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Report of the Comptroller and Auditor General of India on Procurement and Milling of Paddy for the Central Pool

भारतीय लेखा एवं लेखा परीक्षा विभाग ✦ INDIAN AUDIT AND ACCOUNTS DEPARTMENT

सत्यमेव जयते

Union Government

Ministry of Consumer Affairs, Food and Public Distribution

Report No. 31 of 2015

(Performance Audit)

Union Government, Report No. 31 of 2015

Report of the
Comptroller and Auditor General of India

on

Procurement and Milling of Paddy for the Central Pool

For the year ended March 2014

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Ministry of Consumer Affairs, Food and Public Distribution

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Index

Preface

The Food Corporation of India (FCI) was incorporated under the Food Corporation Act, 1964 with the objective to undertake purchase, storage, movement, transportation, distribution and sale of food grains on behalf of the Government of India (GoI). FCI, in coordination with the Ministry of Consumer Affairs, Food and Public Distribution, Department of Food and Public Distribution at Central level and State Governments Agencies (SGAs) at State level carries out the procurement operations of paddy/rice as an integral part of the food grains management operations. The main objective of procurement of paddy is to make rice (after milling of paddy) available at lower rate to the consumers {including Targeted Public Distribution System (TPDS) beneficiaries} on one hand and to provide Minimum Support Price (MSP) to the farmers.

In the above backdrop, Audit took up the performance audit of the FCI/State Governments and their agencies to assess the performance of procurement and milling of paddy procured for the Central Pool and delivery of rice to FCI/SGAs. The performance audit covered a period of five years from 2009-10 to 2013-14 and involved examination of records relating to the State Governments of Andhra Pradesh, Bihar, Chhattisgarh, Haryana, Odisha, Punjab, Telangana and Uttar Pradesh, which accounted for nearly 95 per cent of the total procurement during 2012-13

This Performance Audit Report points out a large number of deficiencies/weaknesses in the conceptual and operational framework of the procurement and milling of paddy by FCI/SGAs in the country. Audit observed, interalia, procurement of substandard paddy by the FCI/SGAs, widespread instances of MSP being paid to farmers without ascertaining their bonafides, large scale non-delivery of paddy/rice by the rice millers to FCI/SGAs and irregularities in transportation of paddy/rice. Resultantly, these ended up in benefitting the rice millers/middle logistics providers at the cost of both the producers i.e. the farmers and the end consumers i.e. the TPDS beneficiaries and eventually contributed to avoidable increase in the food subsidy expenditure of the GoI.

The Audit Report has been prepared in accordance with the Performance Auditing Guidelines, 2014 and Auditing Standards issued by the Comptroller and Auditor General of India.

Audit wishes to acknowledge the cooperation received from the Ministry/FCI/State Governments and their field formations at each stage of the audit process. We do hope that the Government will expedite the actions to implement the recommendations, such as- refixation of milling charges, out-turn ratio and driage allowance; ensuring payment of MSP to bonafide farmers; and ensuring collateral security for food grains in the custody of the millers.

Executive Summary

Why did we select this subject for Audit?

The Government of India (GoI) spends huge amount of money for supply of rice under Targeted Public Distribution System (TPDS). The milling charges were fixed by the GoI long back in 2005, on the basis of recommendations of the Tariff Commission of India and since then the milling charges have not been revised. However the rice millers are still carrying out the milling operations at milling charges fixed in 2005, without any demand for increase in the milling charges even though the cost of milling has increased. Significantly, the selling price of the by-products i.e. rice bran, broken rice and husk generated in the milling process, has increased substantially. There were also concerns regarding payment of Minimum Support Price (MSP) to farmers, revision of milling charges for paddy and non-delivery of rice. Accordingly, this Performance Audit was conducted to examine such issues along with the effectiveness of monitoring and control processes at various stages.

What were our audit objectives?

The performance audit was conducted to evaluate whether:

- the rates of various incidentals, including milling charges, in the cost sheet were fixed in a transparent and economical manner;
- the system of selection of millers was sound, linkage of *mandis* with rice mills was economical and allocation of paddy to rice millers was carried out efficiently;
- the system of ensuring quality and quantity of paddy/rice procured for the Central Pool was effectively implemented;
- the terms and conditions of Milling Agreements/Levy[1] Orders were duly complied with; and
- the monitoring and review mechanism for procurement of paddy, storage, milling and up to the stage of delivery of rice was adequate and effectively operationalised.

What did our performance audit reveal?

Highlights of the major observations pertaining to this performance audit are as below:

A. Observations on Procurement of Paddy

The rice millers who procure paddy at regulated *mandis* are entitled for reimbursement of *Mandi* Labour Charges (MLC). Though the purchases were made at farm gate/mill point,

[1] *Paddy procured and milled by rice millers under levy orders and the resultant specified percentage of rice delivered to FCI is called Levy Rice.*

Food Corporation of India (FCI) unjustifiably reimbursed MLC to the rice millers without verifying whether paddy was procured at *mandi* or at farm gate. This resulted in irregular payment of MLC and consequential undue benefits to millers to an extent of ₹ **194.23 crore** in Bihar, Odisha and Andhra Pradesh regions of FCI during 2009-10 to 2013-14.

(Para 2.1.1 a)

As per Gokak Committee's recommendation, two to three *per cent* driage of moisture was inbuilt while fixing 67 *per cent* out-turn ratio for raw rice. However, the GoI has been allowing additional one *per cent* driage allowance since 1998 for all the States, though the demand was raised only by the millers of Punjab. This resulted in not only additional avoidable incidence of subsidy on the GoI to the tune of ₹ **952.37 crore** from the period 2009-10 to 2013-14 but also undue benefit to the millers to the same extent.

(Para 2.1.4)

A large number of deficiencies like non authentication of land holdings of farmers, cases of payments to farmers with doubtful identity, non-obtaining Minimum Support Price (MSP) certificates, non-availability of details of farmers (bank account number, name of village etc.) were noticed in the States of Andhra Pradesh, Haryana, Punjab, Telangana and Uttar Pradesh. The amount of such MSP payments made was ₹ **17,985.49 crore** for which there was no assurance that the farmers actually did get full MSP for their produce from millers/SGAs/FCI in these States.

(Para 3.2.1 and 3.2.2)

A quantity of 82.46 LMT paddy valuing ₹ **9,788.50 crore** was procured by SGAs in Punjab during 2010-11 and 2013-14 under Fair Average Quality (FAQ) specifications but the same was found below specifications during inspection by the Ministry of Consumer Affairs, Food and Public Distribution. Evidently, full payment was made by SGAs in Punjab for paddy even though it was substandard in quality.

(Para 3.3.3)

In Punjab, the millers whose mills were tagged within a distance of eight kilometres were not eligible for transportation charges (as this element was included in the milling charges). However, an amount of ₹ **163.72 crore** was incurred by SGAs on transportation of paddy for these mills thereby passing undue benefit to the rice millers to the same extent.

(Para 4.1.2)

In Uttar Pradesh, Bihar and Chhattisgarh, large quantities of paddy/Custom Milled Rice (CMR) ranging from 14 quintals to 1,800 quintals were transported through doubtful means of transport such as Motorcycle, Auto Rickshaw, Jeep, Taxi, Thela (Jugad), Car etc. In all, the total quantities of paddy/CMR depicted as transported through these doubtful means was 5,744.09 MT valuing ₹ **6.58 crore** indicating possibility of false claims being submitted by the transporters.

(Para 4.4)

B. Observations on milling of paddy and delivery of rice

Despite significant increase in realization value of by-products, milling charges have not been revised since 2005. This resulted in excess net realization of ₹ **3,743 crore** from sale of by-products by the millers in Andhra Pradesh, Chhattisgarh, Telangana and Uttar Pradesh during 2009-10 to 2013-14. This excess realization has been worked out from partial data furnished by selected districts of these four States. The paddy procured in these selected districts in the four States was 395.10 LMT against 2499.37 LMT procured in the country during the five year period, which represented 15.81 *per cent* only, of the total procurement. The actual figure will invariably be much higher, if the GoI undertakes an exercise to ascertain full quantum of excess realization by millers, across the country.

(Para 5.1.1)

In Punjab, the procuring agencies did not recover the applicable penal interest from the millers for delayed milling of paddy/delivery of rice for KMS 2009-10, 2012-13 and 2013-14 resulting in undue benefit of **₹ 159.47 crore** to the millers due to waiver of penal interest.

(Para 6.2)

The paddy given to millers is to be delivered back in the form of resultant rice. Moreover, millers are supposed to deliver levy rice to SGAs/FCI for the Central Pool. However, Audit noticed in the selected districts of Bihar, Haryana, Odisha, Punjab, Uttar Pradesh and Telangana that 15.89 LMT paddy/CMR valuing ₹ 3,042.87 crore and 23.34 LMT of Levy rice valuing ₹ 4,527.91 crore (totalling **₹ 7,570.78 crore**) was not delivered by millers to FCI/SGAs. In absence of collateral security from the millers, the SGAs/FCI had no recourse to recover the value of non delivered CMR. This practice also increases the risk of misappropriation of CMR and diversion to open market of Levy Rice by the millers.

