Kandla ports. During Phase-I, wheat was received in 107 vessels. Of these 43 vessels were received in Mundra and 25 vessels were received in Kandla. Similarly, during Phase-II out of the total 35 vessels, only one vessel was allocated to Chennai port and rest of the 34 vessels were berthed at Mundra (26) and Kandla port (8).

6.2.1.1 Loss on demurrage due to delay in berthing of vessels

As per agreement, FCI had to nominate the discharge port(s) and after arrival of vessel(s) it had to arrange for their discharge. The importer was required to ensure safe berthing to

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[1] ***Cost, Insurance and freight***
[2] ***Stevedoring, Clearing, Handling and Transport***
[3] ***Kandla, Mundra, Chennai, Mumbai, Vizag, Kakinada, Tuticoin, Cochin***

the vessel for discharging the cargo. Any claim(s) for demurrage, damage to the vessels etc arising with regard to berthing or discharge operations were to be honored by the FCI.

Since large numbers of vessels were allocated to Mundra and Kandla ports there was unscheduled arrival of vessels. This resulted in heavy pre berthing demurrage, amounting to ₹ 24.05 crore at these ports.

6.2.1.2 Poor planning in allocation of ships.

In Phase-I and II, 6.26 lakh MT wheat was discharged from the 13 ships berthed at Chennai port. Of this, 2.34 lakh MT was moved to various states viz. West Bengal, Assam, Bihar, Chhattisgarh etc. by incurring heavy rail freight. The transportation of wheat from Chennai/Tuticorin to these states resulted in extra expenditure of ₹ 7.85 crore. The FCI could have allocated these vessels to eastern coast ports like Vizag and Kakinada where these vessels could be easily accommodated to avoid extra expenditure.

6.2.1.3 Avoidable expenditure due to transportation to southern states.

To meet the requirements of southern states wheat discharges at Kandla and Mundra ports were transported to Kerala, Tamilnadu and Karnataka by incurring heavy rail freight. A total quantity of 64,541 MT of wheat was transported to these states during Phase-II. The transportation of wheat from Kandla and Mundra ports to southern states had resulted in excess transportation cost to the extent of ₹ 5.29 crore. The FCI could have avoided excess transportation by allocation of more vessels to Chennai port during Phase-II.

6.2.1.4 Avoidable transportation by rail

Mumbai port had the facility to accommodate smaller ships up to 36,750 MT in inner berths and up to 45,000 MT in outer berths. FCI, Western Region recommended that a quantity of 6-7 lakh MT could be imported through Mumbai port. As against this, actual import made through this port was only 1.04 lakh MT in three vessels. Examination of capacity of ships berthed at ports nearest to Mumbai revealed that 10 smaller ships of less than 36,750 MT were berthed at Kandla/Mundra ports with a total bill of lading quantity of 3.29 lakh MT. Further, a total quantity of 6.62 lakh MT of wheat was transported from Mundra and Kandla ports to different centers in Maharashtra by rail. Had the smaller ships been berthed at Mumbai port, the additional expenditure of ₹ 10.51 crore on transportation by rail from Kandla and Mundra to places which were close to Mumbai port could have been avoided.

6.2.1.5 Extra expenditure due to transportation by road

Wheat through Kandla and Mundra ports was sent to various States by rail except to Gujarat. The FCI has three rail-fed depots under Gujarat Region i.e. FSD Sabarmati, FSD Bhomaiya and FSD Gandhidham and the wheat could have easily been transported to these depots by rail. A quantity of 2.56 lakh MT of wheat was transported through road to these rail fed depots during the year 2006-07 and 2007-08 by incurring extra expenditure of ₹ 12.57 crore when compared to rail freight.

Thus, planning of berthing of vessels at ports was not proper. Extra expenditure due to transportation of stock to different destinations could have been avoided.

6.2.2 Excess payment to contractors

According to clause 5 of Shipping Terms of the purchase/sale agreement between the importer and foreign sellers, "Vessels used should be geared/gearless. Suitable grabs for discharge of grain in bulk to be provided by the seller at their cost." Further, clause XX (iii) of the SCH&T contract provided that "The contractor shall make necessary arrangement for use of the ships or port gear and/or ships winches required for the discharge of foodgrains and pay any charges incurred for hiring the gear."

It was observed that 66 vessels at Mundra and 18 vessels at Kandla arrived without gear. Though the grab was to be provided by the seller at their cost or SCH&T contractor had to pay for the hiring of gear, an amount of US $4665667 (about ₹ 20.99[♣] crore) was paid as grab charges to SCH&T contractors for discharge of which resulted in excess payment of grab charges.

