CHAPTER V

SECTION – B
AUDIT PARAGRAPHS

COMMERCIAL ACTIVITIES

General

5.1 Lack of accountability in the use of public funds by departmentally run commercial units

Activities of quasi commercial nature are performed by the departmentally run units of certain Government departments. These units are to prepare annual *pro forma* accounts showing their financial operations, to enable the Government to assess their performance. The Heads of Departments in Government are to ensure submission of such *pro forma* accounts to the Accountant General for audit. Out of 25 such units, 9 had not prepared their accounts since inception. As of June 2002, 4 units had not prepared their accounts for more than 10 years, 4 for more than 5 years, 8 for one year to 5 years.

In the absence of full accounts of the 25 units, audit has worked out that Rs 852.48 crore has been invested by the State Government in 16 departmentally run units employing 12,655 staff and officers. Out of the 16 undertakings, 15 had incurred continuous losses aggregating to Rs 770.23 crore against the total capital investment of Rs 883.25 crore.

The Comptroller and Auditor General of India has repeatedly commented in the Audit Reports of the State on the failure of the Heads of Departments and the management of the undertakings to prepare the *pro forma* accounts. Principal Accountant General (Audit) has been reminding Principal Secretary (Finance) and the Secretaries of the concerned departments periodically in this matter. During the period July 2001 to June 2002, 8 undertakings finalised 9 *pro forma* accounts for the year 1999-2000 or previous years as against 12 *pro forma* accounts finalised during July 2000 to June 2001. In the absence of final accounts the financial position of these undertakings could not be assessed.

The department-wise position of arrears in preparation of *pro forma* accounts is as follows:

Sl. No.	Department	Number of undertakings under the Department	Name of undertakings	Year of form-ation	Year from which accounts are due	Investment as per last Accounts (Rupees in crore)	Remarks
1.	Agriculture	1	Sisal Plantation Scheme	1955	1955-56	-	Accounts not prepared since inception.
2.	Commerce and Industries	2	(i) Oriental Gas Company's Undertakings	1960	1960-61 to 1989-90	-	Vested in newly set up company from 2. April 1990. The *pro forma* accounts for 1988-89 and 1989-1990 were submitted (March 2002) by the Company in which the undertaking was vested, instead of by the Department. *Pro forma* Accounts for 1984-85 to 1987-88 were submitted by the winding-up cell in July 2002. All these accounts were returned.
			(ii) Directorate of Cinchona and other Medicinal plants	1888	1990-91	72.31	-
3.	Cottage and Small Scale Industries	12	(i) Government Sales Emporia in Calcutta and Howrah	1951	1951-52 to 1962-63 and 1969-70 to 1980-81	-	Merged with another Government company from September 1980 Accounts not prepared since inception.
			(ii) Silk reeling scheme	1956	1956-57	-	Accounts not prepared since inception. The Department had approached the Finance Department in December 2000 to consider waiving preparation of proforma accounts
			(iii) Training-cum-Production Centre - Mechanical Toys, Hooghly	1972	1972-73 to 1986-87	-	Wound up from 21 June 1986. Accounts not prepared since inception.
			(iv) Central Lock Factory, Bargachia, Howrah	1972	1972-73 to 1994-95	-	Closed from 17 February 1995. Accounts not prepared since inception.
			(v) Industrial Estate, Manicktola	1983	1983-84 to 1995-96	-	Merged with another Company from 17 July 1995. Accounts not prepared since inception.
			(vi) Industrial Estate, Saktigarh	1983	1983-84 to 1995-96		Merged with another Company from 9 August 1995. Accounts not prepared since inception.
			(vii) Industrial Estate, Howrah.	N.A.	1995-96	1.26	Merged with another Company from 7 August 1995
			(viii) Training-cum-production centre for Wood Industries, Siliguri	1956	1998-99	2.95	-
			(ix) Central Engineering Organisation, Howrah	1956	1998-99	5.13	-
			(x) Surgical Instruments Servicing Station, Baruipur	1956	1998-99	1.76	-
			(xi) Integrated Wood Industries Scheme, Durgapur.	1956	1998-99	4.45	-
			(xii) Integrated Wood Industries Scheme, Kalyani.	1956	1998-99	6.36	-

