

CHAPTER-VII

COMMERCIAL ACTIVITIES

AUDIT PARAGRAPH

FOOD SUPPLIES & CONSUMER AFFAIRS DEPARTMENT

7.1. Procurement and Storage of Wheat

7.1.1 Introductory

State Food and Supplies Department along with other procuring agencies i.e. PUNSUP¹, MARKFED², PSWC³, PAIC⁴, and FCI⁵ procure wheat from farmers at the Minimum Support Price. The wheat so procured is supplied to the central pool through FCI. Before delivery to FCI, the procured wheat is stored in own and hired godowns. The department also procured various articles like gunny bags, crates, polycovers and fumigants for proper maintenance of the stock.

The records of Director, Food and Supplies, Punjab and 6⁶ out of 17 circles each headed by District Food and Supplies Controller (DFSC) for the period 1997-98 to 2001-02 were test checked in audit during October 2001 to April 2002. The results of audit are incorporated in succeeding paragraphs.

7.1.2 Financial management

7.1.2.1 *Excess cash credit availed*

**Excess cash
credit of Rs. 324
crore was availed**

Procurement of wheat is funded through cash credit limits fixed by Reserve Bank of India (RBI) through State Bank of India (SBI). The cash credit limit is availed by hypothecation of fully paid wheat stocks including cost of food grains, gunny bags and other incidentals such as mandi charges, handling charges and transportation charges from procurement centres to the storage points. Cash credit outstanding must always be fully covered by the value of paid stocks. It was noticed in audit that during Rabi 2001-2002, Finance Department demanded from RBI/SBI for an increase in cash credit limit from Rs. 800 crore to Rs. 850 crore on 11 June 2001 and further to Rs. 1,129 crore on 14 June 2001. This was availed by the department after hypothecating 15.10 lakh tonne of wheat whereas actual quantity of wheat procured was only 10.75 lakh tonne valuing Rs. 805 crore. Thus, irregular excess cash credit was

¹ Punjab State Civil Supplies Corporation Limited.

² Punjab State Cooperative Supply and Marketing Federation Limited.

³ Punjab State Warehousing Corporation Limited.

⁴ Punjab Agro Industries Corporation Limited

⁵ Food Corporation of India.

⁶ Amritsar, Ferozepur, Jalandhar, Kapurthala, Ludhiana and Sangrur.

availed resulting in avoidable credit liability of Rs. 324 crore (Rs. 1,129-805 crore) alongwith interest of Rs. 29.99 crore at 11.65 per cent from 15 June 2001 to 31 March 2002.

The Director offered no comments to audit as of July 2002.

7.1.2.2 Delayed and less repayment of cash credit to SBI

With a view to discharge liability of outstanding cash credit and minimize interest liability thereon, the department is required to repay the amounts on realization of sale proceeds from wheat.

Sale proceeds were retained instead of being used to liquidate cash credit

It was, however, noticed that out of the sale proceeds of Rs.1,513.91 crore realized during the period April 1997 to August 2001, only Rs. 879.35 crore was repaid. Failure to repay Rs. 634.56 crore in time resulted in avoidable interest of Rs. 150.42 crore for this period.

On being pointed out, Deputy Controller (B&F) stated (May 2002) that amount was repaid as and when funds were provided by Finance Department.

7.1.3 Failure to claim carryover charges due from FCI for delayed payments

Rs. 2 crore of carryover charges were not claimed

In a meeting held in December 1970 between Zonal Manager, FCI and Director, Food and Supplies, Punjab, it was decided that if payment was not made within 24 hours of presentation of bills or made in the month subsequent to the month of despatch, the carryover charges⁷ would be recovered at full rate for the month of despatch and at half the rate for the month in which payment was received.

Scrutiny of records (April 2002) of 5⁸ circles revealed that for 2.53 lakh tonne of wheat delivered to FCI between August 1997 and March 2002, payments were received in months subsequent to the month of despatch but carryover charges of Rs. 2 crore had not been claimed from FCI.

The Government in reply stated (June 2002) that instructions issued in December 1970 were valid upto March 1972 and thereafter carryover charges were at half of the rate. The reply was not tenable as it was nowhere mentioned in the instructions of December 1970 that these were meant for a particular period. These instructions were reiterated in October 1984 by the Director of State Food Supplies Department.

7.1.4 Improper storage/ despatch of wheat

Loss of Rs.155.20 lakh due to improper storage

As per instructions, First in First Out (FIFO) is the basis for despatch of stock to avoid damage to old stock.

⁷ Representing expenditure incurred by the department on storage, interest on cash credit and incidental charges.

⁸ Ferozepur, Kapurthala, Ludhiana, Jalandhar and Sangrur.

Test check of records of 4 circles revealed that wheat was not despatched on FIFO basis. This resulted in loss of Rs. 155.20 lakh as detailed below:

| <i>(Quantity in tonne)</i> | | | | | | | | |
|----------------------------|----------------------------------|--------------------|-----------------------------------|----------------------------|------------------------------------|----------|--------------------|--|
| Sr. No. | Centre | Rabi season | Quantity procured | Quantity despatched to FCI | Damaged stock sold through auction | Shortage | Loss (Rs. in lakh) | Remarks |
| 1 | Goraya (Jalandhar circle) | 1997-98 | 1804 | 385 | 1259 (February 2000) | 160 | 42.33 | Wheat purchased with higher moisture. Stocks not maintained properly. |
| 2 | Shahkot (Jalandhar circle) | 1999-2000 | 8505(+34 Moisture Gain) | 7290 | 950 (October 2001) | 299 | 71.74 | Due to storage on un-raised plinths. |
| 3 | Garh Shahkar (Hoshiarpur circle) | 1996-97 1997-98 | 2143 741 (19 Moisture Gain) | 2288 | 571 (October 1999) | 44 | 7.25 | Infestation was noticed in August 1996 but Inspector reported the condition as good even in October 1997. Non-clearance of stock for long period |
| 4 | Dhuri (Sangrur circle) | 1997-98 1998-99 | 15944 13479 | 25266 | 775 2920 (August 2001) | 462 | 33.88 | Stored in open plinth and late despatch of stock. |

Final action against the officials responsible for the shortage/ loss was yet to be taken by the department.

