2.2 ANDHRA PRADESH STATE CIVIL SUPPLIES CORPORATION LIMITED

Highlights

Andhra Pradesh State Civil Supplies Corporation Limited was incorporated in December 1974 as a wholly owned Government company with the main objectives of distribution/sale of essential commodities, ensuring their availability in the market at reasonable rates and equitable price to the primary producers of agricultural commodities.

(Paragraph 2.2.1)

Loan of Rs.17.48 crore given to Nizam Sugars Limited at the behest of State Government remained locked since May 1998.

(Paragraph 2.2.9)

Due to delay in submission of claims of Rs.25.55 crore to State Government for margin under National Programme for Nutritional Support for Primary Education Scheme and delay in their settlement, the Company incurred loss of interest of Rs.5.74 crore on cash credit availed.

(Paragraph 2.2.15)

Failure of the Company in claiming refund from Food Corporation of India towards differential cost of rice due to roll back of prices, failure to lift stocks during pipeline period and payment of revised prices for stocks lifted during pipeline period resulted in loss of Rs.3.69 crore.

(Paragraph 2.2.19)

Though the decision of Government of India to supply food grains to SC/ST/OBC hostels at BPL rates was communicated to FCI headquarters, district units of FCI charged APL rates on 30,042 MT of food grains lifted by the Company resulting in extra expenditure of Rs.11.68 crore. Neither any claim was raised nor the matter was pursued with FCI headquarters.

(Paragraph 2.2.21)

Failure to move stock by observing economy resulted in extra expenditure of Rs.1.51 crore.

(Paragraph 2.2.23)

Acceptance of common grade rice from millers as against 'A' grade paddy issued for custom milling resulted in loss of Rs.1.60 crore.

(Paragraph 2.2.28)

Delay in taking decision to get the paddy custom milled in two districts resulted in delay in realisation of sale proceeds and consequent loss of interest of Rs.3.09 crore.

(Paragraph 2.2.28)

Under market intervention operations, the Company procured Tamarind at prices higher than the ruling market prices and incurred a total loss of Rs.1.05 crore (including incidental expenditure).

(Paragraph 2.2.30)

Introduction

2.2.1 Andhra Pradesh State Civil Supplies Corporation Limited (Company) was incorporated in December 1974 as a wholly owned Government company. The Company has eight zonal offices and 23 district offices (one in each district).

As per the order of Government of Andhra Pradesh (October 1991), the activities of Andhra Pradesh State Essential Commodities Corporation Limited (ESCOM) were entrusted to the Company with effect from 1 November 1991 with a view to merge ESCOM with the Company. However, ESCOM continued to maintain separate books of account up to 1997-98. The process of merger is still in progress.

Objectives

2.2.2 The main objectives of the Company are procurement, supply and distribution of essential commodities; ensuring their availability in the market at reasonable rates and carrying out all such activities and trades as may ensure equitable price to the primary producers of agricultural commodities.

The activities presently undertaken by the Company are:

- Procurement of rice from Food Corporation of India (FCI) for implementation of State Government subsidy scheme under public distribution system (PDS) and various schemes launched by the Government from time to time;

Note: Abbreviations used in the review are explained in the Glossary.

- Procurement of wheat, levy sugar, imported edible oil and kerosene and their sale through fair price shops (FPS);
- Procurement of paddy under minimum support price (MSP);
- Market intervention operations (MIO) to neutralise spiralling prices of various essential commodities like pulses, tamarind, onions etc.; and
- Distribution of new LPG connections under "DEEPAM" scheme.

Organisational set up

2.2.3 The management of the Company is vested in the Board of Directors consisting of seven directors as on 31 March 2003. The Chairman who is also a member of the Board is appointed by the Government. The Vice Chairman and Managing Director (VC&MD) is the Chief Executive of the Company and is assisted by four General Managers (Finance, Personnel, Marketing and Public Distribution System) at the Head Office, eight zonal managers and 23 District Managers (one for each district) in the field. The Company also has a Civil Engineering Wing headed by an Executive Engineer at Head Office.

Scope of Audit

2.2.4 The working of the Company was last reviewed and results of audit included in the Report of Comptroller and Auditor General of India for the year ended 31 March 1994 (Commercial) - Government of Andhra Pradesh. The report has not been discussed in COPU so far (August 2003). In the present review, the working of the Company covering transactions at head office and 11[α] out of 23 district offices for a period of five years up to 2002-03 was reviewed during January to May 2003.

2.2.5 The meeting of Audit Review Committee for State Public Sector Enterprises was held on 8 October 2003 to discuss the draft review on the working of the Company. The State Government was represented by the Principal Secretary and the Company by Vice Chairman and Managing Director. The review has been finalised after taking into consideration the views of the Government and the Company.

Capital structure

2.2.6 As against the authorised capital of Rs.10 crore divided into 1,00,000 equity shares of Rs.1,000 each, the paid-up capital of the Company as on 31 March 2003 was Rs.3 crore, fully subscribed by State Government.

[α] West Godavari, East Godavari, Visakhapatnam, Adilabad, Nizamabad, Karimnagar, Khammam, Mahabubnagar, Ranga Reddy, Chittoor and Prakasam.

Financial position and working results

2.2.7 The Company had so far (March 2003) finalised accounts up to 1999-2000 and prepared accounts for the year 2000-01 on provisional basis. The financial position and working results of the Company at the end of each of four years up to March 2001 are given in **Annexures 17** and **18** respectively.

Price stabilisation and equalisation fund (PSEF)

PSEF was created to hold the price line of essential commodities.

2.2.8 In order to hold the price line of essential food grains, the State Government directed (March 1980) the Company to set apart and contribute from the financial year 1978-79 onwards, not less than two ***per cent*** of its annual turnover for maintenance of price stabilisation and equalisation fund (PSEF). The contribution was revised to 5 ***per cent*** from the financial year 1987-88 and to 7.5 ***per cent*** from 1993-94 onwards. The fund is operated by State Government.

Contribution to PSEF was not on uniform basis which distorted working results.

Losses suffered on market intervention operations were debited to the fund without specific Government approval.

