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

The Ministry of Consumer Affairs, Food and Public Distribution consists of the Department of Consumer Affairs and the Department of Food and Public Distribution. The primary policy objective of the Department of Food and Public Distribution is to ensure food security for the country through timely and efficient procurement and distribution of food grains. This involves procurement of various food grains, building up and maintenance of food stocks, movement and delivery to distributing agencies and monitoring of production, stock and price levels of food grains. The procurement and distribution of food grains is done primarily through the Food Corporation of India (FCI) which is a statutory Corporation set up under the Food Corporation Act, 1964. Compliance audit of the operations of the Corporation brought out avoidable or extra expenditure amounting to ₹ 534.04 crore mainly due to non-adherence to extant instructions and inefficient operations in procurement of gunny bags and movement of food grains as discussed below.

5.1 Management of Gunny Bags in Punjab Region

Food Corporation of India (FCI) failed to recover ₹ 223.58 crore that was due to the Corporation on account of interest on advances given to State Government Agencies (SGAs) for procurement of gunny bags as well as on account of reimbursement of cost of gunny bags at higher rates than that prescribed. Further, there was non-recovery ₹ 2.86 crore from Container Corporation of India due to failure to effectively pursue pending claims for damages, short and rain effected gunny bags.

5.1.1 Introduction

The Food Corporation of India (FCI), along with State Government Agencies (SGAs), purchase wheat and paddy at the Minimum Support Price (MSP) fixed by Government of India (GoI) for the central pool during Rabi and Kharif marketing season[1]. The Government of Punjab (GoP) fixes targets for procurement of food grains for FCI and SGAs in Punjab. Gunny (Jute and HDPE[2] bags) is used as packing material for the food grains. Based on the procurement target, FCI assesses its requirement of gunny bales[3] after taking into consideration the quantity of gunny bales available and places indent with the Director General of Supplies and Disposals (DGS&D), Kolkata, for

1 Rabi Marketing Season (RMS) starts from April each year and Kharif Marketing Season (KMS) from October each year. In Punjab, wheat and rice is the predominant crop during RMS and KMS respectively.

2 High Density Polyethylene.

3 One gunny bale comprises of 500 bags.

purchase of gunnies. During 2012-13 to 2016-17, Punjab Region of FCI purchased 25.87 crore gunny bags at a cost of ₹ 1,147.53 crore.

An audit covering a period of five years ending March 2017 was undertaken in four selected districts of FCI viz. Amritsar, Sangrur, Jalandhar and Moga which carry out 31 *per cent* of the total procurement in Punjab to assess whether demand and purchase of gunnies were in accordance with the actual requirements of FCI, whether procurement, receipt and utilization of gunnies was done in an efficient, effective and economic manner and whether settlement of claims with Container Corporation of India Limited (CONCOR) for short, damaged and rain effected gunny bags was processed expeditiously.

5.1.2 Audit Findings

5.1.2.1 Non recovery of interest on advance for purchase of gunny bales for State Government in RMS 2015-16

Due to constraints of funds with the State Government, FCI arranged ₹ 350.18 crore at the instance of GoI for placing indent of 1.5 lakh gunny bales (January 2015) with DGS&D for purchase of gunny bales for RMS 2015-16 for the SGAs.

As FCI meets its working capital requirements by availing cash credit from banks and pays interest on borrowings, it has to recover funds loaned to SGAs along with interest. It was observed that cost of gunny bales amounting to ₹ 350.18 crore was recovered from SGAs during April 2015 to August 2015 without levying interest. This non-recovery of interest on advance given to DGS&D on behalf of SGAs resulted in loss of ₹ 10.96 crore.

Ministry accepted the audit observation and stated (January 2018) that FCI has been directed to take immediate action for making required recovery of the interest on advance given to DGS&D on behalf of SGAs.

5.1.2.2 Avoidable expenditure on purchase of gunny bags due to non-procurement of wheat in bulk form at Moga Silo

As per an agreement executed between FCI and a private firm on 28 June 2005, 80 *per cent* of the stock was to be delivered in bulk and 20 *per cent* in bagged condition at Moga silo[4]. FCI Headquarters had also directed (March 2012) its Regional Office to deliver maximum stock in bulk and Regional Office, Punjab had, in turn, directed (April 2013) its District Office Moga to ensure that no wheat was taken in bagged form at Moga silo. However, it was noticed that FCI accepted wheat in bulk form to the extent of 16 to 74 *per cent* during 2012-13 to 2016-17 against the prescribed 80 *per cent.* This led to avoidable expenditure

[4] A silo is a structure for storing bulk materials including food grains.

amounting to ₹ 3.72 crore on account of purchase of gunny bags. Further, FCI had to bear the debagging cost of ₹ 14.76 lakh for the quantity delivered at the silo in bags in excess of 20 *per cent* which could have been avoided had the FCI delivered the stock in bulk form. Thus failure of the FCI to deliver the stock in bulk form as per the agreement resulted in avoidable expenditure amounting to ₹ 3.87 crore.