6.2.3 Non recovery of dues from importer/contractors

Instances of non-recovery of losses/dues from importer/contractors were also noticed. A few instances were:

6.2.3.1 Failure to recover 'Rail Transit Losses' from the contractors

In eight ports through which the import of wheat was made during 2006-07 and 2007-08, SCH&T contract was entered into for handling and transport of stock. However, there was no provision in the contract for recovery of Rail Transit Losses (RTL) above standard allowance of 0.24 *per cent* occurring from loading point at port to the rail head where these stocks were unloaded. It was observed that FCI suffered a loss of 32523.315 MT and after standard allowance, amounting to ₹ 17.27 crore on account of RTL. FCI decided (April 2008) that RTL above 0.5 *per cent* may be recovered and responsibility fixed. In western region loss to the extent of ₹ 3.70 crore accrued but no action was taken to recover it from the contractor on account of RTL.

6.2.3.2 Non-recovery of short landed quantity

One vessel (M.V. Mairouli) arrived at Kandla port on 13 February 2008 with 47848.52 MT of wheat of Brazil origin. It had non permissible draft for Kandla port which necessitated making the ship lighter at midstream to reduce the draft for berthing. Prior to commencement to lighten the ship, a joint draft survey was conducted at midstream to confirm the quantity at par with bill of lading quantity but at the time of survey, sea swell was prevailing and the actual quantity brought by the vessel could not be ascertained. However, on full clearance of stock from wharf in April 2008 shortage of 1356 MT of foodgrains worth ₹ 1.83 crore was noticed. Since shortage was noticed only at a later date, the importer (MMTC) disowned the liability. The liability was later fixed on SCH&T contractor, since contractor was responsible for shortage at wharf. The contractor also disputed the liability referring to remarks on "sea swelling" recorded in the joint initial draft survey and leakage of grain in mid stream during lightening. Thus, absence of provisions for fixing responsibility for short landed quantity resulted in non-recovery of loss.

[♣] *At the rate of ₹45/$.*

6.2.3.3 Non-recovery of gunny shortages

As per contract FCI had to arrange for supplies of empty gunny bales to the contractors. The contractor was the custodian of gunny bags supplied and was liable to render account of gunnies supplied and make good the cost of gunnies lost to the FCI.

A review of gunny account and settlement of accounts with SCH&T contractors revealed that claims on losses/shortages/damaged gunnies to the extent of ₹ 6.19 crore were pending settlement as the contractors had disputed the amount.

6.2.3.4 Non recovery of godown rent and handling charges

As per para XXI (6) of contract, it was the responsibility of SCH&T contractor to hire necessary godown to accommodate stock and incur all expenditure upto loading of stock into wagons. However, during the period from 28 December 2006 to 27 March 2007 FCI hired godown facility at Central Warehousing Corporation, Kandla on actual occupation basis to accommodate the arrivals at Kandla port. FCI incurred ₹ 58.17 lakh towards handling charges and rent of godown. The expenditure incurred was not recovered from the SCH&T contractor.

Conclusion

Throughout the execution of import contract there were inefficiencies and extra expenditure especially with regard to allocation of ships to specified ports which resulted in heavy demurrage and excess road/rail transportation cost. SCH&T contracts were finalised without considering various contingencies.

The matter was reported to Ministry in September 2010; reply was awaited (February 2011).

6.3 IT Audit on Non achievement of objectives of Integrated Information System for Food grains Management project in FCI

Introduction

Food Corporation of India (FCI) functions through five Zonal Offices, 23 Regional Offices, 170 District Offices and 1643 Food Storage Depots. The practice of collection of information/data for Management Information System (MIS) was time consuming and costly. As such, Government of India (GOI) approved (August, 2003) the project 'Integrated Information System for Food grains Management' (IISFM) at a total cost of ₹ 97.66 crore which was to be implemented in three phases from 2003-04 to 2005-06. The sole objective of IISFM was to install an online MIS which would give the stock position in any Food Storage Depot (FSD) at any given point of time.

A Tripartite Agreement for implementation of the IISFM project on turnkey basis was entered into amongst the FCI, National Informatics Center (NIC) and National Informatics Center for Services Incorporated (NICSI) in September 2003. As per the agreement, NIC was to act as a consultant for the project and responsible for providing application software and also update the same as per the requirements. NICSI was responsible for the supply of hardware and software for the project as per specifications prescribed by NIC. The FCI incurred an expenditure of ₹ 80.24 crore on the project till March 2010.

