

Chapter-VII

Review and Monitoring Mechanism

During procurement of paddy, its transportation to FCI/SGAs godowns and premises of rice millers and up to the stage of delivery of rice to FCI/SGAs, various deviations from norms such as procurement of substandard paddy, damages/misappropriation of paddy in millers' premises and absence of periodical physical verification of paddy stock etc. were noticed in audit. These were attributable to lack of monitoring system and weak internal controls. Audit observations in this regard are discussed in the following paragraphs.

7.1 Delay in finalization of incidentals by the Ministry

Under the existing system of release of food subsidy to the State Governments, after receiving proposals from all the States, the Ministry issues provisional costing sheets indicating various incidentals to be paid to SGAs (millers in case of Levy Rice) before each marketing season. The incidentals for provisional cost sheets are decided on the basis of standard principles fixed by the Ministry and are subsequently finalised based on the audited accounts of SGAs. Similar system for payment of subsidy is applicable for FCI.

The Ministry issued Guidelines in September 2010 with revised procedure for submission of accounts, audited by auditors appointed by the C&AG in order to finalise procurement incidentals of SGAs and economic cost of rice, wheat and coarse grains for the past years. As per the guidelines *ibid*, while finalizing cost sheet on the basis of audited accounts submitted by the State Governments, a copy of the provisional findings is to be sent by the Ministry to the State Government with a request to send its comments, if any, within 30 days of receipt of the provisional findings. An option may also be given to the State Government to indicate whether it wants further discussion in the matter. And, in case the comments/view of the State Government are not received within a period of 30 days from date of receipt of provisional findings, the procurement incidentals are to be finalized on the basis of provisional finding and other information available.

It was noticed in Audit that finalisation of the incidentals and claims of the State Governments/ SGAs for many years (varies from State to State) were pending in the Ministry due to various reasons viz. non submission of audited accounts in time by the State Governments, delay in furnishing provisional findings by the Ministry, delay in submission of comments on provisional findings by the State Governments etc.

The discrepancies noticed during KMS 2009-10 to 2013-14 are discussed below:

a) Provisional findings of the Ministry on the accounts of the Government of Haryana for KMS 2009-10 were issued on 27 December 2013 but the comments of the State Government were received on 28 March 2014. Similarly, for KMS 2010-11 provisional findings were sent to the State Government on 7 January 2014 but the replies were received on 29 April 2014.

Thus, the State Government replied after a period of about 90 days as against the prescribed time limit of 30 days. The incidentals were not finalized till September 2014.

b) The State Government of Uttar Pradesh sent audited accounts and other documents for finalization of incidentals for KMS 2009-10 on 31 October 2013, however, provisional findings were not issued by the Ministry till August 2014.

Similarly, pendency was also observed in finalization of incidentals of the remaining five States (Punjab, Bihar, Odisha, Andhra Pradesh and Chhattisgarh). At the same time there were also delays on the part of the Ministry in sending the provisional findings to the State Governments. As such, incidentals are lying in provisional form despite lapse of one to five years for different States.

c) In the case of Andhra Pradesh, Audit observed that the final rates approved by the GoI for KMS 2007-08 and 2008-09 were lower than the provisional rates communicated earlier. Audit worked out the differential amount and found that an amount of ₹ 30.84 crore is recoverable from Andhra Pradesh State Civil Supplies Corporation Ltd (APSCSCL) for the CMR stocks delivered for the seasons KMS 2007-08 and KMS 2008-09. However, no amount was recovered from APSCSCL in spite of lapse of considerable time from the date of communication of final rates by the GoI.

The Ministry, while accepting the audit observation, replied (September 2014 and June 2015) that most of the States are unable to submit their proposals in spite of repeated reminders and regular meetings. However, in case no progress is made in case of the defaulting States, it will consider some deterrent such as disallowing benefit of indexation, etc.

