Chapter-II
Procurement incidentals

In order to meet objectives of food grains Procurement Policy, the Government procures large quantities of paddy every year through FCI and SGAs. Apart from procuring paddy directly from the farmers and getting it custom milled, a substantial quantity of rice is procured through rice millers in the form of levy whereby the millers procure paddy directly from farmers, convert it into rice and deliver the same to FCI and SGAs.

While taking delivery of rice, FCI makes payment to SGAs on the basis of cost sheets issued by the Ministry before each Rabi/Kharif Marketing Season. Several items of expenditure on procurement/distribution called 'procurement incidentals' have wide variations across the States. For fixing these costs in a transparent manner, the Ministry notified the detailed "Principles" (2003) regarding fixation of Economic cost and incidentals of CMR/Levy Rice and wheat, which were revised several times on the request of the State Governments. The State Governments are advised to base their proposals for arriving at the acquisition cost/ economic cost on these "Principles".

For the purpose of making provisional cost sheets, MSP and incentive bonus are as fixed by the Central Government, Statutory taxes and *Arthia*[14] commission are based on tax structure in the respective State Governments, and Driage[15], Milling charges[16] and Out-turn ratio[17] are based on the Tariff Commission's[18] recommendations. The other incidental charges like *Mandi* Labour Charges (MLC), transportation and handling charges etc. are provisionally fixed by indexing the respective latest available finalized cost sheets rates (in absence of such rates, the previous season's provisional rates are adopted) based on the Consumer Price Index.

2.1 Evaluation of the mechanism for determining rates of various incidentals in the Cost Sheet and their payment

The State Governments/SGAs prefer their claims to FCI on the basis of provisional cost sheets in respect of delivery/off take for Central Pool operations. For DCP operations, the SGAs submit their quarterly claims to the Ministry. Since the cost sheets are provisional and subject to finalization based on the audited accounts and there is always a time-lag in finalization of accounts in the States, quarterly advanced subsidy is released by the GoI on

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[14] *Arthias render the services of the immediate intermediary and aggregator in the process of procurement for which they charge their commission as notified in the Agricultural Produce Markets Act of the respective State.*

[15] *Losses occurring during the process of procurement of paddy to its ultimate milling is termed as driage.*

[16] *Charges paid to rice millers for conversion of paddy into rice. ₹ 15 per quintal for raw rice and ₹ 25 per quintal for par-boiled rice*

[17] *Out-turn Ratio of production of 67 per cent of raw rice and 68 per cent of par-boiled out of one quintal paddy was recommended by Gokak Committee during 1994.*

[18] *Tariff Commission was assigned determination of milling charges for raw rice and parboiled rice. It gave its last recommendations in September 2005.*

provisional basis. This advance subsidy is adjusted from the final claims of the State Governments on submission of audited accounts. Under the system, therefore, the GoI reimburses actual costs incurred by the States on the operations carried out on behalf of FCI.

Similar system for payment of subsidy is applicable for FCI. The FCI prefers quarterly claims in respect of consumer subsidy i.e. the difference between the economic cost and sales value of the food grains meant for distribution under TPDS. In addition, subsidy is also paid in respect of the cost incurred in carrying the Buffer Stock as per the existing guidelines. The provisional claims are finalised based on the audited accounts of the Corporation.

A review of the elements of cost sheet and associated claims/payment in the selected States resulted in observations on avoidable/irregular subsidy burden on the GoI to the tune of ₹ 3,594.93 crore as brought out below:

2.1.1 *Mandi* Labour Charges (MLC)/Handling Charges

In the cases of procurement by FCI, *mandi* labour is engaged only for operations[19] at *mandi*. All operations at storage point onwards are performed by internal labour, whose costs are shown under the head 'distribution cost'. However, in the case of States, all operations performed by labour up to the point of delivery to FCI/distribution point are loaded into the head '*Mandi* Labour'[20].

During 2009-10 to 2013-14, an amount of ₹ 1,771.89 crore was incurred, in respect of States selected in audit, on the element of MLC as detailed as follows:

Table 2.1
Expenditure reimbursed on account of MLC by the GoI to SGAs

(₹ in crore)

Year	Non-DCP States		DCP States*		Total
	Levy Rice	CMR	Levy Rice	CMR	
2009-10	73.32	207.80	NA	0.08	281.20
2010-11	95.12	229.25	NA	0.00	324.37
2011-12	113.95	334.03	NA	0.00	447.98
2012-13	72.79	276.53	NA	0.00	349.32
2013-14	57.73	311.29	NA	Accounts not yet finalised	369.02
Total					**1,771.89**

**Includes only Chhattisgarh and NA indicates Not Available*
Source: FCI Procurement Division and the Government of Chhattisgarh

[19] *Like unloading of paddy from the vehicles of the farmers, heaping, rebagging, weighment, temporary stacking and loading of paddy into the millers' vehicles.*

[20] *Report on fixation of Economic Costs/Incidental Charges of Department of Food and Public Distribution, Ministry of Consumer Affairs, Food & Public Distribution.*

Following deficiencies amounting to ₹ 243.05 crore were noticed as a result of test audit of payments on account of MLC:

a) **Irregular payment of ₹ 194.23 crore MLC to rice millers for supply of Levy Rice in Odisha, Bihar and Andhra Pradesh regions of FCI**

In respect of Levy Rice deliveries, only those private rice millers who purchase paddy at regulated *mandis* are entitled for reimbursement of the MLC at the rate specified in the GoI approved cost sheet issued for every marketing season. Audit observed that though the purchases were made at farm gate/mill point[21], FCI unjustifiably reimbursed MLC to the private rice millers without verifying whether paddy was procured at *mandi* or at farm gate. This resulted in irregular payment of MLC and consequential undue benefits to millers to an extent of ₹ 194.23 crore[22] in Bihar, Odisha and Andhra Pradesh regions of FCI during 2009-10 to 2013-14.

Though irregular payment during KMS 2007-08 to 2009-10 in the case of Andhra Pradesh (AP) region was pointed out by Audit and brought out in the C&AG's Audit Report (Para no 6.2 of Report No. 8 of 2012-13), yet FCI AP Region continued to release MLC for subsequent KMS viz., 2010-11 to 2013-14 without checking the quantum of purchase at farm gate/mill point.

FCI, in its reply, stated that it is following the prescribed cost sheet and the GoI has not specified the mandi labour rates payable for respective purchases. It was further stated that private rice mills were incurring labour charges in case of purchases made at locations other than at mandi and FCI has to reimburse the same.

The reply is not acceptable in view of the fact that in case of incurrence of labour charges by private rice mills, the State Government in its operational guidelines has stated that the same may be deducted from the MSP and only the net MSP is to be released to the farmers.

The Ministry stated (June 2015) that MLC allowed to the private rice millers are based on normative costs and generally fixed at lower level than that of the actual costs incurred by various SGAs.

The reply is not acceptable as the reimbursement for the incidental not actually incurred by the millers is undue benefit being passed on to millers which should have been checked at the time of making payment and necessary recoveries need to be made.

b) **Excess payment of ₹ 5.91 crore to the State Government and its Agencies due to double reimbursement of elements of MLC on purchase of CMR in FCI, Uttar Pradesh region**

The Government of India while fixing provisional rates for procurement of CMR for Central Pool in case of Uttar Pradesh region (KMS 2012-13 and 2013-14) allowed an element of

[21] *Purchases made directly from the farmers and not from the mandis (without the involvement of any MLC)*

[22] *Andhra Pradesh region-₹ 192.04 crore, FCI Gaya and Patna Districts of Bihar region-₹ two crore, in selected revenue districts under FCI, Odisha region-₹ 0.19 crore*

MLC at the rate of ₹ 10.91 per quintal of paddy. However, it was observed in Audit that certain elements (loading into truck from stack - ₹ 1.20, arrangement of tents - ₹ 1.90, drinking water - ₹ 0.50; petromax at purchase centres - ₹ one) included in the MLC were already being paid under other incidental heads i.e. *Mandi Shulk*[23] (comprises arrangement of tent, drinking water and petromax at purchase centre) and Milling Charges (loading into truck from stack). Thus, an excess/double payment of ₹ 5.91 crore was made to SGAs under the head MLC for elements already paid under other heads.