Management stated (December 2017) that FCI had made all efforts for bulk transportation but it could not accomplish the specified clause of 80 *per cent* as farmers brought the produce to nearby mandies in bulk form and the stock had to be bagged after purchase for transportation from the mandies.

The reply of the Management is not tenable as, FCI could not achieve the requisite target to deliver 80 *per cent* of wheat stock in bulk form despite increase of wheat stock in bulk form.

5.1.2.3 Non recovery of cost of gunny bags and short recovery of interest on gunny bags given on loan to SGAs

In the event of shortages of gunny bags, SGAs may obtain the gunny bags from FCI on loan basis. The loaned gunny bags are to be returned to FCI in the same/next season. Regional Office Punjab directed (June 2011) that the cost of gunny bags with prevailing rate of interest would be recovered if the loaned gunny bags were not returned by SGAs in time.

Audit observed that neither the cost of loaned gunny bags of ₹ 52.50 crore given to SGAs during RMS 2014-15 to KMS 2016-17 nor the interest of ₹ 4.92 crore was recovered in six Districts[5]. Further, in Sangrur and Amritsar Districts, while the cost of loaned gunny bags of ₹ 70.92 crore was recovered, the interest of ₹ 7.03 crore was not recovered.

Management stated (December 2017) that all districts were instructed to recover the cost of gunnies after proper verification with interest.

5.1.2.4 Excess expenditure due to payment for used gunny bags without taking into account depreciation or usage charges

GoI issued instructions for use of once used gunny bags left over after delivery of custom milled rice (CMR) of old crop years for procurement of paddy and wheat. These instructions stipulate *inter alia* that paddy bags of immediately preceding year be only used and that the bag used be of good quality and as per prescribed standards. Further, GoI issued guidelines in May 2013 for use of paddy released jute bags which have been used only once for procurement of

[5] Bathinda, Ferozepur, Gurdaspur, Jalandhar, Patiala and Moga.

rice and wheat. However, prior approval of GoI was required for procurement of wheat in paddy released/once used gunny bags. GoI further clarified (September 2013) that State Governments can permit use of paddy released jute bags which have been used only once under intimation to GoI and no specific permission of GoI is required.

Scrutiny of records in districts of Punjab Region revealed the following:

a) During KMS 2012-13, GoI while allowing use of old gunny bags for procurement of paddy and delivery of CMR in Haryana Region, fixed the usage/depreciation charges of old used gunny bag at the rate of ₹ 3.35 per bag. These instructions were reiterated in the years KMS 2014-15 and 2016-17. However, no such instructions on usage/depreciation charges for use on once used bag were issued for Punjab Region. During KMS 2012-13 to 2016-17, SGAs in Punjab used 1,417.06 lakh once used gunny bags in procurement of paddy. However, the gunny depreciation was paid based on the rate prescribed (ranging between ₹ 14.94 per bag to ₹ 21.31 per bag) for procurement of paddy in new gunny bags instead of usage charges at the rate of ₹ 3.35 per bag (Haryana Region). Had GoI issued instructions for usage charges for gunny bags in Punjab region on the same lines as was done in Haryana Region, FCI could have avoided expenditure of ₹ 186.15 crore on account of gunny depreciation in four selected districts[6].

b) During RMS 2012-13, 2013-14 and 2016-17, GoI allowed use of once used gunny bags to SGAs in procurement of wheat. SGAs[7] used 40.32 lakh gunny bags on which cost of gunny was paid at the rate for new bag at ₹ 34.88 per bag (RMS 2012-13), ₹ 38.36 per bag (RMS 2013-14) and ₹ 50.58 per bag (RMS 2016-17). As the SGAs uses once used gunny bags, the reimbursement for such once used gunny bags should be made after adjusting gunny depreciation for their use in previous crop season. This has resulted in excess payment of gunny cost to the extent of ₹ 5.99 crore.

Management stated (December 2017) that the policy of usage charges has been made applicable to all States from with KMS 2017-18.

5.1.2.5 Excess payment on gunny bags on account of purchase of paddy and wheat in new gunny bags of previous crop year

During the period 2013-14 to 2016-17, GoI allowed use of unused new gunny bags of previous crop year on the request of the State Government for procurement of wheat and paddy. GoI fixed the rate of gunny cost payable to

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6 Amritsar, Sangrur, Jalandhar and Moga.
7 SGAs in Amritsar and Jalandhar Districts.

SGAs during each marketing season. Scrutiny of records in selected districts[8] of Punjab revealed the following:

a) During the RMS 2013-14 to 2016-17, 109.85 lakh new gunny bags of previous crop year were used by SGAs in procurement of wheat. It was noticed that the cost of gunny bags in the current crop year was higher than the cost of gunny bags during previous crop year. However, the cost of gunny bags was paid by FCI based on the rate of gunny bags prescribed for current crop year which being higher, resulted in excess payment of ₹ 3.15 crore to SGAs in this period.

b) During KMS 2013-14 to 2016-17, SGAs used 53.03 lakh new gunny bags of previous crop years in procurement of paddy and delivery of rice. It was noticed that the cost of gunny bags in the current crop year was higher than the cost of gunny bags during previous crop year. However, the cost of gunny bags was paid by FCI based on the rate of gunny bags prescribed for the current crop year which being higher resulted in excess payment of ₹ 1.51 crore to SGAs in this period.