Thus, though the Ministry accepted the audit observation but monitoring of timely submission of accounts by the States and finalization of incidentals is not being done as per the prescribed schedules.

| Recommendation No. 15 | Ministry's Reply |
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| Finalization of procurement incidentals needs to be carried out in a time bound manner by adhering to the prescribed schedule. | The Recommendation is accepted. |

7.2 Lack of monitoring leading to delivery of rice pertaining to previous seasons in Punjab and Haryana regions of FCI

As per Action Plan of the KMS 2009-10 to 2013-14, General Managers (Region) were to ensure through their own control mechanism that the recycling of PDS food grains in procurement process do not take place and strict vigilance is kept with respect to the milling capacity of mills, quantity of paddy processed by the millers during current KMS qualifying

for levy etc. Any incident of recycling⁹⁷ of PDS rice in procurement is to be immediately brought to the notice of the State Government for remedial action.

Audit noticed in Sangrur, Ludhiana, Patiala and Moga districts in Punjab region that CMR of 19.13 LMT valuing ₹ 3,739.96 crore, which pertained to previous crop years i.e. 2009-10 to 2012-13 was delivered by millers to FCI during subsequent KMS i.e. 2010-11 to 2013-14 respectively.

Similarly, in districts of Karnal, Kaithal and Kurukshetra of Haryana region CMR of 1.14 LMT valuing ₹ 242.25 crore, which pertained to previous crop years (2009-10 to 2012-13) was delivered by millers to FCI during the ensuing KMS i.e. 2010-11 to 2013-14.

The observations indicated that custom milled rice (CMR) of SGAs was being delivered by millers after one year of purchase of paddy and delivery of CMR for two seasons was done simultaneously to FCI. FCI quality staff follows the old manual procedure for physical analysis of food grains and had not put in place any procedure in the rice quality analysis (lab test) to detect old/recycled rice delivered by millers.

| Recommendation No. 16 | Ministry's Reply |
|---|---------------------------------|
| There is an urgent need to have a mechanism in place to reduce the chances of recycling and to detect old versus new rice. The GoI may consider to evolve a procedure to detect old/recycled rice delivered by millers. | The Recommendation is accepted. |

7.3 Deficiencies in monitoring mechanism

Audit noticed a number of deficiencies in the mechanism related to activities associated with milling of rice. Salient State-wise observations are given in following paragraphs.

7.3.1 Position in Punjab

a) Up to the crop year⁹⁸ 2012-13, the paddy stock procured from *mandis* by the SGAs for the Central Pool on behalf of FCI was stored directly in the miller's godown/premises, under joint custody for milling purpose. However, for the crop year 2013-14, the paddy procured was kept in the millers' premises and not under joint custody. As per the provisions of Custom Milling Policy relating to KMS 2009-10 to 2013-14, the SGAs staff was required to conduct physical verification (PV) of the paddy stocks on a fortnightly basis to monitor the quantity and quality of paddy and submit copies of PV reports regularly to the District

⁹⁷ It means deferred delivery wherein paddy procured in one KMS is used to produce rice which is supplied at higher rate in next KMS resulting in undue benefit to millers.

⁹⁸ Crop year is analogous to the financial year, similar to the Rabi crop from April to September and Kharif crop from October to March.

Offices of the concerned agencies. These reports, besides indicating physical availability of stocks and their quality, should clearly give the quantity delivered and available with the miller.

Audit observed that there was shortfall of 58 *per cent* in conducting PVs in the three SGAs. District offices of Punjab State Warehousing Corporation did not supply information relating to PVs conducted.

The SGAs and Food and Supplies Department stated (February 2015) in the State Exit Conference held in Punjab that due to shortage of manpower and non-reimbursement of Physical Verification expenses by the GoI only peripheral PV of paddy was conducted. Otherwise too, it is not possible to conduct PVs by destacking, weighment and restacking, being a huge operation.