While accepting the audit observation, the Ministry stated (June 2015) that excess payment of ₹ 5.91 crore made to SGAs of Government of Uttar Pradesh would be recovered from future payments to them.

c) **Excess claim of ₹ 6.63 crore as MLC in Uttar Pradesh and Andhra Pradesh**

The cost of CMR approved by the GoI for delivery of one quintal of rice to FCI includes cost of paddy, MLC and other incidentals. Further, component of MLC in CMR provisional cost-sheet issued by the GoI every year is provided for in respect of expenditure incurred on cleaning of paddy, loading and unloading and stacking of paddy gunnies at Paddy Purchase Centres[24] (PPCs). Hence, this component has to be passed on to those PPCs which are actually involved in CMR operations. The State Government releases labour (hamali) charges to PPCs in terms of rates indicated in the cost sheet and the amounts are to be disbursed to labour for undertaking handling operations in the procurement of paddy.

Audit observed in selected districts of Uttar Pradesh that though the actual expenditure of ₹ 4.11 crore was incurred as MLC for procurement of paddy during 2010-11 to 2013-14, the Department of Food & Civil Supplies submitted claims of ₹ 7.57 crore to FCI on the basis of rates laid down in the cost sheet. Thus, FCI also paid the full amount claimed, without verifying the actual expenditure, resulting in excess MLC of ₹ 3.46 crore.

In reply, the Department of Food & Civil Supplies stated (July 2014) that excess MLC amount was deposited in the Government account.

Though, the Department accepted the audit observation, however, FCI did not exercise due diligence by properly checking the bills before making payments.

It was also observed in audit of SGAs of Andhra Pradesh that out of ₹ 3.60 crore claimed from FCI on account of MLC, the charges passed on to farmers/labourers were only ₹ 0.43 crore and the balance amount of ₹ 3.17 crore was unjustifiably retained by District Managers.

[23] *Statutory charge on the food grains procured for Central Pool as well as DCP States.*

[24] *A common point opened by FCI/SGAs/State Government to facilitate the farmers to get the best option not less than MSP for their produce as per specifications prescribed by the GoI.*

While accepting the audit observation, the Ministry stated (June 2015) that out of ₹ 3.79 crore claimed from FCI by SGAs of Andhra Pradesh towards MLC, only ₹ 56.80 lakh was passed on to the labour and the same would be automatically taken into account at the time of fixation of final cost sheets, which would be based on amount of expenditure after its audit.

d) **Irregular payment of ₹ 27.33 crore as Handling/*Mandi* Labour Charges to Andhra Pradesh State Civil Supplies Corporation (APSCSC) in respect of paddy stocks purchased by IKP (SHG) Groups under State CMR - (FCI, Andhra Pradesh Region)**

The activities enumerated for payment of commission to Self Help Group *viz.,* Indira Kranthi Padhakam (IKP) overlaps the activities prescribed for *mandi* labour and hence the payment of MLC in addition to commission is not warranted where paddy purchases are through IKP. The demand for additional remuneration by IKP group for the functions enumerated for *Mandi* Labour was turned down by the State Government and it was reiterated that the commission allowed at 2.5 *per cent* of the MSP already covers these operations. It was clarified by the State Government (October, 2011) that "IKP Group shall have to pay handling charges from their commission'. It was further reiterated (December, 2011) that labour (*hamali*) charges from weighment stage are to be paid by IKP out of the commission of 2.5 *per cent*.

APSCSC issued a clarification in April 2012 that MLC will be payable at rates communicated by the GoI as part of the commission to IKP from 1 April 2012 (Rabi 2011-12). It implied that the MLC reimbursed by FCI for earlier KMS 2009-10 (₹ 1.76 crore) and for KMS 2010-11(₹ 25.57 crore) totalling ₹ 27.33 crore were not actually incurred by SGA but nevertheless retained by it.

The release of MLC by FCI to APSCSC for CMR deliveries out of paddy stocks purchased by IKP groups in addition to Commission payable lacked justification as the remuneration for operations performed was already covered in the Commission Charges of 2.5 *per cent* paid to SGAs for the KMS 2009-10 and 2010-11.

While accepting the audit observation, the Ministry stated (June 2015) that amount of handling charges paid to IKP would be recovered after examination.

e) **Undue benefit to Paddy Purchase Centers (PPCs) due to irregular release of hamali charges- ₹ 8.95 crore in Telangana**

The *hamali* charges[25] are released to PPCs in Telangana in terms of rates indicated in the cost sheet and the amounts were to be disbursed to labour for undertaking handling operations[26] in the procurement of paddy.

[25] *Indicated as MLC in the cost sheet*

[26] *Filling, weighment, unloading from balance, stitching, marking temporary stacking and loading into trucks.*

In Nizamabad District, paddy farmers (ryots) carried out handling operations on their own without involving labour. This was taken cognizance of by the District Administration and it was proposed (May 2012 and April 2013) for release of labour charges directly to farmers along with the cost of paddy. However, the State Civil Supplies Corporation stated (May 2013) that handling operations were to be carried out by the labour at the PPCs and hence the charges were to be paid to PPCs and added that those operations were not connected to farmers. The Corporation further reiterated (December 2013) its stand. This payment was in addition to the commission released to PPCs.

Thereafter, the Nizamabad District Manager released hamali charges of ₹ 4.88 crore to PPCs pertaining to KMS 2011-12 to 2013-14. Nalgonda District Manager also paid ₹ 4.07 crore to Primary Agricultural Cooperative Societies (PACS) and Indira Kranthi Padhakam (IKP) run as Self Help Groups, during KMS 2009-10 to 2013-14.

Thus, irregular release of amount on account of hamali charges to PPCs even without engaging labour deprived the farmers who had carried out handling operations and resulted in undue benefit of ₹ 8.95 crore to PPCs.

Commissioner of Civil Supplies of Telangana stated (December 2014) that payment of hamali charges to PPCs was being made through separate cheques on the basis of certificate that the amounts were paid.

The reply confirmed that the amounts were paid to labourers/PPCs and not to farmers, who should have been the actual recipients, as they were associated with paddy handling/procurement in special circumstances in the above two districts.

The Ministry accepted the audit observation (June 2015) and stated that hamali charges paid to PPCs would be recovered after examination.

2.1.2 Gunny Cost and its Depreciation

The estimated cost of new gunnies[27] included in the provisional cost sheet is based on the calculations provided by FCI. These calculations are arrived at on the basis of six months' average cost of basic price of jute gunnies notified by the Office of Jute Commissioner, Kolkata and include various elements of duties, taxes, interest, freight etc. The actual cost though may be different and depends upon the source of procurement of gunnies. In case gunnies are supplied by FCI, no cost is incurred by the State Government/SGAs under this head. Where the State Governments directly purchase gunnies from Directorate General of Supplies and Disposals (DGS&D), the breakup of actual cost in terms of basic price, branding charges, taxes/duties/cess, departmental and inspection charges are to be provided by SGAs. States may purchase new gunnies from the open market/local market subject to the conditions laid down by DGS&D. If the market rates are lower than the DGS&D rates; in such cases the actual purchase rates are to be claimed.

[27] *Gunnies are bags made of jute/plastic used for packing of paddy/rice*

Depreciation on gunnies in case of CMR is to be claimed on the basis of accounting policy of the organization undertaking such purchase. In case of gunnies used once, the basis adopted for such claims are to be separately indicated.

