

**Ministry of Consumer Affairs, Food and Public Distribution
Department of Food and Public Distribution**

Performance Audit on Management of Foodgrains

1. Introduction

Government of India's foodgrains management strategy towards ensuring food security involves procurement of foodgrains at remunerative prices from the growers, its storage and movement, maintenance of buffer stocks and ensuring availability of foodgrains to the public at reasonable prices. The overall responsibility for management of foodgrains in the Government of India vests with the Ministry of Consumer Affairs, Food and Public Distribution, Department of Food and Public Distribution (Ministry). While procurement is done centrally through the Food Corporation of India (FCI), decentralised procurement has been permitted in the case of eleven States/ Union Territories. The responsibility for distribution of foodgrains to the beneficiaries vests with the State Governments.

1.1 Procurement

1.1.1 The procurement of foodgrains by Government is intended to:

- | Provide remunerative prices to farmers, thereby avoiding distress sale of foodgrains; and
- | Build up a stock of foodgrains to ensure the supply of subsidised foodgrains to the needy and poor through the Targeted Public Distribution System (TPDS) and other welfare schemes;

1.1.2 Provision of remunerative prices is ensured through the fixation of Minimum Support Prices (MSPs) by the Government of India for wheat, rice and coarse grains; these represent pre-determined prices at which the Government of India undertakes open-ended procurement of foodgrains.

1.1.3 Foodgrains procurement is handled primarily through the Food Corporation of India (FCI), in association with the State Governments and their procurement agencies. FCI coordinates its functions through a country-wide network of offices with its Headquarters at New Delhi, five Zonal Offices, 23 Regional Offices, one Port Office and 165 District Offices. The foodgrains so procured are transferred out of surplus states to deficit states for storage and eventual distribution.

1.1.4 With the objective of reducing the over-dependence of the State Governments on the FCI for TPDS and reducing transportation costs by ensuring availability of locally produced foodgrains, the Government introduced (1997-98) the scheme of Decentralised Procurement (DCP) of foodgrains. Under this scheme, which is being implemented in eleven States/ UTs, the latter themselves procure foodgrains, retain the quantity required for TPDS and surrender the rest to FCI for the Central Pool. The subsidy in this case is given by the Government of India to the State Governments, instead of FCI.

1.1.5 Table 1 indicates the total procurement of rice (including paddy in terms of rice) and wheat for the Central Pool by FCI and DCP States during the marketing seasons¹ covering the period 2000-2005.:

Table 1: Procurement of foodgrains for the Central Pool

(In lakh tonnes)

	2000-01	2001-02	2002-03	2003-04	2004-05
(a) Wheat*	163.57	206.30	190.25	158.01	167.96
(b) Rice*	195.87	212.77	164.11	228.28	210.49
Total	359.44	419.07	354.36	386.29	378.45

*Source: June 2004 food bulletin of M/o CA, F&PD for 2000-02 and May 2005 food bulletin for 2002-005

1.2 Pricing

1.2.1 The Commission of Agricultural Cost and Prices (CACP) recommends the fixing of Minimum Support Prices (MSPs) of foodgrains based on a complex process of assessment by consulting the State Governments, the Ministry of Consumer Affairs, Food & Public Distribution and other stakeholders like FCI, Ministry of Commerce, Indian Council of Agricultural Research, National Agricultural Cooperative Marketing Federation of India (NAFED), Tribal Co-operative Marketing Development Federation of India and Agricultural and Processed Food Products Export Development Authority (APEDA). While determining MSP, CACP considers the overall needs of the economy as well as the interest of farmers and consumers and also other relevant factors such as cost of production, domestic and international market situation, increase in the prices of urea/fertilizers/ petrol/electricity, subsidies, stock position, changes in agricultural terms of trade, prices of competing crops etc. and price fixed in previous years. The prices recommended by CACP are considered by the Cabinet Committee for Economic Affairs (CCEA) for approval.

1.2.2 As a contrast to MSP (which represents pre-determined procurement price), Central Issue Price (CIP) represents the price at which foodgrains are issued underfor the TPDS and other welfare schemes. CIPs differ as follows:

1 There are different CIPs for different segments of beneficiaries under the TPDS– Above Poverty Line (APL), Below Poverty Line (BPL) and Antyadoya Anna Yojana (AAJ)

1 There are separate CIPs for common rice and Grade “A” rice for APL consumers.

1.2.3 Details of year-wise Central Issue Prices (CIPs), MSPs and range of month-end wholesale prices of wheat and rice during the period from 2000-01 to 2004-05 are indicated in Table 2.

¹ As distinct from the financial year, the marketing season/ year for paddy/ rice is from October to September, while for wheat it is from April to March.

Table 2: Comparison of CIP, MSP and Wholesale prices of Wheat and Rice

						(Rs. per quintal)				
RICE						WHEAT				
Period for MSP and Market Price (CIP)	CIP -APL		CIP-BPL	MSP	Market Price *	Period	CIP APL	CIP BPL	MSP	Market Price *
	Common	Gr. "A"	Common/ Gr. A	Common (Gr.A)						
2000-01 (01.04.2000 to 24.7.2000)	1135	1180	590	510 (540)	710 - 1500	2000-01 (1.4.2000 to 24.7.2000)	900	450	580	490 - 1100
2001-02 (25.7.2000 to 11.7.2001)	1087	1130	565	530 (560)	650 - 1575	2001-02 (25.7.2000 to 11.7.2001)	830	415	610	480 - 1225
2002-03 (12.7.2001 to 31.3.2002)	795	830	565	530+20 (560+20)	640 - 1900	2002-03 (12.7.2001 to 31.3.2002)	610	415	620	500 - 1300
2003-04 (1.4.2002 to 30.6.2002)	695	730	565	550 (580)	675 - 1850	2003-04 (1.4.2002 to 30.6.2002)	510	415	620+10	460 - 1330
2004-05 (1.7.2002 to till date)	795	830	565	560 (590)	720 - 2400	2004-05 (1.7.2 002 to till date)	610	415	630	580 - 1400

*Note: * Month-end whole sale price of Wheat & Rice (Marketing year wise)*

Source: (a) For CIP and MSP, Annual Report of Department of Food and Public Distribution.

(b) For Market Price, data received from Commission for Agricultural Costs and Prices.*****

1.3 Food Subsidy

1.3.1 Food subsidy is provided in the budget of the Ministry to meet the difference between the Economic Cost of procurement (which comprises of MSP, procurement incidentals and distribution costs) and the Central Issue Prices (CIPs) at which foodgrains are issued under the TPDS and other welfare schemes. Part of the food subsidy also goes towards meeting the carrying cost of buffer stock.

1.3.2 The subsidy is provided to FCI for procurement and distribution of foodgrains and for maintaining the buffer stock of foodgrains. In respect of procurement by States under the DCP scheme, the Government determines the state-specific costs, and the difference between the cost so determined and the CIP is passed onto the States as food subsidy.

1.3.3 The extent of subsidy released by the Government of India during 2000-05 is indicated in Table 3.

Table 3: Government of India subsidy to FCI and States*(Rs. in crore)*

Year	Subsidy to FCI	Subsidy to States	Total Subsidy
2000-01	11462.00	548.00	12010.00
2001-02	16724.00	770.00	17494.00
2002-03	22674.00	1502.00	24176.00
2003-04	23874.00	1286.00	25160.00
2004-05*	23280.00	2466.00	25746.00
Total	98014.00	6572.00	104586.00

* Provisional

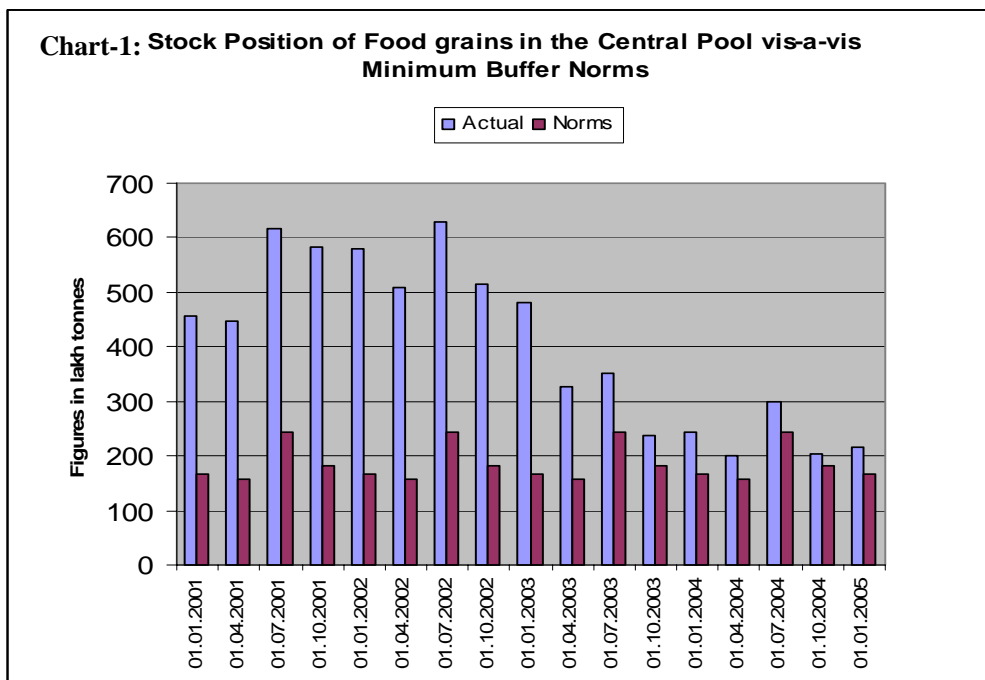
1.4 Food Stocks**1.4.1** Food stocks are maintained by the Government of India:

- | to meet the prescribed Minimum Buffer Stock norms for food security;
- | for monthly releases of foodgrains for supply through TPDS and other welfare schemes;
- | to meet emergent situations arising out of unexpected crop failures, natural disasters etc.; and
- | for market intervention to augment supply so as to help moderate the open market prices.

1.4.2 Table 4 contains the details of the minimum requirement of buffer stock for the Ninth and Tenth Five Year Plans fixed by the Government of India.:**Table 4: Buffer norms for Ninth 9th and 10th Tenth Five Year Plan***(In lakh tonnes)*

	Ninth Five Year Plan (1997-2002) valid till 28.03.2005				Effective from 29.03.2005			
	Ist Jan.	Ist April	Ist July	Ist Oct.	Ist Jan.	Ist April	Ist July	Ist Oct.
Wheat	84	40	143	116	82	40	171	110
Rice	84	118	100	65	118	122	98	52
Total	168	158	243	181	200	162	269	162

1.4.3 A comparison of the actual stock of foodgrains with the minimum requirements of buffer stock during the period January 2001 to January 2005 is indicated in Chart 1*****.



1.5 Distribution

1.5.1 Distribution of foodgrains is ensured through a Targeted Public Distribution System (TPDS), a network of around 4.77 lakh Fair Price Shops (FPS) through the country, with the State Government being responsible for identification of beneficiaries, issue of ration cards and distribution of foodgrains to the beneficiaries through FPS.

1.5.2 Till 1992, the Public Distribution System (PDS) functioned as a general entitlement scheme covering all consumers. Over the last 14 years, it has evolved as a major instrument of the Government’s strategy for ensuring food security for the poor and ensuring availability of foodgrains to the public at affordable prices. In June 1997, the Government streamlined the system into a Targeted Public Distribution System (TPDS), by issuing special cards to the Below Poverty Line (BPL) families and providing foodgrains to them at specially subsidised prices. States were required to formulate and implement foolproof arrangements for identification of the poor and delivery of foodgrains to them through FPS in a transparent and accountable manner. TPDS also covered the Above Poverty Line (APL) population, although the CIPs for APL beneficiaries were kept higher than BPL beneficiaries.

1.5.3 Subsequently, the Government launched the Antyodaya Anna Yojana (AAY) in December 2000 in order to reduce hunger among the poorest segments of the population, and to make PDS benefits more substantial in terms of both quantity and nutrition for this section of the population. The CIPs for AAY beneficiaries were set at Rs. 2/kg for wheat and Rs. 3/kg for rice, which was substantially lower than the BPL rates.

1.5.4 Apart from issues under TPDS (comprising APL, BPL and AAY schemes), foodgrains from Central Pool are also released for other foodgrains based welfare schemes such as the Mid Day Meal Scheme, Annapurna Scheme, Sampoorna Gramin Rojgar Yojana (SGRY), and other schemes like Wheat Based Nutrition Programme, Nutritional Programme for Adolescent Girls, Supply of foodgrains to SC/ST/OBC Hostels/Welfare Institutions, and National Food for Work Programme.

