

Chapter-IV

Selection of millers and linkage of mills with the *mandis*

As a part of process of paddy procurement, the rice mills are selected every year by District Milling Committees (DMC)⁷⁷ keeping in view criteria like distance of mills from the *mandis*, (normally within eight kms from the *mandi*), milling capacity of the rice mill and past record of timely delivery of rice in the earlier years. This process is called tagging of mills. As transport charges up to eight kms are included in the milling charges, maximum tagging of mills should be done with those mills situated within eight kms from the *mandi*/storage point to minimize expenditure.

Paddy procured by the SGAs is to be distributed equally amongst all the eligible rice mills at a particular main/permanent/storage milling centre for the purpose of custom milling on the basis of their milling capacity, which is to be certified by the District Food and Supplies Controller as per the provisions of respective State's custom milling policy.

A number of deficiencies noticed in the selection of millers are detailed below:

4.1 Improper linkage of *mandis* with rice mills

4.1.1 Injudicious linking of paddy purchase centres with rice mills

As per custom milling policies in various States, purchase centre/*mandis* should be linked with the nearest milling centre/storage centre, keeping in view the availability of milling capacity at the milling/storage centre(s) at which paddy is proposed to be stored/milled. All the procuring agencies should make necessary arrangements of linking the proposed purchase centres/*mandis* with storage points/milling centres in such a way as to incur minimum expenditure on transportation.

It was however, noticed in Uttar Pradesh, Chhattisgarh, Punjab and FCI Bihar region that rice mills were tagged to purchase centre/*mandis* at a distance much beyond eight kms leading to avoidable transportation cost of ₹ 407.33 crore⁷⁸ in case of SGAs/FCI.

The SGAs and the Government of Punjab stated (February 2015) that it was due to delay in finalization of the issue by the GoI. It was further stated that as per the decision of the GoI,

⁷⁷ District Milling Committee constitutes the Deputy Commissioner of the concerned District as Chairman and Director of Food and Supplies Corporation as Member Secretary. The districts heads of procuring agencies including FCI and two nominees of rice millers are its members.

⁷⁸ SGAs-Uttar Pradesh region- ₹ 6.78 crore, Chhattisgarh region- ₹ 248.15 crore, Punjab- ₹ 152.28 crore, FCI Bihar region- ₹ 0.12 crore

the claims for reimbursement of transportation charges had been submitted as per revised checklist and payment was likely to be released by the GoI.

The reply is not acceptable as the distance limit of eight kms was well known before linking the mills to *mandi*. Thus, there was no justification for transportation of paddy beyond eight kms for milling.

The Ministry stated (June 2015) that there was no stipulation that mandis could not be tagged to mills beyond eight kms. However, the least cost principle was to be followed.

The reply lacks proper justification for selecting mills beyond eight kms and satisfactory justification of such selection were not found on record. Thus, injudicious tagging of rice mills which were at a distance more than for which transportation cost was already included in the milling charges led to huge avoidable outflow of ₹ 407.33 crore on account of transportation of paddy/rice by FCI/SGAs in the States of Uttar Pradesh, Chhattisgarh, Punjab and Bihar.

4.1.2 Irregular expenditure of ₹ 163.72 crore on transportation of paddy in Punjab

As per provisional cost sheet of CMR approved by the GoI for the Central Pool for KMS 2009-10 to 2013-14, milling charges already included transportation charges within a distance of eight kms, from/to mills, for transportation of paddy as well as rice. However, from records/information furnished by four districts⁷⁹ of Punjab, it was noticed that during KMS 2009-10 to 2013-14 the SGAs incurred an expenditure of ₹ 163.72 crore on transportation of paddy from purchase centre/*mandis* to milling centres/storage centres located at a distance within eight kms. Incidentally, in the neighbouring State of Haryana, transportation charges of paddy within eight kms were being borne by millers themselves. Thus, expenditure on transportation of paddy by the SGAs, within eight kms resulted in avoidable payment of transportation charges of ₹ 163.72 crore and passing of undue benefits to the millers of the same amount.

The State Government and the SGAs stated (February 2015) that this was part of milling cost and cited operational difficulties in implementing the same. It was also brought to notice that the matter was again referred to the GoI.

The reply is not acceptable because as per the instructions of the GoI transportation charges up to eight kms are already in-built in the milling charges determined by the GoI and were not payable separately.

While accepting the audit observation, the Ministry stated (June 2015) that FCI had not released the transportation charges up to eight kms for transportation of paddy by SGAs in Punjab for KMS 2009-10 to 2013-14 as the same was not payable.

