

Chapter 3: FRESH RATIONS

Audit Objective:

- **To assess whether contracts were managed effectively and economically without compromising the quality.**

3.1. Procurement of Fresh Rations

Procurement and supply of fresh rations in all seasons almost on a daily basis to thousands of units in all the stations is a daunting task. Fresh rations, which include many agricultural products, are sensitive to seasonal variations. They are also perishable. The supply chain management becomes even more complex when the variety, the constant change of preferences of the troops, volume indented and stringent specifications are taken into account. Procurement of fresh rations is therefore necessarily decentralized and contracts are operated by the Supply



Supply chain of fresh rations entails distribution of fresh vegetables to a large number of Units

Depots which issue the stores to the consuming units. Indents for fresh supplies are placed by units two days in advance. Based on these, the Depots place consolidated demands on the contractors.

Army has laid down elaborate procedures for

procurement of items of fresh rations through local contracts concluded for each station or a supply depot. These contracts are

approved by the QMG at the Army HQ, GOC-in-C of the Command or lower formation Commanders depending on the value of the contract. The responsibility for procurement lies with the Major General Army Service Corps (MGASC) of the Command and the DDSTs and ADSTs functioning under him.

The expenditure of the Army on the various categories of fresh rations for the last three years is shown below:

Table-9
Expenditure on various categories of fresh rations

Item	<i>(Rs in crore)</i>		
	2005-06	2006-07	2007-08
Meat	80.01	71.30	71.31
Non Veg items other than Meat, (Chicken, Egg)	117.87	136.71	142.39
Fresh Veg & Fruits including Potato Onion & Garlic	112.18	121.85	132.86
Other items Milk, Butter, Bread, Mineral Water, Ice	142.47	168.98	213.30
Total	452.53	498.84	559.86

Analysis of expenditure on fresh rations in the three selected Commands indicated that per person expenditure from 2005-06 to 2007-08 in Northern Command was 61, 97 and 76 per cent higher than that in Western Command. Similarly, a comparative analysis of per person expenditure between Eastern and Western Commands also indicated that the expenditure in Eastern Command was 33, 70 and 33 per cent higher than that in the Western Command. The following table illustrate Command- wise pattern of expenditure on fresh rations.

Table-10
Per capita expenditure of fresh ration

Year	Expenditure of fresh rations/per person/per annum		
	NC (Rs)	WC (Rs)	EC (Rs)
2005-06	6577	4086	5419
2006-07	7304	3703	6288
2007-08	7591	4303	5728

Such wide variations were largely due to variations in procurement prices and terrain conditions contributing to higher prices and transportation expenses. Dispersal of troops necessitating supply at more remote points also contributed to higher per capita consumption in terms of value.

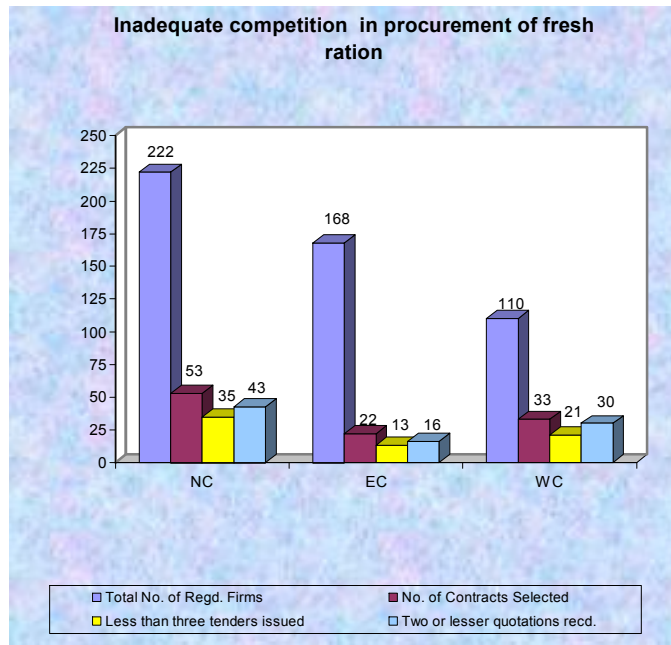
3.2. Absence of adequate competition in procurement of fresh rations

The ASC Procedure for Conclusion of Contracts stipulates that contract concluding authorities should make all efforts to generate adequate competition and analyze the rates from all the available sources. MGsASC are required to insert advertisements annually giving the types of contracts concluded in that Command and invite potential suppliers to register themselves as ASC contractors. Despite this and despite a large number of registered vendors, audit examination indicated that competition in tendering and contracting for fresh

rations by ASC was highly limited. Overall, the procurement process was highly non-competitive.