1.6 Open Market Sale Schemes (OMSS)

1.6.1 Government of India introduced the Open Market Sale Scheme (Domestic) [OMSS(D)] for wheat with effect from October 1993 and rice from January 1994. The objectives of conducting open market sales of wheat and rice by FCI were to contain and control inflationary tendencies in the economy, generate storage space in the surplus states to enable FCI to accommodate freshly procured foodgrains, and enable reduction in carrying costs incurred by FCI and thereby minimise the subsidy burden.

1.6.2 Government of India introduced the Open Market Sale Scheme (Export) [OMSS(E)] with effect from October/ December 2000 to liquidate accumulated excess stock held in the Central Pool, which was causing a drain on FCI's resources in terms of storage and handling costs. The excess stock lying in the Central Pool of FCI was sold to exporters at highly subsidised rates. Initially, this scheme was restricted to three PSUs², but subsequently, this scheme was extended to other PSUs and private parties.

1.7 Offtake

1.7.1 The total offtake from the Central Pool under TPDS, welfare schemes as well as OMSS during the period 2000-05 is depicted in Table 5.:

Table 5: Scheme wise offtake of foodgrains from Central Pool

(in lakh MT)

Schemes	Foodgrains	2000-01	2001-02	2002-03	2003-04	2004-05
TPDS	Wheat	40.69	56.78	97.77	108.08	130.28
	Rice	79.73	81.58	105.63	133.85	163.96
	Total	120.42	138.36	203.40	241.93	294.24
Other Welfare Schemes	Wheat	11.49	23.79	44.13	53.40	41.23
	Rice	20.42	48.06	69.67	81.60	64.85
	Total	31.91	71.85	113.80	135.00	106.08
OMSS(D)	Wheat	11.02	51.97	52.74	9.26	2.39
	Rice	3.86	4.01	3.87	4.05	0.08
	Total	14.88	55.98	56.61	13.31	2.47
OMSS(E)	Wheat	14.69	27.35	55.28	72.20	8.76
	Rice	0.18	19.49	69.35	30.88	0.90
	Total	14.87	46.84	124.63	103.08	9.66
Grant Total		152.33182.08	210.21313.03	317.20498.44	376.93493.32	400.32412.45

*Source: June 2004 food bulletin of M/o CA, F&PD for 2000-02 and May 2005 food bulletin for 2002-05

2. Past Audit Coverage

2.1 The performance of PDS, covering the VIII Five Year Plan period of 1992-97 and two years of the IX Plan i.e. 1997-99 was reviewed in audit between May and September 1999 and the findings were included in Report No. 3 of 2000 of the C&AG of India for the year ended March 1999, Union Government (Civil). The main audit findings and action taken there against by the Ministry are summarised in Table 6.:

Table 6 : Action taken on the audit findings on PDS

Audit Findings	Action taken
1. The procurement was inefficient, leading to high cost.	1.The Decentralized Procurement Scheme was strengthened by inclusion of more states under the scheme to reduce the cost impact of subsidy
2. Impact of subsidy on sugar was large.	2. The distribution of sugar to APL families had been discontinued to reduce the impact
3. The coverage of BPL	3. With effect from December 2000, the number of

² MMTC, STC and PEC

population was inadequate.	BPL families had been increased by shifting the base of the population to the projections of the Registrar General as on 1.3.2000 instead of the earlier population projections of 1995.
4. There was need for increased allocation and off take of PDS commodities in view of larger quantities being procured.	4. (i) The allocation to the BPL families had been doubled from 10 kg to 20 kg per family per month which was further increased to 25 per kg and thereafter to 35 per kg. (ii) To address the needs of the poorest of the poor families in the country, the Government launched Antyodaya Anna Yojana (AAY), which provided 25kg of foodgrains per family per month at highly subsidized prices of Rs. 2 per kg for wheat and Rs. 3 per kg for rice.
5. Non-assurance of micro level food security as well as nutritional security.	5. The Government had launched the Antyodaya Anna Yojana Scheme targeted towards the poorest of the poor and needy sections of society.
6. There were undue financial benefits to millers.	6. The old scheme was discontinued.
7. Distribution network of Fair Price Shops suffered from operational deficiencies.	7. The Ministry had forwarded the findings of the report to the State Governments for remedial action.

3. Audit Objectives

3.1 The main objective of this performance audit was to evaluate the effectiveness of the system for management of foodgrains for securing food security in the country. This involved assessment of the following aspects:

- 1 efficiency of the system of procurement by FCI and the States;
- 1 efficiency and economy in storage and movement operations; and
- 1 effectiveness of distribution arrangements of Government to ensure that all people had access to food grains.

4. Audit Coverage and Methodology

4.1 Scope and Coverage

4.1.1 The Performance Audit on Management of Foodgrains covered the period from 2000-01 to 2004-05, and was carried out through sample checks in the Ministry and FCI as well as implementing agencies in 34 States/ UTs as detailed in **Annexure 1**. In FCI, the records of all the zonal and regional offices and 41 randomly selected district offices (out of 165 offices) were test checked. In the States/ UTs, the sample for audit review covered 152 districts, 4982 blocks/ talukas and 2049 Fair Price Shops (FPS). The procedure of sample selection was as follows:

- 1 From each State, 22 percent of the total districts (subject to a minimum of three districts) were selected, adopting the Simple Random Sampling without Replacement (SRSWR)³ method.

³ SRSWR is a method where the sample having higher population stands a higher chance of selection.

| From each selected district, three blocks/talukas (two from rural areas and one from urban areas) were selected.

| From each selected block/ taluka, four FPS (three in co-operative sector and one in private sector) were selected on the basis of random sampling.

4.1.2 The State-wise selection of samples is given in **Annexure -1**.

4.2 Surveys/ studies conducted by field Audit Offices

4.2.1 Audit undertook surveys of beneficiaries in **Manipur** and **Delhi** to ascertain efficacy of PDS and the level of consumer satisfaction, and also conducted a questionnaire-based survey of beneficiaries in **Tripura**. Details of the sample design are given in **Annexure -1**.

4.3 Surveys/ studies got conducted by Government Departments

4.3.1 The findings of the following surveys which were got conducted by Government Departments, have been suitably used to supplement audit findings:

| Evaluation study on TPDS and AAY entrusted by the Ministry in 2003 to M/s ORG Centre for Social Research (ORG Marg) – the study covered 25000 households in 105 Districts and 1000 FPS in 35 States/ UTs. The final report was submitted in September 2005.

| The performance evaluation of TPDS by the Programme Evaluation Organisation (PEO) of the Planning Commission – The study covered 60 districts in 18 states for the period 1997 to 2001, with field work between May and December 2001. The report was submitted in March 2005.

| The survey on “Consumers’ Expenditure, Employment- Unemployment and Situation Assessment Survey of Farmers” by NSSO between January and December 2003, whose results were published as the 59th round of the National Sample Survey.

4.4 Audit Methodology

4.4.1 An entry conference was held with the Ministry in June 2005, where the audit methodology to be followed was explained, and the guidelines containing the audit objectives and sub objectives, audit criteria, evidence collection and analysis methods were shared with the Ministry. Subsequently, a presentation was made by the Ministry to Audit in August 2005 highlighting the programme performance and Ministry’s efforts for strengthening the control systems. Records of the Ministry and FCI as well as of the district level implementing authorities were examined between February 2005 and February 2006. An exit conference was held with the Ministry on 07 June 2006 to discuss the audit findings. The replies/comments of the Ministry have been suitably incorporated in the report.

5. Audit Findings on Procurement

5.1 Lack of adequate awareness of Minimum Support Price (MSP)

5.1.1 The results of the 59th round of the National Sample Survey of NSSO revealed that:

almost 71 per cent of farmers had not even heard of the concept of MSP. Even in **Haryana** and **Punjab** (which together contribute 56 per cent of all rice procured and 85 per cent of all wheat procured in the country), 37 per cent and 38 per cent of farmers respectively were unaware of MSP; and

|

| almost 81 per cent of farmers were effectively unaware of how to use the MSP.

5.1.2 Although awareness among farmers continued to be low, the Government did not conduct any impact evaluation to determine the extent of deprivation of benefits of MSP to farmers, so as to take appropriate remedial action. Further, the NSSO results confirmed that efforts for launching MSP awareness campaigns were inadequate and required further effective intervention by the Government at the Union and State levels.

5.1.3 The Ministry replied (June 2006) that on receipt of the NSSO report, in September 2005, Secretary (F&PD) wrote to the State Food Secretaries, requesting them to generate awareness about MSP operations amongst farmers through audio-visual and print media, village fairs and Panchayats. However, documented results of such efforts were not furnished.

5.2 Inefficiencies in Procurement Operations

5.2.1 Excess expenditure of Rs. 1047.34 crore by Chhattisgarh Government

5.2.1.1 Audit examination revealed that the procurement of paddy in **Chhattisgarh** under the scheme of Decentralised Procurement (DCP) was much in excess of the capacity for custom milling of paddy, due to the absence of a project plan for procurement, storage and custom milling. Thus, the milling of paddy was delayed from 21 to 30 months, which resulted in excess overhead expenditure by the State Government, mainly on account of interest and drriage loss⁴. During the period 2000-05, against the admissible expenditure as per the CMR⁵ norms of the Union Government of Rs. 6031.81 crore, the procurement agencies incurred a total expenditure of Rs. 7384.19 crore, resulting in excess expenditure of Rs. 1352.38 crore. Of this excess, an amount of Rs. 1047.34 crore had actually been paid by the State Government to the procurement agencies, leaving outstanding claims of Rs. 305.04 crore which had not yet been reimbursed by the State Government.

5.2.2 Other inefficiencies in procurement operations

5.2.2.1 Other inefficiencies in procurement operations valuing Rs. 263.01 crore noticed during the course of audit were primarily on account of deviations from norms. These are summarised in Table 7.

Table 7: Irregularities Inefficiencies in procurement operations

Type of Inefficiency	Description	Amount (Rs. in crore)	State/UT
Loss due to improper storage	Loss in disposal of wheat damaged due to prolonged storage in open, coupled with extraordinary volume of inventory of wheat and slow dispatches as per FCI's directions.	141.97	Haryana
Short delivery of rice vis-à-vis Union Government-prescribed out turn ratio for pPaddy	Short delivery of 0.79 lakh MT of rice by millers due to lesser out turn ratio ⁶ of 64 per cent against paddy allowed, instead of 67 per cent fixed by the Union Government.	81.03	Punjab
	Short delivery of 4656 MT of rice by millers due to lesser out turn ratio of 63 per cent against paddy allowed for the State Essential Commodities Supply Corporation (ECSC), instead of the Union Government norm of 68 per cent.	4.19	West Bengal
Loss of interest	Additional interest paid interest paid to bank by	25.37	Punjab

⁴ Driage loss is allowed to compensate for the reduction in moisture content of paddy during storage.

⁵ CMR: Custom Milled Rice

⁶ Out turn ratio represents the prescribed percentage output of rice through milling of paddy.

Type of Inefficiency	Description	Amount (Rs. in crore)	State/UT
	procurement agencies due to their failure to match stocks with the outstanding cash credit limits.		
	Failure of the State Department to obtain bank guarantee or stock advance from the millers put the recovery of 6365 MT of rice valuing Rs. 5.72 crore from millers at stake even after 2 years of scheduled date, and under unnecessary litigation. Consequently, this resulted in additional interest payments by the State Department on the value of stock.	1.18	Haryana
	Avoidable interest incurred due to delays ranging between 2 days and 248 days in remitting funds aggregating Rs. 43.04 crore by the district authorities between December 2002 and July 2005.	0.70	West Bengal
Short-accountal on account of driage loss/ moisture gain	State Government allowed 2 per cent driage loss during 2000-04 on wheat procured, as against Union Government norm of 1 per cent.	4.08	Maharashtra
	Moisture gain ⁷ of 22,000 quintals in respect of 28.18 lakh quintals of wheat dispatched by ten District Food and Supplies Controllers (DFSCs) was short- accounted.	1.34	Haryana
	Moisture gain of 1429.21 of 1429.21 MT of wheat was not accounted during 2000-05.	1.29	Rajasthan
Excess Milling charges	Loss due to payment of milling charges @ Rs. 350/MT against the Union Government rate of Rs. 150/MT on 93,109 MT of paddy during 2002-2004.	1.86	West Bengal
Total		263.01	

5.3 Procurement Incidentals

Procurement Incidentals (PIs) comprised:

1 sStatutory charges – these included the elements of mandi charges (market fee/ dami/ Arhatia Commission/ Rural Development Cess/ Auction fee), purchase/ trade tax and gunny costs; and

1 nNon-statutory charges – these included the elements of mandi labour, transportation costs, driage losses, custody and maintenance charges, interest and milling charges for paddy/ administrative charges for wheat.