The reply is not acceptable as the shortfall in PV, as brought out by Audit, is against the target fixed by the State Governments which already take into account the method of conducting PV, whether through peripheral count or through weighment.

b) Non compliance of clauses of Custom Milling policy and inadequate monitoring

As per custom milling policies, the entitlement of millers is fixed according to their milling capacity, both, with and without cash security. Since paddy is stored in the miller's premises, regular fortnightly PV is required to be conducted to safeguard the interests of the SGAs. SGAs did not comply with provisions of CMPs mentioned below in selected district offices:

- i) In two districts {Punjab State Warehousing Corporation (PSWC), Ludhiana and PSWC, Patiala}, paddy allotted was more than milling capacity.
- ii) In 13 cases out of 14 (except PSWC Sangrur) fortnightly PVs were either not conducted or not conducted properly.
- iii) In spite of slow milling, timely action to shift the paddy to other millers was not taken.

Non-compliance of the provisions of CMPs like allotment of paddy more than the milling capacity of the millers, non verification of stock lying in millers' premises by the State Government/FCI and lack of internal control resulted in non-delivery of paddy stocks worth ₹ 73.08 crore.

The SGAs stated that due to shortage of manpower and non-reimbursement of PV expenses by the GoI only peripheral PV of paddy stock was being conducted.

The SGAs accepted the audit observation. However the fact remains that lack of PV as per prescribed procedure greatly increases the risk of non-delivery of food grains.

c) Procurement of sub standard rice by technical staff

It was noticed that in districts of Sangrur, Ludhiana, Patiala and Moga, the Area Manager/ Assistant General Manager (Quality Control) detected 0.99 *per cent*, while Regional Office

squad detected 26.95 *per cent* rice as not conforming to the specification during 2009-10 to 2013-14. Moreover, Zonal Office/Headquarter team detected 9.15 *per cent* rice as beyond rejection limit during the same period. This indicated that there was wide spread acceptance of sub-standard ⁹⁹rice by the technical assistants.

Though the Ministry stated (June 2015) that non detection of beyond rejection level sample in district lab does not indicate that district labs have not discharged the duties in a fair manner.

It is evident that the district labs did not properly perform one of the main functions for which they were established in Punjab i.e. detection of beyond rejection level rice in samples tested.

7.3.2 Position in Andhra Pradesh and Telangana

a) Non-submission of prescribed returns

Staff members¹⁰⁰ of Enforcement in District Supply Officers' (DSOs) offices in Andhra Pradesh were required to conduct inspections of stocks with reference to book balance at regular intervals, obtain required information from the millers and submit business returns at fortnightly intervals to DSOs. However, the Enforcement staff did not submit such business returns. Rice millers also did not submit monthly returns to the DSOs. Due to this, compliance by millers with the instructions issued by the Government from time to time with regard to supply of Levy Rice and custom milling of paddy could not be examined in audit.

b) On paper transfer of levy-free rice without physical movement in Andhra Pradesh and Telangana

Movement of Levy Rice is carried out under the statutory system wherein the State Government issues levy orders, in consultation with the GoI, directing the private rice millers/ dealers to deliver specified percentage of the rice resulting from milling of paddy, to FCI for the Central Pool. The private rice miller or dealer shall deliver 75 *per cent* of resultant rice, and balance 25 *per cent* as levy-free rice can be sold in the free market.

Audit noticed that in all the five districts¹⁰¹, 20.45 LMT rice valuing ₹ 4187.48 crore was stated to have been used by millers as levy free rice. However, analysis revealed that these stocks were not actually moved from the millers' premises to other millers/traders during KMS 2012-13 and KMS 2013-14. The movement of stock was only on paper and no physical movement of rice took place. This practice carries the risk of use by millers of previous years' levy free rice to fulfill the levy quota for the next year at a higher price as the old stock was likely to fetch higher price realization in subsequent year.

⁹⁹ Rice not conforming to uniform specifications, prescribed by GoI.

¹⁰⁰ Grain Purchasing Assistants, Assistant Grain Purchasing Officers and Food Inspectors

¹⁰¹ East Godavari, West Godavari, Krishna, Nizamabad and Nalgonda

While accepting the audit observation that transfers were only on paper and did not involve physical movement of rice, the Andhra Pradesh State Civil Supplies Corporation Limited stated that the transfer of levy free eligibility was issued in compliance with the orders of the Government issued from time to time. The miller were not instructed to transfer the rice physically after obtaining the eligibility certificate; however it was ensured to achieve the district levy targets.