Management stated (December 2017) that all field offices had been directed to recover excess payment made on account of use of left over new gunny bags of previous crop year.

5.1.2.6 Pendency of claims for short/damaged/water effected gunnies with CONCOR

FCI purchases gunny bags through DGS&D and these are transported by the Container Corporation of India Limited (CONCOR) from the Jute Millers' premises to the destination station as per dispatch instructions given from time to time by FCI. Para 8 of guidelines for consignee of jute bag issued by DGS&D (April 2014) prescribes the procedure to be followed by consignee in case of shortage/damaged/fungus infected/rain affected gunny bales during transit and delivery to be taken by consignee from carrier. As per the prescribed procedure for settlement of claims by CONCOR, claims are to be preferred within six months from date of booking to avoid time bar on settlement. Audit observed the following:

(i) Non-receipt of gunny bales from CONCOR

Thirteen containers pertaining to the period from KMS 2011-12 to KMS 2015-16 having gunny bales worth ₹ 1.29 crore were never received at consignee depot of FCI. However, FCI failed to lodge any claim with CONCOR even after lapse of one year to six years and these claims, if preferred, now would be time barred. This resulted in a loss of ₹ 1.29 crore.

[8] Amritsar, Jalandhar, Sangrur and Moga.

(ii) Rejection of claims by CONCOR as 'Time Barred'

Scrutiny of records of the selected districts revealed that 182 claims cases of short/damaged/water affected receipt of 651 gunny bales valuing ₹ 1.56 crore pertaining to the period 2011-12 and 2015-16 was rejected by CONCOR as 'time barred' on the ground that the original claim lodged documents were not available with CONCOR. These claims were lodged by FCI within the stipulated period of six months but the dates of acknowledgement of these claims by CONCOR were not available with FCI. Due to rejection of these claims by CONCOR, FCI suffered a loss of ₹ 1.56 crore.

5.1.3 Conclusion

FCI incurred a loss of ₹ 223.58 crore due to failure in recovering interest on funds/gunny bags given to SGAs, reimbursement of gunny bag cost/depreciation at higher rates and supply of food grains in bagged form to storage facility instead of bulk form. In addition, FCI also failed to pursue pending claims for damaged, short and rain affected gunny bags and lodge claims for missing bags with CONCOR.

5.2 Management of Road Transport Contracts in Assam and NEF[9] (Shillong) Regions

FCI incurred avoidable expenditure of ₹ 117.10 crore due to improper planning for movement of stock. Supply of food grains in excess of requirement at a station and non-adherence to distance measurement before awarding contract resulted in avoidable expenditure of ₹ 12.96 crore. In addition, liquidated damages of ₹ 89 lakh was not levied on contractors for short supply against indented trucks.

5.2.1 Introduction

The seven states[10] under the North Eastern (NE) Zone of FCI are deficit states i.e. local food grains production is not sufficient to meet the requirement. Since rail connectivity is limited in North East, most of the inter and intra state transport is by road. Hence, after movement of food grains by rail from procurement/surplus regions to these seven states, most of the subsequent movement of food grains from Railway sidings to main Food Storage Depots (FSDs) and from main FSDs or feeder FSDs to other small and medium size FSDs for storage and distribution is done through road transport. For this purpose, a large number of Road Transport Contracts (RTCs) are finalized by the five Regional Offices (ROs) of Assam, NEF (covering Meghalaya, Mizoram and Tripura), Nagaland, Manipur and Arunachal Pradesh.

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[9] NEF Region denotes North East Frontier Region consisting of States of Meghalaya, Mizoram and Tripura.

[10] Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, and Tripura.

An audit was undertaken in Assam and NEF (Shillong) region covering Meghalaya, Tripura and Mizoram) which jointly incurred of 78 *per cent* of road freight expenditure in the entire North East region for the period of three years ending March 2017 to assess the transparency, fairness of competition, economy, efficiency and effectiveness in management of road transport contracts for movement of food grains.

5.2.2 Audit findings

5.2.2.1. Avoidable expenditure due to improper planning for movement of stock

As per the inter-region and intra-region movement plans approved by the Zonal Office, Assam and NEF Regions, movement of food grains was to be made on least cost basis. Movement plans also stipulated that preference was to be given for moving stocks directly from Rail Heads (RH). Transport from RH to field depot directly rather than via another depot, if feasible, is economical as the loading/unloading at the intermediate field depot is avoided.

