CHAPTER VII: MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION

Central Warehousing Corporation

7.1.1 Idle investment in land resulting in blocking of funds

Non-utilisation of land purchased for construction of godowns, container freight stations and inland container depots resulted in blocking of funds of Rs.8.57 crore with consequential loss of interest of Rs.2.19 crore upto March 2006.

Acquiring land for construction of warehouses, container freight stations and inland container depots is one of the functions of Central Warehousing Corporation (Corporation). For this purpose, the Regional Managers (RMs) of the Corporation identify the centres where such facilities are to be established. The RM conducts a detailed business survey and makes recommendations to the Corporate Office (CO). After thorough examination of these proposals, the CO conveys approval for creation of the facilities. The RM then identifies land which is purchased with the approval of the BOD. Despite these detailed procedures it was observed in Audit that at several places, due to flawed business projections, land purchased for construction of godowns *etc.* had been lying idle (May 2006) for periods ranging between three and seven years. A few cases are given below:

7.1.1.1 Regional office Kochi, purchased land measuring 34.64 cents for the purpose of construction of an office-cum-warehouse from Greater Cochin Development Authority (GCDA) after survey by a committee constituted for the purpose by the CO. On approval from the CO, RO Kochi made a payment of Rs.77.94 lakh to GCDA and took possession of the land in November 1999. Later, there was sudden drop in business and on recommendation of the Regional Manager, Kochi, the Management decided (November 2003) not to construct the office-cum-warehouse complex in future. RO Kochi had since been merged (March 2005) with RO Chennai. The purchased land at Kochi was lying idle for more than six years and its utilisation was not possible.

The Management stated (July 2006) that the possibility of returning the land to GCDA at market value was being looked into. The matter was reported to the Ministry in November 2006. The Ministry endorsed (December 2006) the views of the Management.

7.1.1.2 A piece of land measuring 1,00,000 square metres held by M/s. Steel Authority of India Limited (SAIL) at Sitapura Rajasthan, was offered to the Corporation. The land was found suitable for putting up a warehouse of 70,000 MT capacity (April 2000) and was taken over in August 2001 at a total cost of Rs.4.25 crore including cost of registration and transfer charges. The Corporation had not been able to utilise this land.

The Management stated (July 2006) that it was planned to have an inland clearance depot at Jaipur but the Container Corporation of India Limited went ahead and created one. Now construction of a 5,000 MT capacity godown had been taken up. The matter was reported to the Ministry in November 2006. The Ministry endorsed (December 2006) the views of the Management.

The reply was not tenable. The Corporation had projected a business for 70,000 MT godown and not for inland clearance depot. Also for the construction of a 5,000 MT godown, 1,00,000 square metres of land was not required and the acquisition by the Corporation was not justified as the initial projection was incorrect.

7.1.1.3 The Regional Office, Jaipur also purchased land at five places[♣] during 2001-02 and 2002-03 for an amount of Rs.2.21 crore, after approval of the CO. A scrutiny of records revealed that at all these places, lands were purchased, based on survey reports sent by RO, Jaipur which indicated huge business potential after construction of godowns. However, even after a lapse of three years no construction of godowns had been taken up in any of these five places till date (October 2006).

The Management stated (July 2006) that the construction had been planned at Bikaner, Baran, Jhunjhunu and Deoli during the financial year 2006-07 and at Chomu it would be taken up in 2007-08. Further, the Corporation had to plan its developmental activities well in advance and unless land was purchased in advance, the projects might not remain economically viable with increase in the cost of land.

The matter was reported to the Ministry in November 2006. The Ministry endorsed (December 2006) the views of the Management and stated that the constructions of godowns of 5,000 MT capacity each at Bikaner, Jhunjhunu and Deoli had commenced.

The Management and the Ministry's contention were not acceptable as they had justified their purchase without proper business projections. If there was sound business potential the purchased land would not have remained idle for several years.

