O/o Comptroller and Auditor General of India

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Report of the Comptroller and Auditor General of India on Food Corporation of India laid in Parliament;
Issues of Debt management, labour management and PEG Scheme dealt in the report;
Lower receipt of subsidy from the Government leading to high interest burden on FCI

The report of the Comptroller and Auditor General of India on Food Corporation of India (FCI) (18 of 2017) was laid in parliament today. This Audit Report on the accounts of FCI for the year ending March 2016 covers three areas *viz.* Debt Management, Labour Management & Incentive Payments, and Implementation of Private Entrepreneurs Guarantee (PEG) Scheme in Punjab. These areas were selected due to high cost of working capital in FCI; high handling costs of departmental labour; and delay in augmentation of storage capacity through private participation.

The audit of **debt management** revealed that FCI had to pay huge amount of interest on funds raised from external sources, as it did not get the food subsidy reimbursement in time from the Government of India (GoI). FCI also could not recover huge receivables from various Ministries, Departments and State Governments, outstanding for a long time.

The **labour management** in FCI suffered from deficiencies like non-rationalisation of departmental labour and non-elimination of proxy labour. FCI also paid huge inadmissible incentive to its labour in violation of applicable rules and judicial judgments/directives.

The **PEG Scheme** was found to be badly delayed and suffered from lapses in the implementation, resulting in excess expenditure.

The Audit Report has made certain recommendations for improving the system and addressing the lacunae.

The major findings in this report are:

Debt Management

- Subsidy received every year by FCI was lower than claimed for from the GoI. On an average only 67 *per cent* of subsidy claimed was released by the GoI over the last five years because of which FCI had to borrow from other costlier means of finance *viz.* Cash Credit (CC), Short term loans etc. resulting in heavy interest burden of ₹ 35,701.81 crore during 2011-16. ***(Para 2.3)***

- An amount of ₹ 2,897.17 crore was outstanding from various Ministries/Departments and State Governments. ***(Para 2.4)***
- FCI failed to comply with the instructions of the Ministry of Consumer Affairs, Food & Public Distribution to conduct efficiency analysis after every two quarters. No analytical study was conducted of the monthly Cash Credit used by FCI on the subsidy released by the GoI. ***(Para 2.9)***
- The risk management policy of FCI also did not sufficiently address the complex financial needs of the Corporation.***(Para 2.10)***

Labour Management and incentive payments

- Non-rationalization of surplus departmental labour, deployment of costlier labour at depots and non-pooling of departmental labour resulted in excess expenditure of ₹ 237.65 crore. ***(Para 3.2.1 to 3.2.3)***
- The labour at various depots were found, as per records, to be handling very high number of bags per day ranging from 998 to 1776 as against the norm of 105 bags per day. This was indicative of existence of proxy labour in depots leading to exorbitant incentive being paid to some labourers, a problem which FCI has not been able to tackle. ***(Para 3.2.4)***
- Inadmissible payments worth ₹ 435.18 crore were made in violation of the applicable laws such as The Gratuity Act, 1972, Contributory Provident Fund, Productivity Link Incentive and judgment of the Hon'ble Supreme Court on the issue. ***(Para 3.3.1 to 3.3.4 and 3.3.6)***
- Suspected excess payment (₹ 12.12 crore) by way of improbable stack formation, treatment of one activity (standardization work) as two or three different activities (refilling/rebagging and weighment/stacking), excess certification of refilling work, wrong certification of lead distance etc. were also detected.***(Para 3.4.1 to 3.4.4)***
- Deficient controls in the maintenance of booking-cum-output slips at the depots were noticed which increased the risk of irregular practices. ***(Para 3.5.1 to 3.5.5)***

Implementation of Private Entrepreneur Guarantee scheme for construction of godowns in Punjab

- Delay in award of contracts for construction of godowns to Private Entrepreneurs (PEs) led to negligible implementation of the scheme in XI Plan (2007-12).***(Para. 4.2.1)***
- A substantial quantity of food grains was lying in open areas with State Government Agencies/SGA and hence 4.72 Lakh Metric Tonne of wheat valuing ₹ 700.30 crore deteriorated and was declared as non-issuable to Targeted Public Distribution Scheme. Moreover, despite huge quantities of wheat lying unprotected in Covered

and Plinth (CAP)/kacha plinth capacity of six LMT was de-hired by FCI in two districts during the period September 2012 to March 2016. ***(Para 4.2.2)***