Audit observed an absence of analysis of the comparative cost of transportation for available routes in five cases which resulted in avoidable expenditure of ₹ 117.10 crore as detailed in **Table No. 1** below:

Table No. 1

Sl. No.	Name of Depot to be fed	Audit Observation
1.	Tangla	FCI transported 1,97,740 metric tonne (MT) of food grains from Railhead/Food Storage Depot (FSD) New Guwahati Complex to depots at Tangla instead of to Rail head Changsari during April 2013 to September 2015 which has resulted in avoidable payment of ₹ 42.24 crore.
2.	Lalabazar, Badarpurghat and Ramnagar	FCI transported 2,71,326 MTs of food grains from Railhead/Food Storage Depot (FSD) New Guwahati Complex to depots at Lalabazar/ Badarurghat/Ramnagar instead of Railhead Changsari during April 2013 to March 2015 and Railhead Salchapra during April 2015 to July 2016 resulting in avoidable payment of ₹ 57.29 crore.
3.	Sivsagar Depot	FCI did not dispatch food grains from Railhead Jorhat town to Sivsagar Depot on the day of rake receipt. The food grains first were transported from Railhead Jorhat town to Cinnamara depot and thereafter were transported to Sivsagar depot by another contractor thus involving extra handling and distance to cover. A quantity of 81,048 MTs of food grains was handled at Cinnamara depot during 2014-15 to 2016-17

		which was subsequently transported to Sivsagar. This resulted in avoidable expenditure of ₹ 5.20 crore on handling and transportation.
4.	Depots at Mizoram and Tripura	The stock of food grains could be transported to different depots of Mizoram (except Kolasib) and Tripura (except Churaibari) at a lower cost by the RTC ex-Bihara instead of ex-Salchapra. However, stock was moved from Railhead Salchapra to different depots of Mizoram and Tripura even after knowing the fact that the transportation cost from Railhead Bihara was less than transportation cost from railhead Salchapra. This resulted in avoidable expenditure of ₹ 4.25 crore.
5.	All depots fed from depots at Haibergaon, Itachali, Senchowa and Hojai	In case stock is temporarily parked in nearby depots of the Railhead and thereafter transported to depots not connected by Railways, then re-handling cost and transportation cost from the Railhead to the depots (used for temporary storage) is incurred. Therefore, such temporary storage of food grains should have been avoided. During April 2014 to March 2017, the Area Office Nagaon despatched 1,61,080 MTs of food grains to different depots under control of Assam and Arunachal Region from its four depots namely Haibergaon, Itachali, Senchowa and Hojai instead of Railhead Haibergaon/Hojai where stock was first received through rail transport. This resulted in avoidable expenditure of ₹ 5.86 crore on re-handling of stock at the depots in addition to avoidable expenditure of ₹ 2.25 core on transportation.

Ministry stated (December 2017) that road movement from FSD New Guwahati Complex (NGC) to southern Assam/Barak valley was resorted to due to disruption over Lumding-Badarpur hill section of railways. The Government of Assam had requested to make contingency plans for uninterrupted supply to Barak Valley and therefore road transport contracts ex-NGC were operated on emergency basis and heavy rainfall occurred in Assam for a major portion of the year causing damages to infrastructure. It added that efforts are being made for positioning contractors in both Changsari and NGC depending upon requirement and actual operation of these contracts would be on least cost basis only.

5.2.2.2 Transportation of food grains in excess of requirement at a higher rate

FSD Sangaiprou in Manipur is normally catered to by Dimapur in Nagaland. Considering the urgency for immediate augmentation and exploring alternative route of public distribution system (PDS) stocks in Manipur, FCI awarded three *ad hoc* RTCs to FSD Sangaiprou from Ex-Furkating/Golaghat and Jagiroad in Assam. The rates for the different routes were as detailed in **Table No. 2** below:

Table No. 2

Name of Route and road transport contract validity	Transport cost (₹ per MT)
Dimapur – Sangaiprou (24 October 2014 to 23 October 2016)	4576
Jagiroad – Sangaiprou (22 July 2014 to 19 April 2015)	5999
Furkating/Golaghat – Sangaiprou (16 July 2014 to 29 September 2014)	6864
Furkating/Golaghat – Sangaiprou (26 September 2014 to 25 June 2015)	6513

Considering that the lowest rate per MT was from Dimapur, it was prudent to minimize the transportation of food grains to Sangaiprou from Jagiroad and Furkating/Golaghat. The normal PDS requirement at Sangaiprou during August 2014 to April 2015 (nine months) was approximately 11,000 MTs per month and hence 99,000 MT of food grains was required to be transported to FSD Sangaiprou during this period. Scrutiny of records revealed that 1,39,187 MTs of food grain was transported to FSD Sangaiprou of which 55,013 MT of food grains was transported from RH Jagiroad and 6,982 MT from Furkating/Golaghat during this period.

Since cost of transportation to Sangaiprou from Dimapur and Jagiroad was at lower rates, FCI Zonal Office (NE) advised (September 2014) FCI Assam Region that the movement from Furkating/Golaghat to Sangaiprou was to be used as alternate route and only in exigency. The Zonal Office (NE), while preparing the movement plan, over-looked their own instruction as the Area Office continued with the transportation of food grains to Sangaiprou from Furkating/Golaghat and Jagiroad in the route without any recorded reasons for exigency.