7.1.1.4 Land measuring 9.77 acres was purchased in January 2002 at Palwal (Haryana) at a cost of Rs.1.33 crore for the construction of a godown for Food Corporation of India (FCI). FCI had requested for a 15,000 MT godown at Kurukshetra, Haryana to be made available by December 2001 (extended to January 2002) for hire under the Seven Years Guarantee Scheme. As the godown was not made available by January 2002 and FCI did not give any further extension, no godown was constructed on the proposed land and the land was kept idle (October 2006). The Corporation had blocked funds of Rs.1.33 crore.

The Management stated (July 2005) that the land was purchased in anticipation of extension from FCI and availability of alternative business from the fertilizer agencies. The matter was reported to the Ministry in November 2006. The Ministry endorsed (December 2006) the views of the Management. The reply was not tenable as FCI had clearly intimated the Corporation that no further extension would be given. Also, there was no confirmed demand from fertilizer agencies for storage space.

[♣] ***Bikaner, Baran, jhunjhunu, Deoli and Chomu***

Thus, by not utilising the lands purchased for construction of godowns and other warehousing space and by keeping the land idle, the Corporation had blocked funds of Rs.8.57 crore with consequential loss of interest of Rs.2.19 crore upto March 2006.

Food Corporation of India

7.2.1 Hiring of Godowns under Seven Year Guarantee Scheme

Food Corporation of India hired godowns under the Seven Year Guarantee Scheme and incurred extra expenditure of Rs.348.61 crore due to hiring of godowns from State Warehousing Corporations at the higher rates payable to Central Warehousing Corporation. The storage space acquired was also not properly utilised resulting in payment of rent amounting to Rs.287.90 crore for idle/surplus capacity for the period February 2002 to March 2006.

The Food Corporation of India (FCI) is the nodal agency through which the Government of India (GOI) implements its food policy. FCI has to maintain satisfactory levels of operational and buffer stocks of foodgrains to ensure National Food Security and for that FCI has to have adequate storage capacity. In 2000, the increase in procurement and lifting of less quantity of foodgrains by the State Governments led to accumulation of huge stocks in the Central pool, which in turn resulted in a storage crisis. In view of the acute storage problem GOI emphasised (February 2000) the need for creation of additional storage capacity by hiring space from the Central Warehousing Corporation (CWC) and the State Warehousing Corporations (SWCs) through construction of godowns by private participation on long-term basis. FCI accordingly embarked on the Seven Year Guarantee Scheme (SYGS) under which new godowns were to be constructed by CWC and SWCs through private participation for exclusive use by FCI and these were to be taken over on guaranteed lease of seven years.

Initially it was decided (February 2000) to construct storage capacity of 30 lakh MT in Punjab under the scheme with completion by March 2003. The scheme was extended to other regions *viz*, Andhra Pradesh, Haryana, Uttar Pradesh, Orissa, Rajasthan, Bihar, Himachal Pradesh, Chhattisgarh, Madhya Pradesh and Gujarat during the period from June 2001 to June 2004. On the basis of recommendations of the State Governments concerned, GOI approved the creation of storage space for 90.07 lakh MT (10.55 lakh MT by CWC and 79.52 lakh MT by SWCs through private parties) in these 11 States. Out of the space for 90.07 lakh MT to be constructed under SYGS, space for 70 lakh MT (5.23 lakh MT of CWC and 64.77 lakh MT of private parties through SWCs) was hired by FCI during the period January 2001 to December 2004.

Audit of SYGS during 2004 revealed that

7.2.1.1 The State Level Coordination Committee (SLCC), Punjab, after cost analysis, recommended (February 2000) that the rent for the godowns to be constructed should be Rs.3.15 *per* square foot *per* month in urban areas and Rs.2.94 *per* square foot *per* month in rural areas. The FCI, however, executed agreements with the CWC and SWCs from November 2001 onwards for the guaranteed hiring of these godowns at the CWC tariff rate of Rs.1.79 *per* 50 kg bag *per* month with effect from April 2002 (the earlier rate was

Rs.1.51 *per* 50 kg bag *per* month) equivalent to Rs.6.77[#] *per* square foot *per* month. The SWCs in turn entered into supplementary agreements with the private owners for performance of the contract for seven years. The rates specified in the supplementary agreements were much lower being Rs.2.45 for Punjab, Rs.2.00 for Andhra Pradesh and Rs.2.65 for Haryana. The hiring of godowns through SWCs, instead of directly from private parties, did not allow for negotiations between FCI and the private parties.