- As ineligible bidders were awarded contracts for construction of godowns, undue benefit of ₹ 21.04 crore as rent during the period 2012-13 to 2015-16 was passed on to the PEs. ***(Para 4.3.1)***
- Handling cost of ₹ 9.77 crore was incurred during the period from 2012-13 to 2015-16 due to taking over of godowns without railway sidings. ***(Para 4.3.2)***
- Incorrect measurement of distance by Punjab Grains Procurement Corporation Limited (PUNGRAIN) and FCI resulted in excess expenditure of ₹ 8.36 crore on transportation of food grains over the excess distance. ***(Para 4.3.3)***

Compliance audit paragraphs:

i. Recoveries relating to excess/irregular payments etc. to the tune of ₹ 32.18 crore were made during 2015-16, at the instance of audit.

ii. Undue payment of ₹ 23.02 crore was made to a handling contractor for fictitious work upto 2014-15 due to non-adherence to the provisions of standing instructions/manual regarding payment to handling contractors. Internal Audit and Vigilance teams deputed subsequently reported fraudulent payment totaling ₹ 71.75 crore to the same contractor and loss of interest of ₹ 13.39 crore on these fraudulent payments. ***(Para 5.1)***

iii. Fraudulent excess payments of ₹ 14.73 lakh and ₹ 37.89 lakh were made to the transport contractors on account of payment on higher rate and for bills for longer distance than actual for transportation of food grains. ***(Para 5.2)***

iv. Excess payment of ₹ 24.96 crore was made to the Uttar Pradesh Government and its Agencies on account of cost of gunny bags and gunny depreciation for procurement of paddy and delivery of rice during Kharif Marketing Season (KMS) 2014-15. FCI recovered ₹ 2.96 crore after Audit pointed out the excess payment and recovery of the balance ₹ 22.00 crore was yet to be made. ***(Para 5.3)***

v. Food Corporation of India sold wheat to bulk consumers at a rate below cost under open market sale scheme during 2013-14 leading to non-recovery to the tune of ₹ 38.99 crore.

(Para 5.4)

vi. FCI could not adjust input Value Added Tax while making payment of output Value Added Tax due to improper collection/maintenance of Tax documents and made an avoidable payment of ₹ 25.01 crore on account of output Value Added Tax in Uttar Pradesh. Non refund/adjustment of this avoidable payment also led to consequential loss of interest amounting to ₹ 13.02 crore on credit being availed by FCI. ***(Para 5.5)***

Conclusion:

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

(i) The Ministry of Finance may make full allocation on time to the Ministry of Consumer Affairs, Food & Public Distribution, Department of Food and Public Distribution towards the food subsidy component to be given to FCI.
(ii) FCI may approach the consortium through the Ministry of Consumer Affairs, Food and Public Distribution for allowing it to utilise short term loan before exhausting the cash credit limit.
(iii) FCI may approach the Ministry of Consumer Affairs, Food and Public Distribution again to obtain guarantee for issue of bonds so as to have access to cheaper source of finance.
(iv) Pooling of departmental labour in fewer FSDs and conduct handling operation of the vacated FSDs through contract labour.
(v) Incentive norm and methodology followed for working out incentive and other statutory dues e.g. CPF, Gratuity should be compliant with extant acts/rules and judicial directives/judgments.
(vi) Action for elimination of proxy labour by:
    a) Ensuring proper documentation of prescribed details in the Booking cum Output slips.
    b) Expediting installation of Biometric Attendance System and CCTV installations.
    c) Incorporating automated red flag indicators in Financial Accounting Package for suspected abnormally high claims towards incentives and OTA.
(vii) The remaining storage capacity may be expeditiously taken over while complying with the provisions, specially related to plot size of godown and distance from railhead.
(viii) FCI should implement appropriate controls to ensure that all statutory taxes/dues are paid by the PEs before payment is released for those services.
(ix) The storage requirement needs to be reviewed from time to time to have a realistic assessment based on stock position lying in CAP/Open and Kacha plinths.
(x) FCI should recover the excess payment made under this scheme from PUNGRAIN/ PEs.