5.3.1 Statutory charges

The statutory charges in respect of wheat were the highest in **Haryana Punjab and Punjab Haryana.**, which They contributed 82 to 89 per cent of the total wheat procurements for the Central Pool during 2000-05. These charges ranged between 10.5 per cent and 11.5 per cent of the total cost of wheat procured, and included Market Fee and Rural Development Cess each @ 2 per cent. By contrast, statutory charges on wheat procurement in **Uttar Pradesh** and **Madhya Pradesh** were only 6.5 per cent and 2.2 per cent respectively.

Similarly, the incidental charges on procurement of paddy/rice in major procurement States of **Andhra Pradesh Punjab, Haryana and Punjab Andhra Pradesh** were ranging between 10 and 10.5 percent.

Audit examination of statutory charges revealed the following:

⁷ Moisture gain represents the increase in moisture content of wheat during storage, due to seasonal conditions.

5.3.1.1 Rural Development Cess (RD Cess)

During 2001-05, the Punjab State Agricultural Marketing Board collected Rs 934.53 crore on account of RD Cess, in addition to an identical amount collected on account of Market Fee. The amount collected as RD Cess was to be spent mainly for construction of godowns for agricultural produce brought into the market, rural roads, rest houses for dealers and purchasers, and arrangements for drinking water and sanitation. The fund was also to be spent for providing better agriculture facilities for higher production and grant of relief for loss and damage to agriculture produce due to natural calamities.

Audit, however, found no evidence to indicate that the amount collected as RD Cess was utilised for the specified purposes, as detailed below:

┆ During 2001-02, 1653 mandis were operated by the Mandi Board, and no new mandis were opened upto 2004-05. In fact, 101 Katchi Mandis (mandis without the requisite infrastructure) were being operated continuously for five years ending 2004-05.

┆ Drought relief for **Punjab** amounting to Rs. 340.57 crore for the Kharif season 2002-03 (@Rs.200/MT) and Rabi season 2003-04 (@Rs.100/MT) was borne by the Union Government, and the cess was not utilised for this purpose.

FCI maintained that far flung mandis (which were devoid of basic infrastructure like plastered flooring, sheds, water and electricity) were generally allotted to it by the State Government. In view of the non-provision of required facilities in the mandis, the Union Government stipulated that final payment of market fee and RD cess would be subject to furnishing Utilisation Certificates (UC) to the effect that the amount was actually utilised for the purpose for which it was collected. However, it was noted in audit that payments continued to be made regularly without obtaining the UCs.

Thus, there was no evidence that the amount of Rs. 934.53 crore collected as RD Cess by the **Punjab** Government was utilised for the specified purposes. The more peculiar aspect was that the Ministry had reimbursed the statutory charges without obtaining any evidence of the utilisation of such charges for the specified purposes.

5.3.1.2 Commission to Katcha Arhatias

The rates of commission payable to private commission agencies and Katcha Arhatias (KAs) operating in mandis are fixed by the concerned State Agricultural Marketing Boards. Commission to KAs was allowed on ad valorem basis at 2.5 per cent of MSP in **Punjab** and **Haryana** with effect from January 1998 and April 1998 respectively as against 2 per cent allowed from 1990 to 1997. The MSP for wheat had increased from Rs. 2250/MT to Rs. 4450/MT and for paddy from Rs. 2150/MT to Rs. 4150/MT between 1990-91 and 1997-98. The quantity of wheat and paddy procured in **Punjab** and **Haryana** between April 1998 and March 2005 was 961.83 lakh MT and 701.45 lakh MT respectively. This procurement entailed an additional outgo of commission to KAs amounting to Rs. 477.14 crore during the above period. Audit did not notice any evidence of the Ministry's examination of the justification for the increase in the rate of commission by the Governments of **Punjab** and **Haryana** to KAs.

5.3.1.3 The High Level Committee on Long Term Grain Policy chaired by Prof. Abhijit Sen had indicated that MSP operations should not be subject to arbitrary levies by State Governments. Further, it recommended that if the situation of excess levies being imposed by some States on MSP purchases continued, the Union Government may announce its MSP policy by declaring a procurement price inclusive of a uniform 4 per cent allowance for

such levies over the MSP, which should be the maximum price payable for MSP purchases by all agencies acting on behalf of the Union Government.

5.3.1.4 The Ministry stated (June 2006) that it was not possible for the Union Government to regulate these statutory taxes, as under the Constitution, the States were fully empowered to levy statutory taxes on foodgrains. It further added that, the State Governments of **Andhra Pradesh, Haryana Punjab** and **Punjab Haryana** where the level of State taxes/levies were high, had been requested to set up a Regulatory authority to examine and recommend the local taxes on procurement of foodgrains. The Ministry's reply did not, however, detail the responses of the concerned State Governments to its suggestion.

Recommendation

As persuasive measures may take time to yield results, the Ministry may consider implementing the recommendation of the High Level Committee and declare a procurement price inclusive of a uniform threshold lia uniform maximum limit of allowance for State levies.

5.3.2 Non-statutory charges

5.3.2.1 The final rates of incidental charges for wheat and rice were fixed by the Ministry upto 2002-03 for **Haryana** and 2003-04 for **Punjab**. A review of the incidental charges fixed revealed that:

- | audited statements of actual expenditure incurred were not submitted by the States; and
- | non-statutory incidentals were fixed by the Ministry on ad hoc basis, which were at variance with the costs incurred by FCI for the same operations.

5.3.2.2 Audit further revealed that amounts of Rs. 481.67 crore and Rs. 112.34 crore were reimbursed in excess to **Punjab** and **Haryana** in respect of non-statutory incidental charges, as detailed in Table 8.

Table 8: Cases of excess reimbursement of non-statutory incidental charges

(Rs.in crore)

Category of Charges	Description of Excess Reimbursement	Amount	
		Punjab	Haryana
Mandi Labour Charges	Excess reimbursement for both wheat and paddy vis-à-vis costs incurred by FCI for the crop years 2000-01 to 2003-04 (Punjab) and 2000-01 to 2002-03 (Haryana)	113.44	25.53
Transportation Charges for wheat	Excess reimbursement of charges on transportation of wheat from mandis to depots vis-à-vis costs incurred by FCI for the years 2000-01 to 2002-03 (Haryana) and 2000-01 to 2003-04 (Punjab)	(-) 14.59	44.53
Charges for transportation	Ministry's decision to include charges for transportation of paddy from mandis to millers' premises while fixing final incidental charges for the years 2000-01 to 2002-03, was not justified as: charges for transportation across distances within 8 km were not admissible, as these were covered in milling charges; and	289.57	24.41

Category of Charges	Description of Excess Reimbursement	Amount	
		Punjab	Haryana
	1 charges for transportation beyond 8 km amounting to Rs. 3.91 crore and Rs. 0.35 crore were separately reimbursed by FCI in Punjab and Haryana respectively.		
Custody and Maintenance Charges	Custody and Maintenance Charges for 2000-01 to 2003-04 (Punjab) and 2000-01 to 2002-03 (Haryana) were reimbursed without obtaining details of actual expenditure incurred by the State Government and its agencies for storage of paddy on millers' premises	93.25	17.87
	Total	481.67	112.34

5.3.2.3 The Ministry stated (June 2006) that, in view of the audit observations, FCI and the State Governments had been addressed to send clarifications, and that the final outcome of the case would be intimated to audit.

Recommendation

The Ministry may fix final charges for non-statutory incidentals only on the basis of audited statements of actual expenditure incurred in support of such charges. Pending submission of such statements, FCI's rates may be treated as provisional rates, subject to adjustment on the submission of actual expenditure statements.

5.4 Scheme of Decentralised Procurement (DCP)

The Government of India introduced the scheme of Decentralised Procurement (DCP), under which the States/UTs themselves procured foodgrains, retained the quantity required for PDS and surrendered the rest to FCI for the Central Pool. The main objectives of the scheme were as follows:

- 1 the over-dependence on FCI for PDS supplies of foodgrains would be eliminated;
- 1 FCI would be freed from the task of procurement; and
- 1 the subsidy burden would be reduced as the economic cost of the States/UtTs would be lower than the economic cost of FCI .

Currently, the DCP scheme is being implemented in eleven States/ UtTs⁸.

5.4.1 Economic Cost for DCP States

Scrutiny in audit of comparison sheets of economic costs prepared by the Ministry revealed that in some States, the economic cost of DCP procurement was higher (cases underlined) than the corresponding cost of FCI's operations in the same State, as detailed in Table 9.

⁸ Madhya Pradesh, Uttaranchal and Uttar Pradesh in respect of wheat; and West Bengal, Chhattisgarh, Gujarat, Karnataka, Kerala, Uttaranchal, Tamil Nadu, Orissa, Gujarat, Tamil Nadu, Uttaranchal, Uttar Pradesh, Karnataka, Kerala West Bengal and Andaman & Nicobar Islands in respect of rice. However, the Government of Kerala signed the MOU with the Government of India only in 2005-06, which was outside the period covered in the scope of audit.

Table 9: Comparison of Economic Cost of Foodgrains among DCP States and FCI

Wheat
(Rupee per quintal)

Year	States	FCI's Economic Cost Wheat		State's Economic Cost Wheat	
		CAP**** ⁹	Covered	CAP	Covered
1990-2000	Uttar Pradesh	725.75	736.67	--	779.01
2000-2001	Uttar Pradesh UP	760.69	772.57	776.93	784.04
1999-2000	Madhya Pradesh	710.44	721.36	--	751.91
2000-2001	Madhya Pradesh MP	748.72	760.60	749.47	756.58

Rice

Year	States	FCI's Economic Cost Rice		State's Economic Cost Rice	
		Common	Grade 'A'	Common	Grade 'A'
1999-2000	Uttar Pradesh UP	985.61	1036.31	1036.83	1090.08
2000-2001	Uttar Pradesh UP	1020.40	1071.71	1058.49	1112.31
1998-1999	West Bengal	869.41	916.876	872.90	920.30
1999-2000	West Bengal WB	957.41	1004.69	949.05	996.40
2000-2001	West Bengal WB	990.78	1038.45	988.94	1037.51

5.4.1.1 In response to an audit query, the Ministry stated that the economic cost of FCI could not be compared to the economic cost of DCP States. This reply is not tenable, as it did not provide any evidence in support. It also contradicts the premise underlying the approval accorded to the scheme, according to which the economic cost of States would be lower than that of FCI. Despite requests by audit requests, the Ministry did not produce any documentation for calculation of Economic Cost of foodgrains procurement for the other DCP States for the years 2000-01 to 2004-05.

5.4.1.2 The Ministry (June 2006) stated that steps were being taken to encourage DCP by reimbursing all incidentals incurred by procurement agencies, which, in the long run, was likely to reduce transportation costs, storage costs and shortages considerably. No reasons were furnished for not comparing economic costs of procurement before and after the implementation of DCP.

Recommendation

The Ministry should periodically assess the pattern of actual state-wise economic cost of procurement of foodgrains under the DCP scheme, and compare such costs with corresponding FCI costs on an ongoing basis. This would help in ensuring that the subsidy burden is reduced.

5.4.2 Avoidable Handling Operations leading to Additional Cost

Under the DCP scheme, the States were to retain the quantity required for PDS and surrender the rest to the Central Pool. However, due to improper estimation, **Uttar Pradesh** and

⁹ CAP: Covered and Plinth.

Uttaranchal delivered foodgrains to the Central Pool, and then again lifted foodgrains from the Central Pool for BPL requirements as depicted in Table 10.

Table 10: Delivery and offtake of foodgrains by Uttar Pradesh and Uttaranchal to / from FCI

Uttar Pradesh

(Quantity in Lakh MT)

Year	Quantity delivered by State Govt. to FCI		Quantity lifted by State Govt. from FCI for BPL requirement	
	Wheat	Rice	Wheat	Rice
2002-03	7.78	11.70	3.64	-
2003-04	0.95	15.39	5.76	0.74
2004-05 *	1.36	5.49	4.44	2.28

* Provisional

Uttaranchal

(Quantity in '000MT)

Year	Quantity delivered by State Govt. to FCI		Quantity lifted by State Govt. from FCI			
	Wheat	Rice	APL		BPL	
	Wheat	Rice	Wheat	Rice	Wheat	Rice
2002-03	185.76	118.15	5.888	0.032	36.245	29.056
2003-04	66.48	167.28	18.046	0.065	56.842	11.343
2004-05 *	31.62	186.02	8.322	0.508	46.273	-

* Provisional

5.4.2.1 This resulted in payment of avoidable incidental charges to the State Governments for the expenditure on handling operations and movement on the foodgrains initially transferred from procurement centres to FCI godowns and again from the FCI godowns to their storage point. The avoidable payment worked out to Rs. 72.64 crores and Rs. 20.10 crore in respect of **Uttar Pradesh** and **Uttaranchal**, as detailed in **Annexures 2** and **3** respectively.