Taking into account the actual month wise dispatch made from Dimapur, the requirement of replenishment of stock from Jagiroad and Furkating was worked out and it was observed that 37,034 MT of food grain was dispatched from Jagiroad and Furkating/Golaghat which was in excess of average monthly requirement at Sangaiprou. This resulted in avoidable expenditure of ₹ 5.62 crore on account of transportation cost.

Ministry stated (December 2017) that during mega block RH Dimapur was not able to induct sufficient stock to FSD Sangaiprou. Further, multi-modal routes for transportation of stock to Manipur region was resorted to as an exigency to avoid dislocation of public distribution system.

The reply is not tenable in view of the fact that there is no alternate route for movements of stocks to Sangaiprou from Furkating/Golaghat other than through the Dimapur-Manipur national highway and it would have been a rational decision for the Management to transport the food grains from the nearer depot i.e. Dimapur as it was more economical. Further, a review of stock position at Dimapur during August 2014 to March 2015 indicates that the monthly availability was more than the average monthly requirement of Sangaiprou. Though the Management decided that movement from Furkating/Golaghat to Sangaiprou could be undertaken in case of exigencies, the stock was moved in a regular manner without any overriding factors.

5.2.2.3 Non levy of liquidated damages

As per the terms and conditions of the road transport contract, the contractor was liable to pay the FCI liquidated damages at ₹ 300 with maximum of ₹ 1,000 per truck per day in the event of failure to provide number of trucks per day indented by the FCI. Audit noted that on number of occasions, contractors failed to supply the indented number of trucks to FCI in area office Guwahati, Jorhat, Silchar, Aizwal, and Agartala. However, liquidated damages amounting to ₹ 89 lakh was not imposed on the contractors as per the terms of the RTC.

Ministry stated (December 2017) that demurrage charges were fixed against the contractor for short supply of trucks and recovery made. No further liquidated damages were imposed as simultaneous imposition of demurrage charges and liquidated damages would amount to double imposition of penalty.

The reply is not tenable as demurrage charges are imposed by the Railways for detention of rakes beyond permissible duration where contractor is liable in case detention of rakes was caused by his act whereas liquidated damage is levied for the losses sustained by the Corporation due to short supply of trucks. Hence, these are independent penalties and are separately leviable.

5.2.2.4 Lack of monitoring of movement of trucks

Scrutiny of records revealed three cases of missing trucks as detailed in **Table No. 3** below:

Table No. 3

Sl. No.	Contracted Route	Numbers of missing trucks
1.	Ex-Rly Siding Haibargaon/FCI FSD Nagaon complex (Assam) to FSD Tawang (AP)	10 trucks (carrying 905.68 quintals of rice)
2.	Ex-Rly Siding Haibargaon/FCI FSD Nagaon complex (Assam) to FCI FSD Seppa (AP)	31 trucks (carrying 2824.81 quintals of rice)
3.	Railway siding/FSD Cinnamara to FSD Tuensang (Nagaland)	70 trucks (carrying 6170.01 quintals of rice)

Audit observed that:

(i) In case of RTC for FSD Tawang, the contractor was found indulging in transhipment of stock en-route and also did not provide adequate number of trucks for food grains transportation. The Assam Region served (20 November 2013) a warning to the contractor and also appointed another contractor in November 2013 on temporary basis at the risk and cost of the first contractor. However despite warning being issued and appointment of another contractor, the first contractor was allowed to continue the lifting of stock in December 2013 (40 trucks) out of which 10 trucks went missing.

(ii) In RO Assam, though there were reports of missing trucks in Nagaon District in September 2014, the contractor was allowed to transport food grains from FSD Cinnamara to FSD Tuensang during October 2014 to January 2015.

(iii) The bank guarantee in respect of two contractors was found to be forged as necessary checks were not exercised by FCI.

(iv) In respect of FSD Cinnamara to FSD Tuensang route, the depot officials at the despatching end failed to detect that the same trucks which were loaded and despatched three days back again had reported for loading without unloading the food grains at destination point.

The Ministry stated (December 2017) that corrective action has been taken in respect of Assam Region. Regular reconciliation of Daily Despatch Record (DDR) is made and before passing of any bills status of DDR is confirmed. Bank Guarantees are being confirmed by a two tier confirmation process. Money suits have been filed against contractors regarding missing tucks and these were at final stages of hearing. Further, disciplinary action has also been taken against the concerned officers under major penalty proceedings.

While acknowledging the remedial action taken after the audit observations, there was evidently a need for the Corporation to strengthen its own internal vigilance and monitoring mechanisms so as to be able to detect such instances and initiate prompt deterrent action.

5.2.2.5 Excess payment due to non-adherence to distance measurement clause of Model Tender Form

As per clause XVIII (a) (v) of the Model Tender Form (MTF) for RTC, the distance as stated in the tender will be reckoned as fixed by the Chief Engineer PWD or the General Manager FCI or officer acting on his behalf and rounded off to the nearest kilometre. Since the charges are linked to distance to be covered, the distance ought to be measured afresh before finalisation of any road contract.