(Para 6.3)

What do we recommend?

1. Based on the instructions issued in Punjab and Haryana, the GoI may consider specifying the minimum quantity of paddy to be filled in each gunny, across the country to optimize gunny utilization and reduce expenditure on this account.
2. The GoI may consider revisiting the decision to allow one *per cent* additional driage allowance after taking expert technical opinion on the matter.
3. In view of the huge amount of State revenue involved, the Ministry may direct FCI to accept Government of Andhra Pradesh's recommendation to deduct Value Added Tax (VAT) at source from private rice millers to ensure timely collection of VAT and revenue to the exchequer.
4. The Ministry may direct FCI/SGAs to ensure that payments for custody and maintenance charges and Society commission are made only after verification of documentary evidences for actual incurrence of expenditure by the SGAs on this account.

5. The Ministry may ensure that payments are released by FCI/State Governments only after obtaining certificates for market fee/tax/cess paid in the previous marketing season.

6. In view of large scale MSP related payments being made without ascertaining the *bonafide* of the farmers, it is recommended that FCI/SGAs may consider direct transfer of MSP payments to the identity linked accounts of the farmers.

7. In view of public health concerns arising from supply of Targeted Public Distribution System food grains without adequately complying with the applicable Standards for toxins, insecticides and pesticides residue, FCI/SGAs may augment the testing facilities for the same.

8. The GoI may devise a mechanism whereby the benefits of relaxation in Fair Average Quality (FAQ), because of adverse weather conditions affecting the crops, may accrue only to the intended beneficiaries, that is the farmers and not to the millers.

9. In view of widespread damage to paddy because of lack of pre-milling storage, the GoI/FCI/State Governments may augment the pre-milling storage capacity to minimise the risk of damage to precious food grains.

10. The State Governments/SGAs should ensure that paddy is given to millers only after obtaining the required security for the paddy.

11. The State Governments may ensure that all mills within a distance of eight kilometres are tagged first, only after which mills situated at further distance may be considered, taking into account the milling capacity and quantity of paddy to be milled.

12. All doubtful cases of transportation of paddy need to be properly investigated by the State Governments concerned and FCI needs to exercise due diligence before passing such claims for payment.

13. The GoI may take up with the State Governments to impress upon the millers to provide the data about milling and other costs to Tariff Commission for timely completion of study for refixation of the milling charges and out-turn ratio.

14. The State Governments/SGAs/FCI may consider a mechanism by way of obtaining bank guarantee from rice millers as collateral security to safeguard against non-delivery of CMR/Levy Rice. Also, it may consider recourse to legal proceedings to recover the value of non- delivered CMR/Levy Rice.

15. Finalisation of procurement incidentals needs to be carried out in a time bound manner by adhering to the prescribed schedule.

16. There is an urgent need to have a mechanism in place to reduce the chances of recycling and to detect old versus new rice. The GoI may consider to evolve a procedure to detect old/ recycled rice delivered by millers.

17. FCI/SGAs may consider augmenting manpower for quality checks at the stage of procurement and redress the weaknesses in monitoring and internal control system for procurement of paddy, milling and delivery operations.

Chapter-I
Introduction

Procurement of food grains is one of the important elements for implementation of Food Management Policy of the Government of India (GoI) and for catering to the need of public consumption of food grains in the country. For procurement, movement and storage of food grains such as paddy/rice and wheat in the country at large scale, the GoI incorporated Food Corporation of India (FCI) in 1964. FCI, in coordination with the Ministry of Consumer Affairs, Food & Public Distribution, Department of Food & Public Distribution at Central level and State Governments and State Government Agencies (SGAs) at State level carries out the procurement operations of paddy/ rice as an integral part of the food grains management operations.

1.1 Food Grains Procurement Policy

The Food Grains Procurement Policy of the GoI has the following objectives:-

a) To meet the requirement of Targeted Public Distribution System (TPDS) and Other Welfare Schemes (OWS) of the Government, so that the subsidized food grains are supplied to the poor and needy;

b) To ensure that farmers get remunerative prices for their produce; and

c) To build up buffer stock of food grains to ensure food security.

To meet these objectives, the Government of India procures wheat and paddy/rice every year through Food Corporation of India (FCI) and State Governments/SGAs at Minimum Support Price (MSP). Apart from procuring paddy directly from the farmers and getting it milled to convert it into rice, a substantial quantity is procured through rice millers in the form of levy, whereby rice millers procure paddy directly from the farmers, convert it into rice and deliver the same to FCI and State Governments/SGAs.

1.2 Food Corporation of India (FCI)

FCI works under the administrative supervision and control of the Ministry of Consumer Affairs, Food & Public Distribution, Department of Food & Public Distribution (hereafter referred to as the Ministry) which is responsible for implementation of the national food security system.

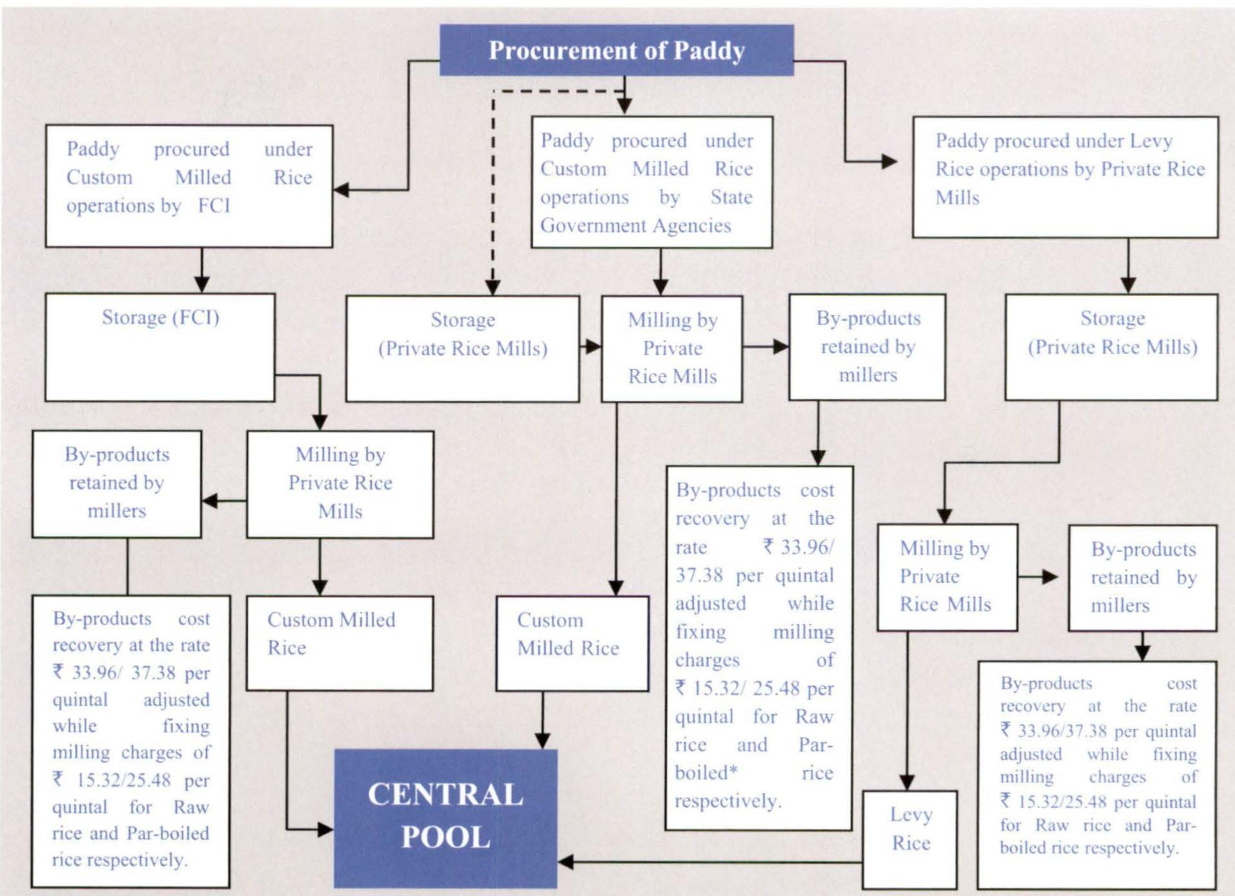
The affairs of FCI are managed by a Board of Directors headed by Chairman & Managing Director along with two Directors representing the Ministry of Consumer Affairs, Food and Public Distribution, one Director from the Ministry of Agriculture & Co-operation, one *ex-officio* Director (Managing Director of Central Warehousing Corporation) and non official

Directors. Its functions are managed through country-wide network of offices with headquarters at New Delhi with five Zonal offices, 24 Regional offices, 168 District offices and one Port office at Adipur (Kutch), Gujarat. The main operations of FCI comprises of Procurement of food grains, Storage of food grains, Movement of food grains and Distribution and sale of food grains.