5.4.3 Poor procurement performance

Audit revealed that the performance of procurement of foodgrains by many States under the DCP Scheme was poor, as detailed below.:

5.4.3.1 In **Orissa**, the procurement of rice by the State Government under DCP was 0.68 lakh MT (4.5 percent) and 1.49 MT (7.4 percent) against the total procurement target of 15.00 lakh MT for 2003-04 and 20.00 lakh MT for 2004-05 respectively for the State. Despite the low procurement, 86460 MT (40 per cent of total procurement) was supplied to FCI, instead of retaining this quantity for distribution within the State.

5.4.3.2 In the **Andaman & Nicobar Islands**, the procurement of rice during 2003-04 under DCP was only 247.65 MT of rice against the target of 12000 MT. For the purpose an advance of Rs.4.00 crore in October 2003 was given to the UT procurement agency, which has not submitted the utilisation certificate and refunded only Rs.2.45 crore in January 2005 against the unutilised amount of Rs. 3.78 crore. . Out of the advance of Rs. 4.00 crore, the UT procurement agency refunded Rs. 2.45 crore, retaining a balance of Rs. 1.33 crore.

5.4.3.3 **Tamil Nadu** and **West Bengal** continued to depend on FCI for distribution of rice under PDS as procurement of paddy in these States was upto 50 per cent of requirement for

PDS during the period 2002-05. Low procurement of rice/paddy in **Tamil Nadu** was attributed to drought during 2002-04.

5.4.3.4 The Ministry in their reply (June 2006) did not respond to the issue of the extent of reduction of dependence of DCP states on FCI.

5.4.4 Discrepancies in Statements

Audit examination of the records relating to DCP procurement by the Government of Uttar Pradesh revealed that the figures reported in the consolidated annual statements for procurement, issues and closing stock of custom milled rice (which were prepared by the Ministry on the basis of unaudited statements furnished by the State Government) did not agree with those reported in the Utilisation Certificates (UC) furnished by the State Governments in respect of:

- | 2000-01 – Common (APL and BPL)
- | 2001-02 – APL Grade ‘A’, Common (BPL and AAY)
- | 2002-03 – APL Grade ‘A’ and AAY Common

The main difference of figures of 14797 MT was in the offtake of APL Grade ‘A’ rice in March 2003, which was not yet reconciled, but provisional subsidy at 95 per cent of the admissible amount was released. In response to the audit observation issued in January 2005, the Ministry could not explain the difference between the two sets of the figures and the action taken to address the risk of pilferage on account of such discrepancies.

6. Audit Findings on Movement

In order to ensure that foodgrains were accessible to the population throughout the country, FCI was to ensure:

- | efficient co-ordination and monitoring of the movement of foodgrains from surplus regions to deficit regions;
- | proper storage; and
- | close liaison with the Railways, handling and carriage contractors, and most importantly with the State Governments.

6.1 Avoidable expenditure of Rs.3.31 crore due to rebooking

Avoidable expenditure of Rs. 3.31 crore was incurred during 2003-05 at Manmad and Nagpur (**Maharashtra**) on rebooking of foodgrains rakes to alternative destinations, as adequate vacant space was not available in the godowns at the original destinations. This could have been avoided through a proper assessment of vacant godown space and drawal of foodgrains by the States.

6.2 Pending Claims against the railways

6.2.1 As of March 2005, FCI’s pending claims against the Railways amounted to Rs. 796.45 crore. This included 7583 cases of claims for refund of freight amounting to Rs. 37.41 crore, which had been pending for periods ranging from 12 to 27 years.

6.2.2 Audit review of rejected claims revealed that Railways had intimated no reasons for rejection of claims, and FCI did not pursue such claims further. Further, a review of the register of closed files for the period January 2003 to March 2005 at Regional Office, Lucknow revealed that 110 claims amounting to Rs. 0.46 crore were rejected by the Railways under the provisions of an internal Movement Commercial Circular to which FCI had no access.

6.2.3 Pendency of claims for such extended durations pointed to weaknesses in FCI's efforts in pursuing the claims with the Railways.

6.2.4 The Ministry stated (June 2006) that FCI Headquarters had been pursuing the matter with the concerned ED (Zone)/GM (Regional) of FCI and also with the Railway Board for early settlement of pending railway claims. Besides, the feasibility of approaching the Committee on Disputes/Railway Lok Adalat was also being explored.

6.3 Demurrage Payments

6.3.1 Delay in loading and unloading of Railway wagons attracts demurrage from Railways. While in respect of operations carried out on contract basis, demurrage/ wharfage for delays is recoverable from contractors, FCI is responsible for demurrage relating to operations carried out through departmental labour. Such demurrage payments in case of operation by departmental labour were on account of poor productivity, absenteeism, non-synchronisation of working hours of FCI with that of Railways, and absence of labour on Saturdays and holidays.

6.3.2 During the period 2000-2005, FCI paid total demurrage of Rs. 51.57 crore, despite paying Overtime Allowance (OTA) and incentive of Rs. 70.81 crore and Rs. 599.9145 crore respectively to the departmental labour. In fact, the average annual incentive paid per labourer increased from Rs. 10,221 to Rs. 27,193 over this period.

6.3.3 Ministry stated (June 2006) that in order to avoid demurrage, efforts were being made to persuade labour to work on Sundays as well as to unload the wagons on the same day till late hours and added that the OTA was likely to go up even though concrete results on curbing the demurrage were yet to be seen. The point to be noted is that payment of substantial incentives did not result in minimisation of demurrage charges.

6.4 Irregular Hiring of Godowns in Andhra Pradesh

6.4.1 With a view to developing capacity in areas and regions with gaps in storage, FCI extended guarantees to the Central Warehousing Corporation (CWC) and State Warehousing Corporations for construction of godowns under the "Seven Year Guarantee Scheme" (SYGS). Irregular hiring of godowns in **Andhra Pradesh** under this scheme resulted in avoidable expenditure of Rs. 189.28.31 crore by FCI, as detailed below.:

6.4.2 Under SYGS, the godowns to be hired were to be located within 8 km from the Railways goods shed. This was not ensured while entering into an agreement with the Andhra Pradesh State Warehousing Corporation (APSWC), and avoidable expenditure of Rs. 1.47 crore towards handling and transportation was incurred on this account.

6.4.3 Additional expenditure of Rs. 1.43 crore between December 2002 and March 2005 was incurred due to injudicious selection of SYGS godown at Jadcherla over the CWC godown at Mahaboobnagar, which was locationally more advantageous.

6.4.4 The FCI Manual for Movement and Storage stipulated that godowns with a capacity of 250000 MT or higher should have their own railway siding facilities. Failure to consider this aspect at the time of hiring 25 godowns under the SYGS resulted in avoidable expenditure of Rs. 13.884.85 crore till December 2004 on account of handling of stocks at railway goods sheds.

6.4.5 Additional expenditure of Rs. 1.53 crore was incurred on transportation upto March 2005, since two warehouses at Renigunta and Jankampet were hired from APSWC and taken over before completion of railway siding facilities.

6.5 Transit and Storage Losses

6.5.1 Trends in Transit and Storage Losses

6.5.1.1 During the period 2000-04, FCI incurred a total loss of Rs. 556.88 crore on account of transit shortages of 6.37 lakh MT of foodgrains amounting to 0.6070 ***** per cent of total stocks moved, which represented additional subsidy burden to the Union Government. The factors responsible for transit loss in foodgrains were pilferage and theft en route, driage, multiple handling, different modes of weighing, weak texture of gunnies and brushing bags, use of hooks on bags by labourers, spillage through wagon holes and flap doors/cleaves and spillage at transshipment points.

6.5.1.2 Audit noted that FCI had not set any norms for transit and storage losses till date. Norms were stated to have not been set for transit losses, as this could have encouraged inefficiency and pilferage. However, as per the laid down procedure, all cases of transit losses were to be investigated and disciplinary action, where necessary, taken against staff/ officers found responsible for such losses.

6.5.1.3 FCI had incurred storage losses of Rs. 842.31 crore involving a quantity of 8.49 lakh MT of foodgrains, which amounted to 0.33 per cent of the total quantity of foodgrains issued, during the period 1999-2004. These losses were mainly due to loss of moisture, insect infestation, and sliding down of stocks, fungus infestation with deterioration of stocks, bird trouble, rodents, bleeding/spillage of grain from gunny bags and long period of storage. Except for moisture loss, all the other factors spelt out were controllable. However, despite the Ministry's instructions of 1980 that FCI should prescribe limits of storage losses due to driage, deterioration of stocks etc. and the stipulation in FCI's Quality Control Manual that the District Manager should fix the norms of storage shortages on a reasonable basis for each depot according to local conditions, no norms had been fixed by FCI till date.

6.5.1.4 It was noted that as of March 2005, cases involving transit and storage losses of Rs. 532.87 crores were pending, mainly due to abnormal delays in investigation at various levels of FCI.

6.5.1.5 The absence of norms for transit and storage losses, compounded by pendency of cases involving such losses, makes it difficult for audit to comment on the efficiency of loss-free transportation and storage of foodgrains.

7. Audit Findings on Distribution

7.1 Poor Offtake under APL Scheme

7.1.1 Table 11 summarises the position of allocation and offtake of food grains during 2000-05.

Table 11: Percentage of offtake of foodgrains w.r.t. allotment under BPL, APL and AAY during 2000-05 *****

(in lakh tonnes)

Year	Commodity	Offtake		
		BPL	APL+Additional	AAY
		% of allotment	% of allotment	% of allotment
2000-01	RICE	66.59	26.97	20.00
	WHEAT	52.74	4.10	80.95
	TOTAL	60.44	18.46	42.86
2001-02	RICE	58.81	21.27	87.85
	WHEAT	53.08	13.15	83.13
	TOTAL	56.26	18.03	85.62
2002-03	RICE	57.04	5.66	83.15
	WHEAT	64.53	6.11	88.93
	TOTAL	60.27	5.91	85.73
2003-04	RICE	71.34	9.69	95.06
	WHEAT	68.49	8.43	86.98
	TOTAL	70.08	8.98	91.43
2004-05	RICE	83.51	16.91	93.35
	WHEAT	79.37	12.68	86.21
	TOTAL	81.69	14.50	90.25
2000-05	GRAND TOTAL	66.33	10.88	88.75

7.1.2 The total offtake of foodgrains by the APL category was just 10.88 per cent of the total allotment during 2000-05, with the annual APL offtake ranging from 4.10 per cent to 13.15 per cent in the case of wheat and 5.7 per cent to 27.0 per cent in the case of rice.

Though the total offtake of foodgrains under the AAY category was 88.75 per cent, considering that these were the poorest of the poor and the most in need of food security, the offtake under this category should have been even closer to the allocation. The offtake under the BPL category at 66.33 per cent was also not encouraging.

7.1.3 An analysis of the offtake vis-à-vis allocation across the States revealed the following position:

- 1 In **Punjab**, practically no rice was lifted under the APL scheme, and BPL offtake of rice was only 10 per cent of the allocation.
- 1 In **Punjab** and **Haryana**, APL offtake of wheat was only 10- 11 per cent of the allocation.
- 1 In **Uttar Pradesh**, APL offtake was just 0.3 per cent of allocation:
- 1 In **Orissa**, the shortfall in offtake of BPL rice ranged from 30 to 67 per cent, despite 48 per cent of the State population living below the poverty line. In 14 blocks of three test-

checked districts, BPL rice was not lifted by the storage agents for periods ranging from two to 20 months.

7.1.4 The low offtake under the APL scheme indicated that there were deficiencies in the system for deciding State-wise allocations and that such allocations were being made without considering the past record of poor offtake.

7.2 Identification of Targeted Beneficiaries

7.2.1 Variation in number of beneficiaries and resultant scaling down of ration

7.2.1.1 The Ministry allocates foodgrains to states based on estimates of BPL households determined by it in 2000. However, the State Governments adopt their own norms for identification of BPL for distribution of foodgrains. In cases, where the States' figures were higher than the estimates of Union Government, it would lead to scaling down of ration entitlement than prescribed by the Ministry and where the States' figures were lower, it would lead to the quota released remaining undrawn by the States.

7.2.1.2 As per the Ministry's records, while the number of BPL households based on Union Government estimates was 651.99 lakh, the States had identified 861.76 lakh BPL households, which was 32 per cent higher. This had the effect of scaling down of ration. State-wise details of the differences are detailed in **Annexure 4**.

7.2.2 Irregularities in identification of beneficiaries and issue of ration cards

7.2.2.1 Scrutiny of records in States/UTs indicated various irregularities in the identification of BPL/AAY families and/or issue of ration cards as detailed below.:

7.2.2.2 Beneficiaries did not receive the benefits as either the identification process was incomplete or ration cards were not issued in **West Bengal** (9.30 lakh BPL & 4.32 lakh AAY families), **Delhi** (1 lakh AAY) and **Tripura** (0.09 lakh AAY).