During the period under audit, amounts of ₹ 10,015.00 crore and ₹ 1,871.20 crore were incurred in selected States towards gunny cost and gunny depreciation respectively as follows:

Table 2.2
Yearwise expenditure on gunny cost and gunny depreciation reimbursed by the GoI

(₹ in crore)

Year	Non-DCP states				DCP States*				Total	
	Levy Rice	CMR	Paddy	Depreciation	Levy Rice	CMR	Paddy	Deprecation	Gunny Cost	Depreciation
2009-10	1,085.40	1,062.80	100.80	196.40	NA	69.20	15.60	69.20	2,333.80	265.60
2010-11	1,497.60	2.30	62.90	27.90	NA	218.10	107.60	87.20	1,888.50	115.10
2011-12	NA	1,994.40	31.40	471.50	NA	342.20	0.00	136.90	2,368.00	608.40
2012-13	1,656.30	1.40	62.40	431.90	NA	Accounts not yet finalised	Accounts not yet finalised	Accounts not yet finalised	1,720.10	431.90
2013-14	330.80	1,323.90	49.90	450.20**	NA	Accounts not yet finalised	Accounts not yet finalised	Accounts not yet finalised	1,704.60	450.20
						Total			**10,015.00**	**1871.20**

**Includes only Chhattisgarh* ***Includes ₹ 1.25 lakh paid on paddy* *NA- Not Available*
Source: FCI Procurement Section and Government of Chhattisgarh

Audit noticed deficiencies amounting to ₹ 469.01 crore in this regard which are detailed below:

a) Non-recovery of ₹ 131.23 crore towards cost of gunnies from SGAs in Uttar Pradesh

As per the provisions of Purchase Policy 2010 to 2013, arrangement of gunnies for purchase of food grains was to be made by the Department of Civil Supplies through respective Regional Food Commissioners (RFCs), according to the demand of procuring agencies. The Department had to ensure supply of gunnies for one month's requirement of SGAs without any advance payment. For subsequent requirement gunnies were to be supplied only after receipt of advance payment from SGAs and RFCs were responsible for recovering the cost of gunnies supplied to SGAs.

In 11 revenue districts of the State, it was observed that RFCs supplied 560.77 lakh units of gunnies (Jute and plastic) valuing ₹ 182.25 crore to SGAs during 2010-11 to 2013-14, but recovered only ₹ 51.02 crore up to July 2014. The balance ₹ 131.23 crore was still outstanding.

Thus, the Department did not follow the provisions of purchase policy and continued to supply the gunnies without taking advance payment from the SGAs. As a result, unrecovered cost of gunnies resulted in blockage of Government money to the tune of ₹ 131.23 crore.

While accepting the audit observation, the Ministry stated (June 2015), that Government of Uttar Pradesh is taking steps to recover the amount from SGAs.

b) **Loss of ₹ 47.58 crore due to non-recovery of gunnies from defaulter millers in Bihar**

The guidelines issued by the Bihar State Food & Civil Supplies Corporation (BSFC) in December 2013 regarding decentralization of paddy procurement during KMS 2013-14 provided that standard norms for packing of paddy in gunnies will be 40 kilogram (kg) per gunny and packing of custom milled rice (CMR) will be 50 kg per gunny. Besides, in case of defaulter millers, in addition to non delivery of required CMR, gunnies were also retained by them. As such, depreciated value of the gunnies retained by the millers was to be recovered from them.

The agreement executed between BSFC (First party) and millers (Second party) provided that, "the rice will be accepted in the same gunnies in which the paddy is delivered by the first party. For the first consignment/lot, rice will be delivered by the second party in new gunnies. The excess gunnies will be returned by the second party and if gunnies are retained by the second party, then cost of excess gunnies (in which paddy is supplied to second party) will be deducted by the first party at the rate of 60 *per cent* of new gunnies at the purchase rate from DGS&D, Kolkata and will be adjusted from the bills submitted by the second party".

Audit observed that 944 defaulter millers did not deliver 3.32 LMT of CMR and also did not return the remaining excess 2,00,23,873 units of gunny during KMS 2011-12 to 2013-14.

Thus, BSFC incurred loss of ₹ 47.58 crore due to non-receipt of gunnies supplied to the millers along with paddy in the seven[28] districts of the State. After the objections were issued, one district (East Champaran) replied that cases under Public Demand Recovery (PDR) Act have already been filed for recovery of dues from defaulter millers while other districts replied that action is being taken. Observations about non-delivery of CMR are elaborated later in para 6.3.

The BSFC accepted (February 2015) the audit observations and assured to recover the depreciated cost of gunnies, but did not furnish the details of amount recovered (June 2015).

[28] *Aurangabad, Nalanda, Rohtas, Bhabhua, East Champaran, Bhojpur and Patna.*

c) Avoidable expenditure of ₹ 174.62 crore on gunnies in Punjab, Haryana, Bihar and Andhra Pradesh regions of FCI

The GoI fixes the rates to be reimbursed by FCI for CMR delivered by the SGAs to the Central Pool. Besides various other elements, these rates include gunny cost for two gunnies and gunny depreciation for another two gunnies per quintal of rice delivered in the Central Pool.

It was observed in audit that in Bihar and Andhra Pradesh regions of FCI, 50 kg capacity gunnies, meant for packing 50 kg wheat/rice, are used for packing 40 kg paddy with the out turn ratio of 67 *per cent* rice. Thus 149.25 kg paddy (equivalent to 100 kg rice) is packed in 3.73 gunnies. Out of these 3.73 gunnies, 100 kg rice is delivered back to FCI in 2 gunnies and remaining 1.73 gunnies are retained by SGAs. The retained 1.73 gunnies are eligible for depreciation. However, as per cost sheet, the GoI reimburses depreciation on two gunnies, resulting in excess payment of depreciation on 0.27 gunny (per quintal). This resulted in extra expenditure to the tune of ₹ 22.51 crore[29] in Bihar and Andhra Pradesh regions of FCI.

It was further observed in Punjab and Haryana regions of FCI that only 35 kg paddy was filled in 50 kg capacity gunnies with the out turn ratio of 67 *per cent* rice. For the period 2010-11 to 2013-14, 590.60[30] LMT of paddy were filled in gunnies @ 35 kg per gunny. Had Punjab and Haryana regions also followed the practice of packing 40 kg paddy like Andhra Pradesh and Bihar region of FCI, they would have avoided the excess use of 10,68,42,041[31] gunnies and consequently reduced the extra burden on subsidy on the GoI to the tune of ₹ 152.11 crore[32].

Thus different States were found to follow varying practices specifying differing quantities of paddy to be filled in a gunny. Whereas in Bihar and Andhra Pradesh regions of FCI, 40 kg of paddy was filled in each gunny, the corresponding figure for Punjab and Haryana was found to be only 35 kg. This practice resulted in excess consumption of gunnies and huge avoidable expenditure of ₹ 174.62 crore.

The Ministry partially accepted the audit observation and stated (June 2015) that packing of specified quantity of paddy in 50 kg gunny bag may vary from State to State considering the size of the grains and other relevant factors. However, on the basis of a Committee's visit to mandis of Punjab during 2014-15, it was found in the spot study that on an average 37.5 kg of paddy can be filled in/packed in a Gunny bag of 50 kg in Punjab and Haryana. Accordingly, instructions were issued to States to fill at least 37.5 kg of paddy in a 50 kg capacity gunny bag.

The reply of the Ministry indicates that paddy in Punjab and Haryana was not optimally packed in the gunny bags. The above observation also highlights the urgent need for fixation

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[29] *FCI Bihar Region- ₹ 6.66 crore, FCI AP Region- ₹ 15.85 crore*

[30] *Punjab – 465.04 LMT, Haryana – 125.56 LMT*

[31] *Punjab –84128563 gunnies, Haryana – 22713478 gunnies*

[32] *FCI Punjab Region-₹ 132.03 crore, FCI Haryana Region- ₹ 20.08 crore*

of quantity of paddy to be packed in gunny bags in various states to reduce avoidable expenditure.