The Company calculated the contribution to PSEF on total annual sales turnover (excluding turnover of subsidised rice under PDS) up to the financial year 1997-98. From the year 1998-99 without specific approval of the State Government, the turnover of wheat was excluded from the total turnover, for the purpose of calculation of PSEF contribution. This resulted in short provision of PSEF by Rs.5.28 crore, Rs.5.52 crore and Rs.43.15 lakh during 1998-99, 1999-2000 and 2000-01 respectively. Further, during 1999-2000 the Company suffered a loss of Rs.5.86 crore on market intervention operations (MIO) viz., procurement and sale of onion, tamarind, chillies and tomatoes and charged the same to PSEF without specific approval of the State Government. Had the Company made provision (including the turnover of wheat) and not adjusted the loss sustained on MIO to PSEF, it would have incurred a loss of Rs.4.01 crore and Rs.5.37 crore during 1998-99 and 1999-2000 respectively.

This resulted in distortion of working results of the Company, non-compliance of Government orders and inadequate contribution to PSEF, defeating the objective of the PSE Fund.

During 1978-79 to 2000-01, the Company contributed Rs.70.03 crore to PSEF out of which Rs.30.03 crore i.e., amount contributed up to 1995-96 was paid to State Government and balance amount of Rs.40 crore was retained by the Company and utilised towards its working capital.

Fund management

Non-realisation of dues from Nizam Sugars Limited

2.2.9 In order to clear the dues payable to farmers by Nizam Sugars Limited (NSL), the State Government decided (May 1998) that NSL should obtain a loan of Rs.20 crore from the Company and the Company, in turn, should obtain inter corporate deposit (ICD) at 15 ***per cent*** interest per annum from Andhra Pradesh State Road Development Corporation (APRDC) for extending the same to NSL at the same rate of interest. The Company was directed to recover this loan along with interest from NSL against supply of sugar.

Loan of Rs.17.48 crore is pending recovery from Nizam Sugars Limited.

APRDC released (May 1998) Rs.20 crore as ICD to the Company on the condition that the amount was to be returned to APRDC as and when requested. The Company released the same to NSL in May 1998. The Company through NSL paid Rs.2.52 crore to APRDC on 4 October 1999 by adjusting against sugar supplies. Since NSL stopped supply of sugar thereafter, the balance amount of Rs.17.48 crore along with interest could not be recovered from NSL. The request of the Company (January 2000) to indemnify it from any kind of losses in the event of failure of NSL to repay Rs.17.48 crore along with interest was not agreed to by the State Government so far (March 2003). As NSL is under closure and its assets are under disposal, the chances of recovery of amounts from NSL are remote.

Diversion of cash credit availment

The Company operates cash credit facility for purchase of food grains.

2.2.10 The Reserve Bank of India (RBI) sanctioned cash credit limit of Rs.80 crore (food credit) to Government of Andhra Pradesh as principal borrower, for purchase of food grains under PDS. The State Government, in turn, authorised the Company to operate cash credit facility on its behalf through State Bank of India (SBI), on hypothecation of stocks.

Funds from cash credit were diverted for other purposes.

Audit observed that in the following cases, the Company utilised cash credit facility for purposes other than the specified purposes:

Advance made at the instance of State Government was pending recovery together with interest.

- On the directions (January 1999) of State Government, the Company had drawn and advanced (February 1999) Rs.2 crore to the Commissioner of Printing and Stationary to facilitate him to meet the cost of printing household supply cards, at 16.83 ***per cent*** interest per annum. The amount along with interest of Rs.1.14 crore has not been paid back till March 2003.
- At the instance of State Government (April 2001) the Company had drawn Rs.25 crore at 11.55 ***per cent*** interest per annum and paid the same as an interest free advance to Nizam Sugars Limited (NSL) on 23 April 2001, to be adjusted against the delivery of levy sugar on monthly basis. Only Rs.6.28 crore was recovered up to 31 August 2001 against supply of sugar. NSL neither delivered levy sugar nor repaid the balance amount of Rs.18.72 crore with interest from

September 2001 onwards. The interest incurred by the Company on Rs.18.72 crore from September 2001 to 31 March 2003 amounted to Rs.4.93 crore. NSL was under closure and the State Government had taken a decision to dispose of its assets. Government stated (October 2003) that the Company was pursuing the matter for recovery of dues from NSL.

Delay in drawal of funds from Personal Deposit Account

Interest of Rs.7.56 crore was paid on cash credit due to delay in drawal of funds from personal deposit account.

2.2.11 A review of personal deposit (PD) account and cash credit account for 1997-2002 revealed that the Company, in spite of having adequate balances in PD account, could not operate the same due to delay in release of funds by the Government and utilised cash credit facility to meet its requirements. This resulted in an avoidable expenditure of Rs.7.56 crore towards interest, which had added an additional burden on State Government in the form of payment of subsidy to the Company.

Government stated (October 2003) that the Company can only draw the amount depending upon the release of funds by State Government at their convenience and any interest incurred towards utilisation of cash credit was charged to subsidy. Fact remains that the cash credit was utilised when the funds were available in PD account resulting in increased burden of subsidy on Government.

Delay in crediting sale proceeds to Head Office Account

There were abnormal delays by banks in crediting funds remitted by district offices to head office.

2.2.12 District offices of the Company operate deposit accounts in various nationalised banks for remittance of sale proceeds to head office account by way of telegraphic transfers. The funds remitted were expected to be credited to head office account within one or two days from the date of remittance. Due to lack of coordination between head office and district offices and prompt persuasion with banks, abnormal delays (from 3 to 307 days) were noticed in 13 district offices.

Had the amounts been credited to head office account within seven days, the Company would have saved interest of Rs.57.30 lakh on cash credit facility. On being pointed out by Audit (January 2003), the Company had raised a claim with the banks concerned. Further developments were awaited (September 2003).