⁷⁹ Sangrur, Patiala, Ludhiana and Moga.

Thus, the millers whose mills were tagged within a distance of eight kms were not eligible for transportation charges (as this element was included in the milling charges), in Punjab and an amount of ₹ 163.72 crore was incurred on transportation of paddy by SGAs for mills tagged within eight kms, thereby passing of undue benefit to the rice millers to the same extent.

4.1.3 Extra expenditure of ₹ 44.27 crore due to incorrect fixation of transportation charges

For transportation of paddy from *mandis* to the storage points, *mandi* Transportation Contractor (MTC) is appointed for each agency in each district. Allotment is done by a tender committee comprising of all District Heads of all SGAs and a representative of Deputy Commissioner of the district concerned. The Director, Food & Supplies and ex-officio Special Secretary to Government of Punjab stressed (July 1998) that while fixing transportation rates, the Committee should ensure that for same distance, similar rates are fixed.

However, it was observed in audit that tenders for transportation from *mandis* to Storage points were allotted by allowing certain adhoc percentage enhancement over the previous years' rates. Moreover, the rates were fixed on per quintal basis without considering the distance, resulting in extra expenditure of ₹ 44.27 crore⁸⁰ during 2009-10 to 2013-14. It is also worthwhile to mention here that in the neighbouring State of Haryana, basic 'schedule of rates' was fixed for transportation of food grains from *mandi* to storage point allowing fixed per quintal per kilometer rates to the transporters thus reducing the risk of such extra expenditure.

While accepting the audit observation, the Ministry stated (June 2015) that necessary instructions were issued to the GoP for keeping the distance involved as primary factor while finalizing mandi transport contracts.

Recommendation No. 11	Ministry's Reply
The State Governments may ensure that all mills within a distance of eight kilometres are tagged first, only after which mills situated at further distance may be considered, taking into account the milling capacity and quantity of paddy to be milled.	The Recommendation is accepted.

4.1.4 Payment of extra transport charges of ₹ 32.23 crore in contravention of the GoI guidelines in Odisha

In Odisha, as per the GoI instructions issued from time-to-time, milling charges were allowed at ₹ 10 per quintal for raw and at ₹ 20 per quintal for par-boiled rice, wherein transportation charges were excluded. The transportation charges were fixed at the rate of ₹ five per quintal

⁸⁰ Area offices- Sangrur- ₹ 8.58 crore, Moga- ₹ 8.89 crore, Patiala- ₹ 1.73 crore, Ludhiana- ₹ 25.07 crore

for distance from 0-8 kms from the *mandis*/purchase centres to mills for paddy and from mills to storage points for rice respectively. Thus, milling charges of ₹ 15 and ₹ 25 per quintal fixed by the GoI for KMS 2009-10 to 2013-14, were inclusive of transport charges up to eight kms.

However, as per information furnished by the District Managers, Odisha State Civil Supplies Corporation (OSCSC), transport charges for 0-10 kms were paid to millers at ₹ seven per quintal for KMS 2009-10 to 2011-12 and at ₹ 12.50 per quintal for KMS 2012-13 and 2013-14. Thus, payment of transportation charges in excess of norm fixed by the GoI for distance up to eight kms (₹ five per quintal), led to extension of undue benefit to the millers to the tune of ₹ 32.23 crore during 2009-10 to 2013-14. No recorded reasons were available either at the corporate office of the OSCSC or at district offices for fixing higher transportation charges than that prescribed by the GoI.

The Ministry stated (June 2015) that in Odisha, the milling charges do not include the transportation cost up to eight kms from KMS 2010-11 onwards.

The reply is not specific as the audit observation points toward difference in rates provided in cost sheet where transportation charges are included in milling charges and those paid where transportation charges are de-linked from milling charges leading to extra expenditure.

4.2 Irregularities in allotment of paddy in Haryana

The District Milling Committee (DMC) allots rice mills to each SGA on the basis of paddy to be procured by it. As per the norms fixed by the Food and Supplies Department (FSD), the SGAs are required to allot paddy to each miller according to its milling capacity so that milling of paddy by rice millers is carried out efficiently.

However, it was observed in Kurukshetra district during KMS 2013-14 that in majority of the cases in the State, paddy was not allotted to millers as per the norms fixed by the FSD. Out of 142 cases, paddy was allotted in excess of the norms fixed by FSD in 60 cases. In the remaining 82 cases, paddy was allotted less than the norms. Non adherence to norms indicated poor management by SGAs in allotment of paddy.

