CHAPTER – II

2. Review relating to Government Company

Review on procurement, storage and distribution of rice, wheat and sugar under various schemes of Public Distribution System by Chhattisgarh State Civil Supplies Corporation Limited

Executive Summary

Introduction

The Government of India (GoI) issues scheme-wise allotment of foodgrains to the States as per the number of beneficiaries in the States for distribution of the same under Public Distribution System (PDS). On the basis of it, Food, Civil Supplies and Consumer Protection Department (Department) of Government of Chhattisgarh (GoCG) issues district-wise allotment to the Chhattisgarh State Civil Supplies Corporation Limited (Company) for taking advance action for procurement, storage and distribution of foodgrains to the districts. The Company works as a nodal agency for PDS. The main objective of the Company is procurement, storage and distribution of foodgrains under various schemes of PDS so as to ensure their availability to the beneficiaries according to the schemes framed by GoI/GoCG.

Decentralised Procurement was introduced (April 2002) in the State for procurement and maintenance of stock of rice at State Level in order to provide Minimum Support Price (MSP) to farmers and also to ensure economy in distribution of rice. Wheat is procured by the Company from Food Corporation of India (FCI) at subsidised rate fixed by GoI and sugar is procured by the Company from sugar mills specified by the GoI at the prescribed rate and are distributed to the beneficiaries.

The performance of the Company was reviewed to assess economy, efficiency and effectiveness in implementation of various schemes of GoI/ GoCG under PDS during the period 2008-09 to 2012-13.

Planning for procurement of rice, wheat and sugar

Keeping in view the requirement of rice to meet distribution under various schemes of PDS, the Department procures paddy from farmers through Chhattisgarh State Cooperative Marketing Federation (Markfed) at MSP and supplies Custom Milled Rice (CMR) to the Company through Markfed. For this purpose, Department issues policy related to CMR every year duly mentioning the tentative quantity of rice for procurement during Kharif Marketing Season which is followed by the Company. For procurement of wheat and sugar, the Company is under obligation to follow the allotment made by the Department.

Storage and transportation of rice, wheat and sugar

In the absence of norms of storage losses, data on actual reimbursable losses were not maintained by the Company. Requirement of storage space for reservation in State Warehousing Corporation (SWC)/ Central Warehousing Corporation (CWC) godowns was not assessed properly thereby the Company could not utilise the reservation of godowns in full and paid ₹ 7.58 crore for unutilised storage space. There was huge variation in transportation rates of different base depots in the same division and there was no mechanism for comparison of rates of neighbouring divisions. The Company recovered penalty at a lower rate than the prescribed rates from transport contractors.

Distribution of foodgrains under various schemes of GoI/GoCG

The Company distributed less quantity of rice and wheat than the allotments made under various schemes during the years 2009-10 and 2010-11 due to which the benefit of the schemes had not reached fully to the intended beneficiaries. At the direction of GoCG, the Company diverted 7.43 lakh MT rice and 1.91 lakh MT wheat from Central Schemes to State Scheme (Mukhyamanti Khadyann Sahayata Yojana) in violation of GoI instructions resulted in diversion of foodgrains valuing ₹ 1975.43 crore and wrong claim of ₹ 899.12 crore from GoI. The Company distributed rice without GoI allotment under Mid Day Meal Scheme and Other Welfare Schemes which resulted in non-receipt of ₹ 35.78 crore.

Financial Management

There were delays in finalisation of accounts of the Company due to which it could not submit its audited accounts to GoI in time leading to blockage of subsidy claims of ₹ 760.93 crore and consequent loss of interest of ₹ 186.81 crore. Dues of the Company of ₹ 1.48 crore could not be recovered from Fair Price Shops due to ineffective action by the Department.

Deployment of Manpower

The post of District Managers in 18 districts were manned by Assistant Managers/ Assistant Accounts Officers (AMs/AAOs). Thus, there was no supervision on the work of these AMs/AAOs.

Monitoring and Internal Control System

There was lack of coordination among the various agencies which resulted in storage of excess stock and consequent avoidable storage charges. Mismatch in allotted quantity of GoI and GoCG caused excess/ short distribution of foodgrains and submission of incorrect utilisation certificates to GoI by the Company.

A well set monitoring and internal control system prevails in the Company due to introduction of information and communication technology. However, there is no mechanism to conduct surprise checks of stocks at different storage points and also there is no vigilance wing in the Company.

Conclusion

There were cases of non-utilisation of storage space and excess/less distribution of foodgrains under various schemes. Transport contracts were finalised without comparing rates of neighbouring divisions resulted in huge variation in transportation rates. In the absence of norms of storage losses, data on actual reimbursable losses were not maintained by the Company. Reserving storage space in excess of the requirement led to underutilisation of storage space. The Company did not recover the penalty at prescribed rates from the transport contractors. The Company diverted foodgrains from Central schemes to State scheme. Rice was distributed in Mid Day Meal Scheme and Other Welfare Schemes without GoI allotment. Delay in finalisation of accounts led to non-receipt of subsidy from GoI. The Company had not prescribed any mechanism to conduct periodical surprise check at storage points.

Introduction

2.1 The Government of India (GoI) issues scheme-wise allotment of foodgrains[1] to the State as per the number of beneficiaries[2] in the State for distribution of the same under various schemes of Public Distribution System (PDS). Based on it and considering the number of beneficiaries in each district, the Food, Civil Supplies and Consumer Protection Department (Department) of Government of Chhattisgarh (GoCG) issues district-wise[3] allotment to the Chhattisgarh State Civil Supplies Corporation Limited (Company) for taking advance action for procurement, storage and distribution of foodgrains to the districts. The Company works as a nodal agency for PDS. The main objective of the Company is procurement, storage and distribution of foodgrains under various schemes of PDS so as to ensure their availability to the beneficiaries according to the schemes framed by GoI/GoCG.

Keeping in view the requirement of rice, the Department procures paddy from farmers through Chhattisgarh State Cooperative Marketing Federation (Markfed) at Minimum Support Price (MSP) and gives it to rice millers for milling. The milled rice known as Custom Milled Rice (CMR) is procured by the Company from Markfed based on the allotment made by the Department under Decentralised Procurement Scheme (DCP) which was introduced (April 2002) in the State for maintenance of stock of rice at State level to provide MSP to farmers and also to ensure economy in distribution of rice under DCP. While making allotment of rice to the State, GoI fixes Central Issue Price[4] (CIP). The difference between cost of rice procured by the Company from Markfed and CIP is reimbursed by the GoI to the Company which is known as Central subsidy. However, GoCG issues the rice at further subsidised rates to the beneficiaries and the difference between CIP and further subsidised rates is reimbursed to the Company which is known as State subsidy.

Wheat is procured by the Company from Food Corporation of India (FCI) at subsidised rate fixed by GoI. However, GoCG issues the wheat at further subsidised rates to the beneficiaries and the difference between FCI rate and further subsidised rate is reimbursed by GoCG to the Company as State subsidy. Similarly, sugar is also procured by the Company from sugar mills specified by the GoI at the prescribed rate and is distributed to the beneficiaries. The difference between expenditure incurred by the Company for procurement and distribution of sugar and sale proceeds of the sugar is reimbursed by GoI from Levy Sugar Price Equalisation Fund[5].

The foodgrains so procured are stored by the Company in the warehouses of Chhattisgarh State Warehousing Corporation (SWC) and Central

[1] Rice, wheat and sugar.
[2] Ration cardholders, students under Mid Day Meal Scheme, pregnant lactating woman and children between six months and six years, and students of SC/ST Hostels.
[3] District wise include block-wise, fair price shop-wise and Ration Cardholder-wise allotments.
[4] Price at which rice is to be distributed to the beneficiaries under PDS.
[5] Levy Sugar Price Equalisation Fund is a fund to ensure that the price of levy sugar may be uniform throughout India.

Warehousing Corporation (CWC) for which the Company pays storage charges. From these warehouses, the foodgrains are transported to Fair Price Shops (FPS) for distribution to the beneficiaries under various schemes of PDS.

Distribution of foodgrains under PDS is done through seven schemes of GoI and one scheme of GoCG which are briefly described in the ***Annexure-2.1.***

Organisational Setup

2.2 The Company comes under the administrative control of the Food, Civil Supplies and Consumer Protection Department (Department) which is headed by a Secretary. The Board of Directors (BoD) comprising of two[6] functional and seven[7] non-functional directors. The Managing Director (MD) is the Chief Executive of the Company who is assisted by one General Manager, one Company Secretary at the Head Office and 27 District Managers (DMs) in districts for overall management of procurement, storage and distribution of rice, wheat, sugar and other essential commodities under different schemes.