The practice of carrying out movement of levy free rice without actual transfer is fraught with the risk of millers recycling the old stock in the next year and getting a higher price for the same.

7.3.3 Position in Uttar Pradesh

a) Lack of Special Physical Verification (SPV)

As per Purchase Policy, SPV should be conducted by the authorities to ensure safe storage and quality norms. However, SPV of 160 millers of 11 districts were not carried out by the various higher authorities viz. Commissioner, Regional Food Commissioners and district level authorities to check the status of stock in millers' premises.

Further, Regional and District level officers were responsible to conduct weekly verifications, to ensure safe storage of paddy in the miller's premises and timely delivery of CMR to FCI. However, SGAs did not maintain any verification reports. In absence of verification reports, there were no means to ascertain whether delivered paddy and resultant rice was stored in open or covered and plinth (CAP) area during 2009-10 to 2013-14.

b) Inadequate monitoring for ensuring quality of paddy

As per prescribed norms of purchase policy, District Food & Marketing Officer (DFMOs) should inspect each purchase centre at least once in a week to ensure that required facilities¹⁰² are given to farmers along with timely opening of centre, besides, ensuring that procurement of paddy was made as per standard and required quality.

The required number of inspections were not carried out by DFMOs in all the selected districts. Further, it was also observed that no separate laboratory was established at the district/regional level, which implied that quality of paddy procured, was not ascertained by the SGAs.

The millers of 11 districts had not submitted any return/ reports to the authorities prescribed in the purchase policy during the period from 2009-10 to 2013-14. The above facts indicate inadequacy in monitoring mechanism, leading to risks of misappropriation of paddy/rice.

¹⁰² Drinking water, fan, tent etc.

c) Unadjusted damaged Paddy worth ₹ 7.33 crore

Audit noticed in Regional Accounts Office, Bareilly that 38,653.03¹⁰³ quintals of rice valuing around ₹ 7.33 crore was shown as damaged in the financial year 2011-12, which was not adjusted/written off by the Commissioner, Food & Civil Supplies. Justification for damage of paddy and action taken were not provided by the Department of Food and Civil Supplies, Uttar Pradesh to Audit in absence of which reasonableness of justification could not be examined in audit.

7.3.4 Position in Haryana

a) Procurement of sub standard rice by technical staff

Analysis of rice in the district laboratories in revenue districts of Kaithal, Kurukshetra and Fatehabad during 2009-10 to 2013-14 revealed that the district laboratories had checked 4.68 LMT (9.47 *per cent*) of rice after taking 2907 samples (out of 49.42 LMT of rice received in these revenue districts) and detected none of the sample as Beyond Rejection Limit (BRL). Thus district labs found the rice conforming to specifications.

However in Haryana region of FCI, Area Manager/ Assistant General Manager (Quality Control) detected 0.16 *per cent*, while Regional Office squad detected 2.44 *per cent* rice as not confirming to the specification during 2009-10 to 2013-14. Moreover, Zonal Office/Headquarter team of FCI detected 13.58 *per cent* rice as beyond rejection limit during the same period. This indicates that there was wide spread acceptance of sub-standard rice by the Technical Assistants. As no case of substandard rice was noticed in the above district labs during the last five year from 2009-10 to 2013-14 it raises question marks on the sampling techniques adopted and the effectiveness of district labs.

b) Shortcomings in records relating to rice millers

Guidelines for the purchase of paddy issued by the Food & Supplies Department every year provide that millers undertaking custom milling of paddy shall execute an agreement with the concerned SGAs immediately in the prescribed proforma. Further, the guidelines provide that each miller would prepare in triplicate a pictorial chart/sketch depicting the positioning of the stacks, stack number with the number of gunnies in each stack. Guidelines also provide that storage capacity available with the millers should be ensured. Further, milling agreements entered into by the SGAs with the millers, provided that each miller would get the entire paddy and rice insured.