Public distribution system

2.2.13 Under public distribution system (PDS), Government of India (GOI) allots food grains (i.e., rice and wheat) and levy sugar to State Government from time to time under various schemes. The State Government in turn allots them to different districts according to their requirements. The work of lifting of food grains and levy sugar from various godowns of Food Corporation of India (FCI)/sugar factories, their transportation and storage at mandal level stockist (MLS) points and further distribution to fair price (FP) shops for issue to beneficiaries in the State has been entrusted to the Company. Besides margins for transport, handling, storage etc., the differential cost, if any, between purchase and issue price is claimed from Central/State Governments.

The food grains and levy sugar are transported by the Company in two stages i.e., stage-I and stage-II. In case of rice and wheat, stage-I transportation is from the godowns of FCI to MLS points while it is from sugar factories to MLS points in case of sugar. Stage-II transportation is from MLS points to FP shops. Stage I transport contractors are appointed by the Company district-wise whereas stage-II transport contractors are appointed at district level by the district tender committee consisting of Joint Collector, District Supply Officer and District Manager of the Company with the approval of the Managing Director.

Implementation of rice schemes

The details of various schemes under which the Company handled rice during the five years ended 31 March 2003 and main points of interest noticed in implementation of these schemes are discussed in the following paragraphs.

Subsidy rice scheme

2.2.14 The State Government pays subsidy to the Company every month on ad hoc basis towards distribution of rice under PDS. The Company submits final claim for subsidy rice after finalisation of annual accounts for the respective years. The State Government settled (April 2003) the subsidy claims up to 1996-97. The Company submitted the final claims for subsidy for the years 1997-98 to 1999-2000 to State Government on 7 October 2003 only on being pointed out by audit.

National Programme for Nutritional Support for Primary Education (NPNSPE)

2.2.15 NPNSPE scheme sponsored by Government of India was launched from 15 August 1995 for students in primary classes by allotting rice free of cost. The Company acts as an agent of State Government for lifting rice from FCI and delivering to the identified FP shop dealers as per the orders of District Collectors.

During 1998-2003, the Company lifted 1,64,973 MT, 1,70,742 MT, 1,35,106 MT, 1,68,417 MT and 1,83,503 MT of rice respectively. Claims for margin were to be submitted immediately after completion of financial year in the month of April for the quantities lifted during the previous financial year. Claims for the years 1999-2000/2000-01 and 2001-02 were submitted in March and June 2002 respectively instead of April 2000, April 2001 and April 2002.

Belated submission and realisation of claims resulted in loss of interest of Rs.5.74 crore.

Out of Rs.36.71 crore claimed for the five years, only Rs.11.15 crore was settled (November 1999/October 2002) leaving a balance of Rs.25.55 crore unrecovered (March 2003). Due to belated submission and settlement of claims, the Company incurred loss of interest of Rs.5.74 crore at the rate of 12 ***per cent*** per annum.

Government stated (October 2003) that there were delays in submission of claims for 1999-2000 and 2000-01 due to delay in revision of margins (March 2002). The reply is not acceptable as there was delay in the submission of proposals for margins in spite of Government of India's decision to reimburse the transportations charges subject to a maximum of Rs.50 per quintal in May 1997 it self. Management also failed to pursue the proposal made for revision of margins (June 2000) which was finally received only in March 2002.

Annapurna scheme

2.2.16 Government of India announced (March 2000) Annapurna scheme for providing food security to the aged destitutes. The Company being the nominated agency for the scheme was entitled to receive cost of rice plus margin at Rs.50 per quintal towards transportation, handling, storage and margin of FP shop dealer.

It was observed that during 2000-01 the Company released 6,928 MT rice as against 4,086 MT rice lifted from FCI resulting in excess release and diversion of 2,842 MT rice from other schemes. The Company was to realise Rs.4.55 crore representing the claims up to 31 March 2003 (May 2003). Government stated (October 2003) that this excess release was met from above poverty line (APL) stocks held by the Company.

Food for Work Programme

2.2.17 To ensure food security to the rural poor, in a drought-like situation prevailing in the country, Government of India introduced (August/September 2001) food for work (FFW) programme. Under the programme, Government of India allots rice to the State Government free of cost. The State Government nominated the Company to lift FFW rice from FCI and distribute in 22 districts of the State (except Hyderabad) which were treated as drought affected. The Company was to claim margin towards transport, handling and storage and other charges from Commissioner for Relief, Government of Andhra Pradesh.

Under the programme, the State was allotted 16.50 lakh and 20 lakh MT rice respectively for 2001-2003. The Company lifted the entire quantity, but released 13.69 lakh MT during 2001-02 and 20.09 lakh MT during 2002-03 leaving a balance of 2.72 lakh MT to be released.

There were various instances of misappropriation of stocks by persons in-charge of MLS points.

During the course of lifting and issue of FFW rice, the district management did not take proper care to reconcile the release of rice stocks with reference to allotments made by District Collectors and release orders issued by the concerned authorities. There were instances of mis-appropriation of stocks of Rs.1.17 crore during 2001-02 and 2002-03 in five MLS points of the Company due to release of rice stocks:

- over and above the allotments made by District Collectors,
- in excess to the quantities indicated in the release orders issued by concerned authorities, and
- to different agency without proper orders.

The VC & MD, directed (October 2002) all the district managers to:

- take up 100 ***per cent*** reconciliation of release order wise releases made at MLS points,
- complete reconciliation as on 30 September 2002 by 31 October 2002 and from October 2002 onwards by 15th of the subsequent month, and
- report instances of excess releases made, if any, along with detailed report to head office.

However, no such reconciliation was done by the District Offices, leaving scope for similar misappropriation cases.

Lifting and transportation of rice

Lifting of rice

Non-claiming of differential cost from Food Corporation of India

2.2.18 During December 1997 to July 2001, Government of India (GOI) revised the Central Issue Price (CIP) of rice distributed under public distribution system (PDS), as indicated below:

Effective Date of revision	Rate applicable per MT (Rs.)		Pipeline period	
	APL category	BPL category	From	To
01 December 1997	7000	3500	24 November 1997	30 November 1997
29 January 1999	9050	4520*/3500	22 January 1999	28 January 1999
01 April 2000	11800	5900	25 March 2000	31 March 2000
25 July 2000	11300	5650	18 July 2000	24 July 2000
15 November 2000	9500	5650	08 November 2000	14 November 2000
12 July 2001	8300	5650	05 July 2001	11 July 2001

When CIP of rice is revised, a period of seven days prior to the effective date of revision is considered as pipeline period. As per the guidelines/ clarifications given by GOI, following was the position relating to applicability of revised rates during/after the pipeline period.