Scope and Methodology of Audit

2.3 The Review covers the procurement, storage and distribution of rice, wheat and sugar under various schemes of PDS by the Department and the Company from 2008-09 to 2012-13. After a preliminary study and collection of background information, an entry conference with the Secretary of the Department and MD of the Company was held on 30 April 2013 wherein the scope, objectives and methodology of audit were discussed. Review was conducted during May 2013 to June 2013 involving examination of records of the Department, Head Office and nine[8] out of 18 District Offices[9] (DOs) of the Company. These districts were selected considering maximum quantity of allotment, procurement and lifting of PDS commodities and number of FPS. The audit findings were reported to the Company and the State Government in July 2013 and the replies of the Company were received on 5 September 2013. However, the replies of the Government were not received (September 2013). The replies furnished by the Company have been considered while finalising this Review. The Exit Conference with the Secretary of the Department was held on 18 September 2013 to discuss the audit findings.

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[6] One Chairman and one Managing Director.

[7] Principal Secretary, GoCG, Agriculture Department, Secretary, GoCG, Food Department, Secretary, GoCG, Finance Department, two MLAs and two other members nominated by GoCG.

[8] Raipur, Mahasamund, Durg, Rajnandgaon, Bilaspur, Janjgir, Raigarh, Sarguja and Jagdalpur.

[9] Raipur, Mahasamund, Durg, Rajnandgaon, Bilaspur, Janjgir, Raigarh, Sarguja, Jagdalpur, Korba, Dantewada, Kanker, Dhamtari, Baikunthpur, Jashpur, Narayanpur, Beejapur and Kawardha. Subsequently, nine new districts were also formed from 1st January 2012.

Audit Objectives

2.4 The objectives of the Review were to assess whether:

i. the Company had framed annual plan for procurement, storage and distribution of rice, wheat and sugar according to the Food and Procurement Policy of GoCG and allotment made by GoI;

ii. the storage and transportation of rice, wheat and sugar were efficient and economical;

iii. the distribution of rice, wheat and sugar to the targeted sections under different schemes were adequate and effective;

iv. financial management of the Company was effective and efficient;

v. adequate manpower was available to manage the operations of the Company and whether manpower was deployed efficiently and effectively;

vi. System of monitoring, internal control and coordination with the School Education Department, FCI, SWC/CWC and the Department was effective and efficient.

Audit Criteria

2.5 The performance of the Company was assessed against the criteria drawn from the followings**:**

- Memorandum of Understanding (MoUs) signed between GoI and GoCG and scheme guidelines from GoI/GoCG for claiming subsidy;
- Food and Procurement Policy of GoCG;
- guidelines/instructions of GoCG and GoI with regard to procurement and distribution of foodgrains under various schemes;
- Public Distribution System (Control) orders issued by GoI/GoCG, annual targets of procurement and annual budgets;
- Annual Accounts, approved economic cost of Custom Milled Rice (CMR) issued by GoI, records of Department to verify the co-ordination among the Department, Markfed, FCI, School Education Department and the Company.

Audit Findings

2.6 Review on Procurement, Storage and Distribution of rice, wheat and sugar under various schemes of PDS by the Company revealed several discrepancies in planning for procurement, storage, transportation and distribution of rice, wheat and sugar, financial management, deployment of

manpower and monitoring and internal control as discussed in the succeeding paragraphs.

Planning for procurement, storage and distribution of rice, wheat and sugar

2.7 Keeping in view the requirement of rice to meet distribution under various schemes of PDS, the Department procures paddy from farmers through Markfed at Minimum Support Price (MSP) and supplies CMR to the Company through Markfed. For this purpose, Department issues policy related to CMR every year duly mentioning the tentative quantity of rice for procurement during Kharif Marketing Season (KMS). The Memorandum of Understanding (MoU) executed (December 2002/September 2006) between GoI and GoCG regulates procurement and distribution of rice under PDS. The following are the details of tentative quantity of rice planned for procurement during the five KMS years ending 2012-13.

Year	Quantity of rice (in lakh MT)
2008-09	13.20
2009-10	13.00
2010-11	14.00
2011-12	13.00
2012-13	15.00

(Source: figures compiled from the records of the Company)

For procurement of rice, wheat and sugar, the Company is under obligation to follow the allotment made by the Department and accordingly it procures rice from Markfed, wheat from FCI at subsidised rate fixed by GoI and sugar from sugar mills at the rates specified by GoI. However, the Company had not prepared any plan for procurement of wheat and sugar as it follows the instructions regarding procurement of wheat (from FCI) and sugar (from prescribed mills) communicated to it by the Department on the basis of allotment made by the GoI.

The Company allows its District Managers (DMs) to plan for reservation of storage space in SWC/CWC godowns for storing the foodgrains to be procured and distributed through FPS based on district-wise allotment made by the Department in consultation with the District Collector. The DMs reserves the storage space in SWC/CWC godowns based on the allocation made by the Department. However, due to improper planning, the Company had reserved more storage space than its requirement leading to avoidable payment of storage charges as discussed in the succeeding ***paragraph 2.14***.

For transportation of foodgrains from warehouses to FPS, the Company engages private transport by finalising annual rate contracts through open tenders at division level. We noticed that the transportation of foodgrains was being made in a very planned manner through timely finalisation of the contract.

The Company delivers the foodgrains to the FPS as per the allotment made by the Department and then FPS distributes the same to the beneficiaries under various schemes of PDS. No separate planning was found to have

been done by the Company for smooth distribution of the foodgrains to the FPS. As mentioned in the succeeding ***paragraph 2.21***, there were sub-optimal distribution of foodgrains under various schemes which could have been avoided through proper planning.

Allotment and procurement of rice, wheat and sugar

2.8 The following are the details of allotment and procurement of rice during the years 2008-09 to 2012-13:

(Qty. in lakh MT)

Year	Allotment of rice by GoI	Procurement by the Company based on allotment made by GoCG	Excess/ Shortfall (-)
2008-09	16.36	17.41	1.05
2009-10	15.18	11.74	(-) 3.44
2010-11	13.84	12.19	(-) 1.65
2011-12	14.83	16.78	1.95
2012-13	16.58	14.61	(-) 1.97
Total	**76.79**	**72.73**	**(-) 4.06**

(Source: Information provided by the Company)

It may be seen from the table that the Company achieved the target of procurement of rice in 2008-09 and 2011-12. However, it did not achieve the targets for procurement of rice in 2009-10, 2010-11 and 2012-13 due to less allotment made by the department.

Due to less allotment of rice during 2009-10, 2010-11 and 2012-13 and non-availability of wheat and sugar with FCI and sugar mills, the Company unable to procure as per allotment made by GoI

2.9 The following are the details of allotment and procurement of wheat and sugar during the year 2008-09 to 2012-13.

(Qty. in lakh MT)

Year	Allotment by GoI		Procurement by Company based on availability		Excess/ Shortfall (-)	
	Wheat	Sugar	Wheat	Sugar	Wheat	Sugar
2008-09	1.39	0.54	0.38	0.49	(-) 1.01	(-) 0.05
2009-10	2.67	0.76	2.23	0.60	(-) 0.44	(-) 0.16
2010-11	3.78	0.57	3.33	0.52	(-) 0.45	(-) 0.05
2011-12	4.03	0.59	2.50	0.51	(-) 1.53	(-) 0.08
2012-13	3.02	0.60	3.06	0.53	0.04	(-) 0.07
Total	**14.89**	**3.06**	**11.50**	**2.65**	**(-) 3.39**	**(-) 0.41**

(Source: Information provided by the Company)

The Company could not achieve the target for procurement of wheat during the years 2008-09 to 2011-12 due to non availability/ non supply of wheat by FCI. Similarly, the Company could not achieve the target for procurement of sugar due to short supply of sugar from sugar mills.

Procurement of rice

2.10 District Offices of the Company (DOs) procure rice from Markfed as per allotment made by the Department to distribute the same under various schemes of PDS. In case of shortage of rice at any DO, the same is arranged through inter district transfers.

Test check of procurement of rice at DOs revealed that there was improper planning in procurement of rice during the years 2008-09 to 2012-13

Improper planning for procurement of rice resulted in payment of transportation charges of ₹ 1.25 crore

which resulted in avoidable transportation expenditure. In two[10] out of nine test checked DOs, rice was procured from other districts on transfer purchase[11] despite availability of adequate stock of rice with DOs which led to payment of transportation charges of ₹ 1.25 crore as shown in the ***Annexure-2.2***.