Sl. No.	Department	Number of undertakings under the Department	Name of undertakings	Year of form-ation	Year from which accounts are due	Investment as per last Accounts (Rupees in crore)	Remarks
4.	Urban Development	1	Kanchrapara Area Development Scheme (Kalyani Township)	1975	1975-76	-	Accounts not prepared since inception. The Department has sought the views of the Finance Department in January 2001 for discontinuation of preparation of *pro forma* accounts. However, the Committee on Public Accounts (1985-87) in its 36th Report recommended (March 1987) early re-introduction of the system of preparation of proforma accounts.
5.	Public Enterprises	1	Undertaking of Darjeeling Ropeway Company Limited	1977	1983-84	0.26	-
6	Housing	2	(i) Directorate of Brick Production (Manual) (ii) Mechanical Brick Factory, Palta	1965	1990-91 1990-91	3.74 9.51	-
7	Animal Resources Development	4	(i) Durgapur Milk Supply Scheme	1972	1993-94	16.12	-
			(ii) Krishnanagar Milk Supply Scheme	1977	1999-2000	23.14	-
			(iii) Greater Calcutta Milk Supply Scheme	1950	2000-01	681.21	-
			(iv) Burdwan Milk Supply Scheme	1982	1999-2000	24.27	-
8.	Food and Supplies	1	Scheme for Public Distribution of Foodgrains (PDS)	1986	1995-96	30.77	-
9.	Fisheries Department	1	Scheme for production of shark liver oil, fish meal, etc.	1961	1994-95	0.01	-
						883.25	

No action was taken against the management of these undertakings for such gross failure and disregard of public interest.

The matter was referred to Government in July 2002; reply had not been received (December 2002).

FOOD AND SUPPLIES DEPARTMENT

5.2 Take over of procurement of rice by State Government

5.2.1 Introduction

Procurement of foodgrains was to serve the twin objectives of providing price security to the farmers and ensuring food security to the people Below Poverty Line (BPL). Decentralised procurement of rice was taken over by the Government of West Bengal from Food Corporation of India (FCI) since the Khariff Marketing Seasons (KMS)[1] 1997-1998 with a view to eliminating dependence on FCI and increasing procurement of rice for distribution to the BPL population under the Targeted Public Distribution System (TPDS). Rice was collected by way of statutory levy on rice millers/ traders. The quantum of levy was fixed by the State Government with the approval of Government of India (GOI) at 50 *per cent* of the paddy milled. Rice so procured was treated as central pool procurement and the State stored and issued rice as per allotment made by GOI.

The fund for procurement was to be arranged through cash credit sanctioned by the Reserve Bank of India (RBI) and extended by a consortium of banks led by the State Bank of India (SBI). Sale proceeds of rice were deposited by field and district offices of the Department into non-operable collection accounts for transfer to the cash credit account with the SBI, Park Street Branch, Kolkata. Subsidy received from GOI was directly deposited in this account. Funds were transferred from the Cash Credit account to District Controller for meeting procurement related expenditure. Reserve Bank of India determined the withdrawal/ credit limits monthly against hypothecation of closing stock of foodgrains.

The paddy was to be purchased by the Rice millers from the farmers at the Minimum Support Price (MSP) of paddy fixed by GOI at the beginning of each KMS and after processing rice sold to Government at a price determined (procurement price) by the GOI based on the MSP. GOI would reimburse to the State Government in each month the difference between economic cost[2] and Central Issue Price (CIP) in respect of rice sold to BPL families as subsidy. Till audited accounts were not submitted only 90 *per cent* of subsidy would be released.

The procurement of rice up to September 2001 by the four test-checked districts *viz*. Bardhaman, Medinipore, North and South 24 Parganas was 55 *per cent* of the total procurement in the state during last four KMS up to 2000-2001.