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* **The CIP of BPL category rice which was revised to Rs.4,520 with effect from 29 January 1999 was rolled back to Rs.3,500 on 5 February 1999 with retrospective effect from 29 January 1999**

For the release orders (ROs) issued by FCI prior to the pipeline period:

- pre-revised rates are applicable for the stocks lifted before and during the pipeline period.
- revised rates are applicable for the stocks lifted on or after the effective date of revision.

For the release orders issued by FCI during the pipeline period, revised rates are applicable.

2.2.19 A test check of rice lifted by some of the district offices of the Company, based on the ROs issued by FCI before, during and after the pipeline period, revealed that:

- failure on the part of the Company in claiming refund of the differential cost from FCI, due to rolling back of CIP of BPL category rice on 5 February 1999 from the revised rate of Rs.4,520 per MT with effect from 29 January 1999 to the pre-revised rate of Rs.3,500 per MT retrospectively, resulted in loss of Rs.23.66 lakh (Karimnagar and Ranga Reddy districts).
- Mahbubnagar, Chittoor and Nellore district offices of the Company obtained release orders prior to 22 January 1999 and lifted stocks during the pipeline period (22 to 28 January 1999). However, on demand from FCI, revised price was paid resulting in additional expenditure of Rs.72.65 lakh. Government stated (October 2003) that the differential cost was paid to FCI as per the communication (January 1999) of Senior Regional Manager/FCI. The reply of Government is not acceptable as the above communication was wrongly interpreted.
- In the case of price revision effected from 29 January 1999 and 1 April 2000, East Godavari, Visakhapatnam, Nizamabad and Mahbubnagar district offices obtained release orders prior to pipeline period but failed to lift stocks by the end of the pipeline period and incurred an additional expenditure of Rs.17.85 lakh. Government stated (October 2003) that FCI failed to deliver stocks on 24th and 26th January 1999 because of public holidays and on 25th due to receipt of rice stocks at their godowns. The reply of Government is not acceptable as even after allowing three days, there were two more days for lifting of small quantities, which should have been done with proper planning.
- In the case of downward price revision effected from 25 July 2000, 12 district offices[♥] of the Company obtained release orders at pre-revised rates during the pipeline period and lifted stocks, but failed to claim the differential cost of Rs.1.21 crore. Similarly, in the case of downward revision of prices effective from 12 July 2001, five district

[♥] West Godavari, East Godavari, Visakhapatnam, Adilabad, Nizamabad, Karimnagar, Khammam, Ranga Reddy, Mahbubnagar, Chittoor, Prakasam and Nellore.

offices obtained ROs at pre-revised rates during the pipeline period, but failed to claim the differential cost of Rs.58.49 lakh.

- In the case of downward revision of prices effective from 25 July 2000 and 12 July 2001, ROs were obtained on or after the effective dates of revision by eight district offices[♣] and one district office (East Godavari) respectively at pre-revised rates instead of at revised rates which were lower. The resultant extra expenditure of Rs.74.98 lakh was not claimed.

Additional expenditure of Rs.3.69 crore was incurred towards differential cost on stocks lifted during pipeline period.

The Company, thus, incurred a total extra expenditure of Rs.3.69 crore which in turn resulted in loss to State Government in the form of additional payment of subsidy.

Government stated (October 2003) that management has requested the State Government in August 2002 to take up the matter with the GOI for reimbursement of differential cost. The amount was yet to be realised by the Company (October 2003).

Non-availing of concessional rate

2.2.20 Government of India (GOI) revised (April 2002) the CIP of APL rice from Rs.830 to Rs.730 per quintal and CIP of wheat from Rs.610 to Rs.510 per quintal and the Company while communicating (6 April 2002) the allotment of April 2002 to its District managers also indicated that the revised CIP will be in force for three months up to June 2002. It was observed that:

- the District manager, Chittoor had procured 6,532 MT of APL rice at higher rate in July 2002 against the allotment made for June 2002. Had this quantity been lifted in June 2002 itself, it could have avoided the additional expenditure of Rs.65.97 lakh.
- the Ranga Reddy district office had procured 1,500 MT of APL rice and 200 MT of wheat in June 2002 against the allotment of July 2002 at higher rate despite availability of allotment of 4,863 MT of APL rice and 1000 MT of wheat at concessional rates for June 2002. This had resulted in an avoidable expenditure of Rs.17.17 lakh.

Procurement of BPL rice at APL rates

2.2.21 On the recommendations of the Group of Ministers constituted to consider "Revamping of PDS-measures to improve the off-take of food grains", the Ministry of Consumer Affairs and Public Distribution had decided (November 2002) to supply food grains to SC/ST/OBC hostels at below poverty line (BPL) rates. Though this decision was communicated to FCI headquarters at New Delhi in November 2000, FCI officials in districts forced the Company to take delivery of 30,042 MT of food grains at above poverty line (APL) price at Rs.28.82 crore instead of BPL price at Rs.17.14 crore. Thus, the Company incurred an extra expenditure of Rs.11.68 crore during

[♣] West Godavari, Nizamabad, Karimnagar, Khammam, Ranga Reddy, Mahbubnagar, Chittor and Prakasam.

January to March 2001. The Company neither claimed the extra expenditure from FCI (March 2003), nor pursued the matter with FCI headquarters at New Delhi.

Extra expenditure of Rs.11.68 crore was incurred due to charging of APL rates instead of BPL rates by FCI.

Government stated (October 2003) that the matter was being taken up with GOI for reimbursement of loss of Rs.11.68 crore for non-release of rice meant for social welfare hostels at BPL prices.

Non-lifting of BPL rice

2.2.22 Food Corporation of India (FCI) issues two categories of rice viz., APL and BPL, for issue to the APL and BPL families respectively. State Government identified certain beneficiaries (white card holders) to whom the rice was to be supplied under the scheme at subsidised rate of Rs.5.25 per kg which was less than the cost of BPL rice i.e., Rs.5.65 per Kg.