Recommendation No. 1	Ministry's Reply
Based on the instructions issued in Punjab and Haryana, the GoI may consider specifying the minimum quantity of paddy to be filled in each gunny, across the country, to optimize gunny utilization and reduce expenditure on this account	The paddy grown in various States pertains to different varieties and therefore, differs in grain size, moisture content, weight, etc. Therefore, in all States, same quantity of paddy cannot be filled in a 50 kg gunny bag. The spirit of fixation of Acquisition Cost is that State Agencies should get actual cost paid for procurement operations. Therefore, adoption of a uniform quantity of paddy to be filled in gunny bags will not be practical and will not be acceptable to the State Governments. At best, we can fix the lower limit of paddy to be filled to safeguard the interest of the Government and that is what the Ministry is following by adopting a norm of minimum 37.5 kg of paddy to be filled in a 50 kg gunny bag, or in other words by paying only for maximum four bags for each quintal of the rice to be delivered (two gunny bags for rice and two gunny bags at depreciated rate for paddy).

The reply of the Ministry is accepted. However, keeping in view the practice of filling 40 kg of paddy in a 50 kg capacity gunny bag in some States, the recommendation to optimise the gunny utilisation is being insisted upon.

d) **Non-recovery of gunny cost amounting to ₹ 2.30 crore from the private rice millers in FCI, Bihar Region**

In case of FCI Bihar region, it was observed that Area office, Gaya and Patna allowed the millers to retain two left over gunnies used to obtain one quintal of rice. These gunnies were to be returned to FCI by the millers. As per norms, 40 *per cent* depreciation was allowed for first use of two gunnies. Therefore, 60 *per cent* cost of the gunnies retained by the millers should have been recovered by FCI. However, this was not done which resulted in non/short recovery of gunny cost from the private rice millers to the tune of ₹ 2.30 crore for the period from 2009-10 to 2011-12. Moreover, as against this, an amount of only ₹ 0.54 crore was available with FCI as security deposit of the rice millers (March 2014) making the chances of recovery of the balance amount doubtful.

e) **Extra expenditure of ₹ 6.34 crore due to non-revision of value cut on supply of underweight gunnies in FCI, Punjab and Haryana Region**

GoI fixes the rates to be reimbursed by FCI to SGAs for various elements of cost during each KMS. These rates include an element of cost of two gunnies to be delivered with one quintal of CMR to FCI. The price fixed is for new gunnies having prescribed specifications. As per IS: 12650/97, the specified tare weight for 50 kg gunny is 665 grams (gms) (+10 *per cent,* -7.5 *per cent*). Thus, the tare weight [33] of individual gunny varies from 615 gms to 732 gms.

[33] *Weight of empty gunny*

In order to enforce quality of gunnies at the time of purchase of CMR, FCI Headquarter directed (25 February 2000) the field offices that there should be no cut if the tare weight of the gunny of 50 kg is 615 gms and above. However, a cut of ₹ one per gunny may be levied if the average tare weight ranged from below 615 gms to 584 gms and a cut of ₹ two per gunny may be imposed where the tare weight of the 50 kg gunny ranged from below 584 gms to 554 gms. The gunny having a tare weight below 554 gms may be rejected.

In seven area offices[34] of FCI, it was noticed that tare weight of gunny of 50 kg capacity delivered by SGAs along with CMR was less than the 615 gms and the value cut at the rate of ₹ one per gunny was being recovered from SGAs. Audit observed that FCI Headquarter did not revise the rate of value cut in spite of the fact that rate per gunny of 50 kg capacity which was ₹ 18.54 in KMS 2000-01 had increased to ₹ 31.76, ₹ 39.07, ₹ 42.11, ₹ 35.43 and ₹ 40.59 per gunny during KMS 2009-10 to 2013-14 respectively.

Thus non-revision of rate of value cut for low tare weight of gunnies resulted in extra expenditure of ₹ 6.34[35] crore on supply of under-weight gunnies by SGAs during KMS 2009-10 to 2013-14.

The Ministry stated (June 2015) that the value cut imposed by FCI for lesser tare weight of gunnies is applicable for delivery of rice where gunnies were supplied by the rice millers. The said instructions were issued for ensuring delivery of stock in standard weight of gunny. This is normally an exception and not a rule as the majority of the gunny purchase is made through the GoI from DGS&D, both by the SGAs and FCI. Therefore, periodic revision of such value cut has not been attempted.

The Ministry needs to ensure that periodic revision of such value cut is considered in case of increase in the price of gunny to avoid undue benefit to the rice millers.

f) **Avoidable expenditure of ₹ 66.14 crore due to excess fixation of gunny cost for levy and CMR with reference to DGS&D rates in FCI, Andhra Pradesh region**

It was noticed that as against FCI weighted average cost of gunny at ₹ 33.42[36] per gunny, the GoI fixed a price of ₹ 36.16 per gunny in respect of Levy Rice deliveries and ₹ 42.05 per gunny for CMR deliveries, for Central Pool operations (KMS 2011-12). Thus the GoI approved rate was higher by ₹ 2.74 per gunny (Levy Rice) and ₹ 8.63 per gunny (CMR). Moreover, while releasing procurement cost to private rice millers and SGAs, FCI relied on the cost sheet issued by the GoI and no cross checking with the actual cost incurred for its own purchases was made, which resulted in payment of higher rate for gunnies to an extent of ₹ 66.14 crore.

[34] *Fatehabad, Karnal, Kaithal, Kurushetra in Haryana Region and Ludhiana, Sangrur and Patiala in Punjab Region.*

[35] *FCI Haryana (Levy rice)- ₹ 0.04 crore on 5,37,119 gunnies, FCI Haryana (CMR) – ₹ 1.89 crore on 1,89,01,483 gunnies, FCI Punjab ₹ 4.41 crore on 4,02,83,624 gunnies*

[36] *Cost (₹ 4,17,77,760) /No. of gunnies(12,50,000)= ₹ 33.42 per gunny.*

The FCI Management replied that it is releasing payment towards gunny cost based on the cost sheets released by the GoI.

The reply is not acceptable for the fact that the gunny purchases by FCI were made at lower cost and it should have restricted the payment based on actuals.

g) **Extra expenditure of ₹ 40.80 crore on internal transportation on gunny bales in Odisha & Chhattisgarh regions of FCI and Government of Chhattisgarh**

As per Principles, July 2003 issued by the Ministry (amended in November 2004) for fixation of incidentals/economic cost of CMR to various States, cost of gunnies shall be inclusive of the cost towards internal movement of gunnies beyond the railhead, based on final rate approved for that State Government, both for the Central Pool procurement as well as for DCP. In other words, the element of 'internal transportation of Gunny Bales[37]' is a part of 'Gunny cost' in respect of cost sheets of both DCP and Non DCP States and is not to be allowed as a separate element of cost.

However, it was seen that allowance for the element of internal transportation on gunny in the cost sheet was provided in FCI Odisha and Chhattisgarh region as well as Marketing Federation (MARKFED) in Chhattisgarh. This resulted in additional expenditure of ₹ 40.80 crore[38] for the five year period from 2009-10 to 2013-14.

The Ministry replied (June 2015) that elements of internal transportation shown separately in the cost sheet is the transportation charges from the railhead of the receiving State to different centres where gunnies are required and not the rail freight for transporting gunnies, which is included as part of gunny cost.

The reply is not tenable as the ibid circular clearly stated that the cost of gunnies shall include the cost towards internal movement of gunnies beyond the railhead. Thus, the expenditure of ₹ 40.80 crore was avoidable in this case.

2.1.3 Custody and Maintenance Charges (C&M Charges)

The charges incurred by the SGAs for storage and preservation of paddy after procurement for a specified period are known as C&M Charges. In order to compensate these expenses, FCI reimburses C&M charges in accordance with the Principles laid down by the GoI in 2003. Therefore, these charges should not be paid if the stocks are delivered directly to FCI/millers from *mandis*.