During the audit, a sample of 108 contracts for fresh rations concluded in the period from 2005-06 to 2007-08 by various authorities in the three selected Commands were scrutinized in detail in order to assess the competitiveness in the tendering process.

In approximately 64 per cent of the cases where open tenders were invited from the registered firms during the period, only one or two vendors responded to the Notice Inviting Tender and purchased the tender documents. The response in terms of quotation received from vendors was even poorer. While in 36 per cent of the



cases only one vendor had bid for the contract, in 46 per cent of cases only two vendors had bid. Thus, 82 per cent of the procurement was based on less than three quotations. This was despite the fact that in all the three years, the number of vendors annually registered ranged from 110 to 222. A large number of vendors registered contrasting with only one or two vendors purchasing tender documents points strongly towards serious problem of cartelization in ASC procurements as also registration of unsuitable vendors without proper verification of their capacity.

In the course of audit analysis of the procurements made by MGASC, Western Command, it was found that in all the three years, in Delhi, only one vendor purchased the tender documents for the supply of meat and chicken and the contract was awarded to him. Thus, during the last three years, about Rs. 5 crore worth of meat and chicken was annually procured for Delhi station on a single vendor basis from M/s S. Mohd Iqbal & Co. despite the fact that 12 of the 99 vendors registered for the supply of meat and chicken in the Western Command were Delhi based.

Similarly in Chandimandir, only two vendors responded for meat and chicken during tendering in 2005-06. The contract was awarded to M/s Moneesh & Co. In the next two years only M/s Moneesh & Co. responded and bagged the contracts with annual orders value of Rs 2.34 crore. This was despite the fact that eight of the 99 registered vendors were based at Chandimandir.

The ASC procedures further envisage that contractors would be registered only for those items in which they are genuinely interested and in which they have been dealing with in their normal course of profession. It was however noticed that vendors were registered for fresh rations as a whole and not specific to items. Thus the same vendor was registered for the supply of meat, vegetables, firewood, milk, green fodder and also transport. Several transport and tour companies were found to be registered for the supply of meat, eggs, vegetables, milk and charcoal in addition to provision of transport. On the other hand, a poultry firm was found to have been registered for the supply of transport and vegetables. Since vendors were registered for particular Command as a whole and not station-wise, even though there were 110 vendors registered on the whole, station-wise response of the vendors remained poor.

In reply MGASC WC accepted that the competition was low despite adequate advertisement and stated that the aspect of poor response needs to be evaluated at the highest level and necessary remedial measures evolved. Army HQ also acknowledged the point regarding low number of tenderers and stated that the remedial measures were being instituted. As regards anomalies in the process of registration, the Army HQ replied that the existing procedure enunciated in September 2006 was adequate and relevant.

The above evidence noticed during audit would however indicate that in the registration process, the procedures were not being strictly adhered to.

Recommendation 6

There exists a case for expanding the vendor base for supply of fresh rations. The risk of existence of cartels affecting the quantity and quality of rations is too serious to be ignored. Ministry of Defence should set clear targets regarding expansion of vendor base and progress should be closely monitored. The list of vendors should be put on the website of the ASC.

Recommendation 7

Adequate care should be taken before registering the vendors. Registration should be done for vendors for specific group of items and experience of the vendors in dealing with those items should be verified.

Recommendation 8

A specific period should be laid down, during which if a vendor fails to respond to any tender, he should be taken out of the vendors' list. Blacklisting of such vendors for a prescribed period also should be considered.

Army HQ provided detailed replies which however, did not address the specific facts mentioned above. It said that tendering for perishable items is a complex matter requiring an uncanny ability to forecast correctly the circumstances under which the tenderer will have to supply the item in future. In the case of natural products like vegetables and fruit, the matter is even more complex as the production is seasonal, follows a cyclical pattern with high volatility in rates based on crop harvest, festival season and supply and demand parameters. The peculiar requirements of operating a contract for perishable also discourage many contractors from venturing into contracts in areas beyond their interest. It involves round the clock attention throughout the year, requirement of warehouses, cold chain facilities. Therefore, the contractor is more keen to secure a contract only at those locations wherein he has the above facilities. The trend therefore has been comparatively more competition in larger stations and initial phases which declined in smaller stations and late tender calls. In respect of meat group items, it was noticed that the number of serious bidders has been on the decline. The lesser number of tenders issued or received cannot be construed as a cause for reduced competition thus implying higher rates.