Scrutiny of records revealed that verification of distance was not being done on regular basis before finalization of an RTC at RO Guwahati. This resulted in awarding of contracts at higher distances even though shorter routes were available leading to excess payment for transportation charges to seven contractors amounting to ₹ 7.34 crore.

Ministry stated (December 2017) that Regional Office had directed the concerned Area Manager to form a District Committee to verify the shortest motorable route and to ascertain the recovery of excess amount for plying in shorter route after assessing the difference in distance. Further, ₹ 25 lakh has already been recovered from the concerned transport contractor.

5.2.3 Conclusion

Road transport plays a very important role in North Eastern region of India for moving food grains to the hilly and difficult geographical areas. FCI incurred avoidable expenditure of ₹ 117.10 crore due to improper planning for movement of stock. Stock was moved from a location whereas alternative with lower handling and transportation costs were available. Non-adherence to distance measurement before awarding contract resulted in avoidable expenditure of ₹ 12.96 crore. In addition, liquidated damages of ₹ 89 lakh was not levied on contractors for short supply against indented trucks and requisite checks were not exercised in respect of movement of stock which resulted in cases of missing trucks.

5.3 Excess payment of Mandi Labour Charges

FCI made excess payment of ₹ 14.10 crore to the Government of Uttar Pradesh and its agencies during the years 2010-11 to 2016-17 due to reimbursement of inadmissible elements as part of mandi labour charges on procurement of wheat.

As per the guidelines for submission of incidental claims by the State Government Agencies (SGAs) issued (September 2010) by the Ministry of Consumer Affairs, Food and Public distribution (Ministry), mandi labour charges are the charges incurred for engaging labour to perform various activities like cleaning of grains, filling in the bags for weighing, stitching, labelling, stacking and loading in truck in the mandi/market.

Audit noted that mandi labour charges included ₹ one per quintal for loading charges of bags from local stack to the trucks. Scrutiny of provisional cost sheet for the Rabi Marketing Season (RMS) 2010-11 to 2016-17 revealed that activity of loading at mandi was also included under the head transportation and handling charges thereby resulting in double payment on this element. During RMS 2010-11 to 2016-17, FCI Regional Office, Uttar Pradesh (UP) procured 1,409.86 lakh quintals of wheat on which the excess reimbursement of the component of mandi labour charges of ₹ 14.10 crore[11]was made to UP SGAs. Further, though FCI was aware of inclusion of same activity under different heads of expenses and had initiated recovery in 2015 and 2016 for RMS 2010-11 to 2012-13, they continued to pay inadmissible component of mandi labour charges in subsequent year *i.e.* RMS 2016-17.

Ministry stated (January 2018) that FCI has recovered excess payment of ₹ 9.65 crore relating to RMS 2010-11 to 2012-13 and recovery for rest of the period would be made at the earliest. The Ministry added that FCI Headquarters has also directed FCI Regional Office Uttar Pradesh to not release ₹ one per quintal under mandi labour charges for loading activity at mandi in future procurement.

5.4 Irregular payment of Guarantee Fee Charges

Non-verification of bank guarantee given by Government of Punjab led to irregular payment of guarantee fee to State Government Agencies amounting to ₹ 145.74 crore

Government of India (GoI), while fixing the provisional rates[12] of procurement incidentals of wheat and custom milled rice (CMR) payable to Government of Punjab (GoP) and its Agencies[13] (SGAs) by Food Corporation of India (FCI),

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[11] 1409.86 lakh quintal at the rate of ₹ one per quintal.
[12] KMS 2009-10 to KMS 2015-16 and RMS 2009-10 to RMS 2015-16
[13] PUNGRAIN, Markfed, Punsup, Punjab State Warehousing Corporation (PSWC) and Punjab Agro.

allowed the reimbursement of guarantee fee. This was payable on actual basis only if paid by SGAs to GoP for obtaining credit and was payable subject to maximum of 1/8 *per cent* of MSP (Minimum Support Price) worked out on the estimated quantity of wheat/paddy delivered to FCI procured under the Price Support System (PSS) for central pool.

Regional Office of FCI Punjab had been reimbursing guarantee fee to SGAs as per the provisional rates fixed by GoI for Rabi Marketing Season (RMS)/ Kharif Marketing Season (KMS) every year. An amount of ₹ 245.78 crore had been reimbursed to the SGAs during the period from 2009-10 to 2014-15.

In a meeting held in November 2014 among various stakeholders (FCI, Ministry, SGAs of GoP and SBI)[14] relating to procurement of food grains by GoP through their SGAs, the SBI Mumbai informed (December 2014) the Union Ministry of Finance that the SGAs paid fees to the GoP for guaranteeing the food credit by the GoP which needed to be refunded to the SGAs as the GoP had not given guarantee to banks against food credit. Accordingly, FCI issued instructions (January/June 2015) reiterating that GoP was not entitled to any guarantee fee and no payment under guarantee fee is to be released unless food credit availed by the SGAs was guaranteed by the State Government. It added that the matter was being referred to GoI for a decision and payment of guarantee fee be withheld if the expenditure on account of guarantee fee is not incurred by the State Government till clarification is received.