Integrated Information System for Food Grains Management

IISFM consists of two modules viz: district module and depot module. The system was designed to capture data related to receipts, issues and dispatches from the FCI depots. The captured data flows from the depots to the FCI's Headquarters at Delhi while being collated at various levels of hierarchy with FCI, and thus the stock related to every depot is made available at a central location i.e. the Central Server located at Head Office/NIC.

At the district level, the details of stock from all the depots within the district were consolidated and reports on stock position were placed on the IISFM website fortnightly, after authentication by Regional Office.

The scope of the project was widened in 2005-06 to include:-

- Nine major Procuring/Distributing States/Agencies
- Computerization of 'Financial Accounting Package' of FCI.

Scope of Audit

The scope of audit included an assessment of the planning, designing, implementation and operation of IISFM project to see whether the objectives of the project have been achieved. The audit was carried out through test check of records and analysis of data of two depots from each of the five Zones selected on random basis besides review of general and application controls at the level of depot, district, region and Head Office. The period of audit is the project implementation period i.e August 2003 to till date (July 2010).

Audit Objectives

The main objective of audit included an assessment of the planning, designing, implementation and operation of IISFM project to see whether the objectives of the project have been achieved. Besides, whether it was effectively performing to achieve its objective of availability of online real time data of stock position in FCI depots. For this purpose, it was seen whether -

- IISFM was planned and designed to fulfill the objectives of introducing the system
- The system was implemented economically and efficiently
- There was improvement in the existing MIS

Audit criteria

The audit criteria for assessment of the achievement of objectives of the project were as follows: -

- GOI instructions, Agenda and Minutes of Board of Directors, and Tripartite agreement with NIC and NICSI.
- Implementation schedule, arrangement of logistics for implementation and actual implementation.
- Reports generated from the system.

Audit findings

6.3.1 Planning and implementation

Planning is the foundation stone for the development and designing of any system as its success depends on appropriate planning:

6.3.1.1 IT Policy

IT policy was necessary for effective functioning of IISFM because it contains comprehensive strategy for computerization of functions at depot level without which implementation of IISFM project could not be systematic. However, audit observed that even after seven years since the project was commenced, IT policy was not finalized and documented by FCI. The FCI continued to depend on NIC for any change in the IISFM application.

It was observed that in order to monitor and oversee implementation of the project, a 'Project Monitoring Committee' (PMC), under the chairmanship of the Managing Director, FCI with members from FCI, NIC, NICSI and a representative of the Ministry of Consumer Affairs, Food and Public Distribution was formed which was required to meet at least once a month. It is however, observed that the PMC, constituted in October 2003, held only 10 meetings as against the target of 72 meetings over a period of six years (2003-04 to 2009-10). Thus, due to insufficient monitoring, the problems occurred during the implementation could not be rectified in time resulting in inordinate delay in the implementation of the project.

6.3.1.2 Delay in implementation of data transmission capability

The main objective of IISFM was to obtain on line stock position of any depot at any given point of time. Tripartite agreement signed in 2003 included the requirement of enough data to ascertain stock position at any of the depots at any given point of time. However, requirement of availability of data of online stock position was not taken care of initially as the first test version of depot application software released (1.0) in the year 2004 did not have the data transmission capability. Only the later version (2.2.2) launched in the year 2007 had the data transmission capability.

6.3.1.3 Incomplete implementation of the IISFM

It was observed that the updated stock position in any depot on any given day (instead of any given point of time) was available only in respect of 112 depots out of 1643 depots (6.82 *per cent*) (March 2010). In the latest version (3.1.0) the updated position (0 to 7 days) was available in respect of only 186 depots (11.30 *per cent*) out of 1643 depots (July2010).

Audit observed that:-

- In nearly 800 depots out of 1643 depots, hardware and software were not provided.
- The data of nearly 150 depots could not be transmitted due to lack of internet connectivity.

The scope of the IISFM project was widened (October 2005) to include computerization of State Government Agencies of nine major procuring/distributing States (Uttar Pradesh, Chhattisgarh, Orissa, Andhra Pradesh, Haryana, Karnataka, Tamil Nadu, Madhya Pradesh and Punjab). The objective of the enlarged scope was to capture complete, timely and reliable data on foodgrains stock in the Central Pool (with FCI and State Government agencies). However hardware and software were supplied to seven states except Andhra Pradesh and Punjab at a cost of ₹ 20.65 crore upto May 2010. Management informed that only Madhya Pradesh out of these states had been updating data through these modules.