Army HQ also mentioned that the total number of fresh contracts was approximately 1280 in a year. The sample of 33 contracts as chosen by Audit was too small and drawing of conclusions based on such a selective sample was bound to throw up exceptions, which cannot be generalized as a rule.

Noting the point regarding low number of tenders received in Western Command, as highlighted in the report, Army HQ stated that remedial measures were being taken.

Regarding the recommendation relating to expansion of vendor base for supply fresh rations, it acknowledged that it was an important point, which was already being acted upon. It stated that with the advancement in the field of logistics, improved infrastructure and opening up of agricultural markets, many companies were entering the food markets dealing with both fresh and dry rations, there was a need to attract such players into ASC contracting systems as they would bring in improved supply chain management, superior warehousing and transportation facilities, and introduce price stability ensuring better quality control. It stressed the need of simplification of registration and payment procedures. It stated that a single point registration, easier verification and faster payment systems were required to be brought in.

It further brought out that provisions already existed to ensure that registration of contractors was carried out only for a specific group of items in which vendor had experience and expertise. To ensure that the performance of the contractor both in competing for a contract and for its subsequent execution was up to required standards, as also to weed out non interested contractors, detailed order had been issued in September 2006.

Audit however, affirms that the sample chosen in respect of the selected Commands relating to fresh rations was adequate to form a realistically general idea. The 33 contracts referred to in the replies of the Army HQ were selected out of 249 contracts concluded by HQ Western Command and HQ II Corps between 2005-06 and 2007-08. It represented 13 *per cent* of the contracts concluded, which is a reasonable sample for drawing an inference. The fact that in all these Commands, more than 100 contractors were registered and in most cases, only two or three vendors responded to tenders does not indicate serious competition. The advantages of larger stations as stated by Army HQ do not reflect on the fact that in stations like Delhi or Chandimandir, only one or two vendors purchased tender documents.

Appreciating the fact that orders already exist on various aspects brought out in this report, the evidence collected during audit however, indicate the necessity of implementing these orders more strictly which has been highlighted in the recommendations.

3.3 Unreasonably low rates for Fresh Rations

To determine the reasonable rates of various items of fresh rations, a Board of Officers constituted by the Station Commander determine the Average Local

Market Rates (ALMR). Prior to opening of tenders, Reasonable Rates (RR) are worked out by a panel of officers for each item and station. These rates are determined by factoring in the whole sale price index, average local market rates, all India average weighted rates, availability of the commodity, previous sanctioned rates etc. The LI rates are then compared with the RRs before awarding the contracts. If the LI rate is 20 per cent below the RR, the rate is considered as “fictitious” and is rejected.

During audit, it was noticed that in all cases, the accepted rates were way below the ALMR. In fact the RR itself was determined much below the level of ALMR, which rendered it grossly unrealistic. As will be evident from the table below, the accepted rate often was unviable compared to the market rate but was uncannily close to the Reasonable Rate.

Table-11

Variation between ALMR and RR

(ALMR, RR and Accepted Rate are in Rupees)

Year	Station	Item	Unit	ALMR	RR	Accepted Rate (AR)	Difference between ALMR and RR (in per cent)	Difference between ALMR and AR (in per cent)
2005-06	Ambala	Fowl Dressed	Kg	70.42	41.55	41.28	41.00	41.38
2005-06	Delhi	Fowl Dressed	Kg	75.83	46.20	46.60	39.07	38.55
2005-06	Chandimandir	Meat Dressed	Kg	112.00	65.80	65.20	41.25	41.79
2005-06	Delhi	Meat Dressed	Kg	127.92	68.75	67.25	46.26	47.43
2005-06	BD Bari	Veg Fresh	100 Kg	1320	591.22	610	55.21	53.79
2006-07	Chandimandir	Meat Dressed	Kg	110.00	68.50	61.75	37.73	43.86
2006-07	Chandimandir	Meat on Hoof	Kg	40.00	24.00	10.00	40.00	75.00
2006-07	BD Bari	Meat Dressed	Kg	101.11	75.00	78.00	25.82	22.86
2006-07	Udhampur	Broiler Dressed	Kg	100	59	58.25	41.00	41.75
2006-07	Aknoor	Veg Fresh	100 Kg	881.23	490.35	456.00	44.36	48.25
2007-08	Kolkata	Meat on Hoof	Kg	55.00	25.00	30.00	54.55	45.45
2007-08	Delhi	Meat Dressed	Kg	129.33	73.00	73.00	43.56	43.56
2007-08	BD Bari	Fruit Fresh	100Kg	3661.9	1639.45	1700	55.23	53.58
2007-08	Hasimara	Meat Dressed	Kg	141.96	95.00	89.11	33.08	37.23

3.4 Unusual variations in contracted rates in the same and adjacent locations

From the contracts, wide variation of contracted rates within the same geographical area was also noticed. Analysis of the rates accepted by various CFAs for adjoining stations in Northern, Western and Eastern Command indicated following.