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[1] *Khariff marketing season of rice begins from the month of October and ends on September next year*
[2] *Economic cost comprises procurement cost including MSP, other related cost and cost of distribution, storage, financing etc.*

5.2.2 Organisational structure

The Director General (Food) of Food and Supplies Department (Department) was responsible for overall supervision while Director, District Distribution, Procurement and Supply (DDP&S) monitored procurement of rice and its distribution in the districts with the assistance of two Deputy Directors in-charge of procurement and supply at Headquarters and three Regional Deputy Directors (RDD) at Bardhaman, Siliguri and Krishnagar. District Controllers, Food and Supplies (DCF&S) executed procurement and supply in each district. The Deputy Director (Procurement) was to regularly monitor procurement and compile reports/ returns from the monthly inputs received from districts for submission to GOI/ State Government. Besides the Controller of Finance[3] (CF) was to allot funds for procurement to districts and maintain accounts for the procurement operation.

5.2.3 Procurement

The target for procurement *vis-à-vis* achievement during the last four KMS starting from October 1997 to September 2001 was as under:

	1997-98	1998-99	1999-2000	2000-2001
Target (in lakh tonnes)	3.50	4.67	4.00	8.00
Achievement (in lakh tones)	2.03	1.23	3.74	4.18
Percentage of achievement	58	26	94	52

The main reason for low procurement during 1997-1998 and 1998-1999 was high market price of paddy as compared to minimum support price declared by GOI. District Controllers did not restrict the open sale of rice by rice mills which failed to fulfil levy obligation.

Government stated (October 2002) that strict restriction on open sale of rice by the rice millers could lead to closure of the mills. However, the fact remained that failure to enforce levy orders on rice mills had ultimately affected the procurement operation for TPDS meant for BPL families.

In 2000-2001, the procurement was high but was halted mid way (May 2001) due to RBI's refusal to enhance cash credit limit to meet the higher target as discussed at Paragraph 5.2.4 *infra*.

5.2.4 Operation of Cash Credit Account

Scrutiny of records relating to operation of cash credit account revealed the following :

(i) During KMS 1997-1998 and 1998-1999, the CF assessed and was sanctioned monthly operating limits of Rs 37 crore to Rs 50 crore, of which 94 (three months) to 100 *per cent* (18 months) remained unutilised. The limits for the KMS 1999-2000 and 2000-2001 ranged from Rs 100 crore to Rs 320 crore, against which utilisation were 48 to 89 *per cent.*

[3] *Now Director of Finance*

Rs 2.51 Crore was lost by Government for retention of surplus fund in cash credit

(ii) During April 1997 to September 1999, the Department retained surplus fund of Rs 1.28 crore to Rs 34.41 crore in cash credit, leading to loss of interest of Rs 2.51 crore[4] to State Government.

Government while accepting the audit contention attributed (October 2002) this loss to the inability to transfer the surplus to the Consolidated Fund since the accounts of PDS operation were in arrears since 1996-1997.

Irregular repayment restricted cash credit operation and hampered procurement

(iii) The outstanding balance in cash credit account shot up four fold from Rs 47.62 crore in December 1999 to Rs 174.30 crore in September 2001. Consequently, RBI directed the Department to stop withdrawals from cash credit (effective 12 October 2001) and to continue crediting sale proceeds to cash credit account for reducing the outstanding balance. A second cash credit account was opened (11 October 2001) with the approval of the RBI to resume procurement. While withdrawals were from second cash credit account, sale proceeds continued to be credited to the first cash credit account and its balance turned favourable from 26 December 2001. The outstanding balance in second cash credit account was Rs 137.06 crore as of 31 March 2002 after transferring (13 February 2002) the favourable balance of Rs 41.82 crore from original cash credit. This delay resulted in payment of additional interest of Rs 34.97 lakh during 27 December 2001 to 12 February 2002.

This was attributable to-

(a) The Department's failure to claim subsidy in time between October 1998 and September 2001 with delays ranging from 2 to 16 months arising from non-availability of information/ delay in submission of requisite returns by field offices to DDP&S. This led to bunching of claims for more than one month at a time. At the instance of GOI, CF re-submitted claims for July 2000 to September 2001 only in November 2001 leading to avoidable payment of interest of Rs 24.29 crore.

Government stated (October 2002) that reasons for delay in submitting subsidy claims were being looked into.