Even if the FCI paid the rate recommended by SLCC Punjab to the SWCs for the space hired from private parties instead of the high CWC rate, it would have saved Rs.348.61 crore on rent upto March 2006 in the five States of Punjab, Haryana Uttar Pradesh, Andhra Pradesh and Orissa. This apart, such extra expenditure would continue beyond March 2006 till seven years from the inception. Further, any increase in CWC tariff rates in future would increase the guaranteed rent to SWCs.

7.2.1.2 While taking the decision for the creation of storage infrastructure the actual requirement was not properly assessed. The decision to hire godowns under SYGS in the States was taken during June 2001 to June 2004 and by that time GOI had already initiated steps for revamping of the Public Distribution System for exports and other welfare schemes. The requirement of storage space was not reassessed considering procurements, off take and availability of storage space after the GOI initiative, which led to under utilisation of hired capacities. Further, there was no clause in the agreement to allow for the payment of rent only for the storage space utilised or for pulling out from the agreement. This resulted in avoidable rent on idle capacity and surplus capacity amounting to Rs.287.90 crore for the period February 2002 upto March 2006 at CWC tariff rates in the five States mentioned above.

The Management (August 2006) stated that there were standing instructions that CWC rates were payable to SWCs provided SWC godowns were at par with CWC godowns in specifications. Since GOI directive was that the additional storage capacity be created through the State Government, FCI had no scope for any negotiation with the private parties. However, in order to reduce the storage cost in respect of SYGS godowns, the FCI in March 2006 decided to pay only the hire charges as per agreement with private parties by SWCs along with 15 *per cent* for administrative overheads. FCI also decided not to pay at par with CWC in case the latter rates were higher. Further, the creation of additional capacity was a conscious decision of the FCI and was duly approved by GOI keeping in view the dire need of storage capacity at that point of time.

The reply of the Management was not tenable as the rate charged by the private parties from SWCs, should have been taken into account while entering into agreement with the SWCs. In any case, the Management accepted the Audit observation and proposed to change the rates payable. However, some SWCs have not agreed to the unilateral decision of FCI for downward revision of rates and have insisted on payment of CWC tariff for SYGS godowns.

The Standing Committee of Parliament on Food, Consumer Affairs and Public Distribution also observed (May 2005) that there was no justification for SYGS when the godowns of FCI remained vacant for a considerably long period. The Committee held

[#] ***As per SLCC, Punjab, 57,120 square foot is equivalent to 10,800 MT*** that such type of unproductive and unimaginative expenditure swelled the food subsidy bill of the Government and needed to be brought down drastically. The Committee recommended that SYGS be revised and if there was an in-built exit clause in the guarantee agreement under which either party could terminate the agreement after due notice, the same should be invoked and in case of non-existence of such clause, the responsibility be fixed. No action in this regard has been taken (October 2006) and FCI continued to pay guaranteed rent to the CWC and SWCs at higher rates. As FCI could not terminate the agreements, it also continued to pay avoidable rent on idle capacity and surplus capacity taken on hire.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

7.2.2 Excess payment of transportation charges

While fixing final rates for Custom Milled Rice, transportation charges were allowed to rice millers without considering the element of transportation charges paid alongwith provisional rates resulting in excess payment of Rs.406.21 crore to State Governments and their agencies during 1998-99 to 2002-03.

The State Government and its agencies procure paddy and enter into agreement with rice millers to shell paddy at regulated and notified rates. The resultant rice known as Custom Milled Rice (CMR) is delivered to FCI by the millers. The GOI fixes the rates on year to year basis for rice as well as the incidentals to be reimbursed by FCI to the State Government and its agencies. The GOI initially fixes provisional rates for each Kharif Marketing Season (KMS) and later finalises these rates. An important element included in the incidentals is transportation charges payable to the millers if the paddy and rice are transported by the millers beyond eight km.