Storage cost is provided in the provisional cost sheet at acquisition stage as 'C&M charges' and as 'Storage charges' at distribution stage. These costs depend upon the storage period, type of storage viz. Covered and Plinth (CAP) or covered and also on the storage rate per

[37] One Gunny Bale contains 500 gunnies.

[38] Chhattisgarh - ₹ 24.47 crore, FCI West Zone (Chhattisgarh)- ₹ 11.73 crore, FCI East Zone (Odisha)- ₹ 4.60 crore

gunny (or per quintal) charged by the godown owner. In the provisional cost sheets, these charges are provided separately for CAP and covered godowns at Central Warehousing Corporation (CWC) rates for the storage period prescribed in the Standard Principles for different food grains. Storage cost is applicable only when the food grains are actually stored in the godown. In case the commodity is directly delivered from the *mandis*/procurement centers to FCI, no storage cost is applicable. Similarly, in case the storage is at the millers' premises or for which no separate storage cost is paid, no storage cost is to be booked under the head. The State Government/SGAs are therefore, required to provide break-up of all such quantities, for which no storage cost is incurred.

During the period under audit, an amount of ₹ 466.30 crore was incurred in the selected States on the element of C&M charges as below:

Table 2.3
Custody & Maintenance charges reimbursed by the GoI

(₹ in crore)

Year	Non-DCP states		DCP States*		Total
	Levy Rice	CMR	Levy Rice	CMR	
2009-10	0.00	62.16	NA**	15.15	77.31
2010-11	0.00	78.22	NA	21.11	99.33
2011-12	0.00	87.97	NA	18.29	106.26
2012-13	0.00	96.09	NA	Accounts not yet finalised	96.09
2013-14	0.00	87.31	NA	Accounts not yet finalised	87.31
Total					**466.30**

**includes only Chhattisgarh*
***Not Available*
Source: Annual Report of Ministry and FCI Procurement Division

Audit noticed discrepancies amounting to ₹ 193.90 crore related to payment of C&M charges as detailed below-

a) SGAs in Punjab and Uttar Pradesh region delivered 238.04[39] LMT rice to FCI during 2009-10 to 2013-14. However, an amount of ₹ 144.44 crore was paid by FCI to SGAs on Custody & Maintenance charges without obtaining any evidence to the effect that actual expenditure was in fact incurred by SGAs. As the SGAs did not produce any evidence to prove incurrence on the custody or maintenance of paddy, payment of C&M charges of ₹ 144.44 crore to the SGAs was not regular.

The SGAs of Punjab stated (February/March 2015) that they had to bear cost on C&M as they had to provide cost of crates, gunnies/tarpaulins/polythene covers/nets etc. Hence these charges were reimbursable by the GoI/FCI.

[39] *Punjab – 206.84 LMT and Uttar Pradesh – 31.20 LMT*

The reply is not acceptable as the SGAs have not provided details of cost incurred by them as agreed in State Exit Conference (February 2015) held in Punjab; as such the reasonableness of these claims was unverifiable.

Recommendation regarding verification of documentary evidence for payment of C&M charges has been consolidated with similar recommendation below Para No. 2.1.8.

b) In seven[40] revenue districts of Chhattisgarh, though 86.02 LMT paddy was directly lifted by the millers from the purchase centre (Societies), still two months C&M charges amounting to ₹ 31.24 crore were irregularly paid by the Chhattisgarh State Civil Supplies Corporation (CGSCSC) and FCI to Marketing Federation (MARKFED), despite the fact that paddy was not stored by MARKFED even for a single day.

CGSCSC stated (December 2014) that C&M charges are paid to Societies for the period of paddy stored by Societies, till its delivery to millers.

The reply is, however, not acceptable as paddy procured by the Society was directly lifted by the millers from *mandis*. Hence, payment of ₹ 31.24 crore should not have been made on account of C&M charges.

c) FCI Policy allowed millers only 15 days period for delivery of rice to FCI. Further, paddy purchased by SGAs is to be directly transferred to rice mills without storage of paddy. It was observed in audit that FCI Andhra Pradesh region made a payment of ₹ 18.22 crore to Andhra Pradesh Civil Supplies Corporation as C&M charges for two months which was not in accordance with the provisions of Procurement Policy of Andhra Pradesh. Thus, FCI has incurred avoidable expenditure of ₹ 18.22 crore on this account.

FCI Region Andhra Pradesh replied that release of C&M charges was based on cost sheet of the Ministry and certificate obtained from the SGAs. Further, it was contended that all releases were on the basis of provisional cost sheet.

The contention of the Management is not correct as the Procurement Policy clearly states that all CMR should be delivered within 15 days from the acceptance of stocks at procurement point and thus reimbursement of these charges for two months was in contravention of the provisions of Procurement Policy.

The Ministry, while accepting the audit observation (June 2015), stated that SGAs of Punjab, Chhattisgarh, Uttar Pradesh and Andhra Pradesh were asked to provide the proof of actual incurrence as well as details of payments of C&M charges.

[40] *Raipur, Bilaspur, Durg, Rajnandgaon, Dhamtari, Mahasamund, Janjgir - Champa*

2.1.4 Avoidable incidence of subsidy of ₹ 952.37 crore on account of additional driage allowance given to the millers

Moisture content in paddy is an important determinant of its quality and the price it fetches. Regarding moisture, the recommendation contained in the Gokak Committee Report[41] states, "Moisture content in paddy is always a variable factor. It varies from layer to layer, grain to grain, lot-to-lot, gunny to gunny, stack to stack etc. It is completely dependent on the atmospheric conditions prevailing during the storage period. In a normal year of procurement, the moisture content in paddy will be well within the prescribed maximum limit of 18 *per cent*. There is no authentic data to scientifically establish the reduction in weight due to moisture loss during storage of paddy".

The GoI issued guidelines applicable for all procuring States in September 2010 for submission of incidental claims in respect of procurement of paddy/wheat by the State Governments and their Agencies. In the guidelines, it was mentioned that the shortage/driage may be due to various factors like transit losses, storage losses, driage, damage etc. Paddy is procured at the maximum level of moisture content at 17 *per cent* and milled at 14 *per cent* to 15 *per cent*. Hence, some losses occur during the process of procurement to ultimate milling, which is termed as driage.

As per the Gokak Committee's recommendation, two *per cent* to three *per cent* driage of moisture was already inbuilt while fixing 67 *per cent* out-turn ratio for raw rice[42]. As two to three *per cent* driage has already been taken into account for fixation of the out-turn ratio of rice out of paddy, no additional driage allowance should have been permitted. However, it was noticed in Audit that additional driage allowance of one *per cent* was allowed to SGAs/millers by the GoI as per approval of the Cabinet Committee on Economic Affairs (CCEA) in 1998.

Audit noticed that in the note for Cabinet, it was clearly mentioned that as the out-turn ratio of 67 *per cent* takes into account the normal driage, therefore even the two per cent driage permitted is over and above the normal driage. However, the note further stated that the rice millers of Punjab were not prepared to mill paddy if the driage is not increased and the paddy if not milled may deteriorate and this loss may be far higher than the cost of enhancing driage.

Under these circumstances, driage was enhanced from two per cent to three per cent for Punjab and Ex-post facto approval for the same was sought. However, the order of Ministry dated 8 September 1998 extended the driage allowance to all the States. No justification for doing so was found on record especially in view of the fact that both, the experts (Gokak Committee Report), as well as the Ministry, were of the opinion that the existing driage allowance of two *per cent* was more than sufficient. As a result, the GoI has been allowing this one *per cent* additional driage allowance since 1998. This resulted in undue benefit to

[41] *Report of the Expert Committee on technical examination of reports on trial milling of paddy to obtain out-turn ratios and rice specifications. (21 November 1994).*

[42] *Raw rice refers to the shelled yet un-cooked rice.*

millers amounting to ₹ 952.37 crore, and also additional avoidable incidence of subsidy to the same extent, from the period 2009-10 to 2013-14 as detailed in the table as follows:

Table 2.4
Expenditure reimbursed by the GoI on the element of Driage Allowance

(₹ in crore)

Year	Non-DCP states	DCP States*	Total
2009-10	143.98	27.78	171.76
2010-11	180.67	15.10	195.77
2011-12	215.71	39.58	255.29
2012-13	206.00	Accounts not yet finalised	206.00
2013-14	123.55	Accounts not yet finalised	123.55
	Total		**952.37**

**Includes only Chhattisgarh*
Source: FCI Procurement Division and the Government of Chhattisgarh

While accepting the audit observation, the Ministry stated (June 2015) that this decision to allow driage at the rate of one per cent to all States was a decision taken by CCEA. However, as recommended by Audit, the Ministry will revisit the issue of one per cent additional driage in consultation with FCI.