7.2.2.3 Though the scheme included 70 per cent of population of primitive tribal groups in 3 districts of **Jharkhand**, who were to be categorized as AAY in terms of a Supreme Court directive, the process of identification for inclusion and extending the benefits was yet to be completed. By contrast, the names of 35 per cent of BPL and 29 per cent of AAY beneficiaries were not in the BPL register of the Department, but were drawing benefits under the scheme.

7.2.2.4 In **Delhi**, the scheme of AAY was launched in January 2002 after a delay of one year.

7.2.2.5 AAY households were not deleted from the BPL lists in **Meghalaya** which resulted in issue of excess food grains costing Rs. 1.72 crore.

7.2.2.6 AAY beneficiaries were included as a percentage of the projected BPL population instead of the (lower) actual population, which inflated the number of beneficiaries. This resulted in additional subsidy burden in the case of **Meghalaya** (0.11 lakh beneficiaries – additional subsidy Rs. 0.87 crore) and in **Himachal Pradesh**, (0.49 lakh excess beneficiaries identified).

7.2.2.7 In **Karnataka** no firm figure of BPL families was available, which ranged between 31.29 lakh and 56.32 lakh according to surveys at different intervals. Despite this, 36 lakh families applied afresh (as of September 2003) for being included as BPL families and 34.66 lakh temporary cards were issued to such families. The position of temporary status was not further reviewed.

7.2.2.8 A limited survey conducted in **Delhi** by Audit revealed the following:

- | 22.80 per cent of the surveyed BPL population could not be traced, but cross verification with the records of FPS in these cases indicated that ration was being lifted against these names. The intended beneficiaries would appear to be not using the food grains.
- | Foodgrains were issued under the BPL scheme in 3.80 per cent of cases to ineligible beneficiaries, whose income was above the stipulated amount of Rs.24,200 per annum.
- | The Government of **Delhi** stated (December 2005) that 225 of the 477 beneficiaries cited by Audit were found residing at the given address or in the same locality and instructions had been issued to stop the supply of specified food articles to cardholders who were not traceable or had shifted out. No comments were, however, offered in respect of the other irregularities brought out in the survey.
- | Cross verification of the reply of the Government of **Delhi** revealed that 101 out of the 225 beneficiaries cited were still not traceable or that the addresses were non-existent.

After taking into account the figures furnished by the State Government and removing the overlap after the cross verification conducted by audit, the implementation of the schemes was found deficient on one count or the other in respect of 53.38 per cent of the beneficiaries surveyed.

7.2.2.9 The findings of other surveys also revealed similar irregularities in identification of BPL and AAY households:

- | As per PEO findings, the Gram Panchayats (GP) were not involved or negligibly involved in the process of identification of BPL in **Gujarat, Madhya Pradesh, Maharashtra, Orissa and Tamil Nadu**.
- | The survey conducted by ORG Marg at the instance of the Ministry had revealed that about 26.7 per cent of APL households as per their ration cards were actually BPL in the village list. In most states, the number of BPL beneficiaries identified through DRDA and other surveys by the State Government was much more than the permissible quota allotted to the State by the Planning Commission. The Ministry of Food was bound by this fixed quota for allotment of foodgrains rather than consider the state lists. There was discrepancy in issuing of category wise ration cards when compared to the village economic list of households in **Gujarat, Dadra & Nagar Haveli, Daman & Diu, Goa, Dadra & Nagar Haveli, Gujarat, Nagaland and Sikkim**. Only 10.5 per cent of respondents in urban areas and 14.6 per cent in rural areas were aware about the AAY selection process and about two-thirds of the AAY respondents themselves were unaware of the AAY selection process.

7.2.3 Lists of beneficiaries not updated leading to continuance of bogus cards

7.2.3.1 As per the PDS (Control) Order 2001, States/UTs were required to get the lists of APL/BPL/AAY families reviewed every year for the purpose of deletion/inclusion of ineligible/eligible families. They were also required to conduct periodical checking of ration cards to weed out ineligible and bogus ration cards and bogus units in ration cards, and were also required to continue this exercise to check diversion of essential commodities.

7.2.3.2 It was noticed in audit that either no yearly review was conducted or there was no evidence of such a review having been conducted in **Andhra Pradesh, Assam, Arunachal Pradesh, Assam, Chhattisgarh, Himachal Pradesh, Chandigarh, Kerala, Manipur, Orissa, Manipur, Sikkim, Chhattisgarh, Kerala, Rajasthan, Sikkim, Andhra Pradesh, Andaman & Nicobar Islands, Chandigarh and Lakshdweep** during the period 2000-05. In **Maharashtra** E Region, ration cards attached with 505 out of 978 shops test checked were not reviewed during 2002-05.

7.2.3.3 There were delays in annual review and detection and elimination of bogus ration cards in other States as well. Audit noticed that there were 8.55 lakh ineligible families in **Andhra Pradesh**, 5.22 lakh BPL and AAY bogus cards in **Uttar Pradesh** and delays in cancellation of 1063 cards for over 12 to 16 months in **Maharashtra**. In **Delhi**, the renewal of APL cards was last done in 1996-97. It could be taken up only in August 2004 leading to weeding out of 14 lakh APL cards. In **Bihar**, instead of carrying out a proper exercise for weeding out ineligible beneficiaries in pursuance of the Chief Secretary's orders, the Department of Food Supply prepared an imaginary list of inclusion and deletion of an identical number of 21,00,226 BPL cards, with a district-wise break-up for 37 districts which also represented identical figures for inclusion and deletion. There were no records in support of the inclusion and deletion.

7.2.3.4 Non-review or persistent delays by the States in periodically carrying out the renewal process resulted in the continuance of a large number of bogus ration cards, which would have resulted in unquantifiable diversion of subsidised foodgrains.

7.2.4 Issue of ration cards to ineligible beneficiaries

7.2.4.1 As per directives of the Ministry, the States were required to follow the Census of the Registrar General for 2000 for extension of benefits of TPDS to various categories of beneficiaries. Audit examination revealed large number of cases of issue of ration cards to ineligible beneficiaries, as described in Table 12.

Table 12: Details of Ration Card to ineligible families

State	No. of districts Test-checked	Ration cards/ records issued/ Cchecked by audit	Ineligible cases	Remarks
Bihar	One (Rohtas District)	1.74 lakh	10,712 BPL cards	10712 BPL cards were distributed in excess of identified beneficiaries, and no records of distribution of cards were maintained in the blocks.
Gujarat	Selected districts	-	643 BPL	643 families with annual income of more than Rs.20000 were included in the list of BPL cardholders.
Jharkhand	Ranchi (Urban)	160 BPL beneficiaries (Survey)	37 BPL beneficiaries	37 beneficiaries identified as BPL families did not meet the Planning Commission norms.
		99140 AAY	48604 AAY	48604 (49 per cent) AAY beneficiaries were not removed from the BPL list and were availing the benefit of both BPL and AAY cards/scheme.
Jammu & Kashmir	Three	-	127	Ration cards were issued on the basis of recommendations from VIPs and officials, without further verification.
Maharashtra	Nagpur district	72	72	All the families with annual income in excess of the BPL annual income ceiling of Rs.15,000 were issued BPL cards.
	State as a whole	73.47 lakh	35.28 lakh	As of March 2005, against 38.19 lakh eligible BPL families as per the Rural Development Department's survey, 73.47 lakh cards were issued.
Meghalaya	-	14000 additional AAY	6420 AAY	Out of 14,000 additional AAY families, only 7580 families were selected as per norms.

7.2.5 Ration Cards were denied or issued late

Under the PDS (Control) Order 2001, the ration cards were required to be issued within one month of the date of receipt of applications. Also, separate ration cards were required to be issued for different categories of consumers. Audit examination revealed the following lapses in issue of ration cards.

7.2.5.1 There were delays in issue of ration card beyond one month in the states of **Delhi** (1 to 6 months), **Kerala** (3 to 6 months), **Meghalaya** (7 to 8 months in the case of 42100 cards), **Sikkim** (6 to 36 months) and **West Bengal** (1 to 12 months in the case of 1.46 lakh cards). Adequate details indicating relevant dates so as to reflect the extent of delay were not maintained in **Gujarat, Goa and Andaman & Nicobar Islands**.

7.2.5.2 In **Jharkhand** (Hazaribagh district), BPL ration cards were not received by 16 per cent of BPL families.

7.2.5.3 In **Manipur**, the State Government intimated the Ministry (March 2005) that it had completed issue of ration cards to 4.07 lakh households on account of expansion of the scheme under APL, BPL and AAY categories and requested for increase in allocation of foodgrains from 8505 MT to 14231 MT per month. Audit examination, however, revealed that in two major districts of the State (Imphal West & Thoubal) no expansion of scheme had taken place in any category as of March 2005.

7.2.5.4 In **Nagaland**, there were cases of delay of four to eight months in identification of AAY families/additional AAY families during 2000-05. AAY families had to bear extra burden of Rs.2.23 crore on the purchase of foodgrains at BPL rates.

7.2.5.5 Further, delay in identification of AAY families led to deprivation of benefits to between 33 to 49 per cent of families in the case of **Manipur**, 1 to 6 months in **Kerala** and over 20 months in **Karnataka**.

7.2.5.6 In **Orissa**, due to delay in identification of AAY beneficiaries, the benefit of subsidised rice was denied to 5.05 lakh families for 8 months, 2.53 lakh families for 17 months and 2.43 lakh families for three months.

7.3 Deficiencies in Distribution

7.3.1 Distribution was not as per scale

The scale of issue for different categories of beneficiaries was as follows:

- | In June 1997, BPL families were allocated 10 kg of foodgrains per month at specially subsidised prices.
- | In April 2000, the allocation for BPL families was raised to 20 kg per month at 50 per cent of economic cost, while the rate for APL consumers was raised to economic cost. The scale of issue for BPL families was increased to 25 kg per month from July 2001.
- | In December 2000, the AAY scheme was launched with a monthly limit of 25 kg per family at highly subsidised rates.
- | From April 2002, the scale of issue for all categories – APL, BPL and AAY– was raised to 35 kg per family per month.

7.3.1.1 Audit examination revealed that foodgrains were distributed at lower than the prescribed scale of issue in several States/ UTs as detailed below:

- | By 7 – 10 kg per family per month in **Arunachal Pradesh**;
- | By 10 kg per family per month in **Gujarat**;

- | By 14-16 kg per family per month in **Jharkhand**;
- | By 10 kg per family per month in **Gujarat**;
- | By 5 kg per family per month in **Manipur**;
- | By 4 – 19 kg per family per month in **Orissa**;
- | By 15 kg per family per month in **Tamil Nadu**; and
- | By 7 – 10 kg per family per month in **Arunachal Pradesh**; and
- | By 10 – 25 kg per family per month (upto December 2002 only) in **Pondicherry**.

7.3.1.2 Audit examination also revealed the following deficiencies in States:

- | The Government of **Kerala** could not ensure distribution of prescribed ration mainly due to excess BPL families identified by the State. Actual distribution of foodgrains to BPL was about 69 per cent of the prescribed scale.
- | In Phulta Gram Panchayat of **Orissa**, a non-BPL cardholder was supplied BPL rice against the cards of 10 BPL beneficiaries during January to July 2005 without any authorisation from the beneficiaries, which did not rule out the possibility of the beneficiaries having mortgaged their cards.
- | The Government of **Gujarat** had unauthorisedly disallowed APL cardholders with annual income of more than rupees one lakh from TPDS. Further, in Dangs (one of the selected districts), the scale of rice for BPL families was irregularly reduced to 3 kg per family per month from the prescribed scale of 35 kg per family per month by the DSO and Mamlatdar, Dangs, to equally accommodate all BPL beneficiaries to overcome the short allocation of rice by the State Government.
- | In **Tamil Nadu**, the Government did not demarcate between the BPL and APL population while drawing the full quantum of BPL allocation and distributed the food grains to all ration cardholders with the scale of issue ranging from 12 to 20 kg per family per month, in violation of the Union Government norm of 35 kg per family per month for BPL families. Further, in **Tamil Nadu**, as per the Government of India Census of March 2000, only 35.02 lakh MT of rice was required for distribution at the maximum scale of 20 kg per month per family during to a total of 48.63 lakh BPL families. However, the State Government lifted 46.14 lakh MT of rice allocated for BPL families during 2002-05 and distributed the same to cardholders at the rate of Rs. 3.50 per kg. Thus, during 2002-05, 11.13 lakh MT of rice allocated for BPL families was diverted to non-BPL families and State Sponsored Schemes, which resulted in additional subsidy burden to the extent of Rs.294.95 crore to the Union Government.

7.3.2 Diversions in distribution of foodgrains

The broad procedure for distribution of foodgrains was to be as follows:

- | The Food Departments of the respective States/UTs were to submit their requirement of foodgrains to the Ministry who, after considering the availability of foodgrains in Central Pool and projected population of PDS beneficiaries, allocated foodgrains to the States/UTs for distribution under PDS.
- | After receiving the allocation through FCI, the State Food Department allocated foodgrains to Districts/Zones/Divisions, for further allocation to blocks/circles under their jurisdiction.