The Department of Civil Supplies admitted (January 2015) the audit observation and intimated that an enquiry would be conducted.

The Ministry endorsed (June 2015) views of the State Government.

4.3 Non-recovery of extra expenditure due to transfer of paddy from the allotted rice mill to another mill in Telangana

The Nizamabad District Administration transferred 18,079 MT of paddy (cost: ₹ 22.79 crore) from the originally allotted rice mills to another rice mills during KMS 2011-12 to 2013-14

due to non/delayed delivery of CMR to FCI by the originally allotted rice mills. This constituted 52 per cent of allotted paddy. The maximum transfers were reported during KMS 2012-13. It was also observed that even though two rice mills⁸¹ were chronic defaulters, yet 5,026 MT of paddy valuing ₹ 6.34 crore⁸² was unloaded at these two mills (KMS 2011-12 to 2013-14). Out of this, as much as 4,223 MT of paddy worth ₹ 5.32 crore had to be transferred to other rice mills for custom milling.

No action was taken against the two erring rice mills and allotment of paddy was continued to be made.

The Commissioner of Civil Supplies accepted the Audit observation and stated (December 2014) that paddy was shifted due to the failure of the designated rice mills and the extra expenditure incurred on such shifting was to be recovered from millers.

The Ministry accepted (June 2015) the audit observation and stated that the Government of Telangana was being reminded to confirm the recovery of cost of shifting of paddy from millers. Progress of recovery was awaited in audit (June 2015).

4.4 Doubtful means of transport used for movement of paddy/rice

Transportation of paddy/CMR is to be carried out by executing an agreement between transporters and SGAs. The transporters also have to specify the registration number of the truck while executing the contract. However Audit noticed a number of discrepancies indicating doubtful transportation claims which are detailed below:

- a) It was observed in Uttar Pradesh, Bihar and Chhattisgarh that large quantities of paddy/CMR ranging from 14 quintals to 1,800 quintals were shown as transported through Motorcycle, Auto Rickshaw, Jeep Taxi, Thela (Jugad), Car etc. In all, the total quantities of paddy/CMR depicted as transported through these doubtful means was 5,744.09 MT valuing ₹ 6.58 crore. Details are given in *Annexure-VI*.

While accepting the audit observation, the Ministry stated (June 2015) that the State Governments have been asked to look into the discrepancy and initiate suitable action.

- b) In Punjab, out of 3,319 registration numbers of vehicles scrutinised by Audit, 3,231 (97.35 per cent) registration numbers did not match with computerised data of the transportation Authority of the State. Out of 88 traceable vehicles, 15 vehicles (17.05 per cent) were found to be other than trucks i.e. bus, car, bike and tanker etc. Further, in nine offices, incomplete registration numbers of 41,033 vehicles were provided to Audit by FCI which were not verifiable for the genuineness of the transportation of 4.36 LMT paddy involving an expenditure of ₹ 13.86 crore (4.51 per cent of total transportation cost).

⁸¹ Dhana Laxmi Rice Mill, Yellareddy and Sri Raghavendra Industries, Kamareddy

⁸² On the basis of proportion to the total amount

Similarly, in 15 out of 16 district offices (of four procuring agencies⁸³ in the four selected districts of SGAs), information regarding registration number of vehicle used for transportation of paddy (constituting 19.92 per cent of total transportation cost) was not made available to Audit, though categorically asked for.

While accepting the audit observation, the Government of Punjab and the SGAs stated (February 2015) that due to heavy volume of paddy and pressure from various authorities for lifting of paddy in short time, other vehicles might have been used.

From the reply it is not clear as to how vehicles like motorcycle, cars etc. were used for transportation of tons of paddy/rice, in these cases. As transportation of paddy/rice in various States were observed to have been carried out through vehicles other than regular means of transport (like car, motor cycle, delivery van, etc.) it indicated possibility of false claims being submitted by the transporters. These cases need to be investigated to rule out any misappropriation of Government money and/or payment of false claims towards transportation of paddy/rice.

Recommendation No. 12	Ministry's Reply
All doubtful cases of transportation of paddy need to be properly investigated by the State Governments concerned and FCI needs to exercise due diligence before passing such claims for payment.	The Recommendation is accepted.