Thus, apparently decision to increase driage was taken because of the demand of the rice millers association of Punjab and not on the basis of any scientific expert opinion. Moreover, provision which was meant only for Punjab for one year was inexplicably extended to whole of the country resulting in huge outflow of money.

Recommendation No. 2	Ministry's Reply
The GoI may consider revisiting the decision to allow one *per cent* additional driage allowance after taking expert technical opinion on the matter.	The Recommendation is accepted and it will be considered in consultation with FCI.

2.1.5 Transportation cost

Transportation cost for movement of paddy/rice from *mandi*/purchase centre to SGAs/FCI depends on the lead distances between procurement centres to storage points, storage points to rice mills, and rice mills to delivery points at FCI/Agencies godowns. Location/concentration of these points and geographic spread of States are, therefore, important determinants of the lead distances. The cost also depends on the rates of transportation per kilometer per quintal applicable for such distances at different places, which varies among the States. In case the food grains are directly delivered from the procurement centres to FCI, no transportation cost is borne by the State Government/SGAs for such quantities.

Transportation cost up to eight kms from purchase centres to mills and from mills to storage godowns on paddy as well as rice is already included in the milling charges fixed for converting the paddy into rice. Thus, such transportation cost is to be borne by millers and the State Governments should not claim these charges and they are also required to submit a certificate that such cost is not included in the claim. In case the distance involved is more than eight kms, breakup of the quantities and gross transportation cost, deductions made up to eight kms and the net cost claimed is to be provided. Slab rates of transportation cost (separately for first eight kms) are also to be enclosed. Such adjustments may, however, be not required in case milling charges are excluding the transportation cost for first eight kms. As per provisional cost sheets, for food grains delivered from procurement centres to the depots/storage point of FCI for Central Pool, transportation charges are payable on the basis of rates fixed by District Magistrate or FCI's rate, whichever is lower, for actual distance involved.

During the period under audit, an amount of ₹ 694.42 crore was incurred in the selected States on the element of transportation charges as payment to SGAs/millers, as below:

Table 2.5
Expenditure reimbursed by the GoI on the element of transportation charges

(₹ in crore)

Year	Non-DCP states		DCP States*			Total
	Levy Rice	CMR	Paddy	Levy Rice	CMR	
2009-10	34.82	59.72	21.09	NA**	50.07	165.70
2010-11	35.86	37.11	23.76	NA	50.55	147.28
2011-12	48.77	53.50	6.04	NA	77.73	186.04
2012-13	31.31	47.39	12.75	NA	NA	91.45
2013-14	11.64	77.89	14.42	NA	NA	103.95
Total						**694.42**

Includes only Chhattisgarh* * NA- Not Available*
Source: FCI Procurement Division and Government of Chhattisgarh

Audit noticed discrepancies amounting to ₹ 45.20 crore as given below:-

a) **Unjustified lump sum transportation charges of ₹ 38.20 crore in FCI, Odisha Region**

During KMS 2009-10 to 2011-12 in Odisha, the 'transportation charge' at the paddy stage was fixed at lump sum rate and included in the cost sheet of CMR while the same at rice delivery stage was fixed at lower of the rate decided by the District Collector (DC) of the State or FCI's rate. This was, however, changed during KMS 2012-13 and 2013-14 wherein transportation charge both at the paddy stage and at the rice stage was fixed at a rate lower of the DC or FCI's rates. During the KMS 2009-10 to 2011-12 transportation charge at paddy stage was paid at lump sum (₹ 27.89, ₹ 31.35 and ₹ 34.20 per quintal) to the SGAs irrespective of the distance covered. Audit noticed that during KMS 2012-13 and 2013-14, the actual distance covered on an average was only 20 km in the seven revenue districts of Odisha region (except Bhadrak); the incidental towards transportation charge during KMS 2009-10 to 2011-12 could have been reduced by ₹ 38.20 crore, had the transportation charges during this period been fixed on the actual distance basis at the existing transportation rate (₹ 0.27 per km) as was fixed in subsequent KMS.

The Ministry stated (June 2015) that specific transportation charges for the Central Pool at acquisition stage for KMS 2009-10 to 2010-11 was allowed to Odisha as a special case with the approval of competent authority, keeping in view the difficult physical condition of the State and location of mills at far-flung areas. However, from KMS 2012-13, transportation charges in the provisional cost sheet for Odisha are also being fixed as per the provision made in the Principles and applicable in case of all other States.

As there was no change in "difficult physical conditions" of the State and/or location of mills at "far flung areas" in 2012-13 as compared to previous years, the Ministry's contention is untenable and the lump sum transportation charges of ₹ 38.20 crore for the period were not justified.

b) **Irregular part-payments of ₹ seven crore in Nalgonda District of Telangana**

Nalgonda District Administration has been making part-payments and terming them as advances though it was not provided in the agreements entered into with the transport contractors. These advances were adjusted from the amounts payable to transport contractors at the end of the season. It was observed in audit that ₹ seven crore was advanced to transporters during KMS 2012-13 and 2013-14, of which, ₹ 0.56 crore was awaiting adjustment as on November 2014.

While accepting the audit observations of non adjustment of advance from transportation charges, the Ministry stated (June 2015) that the amount of ₹0.56 crore would be adjusted.

2.1.6 Avoidable payment of interest charge of ₹ 31.59 crore to SGAs by Bihar and Andhra Pradesh region of FCI

a) Value Added Tax (VAT) was implemented in Andhra Pradesh (AP) w.e.f. 1 April 2005. As per the AP VAT Act, 2005 even though paddy and rice were taxable at the rate of five *per cent*, the paddy was exempted from levy of sales tax in case of first sale of rice in the State. The Government of Andhra Pradesh stated (23 September 2005) that sale of rice would be taxed only at the point of first sale in the State. Thus, in respect of sale of rice by State Civil Supplies Corporation, out of the paddy (custom milled), the VAT was payable only on the value of rice delivered to FCI and paddy was exempted from levy of sales tax. Thus, it is clear that the SGAs were under no obligation to pay VAT at the time of purchase of paddy from the farmers.

However, Audit noticed that FCI Regional office, Andhra Pradesh region intimated to the GoI that five *per cent* tax was payable on the paddy purchases. The fact of exemption of paddy from levy of VAT should have been brought to the notice of the GoI which was not done.

The Management stated that in the final accounts submitted by the State Government the interest element was more and from KMS 2013-14 onwards, while communicating the cost structure to unit offices, the notional element of VAT, and VAT on Rural Development (RD) Cess, Market Fees were excluded and net cost was communicated for release to SGAs.

The reply is not tenable as the final accounts were being submitted by SGAs after considerable time and in case of KMS 2007-08 and 2008-09, the final cost was much less than the provisional amount paid to them. In the process, FCI has now to recover ₹ 30.84 crore from SGAs.

The Ministry accepted the audit observation on avoidable payment of VAT on purchase of paddy and stated (June 2015) that steps for recovery will be taken.

b) In the cost sheet for the CMR, the items of incidentals do include interest cost. Interest at acquisition stage is provided on the elements of MSP/ Bonus, statutory charges and MLC at the prevailing interest rate for time period specified in the Principles, i.e. for two months. In the cost sheet for the KMS 2009-10 to 2011-12, in respect of Bihar and its SGAs, VAT did not form part of the elements on which interest charges were payable. However, w.e.f. KMS 2012-13 the GoI allowed interest on notional VAT @ four *per cent* of MSP of paddy. While notifying the rates of CMR, it was categorically stated in the cost sheet of KMS 2012-13 that VAT, as applicable at every stage, would be payable as per the relevant legal provisions.