1.3 Operational framework for procurement of paddy and delivery of rice

The Government has built up an elaborate administrative mechanism for implementation of the Food Management Policy. The Ministry of Agriculture and the Ministry of Consumer Affairs, Food and Public Distribution formulates and implements the Food Management Policy of the Government of India. The Ministry of Agriculture is responsible for formulation of national policies and programmes relating to prices of agricultural products. The formulation and implementation of national policies relating to procurement, management, storage and distribution of food grains, TPDS, maintaining of buffer stock, export and import, quality control and specifications of food grains, administration of subsidies on food grains etc. are handled by the Ministry.

A flow chart depicting various stages from procurement of paddy to delivery of rice to FCI/State Government/SGAs is shown below:



* *Paddy soaked in water and steamed in mild steel cylindrical parboiling tank and dried in dryer before milling*

The main components of the Food Management Policy are explained below:

Minimum Support Price (MSP)

Based on the recommendations of the Commission of Agricultural Costs and Prices (CACP)[2], views of the State Governments and various Central Ministries, the GoI fixes MSP for different food grains every year to protect interest of the farmers.

Economic cost of food grains

It is the aggregate of acquisition cost of food grains including procurement incidentals, administrative overheads, handlings and shortages etc.

Procurement Incidentals

Expenses incurred by FCI from procurement to the stage of receipt in the first storage point are classified as the procurement incidental charges. These expenses are incidentals on direct procurement of paddy and rice procurement from millers and SGAs and comprise of statutory expenses like *mandi*[3] charges, Purchase tax/Value Added Tax (VAT) and non-statutory charges like *Mandi* Labour Charges (MLC), Custody and Maintenance (C&M) charges etc.

Targeted Public Distribution System (TPDS)

Under this system, the States are required to formulate and implement foolproof arrangements for identification of poor, for delivery of food grains to Fair Price Shops (FPS) and for their distribution in a transparent and accountable manner at the FPS level.

Central Issue Price (CIP)

Wheat and rice are issued from the Central Pool to the State Governments/Union Territories administrations at the CIP for distribution. The CIP is fixed below their economic cost.

After streamlining and restructuring of the Public Distribution System (PDS) with focus on the poor (the Targeted PDS), two different CIPs are fixed, one for the families Below Poverty Line (BPL) and the other for Above Poverty Line (APL). The Central Government bears the subsidy burden on this account, especially for making available food grains at subsidised rates to the BPL category.

Buffer Stock Policy

Food stocks are maintained by the GoI: i). to meet the prescribed minimum Buffer Stock norms for food security; ii). for monthly releases of food grains for supply through the PDS/TPDS/Welfare schemes; iii). to meet emergent situations arising out of unexpected crop failure, natural disasters etc.; and iv). for market interventions to augment supply so as to help moderate the open market prices.

[2] *CACP submits its recommendations to the Government in the form of Price Policy Reports every year, separately for five groups of commodities namely Kharif crops, Rabi crops, Sugarcane, Raw Jute and Copra.*

[3] *The market place notified by the State Government/FCI where food grains are brought by farmers for sale.*

The Central Pool stock is maintained by FCI, the State Governments and SGAs. Wheat, paddy and coarse grain are procured at the purchase centres opened in the surplus States by FCI/SGAs. The stock procured by the State Governments/SGAs is taken over by FCI on payment of MSP and incidental charges. A certain percentage of paddy milled by millers and resultant rice[4] produced has to be handed over to FCI under the Levy Orders issued by the State Governments under the Essential Commodities Act, 1955. The percentage of rice to be delivered under Levy orders varies from State to State.

1.4 Procurement of paddy for the Central Pool

Under the existing Procurement Policy of the GoI, paddy for the Central Pool is procured by various agencies such as FCI, SGAs and private rice millers. Procurement for the Central Pool is carried out on open ended[5] basis at MSP fixed by the GoI. Paddy procured by the State Governments falling under Decentralised Procurement (DCP) scheme is also part of the Central Pool. Under this scheme, the DCP States/UT[6] procure, store and directly distribute food grains, including Levy Rice, towards TPDS and OWS. Any surplus stock over their requirements is taken over by FCI for the Central Pool. In case of any shortfall in procurement against allocation made by the GoI for distribution to TPDS, FCI meets the deficit out of the Central Pool.

Custom milling of procured paddy

The paddy procured for the Central Pool by FCI, State Governments and SGAs and private rice millers, based on MSP, is milled in rice mills. This activity is called custom milling of paddy[7]. Custom milling of paddy by Government/private rice millers results in conversion of paddy into rice (called resultant rice) and delivery of this rice to FCI on payment of specified milling charges. Milling of paddy under the present arrangement is for paddy procured for the Central Pool through CMR and Levy route.

- **Custom Milled Rice (CMR)** - During Rabi/Kharif Marketing Seasons (RMS/KMS[8]) every year, FCI along with SGAs, Co-operative Societies etc. procures paddy directly from the *mandis*/procurement centres which is got converted into rice through rice millers and the resultant rice (which is known as CMR) is delivered to FCI. The paddy procured by FCI is first transported to its godowns from where the same is issued to millers for conversion of the same into rice. In this arrangement, rice is to be received by FCI in advance from the miller before giving paddy to rice millers for milling. In the case of

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[4] *Rice obtained from milling of paddy.*

[5] *There is no upper ceiling on procurement; whatever is brought to the mandis by the farmers is to be procured by FCI/SGAs.*

[6] *Andaman & Nicobar Islands, Chhattisgarh, Karnataka, Kerala, Madhya Pradesh, Odisha, Tamil Nadu, Uttrakhand, and West Bengal.*

[7] *Removal of husk and the bran layers, and production of edible, white rice kernel that is sufficiently milled and free of impurities.*

[8] *Rabi crops are sown in winter from October to December and harvested in summer from April to June. Kharif crops are grown with the onset of monsoon in different parts of the country and these are harvested in September-October. In most of the southern States paddy is sown in both the seasons as against the northern states (Punjab, Haryana etc.) where wheat is a major crop in the Rabi season.*

paddy procured by SGAs, the same is generally moved directly from *mandis* to the millers' premises for milling and the resultant rice is delivered directly to FCI. In a few cases, paddy procured by the SGAs is first stored in their own godowns and from there the paddy is issued for milling to private rice millers.

- **Levy Rice** – Paddy procured directly from the farmers and milled by rice millers under Levy orders and the resultant specified percentage of rice delivered to FCI is called Levy Rice. This is carried out under the statutory levy system wherein the State Governments, in exercise of powers conferred by the Essential Commodities Act, 1955, issue levy orders in consultation with the GoI, directing the private rice millers/dealers to deliver a specified percentage of the resultant rice (from paddy procured by them directly from the farmers) to FCI for the Central Pool.

The production, *mandi* arrival and procurement of paddy during 2009-10 to 2013-14 were as under:

Table 1.1
Production, *mandi* arrival and procurement of paddy (in terms of rice)*

(Lakh Metric Tonne - LMT)

Year	Production of paddy in India	*Mandi* arrival of paddy	Procurement*			
			FCI	SGAs	Total	Levy Rice (Included in Total)
2009-10	890.90	346.39	101.73	218.61	320.34	112.64
2010-11	959.80	363.81	119.70	222.09	341.79	116.05
2011-12	1043.20	375.20	91.10	259.31	350.41	97.85
2012-13	1030.00	403.34	70.33	270.11	340.44	80.44
2013-14	1061.90	399.32	60.30	261.30	321.60	80.07

**Paddy is converted into rice at the out-turn ratio of 67 per cent; accordingly, the figures for paddy are based on this conversion ratio.*

Source: Annual Report of the Ministry of Agriculture, Annual Report of the Ministry and FCI Procurement Division

As can be seen from Table 1.1, procurement by FCI is showing a decreasing trend over the years. Under the current procurement framework, rice obtained through the direct purchase of paddy by FCI costs less because of comparatively lower incidentals as against rice received by it through SGAs under CMR operations. Thus, decreasing procurement by FCI translates into additional expenditure on overall rice procurement and supply resulting in higher subsidy burden on the GoI.

1.5 Food Subsidy

Food subsidy is provided in the budget of the Ministry to meet the difference between economic cost of food grains and their sales realization at Central Issue Prices (CIPs) for

TPDS and OWS. In addition, the Central Government also procures food grains for meeting the requirements of buffer stock for which carrying cost[9] is also reimbursed by the GoI as part of subsidy.

