Chapter 6 – Stores

The Stores Department is responsible for planning, procurement of various types of stores required for operations and maintenance of trains. These include supply of spare parts, components, fittings, sub-assemblies to production units, maintenance and manufacturing workshops. The department is also responsible for total inventory management of all stores, their purchasing and distribution to consignees. Besides this, Stores department also carries out disposal of scrap items through public auction and tenders (selected items).

The Stores department at Railway Board is represented by Member Mechanical. However, Additional Member (Railway Stores) is the virtual functional head of the department and he is assisted by various Executive Directors and Directors. At the Zonal levels, Controller of Stores is the principal head of the department who is assisted by Chief Material Managers and Deputy Chief Material Managers. The Division is headed by Senior Divisional Marketing Manager reporting to Divisional Railway Manager.

The total expenditure of the Stores Department during the year 2010-11 was ₹ 8,254.73 crore. During the year, apart from regular audit of vouchers and tenders etc., 297 offices of the Stores Department were inspected.

This chapter includes three paragraphs as detailed below:

- Non-inclusion of profit element in the price of wheelsets sold to M/s CONCOR.
- Excess procurement of sleepers.
- Loss of ₹38.44 crore due to delay in finalization of tender.

6.1 South Western: Railway — *Loss due to non-loading of profit element in the price of wheelsets sold to M/s CONCOR*

Sale of wheelsets to M/s CONCOR without including profit margin in the price resulted in loss of ₹19.78 crore

Railway Board has empowered (October 2005) the General Managers of Production Units to reduce the profit margin up to three per cent while fixing cost of their product for sale with the concurrence of FA & CAO. In case the profit is to be reduced below three per cent, it should be done under exceptional circumstances with the approval of Railway Board.

Rail Wheel Factory (RWF) had been selling wheelsets to M/s CONCOR regularly. The cost of wheelsets supplied to M/s CONCOR by the RWF invariably included profit element ranging from 35 per cent to 40 per cent of the basic cost of the wheelsets.

Railway Board directed RWF (2008) to manufacture 3840 Nos of 840 mm dia wheelsets to meet the requirement of M/s CONCOR during 2009-10. Accordingly, RWF issued two Sale Orders in November 2009 (1440 Nos) and March 2010 (2400 Nos) for supply of wheelsets of 840 mm dia to M/s CONCOR at a rate of ₹1,28,789 per wheelset. The rate accepted was only the basic cost i.e. without any profit margin, though all previous Sale Orders contained 35 per cent to 40 per cent profit margin. The Sale Order issued subsequent to these two Sale Orders (December 2010) also contained a profit margin of 40 per cent and the rate charged was ₹ 1,80,345 per wheelset.

When the matter was taken up with the RWF Administration (July 2011), they stated (August 2011) that since there was no demand for such type of wheelsets and excess wheelsets were available in dead stock, it was decided to quote the basic rate. The reply was not acceptable in view of the fact that wheelsets of 840 mm dia was not a regular product of RWF and these were manufactured by the RWF only to cater to the requirement of M/s CONCOR as per sanction of the Railway Board. Further all the orders issued for the sale of such wheelsets before and after these orders had invariably included a profit element of 35 per cent to 40 per cent.

Therefore, the supply of two consignments of 840 mm dia wheelsets (November 2009 and March 2010) to M/s CONCOR at a rate that did not include profit element was not justified. This arbitrary fixing of price had resulted in loss of ₹19.78 crore to the RWF.

The matter was brought to the notice of Railway Board (November 2011); their reply had not been received (January 2012).

6.2 Northeast Frontier: Railway — Loss due to excess procurement of Sleepers

Excess procurement of sleepers and non-maintenance of stock resulted in wasteful expenditure of ₹24.45 crore

The gauge conversion of Katihar-Barsoi-Radhikarpur (KIR-BOE-RDP) and Katihar-Jogbani (KIR-JBN) Metre Gauge (MG) branch lines was sanctioned in the year 2002-03. Out of this, Barsoi-RDP (54 km.) was completed and opened for traffic in February 2006 and the remaining section KIR-BOE) (34.61 km.) and KIR-JBN (108.3 km.) were completed and opened for traffic in November 2007 and June 2008 respectively.