Scrutiny of bills relating to payment of CMR at FCI Area Office, Gaya in respect of KMS 2012-13 revealed that payment made to the SGAs included ₹ 27.06 per quintal towards interest cost at acquisition stage of paddy. This amount included ₹ 1.025[43] being the interest on VAT payable on MSP of paddy. The proportionate interest charges on VAT element at rice stage, taking out-turn ratio at the rate of 67 *per cent,* would be ₹ 1.53 (₹ 1.025 x 100/67) per quintal or ₹ 15.30 per MT. During KMS 2012-13, the SGA i.e. Bihar State Food & Civil Supplies Corporation supplied three LMT and 1.90 LMT of CMR to FCI Area Office, Gaya and Patna respectively on which no VAT was paid by the SGA either at paddy or rice stage as the bills submitted to FCI for payment was at the rate of ₹ 2165.56 per quintal which did not include any element of VAT. However, payment was made by FCI without deducting the proportionate cost incidental towards interest charges resulting in excess payment of ₹ 0.75 crore to the SGA.

[43] *(1250*4/100)X 12.30 per cent for two months*

2.1.7 Release of Value Added Tax of ₹ 1,023.92 crore to Private Rice Millers in contravention of the GoI/ GoAP instructions in FCI, Andhra Pradesh region

The GoI while communicating the levy prices payable to private rice millers stipulated that the statutory charges would be payable only on production of relevant official/statutory receipts evidencing payments. Levy procurement prices payable to private rice millers comprises three elements of statutory charges i.e. Market Fee, Rural Development (RD) Cess and VAT. Market Fee and RD Cess were payable on procurement of paddy by private rice millers whereas VAT was payable on sale of rice to Food Corporation of India. FCI Andhra Pradesh Region reimburses the Market Fee on production of proof by private rice millers and pays RD Cess directly to Commercial Tax Department (CTD).

Cases of non-payment of VAT by private rice millers on the entire cost as well as on certain elements of procurement prices were reported, in spite of full reimbursement by FCI, resulting in undue benefit to some millers. Thus, Andhra Pradesh, Revenue (Commercial Taxes-II) Department communicated that, Group of Ministers constituted by the State Government had accepted the request of the rice millers that VAT payable by them on sale of rice to FCI may be deducted at source and remitted to CTD. It was also stated that, insertion of such provision relating to such tax deduction at source may take some more time, and hence FCI was requested to deduct VAT at the rate of five *per cent* from the amounts payable to rice millers for sale of rice, after obtaining willingness for such deduction from the individual millers.

However, FCI Regional Office Hyderabad turned down the proposal put forth by the GoAP mainly on the grounds of shortage of staff /non-maintenance of records of milling and unwilling millers. The FCI RO Hyderabad continued to adopt the existing procedure and released VAT payments to private rice mills and did not act upon the request of the GoAP, thus violating the instructions of the GoI on the subject matter about obtaining evidence before releasing statutory charges. This resulted in irregular release of VAT of ₹ 1023.92 crore for KMS 2012-13 and 2013-14 to private rice millers in contravention of the GoI instructions.

Recommendation No. 3	Ministry's Reply
In view of the huge amount of State revenue involved, the Ministry may direct FCI to accept Government of Andhra Pradesh's recommendation to deduct Value Added Tax (VAT) at source from private rice millers to ensure timely collection of VAT and revenue to the exchequer.	The Recommendation is accepted and it will be considered in consultation with FCI.

The issue of deduction of VAT by FCI and its deposit with the State Commercial Tax Department of the State of Andhra Pradesh was discussed in the Exit Conference (25 June 2015), wherein the Ministry accepted the audit observation and agreed to the audit recommendation of FCI deducting VAT at source from private rice millers.

2.1.8 Irregular payment of ₹ 73.70 crore as commission to Societies for supply of CMR by SGAs during KMS 2009-10 to 2012-13

As per the Ministry's instructions (March, 2010) the commission to Societies, Self Help Groups and Co-operative Societies undertaking procurement of paddy on behalf of FCI/SGAs would be allowed at the maximum of 2.5 *per cent* of MSP for each KMS, after obtaining documentary proof as regards to the eligibility.

During the year 2009-10 to 2013-14, an expenditure amounting to ₹ 768.35 crore was incurred in selected States on Societies commission, as below:

Table 2.6
Expenditure reimbursed by the GoI on the element of Society Commission*

(₹ in crore)

Year	Non-DCP states			DCP States		Total
	Levy Rice	CMR	Paddy	Levy Rice	CMR	
2009-10	-	-	-	NA**	105.96	105.96
2010-11	-	-	14.46	NA	128.28	142.74
2011-12	-	-	5.58	NA	160.90	166.48
2012-13	-	-	19.43	NA	Accounts not yet finalised	19.43
2013-14	-	317.09	16.65	NA	Accounts not yet finalised	333.74
			Total			**768.35**

**Rate of commission to Societies at maximum at the rate of 2.5 per cent of MSP was fixed by the GoI. **NA- Not Applicable*
Source: Annual Report of the Ministry and FCI Procurement Division

However, Audit observed that out of ₹ 768.35 crore, an amount of ₹ 73.70[44] crore was paid by FCI in six[45] area offices of three[46] regions without obtaining any proof to the effect whether Primary Agricultural Co-operative Societies (PACS) were engaged in the procurement process by SGAs. The payment without documentary proof was not only against the GoI instructions but also carried a risk of reimbursement for expenditure not actually incurred by SGAs.

The Ministry stated (June 2015) that PACS are Panchayat level co-operative bodies with elected members. These are engaged in procurement through a notification issued by the Government of Bihar every year. The quantity purchased by PACS was certified by district co-operative officers or nodal officers. Thus, the payment of Society commission was in order.

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[44] *FCI Area offices Gaya-₹46.53 crore and Patna-₹24.42 crore (KMS 2009-10 to 2012-13), Uttar Pradesh- ₹2.57 crore, FCI, Area office Kurnool – ₹0.18 crore.*

[45] *Patna, Gaya, Shahjehanpur, Mirzapur, Basti and Kurnool*

[46] *Bihar, Uttar Pradesh and Andhra Pradesh*

The reply of the Ministry is not tenable as the FCI (August 2013) had withheld the commission to Society for KMS 2011-12, 2012-13 and RMS 2012-13 and had called for the proof of engagement of the Society in procurement operations.

As regards Andhra Pradesh, the Ministry accepted the audit observation and stated (June 2015) that SGAs had been asked to provide the proof of engagement of cooperative Societies and on failure to provide such document, the amount would be recovered.

In the case of Uttar Pradesh also, the Ministry accepted the audit observation and stated that (June 2015) the commission paid to Societies during 2010-11 had already been recovered and no payment on this head was made thereafter. Recovery of inadmissible amount of Societies commission paid in 2009-10 was under process.

However, recovery particulars were awaited in audit (June 2015). Moreover, as much as ₹ 1.10 crore was paid by the Uttar Pradesh as Society commission during 2011-12 and 2012-13, which also needs to be recovered.

Recommendation No. 4	**Ministry's Reply**
The Ministry may direct FCI/SGAs to ensure that payments for custody and maintenance charges and Society commission are made only after verification of documentary evidences for actual incurrence of expenditure by the SGAs on this account.	The Recommendation is accepted and FCI will be asked to ensure its implementation.

2.1.9 Non-submission of certificates for payment of Market Fee amounting to ₹ 17.09 crore in Andhra Pradesh and Telangana

a) In Andhra Pradesh, District Managers did not obtain the market fee paid certificates from the Marketing Department of APSCSC for an amount of ₹ 2.37 crore paid to it as Market Fee. Thus, the end-utilisation of the Market Fee could not be verified.