The Government notified the National Food Security Act, 2013 on 10 September 2013 with the objective of providing food and nutritional security by ensuring access to adequate quantity of quality food at affordable prices to people to live with dignity. The Act provides for coverage of up to 75 *per cent* of the rural population and up to 50 *per cent* of the urban population for receiving subsidized food grains under TPDS, thus covering about two-thirds of the population.

Reimbursement of Subsidy

The Central Government undertakes to reimburse the entire expenditure incurred by the State Governments/SGAs on the procurement operations undertaken on behalf of it, as per the approved costing Principles[10].

The subsidy is provided to FCI, which is the main instrument of the GoI for procurement and distribution of wheat and rice under TPDS and other welfare schemes and for maintaining the buffer stock of food grains as a measure of food security. The GoI determines State specific economic cost under DCP scheme and the difference between the economic cost so fixed and the CIP is passed on to the respective State as food subsidy.

Under the existing system of release of food subsidy to the State Governments, the Ministry issues provisional cost sheets indicating various incidentals to be paid to the SGAs (Millers in case of Levy Rice) before each marketing season, after receiving proposals from all the States in respect of CMR and Levy Rice.

The State Governments/SGAs procure food grains for Central Pool, which is either delivered to FCI or used for their own PDS requirements under the DCP scheme. Therefore, separate cost sheets are worked out for the food grains to be delivered to FCI, and retained by the State Governments for distribution under DCP scheme.

The State Governments/SGAs prefer their claims to FCI on the basis of provisional cost sheets in respect of delivery/off take for Central Pool operations. For DCP operations, the SGAs submit their quarterly claims to the Ministry. Since the cost sheets are provisional and subject to finalization based on the audited accounts and there is always a time-lag in finalization of accounts in the States, quarterly subsidy is released on provisional basis after deducting five *per cent* on the amount claimed. In addition to the provisional subsidy after the end of the quarter, 90 *per cent* of the estimated subsidy for the next quarter is also paid in advance as 'advance subsidy'. The advance subsidy is adjusted from the claim of the States made during the subsequent quarter. After finalization and submission of the accounts by SGAs, the cost sheets are finalised by the GoI and provisional subsidy, already released to the

[9] *Includes storage cost, maintenance, insurance etc., less opportunity costs and losses.*

[10] *Issued by the GoI in 2003 for finalization of cost of procurement incidentals.*

State Governments is adjusted from the final claims of the State and the differences are to be paid/recovered appropriately. Under the system, therefore, all the actual costs incurred by the States on the operations carried out on behalf of FCI are reimbursed by the GoI.

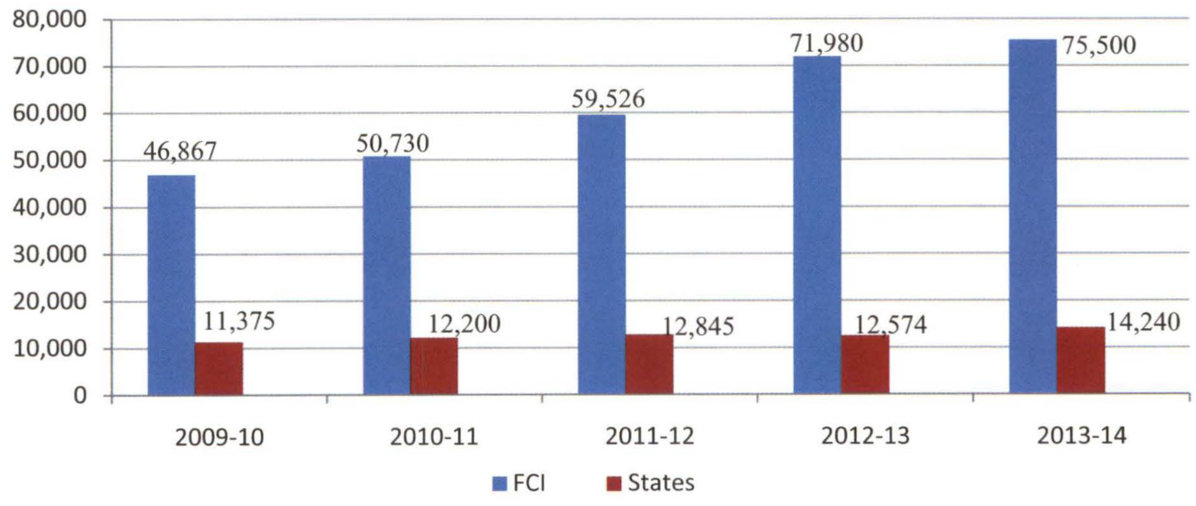
Similar system for payment of subsidy is applicable for FCI wherein it prefers quarterly claims in respect of consumer subsidy i.e. the difference between the economic cost and sales value of the food grains meant for distribution under PDS. In addition, subsidy is also paid in respect of the cost incurred in carrying the Buffer Stock as per the existing guidelines. The provisional claims are finalised based on the audited accounts of FCI.

It was observed in audit that procurement incidentals of Andhra Pradesh and Telangana, Chhattisgarh, Haryana, Odisha, Punjab and Uttar Pradesh had been finalised only till 2008-09 (Andhra Pradesh and Telangana), 2007-08, 2011-12, 2004-05, 2008-09 and 2006-07 respectively. Moreover, the accounts of Bihar are awaited since 2000.

The year-wise break-up of subsidy released for distribution of subsidized food grains (Wheat, Rice and Coarse grains) and maintenance of buffer stocks during the last five years to FCI and the States operating the DCP scheme is as under:

Chart 1.1
Food subsidy released by the GoI to FCI/SGAs

(₹ in crore)



Source: Annual Report of the Ministry

As is evident from the above chart, the food subsidy outgo has shown a continuous rise over the last five years and it stood at ₹ 89,740 crore as on 31 March 2014.

1.6 Rationale of Audit

The GoI spends huge amount of money for supply of rice under TPDS. As indicated in chart 1.1, the food subsidy burden stood at ₹ 89,740 crore as of 31 March 2014. The milling charges were fixed by the GoI long back in 2005, on the basis of recommendations of the Tariff Commission of India and since then the milling charges have not been revised. However the rice millers are still carrying out the milling operations at milling charges fixed in 2005, without any demand for increase in the milling charges even though the cost of milling has increased significantly. The selling price of the by-products i.e. rice bran, broken rice and husk generated in the milling process, has increased substantially. There were also concerns regarding payment of Minimum Support Price (MSP) to farmers, revision of milling charges for paddy and non-delivery of rice. Accordingly, this Performance Audit was conducted to examine such issues along with the effectiveness of monitoring and control processes at various stages.

1.7 Audit Objectives

The performance audit was conducted to evaluate whether:

- the rates of various incidentals, including milling charges, in the cost sheet were fixed in a transparent and economical manner;
- the system of selection of millers was sound, linkage of *mandis* with rice mills was economical and allocation of paddy to rice millers was carried out efficiently;
- the system of ensuring quality and quantity of paddy/rice procured for Central Pool was effectively implemented;
- the terms and conditions of Milling Agreements/Levy Orders were duly complied with; and
- the monitoring and review mechanism for procurement of paddy, storage, milling and up to the stage of delivery of rice is adequate and effectively operationalised.

1.8 Scope of Audit

The present performance audit broadly covers the following areas:

- Compliance with instructions of the GoI while procuring paddy/rice, allotment of paddy and linking of rice mills;
- Issue of paddy to rice millers and its storage;
- Custom milling and delivery of rice to FCI/SGAs;
- Accounting of paddy received/stored and rice issued; and
- Compliance with various regulatory requirements by the rice millers.

Storage and movement of food grains operations of FCI were covered in Performance Audit on 'Storage Management and Movement of Food grains in Food Corporation of India' printed in Report No. 7 of 2013 of the C&AG of India.

1.9 Audit Criteria

The performance was assessed against the criteria drawn from the following:

- The GoI instructions/guidelines, State Government orders, Operational guidelines of SGAs;
- Custom Milling Agreement entered into by FCI/SGAs with rice millers;
- Levy Orders of the respective States;
- Returns/Stock accounts of paddy procured, milled and rice delivered etc.; and
- Relevant records of FCI, concerned State Public Sector Undertakings (PSUs), Food & Civil Supplies Departments, SGAs, Co-operative Societies, and other concerned Departments (e.g. Land Revenue and Transport) of the States.

1.10 Audit Methodology

After a preliminary study and collection of background information, an Entry Conference (16 May 2014) was held with the Ministry/FCI Management wherein the scope, objective and methodology of audit were discussed and the audit criteria were agreed upon. Field audit was conducted during May 2014 to December 2014 in case of non DCP States[11] and September 2014 to January 2015 in case of DCP States[12].