7.1.5 Failure to recover sale proceeds of wheat from PSWC

The department utilised storage capacity of Punjab State Warehousing Corporation (PSWC) for storage of wheat procured.

5,082 tonne of wheat pertaining to Rabi crops 1993-96 was stored in PSWC godowns at Fazilka centre of Ferozepur circle. In April 1997, DFSC, Ferozepur intimated the Director, Food and Supplies that condition of wheat stock was bad. Samples were taken (April 1997) by FCI for testing the wheat quality. Senior District Manager, PSWC, Ferozepur intimated (November 1997) DFSC, Ferozepur that stock had been found unfit for human consumption and rejection certificate had been sent to their head office for further action. However, the rejected wheat was auctioned by PSWC in January 1998 at their head office without prior intimation to the department. The value of stock as per books of the department was Rs. 4.19 crore. But the department failed to recover any amount from PSWC.

The Government stated (June 2002) that efforts are being made to recover the amount from PSWC.

7.1.6 Non-recovery of cost/ rent of stock articles

As per departmental instructions (October 1990), rent of Rs. 3 per wooden crate per month was to be recovered from the procuring agencies for wooden crates given on loan. In May 1994, department decided that no wooden crate should be supplied to FCI on loan basis and advised circle offices to issue wooden crates on sale basis and charge rent of Rs.3 per month per wooden crate given on loan prior to the issue to these instructions.

Rs.2.23 crore remained un-recovered from procuring agencies

(i) In Ludhiana circle, 30,248 wooden crates valuing Rs. 40.83 lakh (valued at the procurement rate of Rs. 135 per crate during 1994-95) were given during 1990-91 on loan to FCI (20,791), Markfed (2,026) and Punsup (7,431). Wooden crates given to Markfed and Punsup were received back but FCI did not return the crates upto December 2001. However, rent amounting to Rs. 1.01 crore [FCI (Rs. 90.66 lakh), Markfed (Rs. 7.77 lakh) and Punsup (Rs. 2.23 lakh)] as on December 2001 was yet to be recovered.

(ii) In Sangrur circle, 35,238 wooden crates valuing Rs. 47.57 lakh had been given to Markfed (12,610), FCI (20,029) and Punsup (2,599) during the period 1985 to 1994 but agencies had neither returned the crates nor paid rent of Rs. 1.22 crore due upto February 2002.

When pointed out in audit (March 2002), DFSC stated that repeated reminders yielded no result. The State Government accepted that the amount was still recoverable.

Gunny bags worth Rs.8.44 crore transferred to other wheat procuring agencies remained unrecovered for three years

(iii) 4,495 bales of 95 kg gunny bags and 5,591 bales of 50 kg gunny bags valuing Rs. 8.44 crore which were transferred on loan basis to other procuring agencies (FCI : Rs. 0.24 crore, Markfed : Rs. 3.12 crore, PUNSUP : Rs. 2.51 crore, PAIC : Rs. 0.31 crore, PSWC : Rs. 2.26 crore) during Rabi 1999-2000 had not been returned. This resulted in blockade of cash credit funds on which interest liability of Rs. 2.73 crore had been incurred for the period July 1999 to March 2002. Reasons for non-recovery had not been intimated to audit.

7.1.7 Blockade of funds due to excess purchase of polythene covers

Requirement of various stock articles were ascertained from the circles and supplies were arranged by the Director, Food and Supplies, Punjab, Chandigarh.

Unnecessary purchase of 1,455 polythene covers blocked Rs. 74.35 lakh

It was noticed in audit that there were 1,967 polythene covers in Sangrur circle before the commencement of procurement season of Rabi 2000-2001. Despite availability of sufficient stock, 700 more polythene covers were purchased and supplied by the Directorate on the requisition of the circle. However, only 1,208 polythene covers were utilised. Thus, purchase of 700 polythene covers valuing Rs. 37.28 lakh @ Rs. 5,325 each was made without any immediate requirement.

It was further noticed that against the demand of 345 polythene covers made by four⁹ circles, 1,100 polythene covers were allocated by the Directorate to 6 circles out of which 2 circles had no requirement of polythene covers. Thus, excess allocation of 755 polythene covers valuing Rs. 37.07 lakh (Rs. 4,910 each) resulted in blockade of funds.

⁹ Mansa, Faridkot, Ludhiana and Muktsar.

Government in reply stated that 1,967 covers were utilised to cover old stocks and requirement of 700 more covers was assessed by the DFSC, Sangrur. The reply was not correct because as per records only 857 and 351 covers were utilised for covering old and new stocks respectively.

CHANDIGARH
The

(Y. C. SATYAWADI)
Pr. Accountant General (Audit), Punjab

Countersigned

NEW DELHI
The

(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India