Audit, however, observed that:

- i) No pictorial chart/sketch was submitted by the millers.
- ii) The proof of the storage capacity of the millers was not available in the district offices of the SGAs.

¹⁰³ 26,253.42 quintal of rice in district Pilibhit and 12,399.61 quintal of rice in district Shahjehanpur.

- iii) There was no record showing that any miller had insured the paddy.
- iv) Further, in case of Haryana State Warehousing Corporation, Panipat, agreement entered with millers for the KMS 2009-10 and 2010-11 were not made available to Audit, though asked for.

The Department of Food and Civil Supplies, Haryana assured that remedial action would be taken in this regard.

7.3.5 Position in Chhattisgarh

a) Shortfall in inspections

As per the inspection, sampling and analysis procedure of FCI to be followed in procurement of paddy and acceptance/purchase of rice stock, in order to ensure acceptance of rice conforming to laid down specifications only, super inspection shall be done.

It was, however, observed in audit that there was considerable shortfall in the super inspections done by the higher officials. During the year 2010-11 to 2013-14, in three cases the Area Manager had test checked less than two *per cent* of the accepted stock and in six cases the Assistant General Manager (Quality Control) had test checked less than ten *per cent* of the stock accepted during a fortnight. The shortfall of inspection in respect of Deputy General Manager (Quality Control) ranged between 63 *per cent* and 72 *per cent* during 2010-11 to 2012-13 and between eight *per cent* and 63 *per cent* in respect of General Manager (Region) during the year 2010-11 and 2013-14.

The FCI Regional Office, Chhattisgarh replied (December 2014) that mandatory inspections by all the supervisory officers are being carried out regularly as prescribed by FCI Hqrs. In regard to shortage of quality control staff/officers (Technical Assistants) for initial inspections, while confirming the fact, it was replied that the matter was taken up with FCI Zonal Office/Hqrs. and on the request FCI Zonal Office/Hqrs. arranged staff from other regions on temporary basis.

The reply is not tenable since there was shortfall in the prescribed inspections by the higher authorities as well. Further, it was observed that under Mahasamund Centre though the milling capacity of the mills was 100 lot per day, due to shortage of technical staff only 45 lots were accepted. Thus, shortage of staff was adversely affecting the procurement operations.

The Ministry stated (June 2015) that prescribed check of ten per cent and two per cent by Assistant General Manager (Quality Control) and Area Manager is based on the number of lots procured after their last inspection whereas the Audit has calculated the percentage on the quantity procured during the fortnight. It also stated that shortfall on the part of GM occurred when he was occupied in other important assignments.

The reply is not tenable as the norms do not specify that the prescribed checks should be done after the last inspection and thus the existing practice led to shortfall in inspections in Chhattisgarh.

b) Inadequate physical verification of stocks in millers' premises

As per milling agreement/ levy orders of the State Government, mandatory PV of stock of paddy and rice is to be conducted in millers' premises on a regular basis. The enforcement officials are required to inspect rice mills periodically to ensure purchase of paddy at MSP, milling of paddy and delivery of Levy Rice. The PV report should clearly depict the quantity delivered and available with the millers besides indicating physical availability of stocks and their quality.

In seven selected districts of Chhattisgarh, it was observed that PV was not conducted by the officials concerned on regular basis and no norms were fixed regarding periodicity of PV. In some instances where PV was conducted, it was observed that miller had either not maintained or improperly maintained stock records. MARKFED, Chhattisgarh also registered nine cases against the defaulter mills and 1,347.80 MT of paddy and 380.14 MT of rice was seized in the selected four districts.¹⁰⁴

On this being pointed out, the Food Controller, Chhattisgarh (November 2014) accepted the audit observation that no norms for PV were fixed by the Department.

Audit is of the view that the norms for conducting PV should be in place for better and effective storage management of paddy/rice stocks.