The performance audit was carried out in the States of Andhra Pradesh, Bihar, Chhattisgarh, Haryana, Odisha, Punjab, Telangana, and Uttar Pradesh (these States accounted for approximately 95 *per cent* of the total procurement of paddy in 2012-13) by selecting a sample of 20 to 25 *per cent* of their districts[13] (in different States) on the basis of procurement of paddy during 2009-10 to 2012-13. As much as 17 to 25 *per cent* of rice mills (in different States) were considered for detailed examination in these selected States. Further, the States of Chhattisgarh and Odisha were selected being Decentralized Procurement States (DCP) for rice, wherein 25 *per cent* of districts and 10 *per cent* of mills were selected for detailed examination. ***(Annexure-I)***

Besides examination of records for the selected States' authorities and FCI offices, the relevant records of the Ministry of Consumer Affairs, Food & Public Distribution, Department of Food & Public Distribution for the five year period from 2009-10 to 2013-14 were also examined.

The Draft Report was issued to the Ministry on 22 June 2015. The Ministry communicated its response vide letters dated 24 June 2015. The Exit Conference with the Ministry/FCI was

[11] *Andhra Pradesh, Bihar, Haryana, Punjab, Telangana and Uttar Pradesh*
[12] *Chhattisgarh and Odisha*
[13] *including respective FCI Regional/Area Offices*

held on 25 June 2015 at Krishi Bhawan, New Delhi, wherein the audit findings and recommendations were discussed.

1.11 Acknowledgement

Audit acknowledges and appreciates the co-operation and assistance extended by the Ministry, State Governments of Andhra Pradesh, Bihar, Chhattisgarh, Haryana, Odisha, Punjab, Telangana, and Uttar Pradesh and the Management of FCI at various stages of the performance audit. Audit also expresses its appreciation for the promptitude displayed by the Ministry in offering its specific replies to the audit observations and responses to the recommendations made by Audit in the Report.

Chapter-II
Procurement incidentals

In order to meet objectives of food grains Procurement Policy, the Government procures large quantities of paddy every year through FCI and SGAs. Apart from procuring paddy directly from the farmers and getting it custom milled, a substantial quantity of rice is procured through rice millers in the form of levy whereby the millers procure paddy directly from farmers, convert it into rice and deliver the same to FCI and SGAs.

While taking delivery of rice, FCI makes payment to SGAs on the basis of cost sheets issued by the Ministry before each Rabi/Kharif Marketing Season. Several items of expenditure on procurement/distribution called 'procurement incidentals' have wide variations across the States. For fixing these costs in a transparent manner, the Ministry notified the detailed "Principles" (2003) regarding fixation of Economic cost and incidentals of CMR/Levy Rice and wheat, which were revised several times on the request of the State Governments. The State Governments are advised to base their proposals for arriving at the acquisition cost/ economic cost on these "Principles".

For the purpose of making provisional cost sheets, MSP and incentive bonus are as fixed by the Central Government, Statutory taxes and *Arthia*[14] commission are based on tax structure in the respective State Governments, and Driage[15], Milling charges[16] and Out-turn ratio[17] are based on the Tariff Commission's[18] recommendations. The other incidental charges like *Mandi* Labour Charges (MLC), transportation and handling charges etc. are provisionally fixed by indexing the respective latest available finalized cost sheets rates (in absence of such rates, the previous season's provisional rates are adopted) based on the Consumer Price Index.

2.1 Evaluation of the mechanism for determining rates of various incidentals in the Cost Sheet and their payment

The State Governments/SGAs prefer their claims to FCI on the basis of provisional cost sheets in respect of delivery/off take for Central Pool operations. For DCP operations, the SGAs submit their quarterly claims to the Ministry. Since the cost sheets are provisional and subject to finalization based on the audited accounts and there is always a time-lag in finalization of accounts in the States, quarterly advanced subsidy is released by the GoI on

[14] *Arthias render the services of the immediate intermediary and aggregator in the process of procurement for which they charge their commission as notified in the Agricultural Produce Markets Act of the respective State.*

[15] *Losses occurring during the process of procurement of paddy to its ultimate milling is termed as driage.*

[16] *Charges paid to rice millers for conversion of paddy into rice. ₹15 per quintal for raw rice and ₹25 per quintal for par-boiled rice*

[17] *Out-turn Ratio of production of 67 per cent of raw rice and 68 per cent of par-boiled out of one quintal paddy was recommended by Gokak Committee during 1994.*

[18] *Tariff Commission was assigned determination of milling charges for raw rice and parboiled rice. It gave its last recommendations in September 2005.*

provisional basis. This advance subsidy is adjusted from the final claims of the State Governments on submission of audited accounts. Under the system, therefore, the GoI reimburses actual costs incurred by the States on the operations carried out on behalf of FCI.

Similar system for payment of subsidy is applicable for FCI. The FCI prefers quarterly claims in respect of consumer subsidy i.e. the difference between the economic cost and sales value of the food grains meant for distribution under TPDS. In addition, subsidy is also paid in respect of the cost incurred in carrying the Buffer Stock as per the existing guidelines. The provisional claims are finalised based on the audited accounts of the Corporation.

A review of the elements of cost sheet and associated claims/payment in the selected States resulted in observations on avoidable/irregular subsidy burden on the GoI to the tune of ₹ 3,594.93 crore as brought out below:

2.1.1 *Mandi* Labour Charges (MLC)/Handling Charges

In the cases of procurement by FCI, *mandi* labour is engaged only for operations[19] at *mandi*. All operations at storage point onwards are performed by internal labour, whose costs are shown under the head 'distribution cost'. However, in the case of States, all operations performed by labour up to the point of delivery to FCI/distribution point are loaded into the head '*Mandi* Labour'[20].

During 2009-10 to 2013-14, an amount of ₹ 1,771.89 crore was incurred, in respect of States selected in audit, on the element of MLC as detailed as follows:

Table 2.1
Expenditure reimbursed on account of MLC by the GoI to SGAs

(₹ in crore)

Year	Non-DCP States		DCP States*		Total
	Levy Rice	CMR	Levy Rice	CMR	
2009-10	73.32	207.80	NA	0.08	281.20
2010-11	95.12	229.25	NA	0.00	324.37
2011-12	113.95	334.03	NA	0.00	447.98
2012-13	72.79	276.53	NA	0.00	349.32
2013-14	57.73	311.29	NA	Accounts not yet finalised	369.02
Total					**1,771.89**

**Includes only Chhattisgarh and NA indicates Not Available*
Source: FCI Procurement Division and the Government of Chhattisgarh

[19] *Like unloading of paddy from the vehicles of the farmers, heaping, rebagging, weighment, temporary stacking and loading of paddy into the millers' vehicles.*

[20] *Report on fixation of Economic Costs/Incidental Charges of Department of Food and Public Distribution, Ministry of Consumer Affairs, Food & Public Distribution.*

Following deficiencies amounting to ₹ 243.05 crore were noticed as a result of test audit of payments on account of MLC:

a) **Irregular payment of ₹ 194.23 crore MLC to rice millers for supply of Levy Rice in Odisha, Bihar and Andhra Pradesh regions of FCI**

In respect of Levy Rice deliveries, only those private rice millers who purchase paddy at regulated *mandis* are entitled for reimbursement of the MLC at the rate specified in the GoI approved cost sheet issued for every marketing season. Audit observed that though the purchases were made at farm gate/mill point[21], FCI unjustifiably reimbursed MLC to the private rice millers without verifying whether paddy was procured at *mandi* or at farm gate. This resulted in irregular payment of MLC and consequential undue benefits to millers to an extent of ₹ 194.23 crore[22] in Bihar, Odisha and Andhra Pradesh regions of FCI during 2009-10 to 2013-14.

Though irregular payment during KMS 2007-08 to 2009-10 in the case of Andhra Pradesh (AP) region was pointed out by Audit and brought out in the C&AG's Audit Report (Para no 6.2 of Report No. 8 of 2012-13), yet FCI AP Region continued to release MLC for subsequent KMS viz., 2010-11 to 2013-14 without checking the quantum of purchase at farm gate/mill point.

FCI, in its reply, stated that it is following the prescribed cost sheet and the GoI has not specified the mandi labour rates payable for respective purchases. It was further stated that private rice mills were incurring labour charges in case of purchases made at locations other than at mandi and FCI has to reimburse the same.

The reply is not acceptable in view of the fact that in case of incurrence of labour charges by private rice mills, the State Government in its operational guidelines has stated that the same may be deducted from the MSP and only the net MSP is to be released to the farmers.

The Ministry stated (June 2015) that MLC allowed to the private rice millers are based on normative costs and generally fixed at lower level than that of the actual costs incurred by various SGAs.