The Management stated (September 2013) that rice is not procured in all the districts as per requirement. The districts, which procure more quantity of rice, transport/ transfer such surplus quantity of rice to the districts where less quantity of rice is procured as per the allotment. The Management further stated that as there was less procurement in the above districts, rice was procured on transfer purchase from other districts.

Response of the Management confirms that procurement by the Company was not being carried out as per requirement. However, the reply does not address the main issue i.e. purchase of rice by two districts on transfer basis despite having surplus stock of rice within the districts.

Procurement of wheat and sugar

2.11 The Company procures wheat from FCI at subsidised rate fixed by GoI and sugar from specified sugar mills at the rate fixed by GoI. Audit did not come across any major irregularities in procurement of wheat and sugar during the test check.

Storage and transportation of rice, wheat and sugar

2.12 Foodgrains are stored in the warehouses of SWC/CWC and transported to various FPS through trucks which are engaged by entering into transportation contracts.

Storage of foodgrains

2.13 The Company stores rice, wheat and sugar in the warehouses of SWC/CWC. As per section 6 (1) of the Warehousing (Development and Regulation) Act, 2007, Warehousing Corporation is primarily responsible for losses caused during storage of foodgrains. During the course of storage, some reduction in the quantity of foodgrains is likely to happen due to driAge, long storage, leakage due to hooking of bags etc. FCI follows a norm of storage loss for rice at 0.70 *per cent* weight loss for driage of one *per cent* moisture and in proportion thereof below 14 *per cent* moisture content. However, no agreement with SWC and CWC, duly providing a clause for reimbursement of storage losses, had been entered into by the Company.

The following are the details of losses occurred on storage of rice, wheat and sugar during the years 2008-09 to 2012-13.

[10] Rajnandgaon and Janjgir.

[11] The Company considers the rice received by the district office from other districts as transfer purchase.

(₹ in lakh)

Year	SWC			CWC		
	Rice	Wheat	Sugar	Rice	Wheat	Sugar
2008-09	1133.42	3.97	0.17	299.32	0.03	7.08
2009-10	1626.40	6.05	4.75	662.67	0.00	2.02
2010-11	2041.76	41.62	5.51	473.78	5.17	9.55
2011-12	1197.47	17.20	0.71	384.81	4.56	3.77
2012-13	2134.42	18.24	1.08	343.42	3.05	23.22
Total	**8133.47**	**87.08**	**12.22**	**2164.00**	**12.81**	**45.64**
Grand Total						**10455.22**

(Source: figures compiled from the data provided by the Company)

In the absence of norms of storage losses, data on actual reimbursable losses were not maintained by the Company, while the Company booked storage loss of ₹ 104.55 crore.

The Management stated (September 2013) that the Company has sent a proposal to GoCG for reimbursement of storage losses after finalisation of accounts for KMS 2002-03 to 2006-07 for which GoCG is committed but no decision is taken yet.

The fact, therefore, remains that due to not entering into any suitable agreements with SWC/CWC, not having fixed norms and lack of efforts to realise the storage losses from the SWC/CWC, the Company has lost out in receiving storage losses of ₹ 104.55 crore.

Utilisation of storage space

2.14 The Company reserves storage space of SWC/CWC for storage of foodgrains and other commodities and it directed (December 2004) all DOs to ensure optimum utilisation of the storage capacity. SWC also clarified (August 2012) that for scientific storage of foodgrains, upto 75 *per cent* of the storage space is to be used.

During test check of utilisation of storage space in Raipur, Jagdalpur, Bilaspur and Mahasamund districts, we observed that the Company had utilised storage space in excess of 75 *per cent* on 2263 occasions, less than 75 *per cent* on 354 occasions and did not utilise the storage space on 20 occasions during the years 2008-09 to 2012-13. In this connection, it is pertinent to mention that despite the instructions (December 2004) of the Company to ensure optimum utilisation of the storage capacity, the DOs had failed to comply with the same and no action was taken for non-compliance. The details of payment of storage charges for unutilised storage space are given below:

(₹ in lakh)

Name of DOs	2008-09	2009-10	2010-11	2011-12	2012-13	Total
Mahasamund	15.05	27.75	10.84	13.66	2.55	**69.85**
Bilaspur	7.38	59.32	4.80	9.15	5.06	**85.71**
Jagdalpur	13.62	--	--	13.60	18.25	**45.47**
Raipur	247.19	218.41	14.92	21.56	54.57	**556.65**
Total	**283.24**	**305.48**	**30.56**	**57.97**	**80.43**	**757.68**

(Source: figures compiled from the data provided by the Company)

Thus, failure on the part of DOs in assessment of the requirement of storage capacities to be reserved in the godowns of SWC/CWC even after

Failure to assess the requirement of storage space for reservation led to payment of avoidable storage charges of ₹ 7.58 crore

repeated instructions from the Company, resulted in payment of avoidable storage charges of ₹ 7.58 crore.

The Management stated (September 2013) that godown reservations were made as per the allotments. On many occasions the Company was not able to procure foodgrains according to allotment due to which reservation could not be utilised fully. Further, SWC provides reservation for a minimum of three months period. However, procurement was made on a monthly basis. The Management further stated that the issue was taken up (May 2013) with GoCG for arranging reservation in SWC godowns as per the actual utilisation so as to enable the Company to pay storage charges as per the actual utilisation of storage space. Decision at government level is yet to be taken.

The Management reply confirmed that the issue was taken up with GoCG for payment of storage charges for actual utilisation of storage space on being pointed out by Audit.

Non-accountal of sample rice

2.15 CMR and levy rice are received by the Company in the warehouses of SWC in standard lot size (maximum 270 quintals with 50 kg bags). On receipt of rice from Millers, three samples of 500 grams each from every lot are taken for the purpose of analysis of quality parameters. One sample is handed over to Rice Miller and one sample each is kept in the receiving centre and concerned DOs of the Company. As per the directives (November 2003) of GoCG, the samples so collected are to be discarded[12] after expiry of three months from the date of sampling.

Non-accountal of sample rice valuing ₹ 38.37 lakh

Audit observed that in contravention of the directives, the Company did not evolve any procedure for maintaining accounts and discarding of sample rice. Therefore, no records of disposal of the sample rice were kept during the period 2008-09 to 2011-12. In the absence of such records, Audit could not ensure whether the sample rice was discarded after expiry of three months from the date of sampling. In the absence of proper documentation regarding accountal of quantity of sample rice kept in the godowns/head office, the possibility of misappropriation of such rice valuing ₹ 38.37 lakh cannot be ruled out.

While accepting the facts, the Management stated (September 2013) that necessary action has been taken during the year 2012-13 by instructing the DOs (February 2012) to maintain a record of sample rice by entering the same in the data base.

System of finalisation of transportation rates

2.16 The Company invites open tenders for transportation of foodgrains in the State by publishing the Notice Inviting Tender in newspapers as well as uploading the same on the website of the State Government. Accordingly, for finalisation of annual rates for transportation of foodgrains and sugar from one base depot to another base depot situated in different districts in various divisions, the Company has been inviting open

[12] Destruction of sample rice after expiry of three months from the date of sampling as per practice followed by FCI.

tenders at the division level (the work is awarded only to a domicile resident of the concerned division). The above system of transportation is called Long Route Transport (LRT). For transportation of foodgrains within the local area, transportation is made under LRT local. On the basis of rates obtained in the tender, the Company finalises annual transportation rate per MT per km in respect of LRT 1 to 25 kilo meters (KM) and per metric tonne (MT) in respect of Local lead[13].

The transportation rates were finalised based on the rates for previous year without comparing the rates of base depots of neighboring divisions for effective negotiation with tenderers for competitive rates. Thus, the system adopted by the Company for finalising the rates of transportation lacks due deligence causing huge variations in transportation rates as discussed below:

The following table indicates the year-wise details of minimum and maximum rate per MT in LRT local lead in Raipur and Bilaspur divisions for the years 2008-09 to 2012-13.