Northern Command

B.D.Bari, Nagrota, Udhampur and Akhnoor are stations in Northern Command which are located within a radius of 40 Kms. The rates at which contracts were concluded at five adjacent stations in the Northern Command, during the last three year are shown in the table below:

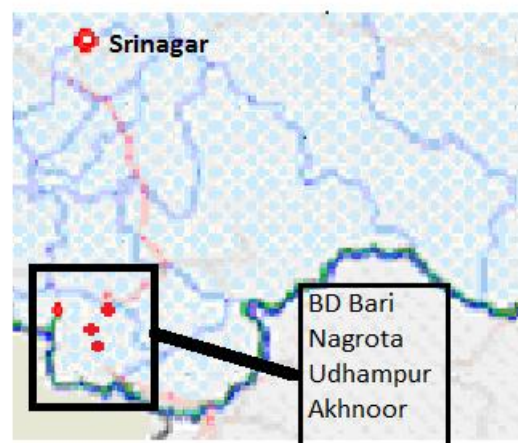


Table-12

Comparative analysis of rates at adjacent stations in NC

(Rupees per Quintal)

Station	Vegetable fresh			Fruit			Meat		
	05-06	06-07	07-08	05-06	06-07	07-08	05-06	06-07	07-08
B.D. Bari	660	675	772	1318	1423	1423	7300	7800	8185
Nagrota	470	469	790	1040	1040	1390	7240	7240	7530
Akhnoor	467	456	790	1050	1022	1612	6677	7677	7127
Udhampur	780	850	940	1440	1555	1890	7940	8500	8915
Srinagar	549	750	647	799	1000	945	8980	9497	9947

Analysis for the last three years showed wide variation in rates at which fresh rations was contracted at these stations as discussed below.

(i) During 2006-07 the rates for vegetables and fruit fresh at B.D. Bari were found to be higher than the rates at Akhnoor by 48 per cent and 39 per cent respectively. For Udhampur, the range by which the rates were higher than the rates at Akhnoor extended up to 86 per cent and 52 per cent. The contracts for B.D. Bari and Udhampur were approved by the Army Commander, Northern Command while the contracts at Nagrota and Akhnoor and Srinagar were approved by the Corps Commanders.

(ii) At Srinagar, the rates for fruits and vegetables were 12 per cent to 50 per cent lower than the same at Udhampur during 2005-06 to 2007-08

(iii) Unusual movement of contracted rates was also noticed for the same items in the same location. Nagrota and Akhnoor witnessed an increase of 68 to 73 per cent for fresh vegetables from 2006-2007 to 2007-2008, whereas in case of fresh fruits the increase was of 33 to 58 per cent. The ALMR for these items did move only by 0.5 per cent in case of fresh vegetables and 21 per cent in case of fresh fruits. The disproportionate increase in the procurement rate of fresh items of fresh rations

indicated that those rations were not consistent with the ALMR and therefore did not mirror the actual market rates.

(iv) Similarly, during 2006-07, the rates at which vegetable and fruits were contracted at Srinagar was 37 per cent and 25 per cent higher than the previous year while in all other stations the maximum increase was only 9 per cent and 8 per cent. The pattern was however reverse in 2007-08, when contracted rates at Srinagar for vegetables and fruits were lower by 14 per cent and 6 per cent respectively when there was an increase up to 73 per cent and 58 per cent at other adjoining stations.

(v) It was generally seen that the rates at which contracts were approved by the Army Commander Northern Command were higher than the rates at which contracts were concluded by the Corps Commanders of the Northern Command.