Non-realisation of Rs 55.07 crore due to non submission of accounts

(b) For the KMS years 1997-98 to 2000-2001, the subsidy to be claimed aggregated Rs 478.32 crore of which only 90 *per* cent (Rs 430.48 crore) could be claimed since accounts were in arrears. Till March 2002, GOI had released Rs 423.25 crore against which the Finance Department of the State Government released only Rs 369.16 crore. Failure to submit accounts led to inability to claim subsidy of Rs 55.07 crore resulting in additional interest of Rs 17.22 crore. Further, Finance Department withheld subsidy of Rs 48.17[5] crore besides delaying release of subsidy of Rs 276.08 crore for a period of 85 to 274 days during September 1999 and March 2002. Retention of subsidy bolstered ways and means position of the State while the Department paid additional interest of Rs 9.48 crore on cash credit account. This adversely affected the liquidity position of cash credit account.

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[4] *Calculated at the State Government's borrowing rate of 11 per cent from RBI for ways and means advance*

[5] *Excluding Rs 5.92 crore received from GOI by the State Government on 28 March 2002 not considered for calculation of loss of interest*

Diversion of Rs 46.45 crore from cash credit account

(c) Though the cash credit account was to be operated only for the purchase of foodgrains, the Department withdrew Rs 46.45 crore during February 1998 to February 2002 for other purposes *viz.* contingency, travelling expenses (Rs 4.15 crore), loan to WBECSC[6] (Rs 25 crore), construction of departmental building (Rs 7.63 crore), printing and stationary, godown charges etc. (Rs 9.67 crore) which had no direct relation with the PDS operation in violation of the agreement with the banks.

(d) The Department received (January 2000) subsidy of Rs 50 crore and instead of depositing the same into cash credit account to mitigate the interest burden, invested (January and February 2000) the amount at lower rates of interest in short term deposit at the instance of Director General (Food) in violation of the Government orders resulting in payment of additional interest of Rs 30 lakh.

This credit crunch severely hampered procurement of rice during July 2001 to March 2002.

5.2.5. Short receipt of subsidy

Short receipt of subsidy – Rs 44.81 lakh

The Department received Rs 44.81 lakh (net) short of admissible claim due to deficiencies in maintaining accounts and records of procurement, as discussed below :

(i) The rate of subsidy on previous years' closing stock sold in succeeding years was required to be calculated at the difference between current CIP and economic cost of the procurement year. The quantity of closing stock pertaining to KMS 1997-1998 to 1999-2000 was computed on lower side and the differential quantum of 11266.58 tonnes stock was included as the subsequent years' procurement in subsidy bills. In the process, the Department received subsidy at enhanced rate (Rs 398.90 to Rs 761 per tonnes) for 11266.58 tonnes rice distributed during KMS 1998-1999 to 2000-2001 due to higher economic cost of subsequent year. This led to excess receipt of subsidy of Rs 51.64 lakh for that period.

Government stated (October 2002) that higher rate of subsidy was not claimed on previous year's stock, acquired at lower cost. However, the fact was that Government claimed subsidy on previous year's stocks of 11266.58 tonnes by excluding the quantity from the previous year's procurement.

(ii) The rates of subsidy for KMS 1997-1998 in respect of common parboiled and common raw rice were Rs 4791.20 and Rs 4743 per tonne respectively. The CF failed to classify 2 lakh tonnes specifically as common parboiled rice in the subsidy bills for 1997-1998 and 1998-1999. As a result, GOI sanctioned subsidy (Rs 4743 per tonne) considering the entire quantity as common raw rice. This resulted in short receipt of subsidy of Rs 96.45 lakh.

Government stated (October 2002) that subsidy was claimed at the rate of Rs 4791.20 per tonne, but the GOI sanctioned subsidy covering the entire

[6] *West Bengal Essential Commodities Supply Corporation Limited*

quantity as common raw rice. The contention was not acceptable as the CF stated that the word 'parboiled' was omitted in subsidy bills and hence the short realisation.