- | The Block/Circle officers allocated foodgrains to various FPS for distribution to the beneficiaries as per the prescribed scale.
- | Certain States also arranged for issue of atta to the consumers through FPS after getting APL wheat ground through flourmills.

7.3.2.1 Scrutiny of records in States/UTs disclosed diversion of a total quantity of 443.804 lakh MT of foodgrains meant for distribution under TPDS in the states of **Assam, Chhattisgarh, Gujarat, Jammu & Kashmir, Karnataka, Kerala, Maharashtra, Meghalaya, Nagaland** and **West Bengal** as detailed in **Annexure -5.**

7.3.2.2 In **Orissa**, 47 cases of diversions/shortage/fraud relating to the period 2000-05 involving Rs.13.03 crore were detected by the enforcement wing of the State Civil Supplies Corporation at various levels in the State. These were still outstanding (December 2005). No departmental action was initiated in nine cases involving Rs.0.98 crore.

7.3.2.3 In **Bihar**, a difference of 17693 MT of wheat and 4928 MT of rice between the figures of the State Food Corporation and district was noticed. Leakages and mis-utilisation could not be ruled out and the matter required investigation.

7.3.2.4 In **Chhattisgarh**, test check in audit revealed deficiencies suggesting possibilities of diversion/leakages as detailed below:-

- | The District Manager of CGSCSC¹⁰ (implementing agency) released an excess quantity of 140.195 MT foodgrains in 38 cases by issue of dispatch order for quantity in excess of shop-wise allotment.
- | The records were found incomplete in four cases, as challans for excess quantity of 14.897 MT were issued as compared to the quantities mentioned in the dispatch order.
- | Dispatch order numbers and dates were not mentioned on challans in 21 cases involving issue of 128.992 MT foodgrains.
- | The registration numbers of trucks by which the 178.262 MT foodgrains were transported were not mentioned in 43 cases.
- | The acknowledgements by recipients regarding receipt of foodgrains at FPS were not available in 14 cases, involving 68.819 MT of foodgrains.
- | Deficiencies like certification by the committee regarding receipt of food grains at destination, signature of transporter, and signature of store incharge were not available on challans in 175 cases.

7.3.2.5 In **Uttar Pradesh**, in respect of the test checked districts, the District Marketing Officer (DMO) issued 9552 MT (BPL) and 19609 MT (AAY) of foodgrains to the FPS in excess of the allocation made by the District Supply Officer (DSO) during 2000-05. No reason for the excess issue was available on record.

7.3.3 Audit findings described above were also echoed in the evaluation of TPDS by the Programme Evaluation Organisation (PEO) of the Planning Commission, as detailed below:

- λ• There was abnormal leakage/ diversions of more than 75 per cent of the total off-take of BPL quota in **Bihar** and **Punjab**; 50 to 75 per cent in **Haryana, Madhya. P.radesh** and **Uttar Pradesh**; 25 to 40 per cent in **Assam, Gujarat, Himachal Pradesh, Karnataka,**

¹⁰ CGSCSC: Chattisgarh State Civil Supplies Corporation

Maharashtra and Rajasthan and up to 25 per cent in **Andhra Pradesh, Kerala, Orissa, Tamil Nadu and West Bengal.**

- λ• In the year 2003-04, out of 14.07 million tonnes of foodgrains issued to 16 states at BPL issue prices from the central pool, only around 5.93 million tonnes was delivered to poor families. Of the remaining 8.14 million tones, 5.12 million tonnes leaked out from the supply chain (FCI godowns to retail outlets) because of corruption in the delivery system.
- λ• The unintended unit subsidy was very high in states States where off take by consumers was low and leakage high and it was low in Sstates where off -take wass high and delivery system was relatively more efficient. The States with abnormally high unintended unit subsidy were **Bihar, Madhya Pradesh, Karnataka, Punjab, Tamil Nadu and Uttar. Pradesh.**
- λ• In **Punjab**, 76.5 percent of total highly subsidised food grains meant for BPL families through PDS was diverted to the market, and another 13 percent was diverted going to the APL families. Only 10.5 per cent reached the BPL families through TPDS.
- λ• Similarly, in **Haryana** 55.65 percent of total highly subsidised food grains meant for BPL families through PDS was diverted to the market, and another 11 percent was going to the APL families. Only 33.35 per cent reached the BPL families through TPDS., 55.65 percent of foodgrains were diverted, with 36 percent being siphoned off in the supply chain and 21 percent of the subsidised grains reached the APL families. Only 42 percent ***** of the subsidised grains issued from the Central Pool reached the targeted group.

7.3.4 The evaluation study conducted by ORG Marg at the instance of the Ministry also concluded that the overall diversion of rice and wheat at the all-India level was as high as 39 per cent and 53 per cent respectively.

7.4 Operation of Fair Price Shops (FPS)

7.4.1 As per the PDS (Control) Order 2001, the FPS owners were required to display on a day to day basis the stock position, retail issue prices of foodgrains, number of beneficiaries, scale of ration admissible to different categories of consumers, and sample of foodgrains on a day-to-day basis. Further, the State Government was also required to monitor the functioning of the FPS.

7.4.2 Audit examination of the performance of the FPS revealed that the required information was not being displayed or maintained, as summarised in Table 13.

Table 13: Status of display of essential information by FPS

Nature of Irregularities	Name of States
Stock position, beneficiaries attached, and scale of ration allowed had not been displayed.	Andhra Pradesh, Assam, Bihar, Maharashtra, Orissa, Sikkim, Haryana, Andaman & Nicobar Islands and Dadra & Nagar Haveli
Signature/ thumb impression of beneficiaries had not been obtained.	Andhra Pradesh, and Chhattisgarh
Beneficiary wise ledger account of food grains issued had not been maintained.	Chhattisgarh, Jharkhand, Madhya Pradesh, Manipur and Lakshadweep
Money Receipt was not issued	Chhattisgarh
Ration card register/sale register was not maintained	Andhra Pradesh, Jharkhand, Madhya Pradesh, Manipur, Lakshadweep and Dadra & Nagar Haveli.

7.4.3 Inspection of 48 FPS of **Kerala** by Audit in the presence of departmental officers revealed that 3 out of 48 FPS were found closed during working hours and major shortages in stock of food grains were found in 2 FPS. The Department had suspended licenses of these FPS. Test check of 151 cards in four districts revealed discrepancies relating to entries in ration cards and FPS ledger in 50 per cent of the cards (35 per cent excess in ledger and 15 per cent excess in cards), indicating manipulation of stock entries. In two FPS, other provisions including foodgrains apart from rationed articles were also kept for sale in the shop premises.

7.4.4 In **Dadra & Nagar Haveli**, two FPS run by Silvassa Vibhag Jangal Kamdar Sahkari Mandal Ltd. were being operated from the same premises and records of both the FPS were maintained jointly.

7.4.5 In selected districts of **Manipur**, in a majority of cases, the FPS agents did not maintain any records relating to ration cardholders, stock registers and issue or sale registers. In the absence of such records, it was not possible to verify the actual quantity of food grains sold and rates charged by the FPS agents to the cardholders.

7.4.5.1 Significant findings of the survey conducted by Audit of the functioning of FPS in **Manipur** were as follows: -

- | Out of the beneficiary households who were receiving food-grains, 85 per cent beneficiary households stated that they were charged prices ranging from Rs.4 to Rs.8 per kg for rice which was higher than the prescribed rate of Rs.3.47 per kg.
- | 74 per cent beneficiary households received rice once in 3 months on an average.
- | 40 per cent beneficiary households were not issued ration cards.
- | The quantity of rice received by beneficiary households varied between 5 kg and 35 kg as against the prescribed norm of 35 kg per month. Average quantity of rice received was 63 kg per year against the norm of 420 kg per year.
- | 25 per cent beneficiaries stated that they had received no benefits under the scheme.

7.4.5.2 Results of the survey indicated that despite the State Government lifting almost the full quantity of AAY rice from FCI during the last four years, rice had not reached most of the targeted beneficiaries. Quantities of rice actually received by AAY households were much less than that to which they were entitled.

7.4.6 Similarly, a survey carried out by Audit in **Delhi** revealed that:

| 28.05 per cent of the surveyed beneficiaries stated that the FPS owner issued food grains at rates higher than the prescribed rates, charging Rs.7 per kg for wheat and Rs.10 to Rs.12 per kg for rice as against the prescribed rate of Rs.4.65 per kg for wheat and Rs.6.15 for rice.

- | 23.89 per cent of the surveyed beneficiaries stated that the FPS owners did not issue food grains at the prescribed scale, while 11.31 per cent complained of irregular supply.
- | 22.26 per cent of the surveyed beneficiaries complained of poor quality of the food grains issued.
- | 13.84 per cent of the surveyed beneficiaries stated that the FPS owners did not observe the prescribed timings for opening of shops.

- 1 31.49 per cent of the surveyed beneficiaries stated that the FPS owners did not issue any cash memo.

7.4.7 The study by the Programme Evaluation Office of the Planning Commission had revealed that the degree of conformity with the display norms prescribed for ensuring transparency in the running of PDS by the sample FPS was generally not satisfactory.

7.4.8 The evaluation study conducted by ORG Marg at the instance of the Ministry revealed that 35 per cent of the dealers in urban areas and 45 per cent in rural areas provided the information on the date and time of distribution of foodgrains through public announcements. Only 44 per cent of urban dealers and 30 per cent of rural dealers provided such information through the notice board available in their shop. Around 27 per cent of rural FPS intimated their customers through the local panchayat system. More than 70 per cent of the dealers in urban and rural areas admitted that there were no samples for display in their shops.

7.5 Fair Price Shops were unviable

7.5.1 A reasonable return for FPS owners is an important requirement for securing efficient functioning of FPS. Audit survey showed that the only source of earning for 54 per cent of urban based outlets and 41 per cent of rural based outlets was earnings from FPS.

7.5.2 Test check of FPS of three districts in **Chhattisgarh** revealed that shops were receiving commission on distribution of ration ranging from Rs. 1219 to Rs.2970 per month and net income after deduction of shop expenses had ranged between Rs.349 to 1270 per month. The income of FPS in **Jharkhand** was Rs. 378 per month while in **Andhra Pradesh** it was less than Rs. 11000 annually, which was less than the income limit prescribed for BPL. The FPS located in **Assam, Gujarat, Rajasthan and Lakshadweep** were also found to be running uneconomically.

7.6 The Ministry stated (June 2006) that as regards efficiency, accountability and effectiveness of PDS was concerned, besides the availability of provisions in the PDS (Control) Order, 2001, involvement of Panchayati Raj Institutions, model Citizen's charter and deputation of Area Officers were relevant measures in this regard. Conferences of State Food Ministers/Secretaries, meetings with All India Federation of FPS dealers and a meeting with Members of Parliament were also organized. Also, as regards FPS, PDS (Control) Order, 2001 took care of all the requirements to be observed by FPS owners/ States/UTs. Suitable instructions were sent to the States/ UTs from time to time for better implementation of PDS (Control) Order, 2001.

7.7 Audit examination revealed that despite the steps stated to have been taken by the Ministry, there was not much improvement. Shortcomings in the distribution system had also been noticed in the evaluations got conducted by the Ministry and the Planning Commission. Thus, the steps/ efforts made so far in this regard needed to be further strengthened.

Recommendations

- λ• *The Ministry may ensure that all cases of diversion of foodgrains, inadequate or excess offtake of foodgrains and suspect or bogus ration cards are investigated by the State Governments. Lessons learnt from such investigations may be circulated to State Governments for the latter to take special steps to avoid their recurrence.*
- λ• *The Ministry may, in close consultation with State Governments critically review , critically review the state of functioning of Fair Price Shops in a time bound programme so that practical solutions are found to make them yield sufficient returns yield sufficient returns while ensuring that delinquent ones are closed/ penalised.*

8. Audit Findings on Quality Control

8.1 Deficiencies in Quality Control in Procurement

8.1.1 Millers were required to deliver rice conforming to specifications fixed by the Union Government to State Agencies and FCI, by processing the Fair Average Quality (FAQ) (i.e. fit for human consumption) paddy supplied by FCI/ State Agencies. The quality control personnel [(Technical Assistants) (TAs)] of FCI were responsible for acceptance of rice of prescribed specification from millers. District Managers - Quality Control (DMQC) and Assistant Managers - Quality Control (AMQC) were required to check 10 per cent and 25 per cent respectively of the rice received in the depots. District Managers (DMs) were thereafter to check 10 per cent of rice for Kharif Marketing Seasons (KMS) 2002-03 and 2003-04, which was subsequently reduced to 2 per cent for 2004-05.