Western Command

Similarly, comparison of contracted rates for meat and chicken at five major military stations in the Western Command showed similar variation during the same period as shown in table below:-

Table-13
Comparative analysis of rates at adjacent stations in WC

(Rupees per quintal)

Station	Meat dressed			Broiler dressed	
	2005-06	2006-07	2007-08	2006-07	2007-08
Ambala	6498	6808	7108	5378	5578
Chandimandir	6520	6175	7155	4689	5345
Jallandhar	6518	6800	7094	5285	5594
Amritsar	6280	6650	6390	4700	-
Ludhiana	6435	7485	7078	6195	6013

While chicken was contracted at Amritsar for Rs 4700 per quintal during 2006-07, it was procured at Rs 6195 per quintal at Ludhiana which is an adjacent military station.

Eastern Command

In Eastern Command, Dumdum, Dakshineswar and Kolkata are the three main supply points for fresh rations in Kolkata. The closeness of the stations warrants that the purchase rates should be in close consonance. It was, however, found that while meat was procured in Kolkata at Rs 10,495 per quintal in 2006-07, it was procured for Rs 6100 per quintal at Dumdum which is only approximately 4 Km from Kolkata. Table below shows the comparison:-

Table-14

*Comparison of rates for meat dressed at three stations in EC
(Rupees per quintal)*

Station	Meat	
	2006-07	2007-08
Dakshineswar	8430	8390
Dumdum	6100	6900
Kolkata	10495	10795

Total extra expenditure for the two years in procurement of Meat dressed at Kolkata at higher rates in comparison to the rates at Dumdum worked out to Rs 67.90 lakh.

We noticed abnormal differences between contracted rates for same items for supply to Supply Depots and Base/R&R Hospitals in Delhi in the same contracts. The differences were glaring as would be evident from the table below:

Table-15

Difference in procurement rates at two locations in Delhi

Item	Year	Rates for Supply Depot Delhi per quintal	Rates for RR/ Base Hospital, Delhi per quintal	Difference (in percentage)
Tori Ghia	2007-08	480	575	20
Lime Sour	2007-08	1900	3900	105
Capsicum	2007-08	550	775	41
Mussambi	2007-08	1200	1500	25
Oranges	2007-08	1100	1400	27
Lime Sour	2006-07	1800	3800	111
Tomato Red	2006-07	540	700	30
Lime Sour	2005-06	1800	3400	89
Beans/Peas	2005-06	400	500	25
Capsicum	2005-06	450	700	56
Apple(Red/ Golden/ Delicious)	2005-06	980	1400	43
Mangoes (Safeda, Langda/ Dussehri/ Totapuri)	2005-06	950	1300	37

Thus within the same contract for the same specification of items two different rates were applied, which was irregular. MGASC Western Command replied that the rates of supplies to hospitals were higher due to richer specification for consumption of patients. The contracts however did not specify any difference in specifications. Base Hospital Delhi is located within 2 Kilometers of RR Hospital and is 8 Kilometers from Supply Depot Delhi. The difference in rates, therefore, cannot also be attributed to distance between the two locations.

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REGISTERED BY POST/SDS
In lieu of IAFZ-2124

ACCEPTANCE OF TENDER NOTE
Regular Contract for the period from 01 Oct 2005 to 30 Sep 2006
Supply Depot ASC Delhi Cantt