(Amount in ₹)

Raipur Division	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
Minimum	89 (Rajnandgaon)	111 (Kharora)	120 (Neora)	132 (Neora)	132 (Neora)
Maximum	250 (Balodabazar)	250 (Balodabazar)	291 (Kawardha)	256 (Durg)	280 (Bagbahara)
Rate Difference	161	139	171	124	148
Percentage of variation	181.00	125.23	142.50	93.94	112.12
Bilaspur Division	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
Minimum	68 (Naila)	120 (Kharasiya)	140 (Naila)	133 (Naila)	145 (Kharasiya)
Maximum	228 (Bilaspur)	275 (Bilaspur)	315 (Pendra Road)	327 (Jairamnagar)	327 (Jairamnagar)
Rate Difference	160	155	175	194	182
Percentage of variation	235.29	129.17	125.00	145.86	125.52

(Source: figures compiled from the data provided by the Company)

Abnormal variation in transportation rates

It may be seen from the above that percentage of variation in minimum and maximum rate of transportation of foodgrains ranged between 93.94 and 181.00 in Raipur division and 125 and 235.29 in Bilaspur Division during the years 2008-09 to 2012-13.

The following table indicates the year-wise details of minimum and maximum rate per MT in LRT 1 to 25 km lead in Raipur and Bilaspur divisions for the years 2008-09 to 2012-13:

[13] Transportation of foodgrains from Railway Station or base depot of FCI to base depot of the Company.

(Amount in ₹)

Raipur Division	2008-09	2009-10	2010-11	2011-12	2012-13
Minimum	4.31 (Durg)	7.48 (Rajnandgaon)	8.60 (Rajnandgaon)	9.60 (Balod)	10.56 (Neora)
Maximum	15.3 (Hathkhoj)	21.00 (Durg)	22.40 (Hathkhoj)	24.78 (Hathkhoj)	24.78 (Hathkhoj)
Rate Difference	10.99	13.52	13.80	15.18	14.22
Percentage of variation	254.99	180.75	160.47	158.13	134.66
Bilaspur Division	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
Minimum	6.40 (Akaltara)	6.95 (Kharasiya)	8.20 (Kharasiya)	8.98 (Kharasiya)	8.98 (Kharasiya)
Maximum	11.75 (Bilha)	16.75 (Naila)	16.50 (Bilaspur)	17.98 (Bilha)	17.98 (Bilha)
Rate Difference	5.35	9.80	8.30	9.00	9.00
Percentage of variation	83.59	141.01	101.22	100.22	100.22

(Source: figures compiled from the data provided by the Company)

It may be seen from the above that percentage of variation in minimum and maximum rate of transportation of foodgrains ranged between 134.66 and 254.99 in Raipur division and 83.59 and 141.01 in Bilaspur Division during the years 2008-09 to 2012-13.

The Management stated (September 2013) that during the specified period provision was available to submit tenders by tenderers of base depot related divisions. Separate rates are received for each depot and for various base depots one or more transporters are appointed. Rates for each base depot is received based on work quantity, road situation, prevailing hamali rates, distance of centres, entry problems, traffic problems etc.

The reply of the Management is not acceptable as there was huge variation in transportation rates of different base depot in the same division. The Management should have negotiated with the transporters keeping in view the average rate of the division to avoid excess expenditure on transportation.

During the exit conference the Secretary of the Department assured for taking corrective action in finalisation of transport contracts.

Non-delivery of foodgrains by transporters

2.17 Whenever the transporter fails to deliver foodgrains of high value, the Company forfeits the security deposit (SD) and lodges complaint with the police. A test check of transportation contracts revealed that the Company fixes meagre amount of security deposit.

It was noticed that during the period from 2008-09 to 2012-13, cases[14] of non-delivery of foodgrains involving ₹ 2.87 crore (***Annexure-2.3***) took place. The Company forfeited security deposit of ₹ 6.00 lakh only and lodged FIR in the Police Stations. However, the

[14] Non-delivery of foodgrains by three transporters:
1. 01 April 2007 to 30 June 2008 – ₹ 31.23 lakh.
2. 01 April 2007 to 30 June 2008 – ₹ 167.85 lakh.
3. 17 February 2010 to 09 March 2010 – ₹ 88.41 lakh.

Company could not recover the same from the transporters so far (September 2013) as the cases are under trial in the courts of law.

Non-obtaining sufficient security deposit/bank guarantee from transporters resulted in loss of ₹ 2.87 crore due to non-delivery of foodgrains by transporters

Since, the Company had come across the cases of non-delivery of foodgrains by the transporters, the Company should have initiated stringent measures to prevent non-delivery of foodgrains by the transporters. Had the Company increased the amount of SD, collected Indemnity Bond/Bank Guarantee, Collateral Security etc., the Company could have realised the loss by forfeiting the security deposit or encashing the bank guarantee etc.

The Management stated (September 2013) that the suggestion of audit would be considered in future during finalisation of transportation contracts.

The fact, however, remains that due to the failure of the Company to obtain sufficient security deposit/bank guarantee from transporters it could not realise ₹ 2.87 crore.

Fixation of penalty at lower rate for shortage of sugar in transportation contract

2.18 The Company procures sugar from the factories at the rate and quantity allotted by GoI for distribution of the same in the State under various schemes of PDS. From the factory, sugar is transported through rail to different rake points located in the State. Thereafter, from rake point, sugar is transported to various destinations within the State for which separate 'Handling & Road Transport' (H&T) contracts are finalised by the Company every year by issuing open tender. As per the tender terms & conditions, if any shortage occurs during transportation of sugar, the transporter was liable to pay penalty to the Company at the rates mentioned below:

Year	Market price of sugar (₹ per qtl)	Rate of penalty for shortage (₹ per qtl)	Fixation of penalty for shortage of sugar per quintal
2008-09	2800	2050	₹ 700 + Consumer price per quintal i.e., ₹ 1350
2009-10	3000	2050	₹ 700 + Consumer price per quintal i.e., ₹ 1350
2010-11	3200	2700	Twice the consumer price per quintal i.e., ₹ 1350 x 2
2011-12	3400	2700	Twice the consumer price per quintal i.e., ₹ 1350 x 2
2012-13	3600	2700	Twice the consumer price per quintal i.e., ₹ 1350 x 2

(Source: figures compiled from the records of the Company)

Though the Company is a commercial entity it did not keep it's rate of penalty for less delivery of sugar at par with the market rates of sugar as can be seen from the above table in all the years.

A test check of records relating to recovery of penalty for shortage in quantum of sugar delivered revealed that apart from fixing of penalty at less than the market rate, the district offices of the Company recovered penalty at lower rates than the prescribed rate during the years 2008-09 to 2011-12. The details of penalty recoverable at prescribed rate and actually recovered during the period 2008-09 to 2012-13 are as follows:

Year	Quantity of sugar less delivered by the transporter (in qtl)	Market price/ penalty prescribed (₹ per qtl)	Penalty as per prescribed rate (in ₹)	Penalty actually levied (in ₹)	Short levy of penalty as per prescribed rate (in ₹)
1	2	3	4	5	6 (4-5)
2008-09	2835.45	2800/2050	5812673	4799560	1013113
2009-10	4148.82	3000/2050	8505081	7501325	1003756
2010-11	4130.18	3200/2700	11151486	10704293	447193
2011-12	4075.06	3400/2700	11002662	10888337	114325
2012-13	3941.95	3600/2700	10643265	10987510	- 344245
Total			**47115167**	**44881025**	**2234142**

(Source: Data provided by the Company)

It may be seen from the above that DOs did not follow the Company's instruction and recovered penalty at a rate lower than the rate prescribed by the Company except in the year 2012-13 when the total recovery was higher.

The Management, while accepting the facts stated (June 2013) that the rate of penalty has been fixed at ₹ 4050 per quintal for the year 2013-14.

The fact remains that based on Audit observation the Company proposed to increase the penalty rate to ₹ 4050 per quintal during 2012-13. However, the Company instead of enforcing the higher penalty rate allowed the continuation of existing penalty rate of ₹ 2700 for 2012-13 also.

Computerisation of PDS, Database Management and System Improvement

2.19 As reported in *paragraph 1.4 in Performance Audit report of the Comptroller and Auditor General of India (Civil and Commercial) for the year ended 31 March 2011 (Report No. 2),* to impart greater efficiency and transparency in PDS, GoCG initiated the project for computerisation of PDS in June 2007 by involving different organisations like the Department, Markfed, National Informatics Centre (NIC) and the Company.

The Government of India conferred National Award for e-Governance for 2008-09 to the Department for excellence in Government process re-engineering.