While accepting the audit observation, the Ministry stated (June 2015) that Government of Chhattisgarh is being advised to adhere to fortnightly PV of stocks remaining in miller premises.

c) Non-submission of reports by millers

As per clause 10.1 (2) of custom miller agreement, every miller has to submit the details of lifting of paddy and delivery of rice on the seventh of every month to respective District Marketing Officers (DMOs). It was observed in seven districts that in contravention of the condition of agreement no report regarding lifting of paddy and delivery of rice was submitted by the millers.

DMOs of these districts accepted the fact and stated that no instructions were issued by the State Government regarding submission of returns/ reports by the millers.

¹⁰⁴ Raipur, Dhamtari, Durg and Rajnandgaon

d) Double handling of stock resulting in avoidable handling charges of ₹ 3.94 crore in Chhattisgarh

In Chhattisgarh, the Ministry made (May/June 2011) additional allocation of rice for Below Poverty Line (BPL) and Above Poverty Line (APL) for the period June 2011 to March 2012. In view of this, the Ministry approved additional allocation of 5,180 MT of rice per month in Chhattisgarh for APL category and 1.35 LMT of rice for BPL families under central issue price up to March 2012. The stock of additional allocation under APL and BPL schemes were to be lifted from the FCI stock. Against the allocated quantity, FCI issued 1.66 LMT of Rice from stock held by FCI to the State Government during June 2011 to March 2012.

It was observed from the stock position extracted from Stock account of the State Government that the State Government had sufficient stock of rice during the period June 2011 to March 2012. However, to meet the additional allocation, the Ministry instructed to lift the food grains from the FCI Stock which involved incidence of expenditure on handling etc. This resulted in extra expenditure towards handling cost of ₹ 3.94¹⁰⁵ crore during the year 2011-12.

7.3.6 Position in Odisha

a) Inadequate physical verification for ensuring quality and quantity of paddy

Despite having a laid down mechanism of checks (by an authorised officer) and counter checks {by Enforcement Officer, periodical inspection of District Manager-cum-Civil Supply Officer (DM cum CSO), District Magistrate} for ensuring quality and quantity stored at millers premises, these were not implemented properly as authorised officers were not regular in conducting the physical verification of stock and there were lack of periodical inspection by DM-cum-CSO, Enforcement Officer and the District Magistrate. The findings of special audit conducted by Odisha State Civil Supplies Corporation Ltd (OSCSC) also corroborate this fact.

b) Authorised officers appointed for joint custody and maintenance of paddy and rice are to make weekly physical verification for submission to the district offices. Any discrepancies in the stock, misappropriation, diversion, slow delivery of CMR compared to milling capacity is to be brought to the notice of District Manager immediately. The agreement entered by OSCSC with the millers provided that the District Manager or his authorized official is responsible to conduct physical verification of the paddy stocks on a regular basis. Under levy, enforcement officer shall verify the stock at a periodicity of not less than once in a week.

¹⁰⁵ Calculated at the average handling cost of ₹ 239 per MT

Audit noticed that the regularity in periodicity of physical verification was not maintained. In Bhadrak district, in respect of 153 agreements, only 2,472 verifications (50 *per cent*) were conducted against 4,949 verifications required during the period from 2009-10 to 2013-14. In Bargarh district, against 442 agreements, 8,502 verifications (39 *per cent*) were done against 21,408 required during 2009-14. During 2009-2014, in Malkanigiri district, 1,259 physical verifications (26 *per cent*) against the requirement of 4,784 verifications in respect of levy orders were conducted.