Presently stock position of foodgrains with State agencies in Central Pool is being collected manually by the District Offices of FCI and fortnightly reports are sent to FCI Hqrs as was being done previously. Thus the expenditure of ₹ 16.25 crore spent on computerization of major procuring States/State Agencies (except Madhya Pradesh[*]) remained unfruitful so far.

As per project requirement, in Regional Offices (RO) and Zonal offices(ZO) only computer and connectivity to the central server was required without servers. However, it was observed in audit that FCI purchased servers valuing ₹ 71.77 lakh for 23 ROs and five ZOs without assessing their requirement. This resulted in avoidable expenditure of ₹ 71.77 lakh.

The Management stated (November 2010) that though the depot application software was not used by ROs and ZOs, a Local Area Network (LAN) could be established with the server and client PCs supplied under IISFM for other office works of the FCI.

6.3.1.4 Disaster Recovery and Business Continuity Plan

Disaster Recovery and Business continuity planning includes taking regular backups, storage of backups in a separate location and periodic recovery exercise to ensure that backups taken are recoverable. However, it was seen in audit that no recovery exercise was undertaken and disaster recovery mechanism has not been simulated so far. In the absence of the any off-site storage and recovery exercise, recovery of the data cannot be assured thereby putting the entire database at the risk.

The Management stated (November 2010) that the point of audit for setting up a Disaster Recovery Site (DRS) and simulating it at various intervals is well taken by the department which was setting up DRS in consultation with NIC soon.

6.3.2 Process Reengineering

Test check in audit has revealed that electronic weighbridges installed at depots contain all data related to incoming and outgoing stock of foodgrains. Hence, IISFM should have been designed in such a manner that it imports stock data directly from the electronic weighbridge. It could be done by linking the system with the weighbridge. However, existing system was not designed to reduce further manual intervention thus minimizing the scope of erroneous data entry.

The Management stated (November 2010) that linkage of weighbridge required further analysis and study as well as up gradation and standardization of all weighbridges across all depots. Hence this exercise was put on hold by NIC till the computerized stock reporting could be stabilized. The weighbridge level automation may be undertaken in future as a separate project.

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[*] ***Madhya Praesh (Hardware and Software expenditure ₹4.40 Crore)***

The reply was not convincing because these difficulties were not insurmountable as most of weighbridges were upgraded to electronic weighbridges and even the upgraded electronic weighbridges were not linked to the system.

6.3.3 System Design

Following flaws in designing were also seen in audit*: -*

- There was no provision for capturing procurement data at 'mandies' (foodgrains markets) and data transhipment operations in the IISFM.
- No provision for capturing categories of food grains purchased under relaxed specification was available in the system under the depot module. For instance, it was observed that wheat (shrivelled and broken) purchased in Uttar Pradesh under relaxed specification, is classified under two categories viz 7.1 *per cent* to 10 *per cent* and 10.1 *per cent* to 15 *per cent*. In the absence of such provision, category wise stock position could not be generated from the system.
- Central server reports were showing negative stock balances of food grains in silo in Lucknow and Guwahati due to incomplete data feeding.
- Stock balance reports can be generated with future dates through the system which exposed the system to misrepresentations.
- System could accept any number between 0 and 9999999999 in respect of number of bags, quantity and cost per quintal in Release Order in the absence of parameters set in the depot module.
- Release order can be issued of a quantity more than the quantity available in the depot.

Management accepted (November, 2010) the flaws in the system and replied that NIC, the project consultant has been working to find solution. Further, an administrative decision was taken to keep this version in abeyance and to bring in a simplified online version IISFM Rapid Reporting Service (IRRS) which has now been launched.

6.3.4 IS Security

6.3.4.1 Physical access controls

Sensitive systems like database server and network switches in the depots of FCI were not protected by placing in dedicated (isolated) environment and were freely accessible to anyone, making the system vulnerable to physical threats.

6.3.4.2 Logical access control

It ensures that only authorized users can log on to the system. This control is secured by having a password policy, limitation in number of logon attempts, etc. However password policy was not in place. Audit also observed that:

- User IDs and passwords were shared by more than one user, thereby compromising the security of the system and making it difficult to fix responsibility.

- Idle log out time of the system can be set by system settings. It was, however, observed that the idle log out time set is 20 minutes, which is rather high and exposes the system to unauthorized access.
- Log files to assess user access were not available in the system.