In the provisional rates fixed from time to time by the GOI for the years 1998-99 to 2002-03 for Punjab and Haryana Regions, transportation charges were allowed on actual basis for transportation of paddy and rice for distance beyond eight km subject to maximum of the rates fixed by the District Magistrates concerned. An amount of Rs.5.12 crore was reimbursed as transportation charges to the State Governments and their agencies in Punjab and Haryana during the period 1998-99 to 2002-03. Later, while fixing the final rates in 2004 for these years (1998-99 to 2002-03), in addition to the transportation charges already allowed on actual basis for transportation of paddy and rice for a distance beyond eight km, the GOI allowed transportation charges ranging from Rs.5.39 to Rs.7.43 per quintal for Haryana Region and Rs.11.52 to Rs.14.73 per quintal for Punjab Region under the head 'Mandi labour and Transportation charges' irrespective of the distance involved. FCI accordingly, disbursed Rs.406.21 crore as transportation charges (over and above the Mandi labour charges) for CMR received in these regions during 1998-99 to 2002-03. As the transportation charges on actual basis were already reimbursed to the State Governments and their agencies alongwith the provisional rates and the transportation charges within eight km were already included in the milling charges, disbursement of additional transportation charges was not in order and resulted in excess payment of Rs.406.21 crore to the State Governments and their agencies.

The Management in its reply (November 2005) stated that the rates of transportation charges mentioned in the final sanction order were for moving paddy from mandi to storage point by the State agencies alongwith charges for movement of paddy and rice by millers beyond eight km.

The reply of the Management was not tenable as movement of paddy from mandi to the storage point was not done by the State Government but by the millers/traders and the cost of transportation within eight km was included in the milling charges. Further, the cost of transportation incurred for movement of paddy and rice beyond eight km had already been reimbursed on actual basis during the year of its occurrence.

Thus, disbursement of additional transportation charges without considering the element of transportation charges reimbursed on actual basis alongwith the provisional rates resulted in excess payment of Rs.406.21 crore to State Government and its agencies in Punjab and Haryana for the years 1998-99 to 2002-03.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

7.2.3 Undue benefit to rice millers for delivery of levy rice

Transportation charges though inadmissible were allowed to rice millers for delivery of levy rice within eight km resulting in avoidable payment of Rs.160.39 crore during 1999-2000 to 2002-03.

Levy rice is delivered by the rice millers to FCI in terms of Levy Orders issued by the State Governments. The GOI fixes the price to be paid to the rice millers for levy rice delivered to the Central Pool for each State and for each procurement season. In addition, the GOI reimburses the transportation charges for transportation of paddy and rice beyond eight km from the millers' premises to the storage points of the FCI.

In May 1998 the Ministry of Food and Consumer Affairs (Ministry) requested the Bureau of Industrial Costs and Prices (BICP) (presently Tariff Commission) to undertake a study on "normative milling charges for raw and parboiled rice and transportation charges for the millers in major rice producing States." On request from the Ministry, BICP submitted its report in respect of Punjab on priority basis in September 1999 in which it recommended normative milling charges for the year 1998-99 but did not allow separate transportation charges for delivery of rice within eight km**.**

In October 1998 the GOI sanctioned transportation charges ranging from Rs.4.80 per quintal to Rs.7.10 per quintal (depending upon the capacity of the rice bags and the procurement region) for the Kharif Marketing Season (KMS) 1998-99, for levy rice delivered by millers within a distance of eight km from the mill to the FCI's godown or at the railway station including loading into wagons. FCI allowed the same transportation charges to millers for KMS 1999-2000 to 2002-03. After releasing the payment for 1999-2000, approval of the GOI was obtained in May 2000 but no such approval was obtained for 2000-01, 2001-02 and 2002-03. The GOI in January 2003 decided to stop the payment of transportation charges to millers for delivery of levy rice within eight km from KMS 2003-04 onwards.

It was observed in Audit (December 2004) that the GOI without waiting for the findings of the BICP had allowed (October 1998) the transportation charges to rice millers for delivery of levy rice within eight km for 1998-99. The GOI had also regularised (May 2000) the unilateral action of FCI to pay transportation charges to millers for KMS 1999-2000, even when the BICP Report in respect of Punjab State was available with the GOI (since September 1999) where no separate transportation charge for delivery within eight km had been allowed. The subsequent approval of the GOI in January 2003 to regularise the payment of transportation charges to millers for delivery of levy rice within eight km for KMS 2000-01, 2001-02 and 2002-03 on the ground that some FCI regions had released payments to millers, was also not proper. This resulted in regularisation of unauthorised actions' of FCI and avoidable payment of Rs.160.39 crore to millers during 1999-2000 to 2002-03.