4.5 Improper selection of millers

4.5.1 Non-constitution of competent authority for selection of rice mills in Andhra Pradesh and Telangana led to extra expenditure of ₹ 39.64 crore

As per operational guidelines of the Government of Andhra Pradesh on custom milling of rice, a District Milling Committee should be constituted for selection of rice mills within a distance of eight kms from the Paddy Purchase Centre (*Mandi*) for custom milling of paddy and delivery of rice to the FCI/SGAs. Records produced to Audit did not contain any evidence in support of such Committees having been constituted in three districts⁸⁴ of Andhra Pradesh and two⁸⁵ districts of Telangana. Instead, District Rice Millers' Association were seen to have been asked from season to season to provide the mill-wise targets, keeping in view the milling capacity of each rice mill.

In Andhra Pradesh, besides non-constitution of committees for selection of rice mills, 558 mills out of 709 mills got selected which were at a distance beyond eight kms from paddy

⁸³ PSWC, PUNSUP, PUNGRAIN and PAFCL

⁸⁴ East Godavari, West Godavari and Krishna

⁸⁵ Nizamabad and Nalgonda

procurement centers, leading to avoidable expenditure of ₹ 6.99 crore on account of excess transportation expenses.

In reply, Commissioner of Civil Supplies agreed to consider constituting designated committees. Progress in this matter was awaited (May 2015). On the other hand, the Ministry stated (June 2015) that though the Committee was not constituted but the paddy procurement centres were tagged to rice mills on least cost and milling capacity basis.

The reply of the Ministry is not tenable as in absence of constitution of District Milling Committees, the compliance of the operational guidelines for tagging of mills was unverifiable.

Audit also observed that out of a total of 2478 selected mills in Telangana in the districts of Nizamabad and Nalgonda, during KMS 2009-10 to 2013-14, only 624 mills (25 per cent) were within a distance of eight kms. Thus, paddy was sent for milling to rice mills located beyond eight kms in Nizamabad and Nalgonda districts leading to excess expenditure of ₹ 32.65 crore on transportation of paddy.

4.5.2 Improper Selection of rice millers during KMS 2009-10 to KMS 2011-12

Audit observed a number of deficiencies in records pertaining to millers in Odisha, Andhra Pradesh, Telangana and FCI Bihar region, some of which are as follows:

- i) Physical verification of 151 premises of millers was not conducted before the selection of millers;
- ii) Permanent Account Number was not available in 81 cases while in 89 cases Taxpayer Identification Number was not available;
- iii) Land documents were not collected from 85 millers;
- iv) The validity of the certificate issued for boilers had expired long back in 37 cases; and
- v) There was no certificate regarding running status of the 22 mills granted by the District Task Force (DTF), current electricity bill and Income Tax Return during the year 2009-10 to 2011-12.

Thus, the selection procedure of *bonafide* millers in these States was questionable. Further details about deficiencies are pointed out in *Annexure-VII*.

The Ministry, while accepting the audit observation, replied (June 2015) that in Bihar, millers were reluctant to mill FCI paddy on account of lower milling charges. However, the issue was drawn to the notice of the respective States seeking remedial measures taken by them.

4.5.3 Selection of millers despite non-delivery of CMR in Odisha

Audit noticed that in Kalahandi district, two millers failed to deliver 1,773.34 MT of rice relating to KMS 2010-11, till 31 December 2014. However, they were again selected as custom millers for KMS 2013-14 on the basis of the order issued by the General Manager (Procurement), Odisha State Civil Supplies Corporation. Later, ₹ 2.98 crore being the value of 1,773.34 MT rice not delivered by the millers for 2010-11 KMS along with 193.84 MT rice due for 2013-14 remained unrecovered from these two⁸⁶ millers as of December 2014. Similar cases of selection of twelve millers in two⁸⁷ districts despite their failure to deliver 4,770.02 MT of custom milled rice due by cut-off date during the period from 2009-10 to 2013-14 were also noticed by Audit. These examples are indicative of lack of due diligence by the officers concerned of the SGAs in these districts.

While accepting the audit observation, the Ministry stated (June 2015) that there was no subsidy burden on the GoI for this but the State Government was suitably sensitized to avoid any short delivery of CMR by the millers.

The reply of the Ministry is not tenable because though there may not be an addition to the subsidy burden on the GoI but the above observation points towards non compliance of the GoI orders by the millers and needs to be addressed on priority.

⁸⁶ Sivananda Rice mill (529.93 MT and 100.03 MT for 2010-11 and 2013-14 respectively– ₹ 0.97 crore), Sri Manikewari Food Products (1243.41 MT and 93.81MT for 2010-11 and 2013-14 respectively– ₹ 2.01 crore)

⁸⁷ Bhadrak and Bargarh