8.1.2 Sub-standard rice was to be rejected by the FCI and the millers were required to replace such rice. Alternatively, it was to be disposed of by the concerned district office in the local market. Under no circumstances was such rice to be moved to other locations for distribution through the PDS.

8.1.3 FCI had prescribed that a Zonal Manager should inspect at least one depot in a month and a Senior Regional Manager (SRM) two depots in a month. Subsequently, however, FCI issued instructions (September 1999) to the effect that SRMs had to inspect at least two depots in each district every year by rotation and that the District Managers were to inspect all the depots within their jurisdiction every year.

8.1.4 Audit examination revealed significant deficiencies in the quality control system for procurement of rice by FCI and widespread acceptance of sub standard rice in Punjab and Haryana Regions as detailed below:

- 1 In Punjab region, there was shortfall in checking over 2.69 lakh MT of rice (10 per cent) by DMs and over 3.15 lakh MT of rice (8 per cent) by DMQCs vis-à-vis the stipulated percentages during the years 2000-01 to 2004-05. Similarly, in Haryana region, 0.55 lakh MT (18 per cent) and 0.16 lakh MT (4 per cent) of rice was short checked by DMs and DMQCs respectively during 2002-03 to 2004-05.
- 1 There were shortfalls ranging from 9 to 66 per cent in inspection of depots by the SRM, **Punjab** during 2000-01 and 2002-03 to 2004-05; shortfalls in the Haryana region during the same years ranged from 4 to 25 per cent.
- 1 Inspection squads (ISs) from regional office visit storage depots to ascertain 'Beyond Rejection Limit' rice. During checks from 2000-01 to 2004-05 on various lots by ISs in **Punjab** and **Haryana**, the percentage of cases in which rice was found sub-standard varied from 24 per cent to 85 per cent against 7 per cent to 26 per cent detected by DM/DMQCs indicating that the inspections conducted by DM/DM QC were far from satisfactory. Even the inspections conducted by Regional Office ISs were not found to be adequately effective, as the findings of the Central Bureau of Investigation (CBI) in its raids (January 2006) indicated that 441 samples (98 per cent) out of 451 samples collected by them had failed in respect of rice procured during 2004-05.

8.1.5 FCI needed to follow up each quality related complaints scrupulously and promptly. However, in Punjab region, 1480 quality related complaints were pending as on 31 July, 2005, of which 722 complaints related to the period prior to October 1991. This indicated that the Regional Office, Punjab did not have an effective system in place for monitoring and following up of quality related complaints.

8.2 Deficiencies in Quality Control during distribution

8.2.1 As per the PDS (Control) Order, 2001, the representatives of the States/UT or their nominees and FCI should conduct joint inspection of the stocks intended for PDS to ensure that the quality of foodgrains conformed to the prescribed specifications. Scrutiny of records in States/UTs revealed various shortcomings in such quality control as detailed below:

8.2.1.1In **Orissa**, there were instances of late submission of test reports to the concerned officers of the Department. There was also a delay of 35 months in transmitting the samples from FCI for laboratory testing. As a result, 1586 MT of sub-standard rice valued at Rs. 1.52 crore was distributed to beneficiaries.

8.2.1.2In **Himachal Pradesh**, during 2000-05, out of 1219 samples of wheat and rice, 406 samples (wheat: 185 and rice: 221) were found to be below the prescribed specifications. Sub-standard foodgrains during the above years weighing 8,883 MT (Wheat: 2,349 MT and Rice: 6,534 MT) were supplied to consumers through PDS. In the sample districts checked by Audit, out of 365 samples sent for laboratory testing, 98 samples involving 1005 MT foodgrains did not meet the quality specifications.

8.2.1.3In **Rajasthan**, one rake containing 46091 bags of wheat below Fair Average Quality received in July 2003 was issued under various welfare schemes. Also, despite the Union Government's directions (August 2002) to stop issue of lustre losts wheat (irrespective of its percentage) under TPDS, FCI Churu issued 5797 MT lustre losts wheat costing Rs. 3.50 crore) between July 2001 to March 2003 to various Government schemes. This included 1826 MT wheat containing lustre losts grains beyond 50 percent and 3627 MT wheat where the percentage of lustre loss was not recorded. Of this quantity, 344 MT of wheat was issued in December 2002 after the date of the Union Government instructions.

8.2.1.4In **Kerala**, 21 out of 46 FPS checked in audit did not exhibit sealed samples for foodgrains issued by FCI. Also, further periodical inspection reports were not available to ascertain variations in quality between FCI sample and actuals.

8.2.1.5No joint inspection was conducted on regular basis of the FCI stock in the states of **Arunachal Pradesh, Bihar, Chandigarh, Jammu & Kashmir** and, two test checked districts of **Maharashtra** and **Pondicherry**.

8.2.1.6Testing facilities were not available with the State Governments of **Jharkhand, Pondicherry** and **Tripura**. The laboratory set up in **Kerala** remained non-functional for want of technical staff.

Recommendations

- λ *Quality control at the time of procurement needs to be strengthened, if necessary by initiating introducing a system of incentives and disincentives so that the stipulated level of inspection at various levels is enforced so as to ensure that sub-standard ensure that sub-standard foodgrains are not procured. are not procured.*
- λ *The mechanism of surprise inspection of stocks intended for PDS and other welfare schemes may be introduced and strictly enforced in coordination with State Governments to ensure that sub-standard foodgrains are not distributed.*

9. Audit Findings on Subsidy

9.1 Non-finalisation of Subsidy Claims and Subsidy Recoverable

9.1.1 The Memorandum of Understanding (MOU) signed between the Ministry and States/UTs under DCP Scheme provided that:

- | The Union Government would reimburse 95 per cent of the subsidy claims preferred by the respective State/UT at the provisional economic cost of foodgrains, if the claims were preferred on the basis of actual distribution, accompanied by Utilisation Certificates (UC).
- | In case the subsidy was preferred on the basis of offtake only (i.e. without Utilisation Certificates), only 90 percent of the claim would be released. Balance subsidy would be released on receipt of final audited accounts, which had to be submitted by the concerned State/UT within six months of the close of the respective marketing season. In case of regular default, five per cent additional subsidy released over 90 percent would be withheld; this would be released only on receipt of full information/documents from the concerned State/UT.

9.1.2 Audit examination revealed that the additional five per cent subsidy was not deducted from the provisional claims of States/UTs in any of the cases of non-submission of final audited accounts within the stipulated timeframe. The Ministry could not make available the latest State-wise position of finalisation of accounts and pendency with the Ministry regarding finalisation of claims.

9.1.3 Audit scrutiny of claims in the States/ UTs revealed several shortcomings as detailed below.:

9.1.3.1 In **Chhattisgarh**, as part of the subsidy claimed for 2002-03, the State Government included a claim for Rs. 319.48 crore in respect of the unutilised balance of rice received from FCI during 2001-02 (431176 MT as on 01 April .4.2002) which pertained to the pre-DCP period, for which the State was not entitled to receive any subsidy. Of the excess claim of Rs. 319.48 crore, an amount of Rs. 306.70 crore was received from the Union Government.

9.1.3.2 In **Uttar Pradesh**, scrutiny of the rates of margin money for wholesalers/retailers paid by the Union Government to the State as a part of the subsidy revealed that provision for retaining buffer stock should not have been incorporated in the margin money allowed to the State. This was because FCI, and not the State Government, was retaining buffer stock. As against the margin money rate of Rs. 135/MT (Rs.90 per MT for buffer stock + Rs.45 per MT for door step delivery) paid by the Union Government, the correct rate for doorstep delivery should have been only either Rs. 45/MT or Rs. 55/ MT (depending on the mode or storage). This resulted in excess subsidy of Rs. 163.35 crore on 121 lakh MT foodgrains.

9.1.4 Audit also noticed other instances contributing to additional subsidy burden of Rs. 86.42 crore in Table 14.

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Table 14: Additional subsidy burden on Union Government

	Particulars	Name of Region/District	Avoidable Cost (Rs. in crore)
(i)	Release of food grains to two schemes not eligible for issue.	Kerala	14.11
(ii)	Disallowance by the Administrative Ministry of claim for higher grade rice issued against SGRY scheme.	-	2.16
(iii)	Issue of higher of higher cost "A" grade rice to BPL in spite of availability of common variety rice.	Faizabad, Varanasi, Srinagar, FSD Arakonnam	8.68
(iv)	Foodgrains were stored in a godown after a	FSD Kochi	0.56

	Particulars	Name of Region/District	Avoidable Cost (Rs. in crore)
	decision to vacate it, resulting in avoidable expenditure on subsequent transportation totransportation to another godown.		
(v)	Payment of idle wage arising due to excess deployment of labour under Direct Payment System (DPS).	Kerala, Tamil Nadu, Karnataka	26.97
(vi)	Surplus labour of closed Port office Chennai were shifted to FSD Egmore where no work could be assigned to them.	FSD Egmore	24.79
(vii)	Deployment of Departmental/DPS labour at rail head in contravention of FCI policy to deploy labour through private contractors led to non recovery of demurrage/ wharfage on account of delay in cases of loading/ unloading, through which was otherwise recoverable from private contractors.	Betul and Jabalpur	1.07
(viii)	Irregular expenditure was incurred on pay and allowances of staff deployed at CWC/SWC godowns although the work was required to be done by CWC/SWC.	Sagar, Damodh, Godarwara, Narsinghpur*****	5.61
(ix)	Deployment of excess ancillary labour in excess of the norm of 4 labours per 5000 tonne capacity of godowns in the Depot resulted in extra expenditure.	Chhattisgarh region	2.47
	Total		86.42

9.2 Additional Subsidy Burden on account of dues from other Ministries

9.2.1 An amounts of Rs.825.65 crore in respect of the Mid Day Meal (MDM) scheme and Rs.17,396.67 crore in respect of Sampoorna Gramin Rozgar Yojana (SGRY) and Food for Work (FFW) programmes wasere outstanding as on 31 March 2005 from the respective ministries. Non-receipt of the amounts claimed by FCI resulted in additional interest burden on FCI and consequent additional subsidy burden on the Union Government, which amounted to Rs.1973.69 crore as on 31 March 2005.

9.2.1.1 The Ministry stated (June 2006) that it had been decided to issue special securities of Rs.16,200 crore to FCI for liquidation of outstanding dues of FCI against the Ministry of Rural Development till April 2005, and that the modalities and arrangements for availability of credit to FCI were under finalisation in consultation with the Ministry of Finance.

9.2.1.2 As per the procedure for billing under the SGRY scheme, district offices of FCI were required to prepare the bills on monthly basis for getting them verified by District Collector/ DRDA/ Relief Commissioner within three days after the completion of the month and forward the bill in original to the FCI Regional Office for onward transmission to FCI, HeadquartersHQs. latest by the seventh day 7th of the subsequent month. Audit noticed instances of delay in submission of consolidated bills for the period 2001-02 to 2004-05 of SGRY to FCI Headquarters HQs, which led to an additional interest loss to FCI of Rs. 84.63 crore (**Kerala** – Rs. 3.09 crore, **Uttar Pradesh**- Rs. 80.05 crore and **Uttaranchal**- Rs. 1.49 crore), and a corresponding increase in the subsidy burden on the Union Government.

9.3 Hill Transport Subsidy (HTS)

9.3.1 Under this scheme, the Union Government reimbursed the full transportation cost of foodgrains up to the designated Principal Distribution Centres (PDCs) in predominantly hilly

States to enable the State Governments to make available foodgrains to in interior areas. To ensure that the foodgrains had actually reached the consumers, HTS was released to the State Governments but only after it had been certified by the State concerned (supported by documents and accounts) that the foodgrains had been transported up to the PDCs.

9.3.2 In **Arunachal Pradesh**, FCI suspended payments of HTS with effect from September 2004 in view of a steep rise in HTS claims from Rs. 4.30 per Kg. (2000-01) to Rs. 32.78 per Kg. (2003-04) and complaints about irregularities in the head load carriage system in the State. Audit of subsidy claims revealed the following serious regularities:.

9.3.2.1 Payment of Rs. 378.84 crore of HTS claims made during 2001-04 by the Directorate/Secretariat could not be checked in audit for want of supporting records such as cash books, details of payees (carriage contractors), and payment order of FCI in individual cases.

9.3.2.2 District Supply Officer (DSO), Lower Subansiri received Rs. 1.41 crore and Rs. 0.88 crore from FCI, North Lakhimpur during 2000-01 and 2001-02 respectively on account of HTS. The entire amount was paid to carriage contractors without recording details of payment in the cash book.

9.3.2.3 DSO, West Kameng received Rs. 68.74 lakh from FCI, Tezpur during March 2001 to January 2003 for payment of HTS, which included Rs. 30.00 lakh (April 2002) as ad-hoc payment of HTS bills of three co-operative societies- cum-carriage contractors. But the DSO irregularly disbursed Rs. 15.30 lakh to private carriage contractors irregularly, even though no bills were submitted by them.