In the State Exit Conference held with Collectors in Andhra Pradesh (August 2014), it was assured that the certificates would be obtained and submitted to FCI. These were awaited in Audit (June 2015).

b) Audit scrutiny of certificates for payment of market fee amounting to ₹ 14.72 crore for the period 2009-10 to 2013-14, submitted by the Marketing Department of APSCSC[47] in Telangana revealed that these certificates were not supported by the receipt of payment and expenditure particulars. Hence end-utilisation of the amount paid as Market Fee could not be verified in Audit.

[47] *The nomenclature pertains to period prior to bifurcation into two separate States of Andhra Pradesh and Telangana.*

While accepting the audit observation, the State Government replied (December 2014) that the purchaser had to pay the Market Fee and RD Cess to the concerned Departments and the certificates were being obtained in coordination with all concerned and added that Market Fee was being paid from cash credit.

Recommendation No. 5	Ministry's Reply
The Ministry may ensure that payments are released by FCI/State Governments only after obtaining certificates for market fee/tax/cess paid in the previous marketing season.	Market Fee and RD Cess is imposed by the concerned authorities of the State Government under various statutory provisions. Obviously, the payment of such statutory charges cannot be linked to the end utilization of the revenue collected out of it, as the FCI or State Agencies can be subjected to penalties for not paying such fee/ cess. It is the responsibility of the State Government to ensure proper utilization of such funds and C&AG can audit the same at their end. Thus, the Recommendation is not acceptable.

Though the Ministry has not accepted the recommendation, yet it agreed to (during Exit Conference held on 25.06.2015) insist upon State Governments to furnish tax/fee paid certificates for earlier years.

2.1.10 Non-uniformity in fixation of MLC and Gunny Cost for CMR and Levy Operations

The rice for Targeted Public Distribution System (TPDS) is sourced through two operations namely Levy and CMR. Whereas in CMR, the paddy is procured by SGAs/FCI and given to millers, in case of Levy, the paddy is procured directly by millers and delivered to FCI/SGAs at pre-decided rate. However Audit noticed that despite procurement of paddy for both CMR and Levy Rice being made in the same *mandi*, the rates of *mandi* labour charges and Gunny cost were different. Following observations were noticed in this regard:

a) **Excess payment of ₹ 436.69 crore as MLC for CMR in Chhattisgarh, Punjab, Haryana regions of FCI, State Governments of Chhattisgarh and Uttar Pradesh**

The rate of MLC fixed for CMR was higher than the rate of MLC fixed for Levy Rice during the period from 2009-10 to 2013-14 in Non-DCP States of Uttar Pradesh, Punjab, Haryana and DCP State of Chhattisgarh (2009-10, 2011-12 and 2012-13) as follows:

Table 2.7
Rates of *Mandi* Labour charges fixed by the GoI for Paddy Procurement

(₹ per quintal)

Year	Punjab		Haryana		Uttar Pradesh		Chhattisgarh	
	CMR	Levy Rice	CMR	Levy Rice	CMR	Levy Rice	CMR	Levy Rice
2009-10	12.21	6.21	11.95	6.21	7.92	6.21	9.92	6.21
2010-11	13.24	6.98	12.69	6.98	8.90	6.98	6.41	6.98
2011-12	11.05	7.60	13.20	7.60	9.94	7.60	11.81	7.60
2012-13	11.68	8.03	13.84	8.03	10.91	8.03	10.37	8.03
2013-14	13.64	8.89	15.39	8.89	10.91	8.89	5.18	8.89

Source: Annual Report of the Ministry and FCI Procurement Division

As the procurement of paddy for both CMR and Levy Rice was made in the same *mandi*, there should have been no difference between the rate of MLC fixed for CMR and Levy Rice. This has led to an excess payment of ₹ 436.69 crore[48] to SGAs/FCI by the FCI/GoI during the period from 2009-10 to 2013-14.

On the other hand in Chhattisgarh, fixation of higher MLC for delivery of Levy Rice as compared to the MLC for CMR for the Khariff Marketing Season (KMS) 2010-11 and 2013-14 resulted in undue financial benefits to the millers to the tune of ₹ 0.29 crore. Thus in the same State, the State Government and FCI had two diametrically opposite price mechanisms for *mandi* labour which was not justified.

b) **Different rates of gunny cost for CMR and Levy Rice resulted in extra expenditure of ₹ 42.27 crore - Bihar, Odisha, Uttar Pradesh and Andhra Pradesh regions of FCI**

Fixation of gunny cost under CMR operations is done by the GoI on the basis of FCI's recommendation and FCI proposes the rate by adopting a practice of taking average cost of gunnies prevailing during the immediately preceding six months as the basis for the calculation of cost of gunnies. To this, elements like branding charges, safety stitches, Central Sales Tax, Education Cess, etc. are added. However, in the case of Levy Rice, gunny cost is finalized by the GoI on the basis of open market prices of gunny at Kolkata, during normal season, as received from Gunny Traders Association, Kolkata and by adding thereto other elements like freight, incidental charges and interest of one month.

Thus different rates of gunny cost have been prescribed for CMR and Levy Rice operations though the gunnies are used in the same time period and for same purpose. The table follows illustrates the position:

Table 2.8
Different rates of gunny cost for CMR and Levy Rice operations

(₹ per quintal)

State	Operations	Years				
		2009-10	2010-11	2011-12	2012-13	2013-14
Punjab	CMR	63.53	78.14	84.22	70.86	81.18
	Levy Rice	59.68	64.78	72.34	70.86	78.00
Haryana	CMR	63.38	78.24	84.10	70.86	81.18
	Levy Rice	59.64	64.74	72.30	70.86	78.00
Odisha	CMR	63.35	78.32	79.64	79.64	81.34
	Levy Rice	54.00	63.48	70.98	69.46	75.66
Chhattisgarh	CMR	65.33	80.00	87.59	73.40	80.18
	Levy Rice	58.82	63.92	70.52	69.90	76.90
Uttar Pradesh	CMR	49.24	51.94	83.74	70.06	80.34
	Levy Rice	49.24	51.94	71.64	70.06	76.36
Bihar	CMR	50.40	62.00	80.80	69.53	79.82
	Levy Rice	50.40	63.60	71.84	69.58	75.78
Andhra Pradesh and Telangana	CMR	58.00	78.16	84.10	70.86	81.18
	Levy Rice	58.00	64.76	72.32	70.86	78.00

Source: Cost sheets issued by the Ministry

48 *Chhattisgarh-₹ 55.60 crore, Uttar Pradesh-₹ 2.55 crore, FCI Punjab- ₹ 288.23 crore, FCI Haryana- ₹ 90.31 crore.*

It was further seen that the rates for gunny used in CMR operations was fixed higher than that for Levy Rice operations even when there was no justification for doing so. This fixation of different rates of 'new gunny' for CMR and Levy Rice respectively led to payment of accumulated higher incidental charges amounting to ₹ 42.27 crore[49] for CMR delivered by SGAs and Levy Rice delivered by rice millers during KMS 2009-10 to 2013-14.

The Ministry replied (June 2015) that as levy operations are being discontinued from 2015-16 thus these observations are no longer relevant.

Though the Ministry has replied that levy operations are being discontinued from 2015-16, the fact remains that different price structure were prevalent for CMR and Levy Rice for MLC and Gunny cost respectively whereas essentially both the operations were similar. This led to higher expenditure and avoidable subsidy outgo and underscores the need for better harmonization of distributed data sets for cost fixation of incidentals to optimally economize the expenditure on the same.

[49] *FCI, Odisha region (2009-10 to 2013-14)-₹ 20.71 crore, FCI Bihar region (2010-11 & 2011-12)-₹ 5.84 crore, FCI Uttar Pradesh region (2009-10 to 2013-14)-₹ 15.72 crore.*