The Management (September 2006) stated that payments on account of transportation and forwarding charges were made in accordance with the GOI's instructions.

The reply of the Management was not correct as the GOI had stated that though the transportation and forwarding charges to rice millers for delivery of levy rice within eight km was not justified, the GOI had to approve the payment of such charges as FCI had already released the payment to millers for the years 1999-2000 to 2002-03.

Thus, delay in implementation of the recommendation of the BICP Report and regularisation of unauthorised actions of FCI resulted in avoidable payment of Rs.160.39 crore to millers.

The matter was reported to the Ministry in October 2006; reply was awaited (January 2007).

7.2.4 Improper admittance of Hill Transport Subsidy claims

Admittance of inflated transportation bills in respect of Hill Transport Subsidy resulted in excess payment of transportation charges amounting to Rs.67.40 crore.

Transportation charges incurred by the North Eastern States for moving foodgrains from FCI base depots to the approved Public Distribution Centres are to be reimbursed on actual basis as Hill Transport Subsidy (HTS) to the State Governments. It was observed (March 2006) in Audit that in respect of transportation claims relating to two revenue districts in Arunachal Pradesh, HTS was irregularly claimed in excess of the actual expenditure and led to extra subsidy burden on the GOI.

7.2.4.1 Irregular Hill Transport Subsidy claims leading to subsidy loss of Rs.35.58 crore

The foodgrains allocated by the GOI to Government of Arunachal Pradesh under various schemes are allotted to the Deputy Commissioners of the revenue districts by the Director of Civil Supplies, Government of Arunachal Pradesh. In respect of Lower Subansiri district, the District Supply Officer, Ziro further sub-allots the foodgrains to the circles and blocks in the district. The base depot of FCI at North Lakhimpur meets the requirements of foodgrains of Lower Subansiri district.

En route from the base depot at North Lakhimpur to the Public Distribution Centre at Damin in Lower Subansiri district lie Kimin (31 km), Hapoli (132 km), 20 km point (152 km) and Nama (242 km). Foodgrains to Nama are moved by motorable road for 152 km upto 20 km point and thereafter by headload for 90 km. Six off-route distribution centres are connected to Hapoli and two off-route distribution centres are connected to Kimin. The cost of transportation of one quintal (100 kgs) of foodgrains from base depot at North Lakhimpur to the eight off-route distribution centres and Nama are shown in the Table below.

Name of location	Motorable distance from base depot at North Lakhimpur in km	Cost of transportation based on motorable distance (in Rs. per quintal)	Head load distance in km	Total cost of transportation based on head load distance (in Rs. per quintal)	Total cost of transportation for one quintal of foodgrains (in Rs. per quintal)
Yazali ^	82	161	--	--	161
Yachuli ^	91	185	--	--	185
O-Ziro ∞	139	315	--	--	315
Joran ∞	146	334	--	--	334
Deed ∞	182	431	--	--	431
Tamen ∞	189	450	--	--	450
Raga ∞	207	499	--	--	499
Godak ∞	237	580	--	--	580
Nama	152	350	90	11,250	11,600

^ denotes off-route distribution centre connected with Kimin
∞ denotes off-route distribution centre connected with Hapoli

In the case of Arunachal Pradesh, HTS was reimbursable even in cases where the foodgrains were off-loaded at distribution centres or Fair Price Shops other than the Public Distribution Centres or enroute to Public Distribution Centers, but the reimbursement of HTS in such cases was not to exceed the amount that would be reimbursable had the stocks been moved to the Public Distribution Centres. During Audit of HTS vouchers, it was observed that foodgrains were issued for the above mentioned eight off-route distribution centres from North Lakhimpur as per allotment orders of the District Supply Officer, Ziro but claims were made by Government of Arunachal Pradesh showing transportation of all the stocks to Nama. The rates for the movement of foodgrains to Nama were very high, as shown above. FCI, without restricting the claims to the permissible amounts upto the destinations as per allotment orders, passed the same upto Nama which resulted in the payment of excess transportation charges to Government of Arunachal Pradesh which in turn resulted in excess subsidy burden of Rs.35.58 crore on the GOI during 2002-03 to 2004-05.