The Management stated (November, 2010) the user acquaintance and comfort with the use of computers and the software was being cultivated and hence the need of tougher passwords and log maintenance was not felt. The reply further stated that IRRS had been released by NIC after proper security audit; password policy had been finalised and limitations in number of logon attempts had been incorporated in the module.

The reply of the Management was not convincing as good practices of the password management were vital for data security. Further, even limitation in number logon attempts and sharing of passwords without the existence of proper log files (user identification with time at the time of login in to the system) in the system would compromise data security and responsibility could not be fixed.

6.3.5 Performance of IISFM

Performance of IISFM as test checked in 10 depots out of 699 depots where the system was put in place. Besides, stock reports generated in central server in FCI Headquarters in respect of all depots were examined. Following deficiencies were noticed in audit:-

6.3.5.1 Non-achievement of the objective of online stock position.

The main objective of the project was to put in place an online MIS to give the stock position in any depot at any given point of time. This required data entry as and when the activity took place and prompt transmission of the data to the central server. It was, however, observed (as on May 2010) there was time lag of data entry ranging between 1 day to 823 days. Thus the stock position in any Depot at any given point of time was not available.

6.3.5.2 Incorrect MIS report generation

Reports on stock position of food grains generated by the central server were found to be incomplete, inaccurate and unreliable for decision making. The following deficiencies were noticed in the central server reports:

- Variation was seen between the stock position as per the central server reports based on depot module and district module reports. Hence the figures generated by the system were not reliable.
- Stock position of a depot as per the depot module on a given date did not match with that of the same depot as per district module. Some instances are as given below:-

Name of the depot	**Commodity**	**Closing stock in MTs as on 30.04.2010**		**Difference**
		As per Depot module	**As per District module**	
Talkatora, Lucknow	Rice	9923.45	8722.41	1201.04
	Wheat	16523.52	16499.56	23.96
Naraina, Delhi	Rice	7621.16	8607.29	986.13
	Wheat	69434.20	69076.88	357.32

Sanathnagar, Hyderabad	Rice	45846.94	45888.50	41.56

6.3.5.3 Inability of Server to handle large volume of data flow from depots

Out of six servers, two were in clustered mode and connected to SAN♥ storage. The Random Access Memory (RAM) of the servers was 4 GB. Capacity of the central server was not commensurate with the volume of data generated in the depot leading to delay in uploading of data transmitted by the depots to the central server.

The Management stated (November, 2010) that due to changed circumstances and increase in multiple web based application running on central server setup, the load on the Central server increased manifold and proposal for upgrading the central server was already in pipeline.

Conclusion

The main objective of availability of online stock position of any depot at any given point of time could not be achieved due to incomplete implementation and absence of connectivity. Reports generated by the system were not reliable because position of stock for the same depot for the same date were different in depot module and district module. Further, the system had problems related to security and control of data. The FCI kept in abeyance the old version of IISFM depot module 3.1.0 and launched a new version known as IRRS in August 2010. However, the fact remained that that the objective of online stock position of any depot at any given point of time had still not been achieved.

Recommendations

- ***Application software should be linked to upgraded electronic weighbridges installed in depots.***
- ***IT controls need strengthening to improve reliability of reports.***
- ***Comprehensive IT policy may be formulated for efficient functioning of the IISFM project.***
- ***Action needed to be taken to increase capacity of the central server.***
- ***Disaster recovery management may be improved by periodically creating simulated emergencies and testing the recovery of data backup.***

The matter was reported to Ministry in September 2010; reply was awaited (February 2011).

6.4 Extra expenditure on Mandi transportation

Fixation of different *per* quintal *per* kilometer rates for transportation of foodgrains from mandis to storage points resulted in extra expenditure of ₹ 24.34 crore during 2005-06 to 2009-10 in Punjab region.

Food Corporation of India (FCI) as well as State Government agencies procured foodgrains for the Central Pool from the mandis established by the State Marketing

♥ *Storage Area Network*

Boards. For transportation of foodgrains from these mandis to the storage points, Mandi Transportation Contractors were appointed.

The Director Food & Supplies and *ex-offcio* Special Secretary to Government of Punjab intimated FCI (July 1998) that in order to have uniform rates in all mandis/procurement centres committees had been constituted at district level to finalise appointment of labour and transport contractors for transportation from different centres to storage points. Each committee had Deputy Commissioner as its Chairman, District Food & Supplies Controller as Member Secretary and Labour Officer of the district along with District Managers of the procuring agencies as its Members. While fixing transportation rates, it was stressed that Deputy Commissioner might ensure that for equal distance, the same rate be fixed. Every year, contracts were awarded in the district wise meeting chaired by the Deputy Commissioner.