S/No	Articles/Services to be supplied	Approximate quantity in Kgs/Gms	Rates tendered		Per
			In Figures Rs. P.	In Words	
RATES TENDERED FOR DELIVERY AT SUPPLY DEPOT ASC, DELHI CANTT					
1	Apple Red Delicious	9000.000	980.00	(Rupees nine hundred eighty only)	100 Kgs
2	Apple Golden Delicious	7500.000	980.00	(Rupees nine hundred eighty only)	"
3	Apple Maharaja	3000.000	980.00	(Rupees nine hundred eighty only)	"
4	Bananas	21750.000	810.00	(Rupees eight hundred ten only)	"
5	Guavas	26250.000	800.00	(Rupees eight hundred only)	"
6	Mangoes Safeda	26250.000	950.00	(Rupees nine hundred fifty only)	"
7	Mangoes Langra	30000.000	950.00	(Rupees nine hundred fifty only)	"
8	Mangoes Dasherri	22500.000	950.00	(Rupees nine hundred fifty only)	"
9	Mangoes Malda	18750.000	950.00	(Rupees nine hundred fifty only)	"
10	Mangoes Totapuri	30000.000	950.00	(Rupees nine hundred fifty only)	"
11	Musk Melon	37500.000	800.00	(Rupees eight hundred only)	"
12	Maltas	7173.913	950.00	(Rupees nine hundred fifty only)	"
13	Mussambies	44836.957	950.00	(Rupees nine hundred fifty only)	"
14	Orange Nagpuri	34076.087	950.00	(Rupees nine hundred fifty only)	"
15	Kinoo	25108.696	950.00	(Rupees nine hundred fifty only)	"
16	Pears Kashmiri	15000.000	800.00	(Rupees eight hundred only)	"
17	Peaches	15000.000	800.00	(Rupees eight hundred only)	"
18	Plums	7500.000	800.00	(Rupees eight hundred only)	"
19	Pineapple	18750.000	800.00	(Rupees eight hundred only)	"
20	Apricot	7500.000	800.00	(Rupees eight hundred only)	"
RATES TENDERED FOR DELIVERY AT RDP CAMP, DELHI CANTT					
21	Apple Red Delicious	3000.000	980.00	(Rupees nine hundred eighty only)	100 Kgs
22	Apple Golden Delicious	2400.000	980.00	(Rupees nine hundred eighty only)	"
23	Apple Maharaja	600.000	980.00	(Rupees nine hundred eighty only)	"
24	Bananas	6600.000	810.00	(Rupees eight hundred ten only)	"
25	Guavas	900.000	800.00	(Rupees eight hundred only)	"
26	Maltas	573.913	950.00	(Rupees nine hundred fifty only)	"
27	Mussambies	1147.826	950.00	(Rupees nine hundred fifty only)	"
28	Orange Nagpuri	1578.261	950.00	(Rupees nine hundred fifty only)	"
29	Kinoo	1721.739	950.00	(Rupees nine hundred fifty only)	"
RATES TENDERED FOR DELIVERY AT BASE HOSPITAL, DELHI CANTT					
30	Apple Red Delicious	5250.000	1400.00	(Rupees one thousand four hundred only)	100 Kgs
31	Apple Golden Delicious	5000.000	1400.00	(Rupees one thousand four hundred only)	"
32	Apple Maharaja	2000.000	1400.00	(Rupees one thousand four hundred only)	"
33	Bananas	9750.000	900.00	(Rupees nine hundred only)	"
34	Guavas,	1750.000	800.00	(Rupees eight hundred only)	"

Snapshot: Higher rates for Base Hospital vis-à-vis Supply Depot, both at Delhi Cantt

Recommendation 9

Abnormal variations in rates of vegetable fresh, fruits and meat must be investigated and the Ministry may provide an assurance that these variations do not arise from any fraud or corrupt practices in the procurements of fresh rations in Army. Last Purchase Price of these rations should also be displayed on the website of ASC, which could be accessed by Supply Depots.

Recommendation 10

Ministry should develop a mechanism in which the Reasonable Rates are realistically arrived and then enforced properly. Steps should be taken to disseminate more information and the representatives of the PCDA who is common to all such committees should play a more pro active role.

Army HQ stated that ascertaining rates for fresh items was a peculiar and complex phenomenon. The rates of items change depending on the quality and also from season to season. It even changed from time to time within a particular day. Therefore for correct price discovery, the quality was to be correctly benchmarked against the rate band. It further stated that factors like quantum of demand, economies of scale achieved, transportation restrictions if any, competition at the time of conclusion of the contracts could all play a major role in the rates finally achieved.

It also stated that limited availability of fresh items at the consumption areas, the volumes at which they were required in the consumption areas, the present system available for sourcing and supply chain would indicate that merely offering of high rates for contracts was not likely to result in availability of better quality of items.

Notwithstanding the above, Army HQ stated that efforts to bring the contract rates in consonance to the realistic local market trends in line with the quality required were being undertaken in right earnest.

As regards unusual variations in contracted rates in the same and adjacent locations, Army HQ stated that in case a particular contractor had not been able to secure any contract in the calls at the initial stations, he would be desperate to secure a contract where tendering was still open. The rates offered at these stations might not mirror the actual market rates. It further stated that the volume of contracted quantity, which decided the economies of scale was another factor affecting the pricing pattern. The Army contended that feeding strength of Ambala and Chandigarh was 10,500 and 14000 approximately whereas that in Ludhiana the same was about 1000. Similarly, where in Kolkata, the feeding strength was approximately 10000, in Dumdum and Dakshineswar, the same was as low as 200 to 250. Moreover, contracts in Dumdum and Dakshineswar were for combined items and the contractors would have calculated a basket rate which would be overall beneficial to him. Regarding different rates for Supply Depot and Base Hospital, Army HQ stated that the rates were bound to vary because the latter was a delivery point contract catering to an exclusive and a small strength of patients.