It was observed in audit that:

- during 2001-02, the district office, Medak issued 61,915 MT of rice under PDS to FP shops for issue to white card holders. This requirement was met by purchasing 37,514 MT (at the rate of Rs.5,706.50 per MT) BPL rice and 24,401 MT (at the rate of Rs.8,383 per MT) APL rice. The district office, Medak lifted 2,312 MT of BPL rice out of 3,812 MT allotted for the month of April 2001 and allowed 1,500 MT of BPL rice to lapse. Had 1,500 MT of BPL rice been procured, the Company could have saved Rs.40.15 lakh[*]. Government accepted audit observation and stated (October 2003) that stocks were lifted by oversight by the District manager as per the original allotment order instead of as per revised allotment order.
- The district office, Khammam was allotted 3,545 MT of BPL rice for the month of September 2001. Similarly, the district office at Hyderabad was allotted 2,589 MT rice under PDS for September 2001. The district offices failed to lift 3480 MT and 75 MT respectively to the end of September 2001 due to hamalies strike at FCI godowns. This forced the Company to divert 3,555 MT of rice out of APL stocks. Had the balance quantity (3,555 MT) of BPL rice been lifted from other FCI godowns or allotment period got extended, the Company could have saved the extra expenditure of Rs.95.15 lakh[**]. Government stated (October 2003) that the quantities have lapsed due to hamalies strike at FCI godowns. The reply is not acceptable as the Company failed to approach the FCI authorities immediately on commencement of strike (20 September 2001) for alternative arrangements.

[*]Rs.8,383.00 - Rs.5,706.50 x 1,500 MT.
[**]Rs.8,383.00 - Rs.5,706.50 x 3,555 MT.

Transportation of rice

Uneconomic lifting of stocks

2.2.23 To achieve maximum economy in transportation cost the Company should plan movement of food grains economically by taking into consideration availability of stocks, distances between FCI godowns and MLS points and slab rate per MT payable to contractors.

Rs.1.51 crore was incurred additionally due to un-economic lifting of stocks from FCI godowns to MLS points.

A review of the stocks lifted from FCI godowns to MLS points of the Company in respect of four districts (Adilabad, Nizamabad, Karimnagar and Khammam) for 2001-02 and another four districts (Ranga Reddy, Mahbubnagar, Chittoor and Prakasam) for 2001-02 and 2002-03 revealed that food grains were moved without considering the distances between FCI godowns and MLS points vis-à-vis the slab rates payable to transport contractors. As a result, the Company incurred an extra expenditure of Rs.1.51 crore in these districts.

Further, the Company itself assessed similar extra expenditure of Rs.14.34 lakh in respect of Vizianagaram district due to uneconomic lifting of stocks during April to August 2002.

Government while accepting some criss-cross movement of stocks stated (October 2003) that the Company had no other go except to move the stocks to various MLS points as per ROs issued by FCI. The reply is not acceptable as the ROs issued by FCI did not indicate the MLS points to which stocks were to be lifted. This was to be done by the management by proper planning.

Release of advance/part payments to transport contractors

Contrary to terms of contract, advances were paid to transport contractors.

2.2.24 The terms and conditions of agreement with transport contractors do not provide for any advance/part payments. A review of the payments made to contractors for 2001-03 in six district offices♣ of the Company revealed that:

- The Company paid advances or made part payments to contractors during 2001-03. This resulted in loss of interest of Rs.28.81 lakh to the Company. In some of the months the advance/part payments made exceeded the actual bill amounts for the respective months.
- The Company paid 27 advances aggregating Rs.51.95 lakh to Sri B. Babul Reddy, stage-I transport contractor, Ongole from 18 June to 01 October 2001 against transportation of rice during June to September 2001, without receipt of detailed bills for the previous months. Due to misuse of stocks by the contractor during September and October 2001, the contract was terminated and the Company carried out transportation of food grains departmentally and by engaging another contractor at the cost of delinquent contractor. Of Rs.24.42 lakh due from the delinquent contractor, the Company was

♣ Adilabad, Karimnagar, Ranga Reddy, Mahbubnagar, Chittoor and Prakasam holding a bank guarantee and security deposit of Rs.9 lakh only. Had the Company not paid the ad hoc advances to the contractor without receipt of detailed bills, it could have recovered the balance amount of Rs.15.42 lakh from the contractor's transportation bills.

- In another district (Vizianagaram), the Company paid 23 advances/part payments, aggregating Rs.72.55 lakh during 12 April to 27 August 2002, which were pending adjustment (March 2003). The loss of interest could not be ascertained in audit.

Government stated (October 2003) that the advances/part payments were made only after delivery of stocks at MLS points and there was no interest loss. Government's reply is not acceptable as the release of advances/part payments were contrary to the provisions of the agreement and further payments due to the contractors should have been made only on submission of bills supported by consignee receipts in original.

Wheat

Abnormal delay in disposal of wheat

2.2.25 The Company undertakes supply of wheat through PDS. As per the procedure in vogue, the Company has to lift stock from FCI at the rates fixed by GOI, incur expenditure in respect of transportation, storage, handling and deliver the stocks to FP shops at the rates approved by State Government.

In view of availability of wheat in the open market at prices lower than the price under PDS, the sale of wheat through PDS had come down drastically from April 2000 (2,058 MT) from the monthly average sale (8,365 MT) in the previous year and huge stocks of wheat piled up in MLS points of the Company. The quality of wheat started deteriorating due to long storage.

A proposal was put up to Board (May 2000) to decide as to whether to sell the wheat in open market (prevailing market price Rs.8 per Kg.) or to convert wheat into atta. The Board of Directors decided to convert entire wheat into atta for sale through PDS, without assessing the availability/capacities of roller flour mills and making any cost benefit analysis with reference to local market price. In view of non-availability of adequate roller flour mills and cost of conversion being high, the Company could convert only a small quantity (77 MT) of wheat into atta up to July 2000. To prevent further deterioration in the quality of wheat, the Company decided (August 2000) to sell wheat in open market at average procurement cost (Rs.8 per Kg.) without incurring any loss.