It was observed in audit that in Punjab Region the contracts for transportation from mandis to storage points were awarded on adhoc basis by allowing a certain *per centage* enhancement over the previous years rates. Though it was to be ensured that the same rate was fixed for equal distances different *per* quintal *per* kilometer rates were fixed by the Committees. These rates were adopted by FCI. Examination of rates in five Districts[1] in Punjab region revealed that the rates for same distance ranged[2] from ₹ 6.25 to ₹ 36.05 *per* quintal *per* kilometer during 2005-06 to 2009-10. Fixation of different *per* quintal *per* kilometer rates for same distance resulted in extra expenditure of ₹ 24.34 crore[3] in five districts only for transportation of 23.52 lakh MT of foodgrains during 2005-06 to 2009-10.

The Management contended that;

- The mandi transportation charges were finalized by the District Committee headed by the Deputy Commissioner.
- The system adopted by the Punjab region for fixation of rates was logical and did not require any change.

The contention of the Management was not convincing as

- The District Manager of FCI was also member of the District Committee. The FCI should have ensured fixation of same rates for same distance.
- In the neighbouring Haryana region, basic 'Schedule of rate' was fixed for transportation of foodgrains from mandi to storage point allowing fixed *per* quintal *per* kilometer rates to the transporters.

Thus, extra expenditure of ₹ 24.34 crore was incurred during 2005-06 to 2009-10 in the five districts of Punjab region due to fixation of different *per* quintal *per* kilometer rates for transportation of foodgrains from mandis to storage points. It is recommended that

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[1] ***Sangrur, Patiala, Bathinda, Jalandhar and Hoshiarpur (out of 13 Districts).***

[2] ***2005-06- ₹7.34 to ₹26.39, 2006-07-₹8.75 to ₹28.63***
2007-08-₹6.25 to ₹31.20, 2008-09- ₹11.38 to ₹33.69
2009-10-₹9.30 to ₹36.05.

[3] ***Compared with lowest per quintal per kilometer rate in the mandi.***

basic 'Schedule of rate' be fixed for mandi transport contracts in Punjab region for uniform *per* quintal *per* kilometer rates to the transporters.

The matter was reported to the Ministry in June 2010; reply was awaited (February 2011).

6.5 Irregular payment of VAT to the Millers

Without ensuring applicability of VAT element, irregular payment of ₹ 7.04 crore was made to Yanam millers.

As per Memorandum of Understanding (1983) between Government of Andhra Pradesh (GoAP) and Yanam♦ Administration, the rice millers of Yanam were permitted to procure paddy from the farmers of Andhra Pradesh (AP) with a condition *inter-alia* to deliver the levy rice as per the levy order of GoAP to Food Corporation of India (FCI) or on its behalf to the AP State Civil Supplies Corporation. Accordingly, Yanam millers were procuring paddy from AP State and delivering the levy rice to FCI in AP.

For every marketing season Government of India (GOI) fixes the procurement price for levy rice. Among other items it included an element of Central Sales Tax (CST) or Goods and Services Tax (GST) or Value Added Tax (VAT) of the respective State.

After enactment of AP State VAT Act 2005, the procurement price of levy rice paid to AP rice millers included VAT at the rate of four *per cent* (October 2005). The price paid to rice millers of Yanam was also the same. From July 2007, the Puducherry VAT Act, 2007 came into effect, according to which food grains including rice and pulses were exempted from VAT. However, FCI made payment of ₹ 7.04 crore as VAT element to Yanam millers against delivery of 13.13 lakh MT of levy rice from July 2007 to March 2010. Since, no VAT was payable in Yanam on the levy rice delivered by Yanam millers and the Yanam millers did not remit any VAT to the Commercial Taxes Department of AP as they did not come under their jurisdiction, the payment of VAT element to Yanam millers was irregular.

The Management stated (November 2010) that it was obligatory on the part of FCI to pay VAT element to Yanam millers as per costing sheet given by GOI.

The reply is not acceptable as FCI should have ensured applicability of VAT before making payment of VAT element to Yanam millers.

The matter was reported to the Ministry in September 2010; reply was awaited (February 2011).

♦ ***Union Territory of Puducherry***