Notwithstanding the clarifications provided by Army HQ, it acknowledged that feasibility of further refinement of procedures of calculation of Reasonable Rate existed. There was a need, it stated, to further sensitize and provide necessary

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inputs to the executive officers to ease the process of fixation of Reasonable Rates and assist in post contract analysis. Army HQ further stated that the vast repertoire of data available with the IFAs/CsDA needed to be made available in order to effect correct price discovery in conjunction with market intelligence. The basic outlook of Defence (Finance) needed to evolve from that of financial audit to financial advice and a collaborative effort with emphasis on reliability and accountability was called for.

ACCEPTANCE OF TENDER NOTE					
SCHEDULE					
CONTRACT FOR SUPPLY OF VEGETABLE FRESH AT ASC SRINAGAR FOR THE PERIOD FROM 01 APR 2007 TO 31 MAR 08 (BOTH DAYS INCLUSIVE) BASED ON SUBMISSION OF IAFS-1520 ON FORTNIGHTLY PAYMENT BASIS					
Ser No	Articles/Service to be supplied	Rate in figures per 100 Kgs		Rate in words (per 100 Kgs)	Approximate Scheduled Quantity in Kgs
		Rs.	P.		
RATES TENDERED FOR DELIVERY AT FSD SRINAGAR					
1	Brinjal	646.90		(Rupees six hundred forty six and paise ninety only)	46875.000
2	Cauliflower	646.90		(Rupees six hundred forty six and paise ninety only)	96875.000
3	Lady finger	646.90		(Rupees six hundred forty six and paise ninety only)	9375.000
4	Peas Green	646.90		(Rupees six hundred forty six and paise ninety only)	38750.000
5	Pumpkin	646.90		(Rupees six hundred forty six and paise ninety only)	50625.000
6	Beans French	646.90		(Rupees six hundred forty six and paise ninety only)	21250.000
7	Beans Cluster	646.90		(Rupees six hundred forty six and paise ninety only)	14375.000
8	Arvi	646.90		(Rupees six hundred forty six and paise ninety only)	3750.000
9	Cucumber	646.90		(Rupees six hundred forty six and paise ninety only)	8750.000
10	Carrot Country	646.90		(Rupees six hundred forty six and paise ninety only)	38750.000
11	Cabbage	646.90		(Rupees six hundred forty six and paise ninety only)	63750.000
12	Spinach Country	646.90		(Rupees six hundred forty six and paise ninety only)	28125.000
13	Methi	646.90		(Rupees six hundred forty six and paise ninety only)	9375.000
14	Tomato Ripe	646.90		(Rupees six hundred forty six and paise ninety only)	39375.000
15	Knol Khol	646.90		(Rupees six hundred forty six and paise ninety only)	20625.000
16	Bitter Gourd	646.90		(Rupees six hundred forty six and paise ninety only)	1875.000
17	Karam Sag	646.90		(Rupees six hundred forty six and paise ninety only)	63437.500
18	Chillies Green	646.90		(Rupees six hundred forty six and paise ninety only)	9687.500
19	Ginger Green	646.90		(Rupees six hundred forty six and paise ninety only)	4375.000
20	Coriander Green	646.90		(Rupees six hundred forty six and paise ninety only)	4375.000
21	Mint Green	646.90		(Rupees six hundred forty six and paise ninety only)	1562.500
22	Coconut Whole	646.90		(Rupees six hundred forty six and paise ninety only)	5937.500
23	Lime Sour (Kagzi)	646.90		(Rupees six hundred forty six and paise ninety only)	4687.500
24	Turnips	646.90		(Rupees six hundred forty six and paise ninety only)	40937.500
25	Raddish Country	646.90		(Rupees six hundred forty six and paise ninety only)	52187.500
26	Bottle Gourd	646.90		(Rupees six hundred forty six and paise ninety only)	41250.000
27	Capsicum	646.90		(Rupees six hundred forty six and paise ninety only)	10000.000
28	Chappan Kaddu	646.90		(Rupees six hundred forty six and paise ninety only)	3125.000
29	Tomato Green	646.90		(Rupees six hundred forty six and paise ninety only)	15937.500
(Total items twenty nine only)					

Snapshot: All items carry the same rate

While Audit appreciates that volumes, local conditions and seasonal factors would affect the prices of vegetable and fruits and acknowledging that mere high rates do not automatically ensure high quality, unusual low rates when compared to market rate arrived by Army authorities themselves are fraught with risks of low quality goods. It will be reasonable to assume that no vendor would supply suffering losses. Extreme low rates would therefore, indicate compromise on quality.