The Management stated (August 2006) that there was no excess payment. The District Supply Officer, Ziro had issued sub-allotment / diversion orders to carry the stocks to Nama and bills were preferred certifying the deliveries and claiming the transportation charges upto Nama. The claims were passed as they were certified by the District Supply Officer and were within the maximum amount payable had the stocks been moved from base depot at North Lakhimpur to the Public Distribution Centre (Damin).

The reply of the Management was not tenable as the orders issued by District Supply Officer, Ziro regarding sub-allotment / diversion order of stocks to Nama were not endorsed to FCI and it was not clear how FCI had accepted such claims upto Nama. Reported movement of all the stocks first to a station carrying the highest transport subsidy of Rs.116 per kg (upto 20 times above the rates applicable to other off-route distribution centres) and later movement to the centers where it was eventually consumed, suggested an inflated claim. The claims should have been restricted to the actual distances moved by the foodgrains transported from base depot at North Lakhimpur to the off-route distribution centres based on the allotment orders of the Deputy District Supply Officer. The reply that the claims were within the maximum amount payable had the stocks been moved to Damin (the farthest point) was not relevant since the stocks did not actually move to Damin nor were meant to.

Thus, approval of claims without properly checking the correctness of the bills resulted in an abnormally high excess payment of subsidy of Rs.35.58 crore by the GOI.

7.2.4.2 Excess issue of foodgrains on the basis of inflated population projections led to excess payment of HTS amounting to Rs.31.82 crore

The GOI allots foodgrains to the State Governments and the State Governments in turn allocate the foodgrains to different revenue districts as per the norms prescribed and considering the population of the districts.

A test check of records of FCI revealed (February 2006) that the population of Gandhigram, Phapurbari and Vijoynagar under Changlang revenue district in Arunachal Pradesh was 59, 257 and 424 respectively (figures as of July 2005). The total requirement of foodgrains at these stations, as per norms of 35 kg per family per month, was 1,739.50[♣] quintals during November 2002 to March 2005. But 30,241.42 quintals (nearly seventeen times) were shown to have moved to these centres. An excess quantity of 28,501.92 quintals of rice was thus shown as moved to these three centres from November 2002 till March 2005. The transportation of foodgrains to these centres involved movement on headload also and the cost of transportation ranged between Rs.168 and Rs.197 per kg. Thus, an amount of Rs.3.74 crore towards the cost of foodgrain and Rs.28.08 crore[♦] towards HTS were paid on the excess quantity moved which resulted in an unnecessary subsidy burden of Rs.31.82 crore on the GOI.

The Management stated (July 2006) that it was the responsibility of the State Government to re-allocate the foodgrains to the different revenue districts, circles and blocks. FCI had released the foodgrains as per the allocation by State Government and had reimbursed the HTS claims as submitted by the State Government which were stated to have been prepared according to the instructions issued by the GOI and FCI headquarters during 2003-04 and 2004-05.

The reply of Management was not acceptable. FCI should have satisfied itself that the claims were fair and in order and should have observed minimum standards of checks while admitting such unusual claims which were out of proportion to the known population of the centres.

[♣] ***Considering a family of four members***

[♦] ***Bills received for period from November 2002 to June 2004 and passed for payment***

The Chairman and Managing Director, FCI, in his letter (April 2004) to all his Zonal and Senior Regional Managers had reiterated that staff must act as good store managers and keep their ears and eyes open to see where the foodgrains made available to the State authorities were utilised. The above observations show that the field officers of FCI did not always act in a manner befitting a vigilant store manager.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

7.2.5 Loss of interest on outstanding dues from State Government

Release of stock on credit in contravention of Government of India instructions and non-recovery of outstanding dues from State Government of J&K resulted in excess interest liability of Rs.48.53 crore.