In connection with availability of the required number of sleepers, the Railway Administration executed two contracts in September 2003 and December 2005 for unloading 70,000 Pre-stressed concrete (PSC) sleepers from Railway wagons at Katihar and 15,000 PSC sleepers by road mostly from New Jalpaiguri sleeper manufacturing plant. In addition, six more contracts were also executed between March 2004 and November 2007 for 2,35,780 PSC sleepers and 22,782 turnout sleepers. Thus, eight contracts were awarded for 3,20,780 PSC sleepers and 22,782 turnout sleepers against the actual requirement of 2,39,478 PSC sleepers and 10,226 turnout sleepers. The Zonal Railway Administration, however received 3,70,953 PSC sleepers and 18,655 turnout sleepers. Acceptance of quantities in excess of the order resulted in excess procurement of 1,31,475 PSC sleepers [3,70,953 (–) 2,39,478] and 8,429 turnout sleepers [18,655 (-) 10,226] worth ₹20.67 crore. In addition, ₹3.78 crore was also incurred as the cost of carriage of these sleepers from the manufacturing plant to the work site.

Audit scrutiny of records further revealed that the excess sleepers procured were neither transferred to other sections nor any entry was made in the statement of surplus permanent way material register issued by the field engineer. Thus, excess procurement of 1,39,904 sleepers resulted in wasteful expenditure of ₹24.45 crore.

When the matter was brought to the notice of Railway Administration (April 2011), they accepted (July 2011) that due to sudden death of the Sectional Engineer (SE) in December 2008, who was the custodian of the materials of KIR-BOE and KIR-JBN section, the stock verification ledger was not updated. They further stated that although excess sleepers had been procured these had been utilised by diverting them to other units. The reply of the Railway Administration was not acceptable because the projects KIR-BOE and KIR-JBN were commissioned in November 2007 and June 2008 respectively. Moreover, as per Railway Administration, 8,287 sleepers valued at ₹1.38 crore were still lying scattered at various locations and in view of incomplete entries in stores ledgers, the Railway's claim that the excess quantity was utilized could not be verified.

Thus, procurement of 1,39,904 sleepers (1,31,475 line sleepers and 8,429 turnout sleepers) in excess of actual requirement resulted in wasteful expenditure of ₹24.45 crore (blocking up of capital worth ₹20.67 crore and cost of carriage ₹3.78 crore).

The matter was brought to the notice of Railway Board (December 2011); their reply had not been received (January 2012).

6.3 Railway Board: Loss due to delay in finalization of tender

Inaction of the Ministry of Railways in obtaining timely approval of the competent authority in acceptance of tender led to loss of ₹38.44 crore in procurement of sleepers at higher rates

In October 2007, a tender (Tender No. CS-160/2007) was invited from existing RDSO approved concrete sleeper manufacturers for supply of 2.10 crore BG PSC line sleepers to cover the requirement of Indian Railways for the year 2008-09 and 2009-2010. The tender was finalized in August 2008. Initially, only five tenderes accepted the Railways counter offer of ₹ 1132 per sleeper. As a result, the tender was to be discharged and reinvited as per Board's endorsement duly accepted by the competent authority (Minister for Railways). Subsequently, the counter offer was accepted (September 2008) for a limited quantity and for a limited period of three to four months. The accepted total quantity was 52.18 lakh nos. of sleepers.

From the records, it was observed that the main reason for non acceptance of counter offer by the lowest tender was due to rise in steel prices. The existing price variation formula based of WPI/CPI index was considered inadequate in compensating the prevalent market price. In order to insulate the sleeper manufacturers from the market volatility, it was decided (September 2008) to link escalation/de-escalation of freight reimbursement on cement, HTS wire, SGCI inserts and aggregates with a revised price variation formula.