Subsequently State Government approved the proposal of the Company (October 2000) to sell wheat in bulk to Government departments/private parties at Rs.800 per quintal. As there were no bulk takers from Government departments, the Company was forced to conduct auctions and sell 486.509 MT (including 4.376 MT dumped due to damage) wheat valued at

Rs.37.21 lakh at prices ranging from Rs.205 to Rs.640 per quintal, during the period from January to June 2001. Thus, delay in taking timely decision to dispose of stocks resulted in loss of Rs.22.30 lakh.

Sugar

Loss due to belated claiming of margins on levy sugar

2.2.26 As per the guidelines issued by Government of India, the margins[*] would be fixed every year on receipt of proposals from State Government. To obtain the margins from Government of India, the Company should have submitted its proposal to State Government by October every year for the preceding financial year. It was observed that the Company was submitting the proposals to State Government for forwarding the same to Government of India, with abnormal delays.

Delay in fixing margin resulted in loss of interest of Rs.90.71 lakh.

Proposals for margin for 1998-99 and 1999-2000 were submitted by the Company to State Government in July and October 2001 respectively, while the proposals for 2000-01 and 2001-02 were submitted in May 2003. Due to delay in submission of proposals, and consequent delay in approval, the Company was forced to make the initial claims for margins on the basis of available approved margins for earlier years and for the differential margin belatedly after obtaining approval for the margins for the concerned financial years. This resulted in locking up of Rs.7.99 crore during 1999-2002 with consequent loss of interest of Rs 90.71 lakh[#].

Government stated (October 2003) that the proposals for margins were submitted immediately on receipt of Auditor's certificate on actual transportation charges and there was no delay. The reply is not acceptable as there was abnormal delay on the part of the Company in obtaining Auditor's certificates.

Minimum support price operations

2.2.27 In view of the difficulties faced by farmers in marketing of paddy produced by them, Government of India decided (December 2000) to procure 10 lakh MT paddy under minimum support price (MSP) in the ratio of 30:70 by FCI and State agencies respectively. Government of Andhra Pradesh appointed the Company as one of its agencies for the purpose. Separate cash credit facility of Rs.120 crore was extended to the Company to meet the expenditure under the scheme.

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[*] Interest on capital for one month, transport, handling, administrative and storage charges, bank commission, storage/transit and weighment losses.

[#] Calculated at the rate of 12 ***per cent*** per annum after allowing a period of one year for submission/approval of proposals for margins

Procurement of paddy and custom milling

2.2.28 Under the scheme, the Company procures common and 'A' grade paddy from farmers at the rates fixed by Government of India and delivers the paddy to millers for custom milling. Custom milling was to completed within one month in order to realise the sale proceeds from FCI. Milling charges were payable, as per rates fixed by Government of India. The Company was to ensure that same grade of resultant rice (67 ***per cent*** in case of raw rice and 68 ***per cent*** in case of boiled rice) was delivered by millers to FCI. The Company was to claim sale proceeds from FCI based on the acknowledgements obtained by millers from FCI.

A review of minimum support price operations, during the crop years 2000-01 and 2001-02 revealed the following losses:

Paddy valued at Rs.3.20 crore was treated as storage loss without norm.

- Though the management did not fix any norm for storage losses, 2,270 and 2,876 MT paddy valued at Rs.1.41 crore and Rs.1.79 crore for the crop years 2000-01 and 2001-02 respectively was treated as storage loss, as per the reports of respective District Managers. Government stated (October 2003) that Government of India allowed driage loss (storage loss) at one ***per cent*** and hence there was no storage loss during crop year 2000-2001 and there was loss of Rs.87 lakh during the crop year 2001-2002 after allowing one ***per cent***. The reply is not correct as the driage loss was to be considered at one ***per cent*** in case of delivery of raw rice out of paddy issued for custom milling and was in no way related to the storage loss of paddy suffered by the Company.

Acceptance of common grade rice against 'A' grade paddy issued resulted in loss of Rs.1.60 crore.

- In East Godavari, West Godavari and Khammam districts, common grade rice was accepted against 29,877 MT of 'A' grade paddy issued for custom milling. This resulted in loss of revenue of Rs.1.60 crore (difference in cost between common grade and grade 'A' rice) which had not been claimed from the millers so far (September 2003).

Failure to claim revised gunny depreceiation resulted in loss of Rs.1.07 crore.

- In Adilabad, Nizamabad, Mahbubnagar and Ranga Reddy districts, the Company failed to claim in full the revised gunny depreciation rates of Rs.21.49 and Rs.22.04 per quintal fixed by GOI for raw and boiled rice respectively. This resulted in loss of revenue of Rs.1.07 crore.

Mis-appropriation of paddy by millers resulted in loss of Rs.95.38 lakh.

- East Godavari and Khammam districts of the Company issued paddy to millers without security and failed to supervise and ensure timely delivery of rice to FCI. This resulted in misappropriation of paddy of Rs.95.38 lakh (at economic cost) by two millers. Government stated (October 2003) that the Company has initiated disciplinary action for supervisory lapse against the district managers and is also taking steps to recover the amount from the defaulters.

Delay in taking decision to get paddy custom milled in two districts resulted in loss of interest of Rs.3.09 crore.

- As against the normal time of one month allowed for custom milling, the paddy procured in Adilabad and Mahbubnagar districts (crop year 2000-01) was custom milled with abnormal delay (ranging from 38 to 394 days) due to delay in taking decision to get the paddy custom milled in other districts. Consequently, there was delay in realisation of sale proceeds from FCI with resultant loss of interest of Rs.3.09 crore on cash credit.

- In Nizamabad district, though paddy was issued for custom milling excluding the weight of the gunny bags, the millers contended that paddy was issued with the weight of gunny bags and short accepted 542 MT of paddy and delivered resultant rice to FCI. Instead of insisting on millers to account for the resultant rice, the district management treated 542 MT (Rs.35.96 lakh) as storage loss.