Food Corporation of India purchases foodgrains at the Minimum Support Prices as fixed by the GOI for issue to the States for various schemes implemented by them and to maintain buffer stocks. The working capital requirements of FCI for these purchases are financed through cash credit extended by a consortium of banks.

FCI was supplying foodgrains to the State Government of Jammu and Kashmir (J&K Government) on credit basis. As the J&K Government was not settling its dues with FCI in time, the outstanding dues from J&K Government continued to grow. In order to clear the outstanding dues of Rs.224.90 crore as on 30 April 2002, the GOI in a meeting held in July 2002 with the representatives of J&K Government and FCI decided that:

(i) From 1 September 2002 onwards, FCI would release foodgrains to the J&K Government only on pre-payment basis.

(ii) The State Government would clear all the outstanding dues of FCI in three equal monthly instalments starting from July 2002.

(iii) FCI would charge interest (equal to the Bank rate of interest being charged by the consortium of banks on FCI's credit) on the outstanding dues.

At the beginning of July 2002, an amount of Rs.264.65 crore was outstanding against the J&K Government and credit sale of Rs.42.02 crore was made during July and August 2002. It was observed in Audit that despite the GOI's decision (July 2002), J&K Government had not cleared all outstanding dues of FCI and FCI continued the credit sale to J&K Government. Credit sale of Rs.967.62 crore was made to the J&K Government during September 2002 to December 2005. A sum of Rs.1,160.30 crore only was realised against the total dues of Rs.1,274.29 crore during the period. This left a balance of Rs.113.99 crore pending against J&K Government at the end of December 2005. The interest (calculated at simple rate of interest being charged by consortium of banks on FCI's credit upto March 2005) comes to Rs.48.53 crore on the outstanding dues against the J&K Government which was also to be recovered as per the decision of the GOI (July 2002). However, no concrete efforts were made by FCI for the recovery of the outstanding balance and interest from the J&K Government.

The Management while accepting the facts stated (August 2006) that the matter was continuously being pursued with the J&K Government for early settlement of outstanding dues on account of credit supplies and after clearance of the principal amount steps for recovery of interest would be taken up. The Ministry endorsed (September 2006) the views of the Management.

Thus, continuation of credit sale in violation of the decision of the GOI and non recovery of outstanding dues from J&K Government resulted in excess interest payment liability of Rs.48.53 crore thereby adversely affecting the food subsidy bill of the GOI.

7.2.6 Excess issue of foodgrains under mid-day meal scheme

Excess issue of foodgrains under mid-day-meal scheme due to failure in adhering to the directions of the Government of India resulted in subsidy burden of Rs.18.06 crore.

The Ministry of Human Resources Development (MHRD), Department of Education launched the National Programme of Nutritional Support to Primary Education known as the mid-day meal scheme (MDM) with effect from 15 August 1995. Overall responsibility for the programme vested in the State Governments and Union Territory Administrations. This included providing necessary infrastructure, making all logistic arrangements necessary for regular serving of wholesome cooked mid day meal of satisfactory quality and providing financial and other inputs over and above those to be provided by way of Central assistance. Central assistance is provided to the States under the programme by way of free supply of foodgrains from the nearest godown of the FCI. FCI is expected to make available foodgrains to authorised persons against the authority letter and allocation letter issued by the District Collectors (DCs). The DCs are empowered to further re-allocate the quantity of foodgrains to the Panchayats or Nagar Palikas based on the block-wise actual number of eligible institutions as well as enrolment/attendance. The cost of the foodgrains is reimbursed to FCI by the GOI. The payment is made by the MHRD on submission of bills by FCI duly supported by documents for receipt of foodgrains and the consignee receipt cum utilisation certificate from the DCs concerned.

In its release order for the MDM of the year 2004-05 in March 2004, for Andhra Pradesh, the GOI had indicated that the entitlement of foodgrains was provisional and was calculated on the basis of number of children enrolled as on 30 September 2003 as reported by the State Government. In the same order the GOI indicated that the requirement of foodgrains was calculated at the rate of 100 grams per child per school day for ten months totalling 235 school days.