The reply is not acceptable as the reimbursement for the incidental not actually incurred by the millers is undue benefit being passed on to millers which should have been checked at the time of making payment and necessary recoveries need to be made.

b) **Excess payment of ₹ 5.91 crore to the State Government and its Agencies due to double reimbursement of elements of MLC on purchase of CMR in FCI, Uttar Pradesh region**

The Government of India while fixing provisional rates for procurement of CMR for Central Pool in case of Uttar Pradesh region (KMS 2012-13 and 2013-14) allowed an element of

[21] *Purchases made directly from the farmers and not from the mandis (without the involvement of any MLC)*

[22] *Andhra Pradesh region-₹ 192.04 crore, FCI Gaya and Patna Districts of Bihar region-₹ two crore, in selected revenue districts under FCI, Odisha region-₹ 0.19 crore*

MLC at the rate of ₹ 10.91 per quintal of paddy. However, it was observed in Audit that certain elements (loading into truck from stack - ₹ 1.20, arrangement of tents - ₹ 1.90, drinking water - ₹ 0.50; petromax at purchase centres - ₹ one) included in the MLC were already being paid under other incidental heads i.e. *Mandi Shulk*[23] (comprises arrangement of tent, drinking water and petromax at purchase centre) and Milling Charges (loading into truck from stack). Thus, an excess/double payment of ₹ 5.91 crore was made to SGAs under the head MLC for elements already paid under other heads.

While accepting the audit observation, the Ministry stated (June 2015) that excess payment of ₹ 5.91 crore made to SGAs of Government of Uttar Pradesh would be recovered from future payments to them.

c) **Excess claim of ₹ 6.63 crore as MLC in Uttar Pradesh and Andhra Pradesh**

The cost of CMR approved by the GoI for delivery of one quintal of rice to FCI includes cost of paddy, MLC and other incidentals. Further, component of MLC in CMR provisional cost-sheet issued by the GoI every year is provided for in respect of expenditure incurred on cleaning of paddy, loading and unloading and stacking of paddy gunnies at Paddy Purchase Centres[24] (PPCs). Hence, this component has to be passed on to those PPCs which are actually involved in CMR operations. The State Government releases labour (hamali) charges to PPCs in terms of rates indicated in the cost sheet and the amounts are to be disbursed to labour for undertaking handling operations in the procurement of paddy.

Audit observed in selected districts of Uttar Pradesh that though the actual expenditure of ₹ 4.11 crore was incurred as MLC for procurement of paddy during 2010-11 to 2013-14, the Department of Food & Civil Supplies submitted claims of ₹ 7.57 crore to FCI on the basis of rates laid down in the cost sheet. Thus, FCI also paid the full amount claimed, without verifying the actual expenditure, resulting in excess MLC of ₹ 3.46 crore.

In reply, the Department of Food & Civil Supplies stated (July 2014) that excess MLC amount was deposited in the Government account.

Though, the Department accepted the audit observation, however, FCI did not exercise due diligence by properly checking the bills before making payments.

It was also observed in audit of SGAs of Andhra Pradesh that out of ₹ 3.60 crore claimed from FCI on account of MLC, the charges passed on to farmers/labourers were only ₹ 0.43 crore and the balance amount of ₹ 3.17 crore was unjustifiably retained by District Managers.

[23] *Statutory charge on the food grains procured for Central Pool as well as DCP States.*

[24] *A common point opened by FCI/SGAs/State Government to facilitate the farmers to get the best option not less than MSP for their produce as per specifications prescribed by the GoI.*

While accepting the audit observation, the Ministry stated (June 2015) that out of ₹ 3.79 crore claimed from FCI by SGAs of Andhra Pradesh towards MLC, only ₹ 56.80 lakh was passed on to the labour and the same would be automatically taken into account at the time of fixation of final cost sheets, which would be based on amount of expenditure after its audit.

d) **Irregular payment of ₹ 27.33 crore as Handling/*Mandi* Labour Charges to Andhra Pradesh State Civil Supplies Corporation (APSCSC) in respect of paddy stocks purchased by IKP (SHG) Groups under State CMR - (FCI, Andhra Pradesh Region)**

The activities enumerated for payment of commission to Self Help Group *viz.,* Indira Kranthi Padhakam (IKP) overlaps the activities prescribed for *mandi* labour and hence the payment of MLC in addition to commission is not warranted where paddy purchases are through IKP. The demand for additional remuneration by IKP group for the functions enumerated for *Mandi* Labour was turned down by the State Government and it was reiterated that the commission allowed at 2.5 *per cent* of the MSP already covers these operations. It was clarified by the State Government (October, 2011) that "IKP Group shall have to pay handling charges from their commission'. It was further reiterated (December, 2011) that labour (*hamali*) charges from weighment stage are to be paid by IKP out of the commission of 2.5 *per cent.*

APSCSC issued a clarification in April 2012 that MLC will be payable at rates communicated by the GoI as part of the commission to IKP from 1 April 2012 (Rabi 2011-12). It implied that the MLC reimbursed by FCI for earlier KMS 2009-10 (₹ 1.76 crore) and for KMS 2010-11(₹ 25.57 crore) totalling ₹ 27.33 crore were not actually incurred by SGA but nevertheless retained by it.

The release of MLC by FCI to APSCSC for CMR deliveries out of paddy stocks purchased by IKP groups in addition to Commission payable lacked justification as the remuneration for operations performed was already covered in the Commission Charges of 2.5 *per cent* paid to SGAs for the KMS 2009-10 and 2010-11.

While accepting the audit observation, the Ministry stated (June 2015) that amount of handling charges paid to IKP would be recovered after examination.

e) **Undue benefit to Paddy Purchase Centers (PPCs) due to irregular release of hamali charges- ₹ 8.95 crore in Telangana**

The *hamali* charges[25] are released to PPCs in Telangana in terms of rates indicated in the cost sheet and the amounts were to be disbursed to labour for undertaking handling operations[26] in the procurement of paddy.

[25] *Indicated as MLC in the cost sheet*

[26] *Filling, weighment, unloading from balance, stitching, marking temporary stacking and loading into trucks.*

In Nizamabad District, paddy farmers (ryots) carried out handling operations on their own without involving labour. This was taken cognizance of by the District Administration and it was proposed (May 2012 and April 2013) for release of labour charges directly to farmers along with the cost of paddy. However, the State Civil Supplies Corporation stated (May 2013) that handling operations were to be carried out by the labour at the PPCs and hence the charges were to be paid to PPCs and added that those operations were not connected to farmers. The Corporation further reiterated (December 2013) its stand. This payment was in addition to the commission released to PPCs.

Thereafter, the Nizamabad District Manager released hamali charges of ₹ 4.88 crore to PPCs pertaining to KMS 2011-12 to 2013-14. Nalgonda District Manager also paid ₹ 4.07 crore to Primary Agricultural Cooperative Societies (PACS) and Indira Kranthi Padhakam (IKP) run as Self Help Groups, during KMS 2009-10 to 2013-14.

Thus, irregular release of amount on account of hamali charges to PPCs even without engaging labour deprived the farmers who had carried out handling operations and resulted in undue benefit of ₹ 8.95 crore to PPCs.

Commissioner of Civil Supplies of Telangana stated (December 2014) that payment of hamali charges to PPCs was being made through separate cheques on the basis of certificate that the amounts were paid.

The reply confirmed that the amounts were paid to labourers/PPCs and not to farmers, who should have been the actual recipients, as they were associated with paddy handling/procurement in special circumstances in the above two districts.

The Ministry accepted the audit observation (June 2015) and stated that hamali charges paid to PPCs would be recovered after examination.

2.1.2 Gunny Cost and its Depreciation

The estimated cost of new gunnies[27] included in the provisional cost sheet is based on the calculations provided by FCI. These calculations are arrived at on the basis of six months' average cost of basic price of jute gunnies notified by the Office of Jute Commissioner, Kolkata and include various elements of duties, taxes, interest, freight etc. The actual cost though may be different and depends upon the source of procurement of gunnies. In case gunnies are supplied by FCI, no cost is incurred by the State Government/SGAs under this head. Where the State Governments directly purchase gunnies from Directorate General of Supplies and Disposals (DGS&D), the breakup of actual cost in terms of basic price, branding charges, taxes/duties/cess, departmental and inspection charges are to be provided by SGAs. States may purchase new gunnies from the open market/local market subject to the conditions laid down by DGS&D. If the market rates are lower than the DGS&D rates; in such cases the actual purchase rates are to be claimed.

[27] *Gunnies are bags made of jute/plastic used for packing of paddy/rice*

Depreciation on gunnies in case of CMR is to be claimed on the basis of accounting policy of the organization undertaking such purchase. In case of gunnies used once, the basis adopted for such claims are to be separately indicated.