A meeting was also held in July 2015 between Ministry, representatives of GoP and FCI to discuss the pending issues of GoP and its SGAs, wherein it was pointed out that since cash credit limit is being sanctioned directly to State Government from RMS 2015-16, the question of payment of any guarantee fee does not arise. GoI discontinued the practice of allowing guarantee fee in the provisional incidentals from the RMS and KMS 2016-17. Further, GoI did not include component of guarantee fee in the final cost sheets for RMS and KMS 2009-10 to 2012-13. The final cost sheet for 2013-14 and 2014-15 has yet not been finalised by GoI.

Audit observed that FCI did not verify the issue of guarantee by GoP to banks which resulted in irregular reimbursement of guarantee fee to SGAs amounting to ₹ 245.78 crore. FCI issued instructions (August 2016) to the Regional Office Punjab to recover the amount of guarantee fee from the GoP. FCI recovered ₹ 91.38 crore for the period 2009-10 to 2012-13 (except District Amritsar) and effected partial recovery of ₹ 8.66 crore for the period 2013-14 to 2014-15. FCI also discontinued payment of guarantee fee from RMS and KMS 2015-16

[14] Food Corporation of India, Ministry of Consumer Affairs and Food Public Distribution, State Government Agencies, Govt. of Punjab and State Bank of India.

The Ministry stated (December 2017) that the entire recovery (except District Amritsar) for the period 2009-10 to 2012-13 has been effected.

5.5 Avoidable expenditure on carry over charges due to non-optimal utilisation of vacant storage capacity at Kaithal Silo

Failure to optimally utilise vacant storage capacity at Kaithal silo resulted in avoidable payment of Carry over Charges to State Government Agencies amounting to ₹ 6.49 crore.

Wheat for central pool is procured by FCI as well as the State Government and its Agencies (SGAs). The SGAs delivers the wheat procured to FCI for storage and in case of inadequate storage capacity, SGAs hold the wheat in their silos/ godowns for which Carry over Charges (CoC) at rates prescribed by GoI are payable by FCI.

FCI agreed to acquire (June 2005[15]) additional storage capacity of two lakh metric tonnes (MT) at Kaithal from a private company on Built, Own and Operate (BOO) basis. As per the supplementary agreement (February 2013), storage-cum-handling charges (SCHC) of ₹ 1,842 per MT *per annum* was to be paid for guaranteed tonnage of 2 lakh MTs. The rate of SCHC was increased to ₹ 2,000 per MT *per annum* in September 2013 and thereafter to ₹ 2,033.40 per MT *per annum* in September 2014 on guaranteed tonnage basis.

Since payment was being made on guaranteed tonnage basis, FCI needed to ensure optimal utilisation of storage space to minimize payment of SCHC for vacant storage space at silo besides payment of CoC to SGAs. The silo at Kaithal however remained vacant on many occasions during 2013-14 to 2015-16. On 14 April 2014, storage capacity of 1,33,803 MT (67 *per cent* of hired storage capacity) remained unutilised though during the same period stock was lying with SGAs. Audit further observed that while guaranteed storage at Kaithal silo was lying unutilised, substantial quantity of wheat stock was stored in the godowns of SGAs at Pehowa, Pundri and Pai for which CoC were also being paid to the SGAs.

Audit further noted that the base depot at Kaithal is optimally utilised during April to June every year and after June, the food grains are regularly transported to field depots leading to decline in the stock position. The Regional Office Haryana, considering the fall in the stock position at the Kaithal silo every year, instructed (July 2013) its District Office Kurukshetra to make centre-wise analysis of costs (transportation and de-bagging at silo) that would be incurred for taking delivery of wheat from SGAs in the adjoining areas to Base depot Kaithal vis-à-vis CoC payable to the SGAs for the stock. Based on the analysis

15 However no guaranteed tonnage was allowed till February 2013 when a supplementary agreement was signed providing for guaranteed tonnage of 2 lakh MT.

done by the district office Kurukshetra, the Regional Office recommended (January 2014) to FCI Head Office that the optimum utilisation of the Kaithal silo upto the level of guarantee tonnage may be done by taking delivery of wheat stocks held with the SGAs. However, FCI did not initiate any action and failed to move the stock from the nearby centers to Kaithal silo in order to utilise available vacant storage capacity at silo. This resulted in avoidable payment ₹ 6.49 crore as CoC to the SGAs during the period from April 2013 to October 2016.