5.2.6 Undue financial favour to rice millers

Undue financial favour of Rs 10.28 crore to rice millers

The Department extended undue financial favour of Rs 10.28 crore to the rice millers as discussed below :

(i) While determining the annual economic cost of levy rice, GOI allowed levy collection charges of Rs 9 per quintal to the State Government or its agencies. It was observed that though the Department deployed its inspecting staff at procurement points and incurred establishment cost for collection of levy, it generously paid the levy collection charges to the millers since November 1997 and thereby extended undue favour of Rs 10.06 crore during the KMS 1997-1998 to 2000-2001.

Government stated (October 2002) that levy collection charges, being a component of the approved economic cost, could not be retained by the State Government. The contention was not tenable since under the levy orders every rice mill in the State was liable to sell 50 *per cent* of rice, milled out of paddy received, to the State Government and the Department deputed staff at every rice mill for this purpose. Thus, only the Department was entitled to levy collection charges and not the rice millers, as contended by the Government.

(ii) In three districts,[7] 33332.74 tonnes of levy rice procured during 1997-1998 to 2000-2001 from 42 mills was stored in millers' godowns within the same premises. Despite this, three District Controllers (DCs) paid Rs 14.40 lakh as transport and forwarding charges assuming 8 kilometre from milling point to godowns when both were within the same premises.

State Government decided (January 2001) to stop paying forwarding and transportation charges to those mills whose levy rice was stored in their own godowns. To circumvent this order, 30 millers in Bardhaman district supplied 16483.88 tonnes levy rice to other adjacent godowns despite availability of adequate storing space at their own godowns. The DC did not verify the justification of such delivery and allowed the millers to receive Rs 7.91 lakh as transportation charges. Thus, lackadaisical attitude of the DCs resulted in undue benefit of Rs 22.31 lakh to the millers.

Government claimed (October 2002) that since transport and forwarding charges included the cost of bagging of rice, 100 *per cent* standardisation, loading of rice into truck, sorting of bag for sampling, inspection, stitching and marking of bags for test weighment etc., the payment of forwarding and transportation charges to all millers was justified. However, Government's claim was belied by the fact that in KMS 2000-2001, Government withdrew the benefit of forwarding and transportation charges to those mills whose levy rice was stored at their godowns. This confirmed that this charge was actually meant for transportation only and not for other activities.

[7] *Bardhaman, South 24 Parganas and Bankura*

In regard to storing of levy rice in adjacent godowns instead of millers' own godowns in Bardhaman District, Government stated (October 2002) that administrative action was initiated against erring district officials.

5.2.6.1 Non-payment of minimum support price- further favour to millers

The District Level Monitoring Committees (DLMC) comprising Sabhadhipatis of Zilla Parishad, District Magistrate and District Controllers of the Food and Supply Department monitored the collection of levy rice in each district and payment of MSP by millers to farmers for paddy received.

The MSP of common variety of paddy and corresponding procurement cost of common parboiled levy rice was Rs 510 and Rs 828.80 per quintal respectively for KMS 2000-2001 and Rs 530 and Rs 871.90 per quintal for KMS 2001-2002. The reports of the Superintendent of Agricultural Marketing and Sub-divisional Controllers of the department however, indicated a sharp fall in market price of paddy with prices ranging from Rs 395 to Rs 497.50 per quintal (KMS 2000-2001) and Rs 392.50 to Rs 475 per quintal (KMS 2001-2002).

Audit observed that the District Controllers failed to verify the purchase price of paddy paid by millers to farmers through Panchayat bodies.

Government failed to ensure MSP of paddy to farmers

Despite the market price being less than MSP the Department persisted in paying the notified procurement price to the millers, without ensuring payment of MSP to farmers by the millers thereby extending unwarranted benefit of Rs 21.51 crore to rice millers for procurement of 2.40 lakh tonnes of rice from three districts[8] during KMS 2000-2001 and 2001-2002 as shown in Appendix 43. It was further observed that since the millers were not paying MSP to farmers, DLMC, Bardhaman reduced (January 2002) the price of levy rice from Rs 871.90 to Rs 800 although the price should have been reduced in between Rs 646 and Rs 781 per quintal corresponding to prevailing market price of paddy during KMS 2001-2002. On being compelled by DDP&S and the Deputy Secretary (F&S), DLMC revoked (May 2002) its decision and paid Rs 871.90 per quintal with retrospective effect from January 2002 merely on the strength of certificates from millers that they had paid MSP to farmers without obtaining the requisite confirmation from Panchayati bodies.