During the period under audit, amounts of ₹ 10,015.00 crore and ₹ 1,871.20 crore were incurred in selected States towards gunny cost and gunny depreciation respectively as follows:

Table 2.2
Yearwise expenditure on gunny cost and gunny depreciation reimbursed by the GoI

(₹ in crore)

Year	Non-DCP states				DCP States*				Total	
	Levy Rice	CMR	Paddy	Depreciation	Levy Rice	CMR	Paddy	Deprecation	Gunny Cost	Depreciation
2009-10	1,085.40	1,062.80	100.80	196.40	NA	69.20	15.60	69.20	2,333.80	265.60
2010-11	1,497.60	2.30	62.90	27.90	NA	218.10	107.60	87.20	1,888.50	115.10
2011-12	NA	1,994.40	31.40	471.50	NA	342.20	0.00	136.90	2,368.00	608.40
2012-13	1,656.30	1.40	62.40	431.90	NA	Accounts not yet finalised	Accounts not yet finalised	Accounts not yet finalised	1,720.10	431.90
2013-14	330.80	1,323.90	49.90	450.20**	NA	Accounts not yet finalised	Accounts not yet finalised	Accounts not yet finalised	1,704.60	450.20
						Total			**10,015.00**	**1871.20**

**Includes only Chhattisgarh* ***Includes ₹ 1.25 lakh paid on paddy* *NA- Not Available*
Source: FCI Procurement Section and Government of Chhattisgarh

Audit noticed deficiencies amounting to ₹ 469.01 crore in this regard which are detailed below:

a) Non-recovery of ₹ 131.23 crore towards cost of gunnies from SGAs in Uttar Pradesh

As per the provisions of Purchase Policy 2010 to 2013, arrangement of gunnies for purchase of food grains was to be made by the Department of Civil Supplies through respective Regional Food Commissioners (RFCs), according to the demand of procuring agencies. The Department had to ensure supply of gunnies for one month's requirement of SGAs without any advance payment. For subsequent requirement gunnies were to be supplied only after receipt of advance payment from SGAs and RFCs were responsible for recovering the cost of gunnies supplied to SGAs.

In 11 revenue districts of the State, it was observed that RFCs supplied 560.77 lakh units of gunnies (Jute and plastic) valuing ₹ 182.25 crore to SGAs during 2010-11 to 2013-14, but recovered only ₹ 51.02 crore up to July 2014. The balance ₹ 131.23 crore was still outstanding.

Thus, the Department did not follow the provisions of purchase policy and continued to supply the gunnies without taking advance payment from the SGAs. As a result, unrecovered cost of gunnies resulted in blockage of Government money to the tune of ₹ 131.23 crore.

While accepting the audit observation, the Ministry stated (June 2015), that Government of Uttar Pradesh is taking steps to recover the amount from SGAs.

b) Loss of ₹ 47.58 crore due to non-recovery of gunnies from defaulter millers in Bihar

The guidelines issued by the Bihar State Food & Civil Supplies Corporation (BSFC) in December 2013 regarding decentralization of paddy procurement during KMS 2013-14 provided that standard norms for packing of paddy in gunnies will be 40 kilogram (kg) per gunny and packing of custom milled rice (CMR) will be 50 kg per gunny. Besides, in case of defaulter millers, in addition to non delivery of required CMR, gunnies were also retained by them. As such, depreciated value of the gunnies retained by the millers was to be recovered from them.

The agreement executed between BSFC (First party) and millers (Second party) provided that, "the rice will be accepted in the same gunnies in which the paddy is delivered by the first party. For the first consignment/lot, rice will be delivered by the second party in new gunnies. The excess gunnies will be returned by the second party and if gunnies are retained by the second party, then cost of excess gunnies (in which paddy is supplied to second party) will be deducted by the first party at the rate of 60 *per cent* of new gunnies at the purchase rate from DGS&D, Kolkata and will be adjusted from the bills submitted by the second party".

Audit observed that 944 defaulter millers did not deliver 3.32 LMT of CMR and also did not return the remaining excess 2,00,23,873 units of gunny during KMS 2011-12 to 2013-14.

Thus, BSFC incurred loss of ₹ 47.58 crore due to non-receipt of gunnies supplied to the millers along with paddy in the seven[28] districts of the State. After the objections were issued, one district (East Champaran) replied that cases under Public Demand Recovery (PDR) Act have already been filed for recovery of dues from defaulter millers while other districts replied that action is being taken. Observations about non-delivery of CMR are elaborated later in para 6.3.

The BSFC accepted (February 2015) the audit observations and assured to recover the depreciated cost of gunnies, but did not furnish the details of amount recovered (June 2015).

[28] *Aurangabad, Nalanda, Rohtas, Bhabhua, East Champaran, Bhojpur and Patna.*

c) Avoidable expenditure of ₹ 174.62 crore on gunnies in Punjab, Haryana, Bihar and Andhra Pradesh regions of FCI

The GoI fixes the rates to be reimbursed by FCI for CMR delivered by the SGAs to the Central Pool. Besides various other elements, these rates include gunny cost for two gunnies and gunny depreciation for another two gunnies per quintal of rice delivered in the Central Pool.

It was observed in audit that in Bihar and Andhra Pradesh regions of FCI, 50 kg capacity gunnies, meant for packing 50 kg wheat/rice, are used for packing 40 kg paddy with the out turn ratio of 67 *per cent* rice. Thus 149.25 kg paddy (equivalent to 100 kg rice) is packed in 3.73 gunnies. Out of these 3.73 gunnies, 100 kg rice is delivered back to FCI in 2 gunnies and remaining 1.73 gunnies are retained by SGAs. The retained 1.73 gunnies are eligible for depreciation. However, as per cost sheet, the GoI reimburses depreciation on two gunnies, resulting in excess payment of depreciation on 0.27 gunny (per quintal). This resulted in extra expenditure to the tune of ₹ 22.51 crore[29] in Bihar and Andhra Pradesh regions of FCI.

It was further observed in Punjab and Haryana regions of FCI that only 35 kg paddy was filled in 50 kg capacity gunnies with the out turn ratio of 67 *per cent* rice. For the period 2010-11 to 2013-14, 590.60[30] LMT of paddy were filled in gunnies @ 35 kg per gunny. Had Punjab and Haryana regions also followed the practice of packing 40 kg paddy like Andhra Pradesh and Bihar region of FCI, they would have avoided the excess use of 10,68,42,041[31] gunnies and consequently reduced the extra burden on subsidy on the GoI to the tune of ₹ 152.11 crore[32].

Thus different States were found to follow varying practices specifying differing quantities of paddy to be filled in a gunny. Whereas in Bihar and Andhra Pradesh regions of FCI, 40 kg of paddy was filled in each gunny, the corresponding figure for Punjab and Haryana was found to be only 35 kg. This practice resulted in excess consumption of gunnies and huge avoidable expenditure of ₹ 174.62 crore.

The Ministry partially accepted the audit observation and stated (June 2015) that packing of specified quantity of paddy in 50 kg gunny bag may vary from State to State considering the size of the grains and other relevant factors. However, on the basis of a Committee's visit to mandis of Punjab during 2014-15, it was found in the spot study that on an average 37.5 kg of paddy can be filled in/packed in a Gunny bag of 50 kg in Punjab and Haryana. Accordingly, instructions were issued to States to fill at least 37.5 kg of paddy in a 50 kg capacity gunny bag.

The reply of the Ministry indicates that paddy in Punjab and Haryana was not optimally packed in the gunny bags. The above observation also highlights the urgent need for fixation

[29] *FCI Bihar Region- ₹ 6.66 crore, FCI AP Region- ₹ 15.85 crore*

[30] *Punjab – 465.04 LMT, Haryana – 125.56 LMT*

[31] *Punjab –84128563 gunnies, Haryana – 22713478 gunnies*

[32] *FCI Punjab Region-₹ 132.03 crore, FCI Haryana Region- ₹ 20.08 crore*

of quantity of paddy to be packed in gunny bags in various states to reduce avoidable expenditure.

Recommendation No. 1	Ministry's Reply
Based on the instructions issued in Punjab and Haryana, the GoI may consider specifying the minimum quantity of paddy to be filled in each gunny, across the country, to optimize gunny utilization and reduce expenditure on this account	The paddy grown in various States pertains to different varieties and therefore, differs in grain size, moisture content, weight, etc. Therefore, in all States, same quantity of paddy cannot be filled in a 50 kg gunny bag. The spirit of fixation of Acquisition Cost is that State Agencies should get actual cost paid for procurement operations. Therefore, adoption of a uniform quantity of paddy to be filled in gunny bags will not be practical and will not be acceptable to the State Governments. At best, we can fix the lower limit of paddy to be filled to safeguard the interest of the Government and that is what the Ministry is following by adopting a norm of minimum 37.5 kg of paddy to be filled in a 50 kg gunny bag, or in other words by paying only for maximum four bags for each quintal of the rice to be delivered (two gunny bags for rice and two gunny bags at depreciated rate for paddy).