It was observed in Audit (April 2006) that in five districts of Andhra Pradesh (Ananthapur, Cuddappa, Kurnool, Karimnagar and Nizamabad) against the reported enrolment of 19,93,321 school children the actual enrolment was 15,21,502 only during 2004-05. The foodgrains were drawn from the FCI godowns on the basis of the enrolment reported instead of the actual enrolment resulting in excess issue of 11,087.75 MT of foodgrains. In the districts of Khammam and Adilabad also it was observed (April 2006) that during 2004-05 against the reported enrolment of 7,39,539 school children the actual enrolment was 5,69,060 and against the total projected 470[♥] schooldays the total number of schooldays in these two districts was 432[♣]. In these two districts also, foodgrains for the projected enrolment and schooldays were drawn which resulted in an excess drawal of 3,536.857 MT of foodgrains. The State Government had drawn the foodgrains on the basis of provisional allocation and FCI did not check the consignee receipt-cum-utilisation certificates obtained from DCs to see whether the quantity of foodgrains lifted and utilised during the month were commensurate with the quantity admissible. The excess drawal of 14,624.607 MT of foodgrains in these 7 of the 23 districts of Andhra Pradesh entailed a subsidy burden of Rs.18.06 crore on the GOI.

The Management stated (August 2006) that the foodgrains were supplied to the State Government as per the demand of the DCs and were within the allocation made by MHRD. Also, FCI has no mandate or mechanism to ascertain the authenticity of the number of schools or students to whom MDM is to be provided. The matter was reported to the Ministry in November 2006. The Ministry endorsed (December 2006) the views of the Management and stated that the report from MHRD was being obtained.

The reply was not acceptable. Though FCI had no control over the quantity of foodgrains to be issued under the scheme, being the nodal agency for distribution of foodgrains it was imperative on the part of FCI to ascertain the actual number of school children and school days as the original allocation was provisional. However, following the Audit observation, the FCI and the Ministry took up the matter (August 2006 and December 2006) with MHRD.

7.2.7 Re-booking of rakes

Re-booking of rakes at New Bongaigaon resulted in avoidable expenditure of Rs.3.73 crore.

According to the Centralised Booking Scheme of FCI, in operation from 1 April 1982, all consignments/rakes, from stations of Northern Railways to the destination stations east of New Bongaigaon, should be booked in block rakes upto New Bongaigaon in the first instance and then re-booked to the destination station from New Bongaigaon. The freight for the re-booking was to be calculated by giving the benefit of telescopic rates from the originating stations to the ultimate destinations.

FCI, on the basis of a reference received from Railways, decided (8 October 1986) that foodgrains traffic meant for Churaibari, Dharamanagar and Kumarghat (with effect from 1990) stations in Tripura shall be booked directly since these were directly linked with the dispatching MG[•] terminals in Northern States. The Railway Board also amended (November 1986) its notification for Centralised booking scheme accordingly.

The direct link to Tripura State was discontinued from April 1997 due to gauge conversion (from MG to BG[♦]) and hence no MG wagon could be booked directly to the

[♥] *2 x 235=470*
[♣] *212 and 220 respectively*
[•] *Metre gauge*
[♦] *Broad gauge*

Tripura terminals. To feed the PDS requirement of Tripura, FCI started booking consignments to New Bongaigaon which were then re-booked to Churaibari, Dharamanagar and Kumarghat but without availing of the telescopic rates. It was observed in Audit (October 2005) that during 2002-03 to 2004-05 alone, avoidable expenditure on freight to the extent of Rs.3.73 crore was incurred for 2.97 lakh MT of foodgrains booked upto New Bongaigaon and then re-booked to destinations in Tripura.

The Management (April 2006) stated that the issue regarding charging the freight for re-booking by giving the benefit of telescopic rates had been taken up with NEF[♠] Railway in December 2005 and with the Railway Board in February/March 2006. The Ministry stated (January 2007) that the Railway Board had since extended the scheme with effect from 15 November 2006.

Though the direct link to Tripura had been discontinued from April 1997 due to gauge conversion, the Management took up the matter with the Railways only after it was pointed by the Audit in October 2005.

[♠] ***North Eastern Frontier***