Government stated (October 2002) that MSP fixed for the entire season had no bearing with open market prices and could not be reversed mid-way. The department was satisfied with the process of obtaining certificate from millers and Panchayati bodies as authentication for payment of MSP to farmers by millers.

The contention was not acceptable, since DLMC, Bardhaman (the largest procurement district) observed in June 2002 that purchase of rice from millers failed to ensure MSP of paddy to the farmers despite millers' undertaking to purchase at MSP.

[8] *Bardhaman, Medinipore and North 24 Parganas*

5.2.7 Missing stock

According to Deputy Director (Procurement), records relating to procurement operation were incomplete as either returns submitted by the districts were not properly maintained/ monitored or were not submitted by the districts. Further, a substantial quantity (4.39 lakh tonne rice valuing Rs 351.18 crore) of inter-district movement of rice was neither reconciled by consignor and consignee districts nor monitored by RDDs and DDPS.

Missing stock of rice valued Rs 33.34 crore remained undected

It was noticed that out of total procurement of 11.18 lakh tonnes of rice during KMS 1997-1998 to 2000-2001, 10.39 lakh tonnes were distributed under TPDS, 0.11 lakh tonnes under flood relief (with some stock damaged in flood) and 0.04 lakh tonnes were lost in storage and transit leaving a balance of 0.64 lakh tonnes up to 30 September 2001. But, as per physical verification reports as on 30 September 2001, in all godowns, only 0.22 lakh tonnes rice was in stock. Thus, there was a shortage of 0.42 lakh tonnes rice valuing Rs 33.34[9]crore which Dy. Director (Procurement) failed to detect at any stage. This shortage was outcome of the slip-shod attitude and absence of monitoring and control over procurement by the Deputy Director (Procurement).

While accepting the fact Government stated (October 2002) that the stock reconciliation was taken up on war-footing.

As analysed in audit, some reasons for this shortage were as follows:

i) While accepting delivery of rice from the millers weighment was limited to 10 *per cent* of receipt instead of entire quantity. The possibility of short receipt at the delivery stage could not be ruled out.

Government stated (October 2002) that feasibility of hundred *per cent* weighment of stock was being examined.

ii) Shortage of 397.52 tonnes of rice in excess of shortage norms at Sarul and Bowanichandi godown in Bardhaman district was not investigated. On this being pointed out in audit, stock valued Rs 3.69 lakh (44.53 tonnes) was recouped from the miller of Bowanichandi after one year thereby facilitating undue favour to miller.

Government stated (October 2002) that matter was being enquired into.

iii) Shortage of 9084.237 tonnes of rice beyond norms occurred during transit of rice from three districts[10] to other districts during KMS 1997-1998 to 2000-2001. The department was yet to investigate the shortages.

5.2.8 Storage losses

An important element of economic cost of rice was the value of storage and transit loss. The loss on account of storage and transit was estimated at 5279

[9] Stock shortage *is valued at average procurement price of all four KMS years since the specific year was not ascertainable in absence of records/ reconciliation*

[10] *Bardhaman : 8796.271 tonnes, Birbhum : 193.123 tonnes, Darjeeling : 94.843 tonnes*

tonnes valued at Rs 4.33 crore during 1997-1998 to 2000-2001, of which 80 *per cent* (Rs 3.47 crore) was related to storage loss and the balance (Rs 0.86 crore) related to transit loss.

On scrutiny of records, following points were noticed :

Excess storage loss of Rs 1.96 crore

(i) The percentage of storage losses during the last four KMS till 2000-2001 ranged from 0.68 to 1.75 *per cent* of average stock held against the norms of 0.5 *per cent* fixed by GOI. Such excess losses beyond norms worked out to 2345 tonnes valued at Rs 1.96 crore. The matter was neither investigated nor responsibility fixed.

Government stated (October 2002) that the matter was being looked into.