Between September 2008 and December 2008, as the market condition stabilized to a large extent, almost all the firms sought for additional order with varying Delivery periods from June 2009 to October 2010 and the same was approved by the Board. The total order placed against the tender was 1.78 crore as against the tendered quantity of 210.22 lakh sleepers. These orders were placed with the following stipulation:

"On finalization of the new tender, the ordered quantity against tender No. CS-160/2007 shall be reduced to the number of sleepers manufactured till the date of issue of letter of acceptance (LOA) for the new contract. If the rate accepted in the new tender is higher than the updated rate of CS-160/2007 on the date of issue of LOA and the manufactured quantity is less than the pro-rata quantity then the supplier will have to recoup the shortfall in the quantity on the same terms and conditions. Thus updated rate will be frozen on the date of issue of LOA for the shortfall quantity".

Meanwhile, a new tender (CS-162/2008) for supply of 170.56 lakh and delivery period of two years covering the requirement of Indian Railway for the year 2009-2010 was floated in November 2008. The tender was opened in January 2009. The proposed quantity intended to be procured in this tender was, in fact, the balance quantity which was not initially accepted by the tenderers against the earlier tender (CS-160/2007).The lowest rate quoted in the new tender was ₹ 1290 per sleeper, which was negotiated and finalized (March 2009) at ₹ 1194 per sleeper as assessed by the Railways. This rate was lowered by ₹74 when compared to the updated rate of the existing contract (CS-160/2007).

The recommendation of the Board could not be accepted by the competent authority as the Model Code of Conduct had been enforced by the Election Commission of India (ECI) from 2 March 2009 onwards. On being taken up with the ECI, the Railways were permitted (April 2009) to finalise the tender.

Despite dispensation by the ECI, the tender was put up to the competent authority only in October 2009 for acceptance. No reason was found on record for the delay in submission to the competent authority for acceptance. The tender was finally accepted by the competent authority in November 2011.

In this connection, following points arise for consideration:

I. In correspondence with ECI for obtaining permission to finalise the tender, Chairman, Railway Board indicated a financial loss of about ₹6.4 crore per month of delay in application of the rate of new tender. Though ECI permitted finalization of tender in April 2009, no action was taken till October 2009 to get the approval of the competent authority to arrest loss due to procurement at higher rates. Thus Railways incurred an approximate loss of ₹38.4 crore for the period between June 2009 and November 2009 after allowing a grace period of one month since clearance from the ECI for finalization of tender.

II. Test check in Audit revealed that the sleeper manufacturers supplied 19.63 lakh sleepers in seven zones (SR, CR, WCR, NEFR, SWR, SECR and ECR) between June 2009 and November 2009 at rates ranging from ₹1202.49 to ₹1292.31 per sleeper as per the existing contract (CS-160/2007). This led to an avoidable loss of ₹13.43 crore when compared with the applicable rate of ₹ 1194 per sleeper of the new tender CS-162/2008.

III. Audit observed that while allotting additional quantity in the existing contract, it was stipulated that if the rate accepted in the new tender was higher than the updated rate of CS-160/2007 on the date of issue of LOA and the manufactured quantity is less than the pro-rata quantity, then the supplier would recoup the shortfall quantity at the rate updated as on the date of issue of LOA. This condition, however, did not take into account a situation where the rate accepted in the new tender was less than the updated rate of CS-160/2007 on the date of issue of LOA, which indicated gross negligence on the part of Railways.

Thus, due to negligence and improper management of contract, the very purpose of obtaining special dispensation from ECI for early finalization of the tender was defeated. Against an assessed all India loss of ₹ 38.44 crore, Ministry of Railways incurred a loss of ₹ 13.43 crore in seven zones.

The matter was brought to the notice of Railway Board (January 2012); their reply had not been received.

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Dated:

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Dated: