

**Report of the
Comptroller and Auditor General of India
on
Storage Management and
Movement of Food Grains in
Food Corporation of India**

For the year ended March 2012

**Union Government
Ministry of Consumer Affairs,
Food and Public Distribution**

**Report No. 7 of 2013
(Performance Audit)**

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Preface

This Report of the Comptroller and Auditor General of India contains the results of performance audit of Storage Management and Movement of Food grains in Food Corporation of India.

The performance audit was conducted through test audit of records of the Corporation and the Ministry of Consumer Affairs, Food and Public Distribution, Department of Food and Public Distribution. The period covered under the audit was 2006-07 to 2011-12.

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Executive Summary

Why did we decide to examine this issue?

Procurement of food grains increased from 343 lakh metric tonne (LMT) to 634 LMT during the period 2006-07 to 2011-12. As a result, stock of food grains in the Central Pool also went up from 259 LMT on 1 June 2007 to 824 LMT on 1 June 2012. Such a sharp increase in stock of food grains raises issues relating to storage space and larger movement of food grains from procuring states to consuming states. Considering the widening gap between stock of food grains and available storage capacity as well as the constraints being faced in movement of food grains, Audit decided to examine the storage management and movement of food grains in Food Corporation of India.

What were our audit objectives?

The performance audit was conducted to assess whether:

- the system of procurement, price support operation, buffer stock maintenance, storage management were adequate to ensure efficient management of food grains for food security in the country;
- storage capacity was utilised to the optimum level;
- creation or augmentation of storage capacity was commensurate with the envisaged and long-term requirement for storage of food grains;
- movement of food grains in FCI was carried out in the most efficient manner; and
- internal audit arrangements in FCI were adequate.

What did our performance audit reveal?

The average food grains procurement of 514 LMT during the period 2006-07 to 2011-12 was lower than the average allocation of 593 LMT made by the Government of India (GOI) to states for distribution under Targeted Public Distribution System (TPDS) and Other Welfare Schemes (OWS). The current procurement level of food grains by FCI, State Government Agencies (SGAs) and states undertaking decentralized procurement (DCP) would not be able to adequately meet the allocation and the future requirement of food grains estimated by the GOI.

(Para 2.1.1)

The minimum buffer norms prescribed by the GOI did not clearly delineate individual elements of food security (e.g., emergency, price stabilisation, food security reserve, TPDS, OWS) within the minimum buffer stock. The existing norms also did not specify the maximum and manageable level of stock to be maintained in the Central Pool and the components therein.

(Para 2.2.2)

Under the existing buffer stock policy, the total stock of food grains held by FCI, State Governments and their agencies constitute the Central Pool. The policy does not indicate the agency which is primarily responsible for maintaining minimum buffer stock level for the country as a whole. There are many agencies involved in storing food grains of the Central Pool which adversely affects accountability and transparency in the management of food grains.

(Para 2.2.3)

No specific norm was followed for fixing of the Minimum Support Price (MSP) over the cost of production. Resultantly, it was observed that the margin of MSP fixed over the cost of production varied between 29 *per cent* and 66 *per cent* in case of wheat, and 14 *per cent* and 60 *per cent* in case of paddy during the period 2006-07 to 2011-12. Increase in MSP had a direct bearing on statutory charges levied on purchase of food grains by different State Governments. There were also wide inter-state variations both in statutory and non-statutory charges being charged by the State Governments. All this resulted in the rising of the acquisition cost of food grains.

(Para 2.3.1 and 2.3.2 with Para 2.3.3)

FCI owned storage capacity remained more or less constant ranging between 151 LMT and 156 LMT during the period 2006-07 to 2011-12. The stock of food grains in the Central Pool steadily increased to 824 LMT on 1 June 2012. As a result, hiring of storage space by FCI increased from 100 LMT to 180 LMT during the period significantly adding to hiring charges from ₹ 322 crore in 2006-07 to ₹ 1,119 crore in 2011-12. Further, due to constraints in available storage capacity, FCI could not take over stock of wheat procured by State Government Agencies for the Central Pool within the prescribed time frame of June each year. This led to increase in payment of carry over charges to State Government Agencies from ₹ 175 crore in 2006-07 to ₹ 1,635 crore in 2011-12 for holding of food grains beyond the prescribed time.

(Para 3.2.1 and 3.2.2)

The storage gap in FCI against the Central Pool stock witnessed a steady increase during the period 2006-07 to 2011-12. Against the storage gap of 332 LMT (March 2012), GOI/FCI envisaged capacity addition of only 163 LMT during the six year period under various augmentation programmes. Out of this, only 34 LMT was completed (March 2012).

(Para 3.5)

FCI did not consider day-wise requirements and operational constraints of their own loading points in field offices in its monthly movement plan conveyed to the Railways in a number of cases. At the same time, due to operational constraints, Railways could not supply rakes as per plan of FCI and did not also adhere to the date-wise and destination-wise plan of FCI. Resultantly, during the period 2006-07 to 2011-12, the shortage of railway rakes with reference to planned ranged from 6 per cent to 17 per cent.

(Para 4.2.1 and 4.2.3)

Internal audit and physical verification conducted by FCI was largely inadequate. Substantial shortfall of manpower in internal audit wing had adversely affected the internal audit system in FCI. Internal audit and physical verification arrangements followed by FCI lacked the requisite independence and effective follow up at the headquarters level.

(Para 5.3.4 and 5.4)

What do we recommend?

1. The GOI/FCI should take necessary steps to augment procurement of food grains and also increase direct procurement by FCI and DCP States in view of increasing requirement for Targeted Public Distribution System and Other Welfare Schemes.
2. The GOI may consider fixing minimum buffer norm together with component wise quantities of food grains, for example, for food security reserve, emergency situations and price stabilization, etc. The GOI should also consider fixing maximum level of buffer norms with a view to bring in greater certainty in management of food stock of the Central Pool.
3. The GOI may entrust responsibility of ensuring maintenance of food grains stock, handled by various agencies, at the level prescribed under buffer norms for single point accountability.
4. The GOI should expedite rationalisation of the cost structure of food grains in the context of levy of statutory and non-statutory charges imposed by different states in view of heavy subsidy payout.
5. The GOI/FCI should take a strategic view/conduct a detailed cost benefit analysis to decide the mix of owned and hired storage capacity and augment the storage capacity accordingly instead of solely depending on outside agencies.
6. FCI should ensure optimal utilization of existing storage capacity for timely evacuation of food grains from procuring states to consuming states to reduce the carry over charges payable to State Government Agencies.
7. In view of dismal storage capacity addition during last five years, GOI/FCI should expedite the ongoing augmentation plan under various programmes (Private Entrepreneurs Guarantee Scheme 2008 & 2009 and Plan Scheme for North-East and other states) to overcome the bottlenecks/constraints faced in various states in consultation/collaboration with respective State Governments.

8. The GOI should establish a formal mechanism involving Ministry of Railways and Department of Food/FCI to streamline the movement activities. The existing operational constraints of the Railways in supply of rakes as per the requirement of FCI should be addressed urgently.
9. FCI should streamline and strengthen the existing system of reconciliation of missing and unconnected wagons and settlement of refund claims with the Railways.
10. FCI should review the internal control arrangements with a view to strengthen manpower and to increase internal audit activities and coverage of physical verification of stock.
11. FCI should consider strengthening supervision and control of FCI headquarters over internal audit and physical verification activities to ensure independence.

What was the response of the Ministry to our recommendations?

The Ministry acknowledged the concerns highlighted by us. The responses of the Ministry on our recommendations were broadly in convergence with views expressed by Audit in the Performance Audit Report. The views of the Ministry on the recommendations made by Audit are given at *Annex-I*.

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Chapter - I

Introduction

1.1 Functions and objectives of FCI

The Food Corporation of India (FCI) was incorporated under the Food Corporation Act, 1964 with the function of undertaking purchase, storage, movement, transportation, distribution and sale of food grains on behalf of the Government of India (GOI). It is an agency under the administrative supervision and control of the Ministry of Consumer Affairs, Food and Public Distribution, Department of Food and Public Distribution (Ministry) which is responsible for implementation of the national food security system. FCI also aims at fulfilling the following objectives:

- (i) providing price support operations through procurement for safeguarding the interests of the farmers;
- (ii) making food grains available and accessible at reasonable price to weaker and vulnerable sections of society through Targeted Public Distribution System (TPDS)¹ and other government schemes through efficient and cost effective movement, and distribution of food grains throughout the country; and
- (iii) maintaining satisfactory level of operational and buffer stocks of food grains to ensure national food security and to carry out price stabilisation operations.

1.2 Organisational set-up

The affairs of FCI are managed by a Board of Directors headed by Chairman & Managing Director alongwith two Directors representing Ministry of Consumer Affairs, Food and Public Distribution, one Director from Ministry of Agriculture & Co-operation, one *ex-officio* Director (Managing Director of Central Warehousing Corporation) and two non-official Directors. All the Directors are appointed by the Central Government. As against the provisions of the Act of having 12 Directors in the Board, the present FCI Board

¹ *Public Distribution System (PDS) is a food security system in India through which subsidies for food and non food items are distributed to the poor. PDS functions through a network of 4.89 lakh Fair Price Shops established in several states across the country. Till 1992, PDS was covering all consumers without specific target. PDS was re-launched in 1997 as Targeted Public Distribution System (TPDS) with focus on the poor.*

consists of only seven Directors. Its functions are managed through country-wide network of offices with headquarters at New Delhi with five Zonal offices, 24 Regional offices, 168 District offices and one Port office at Adipur (Kutch), Gujarat.

1.3 Structure of food grains management

A national food security system of the GOI is operated under an operational framework involving procurement of food grains through price support operations by fixing Minimum Support Price (MSP), maintenance of buffer stocks, food subsidy regime, and allocation and distribution of food grains to weaker and vulnerable sections of society through TPDS. Timely and efficient procurement and building up of adequate buffer stocks in the Central Pool through efficient storage and movement of food grains are central to the food security strategy of the GOI. Storage management and movement of food grains, therefore, are important links in the whole system from procurement to distribution of food grains to the consumers.

Procurement of food grains for the Central Pool is carried out by agencies such as FCI, State Government Agencies (SGAs) and private rice millers. In addition, 10 states/UT² which are presently under Decentralised Procurement (DCP) scheme also procure food grains for the Central Pool but directly store and distribute under TPDS and Other Welfare Schemes (OWS) based on the allocation made by the GOI. Any surplus stock over their requirement is taken over by FCI and in case of any shortfall in procurement against allocation made by the GOI, FCI meets the deficit out of the Central Pool.

The procured food grains are taken over into the Central Pool by FCI, the only government agency entrusted with movement activities, from SGAs and private rice millers and are moved from the procuring states to the consuming states for distribution to the consumers and for creation of buffer stock in various states. Food grains of the Central Pool are stored by FCI in both its owned capacity and hired godowns in different parts of the country. The function of distribution of food grains to the consumers is carried out by the State Governments through TPDS and OWS. The food grains are also disposed of by FCI and State Governments based on allocation of the GOI through sale under Open Market Sales Scheme (OMSS).

1.4 Procurement of food grains for the Central Pool

Under the existing procurement policy of the GOI, food grains for the Central Pool are procured by various agencies such as FCI, State Government Agencies (SGAs) and private rice millers. Procurement of wheat and paddy for the Central Pool is carried out on open

² West Bengal, Madhya Pradesh, Chhattisgarh, Uttarakhand, Andaman and Nicobar Islands, Odisha, Tamil Nadu, Gujarat, Karnataka and Kerala.

ended basis at MSP fixed by the GOI. In addition, rice is also procured by FCI from private rice millers under statutory levy scheme through price support mechanism.

Procurement of rice for the Central Pool is undertaken through two routes, namely, Custom Milled Rice (CMR) and levy rice. Rice obtained out of paddy procured for the Central Pool by SGAs under price support system is known as CMR. Rice purchased by FCI from private rice millers against paddy procured by them at MSP under levy orders issued by respective State Governments at state-wise levy prices fixed by the GOI is known as levy rice.

Paddy and wheat procured by the State Governments falling under DCP scheme are also part of the Central Pool. Under this scheme, the DCP states procure, store and directly distribute food grains including levy rice towards TPDS and OWS. Any surplus stock over their requirements are taken over by FCI for the Central Pool and in case of any shortfall in procurement against allocation made by the GOI for distribution to TPDS, FCI meets the deficit out of the Central Pool.

The production, mandi arrival and procurement of food grains (wheat and rice) during 2006-07 to 2011-12 are given below:

Table 1.1
Production, mandi arrival and procurement of wheat in lakh metric tonne (LMT)

Crop year	Production	Mandi arrival	Procurement			Percent of mandi arrival to production	
			FCI	State Government Agencies			Total
				Non-DCP states	DCP states		
2006-07	758.10	137.01	13.43	78.39	0.49	92.31	18
2007-08	785.70	154.30	15.41	89.88	5.99	111.28	20
2008-09	806.80	244.13	52.88	126.29	47.72	226.89	30
2009-10	808.00	268.58	47.88	148.78	57.16	253.82	33
2010-11	868.74	259.47	34.19	157.18	33.76	225.13	30
2011-12	939.03	324.62	39.74	192.87	50.74	283.35	35
Total	4966.37	1388.11	203.53	793.39	195.86	1192.78	28

Source: FCI Procurement Division

Table 1.2
Production, mandi arrival and procurement of paddy (in terms of rice)

(Figures in LMT)

Crop year	Production	Mandi arrival	Procurement					Percent of mandi arrival to production
			FCI	State Government Agencies		Levy	Total	
				Non-DCP states	DCP states			
2006-07	933.50	301.05	18.51	91.52	48.71	92.32	251.06	32
2007-08	966.92	311.42	18.45	88.00	58.79	122.13	287.37	32
2008-09	991.82	382.32	18.51	105.37	80.60	136.56	341.04	39
2009-10	890.93	346.24	9.88	114.91	82.91	112.64	320.34	39
2010-11	959.80	363.80	13.09	132.04	80.81	116.05	341.99	38
2011-12	1043.22	560.12	2.84	144.44	105.48	97.65	350.41	54
Total	5786.19	2264.95	81.28	676.28	457.30	677.35	1892.21	39

Source: FCI Procurement Division

1.5 Allocation and offtake of food grains

The GOI makes allocation of food grains from the Central Pool to the State Governments for distribution to the consumers through TPDS and OWS. Allocation of food grains for TPDS is made by the GOI for Below Poverty Line (BPL), Antyodaya Anna Yojana (AAY) and Above Poverty Line (APL) on the basis of 1993-94 poverty estimates of the Planning Commission projected on the population estimates of Registrar General of India as on 1 March 2000 or the number of families actually identified and ration cards issued by the State Governments. Allocation for APL category is made depending upon the availability of stock of food grains in the Central Pool. The overall allocation of food grains to the states and UTs was normally made on the basis of their average annual offtake of food grains from the Central Pool.

Based on the allocation made by the GOI, State Governments lift (offtake) the food grains from the Central Pool for distribution to the consumers through TPDS and OWS. Distribution of food grains for BPL, AAY and APL is carried out by the State Governments through TPDS with a network of around 4.89 lakh Fair Price Shops (FPS) throughout the country. The State Governments are responsible for identification of beneficiaries and issue of ration cards. The GOI introduced (October 1993) Open Market Sale Scheme (OMSS) for disposal of food grains through sale in open market with a view to containing inflationary tendencies and generating storage space in the states.

The allocation and offtake under TPDS, OWS, OMSS, etc., for the period 2006-07 to 2011-12 was as under:

Table 1.3
Scheme-wise allocation and offtake of food grains

(Figures in LMT)

Year	2006-07		2007-08		2008-09		2009-10		2010-11		2011-12	
Schemes	Wheat											
	A	O	A	O	A	O	A	O	A	O	A	O
TPDS	145.74	102.59	118.74	105.68	144.42	96.63	213.33	139.37	222.38	173.08	259.97	187.52
OWS	15.68	13.32	19.05	14.12	15.75	11.19	53.99	17.21	46.75	24.98	29.75	19.60
OMSS(D)	3.90	1.02	0.00	0.09	23.78	12.34	46.52	16.41	52.70	11.55	35.05	11.85
EXPORT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.98
DCP		1.82		2.58		28.70		50.88		21.08		22.73
Sub.Total	165.32	118.75	137.79	122.47	183.95	148.86	313.84	223.87	321.83	230.69	324.77	242.68
Percentage of offtake to allocation		72		89		81		71		72		75
Year	2006-07		2007-08		2008-09		2009-10		2010-11		2011-12	
Schemes	Rice											
	A	O	A	O	A	O	A	O	A	O	A	O
TPDS	434.00	160.19	272.75	175.41	236.63	160.51	240.71	158.41	284.18	187.65	323.26	225.58
OWS	41.82	38.52	34.12	29.13	38.07	25.45	55.24	34.49	58.83	33.24	44.24	27.88
OMSS(D)	0.00	0.01	0.00	0.08	0.00	0.09	10.28	5.17	20.02	1.68	16.70	0.18
EXPORT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DCP		49.81		47.51		60.69		78.34		77.08		66.90
Sub.Total	475.82	248.53	306.87	252.13	274.70	246.74	306.23	276.41	363.03	299.65	384.20	320.54
Percentage of offtake to allocation		52		82		90		90		83		83
Grand Total	641.14	367.28	444.66	374.60	458.65	395.60	620.07	500.28	684.86	530.34	708.97	563.22

Source: FCI Sales Division
(A – Allocation, O – Offtake)

1.6 Minimum Support Price and Central Issue Price

MSP is fixed by the GOI based on rates recommended by the Commission for Agricultural Costs and Prices (CACP) which takes into consideration cost of cultivation and remunerative prices for farmers on their produce with a view to encouraging higher investment and production. While determining MSP, the CACP considers the cost of production, trends in domestic and international market prices, stock position, changes in agricultural terms of trade, inter-crop price parity, prices fixed in previous years, etc. The prices recommended by the CACP are considered by the Cabinet Committee for Economic Affairs (CCEA) for approval.

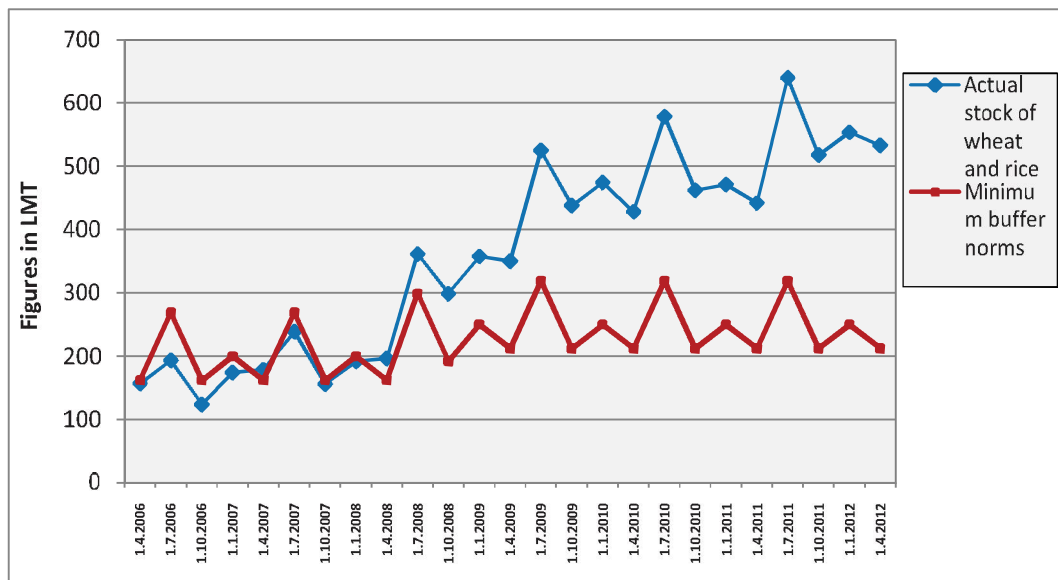
Food grains from the Central Pool are issued to states at Central Issue Price (CIP) for distribution under TPDS to serve families of BPL, APL and AAY at rates fixed by the GOI. The scale of issue under APL, BPL and AAY was revised to 35 kg per family per month since 1 April 2002. The CIP of AAY has been kept constant at ₹ 3 per kg for rice and ₹ 2 per kg for wheat since December 2000. For BPL, the CIP has been ₹ 5.65 per kg and ₹ 4.15 per kg for rice and wheat respectively since July 2000. In respect of APL, the CIP of rice for Common and Grade 'A' varieties was ₹ 7.95 per kg and ₹ 8.30 per kg respectively and for wheat was ₹ 6.10 per kg since July 2002.

1.7 Food stock in the Central Pool and buffer stock norms

The concept of buffer stock was first introduced during the IV Five Year Plan (1969-74). The buffer stock figures are normally reviewed after every five year. Buffer stock of food grains in the Central Pool is maintained by the GOI for (i) meeting the prescribed minimum buffer stock norms for food security, (ii) monthly release of food grains for supply through TPDS and OWS, (iii) meeting emergency situations arising out of unexpected crop failure, natural disasters, etc., and (iv) price stabilisation or market intervention to augment supply so as to help moderate the open market prices. Food grains stock in the Central Pool consists of stock held by FCI, DCP states and the SGAs for both buffer and operational requirements. While four months requirement of food grains for issue under TPDS and OWS are earmarked as operational stocks, the surplus over that is treated as buffer stock and physically both buffer and operational stocks are merged into one and are not distinguishable.

The existing buffer norms were fixed during the X Plan (2002-07) and revision for the XI Plan (2007-12) is under process. The GOI created food security reserve of 50 LMT which includes 30 LMT of wheat w.e.f. 1 July 2008 and 20 LMT of rice w.e.f. 1 January 2009 over and above the existing quarterly buffer norms. The stock position of food grains in the Central Pool vis-à-vis minimum buffer norms during the period 2006-07 to 2011-12 was as depicted below (*Annex-II*).

Chart 1.1
Stock position of food grains in the Central Pool vis-a-vis minimum buffer norms



1.8 Food subsidy

The difference between the economic cost (acquisition cost including incidental expenses, administrative overheads, handlings, shortages, etc.) and sales realization at CIP under TPDS and OWS for wheat and rice is reimbursed to FCI and DCP states as food subsidy by the GOI. In addition, food subsidy also includes buffer subsidy for carrying cost of buffer stock maintained by FCI and carry over charges paid to SGAs for stocks held by them beyond the prescribed time frame.

Out of the total subsidy (Food, Fertilisers, Petroleum, etc.) expenditure of the GOI, food subsidy (which includes operation of levy sugar, edible oils, etc.) constituted 33.42 *per cent* to 45.05 *per cent* during the period 2006-07 to 2011-12. The percentage of food subsidy to total expenditure (plan and non-plan) was between 3.30 *per cent* and 4.98 *per cent*. The total subsidy to total expenditure ranged from 7.95 *per cent* to 14.69 *per cent* during the six year period as shown below:

Table 1.4
Food subsidy, total subsidy and total expenditure

(₹ in crore)

Particulars	Year					
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12*
Total Food subsidy	24,014	31,328	43,751	58,443	63,844	72,822
Other Subsidies	33,815	39,598	85,957	71,279	1,13,903	1,45,080
Total subsidy	57,829	70,926	1,29,708	1,29,722	1,77,747	2,17,902
Total expenditure (plan and non-plan)	7,27,552	8,63,575	11,02,366	11,74,280	13,67,427	14,83,064
Percentage of food subsidy to total subsidy	41.53	44.17	33.73	45.05	35.92	33.42
Percentage of food subsidy to total expenditure	3.30	3.63	3.97	4.98	4.67	4.91
Percentage of total subsidy to total expenditure	7.95	8.21	11.77	11.05	13.00	14.69

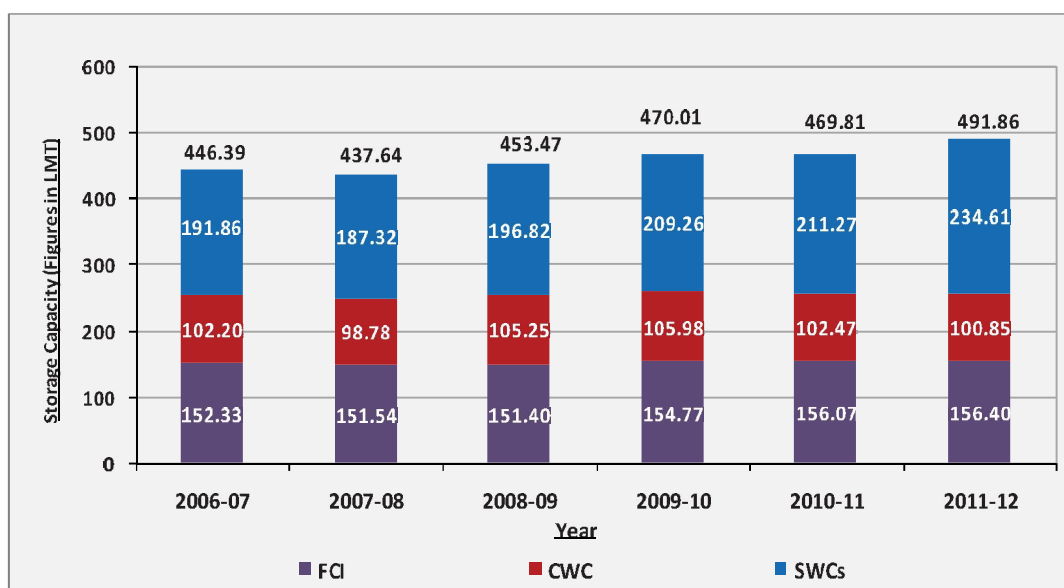
Source: Union Accounts

*Provisional figures

1.9 Storage of food grains

Storage capacities available with Government agencies both at the central and the state level are primarily used for keeping the Central Pool stock of food grains for the TPDS and OWS. The total storage capacity with FCI, Central Warehousing Corporation (CWC) and State Warehousing Corporations (SWCs) during the period 2006-07 to 2011-12 is given below:

Chart 1.2
Storage capacity with FCI, CWC and SWCs



1.10 Movement of food grains

FCI is the only agency entrusted with the movement of the Central Pool food grains from procuring and surplus states to deficit and consuming states for TPDS and OWS and for creation of buffer stock in various states under national food security system. Movement of food grains from the Central Pool stock held by different agencies in the procuring states is carried out by FCI through rail, road and river transportation system across the country. The overall movement (inter-state) during the period 2006-07 to 2011-12 was as under:

Table 1.5
Movement of food grains by rail, road and river

(Figures in LMT)

Particulars		2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Overall Movement	Rail	203.25	203.98	204.60	249.18	279.65	303.23
	Road	18.45	17.81	20.57	26.65	25.64	24.54
	Riverine	0	0	0	0	0	0
	Total	221.70	221.79	225.17	275.83	305.29	327.77
Movement Ex-north	Inter	175.02	178.09	167.37	188.54	221.23	201.01
	Intra	1.58	1.94	2.14	0.81	3.32	7.49
	Total	176.60	180.03	169.51	189.35	224.55	208.50

Source: Monthly Performance Review Report of FCI

1.11 Rationale of audit

Procurement of food grains increased from 343.37 LMT in 2006-07 to 567.12 LMT in 2010-11 and reached 633.76 LMT in 2011-12. The stock of food grains in the Central Pool increased from 259.27 LMT as on 1 June 2007 to 655.95 LMT as on 1 June 2011, which further increased to 824.11 LMT as on 1 June 2012. Such a sharp increase in stock of food grains, in turn, necessitated augmentation of the existing storage space and caused greater movement of food grains. The storage capacity owned and hired by FCI, however, increased marginally from 252.07 LMT in 2006-07 to 316.10 LMT in 2010-11 which further increased to 336.04 LMT in 2011-12. Considering the widening gap between the stock of food grains and the available storage capacity and the constraints being faced by FCI in movement of food grains, Audit decided to examine the storage management and movement of food grains in FCI.

1.12 Audit objectives

The performance audit was conducted to assess whether:

- the system of procurement, price support operation, buffer stock maintenance and storage management were adequate to ensure efficient management of food grains for food security in the country;
- storage capacity was utilised to the optimum level;
- the GOI/FCI had created or augmented storage capacity commensurate with the envisaged and long-term requirement for storage of food grains;
- movement of food grains in FCI was carried out in the most efficient manner; and
- internal audit arrangements in FCI were adequate.

1.13 Scope of audit

The Performance Audit covers the activities of FCI and the Ministry from 2006-07 to 2011-12. Detailed data relating to procurement, storage and movement of food grains, and internal control for the period 2006-07 to 2010-11 were examined and analysed in Audit. This was updated with the statistics for the year 2011-12.

Based on a preliminary study and collection of background information, a random sample of units to be examined in audit was drawn. Besides review of relevant records at the Ministry, FCI Annual Accounts as well as other Management Information System at headquarters of FCI, the sample consisted of regional offices, district offices and depots of FCI were analysed. In addition, storage of food grains in godowns of SGAs and the CWC were also selected for detailed examination as indicated in *Annex-III*.

1.14 Audit criteria

The performance was assessed against the criteria drawn from the following:

- Policies and norms prescribed by the Ministry and FCI headquarters for procurement pricing, buffer stock and subsidy claims.
- Operational manuals for storage, movement, quality control and internal audit.
- Orders and instructions issued by the Ministry and FCI for storage management and capacity utilization, storage and transit losses and movement of food grains.
- The policies of the Ministry and FCI on construction and augmentation of storage capacity.
- Performance budget, financial and operational targets set for FCI.

1.15 Audit methodology

After a preliminary study and collection of background information, an entry conference with FCI management was held on 2 June 2011 wherein the scope, objectives and

methodology of audit were discussed and the criteria were agreed upon. Field audit was conducted during June 2011 to November 2011 involving examination of records at selected regional and district offices and the depots of FCI along with the selected depots of CWC and SWCs and the SGAs of Punjab and Haryana. Thereafter, records at the FCI headquarters and the Ministry were examined and verified during December 2011 and from August 2012 to October 2012. The draft Report was issued to the Ministry on 5 December 2012. The replies of the Ministry were received on 15 January 2013. An exit conference with the Ministry was held on 22 January 2013 wherein the recommendation-wise replies were sought from the Ministry. The replies/views of the Ministry on the Audit recommendations were received on 24 January 2013.

Replies/views of the Management and the Ministry have been appropriately incorporated in the Report.

1.16 Past audit coverage

The issues relating to the performance of FCI were earlier reviewed in various C&AG's Audit Reports and are given in *Annex-IV*. In 14 out of 19 cases, remedial actions are yet to be taken or actions are yet to be completed. In the remaining cases, no further action is required at present.

1.17 Audit findings

Audit findings are discussed in subsequent chapters as detailed below:

- Chapter II includes the analysis of operational framework of food grains management.
- Chapter III deals with storage management, utilization and augmentation of storage capacity.
- Chapter IV discusses issues relating to planning and movement of food grains for distribution to consumers.
- Chapter V highlights inadequacies in the internal audit and physical verification.

1.18 Acknowledgement

Audit acknowledges the co-operation and assistance extended by the Ministry of Consumer Affairs, Food and Public Distribution and the Management of FCI at various stages of the performance audit. Audit expresses its appreciation for the promptitude displayed by the Ministry in offering its specific replies to the observations and recommendations made by Audit in the Report.

Chapter - II

Operational Framework of Food grains Management

FCI is the main agency entrusted with storage management and movement of food grains from procuring and surplus states to deficit and consuming states for ultimate delivery to the consumers and for creation of buffer stock under national food security system. The above functions are performed by FCI under the operational framework established by the GOI which governs the food grains management strategy of the country. This involves procurement of food grains through price support operations, maintenance of buffer stock, food subsidy regime, and allocation and distribution of food grains to weaker and vulnerable sections of society at reasonable prices through Targeted Public Distribution System. Audit reviewed the existing operational framework, viz., procurement, maintenance of buffer stock, costing of food grains and food subsidy so as to highlight the extent it ensures efficient management of food grains of the Central Pool.

Audit findings are given in the succeeding paragraphs.

2.1 Procurement and allocation of food grains from the Central Pool

FCI along with State Governments and their agencies undertake direct open-ended purchase of wheat and paddy under the food grains procurement policy of the GOI at the prescribed specifications for the Central Pool, and at the MSP fixed by the GOI during each season. In addition, rice for the Central Pool is also procured through statutory levy imposed on rice millers as a percentage of levy rice fixed by State Governments. FCI also takes over from State Governments and their agencies wheat and rice obtained out of paddy in the form of Custom Milled Rice (CMR) procured by them on behalf of the GOI for the Central Pool.

The average production of wheat and rice in the country was 828 LMT and 964 LMT respectively (Table 1.1 and 1.2) during the period 2006-07 to 2011-12. Out of this, the total average mandi arrival during the same period was 231 LMT for wheat and 377 LMT for rice constituting around 28 *per cent* in case of wheat and 39 *per cent* for rice.

The total procurement of food grains for the Central Pool was 343 LMT in 2006-07 which increased substantially to 634 LMT during 2011-12. Procurement of food grains started increasing substantially from 2008-09 and the average procurement (586 LMT) during the period 2008-09 to 2011-12 increased to 32 *per cent* of the average production (1827 LMT) from 22 *per cent* during 2006-07 to 2007-08. For distribution of food grains under TPDS

and OWS, the GOI makes monthly allocation of food grains to the states and UTs on the basis of their average annual offtake of food grains from the Central Pool. The offtake of food grains by states and UTs against the aforesaid allocation ranged between 57 per cent and 86 per cent during the period 2006-07 to 2011-12.

Audit findings on procurement and allocation of food grains are discussed in succeeding paragraphs:

2.1.1 Gap in food grains procurement and allocation for the Central Pool

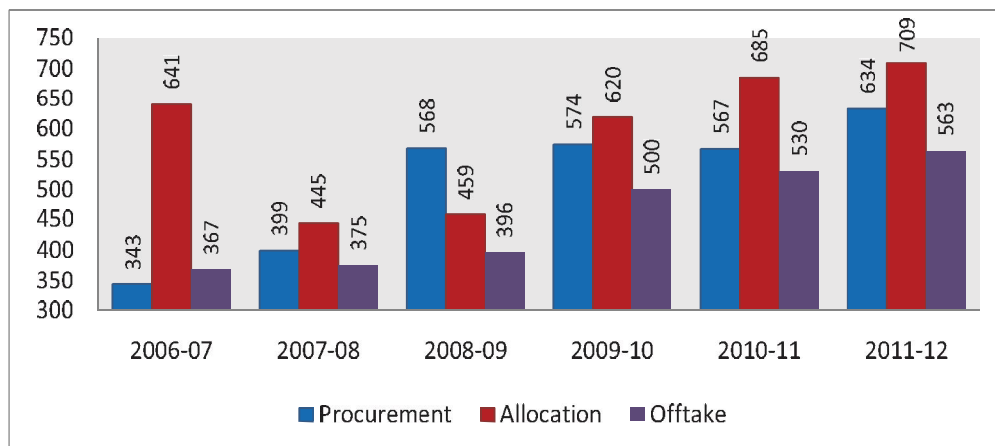
(a) Procurement and Allocation – Present status

Audit examined the present status of procurement and allocation and observed the following:

- The average food grains procurement of 514 LMT (Table 1.1 and 1.2) by various agencies for the Central Pool was lower than the average allocation of 593 LMT (Table 1.3) made by the GOI for TPDS, OWS, etc., during the period 2006-07 to 2011-12.
- The peak procurement level of 567 LMT in 2010-11 and 634 LMT in 2011-12 did not match the allocation level of 685 LMT and 709 LMT against the same period respectively.
- The offtake of food grains from the Central Pool was 500 LMT and 530 LMT as against the procurement level of 574 LMT and 567 LMT during 2009-10 and 2010-11 respectively. In 2011-12, the offtake of food grains was 563 LMT as against the total procurement level of 634 LMT.

The position of procurement, allocation and offtake during the period 2006-07 to 2011-12 is shown in the chart below:

Chart 2.1
Procurement, allocation and offtake of food grains (in LMT)



Audit observed from the above that the current procurement level of food grains would have to be increased to meet the gap against the allocation for TPDS and OWS. Moreover, as the gap between procurement and offtake of food grains was not substantial enough, procurement level of food grains needs to increase sufficiently to maintain availability of food grains for distribution and buffer stock in the Central Pool.

(b) Procurement and Allocation – Future projections

According to the estimates (March 2012) of the Ministry for the period from 2011-12 to 2016-17 (excluding the requirements for buffer and OMSS), the food grains requirement for TPDS and OWS for 2011-12 would be 607 LMT which will continue to increase to the level of 655 LMT by 2016-17 as depicted in the table below:

Table 2.1 – Projected requirement of food grains

(Figures in LMT)

Year	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Projected requirement	607.40	615.50	625.00	634.70	644.60	654.60

Audit observed from the above that while the level of allocation (TPDS and OWS) during the last two years (2010-11 and 2011-12) had already reached 612 LMT to 657 LMT³, the estimated requirement of food grains from 2011-12 to 2016-17 has been assessed by the GOI only at 607 LMT to 655 LMT which may need a review by the GOI.

Further, while the total allocation had reached 620 LMT, 685 LMT and 709 LMT during 2009-10, 2010-11 and 2011-12 (Chart 2.1) respectively, but the procurement level was still in the order of 574 LMT, 567 LMT and 634 LMT correspondingly. It is evident that the current procurement level (634 LMT) would not be able to adequately meet the allocation and the future requirement of food grains estimated by the GOI.

Audit, thus, observed that there is a need for increase in the procurement level of food grains. For this purpose, it is pertinent to point out that as the procurement of food grains against mandi arrival had reached 85 per cent during the period 2008-09 to 2011-12, there would be limited scope for increase in procurement unless mandi arrival is increased from the current level of 45 per cent of the production of food grains in the country.

During the exit conference (February 2012), while agreeing with the audit observations, the Management stated that in many of the states, no proper system of recording the mandi arrivals of food grains existed. Moreover, states also do not have proper mandis to facilitate the farmers to bring their produce and enhance procurement by FCI. Increase in mandi arrival of food grains is possible only by creation of mandi infrastructure by the states and by ensuring payment of MSP throughout the country. The Management further

³ Based on allocation figures provided by the Ministry

emphasised that above deficiencies in the present system need to be taken into consideration.

The Ministry in its reply stated (January 2013) that though the allocation of food grains during the years 2009-10 and 2010-11 was 620 LMT and 685 LMT but the lifting against the said allocation was only 500 LMT and 530 LMT respectively which is around 80 per cent and 77 per cent respectively. Taking the crop year wise procurement figures for the year 2011-12 (634 LMT) and 2012-13 (522 LMT upto 17.12.2012), the current level of procurement would be adequate to take care of the current level of offtake under TPDS and OWS.

The Ministry while agreeing with the need for increase in mandi arrival from the current level stated that the states were required to create adequate infrastructure in as many places as possible and with the increase in the mandi arrival, the concern of increased procurement would be taken care of.

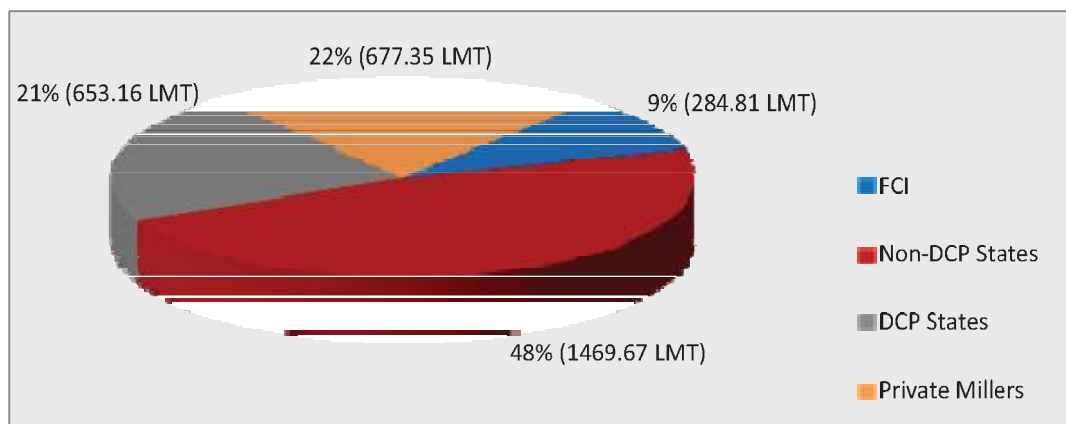
Audit, however, observed that with the increasing trend in offtake and in the projected requirement of food grains, the procurement level needs to increase sufficiently on a sustained basis to maintain availability of food grains for distribution under TPDS and OWS keeping in view the requirement for OMSS and buffer stock in the Central Pool.

2.1.2 Low level procurement by FCI and DCP states

Under the current procurement framework, FCI is primarily responsible for timely procurement of food grains for the Central Pool by providing price support to farmers in the form of MSP. At the same time, the GOI emphasised greater participation of State Governments through Decentralised Procurement Scheme (1997-98) to effect savings in the form of reduction in the outgo of food subsidy, enhancing the efficiency of procurement and PDS, and encouraging local procurement to the maximum extent thereby extending the benefits of MSP to local farmers.

Audit, however, observed that out of the total procurement of food grains for the Central Pool during the period 2006-07 to 2011-12, direct procurement of FCI and DCP states was only nine per cent and 21 per cent respectively and the remaining quantity of 70 per cent was procured by State Government agencies, private millers, etc. The level of direct procurement of food grains by FCI and DCP states in comparison with other agencies involved in procurement during the period 2006-07 to 2011-12 is shown in chart 2.2.

Chart 2.2
Procurement of food grains amongst FCI, Non-DCP states, DCP states and Private Millers

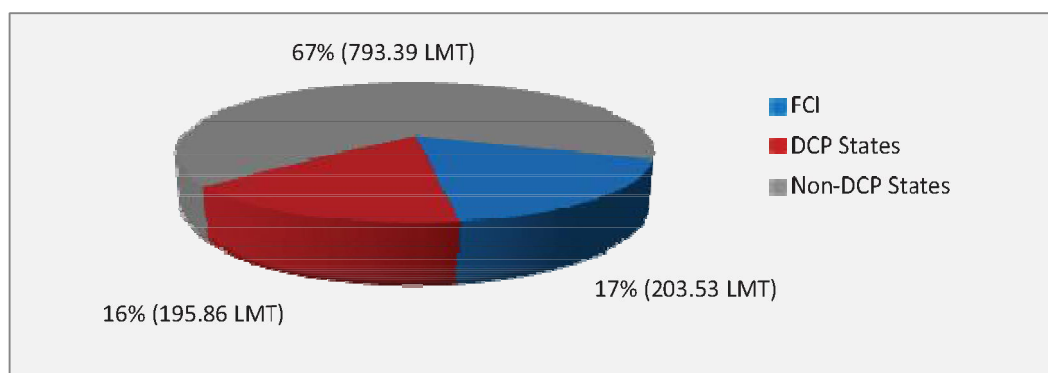


Audit further analysed the direct procurement of wheat and rice by FCI and the DCP states *vis-à-vis* non-DCP states and private rice millers under levy route and the observations are highlighted below:

(a) Procurement of wheat

Audit observed that direct procurement of wheat by FCI and DCP states was only 17 *per cent* and 16 *per cent* of the total procurement respectively whereas non-DCP states procured 67 *per cent* during the period 2006-07 to 2011-12. Despite increase in the overall procurement since last four years (2008-09 to 2011-12), the level of procurement by FCI had actually decreased from 52.88 LMT to 39.74 LMT. In DCP states, the procurement of wheat reduced from 57.16 LMT in 2009-10 to 33.76 LMT in 2010-11 and was 50.74 LMT in 2011-12. The position of procurement of wheat by FCI, DCP states and Non-DCP states during the period 2006-07 to 2011-12 is depicted in the chart below:

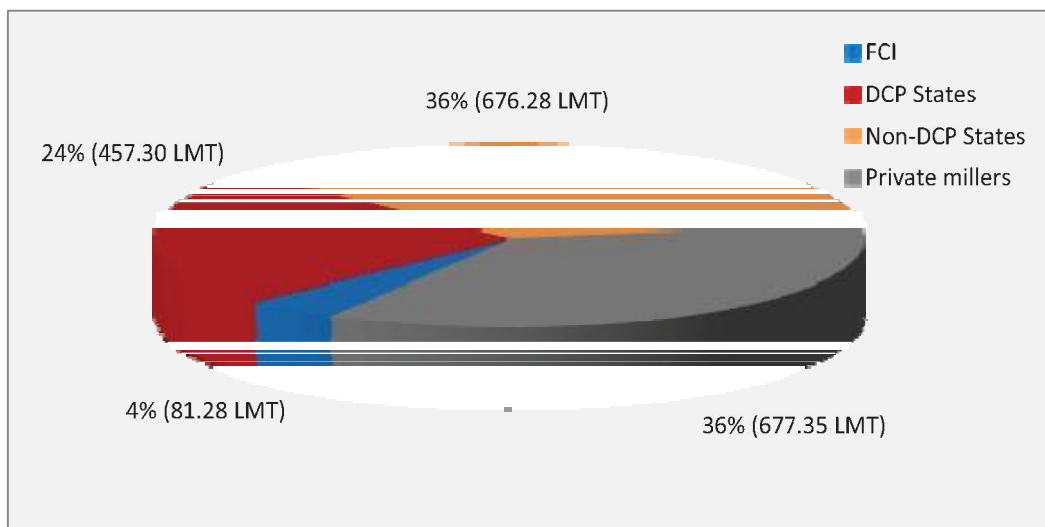
Chart 2.3
Procurement of wheat amongst FCI, DCP states and Non-DCP states



(b) Procurement of rice

Audit observed that FCI’s role in direct procurement of rice was limited to four *per cent* of the total procurement during the period 2006-07 to 2011-12. In the case of DCP states, the rice procurement was stagnant between at 80.60 LMT and 82.91 LMT during the period 2008-09 to 2010-11 but increased to 105.48 LMT in 2011-12. Procurement of rice by non-DCP states showed an increasing trend from 91.52 LMT in 2006-07 to 144.44 LMT in 2011-12. On the whole, the contribution of DCP and non-DCP states to the total procurement of rice during the six year period was 24 *per cent* and 36 *per cent* respectively. The remaining 36 *per cent* was procured through levy route from private rice millers. The position of procurement of rice through FCI, Non-DCP states, DCP states and Private Millers during the period 2006-07 to 2011-12 is depicted in the chart below:

Chart 2.4
Procurement of rice amongst FCI, Non-DCP states, DCP states and Private Millers



On the whole, it is evident from the above analysis that the role of FCI in direct procurement of wheat and rice was limited to nine *per cent* of the total procurement during the period 2006-07 to 2011-12 (Chart 2.2). In case of DCP states, there was no significant increase in the procurement level over the six year period. As such, DCP states contributed only 21 *per cent* of the total procurement of food grains for the Central Pool. Further, the contribution of DCP states to the total allocation of food grains made by the GOI under different schemes was between 17 *per cent* and 28 *per cent* during the period 2008-09 to 2011-12. This would require identification of reasons for specific gaps/constraints between potential and actual procurement for the Central Pool in 10 DCP states.

The Management stated (December 2011) that the major responsibility for procurement was undertaken by the State Governments and the number of procurement centres operated by FCI was much less than the procurement centres opened by State

Governments mainly due to inadequate staff to operate procurement centres. The Management further stated (July 2012) that the GOI was laying emphasis on larger role by the states and there was constant effort from the Ministry for increasing the number of states in the DCP mode of procurement and the need to augment procurement under DCP states was constantly being addressed by the GOI/FCI.

The Ministry in its reply stated (January 2013) that in case of wheat, the procurement by FCI had now increased alongwith the increase in procurement by Non-DCP and DCP states, as compared to procurement in Rabi Marketing Season 2010-11. The Ministry further stated that the emphasis had been on larger role by the states with augmentation of procurement under DCP model. The activity of the Corporation was being focussed more towards storage, preservation, movement and issue of food grains.

Audit, however, observed that FCI's own procurement of food grains and that of DCP states remained stagnant over the years. In order to sufficiently increase the procurement of food grains from the present level, and for ensuring price support to farmers in the form of MSP, there is a need to intensify procurement operations by FCI and DCP states.

2.2 Deficiencies in maintaining buffer stock of food grains in the Central Pool

Food grains stock in the Central Pool consists of stock held by FCI, DCP states and the SGAs for both buffer and operational requirements. As per the policy, buffer stock is meant basically to serve as food security for emergency situations, uninterrupted supply during inter-seasonal scarcity and price stabilization in the market which should be maintained at all times. The GOI prescribes only minimum buffer norms for storage of food grains (wheat and rice separately) in the Central Pool at the beginning of each quarter. The present minimum norms of wheat and rice together of 250 LMT on 1 January, 212 LMT on 1 April and 1 October and 319 LMT on 1 July were fixed in April 2005.

Audit observed that the stock of rice in the Central Pool remained surplus over the minimum buffer norms in all quarters during the period 2006-07 to 2011-12 ranging between 1.77 LMT and 191.50 LMT except a shortfall of 3.25 LMT in 1 January 2008 to 31 March 2008. In respect of wheat, during quarters from April 2006 to January 2008, the stock fell below the norms between 4.88 LMT and 88.93 LMT. Since 1 April 2008, wheat stock increased above the norms ranging between 18.03 LMT and 174.26 LMT till the quarter of 1 April 2012.

Audit observed the following deficiencies in the buffer stock of food grains in the Central Pool:

2.2.1 Delay in revision of buffer norms

The Ministry fixes the buffer norms for each Five Year Plan to meet the prescribed minimum buffer stock for food security. For revision of buffer norms for XI Five Year Plan (April 2007 to March 2012), a study was entrusted (April 2006) to the 6th Technical Group under the Chairmanship of Secretary (Food and Public Distribution). This Group further assigned (April 2007) the study to the National Centre for Agricultural Economics and Policy Research (NCAP) which submitted (March 2009) its final report. The Technical Group, however, did not submit (November 2011) its recommendations for revision of buffer norms for XI Five Year Plan though due from 1 April 2007.

The Ministry stated (January 2013) that NCAP was asked to revise its recommendations in the context of National Food Security Bill which submitted its final report in September 2011. The Technical Group considered the report in July 2012 and requested the Planning Commission and FCI for further comments which had since been received and were being examined.

2.2.2 Minimum buffer norms not delineated

The minimum buffer stock norms currently ranging between 212 LMT and 319 LMT during the year, as fixed in April 2005 do not clearly specify the elements of food security (e.g., emergency, price stabilisation, food security reserve, TPDS/OWS). It also does not prescribe the appropriate level of buffer stock for each element of food security which should be maintained at all times.

Further, the norms indicate neither the operational stock level nor the maximum and manageable level of stock to be maintained in the Central Pool over and above the minimum buffer stock level. According to the present practice, the GOI treats the food stock over and above the minimum norms as excess stock and liquidates them from time to time through exports, open market sales or additional allocations to states.

This lack of clarity or transparency in the existing buffer norms had resulted in improper assessment of food grains to be maintained as buffer stock in the Central Pool during the period 2000-01 to 2007-08 as highlighted below:

During the period 2000-01 to 2003-04 when the stock of food grains accumulated above the minimum norms (wheat stock was at the level of 268.50 LMT as on 1 October 2000 against the minimum norm of 116 LMT, and rice was at 157.70 LMT as on 1 October 2002 against the minimum norm of 65 LMT), the GOI liquidated the same through exports of wheat (197.10 LMT) and rice (135.30 LMT) from November 2000 till February 2004 going only by the prescribed minimum norms without considering the operational stock requirements over and above the minimum norms.

Due to the export, the stock of rice as on 1 October 2003 went down to 52.41 LMT as against the minimum norm of 65 LMT and wheat stock was at 106.60 LMT in December 2004 against the norm of 116 LMT. The stock of wheat further declined to 73.05 LMT in February 2005 and 57.50 LMT in March 2005 against minimum buffer norm of 84 LMT resulting in depletion of food stock position. As a consequence, the GOI had to augment the buffer stock through imports of wheat from early 2006 to April 2008 to the tune of 72.23 LMT till the stock went up to 58.03 LMT against the minimum buffer stock norm of 40 LMT.

It is evident from the above that non-segregation of operational stock requirements from the minimum buffer norms is the reason for ambiguity in the buffer policy. Thus, operational stock for TPDS/ OWS and minimum buffer norms for all elements of food security should be prescribed separately to bring in transparency in creating and maintaining the buffer stock of food grains in the Central Pool.

2.2.3 Lack of single-point accountability for maintenance of minimum buffer of food grains

Under the existing buffer stock policy, the total stock of food grains held by FCI, State Governments and their agencies constitutes the Central Pool. This includes food grains held by private millers and SGAs in the procuring states not yet taken over by FCI including that of DCP states retained for distribution under TPDS and OWS. Though the stock position of rice and wheat which is held by various such agencies is indicated by buffer norms, but in practice, the indicated stock in the Central Pool may not be actually available for distribution at a given point of time due to involvement of multiple agencies in the keeping of food grains for the Central Pool.

The existing buffer stock policy simply indicates quarterly stock position of food grains available in the Central Pool as against minimum norms prescribed by the GOI. The policy neither specifies the minimum stock level to be held by each agency nor indicates the agency which is primarily responsible for maintaining minimum buffer stock level for the country as a whole. Though one of the primary objectives of FCI is to maintain satisfactory level of operational and buffer stocks of food grains to ensure national food security, the food stock available under its custody during different quarters from 1 April 2006 to 1 April 2012 was always below the minimum norms prescribed by the GOI except on 1 October 2009, 1 April 2010, 1 October 2010, 1 April 2011, 1 October 2011 and 1 April 2012.

Further, there are multiple agencies involved in storing food grains of the Central Pool under the existing buffer stock framework. The responsibility for maintaining the mandatory minimum buffer norms for food security should be entrusted to a nodal agency for ensuring better accountability and transparency in the management of food grains stock of the country. Other activities such as market intervention, emergency situation,

import and export of food grains, etc., had already been entrusted to a single nodal agency, i.e. FCI.

While agreeing with the audit observations, the Ministry stated (January 2013) that FCI had taken on the accountability for maintenance of the mandatory minimum buffer stock of food grains in the Central Pool either through stocks holding in its own godowns or in the State Agencies godowns, including those in DCP mode.

Audit, however, is of the opinion that it would be appropriate if the Ministry follows up its reply to audit by specifying this aspect of single point accountability of buffer stock in the mandate of FCI.

2.3 Anomalies in acquisition cost of food grains

The acquisition cost of food grains for the Central Pool consists of MSP, and statutory and non-statutory charges imposed on procurement of food grains by various State Governments. The period of review witnessed a persistent increase in MSP every year. Increase in MSP has a direct bearing on statutory charges levied on purchase of food grains by different State Governments as these charges are fixed as a percentage of the MSP. This had contributed to the rise in acquisition cost of food grains which, in turn, had a wide impact on the quantum of food subsidy payout by the GOI.

Audit findings on the fixation procedure of MSP and incidence of statutory and non-statutory charges are given below:

2.3.1 Fixation of Minimum Support Price over the cost of production without specified norms

MSP is fixed by the GOI based on the rates recommended by the Commission for Agricultural Costs and Prices (CACP) which takes into consideration the cost of production and remunerative prices for the farmers. Audit observed that while determining the cost of production for each crop, CACP followed a set procedure. No specific norm was, however, followed for arriving and fixing of Minimum Support Price over the cost of production leading to large year on year variation. The difference of all India weighted average cost of production (C2) and the MSP fixed by the GOI during the period 2006-07 to 2011-12 was as under:

Table 2.2
Average weighted cost of production (C2 price) vis-à-vis MSP of wheat

Crop Year	C2 Price (₹/qtl.)	MSP (₹/qtl.)		Difference of MSP fixed over C2 (₹/qtl.)	Percentage of difference over C2
		CACP recommended MSP	Fixed by the GOI		
	(a)	(b)	(c)	(c-a)	
2006-07	542	650	650+50 @	158	29
2007-08	574	700	750+100@	276	48
2008-09	624	1,000	1,000	376	60
2009-10	649	1,080	1,080	431	66
2010-11	701	1,100	1,100	399	57
2011-12	826	1,120	1,120+50@	344	42

@ Additional incentive bonus

Table 2.3
Average weighted cost of production (C2 price) vis-a-vis MSP of paddy (Grade A)

Crop Year	C2 Price (₹/qtl.)	MSP (₹/qtl.)		Difference of MSP fixed over C2 (₹/qtl.)	Percentage of difference over C2
		CACP recommended MSP	Fixed by the GOI		
	(a)	(b)	(c)	(c-a)	
2006-07	569	600	610+40 @	81	14
2007-08	595	675	675+100 @	180	30
2008-09	619	1,050	880+50 @	311	50
2009-10	645	980	980+50@	385	60
2010-11	742	1,030	1,030	288	39
2011-12	888	1,110	1,110	222	25

@ Additional incentive bonus

As would be seen from above, the margin of MSP fixed over the cost of production varied widely between 29 per cent and 66 per cent in case of wheat, and between 14 per cent and 60 per cent in case of paddy during the period 2006-07 to 2011-12.

The CACP, Department of Agriculture and Co-operation stated (August 2012) that while recommending MSP, it considered factors such as (i) cost of production, (ii) demand and supply, (iii) trends in market prices, (iv) parity between price paid and price received by farmers, (v) inter-crop price parity, and (vi) likely effect on industrial cost structure, cost of living and general price level. MSP being uniform throughout the country, the Commission had to arrive at an all-India weighted average cost as an input to price policy formulation. Since price policy was a resultant of informed judgment of various factors,

there could not be any mechanical formula of how much weight was to be given to each factor in the exercise of price policy formulation.

The Ministry endorsed (January 2013) the views of the CACP.

Audit observed that there is skewness in the fixation of MSP over the cost of production of food grains. The margin of MSP over the cost of production varied widely and no norms had been prescribed for fixing the margin over the cost of production. Thus, there is a need for greater transparency in the method of arriving at MSP over the cost of production.

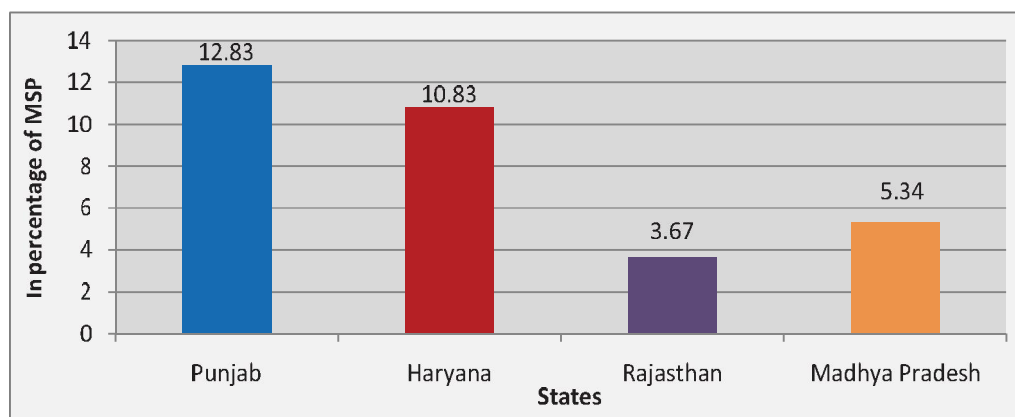
2.3.2 Lack of uniformity in statutory and non-statutory charges

Statutory charges include mandi charges (Market fee, Dami/Arhatia Commission, Rural Development Cess, Auction fee), purchase/trade tax and gunny costs. Statutory charges (except gunny cost) are levied by the State Governments as a fixed percentage of the MSP. Non-statutory charges include mandi labour, transportation costs, driage losses, custody and maintenance charges, interest and milling charges for paddy, etc. Audit observed a wide variation in the incidence of both the charges imposed by various State Governments as indicated below:

(i) Statutory charges

- Statutory charges in respect of wheat showed wide variation amongst different states. During the period 2006-07 to 2011-12, the average statutory charges of wheat in respect of Punjab (12.83 *per cent*) were approximately three times of statutory charges of Rajasthan (3.67 *per cent*) and more than two times of statutory charges of Madhya Pradesh (5.34 *per cent*). In Haryana, the average statutory charges of wheat (10.83 *per cent*) were approximately 2.5 times that of Rajasthan and two times that of Madhya Pradesh.

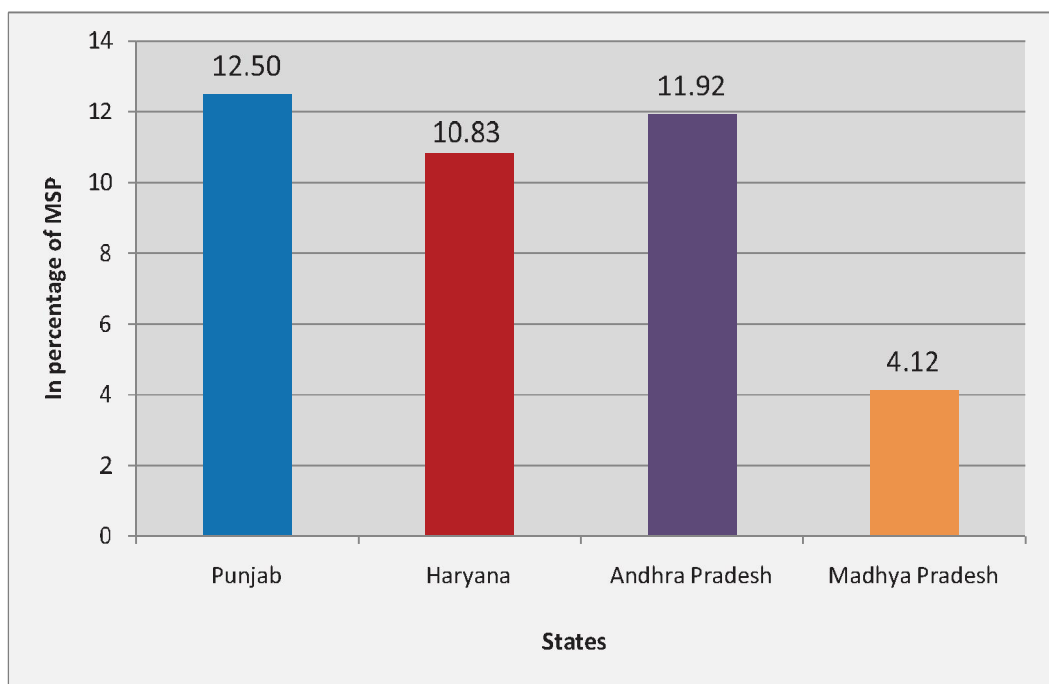
Chart 2.5
Average statutory charges for wheat



Source: Performance budget of FCI

- Similarly, in respect of paddy, higher incidence of such charges was noticed in Punjab, Haryana and Andhra Pradesh. The average statutory charges of paddy during the period 2006-07 to 2011-12 in respect of Punjab (12.50 *per cent*) were approximately three times of statutory charges levied in Madhya Pradesh (4.12 *per cent*). Statutory charges of Haryana (10.83 *per cent*) were approximately 2.5 times that of Madhya Pradesh. In respect of Andhra Pradesh, the statutory charges ranged between 11 *per cent* and 12.50 *per cent* with an average of 11.92 *per cent* during the six year period.

Chart 2.6
Average statutory charges for paddy



Source: Performance budget of FCI

The issue was highlighted in C&AG's Report No. 3 of 2011-12 of Union Government (Commercial) under Para No. 6.1.1, wherein Audit pointed out that there was higher incidence of statutory charges levied by the states of Andhra Pradesh, Haryana and Punjab, the main procuring states in comparison to the other states.

In the above report, a reference was also made to the issue commented in the C&AG's Report No. 16 of 2006, Union Government (Civil) Performance Audit and discussed by the Public Accounts Committee. In its action taken report, the Ministry stated that a study on principles to be adopted for fixation of procurement incidental charges was conducted by the Chief Adviser (Cost), Ministry of Finance which recommended (February 2010) that the GOI may continue to pursue the issue of reduction in statutory charges with the

respective State Governments. Comments of State Governments on the recommendations based on the study were still awaited.

The Management agreed (July 2012) with the audit observations that levying high statutory charges on procurement of food grains was causing additional burden on the exchequer.

The Ministry, while accepting the audit observations, stated (January 2013) that the issue of reduction in statutory charges based on the study conducted by Chief Advisor (Cost), Ministry of Finance was being pursued with the respective State Governments. It further stated that GOI had no control/authority on these charges.

(ii) Non-statutory charges

- Mandi labour charges ranged from ₹ 9.47 per quintal to ₹ 14.09 per quintal in respect of wheat in major procuring states (Punjab, Haryana, UP and MP) during the period 2006-07 to 2011-12. These charges, however, ranged from ₹ 4.69 per quintal to ₹ 9.41 per quintal in respect of Rajasthan during the same period. In respect of rice, the mandi labour charges in 2011-12 ranged from ₹ 11.05 per quintal to ₹ 13.32 per quintal in major rice procuring states (Punjab, Haryana and Andhra Pradesh) as compared to ₹ 6.39 per quintal in Madhya Pradesh.
- Transportation and handling charges ranged from ₹ 11.83 per quintal to ₹ 27.98 per quintal in respect of wheat in major procuring states (Punjab, Haryana, UP and MP) during the period 2006-07 to 2011-12. These charges, however, ranged from ₹ 11.56 per quintal to ₹ 17.97 per quintal in respect of Rajasthan during the same period.

The Management stated (December 2011) that some amount of variation in the various elements of cost incidentals was inevitable due to different practices, viz., geographic spread, different labour and transportation rates, etc., but recommended to the GOI that significant variations across the states needed review before finalizing the costing sheet for wheat, rice and coarse grains.

The Ministry stated (January 2013) that non-statutory charges were considered as reimbursement of actual expenditure incurred by various State Governments. The actual expenditure depended upon various local factors such as labour, transportation, storage facilities, quantum of procurement, milling charges, etc. Thus, non-statutory charges incurred by one state might not logically be the same as that incurred by the other.

Audit, however, observed that there were wide inter-state variations both in statutory and non-statutory charges being charged by State Governments. In the prominent procuring states such as Punjab, Haryana and Andhra Pradesh, the statutory charges for rice (paddy) ranged between 12.50 per cent and 14.50 per cent of the MSP as compared to 4.70 per

cent prevailing in Madhya Pradesh during 2011-12. Similarly, in case of non-statutory charges, mandi labour charges for wheat in Punjab, Haryana and Uttar Pradesh ranged between ₹ 10.91 per quintal to ₹ 14.09 per quintal as compared to ₹ 9.41 per quintal in Rajasthan during 2011-12. Meaningful reduction in acquisition cost of food grains could take place only if increasing economic cost (MSP, post-procurement expenses and distribution costs) due to high statutory and non-statutory charges could be rationalised.

2.3.3 Impact of MSP and procurement incidentals on acquisition cost of food grains

Audit observed that persistent increase in MSP, payment of bonus and statutory levies imposed by State Governments have contributed to substantial rise in acquisition cost of food grains as indicated below:

- The MSP (including bonus) for wheat had risen from ₹ 700 per quintal in 2006-07 to ₹ 1,170 per quintal (67 *per cent* increase) in 2011-12 whereas MSP for rice (paddy) rose from ₹ 650 per quintal in 2006-07 to ₹ 1,110 per quintal (71 *per cent* increase) in 2011-12. Additional amount of ₹ 13,715 crore was also incurred due to payment of bonus over and above the MSP during the period 2006-07 to 2011-12.
- Statutory charges for wheat remained in the range of 12.03 *per cent* to 13.52 *per cent* of the total acquisition cost. In case of rice, these charges ranged between 11.13 *per cent* and 13.50 *per cent*. The quantum of statutory charges incurred by FCI increased from ₹ 122.81 per quintal for wheat and ₹ 136.17 per quintal for rice in 2006-07 to ₹ 180.52 per quintal for wheat (increased by 47 *per cent*) and ₹ 251.38 per quintal for rice (increased by 85 *per cent*) in 2011-12.
- Non-statutory charges remained in the range of 3.09 *per cent* and 6.31 *per cent* for wheat and 5.01 *per cent* and 5.71 *per cent* for rice of the total acquisition cost from 2006-07 to 2011-12. Non-statutory charges increased by 60 *per cent* from ₹ 61.65 per quintal in 2006-07 to ₹ 98.62 per quintal in 2011-12 in case of rice.

Thus, it is evident from the above that increase in MSP with resultant increase in statutory charges and the non-statutory charges pushed up the acquisition cost from ₹ 908.42 per quintal for wheat and ₹ 1,101.60 per quintal for rice in 2006-07 to ₹ 1,354.86 per quintal for wheat and ₹ 1,862.20 per quintal for rice in 2011-12 accounting for 49 *per cent* increase in case of wheat and 69 *per cent* increase in case of rice.

Audit observed that as increase in MSP from year to year, announcement of bonus and procurement incidentals imposed by State Governments had a wide impact on the quantum of food subsidy paid out of the Consolidated Fund of India, the GOI needs to consider rationalising the cost structure for meaningful reduction in acquisition cost of food grains.

2.4 Food subsidy claims of FCI

The GOI provides food subsidy to FCI for procurement, distribution of food grains and for maintaining buffer stock as a measure of food security. In addition, the GOI also passes on food subsidy to the states under DCP scheme which undertake direct purchases and distribution of food grains under TPDS on behalf of the GOI. The total food subsidy released by GOI during the period 2006-07 to 2011-12 was as under:

Table 2.4
Subsidy released by the GOI on food grains

Year	₹ in crore			Annual Growth (in percentage)
	FCI	States	Total	
2006-07	20,786	3,042	23,828	-
2007-08	27,760	3,500	31,260	31.19
2008-09	36,744	6,924	43,668	39.69
2009-10	46,867	11,375	58,242	33.37
2010-11	50,730	12,200	62,930	8.05
2011-12	59,526	12,845	72,371	15.00

Source: Department of Food and Public Distribution

2.4.1 Pending subsidy claims of FCI

Food subsidy has two components (i) consumer subsidy, being the difference between the economic cost and the central issue price, and (ii) buffer subsidy, which includes carrying cost of buffer and carry over charges paid to SGAs by FCI for food grains kept by them beyond a prescribed date. The table below indicates details of consumer subsidy and buffer subsidy during the period 2006-07 to 2011-12:

Table 2.5
Details of consumer and buffer subsidy

(₹ in crore)

Items	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
(1) Acquisition cost of Sales	32,681	38,279	40,215	52,904	65,623	76,415
(2) Distribution cost	8,945	9,000	8,051	7,019	9,481	11,788
Economic Cost (1+2)	41,626	47,279	48,266	59,923	75,104	88,203
(3) Less: Sales realization	18,207	17,930	17,024	22,902	25,045	26,145
(A) Consumer subsidy	23,419	29,359	31,242	37,021	50,059	62,058
4) Carrying cost of buffer	434	449	3,019	4,186	4,356	5,004
5) Carry over charges paid to SGAs	175	243	527	1,666	1,981	1,635
(B) Buffer subsidy (4+5)	609	692	3,546	5,852	6,337	6,639
(C) Unregularised losses for the year	0	0	58	98	209	266
(D) Earlier years' losses regularised	88	17	21	66	103	178
Total food subsidy (A+B-C+D)	24,116	30,068	34,751	42,841	56,290	68,609
Outstanding subsidy claims as on 31.03.2012	-	-	-	147	11,148	12,132

Audit observed from above that food subsidy claims of FCI to the tune of ₹ 23,427 crore were pending from the GOI at the end of 2011-12. Out of these, ₹ 147 crore pertained to the year 2009-10, ₹ 11,148 crore to the year 2010-11 and the remaining amount of ₹ 12,132 crore pertained to 2011-12.

In addition, there were unregularised storage and transit shortages of ₹ 379.58 crore pertaining to the period 1980-81 to 2011-12 for which claims have not been made by FCI to the GOI.

Audit recommendations and responses of the Ministry

Sl. No.	Recommendations of Audit	Ministry's replies
1	The GOI/FCI should take necessary steps to augment procurement of food grains and also increase direct procurement by FCI and DCP states in view of increasing requirement for Targeted Public Distribution System and Other Welfare Schemes.	Partly accepted. In order to provide efficient and expansive price support coverage to farmers, the policy of the Ministry is to encourage states to undertake procurement in decentralised mode. FCI will continue to provide necessary guidelines and support to states in augmenting procurement.
2	The GOI may consider fixing minimum buffer norm together with component wise quantities of food grains for example, for food security reserve, emergency situations and price stabilization, etc. The GOI should also consider fixing maximum level of buffer norms with a view to bring in greater certainty in management of food stock of the Central Pool.	Partially accepted. Government will shortly revise the minimum buffer norms but fixing maximum level of buffer norms is not practical at present. Decision to off load the excess stock will have to be taken on year to year basis looking into situation at that time.
3	The GOI may entrust responsibility of ensuring maintenance of food grains stock, handled by various agencies, at the level prescribed under buffer norms for single point accountability.	Accepted. FCI is already vested with the responsibility.
4	The GOI should expedite rationalisation of the cost structure of food grains in the context of levy of statutory and non-statutory charges imposed by different states in view of heavy subsidy payout.	Accepted.

Chapter III

Storage Management

3.1 Status of storage capacity for the Central Pool

The primary policy objective of the GOI is to ensure food security in the country through timely and efficient procurement, and distribution of food grains. This involves procurement of food grains, building up and maintenance of food stocks, storage, movement and delivery of food grains to distributing agencies. Storage management is an important link in the whole system from procurement to distribution of food grains to the consumers.

Under the existing operational framework for ensuring food security in the country, FCI is the main Government agency entrusted with management of food grains in the Central Pool held by SGAs and DCP states. FCI is also responsible for storage of the Central Pool stock by taking over the food grains procured by SGAs; whereas the food grains procured by DCP states are stored and directly distributed by them under TPDS and OWS.

FCI, however, had to hire space from various agencies such as CWC⁴, SWCs⁵, SGAs and private parties as its own storage capacity was insufficient to accommodate the Central Pool stock of food grains. The stock of food grains is normally stored in covered godowns, silos and uncovered godowns called Covered and Plinth (CAP). The total storage space that was available with the main Government agencies in the country as on 31 March of 2007 to 2012 was as under:

Table 3.1
Total storage capacity available with FCI, CWC and SWCs

(Figures in LMT⁶)

As on 31 March	FCI (Owned covered and CAP)	CWC	SWCs	Total Storage Capacity
2007	152.33	102.20	191.86	446.39
2008	151.54	98.78	187.32	437.64
2009	151.40	105.25	196.82	453.47
2010	154.77	105.98	209.26	470.01
2011	156.07	102.47	211.27	469.81
2012	156.40	100.85	234.61	491.86

Source: FCI – Annual Reports of FCI and CWC

⁴ Central Warehousing Corporation

⁵ State Warehousing Corporations

⁶ Lakh Metric Tonne

The total storage capacity for the Central Pool available with FCI including the capacity hired from all sources (State Government Agencies, CWC, SWCs and private parties) ranged from 238.94 LMT to 336.04 LMT at the end of March 2007 to 2012 as shown in the table below:

Table 3.2
Storage capacity available with FCI (including hired)

(Figures in LMT)

As on 31 March	Covered			CAP			Grand Total
	Owned	Hired	Total	Owned	Hired	Total	
2007	129.41	93.42	222.83	22.92	6.32	29.24	252.07
2008	129.48	87.13	216.61	22.06	0.27	22.33	238.94
2009	129.67	101.24	230.91	21.73	0.15	21.88	252.79
2010	129.69	128.90	258.59	25.08	4.69	29.77	288.36
2011	129.91	154.59	284.50	26.16	5.44	31.60	316.10
2012	130.03	172.13	302.16	26.37	7.51	33.88	336.04

Source: Monthly Performance Reports.

The position of hired capacity from various agencies at the end of March 2009 to 2012 was as under:

Table 3.3
Details of capacity hired by FCI from various agencies

(Figures in LMT)

As on 31 March	Total Hired Capacity	Share of various agencies in hired capacity			
		CWC	SWCs	State Govt.	Others (including Private)
2009	101.39	22.04 (22%)	62.21 (61%)	5.46 (5%)	11.68 (12%)
2010	133.59	28.85 (22%)	76.69 (57%)	6.28 (5%)	21.77 (16%)
2011	160.03	36.37 (23%)	93.91 (59%)	6.23 (4%)	23.52 (14%)
2012	179.64	39.88 (22%)	107.99 (60%)	5.85 (3%)	25.92 (15%)

3.2 Gap in storage capacity for the Central Pool

3.2.1 Shortfall in storage capacity with FCI against the Central Pool stock

Audit observed that from 2008-09 onwards, there was a sharp increase in procurement of food grains which resulted in severe strain on storage capacity available in the country for the Central Pool stock. With the increasing food grains stock in the Central Pool held by FCI and State Government Agencies (excluding food grains procured by Decentralised

Procurement states)⁷, the storage gap with FCI showed an increasing trend from 59.95 LMT in 2007-08 to 331.85 LMT in 2011-12 as indicated below:

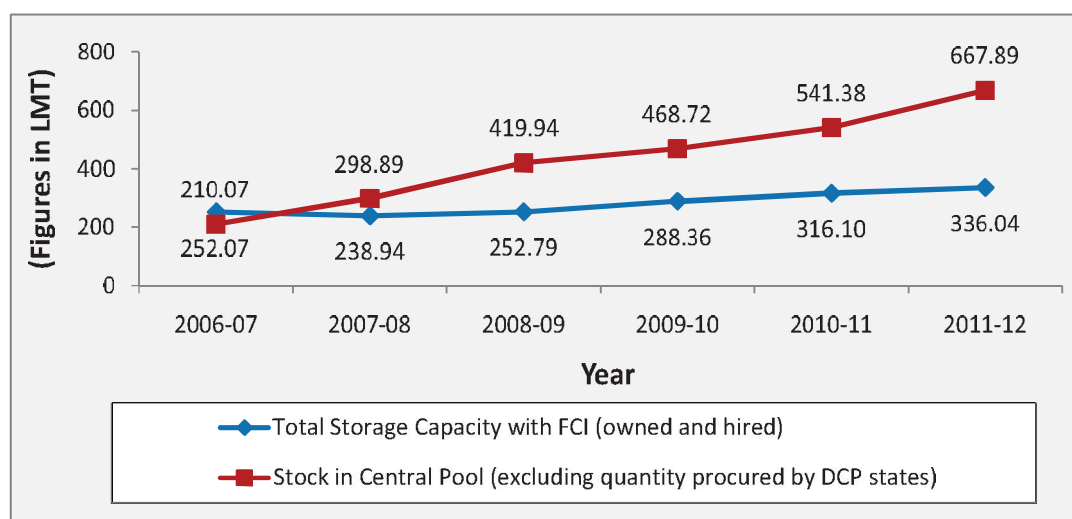
Table 3.4
Gap in storage capacity with FCI

(Figures in LMT)

Year	Stock of Food grains in the Central Pool as on 1 June*	Food grains procurement by DCP states	The Central Pool stock minus Food grains procured by DCP states	Total storage capacity (owned and hired) available with FCI as on 31 March	Gap in storage capacity with FCI
(1)	(2)	(3)	(4) = (2)-(3)	(5)	(4)-(5)
2007	259.27	49.20	210.07	252.07	-
2008	363.67	64.78	298.89	238.94	59.95
2009	548.26	128.32	419.94	252.79	167.15
2010	608.79	140.07	468.72	288.36	180.36
2011	655.95	114.57	541.38	316.10	225.28
2012	824.11	156.22	667.89	336.04	331.85

* As the Central Pool stock is at its peak on 1 June due to procurement of wheat in Rabi Marketing Season (April to June), the position of the Central Pool stock as on 1 June has been considered for identifying the extent of gap in storage capacity available with FCI.

Chart 3.1
Gap in Storage Capacity with FCI



⁷ As the Central Pool stocks with DCP states are issued directly to TPDS and OWS in the respective states, the food grains stock procured by these states is not taken into consideration for the purpose of calculating storage gap with FCI.

As would be seen from above, against the stock of food grains in the Central Pool, the available storage space operated by FCI was largely inadequate. The available storage capacity of FCI including hired capacity was only 336.04 LMT as against the stock of 667.89 LMT (excluding food grains procured by DCP states) at the end of March 2012 thus leaving a gap of 331.85 LMT. Due to such gap in the availability of storage capacity, huge stock of wheat was being left with the SGAs of procuring states even after the prescribed time frame (i.e., 30 June) for taking over by FCI, causing severe strain on their available storage capacity for the Central Pool. Further, though the total food grains stock in the Central Pool recorded an increase of 457.82 LMT between 2006-07 and 2011-12, FCI increased its storage space through hiring or owned space only to the extent of 83.97 LMT (18 per cent) which was not commensurate with the increase in food grains stock level. Its owned storage capacity increased by a mere 4.07 LMT during the period 2006-07 to 2011-12.

Despite several initiatives to resolve the above storage constraints, capacity addition under various augmentation programmes of the GOI could not meet the shortfall. As against the envisaged capacity addition to the extent of 163.38 LMT during the six year period from 2006-07 to 2011-12 under various augmentation programmes, only 34.36 LMT was completed at the end of March 2012.

Augmentation programmes

- i) Construction of owned storage capacity by FCI
 - XI Five Year Plan
 - scheme for North-east
- ii) National Policy on Handling, Storage and Transportation of Food grains
- iii) Private Entrepreneurs Guarantee (PEG) Scheme, 2008

(refer para 3.5)

Further, even if the total storage capacities of 491.86 LMT available with the main agencies in the country (FCI, CWC, SWCs) at the end of March 2012 were used for storing only food grains, it would not be able to accommodate the entire food grains stock level of 824.11 LMT in the Central Pool and the shortfall in storage capacity on the whole would be to the extent of 332.25 LMT.

While accepting that capacity addition was not commensurate with increase in procurement and storage of food grains, the Management stated (November 2011 and July 2012) that total storage capacity available in the country was 645.44 LMT out of which 169.38 LMT was in the form of CAP capacity. To bridge the gap, 151.96 LMT of capacity was approved under Private Entrepreneurs Guarantee (PEG) Scheme, and further 30 LMT was under consideration for approval, and 28.17 LMT was constructed by 31 March 2012.

The Ministry in its reply stated (January 2013) that 181.10 LMT capacity had been approved by GOI and 32.30 LMT capacity had been constructed under PEG Scheme. In addition, 20 LMT of silo capacity in various states had been approved.

The contention of the Management that 645.44 LMT of storage capacity was available in the country is not tenable as the total storage capacity of FCI arranged from all sources for the Central Pool stock was only to the extent of 336.04 LMT as on 31 March 2012. Mere availability of storage capacity in the country as stated by the Management is not a correct assessment unless the actual additional storage space is identified and arranged by FCI. In fact, despite accumulation of huge unlifted food grains stock of the Central Pool already lying with the SGAs, FCI could increase its storage space only to the extent of 83.97 LMT during the period under review.

Further, even if the anticipated capacity addition to the extent of 163.38 LMT planned under various augmentation programmes is implemented in future, the shortfall in storage capacity with FCI would persist unless remedial measures are initiated by FCI/ GOI.

3.2.2 Inadequate owned storage capacity of FCI

The position of owned and hired storage capacity with FCI at the end of March 2007 to 2012 is indicated in the table below:

Table 3.5
Total storage capacity available with FCI

(Figures in LMT)

As on 31 March	Owned	Hired	Total
2007	152.33	99.74	252.07
2008	151.54	87.40	238.94
2009	151.40	101.39	252.79
2010	154.77	133.59	288.36
2011	156.07	160.03	316.10
2012	156.40	179.64	336.04

Source: Monthly Performance Reports

Audit analysis of the storage capacity with FCI revealed the following:

- The owned storage capacity with FCI remained more or less constant ranging between 151.40 LMT and 156.40 LMT during the period 2006-07 to 2011-12 and was not enough even to accommodate minimum buffer stock of 212 LMT to 319 LMT.
- Due to shortage of owned storage space, FCI had to go in for hiring space to accommodate

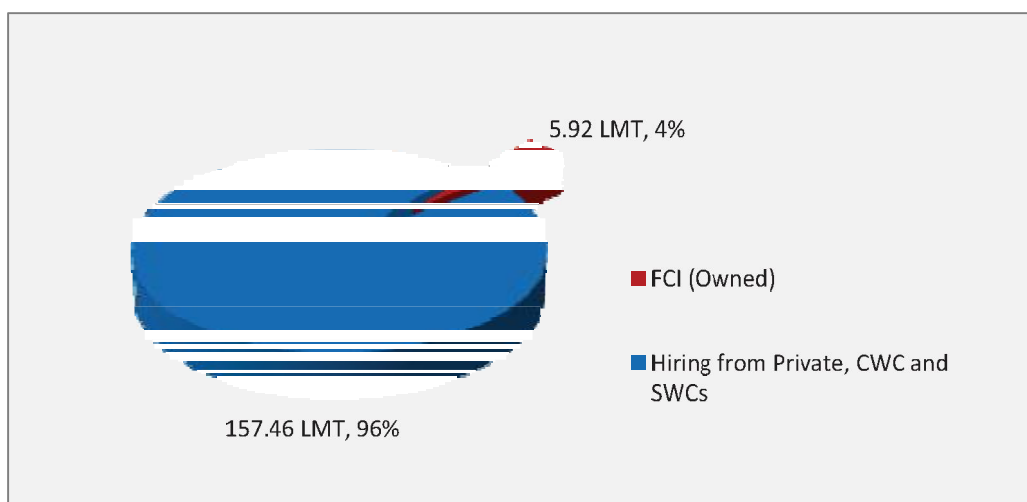
- The minimum buffer stock to be maintained: 212 LMT to 319 LMT, whereas owned capacity of FCI was 156.40 LMT.
- Hired capacity of FCI would reach 337.10 LMT after augmentation.
- Owned capacity would remain at 162.32 LMT only.

the increase in stock in the Central Pool. As a result, the hired capacity of FCI increased by 80 *per cent* from 99.74 LMT in 2006-07 to 179.64 LMT in 2011-12. This contributed to substantial increase in hiring charges of storage space incurred by FCI from ₹ 321.51 crore in 2006-07 to ₹ 1,119.03 crore in 2011-12.

- Due to constraints in available storage capacity, FCI could not take over stock of wheat procured by SGAs for the Central Pool within the prescribed time frame of June each year. The left over stock of wheat which remained with the SGAs after June each year was in the range of 36.75 LMT to 244.34 LMT during the period 2006-07 to 2011-12. Even till the end of March of the following years, as much as 8.49 LMT to 120.86 LMT of food grains remained unlifted by FCI. As a result, FCI has to incur expenditure for holding cost of food grains by the State Government Agencies which is referred to as carry over charges. This led to increase in payment of carry over charges made to SGAs from ₹ 175 crore in 2006-07 to ₹ 1,981 crore in 2010-11 which remained at ₹ 1,635 crore in 2011-12.

Despite severe constraints on owned storage capacity of FCI, only 5.92 LMT out of a total capacity of 163.38 LMT envisaged was planned for own construction during the period 2006-07 to 2011-12. The remaining capacity of 157.46 LMT was planned for augmentation through private and public sector agencies for guaranteed hiring by FCI as can be seen from the chart below:

Chart 3.2
Storage capacity augmentation through different agencies



It is pertinent to mention that as owned capacity of FCI remained almost constant during the six year period, FCI had to increase its hired capacity to meet the shortfall. The hired storage capacity of FCI was 65 *per cent* of owned capacity during 2006-07 which had increased to 115 *per cent* during 2011-12. This had a substantial financial impact on the corresponding expenditure incurred by FCI on hiring of storage space. The average annual expenditure incurred on hiring (including carry over charges) from 2008-09 to 2011-12

was to the extent of about ₹ 2,265 crore. In addition, if capacity addition of 157.46 LMT envisaged for augmentation for guaranteed hiring by FCI is taken into consideration, the hired storage capacity of FCI in future will reach 216 *per cent* of the owned capacity of March 2012. The gap between owned and hired storage capacities will reach a critical proportion. This also indicates that hiring charges of FCI would continue to go up substantially in future unless owned storage capacity is augmented proportionately as against creation of storage capacity for guaranteed hiring by FCI. Thus, the position needs serious consideration.

While accepting the audit observations, the Management stated (November 2011 and July 2012) that hired capacity was more flexible and could be hired/de-hired as per requirement. It was prudent to rely on hired capacity along with the creation of owned capacity. FCI had identified a gap of 89.42 LMT for own construction and a requirement of ₹ 4,000 crore was estimated under Eleventh five year plan (2007-12). The Ministry, however, earmarked only ₹ 125 crore against which capacity augmentation of 1.39 LMT was envisaged and 0.45 LMT was completed under five year plan upto March 2012.

The Management further stated that FCI recognised the fact that own godowns become valuable assets because it was easier to make long term strategic planning, effect changes in the infrastructure with the changing requirements, reap the advantages of administrative convenience and flexibility in managing them and secure the benefits of value appreciation with the passage of time. In view of the reduced allocation of funds in the Eleventh Five year plan, it was necessary to look for alternative resources to create such a huge capacity. With the creation of additional 180 LMT under PEG Scheme, the Corporation would be in a position to take over the stocks from the SGAs.

The Ministry stated (January 2013) that in the absence of adequate plan assistance for creation of huge capacity to the extent of 180 LMT, FCI had to look for an alternative route like PEG for hiring of additional storage space for safe storage of valuable food grains. Though an equitable mix of owned and hired capacity would be an ideal situation and might bring down the hiring cost, but till its own capacity was created, FCI had to rely on hired capacity to meet the requirement.

3.2.3 Imbalance and shortfall in storage space with FCI

The storage policy of the GOI aims to achieve availability of storage capacity to meet the storage requirements for holding operational stock of food grains (four months requirement for TPDS and OWS) and buffer stock in different states as a measure of food security. It also aims at creation of storage capacity for storing procured food grains stock in procuring states and for evacuation of food grains from procuring and surplus regions to deficit regions. Audit analysis revealed serious imbalances in availability of storage capacity and huge shortage of storage space in consuming states as indicated below:

- There was concentration of storage capacity in the states undertaking large procurement such as Punjab, Haryana, Andhra Pradesh, Uttar Pradesh and Chhattisgarh. Out of total storage capacity of 336.04 LMT available with FCI at the end of 31 March 2012, capacity of 214.33 LMT, i.e., 64 *per cent* was located in the above states.
- Consuming states such as Rajasthan and Maharashtra together had a storage capacity of 42.92 LMT (13 *per cent* of the total capacity of FCI). The remaining capacity (23 *per cent*) was being shared by the other 24 states/UTs.
- On the basis of records of 31 states/UTs available at FCI headquarters, it was observed that only six states/UTs⁸ had the storage capacity to hold the required operational stock of food grains for four months during the period 2006-07 to 2011-12, while another eight states⁹ could hold the stock at the required level at periodical intervals only. In the balance 17 states, 12 states¹⁰ could hold stock for a period ranging between 60 days and 120 days; and the remaining five states¹¹ had storage capacity to hold the stock for less than 60 days (*Annex-V*). The state-wise position of storage capacity available with FCI (in days) at the end of March 2012 is depicted in chart 3.3.

⁸ Andhra Pradesh, Chandigarh, Chhattisgarh, Haryana, Puducherry and Punjab.

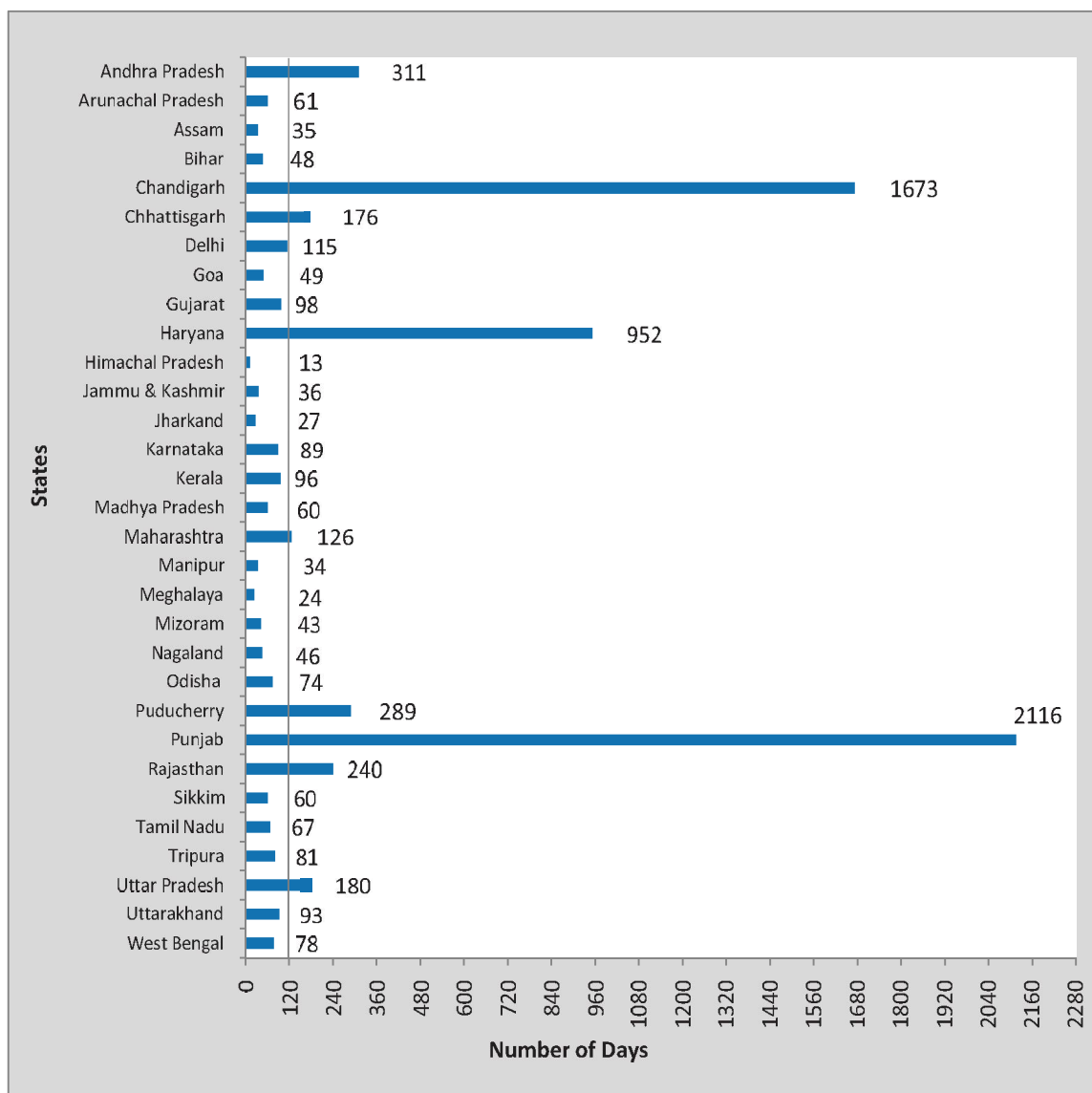
⁹ Delhi, Goa, Gujarat, Kerala, Maharashtra, Rajasthan, Uttar Pradesh and Uttarakhand.

¹⁰ Arunachal Pradesh, Karnataka, Madhya Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Odisha, Sikkim, Tamil Nadu, Tripura and West Bengal.

¹¹ Bihar, Jharkhand, Assam, Himachal Pradesh and Jammu & Kashmir.

Chart 3.3

State-wise position of storage capacity (in days) vis-à-vis the requisite 120 days (four months) for operational stock as on March 2012



The Management accepted (December 2011) the audit observations and stated that the GOI introduced PEG – 2008 scheme to reduce imbalances in state-wise storage capacity. The Ministry endorsed (January 2013) the view of the Management.

Audit, however, observed that upto March 2012, only 28.17 LMT of storage capacity was constructed out of the envisaged capacity of 151.96 LMT under the PEG scheme indicating slow progress in the augmentation activities.

3.3 Deficiencies in storage of the Central Pool food grains

One of the most important aspects of storage management is maintenance of food grains quality at the time of storage and distribution. For ensuring quality of food grains during storage, it is essential to ensure storage worthiness of the storage space and storability of food grains.

Audit has also selected for detailed analysis, two SGAs each in Punjab¹² and Haryana¹³ being the large procuring states in the country. The audit findings on the deficiencies in storage of the Central Pool stock of food grains are discussed in succeeding paragraphs:

3.3.1 Storage of food grains in open space

According to the storage guidelines of FCI, the food grains should be stored in covered godowns and silos. Normally, storage capacity in the form of Covered and Plinth (CAP) should be resorted to for storing wheat during peak procurement seasons. Subsequent storage should be in the covered godowns as storage in Covered and Plinth for long duration exposes the food grains to the risk of deterioration in quality. In view of the risks involved, this type of storage should be taken recourse to as a last resort.

Audit, however, observed that even after the procurement seasons, substantial amount of food grains was kept in the CAP due to insufficient covered storage capacity. The quantum of food grains kept in Covered and Plinth by FCI and SGAs in the country at the end of March 2010 and March 2011 was 66.43 LMT and 50.87 LMT respectively. This rose to 87.86 LMT at the end of March 2012.

Picture 3.1
Food grains stock in Covered and Plinth in FCI, Punjab



¹² Punjab State Warehousing Corporation (PSWC) and Punjab State Civil Supplies Corporation (PUNSUP).
¹³ Haryana Warehousing Corporation (HWC) and Haryana Food and Supply Department (F&SD).

Audit observations on shortfall in covered storage capacity available for the Central Pool with selected SGAs in Punjab and Haryana are discussed below:

- In Punjab region, FCI and five SGAs¹⁴ procured wheat ranging between 67.80 LMT and 109.64 LMT during the period 2006-07 to 2011-12.

PUNSUP Sangrur stored 81 *per cent* to 92 *per cent* of wheat stocks available at the end of the procurement seasons in open/Covered and Plinth storage during the period 2006-07 to 2011-12. The quantum ranged between 1.20 LMT and 2.46 LMT. PUNSUP Ferozpur stored 92 *per cent* to 99 *per cent* of wheat stock available at the end of the procurement seasons in open/Covered and Plinth storage. The quantum ranged between 0.43 LMT and 2.56 LMT. PUNSUP Ludhiana likewise stored 0.51 LMT to 1.42 LMT of wheat which was 61 *per cent* to 89 *per cent* of wheat stock available at the end of the procurement seasons in open/Covered and Plinth storage. In PUNSUP Amritsar, 82 *per cent* to 96 *per cent* of wheat stock available at the end of the procurement seasons was stored in open/Covered and Plinth storage. Hence, substantial food grains were stored in the Covered and Plinth storage.

The total wheat stock with SGAs in Punjab was 61.55 LMT, of which 15.68 LMT was in covered godowns and 45.87 LMT was under Covered and Plinth as on 31 March 2012. Hence, most of wheat stock was held in Covered and Plinth godowns.

Picture 3.2
Storage of food grains in CAP in SGA, Punjab



¹⁴ Pungrain, Punjab State Warehousing Corporation (PSWC), Punjab Civil Supplies Corporation (PUNSUP), Punjab Agro and Markfed.

- In Haryana region, all five SGAs¹⁵ and FCI procured wheat ranging between 22.29 LMT and 69.28 LMT during the period 2006-07 to 2011-12. The total wheat stock with SGAs was 42.38 LMT, of which 12.09 LMT was in covered godowns and 30.29 LMT was under Covered and Plinth as on 31 March 2012. Hence, most of wheat stock was held in Covered and Plinth godowns.

While accepting the audit observations, the Management stated (July 2012) that due to inadequacy of covered space, stock of wheat was stored in CAP and not shifted to the covered godowns even if it fell vacant in between to make way for the rice to be received which could not be kept in the open.

While agreeing with the audit observations, the Ministry stated (January 2013) that in order to reduce dependence on CAP storage, FCI had taken up construction of 181.10 LMT of covered capacity under the PEG scheme against which 32.30 LMT had been completed by November 2012.

3.3.2 Poor condition of storage facilities

Audit observed that poor conditions of storage facilities for the food grains stock of the Central Pool maintained by SGAs in Punjab and Haryana resulted in damage of food grains as indicated below:

(a) Punjab Region

- PUNSUP failed to maintain the food grains stock in proper health due to which stock of 17,423 MT of wheat relating to the years 2008-09 to 2010-11 was damaged. The damaged food stocks worth ₹ 20.39 crore were not disposed of till March 2012. The Company obtained approval from FCI for disposal of 8,930 MT in October 2011. Failure to ensure early disposal of wheat stock led to loss due to blockage of storage space.

Picture 3.3 – Food grains damaged in SGA, Punjab



¹⁵ Hafed, Haryana Warehousing Corporation (HWC), Haryana Food and Supply Department, Haryana Agro and Confed.

- PSWC failed to take remedial measures to maintain the stock in proper health which resulted in damage of 666 MT wheat pertaining to crop years 2008-09 to 2010-11 valuing ₹ 77.80 lakh. Out of the above stock, wheat of 138.53 MT at Moonak was damaged due to flood.

(b) Haryana region

- Wheat procured by Haryana Warehousing Corporation (HWC) for the Central Pool valuing ₹ 9.01 crore was damaged and subsequently disposed of by way of public auction/inviting tenders. The disposal of damaged wheat resulted in loss of ₹ 6.65 crore to HWC as detailed below:

Table 3.6
Details of wheat damaged and consequent loss as on 31 March 2012

Name of Centre	Crop year	Quantity damaged (in MT)	Value (₹ in lakh)	Amount obtained through auction/tender (₹ in lakh)	Loss suffered (₹ in lakh)	Reasons for damage
Bani	2008-09	71.60	10.83	1.02	9.81	Occurrence of sudden and unprecedented flood due to several major breaches in Ghagger River.
	2009-10	2,023.70	293.57	23.23	270.34	
	2010-11	3,033.15	386.08	41.64	344.44	
Palwal Unit-II	2008-09	1,260.00	173.47	143.09	30.38	Unseasonal and continuous rains at the time of procurement in mandi and receipt of stocks at storage point from 19.5.2008 to 26.5.2008.
Tauru	2008-09	289.36	37.34	27.86	9.99	-----do-----
Total		6,677.81	901.29	236.84	664.96	

- In Food and Supply Department, Haryana, ₹ 11.96 crore worth of wheat stock was damaged. The damage of wheat occurred mainly due to storage of wheat in open plinths. The loss suffered by SGAs in the disposal of damaged stock was ₹ 6.44 crore as shown below:

Table 3.7
Details of wheat damaged and consequent loss as on 31 March 2012

Name of Centre	Crop year	Quantity damaged (in MT)	Value (₹ in lakh)	Amount obtained through auction/ tender (₹ in lakh)	Loss suffered (₹ in lakh)	Reasons for damage
Kurukshetra (Ismailabad Centre)	2010-11	1,547.35	223.39	37.85	185.54	Flood in July 2010.
Sonepat	2009-10	1,467.00	190.51	103.80	86.70	Heavy rain in September 2009.
Palwal (Bhagola Centre)	2008-09	4,582.65	724.27	352.15	372.12	Unprecedented rain in May 2008.
Palwal (Faridabad)	2009-10	159.00	19.47	Yet to be disposed of	-	Heavy rain.
Babain (Kurukshetra)	2009-10	248.93	37.99	Yet to be disposed of	-	Stocking at low lying area without drainage system and delay in segregation of stock.
Total		8,004.93	1,195.63	493.80	644.36	

The Management accepted (July 2012) the audit observations that the main reason for damage of the stock was storage in CAP and stated that FCI was increasing the storage capacity as storage of wheat in covered godowns in proper condition would minimise the damage.

The Ministry stated (January 2013) that the quantum of food grains damaged with SGAs in Punjab and Haryana during the period 2007-08 to 2010-11 was quite insignificant as compared to total procurement by SGAs.

The value of 32,772 MT damaged food stock amounting to ₹ 42.14 crore is based on audit of selected SGAs of Punjab and Haryana. The observations of Audit were based on sample selection and to that extent the amount involved is significant.

3.3.3 Storage of old crops leading to damage of food grains

According to the existing instructions of FCI, for issuance of food grains stock on priority, the principle of First-In-First-Out (FIFO) should be strictly followed with respect to the crop year as well as within crop year during which the stocks are accepted.

Audit, however, observed that the FIFO principle was not adhered to as a total of 125.99 LMT of food grains (including paddy) pertaining to crop years 2008-09 to 2010-11 was lying in the Central Pool as on 31 March 2012. Audit further noticed that during 2011-12,

FCI and SGAs in the country procured 283.35 LMT of wheat (FCI 39.74 LMT and SGAs 243.61 LMT) out of which 133.44 LMT of wheat were issued at the end of 2011-12, while 38.06 LMT of wheat pertaining to crop years 2008-09 to 2010-11 were lying in the Central Pool.

Further, in respect of wheat, 103.94 LMT of the Central Pool stock pertaining to crop years 2007-08 to 2011-12 were lying in the custody of SGAs in Punjab and Haryana as on 31 March 2012. Audit observed that due to non-adherence to FIFO principle, 1.06 LMT of wheat worth ₹ 121.93 crore under the custody of SGAs in Punjab and Haryana were damaged.

The Management accepted the audit observations and stated (December 2011) that main reason behind FIFO violation was that stocks remained infested, pocket damaged, and formation of atta due to poor preservation of stocks by the agency and their failure to render the stock despatch worthy.

While endorsing the view of the Management, the Ministry stated (January 2013) that as at December 2012, FCI was having only 2.34 LMT old stocks of wheat pertaining to the crop year upto 2009-10.

Scrupulous adherence to FIFO principle is essential to ensure that old crops stock with FCI and SGAs does not pile up in the future, particularly in view of the substantial increase in procurement effort in the recent years.

3.4 Inefficiencies in storage operations

3.4.1 Status of capacity utilisation

Efficient storage management involves ensuring optimum capacity utilisation of the existing capacity and minimising cost of storage. This can be effected through timely and proper planning of movement and distribution of food grains. Utilisation of storage capacity is determined by inflow and outflow of food grains for buffer stock and intermediary storage for distribution under TPDS. Moreover, storage capacity in the consuming states has also to be utilised for easing pressure on the procuring states and large stocks have to be moved to deficit and consuming states irrespective of consumption requirements.

The storage capacity utilisation on the basis of monthly stock level as indicated by FCI ranged between 33 per cent and 57 per cent during 2006-07, and 30 per cent and 66 per cent during 2007-08. During 2008-09 to 2011-12, the capacity utilisation was in the range of 57 per cent to 91 per cent.

Audit findings on the utilisation of existing storage space are discussed below:

(i) Norms for capacity utilisation not specified

Norms for utilisation of storage capacity are essential for assessing the level of utilisation in different depots and for providing inputs for performance evaluation. Audit, however, observed that FCI had not specified standard norms for determining optimum capacity utilisation. Instead, a number of suggested norms¹⁶ given by various agencies were being used for assessment of the level of utilisation of storage capacity. Without any specified standard norms, FCI would not be able to effectively evaluate and uniformly monitor the desired level of storage capacity utilisation in all the godowns across the country.

The Management accepted (February 2012) the audit observations on the need for fixing of norms for evaluation of optimum utilisation of capacity in various regions of FCI.

The Ministry stated (January 2013) that the criteria for optimum capacity utilisation of owned and hired godowns of FCI had been kept at 80 per cent for Memorandum of Understanding (MOU) signed between FCI and the Department of Food for the year 2011-12.

The reply of the Ministry is not acceptable as the criterion of 80 per cent for optimal capacity utilisation of storage space given in the MOU for the year 2011-12 was with reference to a target fixed for a particular year which cannot be considered as specified standard norms of FCI applicable for all godowns across the country.

(ii) Low utilization of existing capacity in various states/UTs

Based on records at FCI headquarters, the utilisation of existing storage capacity of 31 states/UTs was reviewed in audit by taking the most conservative norm of 75 per cent prescribed by Bureau of Industrial Costs and Prices amongst other suggested norms.

Audit observed that despite storage constraints in FCI, utilisation of existing storage capacity in various states/UTs was less than 75 per cent in majority of the months during the period 2006-07 to 2011-12. The month-wise capacity utilisation on the basis of monthly stock level during the six year period in various states/UTs examined in Audit was as indicated in the table below:

¹⁶ *The Buffer Stock Committee (85 per cent); Bureau of Industrial Costs and Prices (75 per cent) and PEG - 2008 (80 per cent).*

Table 3.8
State-wise utilization of storage capacity (monthly) during six year period

Sl. No.	Name of state	Storage Capacity Utilization (in percentage) in number of months out of total 72 months		
		Up to 50 per cent	50 per cent to 75 per cent	75 per cent and above
1	Andhra Pradesh	13	23	36
2	Arunachal Pradesh	46	23	3
3	Assam	22	42	8
4	Bihar	22	41	9
5	Chandigarh	6	29	37
6	Chhattisgarh	15	17	40
7	Delhi	26	32	14
8	Goa	13	36	23
9	Gujarat	14	16	42
10	Haryana	9	24	39
11	Himachal Pradesh	21	27	24
12	Jammu and Kashmir	4	52	16
13	Jharkhand	9	22	41
14	Karnataka	18	33	21
15	Kerala	20	17	35
16	Madhya Pradesh	12	18	42
17	Maharashtra	27	29	16
18	Manipur	47	15	10
19	Meghalaya	21	32	19
20	Mizoram	35	31	6
21	Nagaland	20	19	33
22	Odisha	16	36	20
23	Puducherry	15	34	23
24	Punjab	15	24	33
25	Rajasthan	25	9	38
26	Sikkim	22	24	26
27	Tamil Nadu	7	25	40
28	Tripura	22	32	18
29	Uttar Pradesh	26	41	5
30	Uttarakhand	15	23	34
31	West Bengal	25	23	24

The details of capacity utilization of 75 per cent and above and below 50 per cent in different states are as shown below:

(a) Capacity utilization of 75 per cent and above (in months)

More than 36 months:	Chandigarh, Chhattisgarh, Gujarat, Haryana, Jharkhand, Madhya Pradesh, Rajasthan and Tamil Nadu.
25 to 36 months:	Andhra Pradesh, Kerala, Nagaland, Punjab, Sikkim and Uttarakhand.
13 to 24 months:	Delhi, Goa, Himachal Pradesh, Jammu & Kashmir, Karnataka, Maharashtra, Meghalaya, Odisha, Puducherry, Tripura and West Bengal.
Upto 12 months:	Arunachal Pradesh, Assam, Bihar, Manipur, Mizoram and Uttar Pradesh.

(b) Capacity utilization below 50 per cent (in months)

More than 36 months:	Arunachal Pradesh and Manipur.
25 to 36 months:	Delhi, Maharashtra, Mizoram, Rajasthan, Uttar Pradesh and West Bengal.
13 to 24 months:	Andhra Pradesh, Assam, Bihar, Chhattisgarh, Goa, Gujarat, Himachal Pradesh, Karnataka, Kerala, Meghalaya, Nagaland, Odisha, Puducherry, Punjab, Sikkim, Tripura and Uttarakhand.
Upto 12 months:	Chandigarh, Haryana, Jammu & Kashmir, Jharkhand, Madhya Pradesh and Tamil Nadu.

The utilization of storage capacity of FCI in some states was particularly poor. The data also point to the need for considerable improvement in the case of Arunachal Pradesh, Manipur, Mizoram, Uttar Pradesh, Delhi, Maharashtra and West Bengal.

The Management accepted (December 2011) the facts and explained that the capacity utilisation might go down due to sudden unanticipated increase in offtake for a particular region. Similarly, the capacity utilisation might also go down due to unanticipated decrease in procurement for a particular region in a particular year. However, for the years 2008-09 to 2010-11, all the non-NE states with the exception of Maharashtra during the year 2008-09 were able to achieve a maximum capacity utilisation level which was more than BICP norm of 75 per cent.

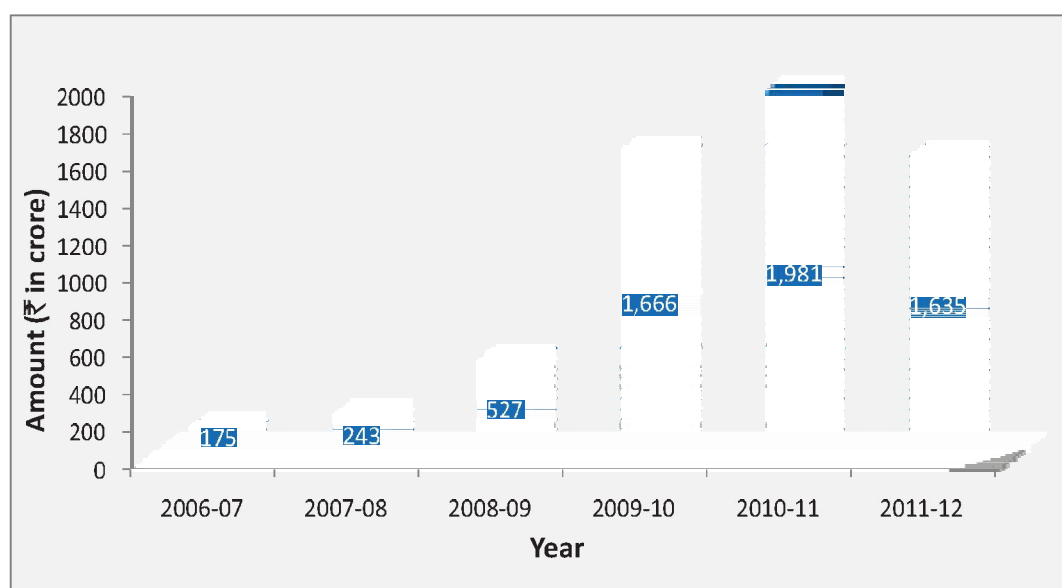
The fact, however, remains that no standard norms had been prescribed so far for evaluation of optimal level of capacity utilization in various godowns. In the absence of such specified standard norms, strict enforcement of optimal capacity utilization uniformly

across the states would remain doubtful. Further, storage capacity utilisation upto 75 per cent was not sustained during the major part of the six year period 2006-07 to 2011-12.

3.4.2 Non-utilisation of vacant space and payment of avoidable carry-over charges

SGAs procure wheat for the Central Pool which they have to deliver to FCI immediately after procurement. For any quantity of wheat not taken over after June 30 each year, FCI has to pay carry over charges to SGAs for holding the stock. Where FCI is not in a position to accept the wheat, it has to pay carry over charges in the form of storage and interest cost to the SGAs till the month of actual takeover. The carry over charges paid during the period 2006-07 to 2011-12 is depicted in the chart below:

Chart 3.4
Carry over charges paid to SGAs by FCI



Audit observed that the balance stock of wheat with SGAs remaining unlifted by FCI after the prescribed time frame, i.e., June 30 was in the range of 36.75 LMT to 244.34 LMT during the period 2006-07 to 2011-12. Even at the end of March of the following years, as much as 8.49 LMT to 120.86 LMT remained unlifted during the same period. Due to such delays in lifting of stock, payment of carry over charges to SGAs increased substantially over the years. FCI paid to SGAs as much as ₹ 6,227 crore during the period 2006-07 to 2011-12. The last three of the six years accounted for 85 per cent of this expenditure on carry over charges.

Audit further observed that FCI incurred carry over charges in respect of SGAs in Punjab and Haryana for not taking over the balance Central Pool stock within the prescribed time frame due to failure to utilise vacant storage space. Audit also observed that payment of

carry over charges to SGAs in Punjab and Haryana could be reduced by optimal utilization of existing storage space in wheat procuring and consuming states as highlighted below:

(i) Non-utilisation of available storage capacity for surplus stock of wheat

The SGAs of Punjab and Haryana procured wheat ranging from 78.47 LMT to 153.94 LMT during procurement seasons of 2006-07 to 2011-12. Out of this, 12.08 LMT to 31.18 LMT of wheat was directly taken over by FCI during the same period. The balance quantity ranging from 47.29 LMT to 135.98 LMT was left with the SGAs at the end of each season during the review period.

Audit observed that no movement of stock was planned by FCI to utilise storage capacity available with wheat consuming states during these procurement seasons for evacuation of stocks left with SGAs. At the end of June of each year during the six year period 2006-07 to 2011-12, storage capacity ranging from 12.63 LMT to 49.98 LMT was vacant in some of the major consuming states such as Delhi, Maharashtra, Gujarat, UP, MP, Rajasthan and Bihar. This vacant capacity could have been utilised to store the substantial quantities of stock lying with SGAs of Punjab and Haryana at the end of each procurement season during the period 2006-07 to 2011-12 to reduce the carry over charges.

The aggregate wheat stock available with the SGAs of Punjab and Haryana at the end of each procurement season during the six year period was 609.83 LMT, and against which the aggregate vacant storage space available in the major wheat consuming states was 164.82 LMT. FCI could have increased direct delivery of wheat from the SGAs to that extent and utilized the vacant space. The quantity of direct delivery of wheat during procurement seasons could also be increased by utilizing available vacant space in other consuming states as the effective utilization of available space in various states during the six year period was less than 75 per cent in majority of the months.

Thus, utilisation of vacant storage space through timely and systematic evacuation planning could minimise payment of carry over charges to SGAs. Payment of carry over charges should be done only in exceptional circumstances rather than a regular practice as is being followed in FCI.

(ii) Short delivery of wheat from SGAs in Punjab and Haryana to utilise available storage capacity of FCI

During each procurement season, FCI takes direct delivery of wheat procured by SGAs at the mandis depending upon availability of storage space. Audit, however, observed that after taking over 5.39 LMT to 17.36 LMT in April to June each year during the period 2006-07 to 2011-12, vacant storage space available in FCI regional office, Punjab ranged from 5 LMT to 26.67 LMT at the end of procurement season (April to June). The available storage capacity could have been used by direct delivery of additional quantity of wheat from SGAs. FCI, however, did not take direct delivery of wheat to utilise the

vacant space within the state and incurred an avoidable expenditure of ₹ 316.52 crore on carry over charges reimbursed to SGAs.

Similarly, in RO Haryana, storage space ranging from 0.24 LMT to 7.28 LMT was vacant at the end of procurement season during the period 2006-07 to 2011-12 after taking over of 6.69 LMT to 17 LMT in April to June each year. But due to short planning of direct delivery of wheat, an avoidable expenditure of ₹ 59 crore was made towards carry over charges to SGAs.

Thus, failure to utilise the vacant storage space due to short planning of direct delivery of wheat resulted in avoidable expenditure of carry over charges of ₹ 375.52 crore during the period 2006-07 to 2011-12.

The Management accepted the facts and stated (July 2012) that entire stock procured could not be taken over and FCI had to pay carry over charges to SGAs for keeping the food stock. Even if the stock had been taken over from the SGAs and stored in FCI hired godowns (assuming they were available) the resultant savings would have been one per cent higher rate of interest being paid to SGAs as compared to the rate of interest on cash credit which FCI would be paying to SBI. Moreover, the available space was kept vacant for storage of rice. Stocks taken over from the SGAs for storing in FCI godowns would involve multiple handling cost. Thus, for stocks holding up to four months with the SGAs, FCI did not incur any additional cost as the storage and interest charge for holding of stock remained lower than the handling cost which would have been incurred had the stocks been taken over in FCI godowns from the SGAs.

While endorsing the views of the Management, the Ministry further stated (January 2013) that larger quantity of food grains was held by SGAs for a longer period with the increase in procurement of wheat and due to constraints on the part of Railways in providing rakes. Had the Railways provided rakes as requisitioned by FCI, an additional 25 LMT could further have been moved in each of these years.

The contention of the Ministry that stocks from SGAs could not be moved solely due to constraints on the part of Railways is not acceptable as FCI should have adequately planned well in advance for evacuation of wheat stock each year keeping in view the prescribed time frame in order for the Railways to provide rakes as per requirement. In many instances, FCI requisitioned more rakes from Railways than initially planned with open dates leading to shortfall in supply of rakes. Huge accumulation of unlifted stocks with SGAs after the prescribed time frame is indicative of deficiency in movement planning.

The justification advanced by the Management and the Ministry for storage of wheat with SGAs for prolonged periods after 30 June each year needs to be viewed in the context of the types of storage capacity available. As brought out in Para 3.3.1, in the case of Punjab and Haryana, which are major procuring states, out of 103.93 LMT wheat stored at the end of March 2012, 76.16 LMT was kept in open/Covered and Plinth (CAP) by SGAs. The

storage in open/CAP should be restricted to the peak procurement season and only for a short span of time. Prolonged storage in open/CAP exposes the food grains to the risk of deterioration in quality.

Audit observed that payment of carry over charges to SGAs could be minimised by optimum utilisation of existing storage space with FCI in wheat procuring and consuming states through proper planning of direct delivery of wheat from SGAs in procuring states. The surplus stocks have to be evacuated sooner or later from the procuring states to consuming states to make the food grains available for distribution by incurring handling expenses.

Thus, allowing a large balance of food stock to remain with SGAs after June 30 every year for a long period of time by FCI on the ground that (a) if the stocks were taken over, it would save only marginal cost of one *per cent* higher rate of interest charged by SGAs for the food stock held by them and (b) that more expenditure on multiple handling would have to be incurred if the stocks were taken over, is not justified.

3.4.3 Silos storage capacity lying unused despite storage constraints

For the purpose of scientific storage of food grains in bulk form and for minimizing handling cost and saving of storage space, FCI stored food grains in silo system apart from conventional godowns in bagged forms. Of the total storage capacity of 156.40 LMT at the end of 2011-12, FCI had a total silo storage capacity of 4.62 LMT (constructed during the period 1960 to 1982) in different parts of the country. The state-wise silo storage capacity and their status is shown in the table below:

Table 3.9
Total capacity of own silos available with FCI

Sl. No.	Name of state	Year of construction	Total Storage Capacity (in MT)	Storage Capacity of Unused silos/ Center (in MT)	Year (since not in use)
1	Delhi	1970-71	21,000	21,000 (Maya Puri)	2003
2	Haryana	1971	20,000		
3	Punjab	1979 to 1982	60,000		
4	Uttar Pradesh	1967 to 1980	1,22,000	92,000 (Chanderi and Khurja)	1982 and 2004
5	Maharashtra	1960-64	1,88,000	1,88,000 (Manmad and Borivli)	2000 and 2004
6	Bihar	1976	32,000	32,000 (Gaya)	1987
7	West Bengal	1968	19,000	19,000 (Kolkata Port)	1995
Total			4,62,000	3,52,000	

Source: Storage and Contract Division of FCI.

Audit observed that out of the total 4.62 LMT of silo storage capacity, 3.52 LMT was lying unused for a period ranging from eight to 30 years despite shortage of storage capacity in FCI. Further analysis of the unused silos of 3.52 LMT revealed deficiencies in maintenance and disposal of the silos as indicated below:

- Lack of proper maintenance and shortage of skilled staff resulted in 3.12 LMT silo capacity remaining unutilised. FCI stated that the idle silos had become unusable and were beyond economical repairs. No cost-benefit analysis was, however, conducted to assess the actual position so as to put the silos to economical use.
- Silos at Mayapuri, Delhi of 21,000 MT capacity were lying unutilised due to non-installation of thermocouple and hygrometer since 2003.
- In case of silos of 19,000 MT capacity at Kolkata Port, FCI had decided on dismantling of silos and handing over the land to the Kolkata Port Authority which was also yet to be completed. Due to delay in dismantling and disposal, the Corporation incurred an avoidable expenditure of ₹ 4.62 crore by way of idle wages to labour (₹ 2.54 crore from 2001-02 to 2005-06), lease rent (₹ 2.04 crore from 2001-02 to 2011-12), and rent of office building (₹ 4 lakh from 2001-02 to 2010-11).

While accepting the audit observations, the Management stated (July 2012) that feasibility of utilising these concrete silos alongwith the cost benefit analysis for making those silos storage worthy, was under review and decision would be taken accordingly. The Ministry endorsed (January 2013) the reply of the Management.

3.4.4 Short hiring of space offered by Central Warehousing Corporation

One of the important components of operational expenditure of FCI is the rent of godowns arising out of hiring storage space from various agencies. The expenditure on hiring has also witnessed a sharp increase from ₹ 321.51 crore in 2006-07 to ₹ 1,119.03 crore in 2011-12. One of the main agencies from which storage space is hired by FCI is the Central Warehousing Corporation, a public sector entity under the Ministry of Consumer Affairs, Food and Public Distribution. FCI also hires storage space from State Warehousing Corporations, State Government Agencies and private parties for storage of food grains of the Central Pool stock. The trend of the capacities hired during 2008-09 to 2011-12 is depicted in the chart 3.5.

Chart 3.5
Capacity hired by FCI from CWC, SWCs, SGAs and private parties



With substantial increase in procurement from 2008-09 onwards, the storage gap with FCI widened steadily from 167.15 LMT as on 31 March 2009 to 331.85 LMT as on 31 March 2012. The increase in total storage space through owned (5 LMT) and hired (78.25 LMT) capacity, however, was only to the extent of 83.25 LMT during the same period.

Though space hired from CWC showed a consistent increase during 2008-09 to 2011-12, there was availability of additional space with CWC that could have been hired to reduce the storage gap with FCI.

Audit observed that CWC had offered space for hiring in various regions in the range of 1.45 LMT to 11.36 LMT during various months from May 2009 to March 2012, but FCI hired storage space only upto 3.16 LMT against the offer and did not avail the opportunity to hire more space from CWC to reduce the storage gap for the Central Pool stock. Region-wise and month-wise vacant space offered by CWC for the period from May 2009 to March 2012 is given in *Annex-VI*.

The Management stated (July 2012) that the decision to hire the space was essentially taken in a decentralised manner based on evaluation of felt need for storage in the field. In certain cases, storage capacity offered by CWC was not hired generally due to (i) capacity not being storage worthy, (ii) arrangement of handling & transportation not being available, and (iii) capacity not being physically available.

The Ministry endorsed (January 2013) the reply of the Management.

The Management needs to examine specific reasons for not hiring substantial storage capacities offered by CWC by different FCI Regional/Zonal offices and review the procedure of hiring storage space being followed by them. There is also a need for the Ministry to review the matter since vacant space of over a million tonnes in CWC entails a huge opportunity cost.

3.5 Augmentation of storage capacity

To meet the shortfall in storage capacity, the GOI had initiated augmentation activity under various programmes. The augmentation programmes undertaken during the period under review include (i) construction of owned storage godowns by FCI (ii) National Policy on Handling, Storage and Transportation of Food grains, and (iii) Private Entrepreneurs Guarantee Scheme (PEG) 2008.

Storage capacity of FCI including space arranged from main agencies, viz., CWC, SWCs, SGAs was sufficient to accommodate stock of food grains of the Central Pool till 2007-08. However, with the substantial increase in procurement of food grains from 2008-09 onwards, there was severe strain on available storage capacity for the Central Pool stock. The available storage capacity of FCI including hired capacity was only 336.04 LMT as against the stock of 667.89 LMT (excluding stock of 156.22 LMT procured by DCP states for the Central Pool) at the end of March 2012 thus leaving a gap of 331.85 LMT. Further, even if all the storage capacities of 491.86 LMT available with the main agencies, viz., FCI, CWC and SWCs are put together, there was shortfall in storage capacity of 332.25 LMT in 2011-12 as against the entire Central food stock of 824.11 LMT.

The capacity addition envisaged by the GOI under various augmentation programmes was 163.38 LMT. Details of storage capacity envisaged under various programmes and the status of construction during the period 2006-07 to 2011-12 was as under:

Table 3.10
Schemes for storage capacity augmentation

(Figures in LMT)

Sl. No.	Name of the Scheme	Storage capacity envisaged	Storage Capacity constructed
1	Owned capacity addition plan of FCI		
	i) XI Five year Plan scheme	0.52	0.45
	ii) Construction of storage capacity in North-East	<u>5.40</u>	<u>0.24</u>
	Total:	<u>5.92</u>	<u>0.69</u>
2	National Policy on Handling, Storage and Transportation of Food grains (June 2000) capacity was to be created by June 2008	5.50	5.50
3	Scheme for construction of godowns through private entrepreneurs (PEG) - July 2008	151.96	28.17
	Total	163.38	34.36

Audit observed that though the storage gap for the Central Pool stock was 331.85 LMT as against the available storage capacity of FCI including hired capacity, the GOI/FCI envisaged capacity addition of only 163.38 LMT during the period 2006-07 to 2011-12 under various augmentation programmes including 5.92 LMT for own construction by FCI. Out of this, only 0.69 LMT by FCI and 33.67 LMT under other schemes were actually constructed as on 31 March 2012. Only in the case of the National Policy on Handling, Storage and Transportation of Food grains was the augmentation of storage capacity in conformity with what was envisaged. Even if the targeted capacity addition of 163.38 LMT is achieved in future, the shortfall of storage capacity with FCI will persist to the extent of 168.47 LMT.

Audit observations on the augmentation of capacity under various schemes are indicated below:

3.5.1 Owned capacity addition plan of FCI

(i) XI Five Year Plan scheme

Under the XI Five Year Plan (2007-12), a total of 1.39 LMT storage capacity was envisaged initially in different states/UT,¹⁷ but 0.15 LMT for Jammu and Kashmir and 0.72 LMT was later transferred to PEG - 2008 scheme and construction of storage capacity in the North-East scheme respectively. Out of the remaining 0.52 LMT, 0.45 LMT capacity was completed till March 2012.

The Ministry stated (January 2013) that construction of 0.52 LMT storage capacity had been completed.

(ii) Construction of storage capacity in North East

To meet the storage gap of four months operational stock requirements in North East region, a special package plan was formulated (November 2010) for creation of 5.40 LMT storage capacity (including 0.72 LMT capacity taken under XI Five Year Plan) with a financial outlay of ₹ 568.17 crore. The target date of completion of the projects under this plan is March 2015. The state-wise details of the capacities envisaged were as under:

¹⁷ Assam, Mizoram, Karnataka, Tripura, Odisha, Lakshdweep, Nagaland, Manipur, Sikkim, Bihar, Himachal Pradesh and Jammu & Kashmir.

Table 3.11
Details of storage capacity envisaged for augmentation in North East

(Figures in MT)

Sl. No.	Name of state	No. of approved centers	Storage capacity
1	Arunachal Pradesh	10	20,280
2	Assam	14	3,45,000
3	Manipur	9	45,000
4	Meghalaya	4	35,000
5	Mizoram	2	20,000
6	Nagaland	2	15,000
7	Sikkim	2	15,000
8	Tripura	4	45,000
	Total	47	5,40,280

Audit observed that out of the proposed 47 centers, construction had been completed in only one center (5,000 MT in Assam) while work was in progress in 11 centers. In 17 centers, the land had been identified whereas in the remaining 18 centers, land was yet to be identified (January 2012).

The Ministry informed (January 2013) that land for construction of 1.54 LMT capacity had been taken over, land for 3.41 LMT capacity had been identified but not yet handed over by the State Governments and land for 0.40 LMT was yet to be identified.

3.5.2 National Policy on Handling, Storage and Transportation of Food grains

In the year 2000, the GOI formulated National Policy on Handling, Storage and Transportation of Food grains to reduce storage and transit losses and to modernise the system of handling, storage and transportation of food grains. Under the policy, the GOI's main emphasis was modernization and upgradation of bulk grain handling infrastructure which, *inter alia*, includes encouraging private sector for development of infrastructure for integrated bulk handling, storage and transportation of food grains, and transportation of food grains from farm to silos by specially designed trucks.

Audit analysis on implementation of the above policy revealed the following:

(i) Integrated bulk handling, storage and transportation of food grains by private sector

To implement the above policy, FCI entered into a service agreement with a private developer-cum-operator, i.e., M/s Adani Agri Logistics Limited (AALL) in June 2005 on 'Build, Own and Operate (BOO)' basis for integrated storage depots (silos) and bulk

handling and transportation of food grains between depots (silos). The service agreement included creation of silos storage capacity of 5.50 LMT by the private developer for guaranteed hiring by FCI and for procurement and supply of special rail wagons for transportation of food grains in bulk from designated silos in procuring states of Punjab and Haryana to silos located in the consuming states such as Tamil Nadu, Karnataka, Maharashtra and West Bengal. While the augmentation of 5.50 LMT storage capacity by the private developer was achieved, the following deficiencies were observed in audit:

(a) Non-fulfilment of terms under service agreement

Audit observed that as against the requirement of 400 rail wagons having capacity of 55 tonnes each as specified in the service agreement (June 2005), 260 wagons having capacity of 63 tonnes each were to be procured by AALL. Out of this, 210 wagons were supplied (February 2009) and the remaining 50 wagons were yet to be procured by AALL (March 2012). Due to the above deviation in number of wagons to be procured, an estimated capital cost savings of ₹ 25.85 crore had accrued to FCI which was yet to be recovered from AALL (March 2012).

Further, in respect of one of the silos at Bengaluru, Audit observed that construction was completed only in July 2010 though scheduled in June 2008. Liquidated damages (LD) on account of the delay to be recovered from AALL as per directions of Senior Level Monitoring Committee (SLMC) was ₹ 5.21 crore (March 2012).

The Management accepted (July 2012) the audit observations and stated that ₹ 29.01 crore with net present value of insurance premium would be passed on to FCI as capital cost savings and ₹ 5.21 crore as LD would be recovered from the firm as per decision of SLMC.

While acknowledging the audit observations, the Ministry stated (January 2013) that AALL has agreed for payment of LD of ₹ 5.21 crore on account of delay in construction of silos at Bengaluru. In response to the advice of the Board, AALL has agreed for purchase of residual number of wagons instead of making upfront payment of ₹ 29.01 crore to FCI and reduction of storage-cum-handling charges on proportionate basis till the wagons are acquired and certified by the Railways. Accordingly, the revised proposal of AALL has been approved by the Board in its meeting in December 2012. Since the levy of LD and acquisition of full capacity of wagons are inter-linked, the recoveries of LD could not be effected pending a decision on the acquisition of wagons.

(b) Shortfall in provision of rakes and under-utilisation of silos

Under the service agreement between FCI and AALL, Storage cum Handling Charges (SCHC) for Agreed Annual Guaranteed Tonnage (AGT) of each depot was fixed at a rate of ₹ 415 per MT on 66,700 MT in respect of field depots (Silos) in consuming states. Audit observed that in three field depots (silos) at Chennai, Coimbatore and Bengaluru, AALL provided two rakes which could carry 2,995 MT consisting of 49 wagons each with

a maximum of 1,55,740 MT per year against the envisaged silos capacity of 2,00,100 MT (66,700 MT each for three depots) resulting in shortfall against the envisaged volume of work.

Audit also analysed the actual utilisation as against the AGT in terms of volume of food grains stock. The position of actual utilisation of silos capacity against the AGT in three centers and payment of SCHC during the review period is indicated in Table 3.12.

Table 3.12
Details of actual utilisation against the AGT and payment of SCHC

Name of the depot	Commencement	Year	SCHC paid	AGT as per agreement (MT)	Actual receipt in Depot (MT)	Percentage of achievement	SCHC paid for unutilized silo capacity (₹)
(a)	(b)		(c)	(d)	(e)	(f)	(g) = ((100 - Col f) x Col. C)
Chennai	April 2009	2009-10	2,76,80,232	66,700	24,355	36	1,77,15,348
		2010-11	2,76,80,232	66,700	21,147	32	1,89,05,598
Coimbatore	Nov 2008	2008-09	1,09,18,314	48,900	24,334	49	55,68,340
		2009-10	2,76,80,232	66,700	0	0	2,76,80,232
		2010-11	2,76,80,232	66,700	11,339	17	2,29,74,592
Bengaluru	Sept 2009	2009-10	87,01,321	38,908	24,012	62	33,06,502
		2010-11	2,67,07,901	66,700	21,209	32	1,82,14,788
Total			15,70,48,464	4,21,308	1,26,396		11,43,65,400

Audit observed that utilization of silos against the AGT ranged between 0 per cent and 62 per cent only indicating under-utilisation of capacity provided under the service agreement. This resulted in payment of SCHC amounting to ₹ 11.44 crore for the silos capacity not utilised.

While acknowledging the audit observations, the Ministry stated (January 2013) that silos were now being utilised by FCI only on actual utilisation basis and storage-cum-handling charges wrongly paid on guaranteed tonnage had already been recovered along with the penal interest on excess payment made to AALL.

(ii) Non-implementation of transportation of food grains from farm to silos

Under the national policy, transportation of food grains from farm to silos by specially designed trucks was one of the important elements for modernization and upgradation of bulk grain handling infrastructure. Audit, however, observed that FCI had not taken any steps for bulk handling and transportation of food grains from farm to silos by specially designed trucks as envisaged under the policy. Further, it is pertinent to point out that though the service agreement entered into with a private developer (AALL) had the

provision for receipt of food grains at silos point in bulk upto 80 *per cent*, FCI did not operationalise transportation of food grains from farms or mandis to designated silos. FCI continued to have the food grains transported from mandis to the silos by conventional method of gunny bags (March 2012).

Consequently, FCI had to incur expenditure of ₹ 13.14 crore towards the cost of gunnies, stitching and handling charges, etc., during Rabi Marketing Seasons 2008-09 to 2011-12 in Punjab and Haryana which could have been avoided had FCI operationalised transportation of food grains in bulk from farms/ mandis to silos as envisaged in the policy.

On being pointed out, the Management stated (October 2009) that all out efforts were made to accept wheat stocks to the tune of 80 per cent in bulk. For this purpose, separate tenders for transportation of wheat in bulk from mandis to silos were also floated, but no contractor came forward. Hence, it was decided to transport wheat in gunny bags and the costs incurred by FCI were inevitable.

While endorsing the reply of the Management, the Ministry stated (January 2013) that due to lack of response from transporters, FCI was compelled to move the stock of wheat for delivery at the silos, in bags.

The Ministry reply is not acceptable as the Ministry/FCI had not taken any steps for bulk handling and transportation of food grains from farms or mandis to designated silos in an integrated manner as envisaged by GOI in its policy. Instead, FCI floated tenders in an isolated manner, for transportation of wheat in bulk from mandis to silos in its regional offices of Punjab and Haryana, which did not evoke any response from the transporters.

Thus, the objective of transportation of food grains from farms to silos for integrated bulk grain handling as envisaged under the National Policy on Handling, Storage and Transportation of Food grains remained to be achieved.

3.5.3 Private Entrepreneurs Guarantee Scheme (PEG) 2008

To create storage capacity required for storing food grains stock of four months requirements for TPDS in consuming states and for procured food grains stock in procuring states, the GOI formulated a scheme for construction of godowns through CWC, SWCs and private entrepreneurs in July 2008. Audit observations on the implementation of the scheme are discussed below:

- i) As on March 2012, HLC approved 151.96 LMT storage capacity only after nine months to 32 months (April 2009 to March 2011) since introduction of the scheme in July 2008 which led to delays in the implementation of the scheme (*Annex-VII*).
- ii) Of the approved capacity of 151.96 LMT, 107.04 LMT had been sanctioned under the scheme leaving a balance of 44.92 LMT at the end of March 2012. Out of the

sanctioned 107.04 LMT capacity, 87.03 LMT was allocated to private entrepreneurs and the remaining 20.01 LMT storage capacity was sanctioned to CWC (5.40 LMT) and SWCs (14.61 LMT).

- iii) Out of 28.17 LMT capacity completed at the end of March 2012, 18.03 LMT storage capacity was added through private entrepreneurs since introduction of the scheme in July 2008. In respect of CWC and SWCs, 3.24 LMT and 6.90 LMT respectively was constructed under the scheme.

The Management stated (July 2012) that 28 LMT storage capacity was constructed by end of March 2012 under PEG Scheme and another 83 LMT storage capacity was expected to be completed by March 2013.

While accepting the audit observations on delay in implementation of the scheme, the Ministry stated (January 2013) that the delays were due to substantial time taken for assessment of storage space requirement, review for enhancement of guarantee period from initial five years to ten years and modification in model tender form/specification of godowns, etc.

Audit recommendations and responses of the Ministry

Sl. No.	Recommendations of Audit	Ministry's replies
5	The GOI/FCI should take a strategic view/conduct a detailed cost benefit analysis to decide the mix of owned and hired storage capacity and augment the storage capacity accordingly instead of solely depending on outside agencies.	Accepted to conduct the required detailed cost benefit analysis. However, Government has already decided to augment the storage capacity only through short-term and long-term hiring of godowns, except for North-Eastern states including Sikkim and certain special cases.
6	FCI should ensure optimal utilization of existing storage capacity for timely evacuation of food grains from procuring states to consuming states to reduce the carry over charges payable to SGAs.	Accepted.
7	In view of dismal storage capacity addition during last five years, GOI/FCI should expedite the ongoing augmentation plan under various programmes (PEG 2008/PEG 2009 and Plan Scheme for NE and other states) to overcome the bottlenecks/constraints faced in various states in consultation/collaboration with respective State Governments.	Accepted.

Chapter - IV

Movement of Food grains

4.1 Status of movement of food grains

Under the existing food management framework, FCI is the only Government agency for movement of food grains in the Central Pool. This constitutes a very important role of FCI involving coordination and monitoring of activities with railways authorities, transporters and State Governments, and amongst its different Zonal/Regional Offices. The expenditure incurred by FCI on movement of food grains by rail and road during the period 2006-07 to 2011-12 was as under:

Table 4.1
Expenditure incurred by FCI on movement of food grains

Particulars	(₹ in crore)					
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Rail freight	2,627.09	2,697.34	2,658.07	3,285.03	3,505.37	3,751.56
Road freight	442.54	509.77	562.46	650.84	732.97	975.81
Total	3,069.63	3,207.11	3,220.53	3,935.87	4,238.34	4,727.37

The basic objective of movement is to evacuate food grains from the procuring states to deficit states with a view to reducing strain on the available storage capacity and to ensuring availability of food grains for distribution under TPDS and OWS in different parts of the country. Distribution of food grains under TPDS and OWS is carried out on the basis of monthly allocation made by the GOI and offtake of food grains from the Central Pool by various states. Stock of food grains is also to be moved to consuming states irrespective of consumption requirement to create buffer stocks as a measure of food security. The position of inter-state movement of food grains by rail and road, and movement ex-North during the period 2006-07 to 2011-12 was as under:

Table 4.2
Movement of food grains by rail and road

(Figures in LMT)

Particulars		2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Overall Movement	Rail	203.25	203.98	204.60	249.18	279.65	303.23
	Road	18.45	17.81	20.57	26.65	25.64	24.54
	Total	221.70	221.79	225.17	275.83	305.29	327.77
Movement Ex-north	Inter	175.02	178.09	167.37	188.54	221.23	201.01
	Intra	1.58	1.94	2.14	0.81	3.32	7.49
	Total	176.60	180.03	169.51	189.35	224.55	208.50

Audit findings on movement of food grains are discussed below:

4.1.1 Shortfall in movement of food grains

Movement of food grains was planned by FCI in the range of 42 *per cent* to 71 *per cent* of the procurement made during the period 2006-07 to 2011-12. Movement of food grains as against the procurement made during the above period was as below:

Table 4.3
Year-wise procurement and movement of food grains

(Figures in LMT)

Year	Procurement	Movement			Percentage of		
		Planned	Actual	Difference	Planned movement to Procurement	Actual movement to Procurement	Shortfall in actual movement to procurement
2006-07	343.37	243.47	221.70	-21.77	71	65	35
2007-08	398.65	239.56	221.79	-17.77	60	56	44
2008-09	567.93	239.36	225.17	-14.19	42	40	60
2009-10	574.16	312.30	275.83	-36.47	54	48	52
2010-11	567.12	362.97	305.29	-57.68	64	54	46
2011-12	633.76	391.86	327.77	-64.09	62	52	48

Audit observed from the above that evacuation of food grains stock from the procuring states was short by 35 per cent to 60 per cent of the food grains procured during the period 2006-07 to 2011-12. The actual movement against the planned quantity was also in the range of 84 per cent to 94 per cent during the same period. Thus, substantial shortfall in movement of procured stock despite increase in procurement level had resulted in huge accumulation of food grains stock in procuring states during the period under review.

While agreeing to the audit observations, the Ministry mentioned (January 2013) the reasons for not moving the food grains to the extent of procurement were due to such factors as open ended procurement, monthly allocation/offtake and availability of vacant storage space in different regions and availability of rakes by Railways, etc.

Audit is of the view that shortfall in movement of food grains against planned/procurement resulted in huge accumulation of food grains stock causing severe strain on the available storage capacities in the major procuring states.

4.2 Transportation of food grains of the Central Pool

During the period 2006-07 to 2011-12, about 75 per cent of stocks were moved ex-North as procurement was largely concentrated in the North and the remaining 25 per cent was moved from other procuring states of Andhra Pradesh, Chhattisgarh, Odisha, West Bengal and Madhya Pradesh. During the above six year period, movement of stocks by rail constituted about 92 per cent and the remaining 8 per cent was moved by road for short distances and between places which were either not connected or sufficiently not connected by rail. Audit, therefore, analysed planning and implementation of movement of food grains by rail and audit findings thereon are as discussed below:

4.2.1 Shortfall in supply of rakes by Railways

For purpose of movement of food grains by rail, FCI prepares a monthly movement plan in terms of railways rakes to be dispatched to various destinations. The plan includes monthly schedules indicating date-wise and weekly requirement of rakes for different centers. The position of rakes planned vis-à-vis actually dispatched during the period 2006-07 to 2011-12 was as given below:

Table 4.4
Number of rakes planned and actually dispatched

Year	No. of rakes planned	No. of rakes despatched	Shortage of rakes	Shortage of rakes (in percentage)
2006-07	9,938	8,937	1,001	10
2007-08	9,778	9,161	617	6
2008-09	9,387	8,830	557	6
2009-10	12,247	10,817	1,430	12
2010-11	14,234	11,972	2,262	16
2011-12	13,215	10,969	2,246	17

Audit observed that the shortage of rakes with reference to planned ranged from 6 per cent to 17 per cent during the six year period. Thus, on the whole, supply of rakes by the Railways as per movement plans of FCI showed considerable deviation which needs to be addressed.

While agreeing to the audit observations, the Ministry stated (January 2013) that regular meetings were held with Railways to improve the supply of rakes.

4.2.2 Deviation from linear programming based movement plan

To economise food grains movement, FCI had taken an initiative to plan movement of food grains through a computer based model of Linear Programming (LP) exclusively for ex-North movement since February 2006. This LP captures the shortest route between dispatching centers and the receipt centers in line with the Railways Rates Branch System (RBS) involving least cost. The position of rakes requisitioned by FCI and actually moved by the Railways as per the LP based plan during the period 2006-07 to 2011-12 was as given below:

Table 4.5
Total number of rakes loaded by FCI and rakes moved by the Railways as per LP

Year	Total no. of rakes loaded by FCI	Total no. of rakes moved as per LP by Railways	Compliance (in percentage)
2006-07	4,693	2,951	63
2007-08	4,474	1,847	41
2008-09	5,301	2,908	55
2009-10	6,697	4,177	62
2010-11	8,021	3,363	42
2011-12	7,216	2,541	35
Total	36,402	17,787	49

Audit observed that compliance to LP based plan remained in the range of 35 *per cent* to 63 *per cent* during the six year period. Out of 36,402 rakes supplied by the Railways, only 17,787 rakes followed the routes indicated in the plan with a deviation of 51 *per cent*. This indicates that 18,615 rakes did not follow the most economical routes. Due to such deviation from the plan, the objective of LP for economising movement cost remained to be fully achieved. Besides, there was no consultation/association with the Railways in preparation of movement plan based on LP to achieve better compliance.

While agreeing with the audit observations, the Ministry stated (January 2013) that the matter had been taken up with the Railways at the highest level for compliance with LP generated movement programme of FCI. For better coordination in complying with the LP based movement plan, Railways representative was now participating in the monthly movement plan meeting of FCI.

4.2.3 Deficiency in monthly movement plan and gap in supply of rakes

Food grains are moved from the procuring states on the basis of movement plan prepared by FCI on monthly basis. For this purpose, FCI submits to the Railways monthly movement plans indicating station to station linkages along with date-wise/weekly priorities.

Audit, however, observed that in a number of cases, FCI did not consider day-wise requirements and operational constraints of their own loading points in field offices in its monthly movement plan. At the same time, due to operational constraints, Railways could not supply rakes as per planned requirements and did not adhere to the date-wise and destination-wise plan of FCI. Audit findings on the test check of records on monthly movement plan and its implementation in selected regional offices of FCI are given below:

- (i) In Punjab region, rakes were planned by FCI (March 2008) without considering the day-wise requirement for different centres leading to bunching of rakes at loading points. This also had resulted in operational constraints at the loading points such as continuous engagement of labour involving high payment of incentives and long absence of labour in other depots hampering work and leading to piling up of consignments.

Initially 5,327 rakes were planned during 2009-10, however, 6,407 rakes were actually requisitioned which included 331 rakes with open dates. Out of these, Railways could provide only 5,552 rakes. Similarly, during 2010-11, as against 5,788 rakes planned initially, 6,710 rakes were actually requisitioned which included 767 rakes with open dates whereas Railways could provide only 5,770 rakes. In 2011-12, 6,354 rakes were requisitioned which included 884 rakes with open dates and Railways could provide only 5,511 rakes.

- (ii) In Haryana region, a total of 1,941 rakes including 246 rakes with open dates were requisitioned during 2009-10. Against this, Railways provided only 1,711 rakes. Similarly, in 2010-11, 2,470 rakes including 255 rakes with open dates were requisitioned out of which 2,399 rakes were provided by the Railways. In 2011-12, 1,949 rakes including 243 rakes with open dates were requisitioned out of which 1,707 rakes were provided by the Railways.
- (iii) In Chhattisgarh region, 4,593 rakes were actually provided by Railways against 5,014 rakes planned during the period 2006-07 to 2011-12. The range of rakes provided by Railways against those planned by FCI was between 87.57 per cent and 97.80 per cent. The shortfall was due to coordination problem with the Railways and among different centers of FCI.

Thus, Audit observed that the mismatch between planned and actual supply of rakes and high number of rakes with open date adversely affected the weekly plan/dispatch of rakes. The deficiencies noticed in the movement planning of food grains between FCI and the Railways indicate lack of adequate coordination in movement activities resulting in shortage in the supply of railway rakes.

The Management stated (July 2012) that in order to resolve the issue of non-compliance of weekly priorities by Railways, the matter was taken up at the level of Railway Board, Zonal Railways and local Railways offices. In fact, the planning of rakes could be achieved 100 per cent if there was no dependency on Railways. The supply of rakes by the Railways was always as per the availability of the wagons, traffic, clearance of route, load on the lines and several other factors. Periodical meetings were held with the Railway Board to sort out the issue of supply of rakes. The issues were discussed at the level of Committee of Secretaries and Cabinet Secretary.

The Ministry stated (January 2013) that Railways provide rakes as per its own convenience and discretion and does not necessarily provide the rakes as per the FCI's requisition made. Apart from taking up the matter with the Railways to improve the existing supply chain management in FCI, Price Waterhouse Cooper, had been entrusted with the study, and the Ministry and FCI were also working together on National Food grains Movement Plan to improve the existing system of food grains movement.

4.3 Inefficiencies in movement of food grains

An analysis of movement related activities in Audit revealed that the main reasons for inefficiencies in movement of food grains were deficient monthly movement planning, unplanned/unscheduled supply of rakes and dispatch without proper assessment of requirement at the consignee end, delay in loading and unloading of railway wagons, and weakness in existing system of claim settlement. The above inefficiencies in movement related activities resulted in avoidable expenditure, losses and delays in settlement of claims on account of the following reasons:

- rebooking and diversion of railways rakes
- demurrage payment
- delay in reconciliation of missing and unconnected wagons
- non-settlement of refund claims of freight
- excess payment of railway freight
- irregular payment of Hill Transport Subsidy, and,
- pendency of reimbursement of Hill Transport Subsidy claims

Audit observations on the above are highlighted below:

4.3.1 Rebooking and diversions

Rebooking takes place when consignment is booked to any other station after it reaches its original destination while diversion of consignment to other station is effected before it reaches its destination station. Audit observed that an expenditure of ₹ 79.41 crore on rebooking and diversion of rakes was incurred by FCI during the period 2006-07 to 2010-11. In 2011-12, the expenditure on rebooking and diversion was ₹ 28.85 crore. This was mainly due to non-availability of storage space at the original destinations and unplanned diversions of rakes to meet TPDS requirement at different centers indicating deficiency in movement plan.

While agreeing with the audit observations, the Ministry stated that the expenditure of ₹ 79.41 crore on account of rebooking and diversion was against 135.08 Million MT of stock moved through rail. The cost per MT thus came to ₹ 5.88 only.

Audit, however, is of the view that ₹ 79.41 crore incurred by FCI on rebooking and diversion could be further minimized by improving the movement plan of food grains.

4.3.2 Demurrage payment

Delay in loading and unloading of wagons attracts demurrage payment by FCI to Railways. While in respect of operations carried out on contract basis, demurrage for delays is recoverable from contractors, FCI is responsible for demurrage relating to operations carried out through its departmental labour.

Audit observed that an amount of ₹ 357.12 crore was paid on account of demurrage during the period 2006-07 to 2011-12 due to unplanned/unscheduled movement and detention of rakes at loading and unloading points. The average expenditure due to demurrage was ₹ 59.52 crore per year. FCI could succeed in getting waiver from the Railways only to the extent of ₹ 91.28 crore and recovered ₹ 100.05 crore from handling and transport contractors (HTC) during the period 2006-07 to 2011-12. Payment of demurrage charges

showed an increasing trend over the period from ₹ 22.73 crore (2006-07) to ₹ 132.51 crore (2011-12).

The Management stated (December 2011) that increase in demurrage charges occurred due to handling of higher number of rakes and round the clock placement of rakes by the Railways, non-synchronization of working hours, less free time allowed by Railways to load/ unload the rake and periodical labour unrest/ transport strike.

The Ministry endorsed the views of the Management and stated (January 2013) that for reduction of demurrage, measures for streamlining the deployment of labour at the level of Committee of Secretaries are being taken by FCI.

Audit is of the opinion that consistent occurrence of demurrage payments to Railways is indicative of ineffective management of handling activities by FCI. Given the fact that Railways have their own timings, unless deployment of labour within the organization is streamlined by FCI, expenditure on handling charges would continue to increase.

4.3.3 Undue delay in reconciliation of missing and unconnected wagons

Diversion of food grains wagons occurred both at the instance of FCI and due to certain operational exigencies of the Railways. Diversion of wagons at times resulted in unconnected or missing wagons for the receiving depots. According to the reconciliation system followed in FCI, claims are lodged with the Railways in case of non-delivery of the wagon, the liability of which lies upon the Railways. Thereafter, a reconciliation of missing and unconnected wagons is done by the Zonal Claim Cell (ZCC) of FCI with the respective Zonal Railways. The un-reconciled missing and unconnected wagons are then taken up by FCI headquarters with the Railway Board for match adjustment.

Audit observed that as per the match adjustment conducted,¹⁸ the Railways was liable to pay ₹ 36.64 crore to FCI on account of missing/unconnected wagons for the period of 1967-68 to 1999-2000. FCI, however, failed to recover the adjustment amount from the Railways (March 2012). Moreover, reconciliation for final match adjustment for the missing/unconnected wagons with the Railway Board had not been conducted for the 12 year period from 2001 to 2012.

The Ministry stated (January 2013) that on further reference to Railway Board to pay the reconciled amount to FCI, the Board assured to settle the claims only after reconciliation upto 2006-07 was over. Out of the total 14 Zonal Railways, reconciliation had been

¹⁸ Phase-I (1967-68 to 1985-86), Phase-II (1986-87 to 1995-96) and Phase-III (1996-97 to 1999-2000).

carried out upto 2011-12 in respect of five zones,¹⁹ in six zones²⁰ upto 2010-11, in two zones²¹ upto 2009-10 and one zone²² upto 2008-09.

The fact remains that total value of missing wagons which was ₹ 5.08 crore in 2006-07 had increased to ₹ 11.24 crore in 2011-12. Similarly, the value of unconnected wagons was ₹ 3.33 crore in 2006-07 which had increased to ₹ 6.82 crore in 2011-12. Thus, the existing system of reconciliation with the Railways needs to be strengthened.

4.3.4 Non-settlement of refund claims of freight

Claims of refund arise when the FCI has paid the Railways in excess of what was actually due and claims should be lodged with the Railways for refund. Excess payment of freight by FCI to Railways could be due to various reasons such as erroneous calculation of freight, double payment of freight, diversion of wagons /rakes, etc.

Audit observed that claims lodged with the Railways were pending for settlement for one year to 32 years. The pendency of refund claims of freight was reduced from ₹ 65.89 crore in March 2007 to ₹ 58.11 crore in March 2012. In North Zone, pendency of claims was ₹ 41.62 crore as of March 2007 which increased to ₹ 47.25 crore in March 2012. In West Zone, claims were of ₹ 9.14 crore in March 2007 which reduced to ₹ 6.67 crore in March 2012. In South Zone, claims of ₹ 2.13 crore were pending as of March 2012.

The Ministry stated (January 2013) that despite the fact that new cases were lodged every year the overall pendency of the claims had decreased over the years.

Audit, however, observed that settlement of refund claims of freight was slow as ₹ 65.89 crore was pending for recovery from the Railways at the end of March 2007 which could be reduced only to the extent of ₹ 58.11 crore at the end of March 2012. Pendency of claims for such a long duration indicates lack of effective monitoring of refund claims at the level of regional/ zonal offices. Monitoring mechanism at the FCI headquarters needs to be urgently strengthened.

4.3.5 Excess payment of railway freight

Claims for refund should be lodged with the Railways within six months from the date of booking when payment was made over what was actually due. Audit noticed excess payment of freight to Railways for which claims were not lodged within the prescribed time in two selected regions covered in audit as highlighted below:

¹⁹ Konkan Railway, Western Railway, Central Railway, Mumbai Port Trust Railway, South Central Railway.

²⁰ Northern Railway, South Western Railway, Southern Railway, Eastern Railway, South Eastern Railway, East Central Railway.

²¹ North Eastern Railway, North East Frontier Railway.

²² East Coast Railway.

- (i) In AP region, till December 2004, the Railways were charging freight on the basis of the distance of transportation by multiple rounding off at each intermediate stage to the next kilometer. To remove anomalies in the method of arriving at the chargeable distance for fare and freight by different zonal Railways, it was decided to charge transportation by rounding off the total distance to next higher kilometer only once at the destination point w.e.f. January 2005. Due to revised policy of the Railways, the distance slabs were reduced and FCI was entitled to pay freight at lower rates.

A test check of cases for the period 2006-07 to 2010-11 revealed that FCI continued to pay at higher slabs and this had resulted in payment of excess freight to an extent of ₹ 3.47 crore for dispatches from Andhra Pradesh to various destinations.

The Management stated (July 2012) that non-observance of Railways policy communicated in December 2004 by certain districts of AP region was being looked into separately for initiation of necessary action. FCI could not get any refund as the time limit of six months from date of booking for preferring claim had already expired since April 2006.

- ii) In RO Chhattisgarh, test check of Railway Receipts (RRs) for the years 2008-09 to 2011-12 revealed that the distances adopted for payment of freight were more than the distances indicated in Railway website effective from 1 January 2008. This resulted in excess payment of freight by ₹ 2.71 crore (in 147 out of 3112 cases) to the Railways due to adoption of incorrect distances for various destinations by FCI. The prescribed time limit of six months from the date of RR expired for all the bills and the Corporation lost the opportunity to claim refunds.

The Management stated (July 2012) that the distance taken by the Railways for calculation of freight was not the same as was available on the Railways website. On certain occasions, the freight demanded by the Railways for the higher distance was to be paid by FCI to move the stock.

The reply is not acceptable because freight has to be paid on the basis of the distance shown in the Railway website and citing of operational problem of the Railways as a reason for overpayment is not valid.

While accepting the audit observations, the Ministry stated (January 2013) that frequent revision in freight rate, class of commodity as well as in distance block might had caused excess payment.

4.3.6 Pendency of Hill Transport Subsidy claims

Reimbursement of Hill Transport Subsidy (HTS)²³ is meant for the states and UTs which are predominantly hilly with little or no railway lines and poor road communications. The cost of transportation for moving of stocks is reimbursed from base depot to designated Principal Distribution Centres (PDCs). The HTS claims are required to be settled within 10 working days after submission of claims by State Governments on a monthly basis.

Review of records at FCI headquarters, however, revealed that a total of ₹ 46.34 crore was outstanding for reimbursement to states for HTS claims during the period 2006-07 to 2009-10. The pendency of reimbursement of HTS claims as on March 2012 stood at ₹ 184.51 crore. Out of this, claims outstanding for ₹ 113.40 crore pertained to Arunachal Pradesh, ₹ 3.12 crore to Himachal Pradesh, ₹ 20.88 crore to Jammu & Kashmir, ₹ 1.53 crore to Manipur, ₹ 37.15 crore to Mizoram, ₹ 3.91 crore to Nagaland, ₹ 1.24 crore to Sikkim and ₹ 3.28 crore to Tripura.

The Management stated (July 2012) that in most cases HTS bills could not be settled by FCI as per prescribed time frame as State Governments were not preferring their claims with supporting documents along with proof of payment as per prescribed guidelines.

The Ministry endorsed the view of the Management and stated (January 2013) that the issue was examined during 2011-12 and the procedure simplified to establish the linkage between the amount passed by the Treasury and amount credited to the transporters' account for timely settlement of HTS claims.

Audit, however, observed that accumulation of HTS claims to the extent of ₹ 184.51 crore for long duration is indicative of delays and weakness in the existing settlement procedure which undermines the very objective of HTS scheme.

4.3.7 Unauthorised payment of Hill Transport Subsidy

In violation of the conditions laid down in the GOI instructions of October 2002 allowing reimbursement of transportation cost of wheat and rice under HTS, FCI DO Visakhapatnam paid cost/ocean freight for movement of sugar to various PDCs in Andaman & Nicobar Islands. This resulted in unauthorised payment of HTS of ₹ 10.02 crore for the period 2003-04 to 2011-12. The unauthorised payment was, however, yet to be recovered by FCI (March 2012).

²³ HTS, in operation since August 1, 1975, is presently applicable to 11 states, viz., Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Andaman & Nicobar Islands and Lakshadweep.

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The Ministry stated (January 2013) that refund for wrong release of Hill Transport Subsidy to Andaman & Nicobar Administration was being pursued.

4.4 Operational losses

4.4.1 Transit and storage losses of food grains

Transit loss is the difference between the weight dispatched by the consignor and the weight received by the consignee which may occur during transit due to pilferage, short loading of wagons, spillages, multiple handlings of bags, driage,²⁴ etc. Similarly storage loss occurs due to pilferage, theft and natural causes such as loss of moisture, driage, infestation, etc., during storage of food grains. Storage loss is revealed as and when each stack is completely issued or cleared and represents the difference between the stock balance as per books and the physical stock balance.

According to the laid down procedure followed in FCI, all cases of losses were to be investigated in time and a certain percentage be fixed upto which the total shortage may be considered reasonable according to local conditions with documentation. No norms had been fixed by FCI for determining reasonableness and abnormality of the operational losses. However, to arrest operational losses, FCI entered into a Memorandum of Understanding (MOU) with the Ministry which prescribed an annual target for curtailing of transit and storage losses.

The operational losses, after they have been duly investigated and the reasons for such losses determined, would be regularised by writing off and by taking disciplinary action, wherever necessary, against the delinquent officials within 60 days of the receipt of the cases.

Audit findings on the status of transit and storage losses vis-à-vis targets set in the MOUs with the GOI and its regularisation are discussed in the succeeding paragraphs:

4.4.2 Shortfall in achievement of annual target

The table below indicates the trend of transit and storage losses and achievement of annual targets as per MOU during the period 2006-07 to 2011-12:

²⁴*Driage refers to loss of moisture in the case of paddy.*

Table 4.6
Details of transit and storage losses and achievement of targets as per MOU

(Quantity in LMT and value in ₹ crore)

Transit Losses						
Year	Quantity Moved/Issued	Quantity Received/Issue weight	Losses observed	Value of loss	Percentage of loss	Percentage of loss as per MOU signed by FCI with Ministry
2006-07	322.58	321.19	1.39	145.38	0.43	0.36
2007-08	312.03	310.82	1.21	123.95	0.39	0.36
2008-09	303.84	302.78	1.06	117.42	0.35	0.40
2009-10	346.56	345.01	1.55	233.32	0.45	0.40
2010-11	376.01	374.24	1.77	281.94	0.47	0.43
2011-12	440.14	438.18	1.96	333.01	0.45	0.43
Total	2,101.16	2,092.22	8.94	1,235.02	0.43	
Storage Losses						
2006-07	654.89	653.55	1.34	153.76	0.20	0.18
2007-08	655.89	654.50	1.39	182.43	0.21	0.18
2008-09	620.17	619.59	0.58	101.31	0.10	0.18
2009-10	725.27	723.96	1.31	228.36	0.18	0.20
2010-11	817.20	815.46	1.74	323.78	0.21	0.22
2011-12	921.43	919.38	2.05	405.36	0.22	0.22
Total	4,394.85	4,386.44	8.41	1,395	0.19	

Audit observed that target for curtailing transit losses was achieved only in 2008-09 during the six year period from 2006-07 to 2011-12. The financial impact of transit losses over and above the target limit was ₹ 97.91 crore.²⁵

Similarly, in respect of storage losses FCI could not succeed in curtailing storage losses against the targets in 2006-07 and 2007-08 during the six year period. The amount of storage losses above the targets was ₹ 41.44 crore.²⁶

²⁵ ₹23.67 crore in 2006-07, ₹9.53 crore in 2007-08, ₹25.92 crore in 2009-10, ₹23.99 crore in 2010-11 and ₹14.80 crore in 2011-12.

²⁶ ₹15.38 crore in 2006-07 and ₹26.06 crore in 2007-08.

4.4.3 Undue delay in regularisation of transit and storage losses

Audit observed that though the entire process of investigation, fixing responsibility, etc., was to be completed within the prescribed 60 days of the receipt of the case, many cases were pending for a long period of time mainly due to delay in investigation at different levels. A review of records²⁷ at the FCI headquarters revealed the following position:

- i) Transit and storage losses to the extent of ₹ 933.05 crore were pending regularisation at the beginning of 2006-07 and continued to remain at ₹ 1,058.26 crore at the end of March 2012 for the period since 1980-81.
- ii) Regularisation of storage and transit losses was pending at different levels. Out of ₹ 1,058.26 crore pending at the end of 2011-12, ₹ 800.32 crore (76 per cent) was outstanding at the level of General Manager (Regional heads) which was the highest amongst different authorities.
- iii) At FCI headquarters level, transit and storage losses amounting to ₹ 56.48 crore were pending regularisation at the end of 2011-12. Detailed scrutiny revealed that out of ₹ 56.48 crore, losses to the extent of ₹ 23.59 crore in 118 cases pertaining to 1972-73 to 2009-10 were pending regularization due to non-availability of records. Further, a consolidated position on age-wise pendency of transit and storage losses region/zone-wise was also not maintained at FCI headquarters indicating inadequacy in its follow-up mechanism.

Thus, though regularization of transit and storage loss cases was to be completed within 60 days of their receipt, an amount of ₹ 1,058.26 crore pertaining to the period since 1980-81 was pending regularisation. Moreover, cases as old as 1979-80 to 2006-07 were regularised only during the period 2006-07 to 2010-11. The process of investigation and writing-off of transit and storage losses was not carried out in a time bound manner resulting in abnormal delays in regularisation of pending cases.

The Management stated (December 2011) that delay in regularisation of transit and storage loss cases at headquarters was mainly due to late receipt of regularisation proposals from the field offices to headquarters. In some of the cases, complete documents were not received for which correspondence was required with field offices. In respect of non-availability of records due to the age of the cases, zonal offices were requested to constitute a committee to see if any action could be taken at that stage.

The Ministry stated (January 2013) that the Corporation was taking necessary steps to regularise all the unregularised losses pending at different levels within a time frame.

²⁷ Monthly Performance Review Reports of FCI

Audit, however, observed that the existing procedure for regularisation of transit and storage losses has not shown any significant reduction in the pendency cases during the period 2006-07 to 2011-12 indicating lack of its effective implementation. Unless regularization of losses is carried out in a time bound manner after proper investigation and ensuring accountability, the accumulation of transit and storage loss cases would continue to persist.

Audit recommendations and responses of the Ministry

Sl. No.	Recommendations of Audit	Ministry's replies
8	The GOI should establish a formal mechanism involving Ministry of Railways and Department of Food/FCI to streamline movement activities. The existing operational constraints of the Railways in supply of rakes as per the requirement of FCI should be addressed urgently.	Accepted. A Co-ordination Committee consisting of Joint Secretary (P&FCI), D/o F&PD, Executing Director (Traffic Transportation), Ministry of Railways and Executive Director (T), FCI has been constituted to consider various issues arising between the FCI and Railways on weekly basis.
9	FCI should streamline and strengthen the existing system of reconciliation of missing and unconnected wagons and settlement of refund claims with the Railways.	Accepted. Already there are Zonal level joint committees to reconcile the missing and unconnected wagons and to resolve the settlement of refund claims.

Chapter - V

Internal Control

5.1 Internal audit and physical verification

Internal audit is an important constituent of the overall system of internal control²⁸ and is defined as a systematic and independent examination of data, statement, records, operations and performances of an organization. It is a managerial control for measuring and evaluating systems, procedures and operations within the organisation. Internal audit seeks to detect irregularities, mistakes and frauds through its concurrent or post-audit checking of accounting and other records and of actual operations at site. At the same time, internal audit constantly reviews the entity's internal controls, policies, plans and procedures with a view to providing assistance to the management to achieve economical, efficient and effective operations of the organisation.

The functions of internal audit in FCI, *inter alia*, broadly include examination and evaluation of compliance of the Corporation to prescribed rules and regulations, systems and procedures. Internal audit also conducts independent physical verification of the stock of food grains held in depots and reports variation in the accounting records. Weak internal audit would expose FCI to the risk of non-compliance with rules, systems and procedures, inefficiencies and lack of control on operations. Weakness in conduct of physical verification of stock would render FCI to the risk of fraud and misappropriation of food grain stock.

Audit examined the adequacy of internal audit arrangements and the physical verification conducted by Internal Audit and Physical Verification (IAPV) Division of FCI. The audit findings are discussed in subsequent paragraphs.

5.2 Organisational setup of internal audit and physical verification

The coordination of internal audit functions on an all-India basis is under the overall supervision of Executive Director (ED) who reports directly to the Chairman & Managing

²⁸ Internal control is defined as the plan of organisation and all the methods and procedures adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

Director, FCI. The ED is assisted by a General Manager with supporting staff. The internal audit work is coordinated at zonal level by a General Manager in the zones. The audit of regions is under the immediate charges of Deputy General Managers, who are assisted by a group of IAPV parties, each consisting normally of two Managers (Accounts).

5.3 Status of internal audit and physical verification

5.3.1 Shortfall in achievement of audit plan

An analysis of audit coverage revealed that on an average 519 depots were selected per year for internal audit during the period 2006-07 to 2011-12. Given the 1600 depots/ 169 district offices (including one port office) in FCI, all the units can be covered within a cycle of three years. The actual coverage, however, remained at an average of 386 depots and showed a decreasing trend during the period 2009-12. The number of internal audits planned and actual audit coverage by FCI during the period 2006-07 to 2011-12 was as under:

Table 5.1
Number of internal audits planned and actual coverage

Zones	2006-07		2007-08		2008-09		2009-10		2010-11		2011-12	
	P	A	P	A	P	A	P	A	P	A	P	A
North Zone	297	269	271	251	272	254	244	212	177	192	224	156
East Zone	47	18	101	15	56	1	87	3	87	10	41	5
North East Zone	20	12	18	3	28	7	29	6	31	11	56	38
South Zone	93	84	90	87	95	76	89	67	105	69	69	51
West Zone	83	81	82	77	80	75	79	69	82	68	78	46
Grand total	540	464	562	433	531	413	528	357	482	350	468	296

(P- Planned, A- Actual)

While audit coverage was in the range of 70 per cent to 108 per cent in the North Zone, in the East Zone, the coverage was only to the extent of 2 per cent to 38 per cent. This was followed by the North East Zone which recorded 17 per cent to 68 per cent. In West and South Zones, the audit coverage ranged from 59 per cent to 98 per cent and 66 per cent to 97 per cent respectively.

In respect of physical verification (PV) by internal audit, the number of PV planned and actual coverage during the period 2006-07 to 2011-12 was as under:

Table 5.2
Number of physical verifications planned and actual coverage

Zones	2006-07		2007-08		2008-09		2009-10		2010-11		2011-12	
	P	A	P	A	P	A	P	A	P	A	P	A
North Zone	294	266	269	250	269	251	243	211	177	190	224	145
East Zone	47	16	101	15	56	0	87	7	87	10	46	25
North East Zone	20	12	18	3	28	7	29	6	31	11	56	37
South Zone	93	84	90	87	95	76	89	67	105	69	69	50
West Zone	83	81	83	78	79	73	79	70	83	68	60	50
Grand total	537	459	561	433	527	407	527	361	483	348	455	307

(P- Planned, A- Actual)

As can be seen from the above table, the coverage for physical verification showed wide variation amongst different zones. While in North Zone, PV was done to the extent of 65 per cent to 107 per cent, it was done only upto 54 per cent in East Zone and 17 per cent to 66 per cent in North East Zone. In South Zone, the coverage remained in the range of 66 per cent to 97 per cent and in West Zone, it was between 82 per cent and 98 per cent.

Thus, on the whole, the actual audit coverage for PV as against the plan was between 67 per cent and 85 per cent during the period 2006-07 to 2011-12.

The Management stated (July 2012) that decrease in the coverage was due to depletion of manpower in the Audit Division, which stood at around 29 per cent of the sanctioned strength and the problem was being solved by recruiting new officers/ officials.

The Ministry stated (January 2013) that the Corporation has started recruiting Managers and Group III employees in accounts cadre, some of whom would be placed in Audit division.

5.3.2 Outstanding internal audit paragraphs

Audit observed that 8467 Internal audit (IA) paragraphs having a value of ₹ 2,395.68 crore were pending settlement as on 31 March 2012. The pendency of IA paragraphs was high in North Zone with minimum pendency in North East Zone. Outstanding paragraphs of IA and money value during the period 2006-07 to 2011-12 were as under:

Table 5.3
Outstanding paragraphs of Internal Audit with money value

Zones	2006-07		2007-08		2008-09		2009-10		2010-11		2011-12	
	TP*	Value (₹ in crore)	TP*	Value (₹ in crore)	TP*	Value (₹ in crore)	TP*	Value (₹ in crore)	TP*	Value (₹ in crore)	TP*	Value (₹ in crore)
North	5941	2,568.89	4435	2,567.12	3863	2,106.70	4275	2,138.99	4665	2,178.10	4449	2,022.90
East	4647	620.23	3313	390.74	2496	287.88	2261	285.57	2337	282.79	1932	285.32
North East	2244	214.31	471	90.55	248	20.64	117	9.94	140	23.25	194	21.39
South	1130	69.87	772	33.12	419	725.54	477	703.60	337	19.05	470	20.98
West	1165	57.13	663	67.73	606	35.40	710	46.26	584	35.99	834	45.09
Hqrs	972	0	952	0	1004	0	1026	0	1039	0	588	0
Grand total	16099	3,530.43	10606	3,149.26	8636	3,176.16	8866	3,184.36	9102	2,539.18	8467	2,395.68

*TP – Total Paragraphs

5.3.3 Outstanding paragraphs on PV under IA

Audit observed that 1447 outstanding paragraphs of physical verification conducted by internal audit were pending settlement at the end of 2011-12. The highest pendency of paragraphs was in the East Zone followed by North Zone. The outstanding PV paragraphs for the period 2006-07 to 2011-12 were as under:

Table 5.4
Pendency of physical verification paragraphs

(No. of paragraphs)

Zones	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
North Zone	736	286	329	328	378	408
East Zone	1982	1395	959	881	876	806
North East Zone	617	20	15	4	10	49
South Zone	245	107	93	112	80	107
West Zone	323	60	61	55	58	77
Grand total	3903	1868	1457	1380	1402	1447

The Management stated (December 2011) that efforts were being made for settlement of physical verification paragraphs by forming audit committees.

5.3.4 Inadequacy in conduct of internal audit and physical verification

To examine the adequacy of internal audit arrangements and physical verification conducted by FCI during the period under review, Audit analysed the records of regional offices covered for detailed examination. Audit observations on the inadequacies of internal audit and physical verification actually conducted during the period of review are highlighted below:

- In Assam Region, out of nine districts covering 27 depots, 11 depots were not selected for Physical Verification for two to three years. Due to weak internal control, suspected misappropriation of rice/wheat stock amounting to ₹ 3.87 crore was noticed in seven districts²⁹ during the period under audit. In district offices of Guwahati and Tihu, PV of the stock was done by the custodian himself, which was in violation of the concept of “Custodian should not be verifier of stock” and the name and designation of the physical verification officer (PVO) signing the report was not properly recorded which lacks authenticity. As against 890 godown inspections planned during the period 2006-07 to 2011-12, 98 inspections were not conducted.
- In Bihar Region, except physical verification and internal audit conducted in Phulwarisharif depot, district office Patna during July/August 2009, no internal audit and physical verification of stock was done during the period 2006-07 to 2010-11 in other depots of entire Bihar Region by the IA&PV. Out of total 14 cases involving shortage of 26,069 MT food grains worth ₹ 52.90 crore in Bihar region, seven cases³⁰ were in the depots under district office Patna. The identity of PVO could not be ascertained from the PV reports of 2009 in district office Muzzafarpur. Even after detection of huge shortage by special PV teams, the coverage of internal audit and PV of stock did not improve much as these were done only in two district offices (Patna and Motihari) and in eight depots respectively during 2011-12.
- In West Bengal Region, out of 32 depots, internal audit wing did not conduct any physical verification during the period 2006-07 to 2010-11 except in four depots in the year 2009-10. Further, out of the total 20 district offices, 11 district offices were not audited for more than four years. The identity of PVO could not be ascertained from the annual physical verification report of district office Burdwan for the year 2011. As against 788 godown inspections planned, 101 inspections were not conducted. In 2011-12, except improvement in godown inspection (151 inspections out of 157 planned) and PV done in 16 depots, internal audit coverage continued to remain low as only one district office was audited.

²⁹ DO Kokrajhar, DO Bongaigaon, DO Jorhat, DO Dibrugarh, DO Banderdeva, DO North Lakhimpur, DO Silchar, DO Tejpur.

³⁰ Mokama, Phulwarisharif, Dumraon, Bihiya, Chausa, Buxar and Biharsharif.

- In Punjab Region, out of 629 depots planned for internal audit, 141 depots were not audited during the period 2006-07 to 2010-11. Further, out of a total of 593 physical inspections due for depots, 141 inspections were not carried out during the years 2006-07 to 2010-11. Further, a total of 74 cases of shortages were detected, out of which 64 cases were investigated and the shortage was written off accordingly. As against 3110 godown inspections planned during January 2006 to December 2010, inspections were not conducted in 125 cases. During the year 2011-12, 143 depot inspections were planned. Out of these, only 54 depot inspections were carried out leaving a balance of 89 depots.

In Chhattisgarh Region, out of 139 internal audits (118 depots and 21 district offices) planned, 13 internal audits (10 depots and 3 district offices) were not conducted during the period 2006-07 to 2011-12. Further, as against physical verification of 118 depots planned during the period 2006-07 to 2011-12, the same was not conducted in 10 depots.

- In Andhra Pradesh Region, out of 352 district offices/ depots planned for conducting internal audit, 58 district offices/ depots were not audited during the period 2006-07 to 2011-12. Further, as against 207 depots for which physical verification was planned during the six year period, the same was not conducted in 50 depots.
- In Haryana Region, as against 2583 godown inspections planned, inspections were conducted in 2578 cases during 2006-07 to 2011-12.

The Ministry stated (January 2013) that due to paucity in manpower, physical verification and godown inspections could not be conducted as planned.

5.4 Shortage of manpower in Internal Audit and Physical Verification division

The sanctioned strength of manpower of Internal Audit and Physical Verification division of FCI increased from 398 in 2006-07 to 447 in 2011-12. The men-in-position as against the sanctioned strength, however, remained in the range of 131 to 215 during the same period. The manpower position as against the sanctioned strength during the period 2006-07 to 2011-12 can be seen in table 5.5.

Table 5.5
Manpower position as against sanctioned strength

Year	Sanctioned strength	Men-in-position	Deficit	Deficit (in percentage)
2006-07	398	148	250	63
2007-08	519	215	304	59
2008-09	493	163	330	67
2009-10	493	144	349	71
2010-11	451	131	320	71
2011-12	447	141	306	68

Audit observed from the above that there was substantial shortage of manpower in the IA&PV division of FCI ranging between 250 and 349 during the period 2006-07 to 2011-12. The shortfall ranged between 59 *per cent* and 71 *per cent* of the sanctioned strength during the six year period.

It is evident that the functioning of internal audit and physical verification was largely inadequate. There was persistent shortfall in audit coverage and follow-up action on large number of internal audit and physical verification reports were outstanding. A number of deficiencies were noticed in conduct of PV of stocks. Substantial shortfall in manpower in internal audit wing had adversely affected the internal audit system in FCI. While FCI headquarters prepared audit plan for the whole zone/region, the actual implementation and follow-up action thereon was carried out at the regional and zonal levels without direct monitoring and supervision from the FCI headquarters. Thus, the internal audit activities at the zonal level lacked the requisite independence.

The Management stated (December 2011/July 2012) that paragraphs raised and settled were reviewed on a monthly basis region-wise. Apart from that, gist of important paragraphs was submitted by region on monthly basis to FCI headquarters. Monitoring of observations made in IA&PV reports was done at zonal level. Direct monitoring of PV being undertaken at remote depots, by the headquarters was neither feasible nor desirable, as FCI had offices at Zonal, Regional and District level. Instructions for conducting PV by staff other than the custodian of the stock already existed and were broadly being followed.

The Ministry has confirmed (January 2013) that shortfall in manpower had affected both the audit and physical verification coverage as well as the follow up action on the Audit and PV reports. To maintain independence of Audit, audit officers in internal Audit Division report directly to Head of Internal Audit Division in the Region/Zone. Internal Audit function was being monitored and supervised by the ED (IA) from the headquarters for execution of Annual Audit Plan. Review meetings/audit activities were being monitored by Audit Division of headquarters.

Audit, however, observed that the role of FCI headquarters was limited to preparation of tentative annual audit plan and its execution and follow up action on points raised were being done at Zonal level. There was no direct involvement of officials from FCI headquarters. In the absence of independent heads of Internal Audit Divisions in the region/zones who would actually report directly to ED (IA) at FCI headquarters, independence of audit as stated by Ministry would remain unfulfilled. Thus, internal audit and physical verification arrangements followed by FCI lacked the required independence and effective follow up mechanism at the headquarters level.

Audit recommendations and responses of the Ministry

Sl. No.	Recommendations of Audit	Ministry's replies
10	FCI should review the internal control arrangement with a view to strengthen manpower and to increase internal audit activities and coverage of physical verification of stock.	Accepted.
11	FCI should consider strengthening supervision and control of FCI headquarters over internal audit and physical verification activities to ensure independence.	Accepted.



(SHANKAR NARAYAN)

Deputy Comptroller and Auditor General
(Report Central and Local Bodies)

New Delhi
Dated: 16 April 2013

Countersigned



(VINOD RAI)

Comptroller and Auditor General of India

New Delhi
Dated: 16 April 2013

ANNEX-I
(refer Executive Summary)

No.9-3/2012-FC.II
Government of India
Ministry of Consumer Affairs, Food & Public Distribution
Department of Food & Public Distribution

Krishi Bhavan, New Delhi
Dated: January 24, 2013

To

Shri John K. Sellate,
Principal Director of Commercial Audit &
Ex-Officio Member, Audit Board-IV,
O/o the Principal Director of Commercial
Audit & Ex-Officio Member, Audit Board-IV
16-20, Barakhamba Lane, New Delhi-01.

Reference: Letter No.Rep/1-650/MAB-IV/PA/SM/FCI dated 23.01.2013

Subject: Minutes of the Exit Conference on draft Performance Audit on
'Storage Management Movement of Foodgrains in FCI'

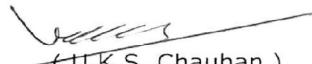
Sir,

Kindly refer to your letter cited above. A copy of the minutes of the Exit Conference on draft Performance Audit Report of FCI held on 22.01.2013 along with the Ministry's replies on its recommendations, duly signed by the undersigned is enclosed herewith for your kindly necessary action.

Thanking you

Yours faithfully,

Encl: as above.


(U.K.S. Chauhan)
Joint Secretary(P&FCI)
Tel.No.011-2338 2512
Fax No.011-2338 9358
e-mail: jspolicy.fpd@nic.in

Sl. No.	Recommendations of Audit	Ministry's replies (January 2013)
1	The GOI/FCI should take necessary steps to augment procurement of foodgrains and also increase direct procurement by FCI and DCP States in view of increasing requirement for Targeted Public Distribution System and Other Welfare Schemes.	Partly accepted. In order to provide efficient and expansive price support coverage to farmers, the policy of the Ministry is to encourage States to undertake procurement in decentralised mode. FCI will continue to provide necessary guidelines and support to States in augmenting procurement.
2	The GOI may consider fixing minimum buffer norm together with component wise quantities of foodgrains for example for food security reserve, emergency situations and price stabilisation etc. The GOI should also consider fixing maximum level of buffer norms with a view to bring in greater certainty in management of food stock of Central Pool.	Partially accepted. Government will shortly revise the minimum buffer norms but fixing maximum level of buffer norms is not practical at present. Decision to off load the excess stock will have to be taken on year to year basis looking into situation at that time.
3	The GOI may entrust responsibility of ensuring maintenance of foodgrains stock, handled by various agencies, at the level prescribed under buffer norms for single point accountability.	Accepted. FCI is already vested with the responsibility.
4	The GOI should expedite rationalisation of the cost structure of foodgrains in the context of levy of statutory and non-statutory charges imposed by different States in view of heavy subsidy payout.	Accepted.
5	The GOI/FCI should take a strategic view/conduct a detailed cost benefit analysis to decide the mix of owned and hired storage capacity and augment the storage capacity accordingly instead of solely depending on outside agencies.	Accepted to conduct the required a detailed cost benefit analysis. However, Government has already decided to augment the storage capacity only through short-term and long-term hiring of godowns, except for North-Eastern States including Sikkim and certain special cases.
6	FCI should ensure optimal utilization of existing storage capacity for timely evacuation of foodgrains from procuring States to consuming States to reduce the carry over charges payable to SGAs.	Accepted.
7	In view of dismal storage capacity addition during last five years, GOI/FCI should expedite the ongoing augmentation plan	Accepted.




	under various programmes (PEG 2008/PEG 2009 and Plan Scheme for NE and other States) to overcome the bottlenecks/constraints faced in various States in consultation/collaboration with respective State Governments.	
8	The GOI should establish a formal mechanism involving Ministry of Railways and Department of Food/FCI to streamline the movement activities. The existing operational constraints of the Railways in supply of rakes as per the requirement of FCI should be addressed urgently.	Accepted. A Co-ordination Committee consisting of Joint Secretary (P&FCI), D/o F&PD, Executing Director (Traffic Transportation), Ministry of railways and Executive Director (T), FCI has been constituted to consider various issues arising between the FCI and Railways on weekly basis.
9	FCI should streamline and strengthen the existing system of reconciliation of missing and unconnected wagons and settlement of refund claims with the Railways.	Accepted. Already there are Zonal level joint committees to reconcile the missing and unconnected wagons and to resolve the settlement of refund claims.
10	The GOI/FCI should review the existing guidelines and consider devising a more efficient mechanism for regular and timely settlement of hill transport subsidy claims between FCI and States in consultation with State Governments.	Existing guidelines are sufficient for timely settlement of HTS claims, however, delays are due to non-submission of claims or non-submission of documents supporting the claims by some States.
11	FCI should review the internal control arrangement with a view to strengthen manpower and to increase internal audit activities and coverage of physical verification of stock.	Accepted.
12	FCI should consider strengthening supervision and control of FCI Headquarters over internal audit and physical verification activities to ensure independence.	Accepted.


(John K. Sellate)

Principal Director of Commercial Audit &
Ex-officio Member, Audit Board – IV.


(U. K. S. Chauhan)

Joint Secretary (Policy & FCI)
Department of Food & Public
Distribution.

ANNEX – II
Commodity wise stock of food grains in the
Central Pool vis-à-vis minimum buffer norms
(refer para 1.7)

As on	Wheat			Rice		
	Actual	Minimum	Surplus (+)/ Short (-)	Actual	Minimum	Surplus (+)/ Short (-)
01.04.2006	20.09	40.00	-19.91	136.75	122.00	14.75
01.07.2006	82.07	171.00	-88.93	111.43	98.00	13.43
01.10.2006	64.12	110.00	-45.88	59.70	52.00	7.70
01.01.2007	54.28	82.00	-27.72	119.77	118.00	1.77
01.04.2007	47.03	40.00	7.03	131.72	122.00	9.72
01.07.2007	129.26	171.00	-41.74	109.77	98.00	11.77
01.10.2007	101.21	110.00	-8.79	54.89	52.00	2.89
01.01.2008	77.12	82.00	-4.88	114.75	118.00	-3.25
01.04.2008	58.03	40.00	18.03	138.35	122.00	16.35
01.07.2008	249.12	201.00	48.12	112.49	98.00	14.49
01.10.2008	220.25	140.00	80.25	78.63	52.00	26.63
01.01.2009	182.12	112.00	70.12	175.76	138.00	37.76
01.04.2009	134.29	70.00	64.29	216.04	142.00	74.04
01.07.2009	329.22	201.00	128.22	196.16	118.00	78.16
01.10.2009	284.57	140.00	144.57	153.49	72.00	81.49
01.01.2010	230.92	112.00	118.92	243.53	138.00	105.53
01.04.2010	161.25	70.00	91.25	267.13	142.00	125.13
01.07.2010	335.84	201.00	134.84	242.66	118.00	124.66
01.10.2010	277.77	140.00	137.77	184.44	72.00	112.44
01.01.2011	215.40	112.00	103.40	255.80	138.00	117.80
01.04.2011	153.64	70.00	83.64	288.20	142.00	146.20
01.07.2011	371.49	201.00	170.49	268.57	118.00	150.57
01.10.2011	314.26	140.00	174.26	203.59	72.00	131.59
01.01.2012	256.76	112.00	144.76	297.18	138.00	159.18
01.04.2012	199.52	70.00	129.52	333.50	142.00	191.50

Total stock of food grains (wheat & rice) in the Central Pool vis-à-vis minimum buffer norms

As on	Wheat		Rice		Wheat and rice actual	Wheat and rice minimum
	Actual	Minimum	Actual	Minimum		
01.04.2006	20.09	40.00	136.75	122.00	156.84	162.00
01.07.2006	82.07	171.00	111.43	98.00	193.5	269.00
01.10.2006	64.12	110.00	59.70	52.00	123.82	162.00
01.01.2007	54.28	82.00	119.77	118.00	174.05	200.00
01.04.2007	47.03	40.00	131.72	122.00	178.75	162.00
01.07.2007	129.26	171.00	109.77	98.00	239.03	269.00
01.10.2007	101.21	110.00	54.89	52.00	156.10	162.00
01.01.2008	77.12	82.00	114.75	118.00	191.87	200.00
01.04.2008	58.03	40.00	138.35	122.00	196.38	162.00
01.07.2008	249.12	201.00	112.49	98.00	361.61	299.00
01.10.2008	220.25	140.00	78.63	52.00	298.88	192.00
01.01.2009	182.12	112.00	175.76	138.00	357.88	250.00
01.04.2009	134.29	70.00	216.04	142.00	350.33	212.00
01.07.2009	329.22	201.00	196.16	118.00	525.38	319.00
01.10.2009	284.57	140.00	153.49	72.00	438.06	212.00
01.01.2010	230.92	112.00	243.53	138.00	474.45	250.00
01.04.2010	161.25	70.00	267.13	142.00	428.38	212.00
01.07.2010	335.84	201.00	242.66	118.00	578.50	319.00
01.10.2010	277.77	140.00	184.44	72.00	462.21	212.00
01.01.2011	215.40	112.00	255.80	138.00	471.20	250.00
01.04.2011	153.64	70.00	288.20	142.00	441.84	212.00
01.07.2011	371.49	201.00	268.57	118.00	640.06	319.00
01.10.2011	314.26	140.00	203.59	72.00	517.85	212.00
01.01.2012	256.76	112.00	297.18	138.00	553.94	250.00
01.04.2012	199.52	70.00	333.50	142.00	533.02	212.00

Note: The GOI created food security reserve of 50 LMT which includes 30 LMT of wheat w.e.f. 1 July 2008 and 20 LMT of rice w.e.f. 1 January 2009 over and above the existing quarterly buffer norms.

ANNEX - III

1. Scope of audit -Sample selection in respect of FCI (refer para 1.13)

Sl. No.	Regional Offices	District Offices	No. of godowns
1	Punjab	Sangrur, Amritsar, Ferozepur and Ludhiana (four)	16 out of 60 (27 per cent)
2	Haryana	Kurukshetra and Karnal (two)	6 out of 25 (25 per cent)
3	Andhra Pradesh	Kakinada, TP Gudem, Nellore and Karimnagar (four)	8 out of 18 (44 per cent)
4	Chhattisgarh	Durg and Raipur (two)	4 out of 11 (36 per cent)
5	West Bengal	Burdwan, Midnapur, Birbhum, Bankura and Jalpaiguri (five)	5 out of 5 (100 per cent)
6	Bihar	Patna and Midnapur (two)	4 out of 7 (57 per cent)
7	Kerala	Kozhikode and Thiruvananthapuram (two)	4 out of 6 (67 per cent)
8	Assam	Guwahati and Dibrugarh (two)	4 out of 7 (57 per cent)

2. Sample selection in respect of State Government Agencies

State	State Government Agencies	Offices at	No. of godowns
Punjab	Punjab State Warehousing Corporation (PSWC)	Sangrur	5 out of 19 (26 per cent)
		Ferozepur	3 out of 11 (27 per cent)
		Ludhiana	4 out of 13 (31 per cent)
		Amritsar	2 out of 7 (29 per cent)
	Punjab State Civil Supplies Corporation Limited (PUNSUP)	Sangrur	4 out of 16 (25 per cent)
		Ferozepur	2 out of 6 (33 per cent)
		Ludhiana	2 out of 8 (25 per cent)
		Amritsar	2 out of 8 (25 per cent)
Haryana	Haryana Warehousing Corporation (HWC)	Ambala	2 out of 4 (50 per cent)
		Karnal	3 out of 9 (33 per cent)
		Panipat	2 out of 6 (33 per cent)
		Yamuna Nagar	2 out of 4 (50 per cent)
		Kurukshetra	3 out of 9 (33 per cent)
		Kaithal	4 out of 13 (31 per cent)
	Haryana Food and Supply Department	Ambala	2 out of 2 (100 per cent)
		Karnal	2 out of 3 (67 per cent)
		Panipat	Nil
		Yamuna Nagar	1 out of 1 (100 per cent)
		Kurukshetra	2 out of 3 (67 per cent)
		Kaithal	2 out of 2 (100 per cent)

3. Sample selection in respect of Central Warehousing Corporation

Sl. No.	Regional Offices	District Offices	No. of godowns
1	Punjab	Sangrur, Amritsar, Ferozepur and Ludhiana (four)	6 (Abohar-I, Abohar-II, Amritsar BD, Fazilka-I and Chandigarh)
2	Haryana	Kurukshetra and Karnal (two)	7 (Kaithal, Assandh, Indri, Karnal I, II and III, Kurukshetra and Ladwa)
3	Andhra Pradesh	Kakinada, TP Gudem, Nellore and Karimnagar (four)	5 (Kakinada, TP Gudem, Nellore, Karimnagar-I & II)
4	Chhattisgarh	Durg and Raipur (two)	8 (Durg, Bharatpara I & II, Raipur I to V)
5	West Bengal	Burdwan, Midnapur, Birbhum, Bankura and Jalpaiguri (five)	10 (Bishnupur, Burdwan-I & II, Sarul, Raninagar, Belda, CFS-Haldia, Chandrakona Road, Durgachak and Kharagpur)
6	Bihar	Patna and Midnapur (two)	3 (Fatuha, Mokama and Mussallpur)
7	Kerala	Kozhikode and Thiruvananthapuram (two)	1 (Thiruvananthapuram)
8	Assam	Guwahati and Dibrugarh (two)	Nil

ANNEX - IV
Past Audit Coverage (refer para 1.16)

Sl. No.	Para no & year of the report	Brief of the Para	Current status/Action taken
1	Para no. 6.1 of report no. 16/2006 (Civil)	Avoidable expenditure of ₹ 3.31 crore was incurred during 2003-04 to 2004-05 at Manmad and Nagpur (Maharashtra) on rebooking of food grains rakes to alternative destinations, as adequate vacant space was not available in the godowns at the original destinations. This could have been avoided through a proper assessment of vacant godown space and drawal of food grains by the states.	The similar instances of rebooking of rakes were noticed during review of records in district offices in Manmad & Nagpur and also at Borivali in Maharashtra Region. Expenditure on rebooking increased from ₹ 2.38 crore in 2006-07 to ₹ 10.48 crore in 2010-11, indicating lack of planning and coordination with State Government and Railways.
2	Para no. 6.2 of report no. 16/2006 (Civil)	As of March 2005, FCI's pending claims against the Railways amounted to ₹ 796.45 crore. This included 7583 cases of claims for refund of freight amounting to ₹ 37.41 crore which had been pending for period ranging from 12 to 27 years. Railways rejected the claims and FCI did not pursue such claims further.	Claims were pending with the Railways for long time which are being pursued by FCI. Some claims were not settled due to want of relevant records. As on 31 March, 2012, 10252 cases of claims for refund of freight amounting to ₹ 58.11 crore were pending.
3	Para no. 6.3 of report no. 16/2006 (Civil)	During the period 2000-2005, FCI paid total demurrage of ₹ 51.57 crore, despite paying overtime allowance (OTA) and incentive of ₹ 70.81 crore and ₹ 599.91 crore respectively to the departmental labour. In fact, the average annual incentive paid per labourer increased from ₹ 10,221 to ₹ 27,193 over this period.	An amount of ₹ 357.12 crore was paid on account of demurrage/ wharfage during the period 2006-07 to 2011-12 with an average of ₹ 59.52 crore per year. Payment of demurrage charges showed an increasing trend over the period from ₹ 22.73 crore (2006-07) to ₹ 132.51 crore (2011-12).

Sl. No.	Para no & year of the report	Brief of the Para	Current status/Action taken
4	Para no. 6.4.2 of report no. 16/2006 (Civil)	<p>Incurrence of avoidable expenditure on handling and transportation due to hiring of godowns located beyond eight kilometers.</p> <p>i) Avoidable expenditure of ₹ 30.51 lakh on transportation of stocks from Vizianagaram to Cheepurupalli SWC depot.</p> <p>ii) Avoidable expenditure of ₹ 116.85 lakh on transportation of food grains stocks from SWC Kotabommali.</p>	<p>i) The movement of stocks Ex. North to SWC Cheepurpalli was made only during 2002-03. On the basis of audit observation, the stocks from SWC Cheepurpalli was made by diverting the mill levy stocks of neighbouring district office FCI Srikakulam. For this diversion no additional transport charges was paid to the rice millers. The mill levy stocks were directly delivered from mill to the depot. The transport charges were restricted to least of railway freight or actual road transport. Thus, there was no extra expenditure like moving the stocks from rail-head or vice-versa.</p> <p>Hence no further comments.</p> <p>ii) No stocks were received into the depot. Rice mills tagged to the depot were delivering levy rice and once the godowns are full, the levy is transferred to neighbouring DO FCI Vizag for direct delivery. No rail movement of stocks was resorted into or out of this depot.</p> <p>However, during January 2010 to March 2010 Boiled Rice stocks accepted under levy was subject to movement to distant rail-head (8086.298 MT) on which transportation charges of ₹ 11.38 lakh was incurred.</p> <p>During 2011-12, no boiled rice stocks were received by bridging of stocks between depot and railhead.</p>

Sl. No.	Para no & year of the report	Brief of the Para	Current status/Action taken
5	Para no. 6.4.3 of report no. 16/2006 (Civil)	Avoidable expenditure of ₹ 1.43 crore between December 2002 and March 2005 due to injudicious selection of Seven Years Guarantee Scheme (SYGS) godown at Jadcherla over the CWC godown at the Mahaboobnagar, which was locationally more advantageous.	CWC Mahaboobnagar is under continuous hire of DO FCI Tarnaka and it was observed that boiled rice stocks were accepted at SWC Jadcherla during the period 2005-06 to 2010-11 and was moved to distant railhead ignoring the cost advantage in accepting the levy boiled rice stocks at CWC Mahaboobnagar. The Extra expenditure in this regard was ₹ 1.37 crore for the period 2005-06 to 2011-12.
6	Para no. 6.4.4 of report no. 16/2006 (Civil)	The FCI Manual for Movement and Storage stipulated that godowns with a capacity of 25,000 MT or higher should have their own railway siding facilities. Failure to consider this aspect at the time of hiring 25 godowns under the SYGS resulted in avoidable expenditure of ₹13.88 crore till December, 2004 on account of handling of stocks at Railway goods shed.	Almost all the depots under SYGS were continued after the expiry of guarantee period. From the test check of records, it was observed that the stocks were issued for local PDS. The rail movement of stocks from these non-siding depots for the period 2005-06 to end of guarantee period (2008-09), FCI incurred ₹ 68.14 crore towards handling and transportation (Handling ₹44.01 crore and Transportation ₹24.13 crore). This expenditure could have been avoided had there been railway siding at these depots under SYGS.
7	Para no. 6.4.5 of report no. 16/2006 (Civil)	Due to non-construction of railway sidings in the godowns of Andhra Pradesh (AP) SWC, an additional expenditure of ₹ 1.53 crore was incurred on transportation of food grains from these godowns at Renigunta and Janakampet for rail movement by FCI upto March, 2005.	FCI is releasing the storage charges only to the extent of 60 <i>per cent</i> of the rate. FCI has incurred additional expenditure of ₹ 18.86 lakh on movement of stocks from SWC Janakampet during the period September 2005 to April 2009. As against this the storage charges recovered (40 <i>per cent</i>) were ₹ 18.90 lakh and thus FCI had recovered the additional cost in full. In respect of SWC Renigunta the storage charges were also restricted to 60 <i>per cent</i> with balance 40 <i>per cent</i> cut.

Sl. No.	Para no & year of the report	Brief of the Para	Current status/Action taken
8	Para no. 6.5.1.1 of report no. 16/2006 (Civil)	During 2000-04, FCI incurred total loss of ₹ 556.88 crore on account of transit shortages of 6.37 LMT of food grains. The factor responsible for transit loss in food grains were pilferage and theft en route, driage, multiple handling, different modes of weightment, weak texture of gunnies and brushing bags, etc.	During 2006-07 to 2011-12, FCI incurred total loss of ₹ 1,235.02 crore on transit shortages of 8.94 LMT of food grains.
9	Para no. 6.5.1.2 of report no. 16/2006 (Civil)	Audit noted that FCI had not set any norms for transit and storage losses till date. Norms were stated to have not been set for transit losses, as this could have encouraged inefficiency and pilferage. As per the laid down procedure, however, all cases of transit losses were to be investigated and disciplinary action, where necessary, taken against staff/ officers found responsible for such losses.	No norms for transit and storage losses were fixed (March 2012).
10	Para no. 6.5.1.3 of report no. 16/2006 (Civil)	FCI had incurred Storage losses of ₹ 842.31 crore involving a quantity of 8.49 LMT of food grains which amounted to 0.33 percent of total quantity of food grains issued during 2000-2004.	During 2006-07 to 2011-12, FCI incurred total loss of ₹ 1,395.00 crore on storage shortages of 8.41 LMT of food grains.
11	Para no. 6.5.1.4 of report no. 16/2006 (Civil)	Pendency of Storage and Transit losses amounting to ₹ 532.87 crore due to abnormal delays in investigating at various levels of FCI.	Transit and storage losses to the extent of ₹ 933.05 crore were pending regularisation at the beginning of 2006-07 and continued to remain at ₹ 1,058.26 crore at the end of March 2012 for the period since 1980-81.
12	Para no. 6.5.1.5 of report no. 16/2006 (Civil)	The absence of norms for Transit and storage losses.	No norms for transit and storage losses were fixed (March 2012).

Sl. No.	Para no & year of the report	Brief of the Para	Current status/Action taken
13	Para no. 6.1.6 of report no. 9/2009 (Commercial)	<p>Failure to get the FCI owned railway sidings under DO Non Port depots (West Bengal region) notified as independent stations resulted in avoidable payment of siding charges of ₹ 5.19 crore to railways during the period 2003-04 to 2008-09.</p> <p>Consignment of food grains could be booked directly to the sidings on through basis up to the ultimate point, i.e., buffer point at siding and payment of siding charges could have been avoided by getting the sidings notified as independent stations.</p>	<p>At the instance of Audit, joint inspection was conducted by FCI and Railways and it was observed that construction of the full track for making placement on 'through distance basis' with escape line for the engine is not feasible.</p>
14	Para no. 5.2.8 of report no. 24/2009-10 (Commercial)	<p>FCI incurred wasteful expenditure of ₹ 1.66 crore due to hiring of private godown when sufficient space was available in their own godown in Food Storage Depot (FSD) Pune during the period July 2004 to October 2006.</p>	<p>It was stated that rail head at FSD Pune was denotified for two point unloading. FCI would be left with no other option but to unload the entire rake at other points with availability of rail sidings and then to move the stock by road to FSD Pune.</p> <p>Audit, however, observed that the audit para highlighted the wasteful expenditure only prior to the denotification as stated above.</p> <p>Hence the matter remains unresolved.</p>

Sl. No.	Para no & year of the report	Brief of the Para	Current status/Action taken
15	Para no. 7.2.7 of report no. 11/2007 (commercial)	The direct link to Tripura state was discontinued from April, 1997 due to gauge conversion (from MG to BG) and hence MG wagons could not be booked directly to Tripura state from Northern states. FCI started booking consignments to New Bongaigaon which were then rebooked to Tripura state without availing of the telescopic rates of freight. Thus, rebooking of rakes at New Bongaigaon resulted in avoidable expenditure of ₹ 3.73 crore.	After the issue was highlighted by audit, FCI lodged claim with the Railways for refund. The Railways, however, repudiated the refund claims on the ground that prior to 15 November 2006, there was no provision for allowing telescopic rate benefit and the claims were time barred.
16	Para no. 6.1.2 of report no. 9/2009 (Commercial)	In Punjab, average storage loss in rice during the period 2003-04 to 2007-08 was 1.02 <i>per cent</i> whereas in Haryana region where climatic condition was similar the average storage loss in rice was observed as 0.33 <i>per cent</i> only. When compared to Haryana region, excess storage losses of 3.23 LMT valuing ₹ 450.65 crore was observed in Punjab region during the period 2003-04 to 2007-08. No reasons were available on record for this wide variation in percentage of storage loss in the two neighbouring regions. Misappropriation of stocks cannot be ruled out in the cases of high percentage of storage loss.	No norms for storage loss were fixed by the Ministry. Board of Directors of FCI has approved handing over a comprehensive study on storage loss norms to Indian Council for Agricultural Research (ICAR).

Sl. No.	Para no & year of the report	Brief of the Para	Current status/Action taken
17	Para no. 7.2.2 of report no. 11/2007 (Commercial)	While fixing final rates for Custom Milled Rice (CMR), transportation charges were allowed to rice millers without considering the element of transportation charges paid along with provisional rates resulting in excess payment of ₹ 406.21 crore to State Governments and their agencies during 1998-99 to 2002-03.	The rates fixed by the GOI for CMR delivered by State Government/ Agencies of Punjab and Haryana in the Central Pool from the year 2003-04 onwards provide only for transportation charges of paddy and rice on actual basis for distance beyond eight kilometers subject to the maximum of rates fixed by the District Magistrate. No separate transportation charges for transportation of paddy or rice upto eight kilometers were being allowed.
18	Para no. 5.2.2 of report no. 24/2009-10 (Commercial)	The transportation charges for delivery of rice beyond eight kilometers were paid at higher rates in Punjab and Haryana regions in violation of the GOI instructions resulting in excess reimbursement of ₹ 7.65 crore during 2004-05 and 2005-06.	No payment for transportation of paddy beyond eight kilometers by State Government/Agencies was being made by FCI. As regard payments for transportation of rice beyond eight kilometers, the payments, wherever claimed by millers, were being made at the rates fixed by FCI, being lower than the District Commissioner rates.

Sl. No.	Para no & year of the report	Brief of the Para	Current status/Action taken
19	Para no. 7.2.1 of report no. 12/2006	An amount of ₹ 185.76 crore was released to the Government of Arunachal Pradesh (GoAP) against Hill Transport Subsidy (HTS) in excess of the permissible limit laid down by the GOI. This resulted in interest loss of ₹ 20.34 crore on the blockage of fund due to excess release.	<p>In August 2011, follow-up Audit observed excess payment to GoAP (upto 2004-05) was still ₹ 39.20 crore.</p> <p>Despite that, <i>ad-hoc</i> payments of ₹ 24.07 crore (September 2007) and ₹ 21.69 crore (September 2010) for the period 2007-10 were made by the regional office, Assam under orders of the Ministry.</p> <p>Management stated (July 2012) that though an amount of ₹ 39.20 crore had not been adjusted, 2245 bills for ₹ 39.38 crore pertaining to the period 2003-06 have been submitted to FCI by GoAP.</p> <p>As against the HTS claims of ₹ 86.56 crore for 2007-10, a provisional advance of ₹ 45.76 crore was released to GoAP, thus there is no excess payment and loss of interest on this account.</p> <p>Audit, however, observed that total ad-hoc payment made to GoAP without adjustment of HTS claims had reached ₹ 84.96 crore. The rate for reimbursement of HTS to GoAP from April 2007 onwards had not been decided by the GOI till July 2012 though a committee to examine the issue was constituted in May 2007.</p>

ANNEX - V
(refer para 3.2.3)

**Capacity available against food grains requirement
of four months**

Sl. No.	State	Capacity available to meet food grains requirement for number of days					
		2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1	Andhra Pradesh	279	302	296	244	260	311
2	Arunachal Pradesh	57	51	63	53	61	61
3	Assam	48	58	59	50	39	35
4	Bihar	42	56	57	51	54	48
5	Chandigarh	1210	6960	1368	1050	1480	1673
6	Chhattisgarh	250	472	213	168	184	176
7	Delhi	155	173	196	147	128	115
8	Goa	51	150	106	82	58	49
9	Gujarat	82	163	162	113	101	98
10	Haryana	863	1469	1165	712	876	952
11	Himachal Pradesh	19	19	17	13	12	13
12	Jammu and Kashmir	48	52	54	45	40	36
13	Jharkhand	33	38	36	28	25	27
14	Karnataka	63	72	83	111	94	89
15	Kerala	81	150	144	111	94	96
16	Madhya Pradesh	61	95	81	76	92	60
17	Maharashtra	102	179	155	111	114	126
18	Manipur	49	63	24	45	35	34
19	Meghalaya	64	66	67	50	39	24
20	Mizoram	74	41	37	42	38	43
21	Nagaland	68	72	55	59	58	46
22	Odisha	83	112	103	93	77	74
23	Puducherry	207	283	405	259	272	289
24	Punjab	2638	6904	3032	1343	1955	2116
25	Rajasthan	118	214	205	152	190	240
26	Sikkim	78	83	73	73	66	60
27	Tamil Nadu	51	53	66	68	62	67
28	Tripura	37	47	46	47	45	81
29	Uttar Pradesh	99	170	163	114	107	180
30	Uttarakhand	106	146	102	130	117	93
31	West Bengal	61	110	107	83	77	78

ANNEX - VI
(refer para 3.4.4)

Region		Region wise vacant space available with CWC which was offered to FCI (Capacity in MT)																Total
Region	Months	Almhd.	Benglu.	Bhopal	Bhubr.	Chd.	Chennai	Guwt.	Hydbd.	Jaipur	Kochi	Kolkata	Luew.	Mumbai	Punkl.	Patna	Raipur	Total
	May,09	80,000		49,000		66,000				14,000			78,000					2,87,000
	Sep,09			1,41,000	22,000				65,000	39,400			1,80,000			11,000		4,58,400
	Dec,09	25,100	45,000	1,52,200	27,000	1,45,200	15,000	6,000	1,55,500	45,500		37,300	2,58,500	52,400	37,500	13,700		10,15,900
	Jan,10	25,100	42,890	1,98,656	15,600	1,50,294	21,911	14,125	1,51,000	69,000	2,371	62,707	1,88,000	1,06,783	68,000	19,212		11,35,649
	Feb,10	26,000	19,600	2,03,300	41,800	1,58,150	12,600	8,500	1,18,000	92,500		25,000	1,92,000	40,600	62,200	15,400		10,15,650
	Mar,10	59,000			19,300	1,51,850	10,000	1,500	58,900	66,000	6,000	20,750	1,82,500	34,500	55,000	20,000		6,85,300
	Apr,10	10,425	7,819			47,104		9,420	20,000		9,777	27,118	1,52,700	40,600	7,400	20,965		3,53,328
	Jul,10		11,000	45,600		20,000	3,000		37,500			35,500	87,600		24,000	10,700		2,74,900
	Aug,10		34,000	45,900	1,300	37,500	3,000	6,351	65,000	10,500	1,406	28,250	1,41,400		34,470	10,700		4,19,777
	Sept,10		31,600	88,300	3,000	55,100		8,444	1,11,000	21,200		43,203	2,11,256		44,270	5,000		6,22,373
	Oct,10	19,500	17,600	90,000		52,900			1,08,000	24,600	11,700	28,750	2,84,100	1,250	38,670	7,300		6,84,370
	Nov,10	19,500	34,860	1,26,900		59,500			1,28,300	33,400	13,000	35,850	2,93,400		28,700	8,200		7,81,610
	Dec,10	21,000	49,000	1,21,700		62,500			84,300	44,000	12,000	37,400	2,63,500		34,000	8,200		7,37,600
	Jan,11	16,500	28,400	1,26,500	15,000	68,400		6,900	58,000	72,100	10,755	37,500	1,81,000	15,000	34,370	8,200		6,78,625
	Feb,11	13,500	13,600	1,39,500	12,000	61,100			28,500	79,500	7,800	31,000	1,11,000		40,370	8,200		5,46,070
	Mar,11	60,000	10,800	33,600	14,000	52,500	7,500		19,500	9,500	9,400	20,750	1,09,000		16,970	8,200		3,71,720
	Apr,11	60,000			3,000		7,500		21,000	4,900	10,755	20,750	54,000		5,770			1,87,675
	May,11	60,000			1,600		7,500		15,000	1,800	9,700	16,100	39,600		2,370			1,53,670
	June,11	10,000		20,000			12,500		26,400	1,800	18,900	8,300	44,600		2,000			1,44,500
	July,11	10,000		50,050			10,500		15,250	4,300	7,120	9,300	52,000					1,58,520
	Aug,11			73,000			7,500		70,500			8,300	49,000					2,08,300
	Sep,11	10,000	11,000	84,700	10,000	10,500	10,500		31,500	13,500		8,300	52,500		12,140			2,54,640
	Oct,11	4,500	9,700	70,000	13,500	13,500	3,000		54,800	21,800		36,800	55,000	8,500	14,140		50,500	3,55,740
	Nov,11	4,500	18,000	79,000	15,600	10,500	6,800		68,800	13,200	15,400	36,800	56,000		11,140	3,200	93,574	4,32,514
	Dec,11	4,600	11,500	72,600	29,200	10,500	3,000		54,500	40,100	12,700	32,800	63,000	2,500	6,370	3,200	81,574	4,06,644
	Jan,12	4,500	12,000	1,06,800	25,200	8,500	3,000		39,700	55,200	8,000	4,800	58,000	2,500	6,370	3,200		3,37,870
	Feb,12	4,500	5,000	1,15,900	22,600	10,000			17,600	7,700	12,200	4,800	44,000		1,370	3,200	5,000	2,53,870
	Mar,12	4,500	4,000	5,000	32,900	10,000	30,000		11,250	2,200	13,000		59,500		9,230	3,200	5,000	1,89,780

ANNEX - VII
(refer para 3.5.3)

Capacity finalised under PEG scheme with dates

Sl. No.	Name of state	Storage capacity finalized as on 31 March 2011 (in MT)	Date of finalization	Actual storage capacity added as on 31 March 2012 (in MT)
1	Andhra Pradesh	36,000	30.04.2009	1,47,100
		1,91,000	26.07.2010	
		3,29,000	05.08.2010	
2	Bihar	3,00,000	22.05.2009	10,000
3	Chhattisgarh	2,17,000	03.03.2011	74,750
		5,000	22.05.2009	
4	Gujarat	45,000	22.05.2009	
		3,07,000	22.05.2009	
5	Haryana	38,80,000	12.06.2009	5,59,130
6	Himachal Pradesh	1,42,550	22.06.2009	
7	Jammu & Kashmir	3,61,690	22.06.2009	10,000
8	Jharkhand	1,75,000	22.05.2009	
9	Kerala	15,000	30.04.2009	
10	Karnataka	1,00,000	30.04.2009	53,350
		1,05,000	22.01.2010	
		4,31,000	14.09.2010	
11	Madhya Pradesh	1,40,000	24.09.2010	33,000
		2,95,000	14.09.2010	
12	Maharashtra	99,500	22.05.2009	2,01,900
		7,05,000	30.08.2010	
		10,000	06.09.2010	
		15,000	03.03.2011	
13	Odisha	3,00,000	26.07.2010	1,32,000
14	Punjab	51,25,000	12.06.2009	15,08,640
15	Rajasthan	2,60,000	06.09.2010	20,000
16	Tamil Nadu	30,000	12.06.2009	60,000
		3,15,000	25.05.2009	
17	Uttar Pradesh	15,33,000	02.08.2010	7,000
		11,48,000	06.09.2010	
18	Uttarakhand	25,000	01.06.2010	
19	West Bengal	1,56,000	26.07.2010	
Total		1,67,97,340*		28,16,870

*Out of 167.97 LMT, 15 LMT was not to be constructed. So 152.97 LMT was the final space to be constructed at the end of March 2011. However, 151.96 LMT was approved at the end of March 2012.

Glossary of Terms

AALL	Adani Agri Logistics Limited
AAY	Antyodaya Anna Yojna
AGT	Annual Guaranteed Tonnage
APL	Above Poverty Line
BOO	Build, Own and Operate
BPL	Below Poverty Line
C&AG	Comptroller and Auditor General
C2	Weighted average cost of production of food grains
CACP	Commission for Agricultural Costs and Prices
CAP	Covered and Plinth
CCEA	Cabinet Committee for Economic Affairs
CIP	Central Issue Price
CMR	Custom Milled Rice
COPU	Committee on Public Undertakings
CWC	Central Warehousing Corporation
DCP	Decentralised Procurement
DO	District Office
ED	Executive Director
F&SD	Food and Supply Department
FCI	Food Corporation of India
FIFO	First-in-First-out
FPS	Fair Price Shop
GOI	Government of India
HLC	High Level Committee
HTC	Handling and Transport Contractor
HTS	Hill Transport Subsidy
HWC	Haryana Warehousing Corporation
IA	Internal Audit
IAPV	Internal Audit & Physical Verification
IISFM	Integrated Information System for Food grains Management
KMS	Kharif Marketing Season
LD	Liquidated damages

LMT	Lakh Metric Tonne
LP	Linear Programming
MOU	Memorandum of Understanding
MSP	Minimum Support Price
MT	Metric Tonne
NCAP	National Centre for Agricultural Economics and Policy Research
NEF	North East Frontier
NFSB	National Food Security Bill
OMSS	Open Market Sale Scheme
OTA	Overtime Allowance
OWS	Other Welfare Schemes
PDCs	Principal Distribution Centres
PDS	Public Distribution System
PEG	Private Entrepreneurs Guarantee
PSWC	Punjab State Warehousing Corporation
PUNSUP	Punjab Civil Supplies Corporation
PV	Physical Verification
PVO	Physical Verification Officer
RBS	Rates Branch System
RMS	Rabi Marketing Season
RO	Regional Office
RR	Railway Receipt
SCHC	Storage cum Handling Charges
SGAs	State Government Agencies
SLMC	Senior Level Monitoring Committee
SWCs	State Warehousing Corporations
TPDS	Targeted Public Distribution System
UT	Union Territory
ZCC	Zonal Claim Cell