9.3.2.4 Excess allotment of foodgrains beyond the prescribed norms led to claims of Rs.29.91 crore for their transportation to destinations that had no storage facilities/ godowns.

9.3.2.5 The genuineness of claims valued of Rs.33.10 crore submitted to DM of FCI North Lakhimpur and claims valued of Rs.6.80 crore submitted to DM of FCI, Tezpur could not be verified in audit for want of supporting documents.

9.3.2.6 Entertainment of higher rates in plain areas resulted in avoidable excess claim of Rs. 2.87 crore.

9.3.2.7 Due to rejection of lower rate of HTS charges of Rs.0.89 per qtl. Pper km. and acceptance of higher rate of Rs. 2.46 per qtl. Pper km from carriage contractors, the State Government had to incur avoidable excess charges of Rs. 30.99 lakh.

10. Audit Findings on – Monitoring

10.1 Non-receipt of Utilisation Certificates (UCs) for distribution

10.1.1 The PDS (Control) Order, 2001 stipulated that future allocation of foodgrains to States should be linked to the receipt of regular reports and furnishing of Utilization Certificates (UCs) from the respective States within a period of two months from the month for which the allocation was made. Scrutiny of records in the Ministry, however, revealed that these instructions were not being adhered to by the States/UTs and the Union Government continued to release the foodgrains without ensuring that the condition of submission of regular reports/ UCs was satisfied, as summarised below:

- | The State Governments of **Jharkhand, Manipur** and **Uttaranchal** had not furnished any UCs since September 2001.
- | There was a delay in submission of UCs ranging from 19 months (**Maharashtra**) to 41 months (**Sikkim, Daman & Diu, Sikkim**).)

- | There were numerous discrepancies in the closing balance and the following month's opening balance of foodgrains in the UCs furnished by the States of **Arunachal Pradesh, Jammu & Kashmir, Karnataka, Rajasthan and Uttar Pradesh.**
- | In **Delhi**, there was delay in submission of UC ranging between one to over 12 months during the period September 2001 to February 2005. There were also discrepancies in the UCs/figures sent to the Union Government. The State Government Department stated that the discrepancies were due to typing errors and had since been rectified. Verification of reply revealed that discrepancies for only the period January 2004 to March 2004 had been reconciled.
- | In **Orissa**, the State Government sent the Monthly Progress Reports (MPRs) ***** and UCs relating to 32 months to the Union Government after delays ranging from 15 days to 27 months during the period 2000-05. UCs sent were not correct as 35.75 lakh MT rice was shown as distributed against actual lifting of only 31.05 lakh MT during 2000-05.

10.1.2 Details of the delays in receipt of UCs and discrepancies in UCs are enclosed in **Annexures 6 and 7** respectively.

10.1.3 The Ministry stated (June 2006) that the allocation of foodgrains had not been stopped to any State/UT on account of non-furnishing of UCs, as such a step would result in harassment to the poor population (who were dependent only upon TPDS for their survival) because of the inefficiency of the States/ UTs. As regards discrepancies in UCs, the Ministry stated (June 2006) that the matter was being referred to the concerned States/UTs for taking corrective measures, but did not furnish reasons as to why these reports were not examined in the Ministry or why no follow up action was taken by Ministry against the States/UTs for non-reporting/wrong reporting.

10.1.4 The reply is not tenable since the timely submission of accurate UCs and regular reports is critical to minimising leakages and diversion and ensuring that the foodgrains actually reach the intended beneficiaries. Further, the order linking future allocations with receipt of UCs and regular reports was issued by the Union Government itself. The discrepancies in the UCs furnished by the States/ UTs clearly showed that these were not examined in the Ministry, which pointed to the absence of due care towards an important control measure.

10.2 Area Officers Scheme

10.2.1 With a view to ensuring regular and effective review and monitoring of PDS in States/UTs, the Ministry introduced (February 2000) the Area Officers Scheme. Under the scheme, 14 Senior Officers of the Ministry were appointed as Area Officers to make four visits annually in their allotted States/UTs with an element of surprise and objectivity and make assessments about the functioning of PDS by visiting FPS, Stock Agents, FCI Depots, meeting beneficiaries etc.

10.2.2 As against 280 visits required under the scheme, the Area Officers had conducted only 10 visits (4 percent) during 2000-05. The Ministry forwarded the findings/shortcoming noticed during visits to the concerned State Governments as well as FCI for necessary follow up action. The State Governments were also reminded for the same but responses, if any, received from any of the States/UTs were not furnished to Audit by the Ministry (July 2006).

10.2.3 Ministry stated (June 2006) that on account of exigencies of work, intervening Parliament sessions, election and transfer of officers, Area Officers could not visit their designated States. The reply of the Ministry is not tenable as the Ministry should have considered all relevant factors before formulating this scheme, and also such exigencies could not have affected all the 14 officers over a continuous span of five years (2000-01 to 2004-05). However, the directions recently (*****) given by Ministry to all the Area Officers to

adhere to the stipulated visits to the States/UTs allotted to them was a step in the right direction and needed to be effectively implemented.

10.3 Effectiveness of Vigilance Division in FCI

10.3.1 The Vigilance Division of FCI was responsible for conducting regular and surprise inspection of sensitive spots, reviewing and streamlining of procedures which appeared to afford scope for corruption or misconduct, initiating other measures for the prevention, detection and punishment of corruption and dealing with vigilance cases. However, audit examination of the status of functioning of the Vigilance Department of FCI in Punjab and Haryana regions revealed that no separate vigilance squads were constituted for conducting surprise field inspections. Also, on no occasion did the vigilance sections make suggestions for streamlining the procedures intended to control corruption after scrutiny of closed vigilance cases and ex-post facto scrutiny of contracts.

10.3.2 Cases of misappropriation, corruption, shortages/losses due to negligence or breach of contract were reported to the vigilance sections along with investigation reports, by operating divisions. As on 31 December 2005, there were 552 major and 1593 minor vigilance cases pending disposal in FCI. More than one-third of these cases were more than three years old when the prescribed period of completion of investigation was one month. Of these, 454 major and 1386 minor cases related to the Northern Zone of FCI. The Punjab Regional Office of FCI had the highest number of 352 major and 1307 minor vigilance cases pending as on 31 December 2005. This indicated lack of effective pursuance of vigilance cases by FCI.

10.4 Monitoring through Vigilance Committees (VCs)

10.4.1 The PDS (Control) Order, 2001 envisaged constitution of VCs at State/UT, district and block levels for implementation and monitoring of the functioning of FPS. Audit examination revealed that the system of VCs was ineffective and there was no additional mechanism for verifying distribution of foodgrains to the beneficiaries. The state-wise position ascertained through audit is summarised below.:

10.4.2 VCs were either not formed at any level or were found defunct in **Arunachal Pradesh, Assam, Bihar, Gujarat, Haryana, Himachal Pradesh, Jammu & Kashmir, Jharkhand, Karnataka, Punjab, Andaman & Nicobar Islands, Dadra & Nagar Haveli, Pondicherry, Arunachal Pradesh, Haryana, Gujarat, Himachal Pradesh, Punjab, Jammu & Kashmir, Lakshadweep and Pondicherry. Dadra & Nagar Haveli.**

10.4.3 In **Manipur, Nagaland, Orissa, Chandigarh, Nagaland and Chandigarh/Manipur**, no meetings of VCs at any level were held during 2000-05.

10.4.4 District level committees were not formed in three test checked districts of **Meghalaya**, in 16 test checked districts of **Uttar Pradesh** and in Nagpur district of **Maharashtra**.

10.4.5 In **West Bengal**, although monitoring committees at Panchayats, Municipalities, Blocks and Districts level were formed, no monitoring or reporting was done.

10.4.6 In **Rajasthan**, only 23 meetings were held against 120 required to have been done in four districts (Churu, Dungarpur, Udaipur and Barmer) during 2000-05.

10.4.7 In **Delhi**, no VCs were constituted at State/District/FPS and only block/circle levels committees were constituted. The shortfall in holding meetings ranged from 77 to 85 per cent.

10.5 Inspection by DLOs and VCs

10.5.1 The system of inspection by District Level Officers (DLOs) and Vigilance Committees (where constituted and functional) over the functioning of FPS was also found to be deficient during 2000-05. Instances of deficiencies in respect of States/ UTs are summarised below:-

- | In **Andhra Pradesh, Andaman & Nicobar Islands, Andhra Pradesh** and **Pondicherry**, no periodical inspection of FPS was conducted.
- | In **Assam, Goa, Karnataka** and **Karnataka Assam**, either the FPS were not inspected or the frequency of the inspection was much lower than prescribed.
- | There was shortfall in the inspection of FPS in **Delhi** (96 per cent), **Himachal Pradesh** (14 to 60 per cent), **Rajasthan** (6 to 80 per cent by DSOs and 9 to 56 per cent by Enforcement Officers), **Bihar** (79 to 80 per cent in six districts), **Tamil Nadu** (1 to 99 per cent), **Jharkhand** (97 to 100 per cent) and **Kerala** (47 to 73 per cent in five TSOs).
- | In **West Bengal**, against 3,01,560 inspections to cover 2513 FPS in two districts, only 1727 inspections were conducted during 2000-05. Further only 1141 inspections (12 per cent) were conducted by quality inspectors. The inspectors were not equipped with analysis kits and moisture meters.
- | In **Arunachal Pradesh**, inspections carried out by the District Supply Officers (DSO) during 2000-05 varied from 0.88 per cent to 19.84 per cent of the prescribed frequency. This was attributed to shortage of staff and fund constraints. Further, there was delay in submission of monthly reports by DSOs from 3 to 8 months and by the Directorate to the State Government that ranged between 60 days and 455 days.
- | In **Manipur**, no report of surprise check was made available to Audit. However, district level authorities of the selected districts stated that surprise checking and monitoring over the functioning of FPS were done only on receipt of complaints.

10.5.2 The absence of VCs and poor frequency of inspection by DLOs and VCs significantly weakened the control over distribution of foodgrains through FPS.

10.5.3 The Ministry stated (June 2006) that:-

- | From time to time, guidelines had been formulated for constitution of VCs and also for participation of Panchayati Raj Institutions (PRIs) for smooth functioning of the PDS.
- | States/UTs had been requested to ensure that these Committees may be made aware of their responsibilities and meet regularly to review the PDS system, so as to ensure proper distribution of foodgrains to the targeted beneficiaries.
- | During the Food Ministers/Secretaries Conference held in March 2006, all the States/UTs were requested to convey the best practices, if any, followed by them in consonance with the PDS Control Order to rationalise the implementation of TPDS in the interest of the targeted beneficiaries. Some of the States had indicated the best practices followed by them, taking into account their local requirements; these best practices followed by the States were compiled in a form of Compendium and circulated among all the States.

Recommendations

| The Ministry may critically review the existing procedures and instructions for strengthening the monitoring of the distribution of foodgrains including the Area Officers scheme, inspection by District Level Officers and Vigilance Committees besides the system of receipt of Utilisation Certificates. The difficulties in implementation of the instructions would need to be identified in consultation with State Governments, by constituting a special committee who may be asked to frame practicable and monitorable steps to strengthen the existing system of monitoring.

| A suitable system of incentives/ disincentives may also be considered to be introduced to improve the monitoring of distribution of foodgrains.

1111. Conclusion

Government of India's foodgrain management strategy is based on the twin pillars of procurement and distribution to ensure food security, and by simultaneously providing

remunerative prices for foodgrains to farmers through the mechanism of the Minimum Support Price and also ensuring availability of foodgrains to the public at reasonable prices through the Public Distribution System.

Audit found that there was great scope for improvement of efficiency and effectiveness of both the procurement and distribution aspects. On the procurement side, there were several instances of avoidable inefficiencies and excessive procurement incidentals, while the scheme for decentralised procurement needed closer scrutiny and control to ensure achievement of the intended objective of reduced economic cost of procurement.

On the distribution side, Audit found the need for enforcement of stricter measures to weed out ineligible and bogus beneficiaries of the PDS, minimise leakages and diversions to the open market and unintended segments, and ensure strict compliance with the provisions of the PDS (Control) Order, 2001 so that the poorer sections of society — the Below Poverty Line households and the poorest of the poor households (Antyodaya Anna Yojana beneficiaries) — received the full benefits of subsidised foodgrains.



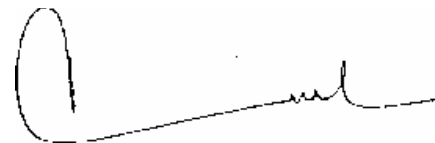
New Delhi
Dated: 17
Principal Director of Audit

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(K. R. SRIRAM)
August, 2006

Economic & Service Ministries

Countersigned



New Delhi
Dated: 17 August, 2006
General of India

(VIJAYENDRA N. KAUL)
Comptroller and Auditor