7.3.7 Position in Bihar

The deficiencies noticed in respect of monitoring mechanism of paddy procurement are illustrated as follows:-

- i) As per norms fixed by the Bihar State Food & Civil Supplies Corporation (BSFC), paddy was to be provided to the miller only after proper physical verification of the mill by the District Administration before selection of mill. However, such physical verifications were not conducted by the authority concerned in the State.
- ii) Further, as per agreement between millers and SGAs, the millers had to deliver/supply rice to the FCI in advance. After milling of rice proportionate quantity of paddy was to be issued to the millers. However this was not complied with.
- iii) Deputy Collector and above were made enforcement officer to verify the paddy receipt with verification of necessary land records but in 14 blocks of seven selected districts it was not done as per prescribed norms. The reasons cited was multiplicity of work resulting in poor verification.
- iv) Important control documents like details of cash book, cash credit account, Fixed Deposits accounts and Budget/allotment records were not properly maintained.
- v) While framing the guidelines for distribution of food grains under DCP scheme for KMS 2013-14 (April 2014), the SGA i.e. BSFC had defined the role of FCI. Accordingly, the representatives of FCI were to check the availability of CMR and conduct PV thereof and affix their signature in the prescribed format meant for PV. However, it was observed in audit that FCI did not associate with BSFC in checking the quality aspect of the CMR procured under DCP Scheme during KMS 2013-14, as prescribed in the GoI guidelines for DCP states. FCI on its part stated that BSFC stocks were not kept in countable position, and hence it would be difficult for FCI staff to assess the number of gunnies/weight of stocks. It further added that FCI, Bihar Region was facing staff shortage. Further, to check the quality aspect of the stock during KMS 2013-14, BSFC requested FCI, Regional Office Patna to depute 101 quality controllers for which action was not taken by FCI.

Slow pace of delivery of CMR resulted in additional requirement of food grains from other States for meeting the requirements of National Food Security Act (NFSA) in Bihar Region which involved substantial transportation costs. However FCI was found lacking in

monitoring the pace of procurement by the SGA to avoid additional cost on freight and multiple handling.

Audit also observed that guidelines issued by the GoI with respect to quality control aspect for CMR procured under DCP scheme were not followed properly by FCI. The State Government is still dependent upon FCI to meet its requirement under NFSA as it lifted 13.28 LMT rice during April 2014 to Oct 2014, though the State has switched over to DCP scheme with effect from KMS 2013-14.

| Recommendation No. 17 | Ministry's Reply |
|--|---------------------------------|
| FCI/SGAs may consider augmenting manpower for quality checks at the stage of procurement and redress the weaknesses in monitoring and internal control system for procurement of paddy, milling and delivery operations. | The Recommendation is accepted. |

Conclusion:

The Custom Milled Rice/Levy Rice scheme was envisaged by the GoI to take advantage of the synergies between public sector procurement structures and private sector milling capacities. However, delay in revising the milling charges and poor control over custody of paddy/rice resulted in not only undue gains to the rice millers but also widespread and large scale non-delivery of paddy and rice by them. Moreover, because of uneven operational practices and costing parameters huge avoidable expenditure was incurred throughout the country. Further, there is possibility of MSP being released without ascertaining the bonafides and genuineness of the farmers. Additionally, the benefit of quality relaxation in paddy/rice due to adverse climate conditions ended up being passed on to the millers instead of the farmers. These deficiencies also contributed to avoidable increase in food subsidy expenditure of the GoI.

The scheme needs to be comprehensively revisited to address the lacunae brought out in this report. The Government may consider, *inter alia*, the following for immediate implementation:

- (i) Obtaining collateral security for paddy and rice handed over to the millers for milling.
- (ii) Bringing uniformity in the cost sheet parameters relating to gunny bags depreciation, custody and maintenance charges and *mandi* labour charges.
- (iii) Bringing uniformity in the specification of paddy packed in a gunny bags, based on best practices across the country.
- (iv) Direct benefit transfer of MSP into the account of the farmers.
- (v) Re-fixing the milling and costing charges

- (vi) Create sufficient facilities for ensuring compliance of applicable standards related to food safety pertaining to toxins, insecticides and pesticides residue.

As the CMR/Levy Rice scheme is a very important component in the food security scenario, especially for the BPL families, it needs immediate fine tuning to make it more efficient and effective to make it serve its intended purpose.



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Dated : 14 August 2015

Countersigned



(SHASHI KANT SHARMA)

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