In the Review, we analysed database, selecting the master file namely "TRUCKCHALLAN" which contained the details of delivery orders and movement of foodgrains as this master file was not covered in earlier Performance Audit. Analysis of data revealed the following deficiencies:

- ***Non-availability of USER_ID in the relevant column***

USER_ID's are unique identification of users[15] who are accessing the system. As and when any user logs in to the system the USER_ID's of the same are required to be captured and stored in the USER_ID column of the database so that the chronological log of system access could be maintained. However, we noticed from the analysis of "TRUCKCHALLAN" that instead of having USER_IDs, there were "NULL"/ random entries in the USER_ID column of the data base which indicates that the USER_IDs are not being captured by the system on mandatory basis and access control over the system was also not adequate. This may lead to un-traceable/unauthorised access of the system and it would be difficult for the Company to fix responsibility on the registered users whose systems have been misused.

The Management stated (September 2013) that separate log-in password are provided to every issue centre and on login of user on software, login date and time are saved. The Issue Centre In-charge is solely responsible for Truck Challan entries.

Reply is not acceptable, as the system does not capture the USER_ID on mandatory basis, hence, no audit trail for unauthorised access of system was recorded.

- ***No validation check over input of "DATE OF ISSUE"***

While analysing "DATE OF ISSUE" column corresponding to TRUCKCHALLAN_ID No. 325890, 325892 and 326073, it was found that year has been entered as "2209" which was not correct as the corresponding Delivery Order year was "2009". This indicates lack of input control in the system which resulted in misinformation regarding truck challans issued during the year and the actual quantity of foodgrains transported in a particular year.

While accepting the facts the Management stated (September 2013) that the software of the Company is in operation since 2007 but due to lack of experienced hands the work of data entry could not be operated properly. After appointment of computer operators during 2011-12 they could able to control the same**.**

The reply of the Management does not address the issue of system deficiency/lacunae pointed out by the audit, requiring modification in software.

- ***Existence of entries where "DATE OF ISSUE" was prior to the date of Delivery Order date (DO DATE)***

According to the procedure, Truck Challans are required to be prepared on the basis of Delivery Orders. Therefore, the date of issue of Truck Challans ("DATE OF ISSUE") must be a later date to the date of Delivery Orders. However, 1564 entries were found where "DATE OF ISSUE" of truck challan was prior to the date of Delivery Order date (DO DATE)

[15] Employee of the Company posted in base depots who is authorised to access the system for creation of truck challan.

which was not correct and raises questions regarding the integrity of the Data Base and the System. It also indicates lack of proper Input Control.

While accepting the facts the Management stated (September 2013) that the required provision has been made in the software.

Though the Management has taken corrective action to prevent unrealistic entries in future period, it did not remove the unrealistic data present in the database.

- ***Repeat allotment of "TRUCKCHALAN_ID"***

Truck Challans are prepared for the movement of foodgrains on the basis of allotment. All the Truck Challans bear a unique "TRUCKCHALAN_ID" which is automatically generated through the system, any detail pertaining to the movement of allotted foodgrains is retrieved using TRUCKCHALAN_ID. In order to ensure transparency in this regard it is prerequisite that the Truck Challans should be prepared serially and cancelled Truck Challans should be preserved in the system. Analysis of IDs revealed that "TRUCKCHALAN_ID" were not allotted serially and there were huge gaps between two challans.

The Management stated (September 2013) that the "TRUCKCHALAN_ID" is auto generated field so whenever a truck challan is deleted a new number is assigned next time for next truck challan by SQL server.

Reply is not convincing as even the deleted entries should be available in the system for future reference. The number once assigned should not be allocated again for another entry as non-availability of deleted entries would result in possibilities of creation and operation of fake challans and subsequent cancellation of the same can not be ruled out. Thus, the system lacks integrity. Huge gaps between truck challan IDs also do not support the reply furnished by the Management.

Distribution of rice, wheat and sugar

2.20 The Company delivers the foodgrains to the FPS as per the allotment made by the Department and then FPS distributes the same to the beneficiaries under various schemes of PDS. However, the responsibility of monitoring of scheme-wise allotment of foodgrains made by GoI and its distribution to the beneficiaries lies with GoCG and the Company has no direct involvement in distribution to the ultimate beneficiaries. The deficiencies noticed in distribution of foodgrains under various schemes are discussed in the succeeding paragraphs:

Distribution under various schemes of GoI/GoCG

2.21 As per allocations made by the GoI and as per number of beneficiaries in the State, the GoCG releases sub-allocations to the districts. Accordingly, district-wise allotment of rice and wheat for distribution in various schemes is issued by the Department**.** As against the allotment, the actual distribution of rice and wheat[16] under

[16] Sugar is distributed to the BPL beneficiaries only and there was less distribution ranging between 5000 MT and 16000 MT during the period 2008-09 to 2012-13.

various schemes for Below Poverty Line (BPL), Above Poverty Line (APL), Antyodaya Anna Yojna (AAY), Annapurna Yojna (APY), Other Welfare Scheme (OWS), Mid Day Meal (MDM), Poorak Poshan Aahar (PPA) and Mukhyamantri Khadyanna Sahayata Yojna (MKSY) during the years 2008-09 to 2012-13 are given in the ***Annexure - 2.4.***

It may be observed from the Annexure that:

i. During the year 2008-09, there was excess distribution of rice and wheat over and above the allotment in BPL, MDM, PPA and MKSY schemes by 9793.53 MT, 2181.34 MT, 2517.33 MT and 29809.97 MT respectively whereas there was no distribution in respect of OWS scheme.

ii. During the year 2009-10, there was less distribution of rice and wheat in APL, OWS, MDM, PPA and MKSY schemes by 80744.53 MT, 2727.87 MT, 8759.40 MT, 27728.30 MT and 18779.72 MT respectively.

iii. During the year 2010-11, there was less distribution of rice and wheat in APL, BPL, AAY, APY, OWS, PPA and MKSY schemes by 44554.96 MT, 1846.18 MT, 2428.07 MT, 83.11 MT, 1841.69 MT, 1555.88 MT and 2971.93 MT respectively.

iv. During the year 2011-12, there was excess distribution in MKSY scheme by 30882.22 MT whereas less distribution of rice and wheat in APL, BPL, MDM and PPA schemes by 151899.01 MT, 33435.13 MT, 13435.53 MT and 3130.92 MT respectively.

v. During the year 2012-13, there was excess distribution of rice and wheat in BPL scheme by 4080.29 MT whereas less distribution in APL, AAY, OWS and MDM schemes by 178107.85 MT, 7363.31 MT, 10569.04 MT and 19319.06 MT respectively.

Due to less distribution of rice and wheat the benefit of the schemes had not reached fully to the intended beneficiaries.

The above position indicates that the Company on the one hand distributed rice and wheat in excess of allotment in some schemes and on the other hand, it distributed less/no quantity of rice and wheat in other schemes during the years 2008-09, 2011-12 and 2012-13. The Company distributed less quantity of rice and wheat than the allotments during the years 2009-10 and 2010-11. The Company follows the distribution schedule communicated to it by the Department under various schemes. However, as seen in audit, due to less distribution of rice and wheat under various schemes, the benefit of the schemes had not reached fully to the intended beneficiaries.

A sample survey on 1077 beneficiaries also confirmed that 184 beneficiaries (148 BPL and 36 APL) who form 17.08 *per cent* of the sample population were not getting the foodgrains as per their entitlement.

The Management stated (September 2013) that distribution was done as per the on line allotment given by the department.

The reply of the Management confirmed that the department violated the instruction of GoI.

Diversion of foodgrains received for central schemes from GoI to State scheme

2.22 Mukhyamantri Khadyanna Sahayata Yojna (MKSY) is a scheme introduced by GoCG in April 2007 to distribute commodities of PDS to poor families left out from the Targeted Public Distribution System (TPDS) schemes[17] of GoI.

Government of India (GoI) reimburses the cost of foodgrains i.e. economic cost minus Central Issue Price (CIP), distributed under these schemes to the Company based on the allotment, distribution and submission of utilisation certificates. The GoI instructed that the foodgrains allocated under TPDS should be utilised only for the purpose for which the same are allocated and not for any other purpose/ scheme.

Diversion of foodgrains valuing ₹ 1975.43 crore and wrong claim of subsidy amounting to ₹ 899.12 crore with respect to rice

During test check of records relating to distribution of rice and wheat under various schemes and claim for subsidy, it was revealed that out of 371457 MT wheat and 882512 MT rice allocated as adhoc/ additional/ special allocation of foodgrains by GoI during the years 2009-10 to 2012-13, 180287.40 MT wheat and 139648.65 MT rice were distributed by the Company for the purpose/ scheme and remaining quantity 191169.60 MT wheat and 742863.35 MT rice were distributed under the State sponsored MKSY scheme as per instructions of GoCG in violation of the instruction of the GoI. The Company claimed the subsidy from GoI by submitting utilisation certificate without disclosing the fact that rice was distributed under the MKSY scheme. In respect of wheat, no claim for subsidy was made from the GoI as the same is received from FCI at subsidised rate and the FCI claims the subsidy directly from the GoI.

We observed that the above diversion of the rice and wheat valuing ₹ 1975.43 crore by the Company was against the instructions of GoI which resulted in diversion of foodgrains and wrong claim of subsidy amounting to ₹ 899.12 crore with respect to rice (***Annexure-2.5***). Further, by diverting wheat and rice from centrally sponsored schemes to MKSY, the Company at the instance[18] of GoCG violated the instructions of GoI and submitted wrong utilisation certificates.

The Management stated (September 2013) that the Department issues monthly allotments under different schemes and accordingly distribution is made and claim submitted to GoI. MKSY is a scheme sponsored by GoCG for providing additional facilities to the people of the State but not ignoring the GoI instructions. In this scheme foodgrains are provided at subsidised rates to APL, BPL and AAY families of the State which cannot be treated as diversion of foodgrains. Rice distributed to beneficiaries under this scheme is in addition to GoI allotments under APL/ BPL schemes, is met from State pool. Provisional cost fixed for rice procured under Decentralised Procurement (DCP) is recovered from selling price, subsidy from GoI {Economic cost minus Central Issue Price (CIP)} and subsidy from State Government (CIP minus subsidised price).

[17] APL, BPL, AAY, OWS, WBNP and MDM schemes comes under TPDS.

[18] As mentioned in the Gazette Notification of GoCG dated 23 February 2007 for MKSY Scheme and Office Order No. 986/Food/2009/29 dated 29 March 2010 of the Chief Secretary of the Department of GoCG.

The Management reply is not acceptable as the department arranged distribution of foodgrains on subsidised rate in MKSY from its own funds during the year 2008-09. However, in the subsequent years, it diverted the foodgrains meant for central schemes for distribution under MKSY scheme and stated in the UCs/subsidy claim documents that the foodgrains were distributed under the respective schemes of GoI. Consequentially, the schemes of APL, BPL and AAY of GoI were affected to that extent.

Distribution of rice without GoI allotment

2.23 The Department arranged the distribution of rice through the Company under OWS and MDM Schemes without the allotment of GoI as per the details given below:

S.N.	Name of the Scheme	Year	Allotment by GoI (MT)	Distribution by the Company (MT)	Excess distribution (MT)	Amount (₹ in crore)	Amount received from GoCG (₹ in crore)	Balance (₹ in crore)
1	OWS	2009-10	-	20161.97	20161.97	26.40	-	26.40
2	MDM	2008-09	79354.28	81835.75	2481.47	6.20	1.40	4.80
3	MDM	2010-11	81363.90	84683.58	3319.68	6.70	2.12	4.58
				Total				**35.78**

(Source: figures compiled from the records of the Company)

Non-receipt of ₹ 35.78 crore from the GoCG despite distribution of rice at the instance of GoCG without allotment from GoI

It may be seen from the above that the Department had given online allotment for distribution of rice under OWS and MDM schemes in excess of allotment from GoI. As the excess allotment for distribution of rice under OWS and MDM schemes was made by the GoCG, it was responsible for reimbursement of the cost of rice to the Company. However, GoCG did not reimburse the amount in full which had resulted in non-realisation of ₹ 35.78 crore for the period ranging between two and four years from GoCG.

The Management stated (September 2013) that rice was distributed in anticipation of allotment from GoI in the case of OWS. As the allotment was not received from the GoI it requested GoCG for payment of the amount. The Management further stated that as distribution was made in excess of the allotment of GoI, it requested GoCG for payment of the amount. However, GoCG had paid only ₹ 3.52 crore out of ₹ 39.30 crore.

The reply of the management confirms the distribution of rice without allotment from GoI which has resulted in non-receipt of ₹ 35.78 crore.

Results of sample survey on distribution of commodities under PDS

2.24 A sample survey, to verify whether the benefit of various schemes under PDS had reached the intended beneficiaries was conducted on 10 *per cent*[19] of the beneficiaries in one urban and one rural blocks of each of the five[20] districts selected. The survey was conducted on 500 rural and 577 urban beneficiaries covering 1077 beneficiaries consisting of 598 BPL and 479 APL beneficiaries as per the sample shown in the following table:

[19] Except Ambikapur urban block of Sarguja district where survey was conducted on five *per cent* of the beneficiaries where 2181 beneficiaries were available.
[20] Rajnandgaon, Sarguja, Raigarh, Kanker and Bastar.

Name of district	Name of place	FPS number	No. of beneficiaries			Sample size (10 *per cent* of the beneficiaries)		
			APL	BPL	Total	APL	BPL	Total
Sarguja (Ambikapur)	Mainpat (Rural Block)	392008001	247	761	1008	25	76	101
	Ambikapur (Urban Block)	392001004	1725	456	2181	86	23	109
Raigarh	Sarangarh (Rural Block)	412003020	284	727	1011	28	73	101
	Kharsia (Urban Block)	411002006	305	859	1164	31	86	117
Kanker	Kanker (Rural Block)	602001008	300	663	963	30	66	96
	Kanker (Urban Block)	601001005	619	432	1051	62	43	105
Bastar (Jagdalpur)	Bastar (Rural Block)	452002040	249	653	902	25	65	90
	Jagdalpur (Urban Block)	451001019	841	178	1019	84	18	102
Rajnandgaon	Dongargarh (Rural Block)	422004035	716	404	1120	72	40	112
	Dongargaon (Urban Block)	421006003	359	1082	1441	36	108	144

The findings of the beneficiary survey are as under:

- Out of 598 BPL beneficiaries, 148 beneficiaries {all 40 beneficiaries of Lal Bahadur Nagar (Rural) and all 108 beneficiaries of Dongargaon (Urban) block} from Rajnandgaon district reported that they received 1.000 kg and 1.200 kg of sugar respectively as against their entitlement of 1.300 kg.

  The balance 450 BPL beneficiaries (258 from Sarguja and Raigarh districts and 192 from Kanker and Bastar districts) reported that they were satisfied with the schemes and they were getting all the commodities regularly as per their eligibility at the prescribed rates.

- Out of 479 APL beneficiaries, 418 beneficiaries reported that they were satisfied with the schemes and were getting all the commodities regularly as per their entitlement. Of the remaining 61 APL beneficiaries major survey findings are as under:

  - 12 beneficiaries reported that they were not getting foodgrains regularly.
  - 24 beneficiaries reported that they were not getting foodgrains from FPS as per their entitlement and they were getting 4 kgs of wheat as against their entitlement of 5 kgs.
  - 16 beneficiaries reported that they were charged ₹ 150 for 10 kgs of rice and 5 kgs of wheat instead of ₹ 131 prescribed under the scheme.

Financial Management

Financial position and working results

2.25 An analysis of the financial position (***Annexure-2.6***) of the Company revealed that Capital Employed had decreased from ₹ 277.75 crore in 2008-09 to ₹ (-) 58.73 crore (Provisional) in 2011-12 and net worth also decreased from ₹ 8.45 crore in 2008-09 to ₹ 4.06 crore (Provisional) in 2011-12. Sundry Debtors[21] includes ₹ 3.13 crore recoverable from FCI since March 2008. As the FCI deducted the amount from the accounts payable to the Company on account of inferior quality of rice supplied to it, the chances for recovery of the same is remote.

Scrutiny of Working Results (***Annexure -2.7***) revealed that the percentage of sales to cost of goods sold increased from 90.69 in 2008-09 to 116.69 in 2009-10, to 108.78 in 2010-11 and decreased to 88.67 (Provisional) in 2011-12 as shown in the table.

(₹in crore)

Particular	Year			
	2008-09	2009-10	2010-11	2011-12
Sales including subsidy (₹)	2662.59	2864.92	2893.44	3074.91
Cost of goods sold (₹)	2935.89	2455.08	2659.78	3467.95
Percentage of sales to cost of goods sold	90.69	116.69	108.78	88.67

(Source: figures compiled from Annual Accounts)

The increase/decrease in the percentage of sales to cost of goods sold was due to variation in receipt of subsidy and cost of goods sold. Further scrutiny of working results revealed that purchases were made in excess of sales in all the years leading to holding of excess inventory and avoidable payment of storage charges as mentioned in the preceding paragraphs (***paragraph 2.10 and paragraph 2.13***).

Subsidy claims

2.26 The Memorandum of Understanding (MoU) executed (December 2002/September 2006) between GoI and GoCG regulates procurement and distribution of rice under PDS. The clause 9 and 10 of the MoU provide that 95 *per cent* of total Central subsidy would be released by GoI to GoCG in advance for Decentralised Procurement (DCP) without submitting the audited accounts based on quarterly claim of subsidy in the first month of every quarter and balance five *per cent* on the basis of utilisation and submission of final audited accounts by the Company and on determination of final economic cost by GoI. Further, the Company avails cash credit facilities from banks against hypothecation of the stock of foodgrains to meet its expenditure.

2.27 Section 210 of the Companies Act, 1956 read with Sections 166 and 216, vests the duty on the Board of Directors of a Company to place the accounts of the Company along with Auditor's Report (including

[21] Prior to the year 2008-09 the Company used to supply rice to the FCI. FCI deducted ₹ 3.13 crore on quality parameters from amount payable to the Company. However, the Company shows it as amount recoverable from FCI.

supplementary comments of C&AG) in the Annual General Meeting of the shareholders within six months of the close of its financial year.

However, the Company disregarded the provisions of the Companies Act and finalised its accounts for the years 2008-09 to 2010-11 with a delay ranging between 15 and 23 months as detailed below:

Year of Accounts	Due date of finalisation	Actual date of finalisation	Period of delay in month
2008-09	September 2009	16 August 2011	23
2009-10	September 2010	10 February 2012	16
2010-11	September 2011	20 December 2012	15
2011-12	September 2012	Not yet finalised	-
2012-13	September 2013	Not yet finalised	-

(Source: figures compiled from records of the Company)

Due to delay in finalisation of accounts, the Company could not submit its audited accounts to GoI due to shortage of man-power in accounts wing as mentioned in ***paragraph 2.30*** and could not get timely reimbursement of subsidy as discussed in the succeeding paragraphs.

Non-receipt of subsidy of ₹ 760.93 crore due to non-finalisation of annual accounts

2.28 Scrutiny of records of the Company revealed that during the period 2002-03 to 2012-13, the Company procured DCP rice worth ₹ 11269 crore (***Annexure- 2.8***) in the Kharif Marketing Season (KMS). It claimed ₹ 10705.53 crore, being 95 *per cent* of total procurement against which GoI released ₹ 10508.07 crore only and the balance ₹ 197.46 crore remained unrealised till date (March 2013) due to non-determination of final economic cost. Apart from this, the claim for release of remaining five *per cent* of subsidy amounting to ₹ 563.47 crore could not be prepared and submitted to GoI due to non-finalisation of the annual accounts. The Company submitted (June 2013) audited annual accounts to GoI upto the year 2010-11 only. Thus delay in finalisation of Annual Accounts and non-determination of final economic cost by GoI in the absence of final audited accounts led to blockage of subsidy claim of ₹ 760.93 crore. The blockage of subsidy also led to loss of interest of ₹ 186.81 crore[22].

The Management stated (September 2013) that the Company had submitted the final accounts upto KMS 2009-10 to GOI in the month of December 2012 whereas Markfed had submitted the same in June 2013. It further stated that GoI takes 2 to 3 years for fixation of final margins and takes further two years in settlement/payment of claims. Thus, GoI takes more than five years in payment of final claim.

The Management's reply confirms that there was delay in submission of KMS accounts as the accounts of KMS 2009-10 were submitted in December 2012.

Non-recovery of outstanding dues from FPS

2.29 Fair Price Shops (FPS) are established by the GoCG for distribution of foodgrains under PDS to the beneficiaries. These FPS work under the direct control of the Department. As per the instructions

[22] Interest was calculated at the rate of CC limit/loan taken by the Company.

(October 2006) of GoCG, the Company provides foodgrains to FPS on one month credit and the owners of FPS deposit the sale proceeds of foodgrains to draw foodgrains required for subsequent months. In this way, cost of only one month foodgrains is allowed on credit with FPS at any point of time.

As the Company does not have direct control on FPS owners and thus in case of defaults by FPS owner in payment of sale proceeds, the Company takes up the matter with the District Collector of the respective District and the Department for recovery of outstanding amount from FPS owners and payment of the same to the Company. The Department is responsible to take effective action to recover the outstanding amount from FPS owners and make payment of the same to the Company.

Blocking-up of Company's fund of ₹ 1.48 crore due to ineffective action by the Department

We observed that as on 31 March 2013, an amount of ₹ 1.48 crore was recoverable from different FPS owners and the delay in recovery ranged between 12 and 66 months (***Annexure-2.9***). Out of total outstanding of ₹ 1.48 crore, an amount of ₹ 1.08 crore pertains to Sarguja District alone where ₹ 0.83 crore is outstanding for more than four years. However, no effective action was taken by the Department to recover the outstanding amount from FPS owners which resulted in blocking-up of Company's fund of ₹ 1.48 crore.

The Management stated (September 2013) that as per the instructions of GoCG the responsibility to recover outstanding dues from FPS lies with Food Controller/Food Officer/Food Inspectors of the Department. The Company requested (May 2013) the Secretary of the Department to issue instructions to the Collectors/Food Controllers/Food Officers in this regard and accordingly, the Under Secretary of the Department addressed (June 2013) a letter to the Director of the Department.

The fact, however, remains that despite issuance of letter by Department, the dues of ₹ 1.48 crore from FPS remained unrecovered.

Deployment of Manpower

2.30 The Company had sanctioned strength of 918 posts against which 852 men-in-position was there as on 31 March 2013 ***(Annexure-2.10).***

An analysis of man-power position revealed that during the period 2008-09 to 2012-13, there was acute shortage[23] in the cadres of District Manager (DM), Assistant Manager (Technical) (AM(T)), Assistant Accounts Officer (AAO), Senior Assistants, Assistants and Junior Technical Assistant (JTA). In 18 districts, the post of District Manager was manned by Assistant Managers/Assistant Accounts Officers due to huge vacancies in cadre of DMs.

Due to operation of the post of District Managers by AMs/AAOs in 18 districts there was no segregation of duties between AMs/AAOs and DMs. Thus, there was no supervision on the work of these AMs/AAOs. As no AM (T) was posted in the Company, there was no technical supervision

[23] The percentage of shortage in these six cadres ranged between 41.7 and 59.1, 60 and 100, 56.7 and 76.7, 19.2 and 33.3, 18.6 and 25.6 and 5.6 and 15.5 respectively.

on testing of samples of foodgrains during the years 2008-09 to 2010-11. Due to shortage of manpower in the Accounts Wing, the preparation and submission of UCs, annual accounts etc., were adversely affected which led to delay in finalisation of accounts and delay in realisation of subsidy from GoI/GoCG as mentioned in ***paragraph 2.27 and 2.28***.

The Management stated (September 2013) that the officers/officials work beyond office hours for smooth functioning and implementation of Government Schemes.

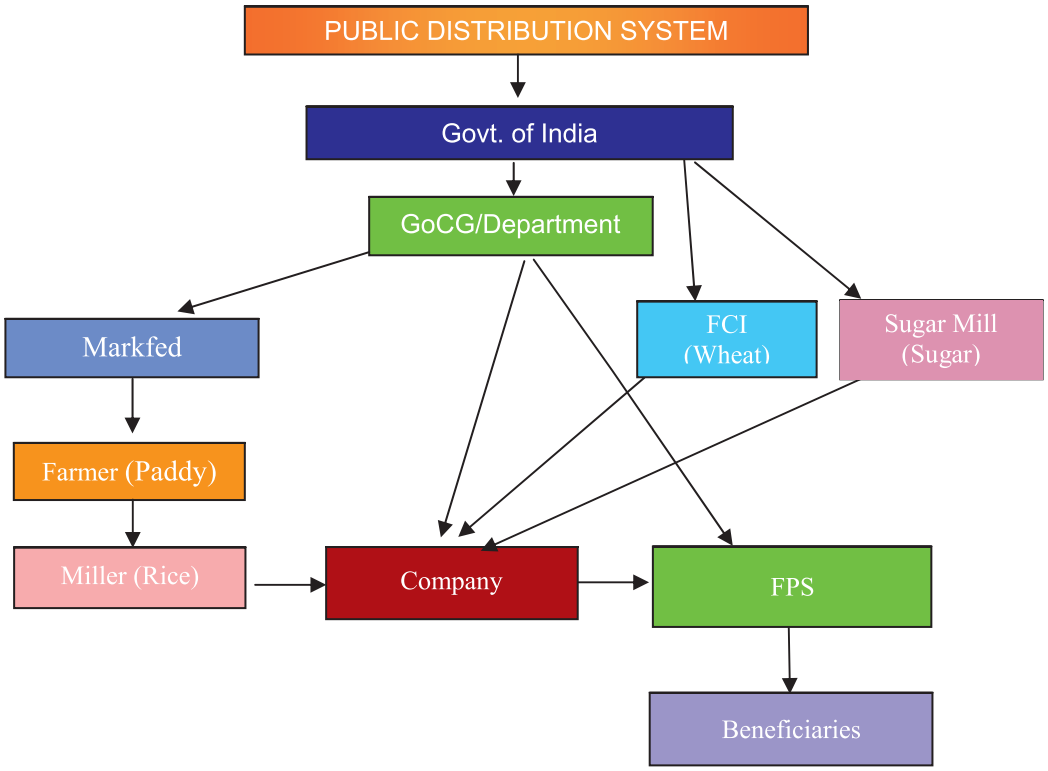
The reply of the Company is silent about shortage of manpower in Accounts wing which led to delay in finalisation of accounts and submission of claims.