The FCI Regional Office, Haryana, stated (August 2017) that as per the minutes of meeting held on 7 March 2014 "The direct delivery to FCI should mean lifting of wheat procured by the State Agencies from the mandi yard concerned and not from the godowns of the State Agencies". This implied that any handling/movement of food grains from state warehouses to silo was prohibited and since the cost economics of the CoC was more expensive than total cost of rentals being paid for the Kaithal silo, FCI was not allowed to take delivery of wheat after 30th of June and no secondary movements as mentioned in the minutes of meeting was allowed.

The reply of the Management is not relevant as the audit observation is related to space created due to movement of stock in silo at Kaithal after the procurement season for which SCHC was being paid for space hired on guaranteed basis whereas the directions quoted by FCI related to direct delivery only to FCI from SGAs during procurement season. In view of payment of guaranteed storage charges for silo at Kaithal, FCI should have taken appropriate action to utilise the vacant space available in the silo which could have avoided payment of CoC to SGAs.

The matter was reported to the Ministry in October 2017; its reply was awaited as of December 2017.

5.6 Irregular payment of Custody and Maintenance Charges

Non-adherence to Ministry guidelines relating to Custody and Maintenance Charges resulted in irregular payment of ₹ 10.32 crore to State Government Agencies (SGAs) under Odisha Region.

The Ministry of Consumer Affairs, Food & Public Distribution (the Ministry) entered into a Memorandum of Understanding (MoU) in March 2005 with the State Government of Odisha for Decentralized Procurement (DCP) System[16] in respect of procurement operations of Custom Milled Rice (CMR)/levy rice for

[16] Under the scheme, the State Government itself undertakes direct purchase of paddy and wheat and procurement of levy rice on behalf of Government of India, and also stores and distributes these food grains under targeted public distribution system and other welfare schemes. The Central Government undertakes to meet the entire expenditure incurred by the State Governments on the procurement operations as per the approved costing.

the Kharif Marketing Season (KMS) 2004-05 and for future procurement of CMR/levy rice. As per the MoU, the State Government and its Agencies (SGAs) procure, store and distribute food grains under targeted public distribution system (TDPS) and other welfare schemes. Any surplus stock over the requirement under TDPS and other welfare schemes is handed over to FCI.

FCI Odisha Region reimburses the cost and incidental expenses to the SGAs for paddy procured at the rates fixed by the Ministry for each KMS. These rates include an element of Custody and Maintenance (C&M) charges. For release of payments by FCI to SGAs, Ministry issued (November/December 2014, September 2015) instructions about systems to be followed by FCI for release of payment of C&M charges to SGAs from KMS 2013-14 as under:

- SGAs would have to produce supporting documentary evidence relating to actual expenditure incurred by them and it should be fully verified by FCI before making payment on this account;

- Expenditure on C&M charges will be reimbursed only after fixation of final rate[17] for that particular year and no provisional payment is to be made. However, this condition regarding reimbursement was waived off vide instructions issued by Ministry in September 2015 and reimbursement was allowed on provisional basis without waiting for fixation of final rates; and

- After end of a particular procurement season, SGAs would submit consolidated provisional bill along with supporting documents for expenditure incurred on C&M charges to FCI. FCI would verify the bills and after fully satisfying itself about genuineness, bona-fide and admissibility of the amount, would make payment on provisional basis without waiting for fixation of final rates.

Audit observed that ₹ 10.32 crore was paid towards C&M charges to SGAs during 2013-14 to 2016-17 for the KMS 2013-14 to 2015-16 without following the procedures stipulated in the Ministry's instructions for acceptance of claim for reimbursement and release of payment. The payments were based on certificate(s) submitted by SGAs with the bills without supporting documents relating to actual expenditure incurred by them that were necessary for verifying its genuineness and the admissibility of the claim.

Payments of C&M charges by FCI without obtaining any evidence to the effect that actual expenditure was incurred by the SGAs was also reported in Report No. 31 of 2015 of the C&AG on "Procurement and Milling of Paddy for the Central Pool" with the recommendation that payment for C&M charges to be

[17] The cost sheet last finalized in Odisha Region is for the year 2004-05.

made by FCI only after verification of documentary evidence as to actual incurring of expenditure by the SGAs on this account. The Ministry had accepted the recommendation stating that FCI would be asked to ensure its implementation. Ministry in its Action Taken Note on the audit report has submitted (February 2017) that SGAs of respective states have been asked to provide the proof of actual incurrence as well as details of payment of C&M charges.

However, Audit observed that payment of C&M charges was released to SGAs even in 2016-17 on certificate basis and without obtaining supporting documentary evidence in Odisha Region resulting in irregular payment of ₹ 10.32 crore payment of C&M charges to SGAs continually for the KMS 2013-14 to 2015-16.

Ministry stated (December 2017) that as the Ministry's guidelines issued (November/December 2014 and September 2015) were not available with FCI Regional Office, Odisha, the payments for C&M charges were released on the basis of certificates as mentioned in the provisional cost sheet up to KMS 2014-15 and partially up to KMS 2015-16. It added that the payments released for C&M charges on provisional cost sheet is subject to finalisation of accounts by Government of Odisha and fixation of final cost sheet for respective years.