Market intervention operations

Purchase of redgram/redgram dal

2.2.29 Due to spiralling prices in various essential commodities like pulses, tamarind etc., the Company decided (January 1999) to procure 5,000 MT of red gram (RG) under market intervention operations (MIO) from market yards of Telangana districts; convert the same into dal and sell the dal at economic cost.

Red gram dal was procured without assessing actual requirement.

The Company procured (January to May 1999) 2,530 MT of Redgram at Tandur and 1,014.40 MT at Nalgonda and Khammam. Without assessing the actual quantity of RG dal required, the Company purchased (between May and July 1999) 2961.10 MT RG dal from five districts at different rates ranging from Rs.26,710 per MT (Nalgonda) to Rs.28,160 per MT (Hyderabad). Audit observed that:

There was an abnormal delay in conversion of Redgram into dal (from May 1999 to September 2001) and its disposal under PDS. The Company despite watching the market fluctuations (fall in prices), had retained the stocks without releasing under PDS at par with open market rates, on account of which the stocks got deteriorated and lost the nutritional value. The Company had to dispose of 4212 MT at prices ranging from Rs.29,400 per MT (January 2000) to Rs.24,000 per MT (May 1999) which were below economic cost. The balance quantity of 1468 MT was disposed of at prices ranging from Rs.28,000 to Rs.17,000 per MT during April 2000 to October 2001.

The company suffered a total deficit of Rs.1.33 crore in handling MIO in respect of red gram dal.

Purchase of tamarind

Tamarind was procured at prices higher than those prevailing in the market.

2.2.30 In order to control spiralling market prices, the State Government directed the Company (April 1999) to procure tamarind from MARKFED at rates fixed by MARKFED and distribute the same to consumers through fair price shops/ rythu bazaars♣ after adding a margin of Rs.2 per Kg. The Company purchased 1410 MT of tamarind at a total cost of Rs.4.73 crore.

♣ Small market places where farmers sell their produce direct to consumers.

Audit observed that though the price prevailing in open market ranged from Rs.27,000 to Rs.32,000 per MT, the Company procured 1212 MT of tamarind from MARKFED at rates ranging from Rs.32,800 to Rs.35,892 per MT during July to November 1999 and incurred an additional expenditure of Rs.74.87 lakh.

Procurement of tamarind without cost benefit analysis resulted in loss of Rs.1.05 crore.

The Company incurred a total loss of Rs.1.05 crore (including incidental expenditure), in the purchase of tamarind which was claimed (May 2000) as subsidy from the State Government. The subsidy is, however, not receivable as per Government directions.

Purchase of sonamasuri rice

2.2.31 The Company proposed (October 2002) to procure sonamasuri paddy and rice to distribute through 'Gruhamitra' counters existing in the districts and started procuring sonamasuri paddy and rice from 9 November 2002. The State Government approved (November 2002) the Company's proposal subject to the condition that the sale should be on 'no profit and no loss' basis and at the same time ensure that the rate should be less than the market rate.

The Company procured (October 2002 to February 2003) 4,276 MT of sonamasuri rice/paddy at a cost of Rs.5.79 crore (Rs.5.58 crore of 4,007 MT of rice and Rs.21.27 lakh of 269 MT of paddy). In the meantime, the Chief Minister directed (March 2003) the Company not to procure sonamasuri rice since it was not consumed by poor families who were worst affected in drought but to sell this rice as a commercial item. In spite of such directions, the Company further procured (March 2003) 155 MT of rice at a cost of Rs.21.73 lakh in three districts (Medak, Mahbubnagar and Karimnagar). It could not sell any quantity till date (May 2003) as the economic cost was higher (Rs.15 to Rs.19 per Kg.) than the prevailing market rate (Rs.13.50 to Rs.17.50 per Kg.).

Purchase of rice without working out cost-benefit analysis resulted in locking up of Rs.6.01 crore.

Thus, procurement of rice without working out cost benefit analysis resulted in locking up of Rs.6.01 crore. If the entire stock of rice is disposed of at the present market prices, the Company would incur a loss of Rs.62.44 lakh.

Management confirmed the facts and figures and stated (October 2003) that the distribution (sale) of Sonamasuri rice would be taken up as per Government directions.

Idle storage capacity

Construction of onion godowns without assessing their continued requirement resulted in unfruitful investment of Rs.73.89 lakh.

2.2.32 Though dealing in onion is not its regular line of activity, the Company constructed (June/July 1999) eight onion godowns at a total cost of Rs.98.52 lakh, four each at Hafeezpet in Ranga Reddy district (Rs.50.34 lakh) and Madanapalli in Chittoor district (Rs.48.18 lakh) respectively. The Company could utilise only five godowns up to October 1999 (The Company dealt with distribution of onions only up to October 1999). The Company converted (July 2000 and November 2002) one godown each in Madanapalli and Hafeezpet into food grains (rice/wheat) godowns by incurring Rs.2.05 lakh and Rs.3.80 lakh respectively. Rest of the six godowns were lying idle since October 1999.

Distribution of onions being a market intervention activity and not a regular line of activity, the Company, instead of constructing godowns, could have hired the godowns from CWC/SWC/MARKFED/private parties as far as possible.

Thus construction of onion godowns without assessing their continued requirement resulted in an unfruitful investment of Rs.73.89 lakh. Government stated (October 2003) that the onion godowns were constructed as per the orders of State Government.

2.2.33 The Company has a scientific godown complex at Undi in West Godavari district, with a storage capacity of 20,000 MT. The godown was being used by the Company as MLS point to store about 1,000 MT of food grains and the remaining capacity was being leased out to FCI from 1997-98 onwards to store their stock of food grains. As FCI stocks and MLS point were in same premises, the Company was not incurring any Stage-I transportation cost for movement of stocks. In spite of such apparent benefit, the Company did not conclude any lease agreement with FCI during the past five years for a permanent tie-up to store their stocks. FCI arranged tie-up with State Warehousing Corporation (SWC) for a period of seven years for hiring investors godowns taken on lease by SWC. From March 2002 FCI had completely stopped storing their stocks in Undi godown and the godown was lying vacant.

Failure to arrange tie-up with FCI resulted in idleness of godown. Loss of revenue/ expenditure on transportation was Rs.89.81 lakh.