Absence of insurance coverage of rice stock in flood prone areas – loss of Rs 1.04 crore

(ii) Stock of 1462.35 tonnes rice valued at Rs 1.22 crore, stored in seven godowns[11] in flood-prone areas was damaged in flood of September 2000. After salvaging 171.86 tonnes, 626.73 tonnes was sold as cattle feed (realised value Rs 2.76 lakh) and remaining 663.76 tonnes washed away, leading to a loss of Rs 1.04 crore in absence of insurance coverage.

Government stated (October 2002) that the matter of insurance coverage was under examination.

(iii) Department fixed norms of 0.25 *per cent* for storing up to three months and 0.5 *per cent* beyond three months. The depots in-charge of Bardhaman and Medinipore took advantage of the higher norms and booked storage losses at 0.25 *per cent* irrespective of the period of storage (10 to 30 days). Government stated (October 2002) that action had been initiated to pinpoint the recalcitrant depots in-charges.

5.2.9 Transportation and handling

The department appointed WBECSC, a State Government undertaking, as handling cum transport agent for inter district movement. WBECSC, in turn appointed PDS distributors, without inviting tenders, as sub-agents for transportation on the direction of the Department. For handling operations, WBECSC appointed sub-agents as selected by the DCs through open tenders and paid them at tendered rates.

Against receipt of Rs 31.75 crore as subsidy towards handling and transportation of 10.33 lakh tonnes rice, the department incurred Rs 25.69 crore for only 4.39 lakh tonnes rice during KMS 1997-1998 to 2000-2001. Since these costs were restricted to the lower of actual or the normative cost, appointment of WBECSC as intermediary and allowing it marked-up rates above normative rates fixed by GOI only jacked up the cost as brought out below:

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[11] *Ranaghat, Santipur, Pallasey, Paninala at Krishnagar, Guskra, Tarakeswar and Bangaon*

(i) Extra payment on handling

Extra payment of Rs 1.15 crore in handling operations

In January 1998 when WBECSC was appointed as transport contractor, the department paid it Rs 2 per quintal as incidental expenses for loading/ unloading. Subsequently, in March 1998, the Department handed over the entire handling operations including loading, unloading, stacking, de-stacking, weighment etc. to WBECSC at fixed a rate. Even though loading and unloading charges were included in fixed rate, the Department continued to pay to WBECSC incidental charges of Rs 2 per quintal towards loading and unloading in addition to the fixed rate, which was enhanced to Rs 3 per quintal for KMS 1998-99 to 2000-2001. This had resulted in extra payment of Rs 1.15 crore on loading / unloading of 4.17 lakh tonnes of rice transported during KMS 1997-1998 to 2000-2001.

(ii) Undue benefit to transport contractors

Although WBECSC was entirely responsible for inter-district movement, the Deputy Secretary (DS) of the Department as well as the General Manager (GM) of WBECSC instructed the DC, Bardhaman to arrange proper checking of stock by the departmental staff at every point of handling and to treat DCs, Bardhaman and Darjeeling as consignor and consignee respectively in railway documents. This order of GM reduced the responsibility of WBECSC and increased risk to the Government.

During May 1998 to February 1999, DC Bardhaman despatched 13925.36 tonnes rice to New Jalpaiguri/Rangapani in sealed wagons through 'said to contain' railway receipts (RR). DC Darjeeling received 13659.23 tonnes only leading to shortage of 266.13 tonnes valued at Rs 19.55 lakh. As per railway rules, railways were not responsible for any loss on consignments booked under "said to contain" R.R, if it reaches destination with seal intact. Accordingly, the claim for shortages lodged (June 1999) by DC, Darjeeling was void.

Transit loss of Rs 0.20 crore was not recovered

This shortage was attributable to absence of necessary checks at despatch and destination points by WBECSC. The Deputy Secretary, instead of recovering the loss from WBECSC, waived it, thereby causing a loss of Rs 19.55 lakh to Government.

(iii) Excess payment to handling contractors/ sub-agents

(a) For appointment of handling contractors, who worked as sub-agents of WBECSC, the department fixed ceiling of 390 to 425 *per cent* above SOR[12] during KMS 1997-1998 to 2000-2001.

The anticipated volume of work was not indicated in the tender notice leading to higher rates. Further, rates for handling of levy rice were neither compared with rates of Labour Directorates nor with rates quoted by the same contractors for PDS operation. In Medinipore and South 24 Parganas, DLMC

[12] *Schedule of rates*

selected six contractors for handling operation at 12 godowns[13] at rates ranging from 489 to 750 *per cent* above SOR against the ceiling of 390 to 425 *per cent* above SOR during KMS 1997-98 to 2000-2001, resulting in excess payment of Rs 37.54 lakh to the contractors.

Extra expenditure due to allowing rates far above the SORs

(b) It was seen in Bardhaman, Medinipore and North 24 Parganas districts, that handling contractors were appointed at the rates ranging from 145 to 360 *per cent* above SOR of 1991 during KMS 1997-1998 to 2000-2001 but the CF paid WBECSC at the maximum of 390 to 425 *per cent* above SOR. In the absence of payment sub-vouchers of WBECSC's sub-agents, the quantum of excess payment could not be ascertained in audit.

5.2.10 Inspection and Quality Control

Directorate of Inspection and Quality Control was responsible for ensuring quality of foodgrains procured by the department and for scientific storage[14].

Audit scrutiny revealed the following:

Rice unfit for human consumption distributed to BPL consumers

(i) In Bardhaman and Medinipore districts, out of 1369.55 tonnes sub-standard rice valued Rs 1.19 crore, which was unfit for human consumption due to grains broken beyond limit, admixture of damaged grains, high moisture content and insect infestation, 1155.43 tonnes of rice was issued to BPL consumers violating the PFA[15] norms.

Similarly, 1366.55 tonnes (cost: Rs 1.13 crore) of rejection grade rice was issued by DCF&S, Medinipur (1120.70 tonnes) and DCF&S, South 24 Parganas (245.85 tonnes) to consumers without segregation and upgradation.

Government stated (October 2002) that apparently no sub-standard stocks were issued. However, records did not indicate the upgradation of sub-standard stock before issue.

(ii) Stock was also damaged due to non-observance of scientific storage norm viz. over-storage, increasing stack height, inadequate alleyways, inadequacy of prophylactic treatment and fumigation, not following first in first out method in issuance of stock etc. In absence of records the quantity of damaged stock was not ascertainable in audit.

Government admitted (October 2002) that during peak season scientific storage norms were overlooked due to insufficient storage space.

[13] *South 24-Parganas- CWC, Budge Budge, Medinipore-Ballychowk, Giribala, G.B. Yadav, Belda, Pratapdighi, Nekursheni, S.N. Sahoo, Balughata, Terapakhia, Daspur and Goura.*
[14] *Scientific storage includes storage worthiness of godowns, disinfectation by prophylactic treatment, storage/ stack plan, etc.*
[15] *Prevention of Food Adulteration Act*

5.2.10.1 Ineffective monitoring at block/ district level

With a view to enforce monitoring of the scheme at the Fair price shop, different beneficiary/ vigilance committees were set up at Block and District levels. In the four test-checked districts, it was noticed that block level committees were not functional. District level committees paid little attention to vigilance, quality aspect and consumers grievances. Besides, inspecting staff posted both at district and block level were entrusted to check all aspect of quality, stock at distributors' godowns and distribution of levy rice to BPL families. It was noticed that inspection reports/ registers, tour diaries of the Inspectors/ superior officers indicating the extent of checking, were not maintained. Thus, the quality control mechanism was ineffective.

Government stated (October 2002) that joint action with district administration was being worked out.

5.2.11 Conclusion

The activity of 'decentralised procurement of rice' taken over by the State Government since October 1997 was plagued by shortfall in procurement, inept cash management, delays in claim and realisation of subsidy, jacking up of costs by extending undue favours to rice millers and handling/ transport contractors, deprivation of cultivators, substantial shortage of stock, excessive storage losses, lack of quality control and absence of monitoring.

KOLKATA **(S. P. SINGH)**
The **Principal Accountant General (Audit)**
West Bengal

Countersigned

NEW DELHI **(VIJAYENDRA N. KAUL)**
The **Comptroller and Auditor General of India**