Monitoring and Internal Control System

Lack of coordination among the Company, Markfed, FCI, GoCG and GoI

2.31 The Company procured CMR from Markfed and other foodgrains from FCI for distribution under various schemes of GoI/GoCG. As GoCG executed schemes of PDS by involving the Food, Civil Supplies and Consumer Protection Department, Markfed, FCI and the Company, a proper coordination among them is essential.

The following chart depicts the relationship among various organisations in implementation of PDS:



Test check of records revealed lack of coordination among the various agencies as follows:

- The GoCG sanctioned allotment of foodgrains without ascertaining the availability of stock with the Company which led to storage of excess stock and consequent avoidable transportation charges as discussed in ***paragraph 2.10***.
- There was mismatch in allotted quantity of GoI and GoCG which caused excess/short distribution of foodgrains and submission of incorrect utilisation certificates to GoI by the Company as discussed in ***paragraph 2.22.***
- There was delay in issue of sub-allotment i.e. allotment order to FPS by GoCG which led to delay in distribution of foodgrains to consumers.
- The Department did not effectively coordinate with SWC/CWC for release of amount towards storage losses (***paragraph 2.13***), with GoCG to release payment towards excess distribution of rice in MDM and OWS scheme (***paragraph 2.23***), recovery of outstanding amount from FPS (***paragraph 2.29***) and getting released the subsidies in time from GoI by directing both the Company and the Markfed for timely submission of audited annual accounts (***paragraph 2.27***).

The Management stated (September 2013) that due to unavoidable circumstances excess stock of rice was procured, due to mismatch in allotted quantity of GoI and GoCG which caused problems in preparation of utilisation certificates and the Company is in continuous touch with the GoCG for solving the problems faced in the process.

The reply of the Company confirms the shortcomings in co-ordination among various agencies. The Department did not coordinate with the School Education Department/GoCG/GoI to release the blocked amounts of the Company.

Monitoring Mechanism

2.32 For better monitoring, GoCG had initiated measures based on information and communication Technology for effective control on the PDS operations such as web-based software which takes care of all operations done at Distribution Centre for receiving PDS commodities from different sources and for issuing to FPS. Truck Dispatch Information provides information of details of commodities dispatched to FPS through SMS to registered users in which citizens can register their mobile numbers on the department's web-site and whenever PDS commodities are despatched to an FPS from the warehouse, an SMS is sent to all the mobile numbers registered for that FPS. With the introduction of Centralised Online Real-time Electronic PDS (CORE PDS) Chhattisgarh State has become the first State in the Country to facilitate beneficiaries to select FPS for getting foodgrains as per their choice. CORE PDS is introduced (March/December 2012) in Raipur, Durg, Rajnandgaon and Mahasamund districts and the introduction of the same is yet to be done in other districts of the State. The Department made it mandatory to paint the trucks carrying PDS commodities with yellow colour for easy identification of PDS trucks.

Internal Control System

2.33 Internal control is a management tool used to provide reasonable assurance that the objectives of the Company are being achieved in an economical, efficient and effective manner. A good system of internal control comprises proper allocation of functional responsibilities within the Company, proper procedures for operation and co-ordination among different wings of the Company. A review of internal control mechanism revealed the following:

- Internal Audit of the Company was conducted by Chartered Accountants through outsourcing and no major cases of lapses were pointed out by them.
- The Company ensures quality control by deployment of Junior Technical Assistants in procurement centres for analysis of samples. However, as no Assistant Manager (Technical) was posted in the Company during the year 2008-09 to 2010-11, there was no supervision on testing of samples of foodgrains.
- The Company operated the post of District Managers by Assistant Managers (AMs)/Assistant Account Officers (AAOs) in 18 districts as a result there was no segregation of duties between AMs/AAOs and DMs and no supervision on the work of these AMs/AAOs.
- The Company reconciles the quantity of foodgrains issued to FPS against delivery orders and demand drafts (DDs) received at the DOs in each month.
- The Company ensures proper maintenance of records in DOs, procurement/issue centre and submission of periodical returns to the Head Office.
- There was no mechanism to conduct surprise checks of stocks at different storage points.
- There is no vigilance wing in the Company.

Non-compliance of provisions of the Companies Act, 1956

2.34 According to Section 285 of the Companies Act, 1956 (Act), the Board of Directors of the Company (BoD) shall meet at least once in every three calendar months, i.e. four times in a calendar year. The table shows the number of meetings of BoD held during the years 2008 to 2012.

Year	No. of meetings held	Date of meeting
2008	1	9 April 2008
2009	2	23 June 2009 and 28 October 2009
2010	3	9 March 2010, 25 June 2010 and 29 October 2010
2011	2	18 February 2011 and 26 August 2011
2012	3	12 March 2012, 12 July 2012 and 17 December 2012

(Source: Information provided by the Company)

It could be seen from the table that meetings of the BoD were not held according to the requirement of the Act and the Company failed to arrange the meetings of BoD. This led to lack of monitoring by the BoD over the

activities of the Company. It was further observed that during the scrutiny of agenda and minutes of BoD, it was noticed that the Company discussed the issue of fixation of norm for storage loss in the 24th and 26th meeting of BoD which was held on 23 June 2009 and 9 March 2010 respectively. Thereafter, it was not discussed in the succeeding meetings. The Company also did not discuss the issue regarding MDM claims, OWS claims and non-receipt of wheat from FCI.

The Management stated (September 2013) that due to certain unavoidable circumstances, sufficient meetings could not be convened and efforts will be made to convene sufficient meetings.

Conclusion

The Review revealed that the procurement and transportation of rice from other districts without any requirement resulting in payment of avoidable charges on transportation, non utilisation of storage space and excess/ less distribution of foodgrains under various schemes. In transportation contracts, huge variation was noticed in transportation rates of different base depots in the same division. In the absence of norms of storage losses, data on actual reimbursable losses were not maintained by the Company. Reserving storage space in excess of the requirement led to underutilisation of storage space and consequent avoidable payment of storage charges. The Company fixed and levied penalty at lower rate for shortage in quantum of sugar delivered by transport contractors. With the introduction of Centralised Online Real-time Electronic PDS (CORE PDS) Chhattisgarh State has become the first State in the Country to facilitate beneficiaries to select FPS for getting foodgrains as per their choice. The Company diverted foodgrains from Central schemes to State schemes. Rice was distributed in Mid Day Meal Scheme and Other Welfare Schemes without GoI allotment. Delay in finalisation of annual accounts led to non-receipt of subsidy from GoI. The Company has not prescribed any mechanism to conduct periodical surprise checks at storage points.

Recommendations

The Company should consider:

- **procurement of foodgrains as per the requirement at different districts to avoid additional transportation charges towards inter district transfers which also gets included in the subsidy claims;**
- **fixing norms for storage loss to avoid any dispute with SWC/CWC and realise the outstanding amount and reserving storage space with proper planning to avoid non-utilisation/under utilisation of storage space;**
- **distribution of foodgrains as per the allotment without diverting the foodgrains from one scheme to other schemes;**
- **timely finalisation of annual accounts for early reimbursement of subsidy from Government of India; and**

- **strengthening of internal control mechanism through setting up of Internal Audit wing and a mechanism for surprise checks to ensure better monitoring and supervision.**