As the Company failed to make permanent tie-up arrangement with FCI, it was deprived of earning storage charges of Rs.26.37 lakh. Besides, the expenditure of Rs.63.44 lakh[♣] on transportation (from March 2002 to March 2003) also could have been avoided.

Government stated (October 2003) that the Company was storing rice procured under SGRY in the godown forcing the Company not to take any undertaking from FCI. The reply of the Government is not correct since the audit observation was on the failure of the Company in having a permanent tie-up with FCI to store its stocks at Undi godown before vacation of godown.

Utilisation of vehicles

2.2.34 The Company purchased (April/May 1999) 32 trucks at a total cost of Rs.1.82 crore with the financial assistance of GOI (grant-in-aid -Rs.91lakh and loan –Rs.91 lakh) under revamped public distribution system (RPDS) for use as mobile fair price shops in the remote, hilly, rural, tribal area. In this connection the following audit observations are made:

[♣] Calculated on the basis of average actual transportation charges for a period of four months.

- Contrary to the intended purpose; the trucks were used for stage-I and stage-II transportation.
- According to norms fixed by the Company, in order to refund the loan given by GOI, each 10 MT/6 MT vehicle should earn Rs.12,350/ Rs.9,950 per month respectively. A review of performance of nine vehicles for the period from May 1999 to December 2002 revealed that the Company sustained loss of Rs.33.94 lakh due to their un-economic operation and idleness caused due to frequent breakdowns.

Government stated (October 2003) that efforts would be made to make use of the vehicles effectively to improve the earnings.

Computerisation

2.2.35 In order to provide inter-connectivity between head office and district offices, the Company procured and installed (September 1999), through AP Technology Services (APTS), 36 computers together with associated equipment at a total cost of Rs.37.93 lakh. Before procurement of computers, no feasibility report was prepared by the Company on computerisation of activities. On request by Company APTS submitted a Feasibility Report in July 2000 and the Company decided (August 2000) for computerisation in three phases and paid Rs.9.11 lakh in September 2000 for phase-I.

The objective of procuring computer systems was not spelt out.

APTS was to complete phase-I i.e., data transfer from district offices to head office by November 2000, but could complete the work only by December 2001 i.e., with a delay of 13 months. Even though phase-I work was completed, the objective of data transfer and establishing inter-connectivity between district offices and head office was not achieved as the data transfer is being done through courier service. Work on phase-II & III has not been taken up so far (March 2003) though the Company had already procured through APTS, 44 computer systems together with associated equipment at a cost of Rs.32.43 lakh between July 2002 and January 2003.

Thus, even after incurring an expenditure of Rs.79.47 lakh, the Company failed to establish inter-connectivity between district offices and head office.

Internal audit and internal control

Internal audit

There was shortage of internal audit staff.

2.2.36 The Company has its own internal audit wing to carry out the internal audit of its transactions. There were five Zonal Managers (Audit) up to February 1999, increased to eight Zonal Managers from February 1999 with revised job chart. It was observed that in spite of an increase in zonal offices, most of the transactions involving financial matters at both district offices and head office were not subjected to internal audit due to inadequate staff. As against the assessed requirement of 72 officers/staff members for the zonal offices, there were only 43 officers/staff members. The zonal offices were not generating any periodical internal audit reports bringing out lapses, if any, for corrective action, except preparation of physical verification reports. No substantial improvements were made in the internal audit system, in spite of being pointed out by the Statutory Auditors of the Company continuously that the scope and coverage of internal audit system needs to be enlarged/strengthened, commensurate with the size of the Company and nature of its business.

Internal control system

Lack of internal controls resulted in mis-appropriation of stocks at MLS points.

2.2.37 As per the procedure in vogue, the physical verification of stocks at MLS points was to be conducted by the controlling officer/District Manager and Zonal Manager every month without fail to prevent irregularities.

Due to failure on the part of the district management, there were instances of mis-appropriation of stocks mainly on account of:

- non-conducting of effective/timely physical verification of stocks every month by supervisory and internal audit staff.
- non–reconciliation/improper reconciliation of stock accounts on monthly basis by the dealing staff at district office with each MLS point.
- non-reconciliation of release orders with demand drafts received at district office through MLS point in-charges.

As on 31 January 2003, there were 81 mis-appropriation cases pending finalisation/settlement from 1992 and onwards. As against the misappropriated stocks of Rs.2.84 crore, the Company could recover Rs.55.04 lakh (19.36 ***per cent***) by January 2003 and was still to recover Rs.2.29 crore (August 2003).

Conclusion

Even though funds were available in personal deposit account, cash credit facility was utilised leading to payment of interest. Under National Programme for Nutrition Support for Primary Education scheme handled by the Company, there were abnormal delays in claiming margins from Government, which resulted in payment of interest on cash credit. There were failures on the part of the Company in claiming refund of differential cost from Food Corporation of India due to roll back of prices, non-lifting of stocks within the pipeline period and payment of revised prices for stocks lifted during the pipeline period. There was uneconomic lifting of stocks without considering distances between Food Corporation of India godowns and mandal level stockist points vis-à-vis slab rates payable to contractors. Under minimum support price operation, shortages were found though not allowed. While 'A' grade paddy was issued for custom milling, common grade rice was accepted in return resulting in undue benefit to millers. Procurement and

sale of redgram, redgram dal and tamarind under market intervention operations was deficient and resulted in losses.

To reduce financial burden on Government in the form of subsidy, the Company is required to utilise funds in personal deposit account by minimising operation of cash credit account; prefer claims for margins in time and pursue effectively with the Government for their quick realisation; lift food grains from Food Corporation of India economically taking into account the pipeline period and prefer claims for refund of differential cost if any promptly with appropriate authorities; observe economy in transportation of food grains under public distribution system; avoid storage losses in paddy and discrepancies in receipt of rice in minimum support price operations and avoid losses in procurement and disposal of essential commodities under market intervention operations by taking timely decision. To minimise misappropriation of stocks, the Company is required to strengthen internal control system and also to conduct effective and timely physical verification of stocks.