It is also important to consider the issue in its totality. Audit had come across evidence that the fresh rations in the prescribed mix were not provided to the troops. There is little doubt that prices would vary from station to station and from item to item. Having a contract with different items of vegetables carrying the same rate, obviously allows the vendors to leverage the market conditions but not necessarily to meet the requirements of the troops. The viability of the contracted rates is also an important factor particularly when the competition is low due to participation of only a few vendors.

A small feeding strength in Ludhiana might be responsible for a hike in contracted rates but the same logic did not apply at Dumdum and Dakshineswar. Even if a contract is executed for combined items, it is difficult to accept as reasonable a price difference of 72 *per cent* between two adjacent locations.

3.5. Non adherence to tendering instructions

Audit examined 82 contracts concluded during 2007-08 in Northern, Eastern and Western Commands to evaluate the tendering and contracting process. Our findings are discussed below:

(i) Procedures for conclusion of ASC contracts stipulate that tender forms could be issued only up to 12:00 hrs one day prior to the stipulated date of opening of tenders. Audit found instances where tenders were issued to certain vendors on the day of their opening i.e. after the expiry of the deadline. The DDST concerned stated that the dealing clerk was not aware that a date one day prior to the opening of the tenders should be recorded. Audit also found cases where tender fee in the form of postal orders was received after the date of issue of tender document, indicating a serious flaw in the tendering process.

(ii) Rates were negotiated with the L-1 firm in 78 *per cent* of the cases. In some cases, the rates at which the contracts were concluded after negotiations were drastically less than the original rates quoted by the vendor which rendered the final rates as abysmally low. As an extreme case, in the contract concluded for supply of fresh fruits, at 33 Corps, Eastern Command, the originally quoted total value of the contract of Rs 63,33,029 was reduced to Rs 40,64,485 after negotiations. Similarly in another contract for fresh items, under the same Corps the initially quoted value of Rs 76,23,421.83 was reduced to Rs 50,44,134.13 during negotiations. Some of the fruits under the contract for which rates were drastically reduced after negotiation are shown in table below:

Table-16
Acceptance of low rates after negotiations

Item	Binnagudi			Bengdubi		
	Quantity tendered in Kg	Rate quoted per 100 Kg	Rate negotiated per 100Kg	Quantity tendered in Kg	Rate quoted per 100 Kg	Rate negotiated per 100Kg
Orange	29167	1485	211	21583	1400	100
Mussambi	36458	1485	211	26979	1400	100
Apple Royal	10416	5590	3500	7708	4200	2150
Litchi	2083	5800	4000	1542	6000	3000
Grapes Green	3125	5000	3000	2313	4500	3150

Instances were also seen where the CFAs accepted the rates, even though the quoted rates were less than the RR by more than 20 *per cent*. This indicated that reasonable rates were not determined accurately.

It would be evident that while there are enough instructions on tendering and contracting process, the system on the ground is informal. Many of the instructions are not followed.

Recommendation 11

Ministry should develop a set of guidelines containing Dos and Don'ts in such negotiations and hold procurement officers including financial advisers accountable for any significant deviation from the laid down norms of tendering.

Recommendation 12

Ministry and Army Headquarters should review the whole set of instructions from the point of view of their implementability. In view of the logistical challenges facing procurement of fresh rations on such a huge scale, it is necessary that a thorough appraisal is made to identify the weaknesses in the system and rectify them.

Army HQ stated that negotiations with L1 tenderer were conducted according to the guidelines of CVC, Ministry of Finance and Ministry of Defence. Regarding sharp drop in prices after negotiations, it stated that though if viewed in isolation, it would obviously stand as questionable, it needed to be viewed in the light of the fact that the initial rates quoted were 132 *per cent* and 119 *per cent* higher than the current contracted rate. Since these were basket rates and the physical demand would be less, Army HQ was of the opinion that the contractor might have used this to calculate his profit margins while bidding and negotiating for fruit contracts.

Audit has not seen the items in isolation and the full contracted value has also been considered. The total contracted value came down by 35 *per cent* and 33 *per cent* after negotiations. The price of oranges or musambies at Re 1 a kilogram even in season is unrealistic.

It is not the contention of Audit that negotiations should not be carried out. However it is equally important that market trends and market rates are kept in mind so that a rate, which in the Army parlance is called “freakish” is not accepted without adequate analysis and justification.