The reply of the Ministry is accepted. However, keeping in view the practice of filling 40 kg of paddy in a 50 kg capacity gunny bag in some States, the recommendation to optimise the gunny utilisation is being insisted upon.

d) Non-recovery of gunny cost amounting to ₹ 2.30 crore from the private rice millers in FCI, Bihar Region

In case of FCI Bihar region, it was observed that Area office, Gaya and Patna allowed the millers to retain two left over gunnies used to obtain one quintal of rice. These gunnies were to be returned to FCI by the millers. As per norms, 40 *per cent* depreciation was allowed for first use of two gunnies. Therefore, 60 *per cent* cost of the gunnies retained by the millers should have been recovered by FCI. However, this was not done which resulted in non/short recovery of gunny cost from the private rice millers to the tune of ₹ 2.30 crore for the period from 2009-10 to 2011-12. Moreover, as against this, an amount of only ₹ 0.54 crore was available with FCI as security deposit of the rice millers (March 2014) making the chances of recovery of the balance amount doubtful.

e) Extra expenditure of ₹ 6.34 crore due to non-revision of value cut on supply of underweight gunnies in FCI, Punjab and Haryana Region

GoI fixes the rates to be reimbursed by FCI to SGAs for various elements of cost during each KMS. These rates include an element of cost of two gunnies to be delivered with one quintal of CMR to FCI. The price fixed is for new gunnies having prescribed specifications. As per IS: 12650/97, the specified tare weight for 50 kg gunny is 665 grams (gms) (+10 *per cent,* -7.5 *per cent*). Thus, the tare weight [33] of individual gunny varies from 615 gms to 732 gms.

[33] *Weight of empty gunny*

In order to enforce quality of gunnies at the time of purchase of CMR, FCI Headquarter directed (25 February 2000) the field offices that there should be no cut if the tare weight of the gunny of 50 kg is 615 gms and above. However, a cut of ₹ one per gunny may be levied if the average tare weight ranged from below 615 gms to 584 gms and a cut of ₹ two per gunny may be imposed where the tare weight of the 50 kg gunny ranged from below 584 gms to 554 gms. The gunny having a tare weight below 554 gms may be rejected.

In seven area offices[34] of FCI, it was noticed that tare weight of gunny of 50 kg capacity delivered by SGAs along with CMR was less than the 615 gms and the value cut at the rate of ₹ one per gunny was being recovered from SGAs. Audit observed that FCI Headquarter did not revise the rate of value cut in spite of the fact that rate per gunny of 50 kg capacity which was ₹ 18.54 in KMS 2000-01 had increased to ₹ 31.76, ₹ 39.07, ₹ 42.11, ₹ 35.43 and ₹ 40.59 per gunny during KMS 2009-10 to 2013-14 respectively.

Thus non-revision of rate of value cut for low tare weight of gunnies resulted in extra expenditure of ₹ 6.34[35] crore on supply of under-weight gunnies by SGAs during KMS 2009-10 to 2013-14.

The Ministry stated (June 2015) that the value cut imposed by FCI for lesser tare weight of gunnies is applicable for delivery of rice where gunnies were supplied by the rice millers. The said instructions were issued for ensuring delivery of stock in standard weight of gunny. This is normally an exception and not a rule as the majority of the gunny purchase is made through the GoI from DGS&D, both by the SGAs and FCI. Therefore, periodic revision of such value cut has not been attempted.

The Ministry needs to ensure that periodic revision of such value cut is considered in case of increase in the price of gunny to avoid undue benefit to the rice millers.

f) **Avoidable expenditure of ₹ 66.14 crore due to excess fixation of gunny cost for levy and CMR with reference to DGS&D rates in FCI, Andhra Pradesh region**

It was noticed that as against FCI weighted average cost of gunny at ₹ 33.42[36] per gunny, the GoI fixed a price of ₹ 36.16 per gunny in respect of Levy Rice deliveries and ₹ 42.05 per gunny for CMR deliveries, for Central Pool operations (KMS 2011-12). Thus the GoI approved rate was higher by ₹ 2.74 per gunny (Levy Rice) and ₹ 8.63 per gunny (CMR). Moreover, while releasing procurement cost to private rice millers and SGAs, FCI relied on the cost sheet issued by the GoI and no cross checking with the actual cost incurred for its own purchases was made, which resulted in payment of higher rate for gunnies to an extent of ₹ 66.14 crore.

[34] *Fatehabad, Karnal, Kaithal, Kurushetra in Haryana Region and Ludhiana, Sangrur and Patiala in Punjab Region.*

[35] *FCI Haryana (Levy rice)- ₹ 0.04 crore on 5,37,119 gunnies, FCI Haryana (CMR) – ₹ 1.89 crore on 1,89,01,483 gunnies, FCI Punjab ₹ 4.41 crore on 4,02,83,624 gunnies*

[36] *Cost (₹ 4,17,77,760) /No. of gunnies(12,50,000)= ₹ 33.42 per gunny.*

The FCI Management replied that it is releasing payment towards gunny cost based on the cost sheets released by the GoI.

The reply is not acceptable for the fact that the gunny purchases by FCI were made at lower cost and it should have restricted the payment based on actuals.

g) Extra expenditure of ₹ 40.80 crore on internal transportation on gunny bales in Odisha & Chhattisgarh regions of FCI and Government of Chhattisgarh

As per Principles, July 2003 issued by the Ministry (amended in November 2004) for fixation of incidentals/economic cost of CMR to various States, cost of gunnies shall be inclusive of the cost towards internal movement of gunnies beyond the railhead, based on final rate approved for that State Government, both for the Central Pool procurement as well as for DCP. In other words, the element of 'internal transportation of Gunny Bales[37]' is a part of 'Gunny cost' in respect of cost sheets of both DCP and Non DCP States and is not to be allowed as a separate element of cost.

However, it was seen that allowance for the element of internal transportation on gunny in the cost sheet was provided in FCI Odisha and Chhattisgarh region as well as Marketing Federation (MARKFED) in Chhattisgarh. This resulted in additional expenditure of ₹ 40.80 crore[38] for the five year period from 2009-10 to 2013-14.

The Ministry replied (June 2015) that elements of internal transportation shown separately in the cost sheet is the transportation charges from the railhead of the receiving State to different centres where gunnies are required and not the rail freight for transporting gunnies, which is included as part of gunny cost.

The reply is not tenable as the ibid circular clearly stated that the cost of gunnies shall include the cost towards internal movement of gunnies beyond the railhead. Thus, the expenditure of ₹ 40.80 crore was avoidable in this case.

2.1.3 Custody and Maintenance Charges (C&M Charges)

The charges incurred by the SGAs for storage and preservation of paddy after procurement for a specified period are known as C&M Charges. In order to compensate these expenses, FCI reimburses C&M charges in accordance with the Principles laid down by the GoI in 2003. Therefore, these charges should not be paid if the stocks are delivered directly to FCI/millers from *mandis*.

Storage cost is provided in the provisional cost sheet at acquisition stage as 'C&M charges' and as 'Storage charges' at distribution stage. These costs depend upon the storage period, type of storage viz. Covered and Plinth (CAP) or covered and also on the storage rate per

[37] *One Gunny Bale contains 500 gunnies.*

[38] *Chhattisgarh - ₹ 24.47 crore, FCI West Zone (Chhattisgarh)- ₹ 11.73 crore, FCI East Zone (Odisha)- ₹ 4.60 crore*

gunny (or per quintal) charged by the godown owner. In the provisional cost sheets, these charges are provided separately for CAP and covered godowns at Central Warehousing Corporation (CWC) rates for the storage period prescribed in the Standard Principles for different food grains. Storage cost is applicable only when the food grains are actually stored in the godown. In case the commodity is directly delivered from the *mandis*/procurement centers to FCI, no storage cost is applicable. Similarly, in case the storage is at the millers' premises or for which no separate storage cost is paid, no storage cost is to be booked under the head. The State Government/SGAs are therefore, required to provide break-up of all such quantities, for which no storage cost is incurred.

During the period under audit, an amount of ₹ 466.30 crore was incurred in the selected States on the element of C&M charges as below:

Table 2.3
Custody & Maintenance charges reimbursed by the GoI

(₹ in crore)

Year	Non-DCP states		DCP States*		Total
	Levy Rice	CMR	Levy Rice	CMR	
2009-10	0.00	62.16	NA**	15.15	77.31
2010-11	0.00	78.22	NA	21.11	99.33
2011-12	0.00	87.97	NA	18.29	106.26
2012-13	0.00	96.09	NA	Accounts not yet finalised	96.09
2013-14	0.00	87.31	NA	Accounts not yet finalised	87.31
Total					**466.30**

**includes only Chhattisgarh*
***Not Available*
Source: Annual Report of Ministry and FCI Procurement Division

Audit noticed discrepancies amounting to ₹ 193.90 crore related to payment of C&M charges as detailed below-

a) SGAs in Punjab and Uttar Pradesh region delivered 238.04[39] LMT rice to FCI during 2009-10 to 2013-14. However, an amount of ₹ 144.44 crore was paid by FCI to SGAs on Custody & Maintenance charges without obtaining any evidence to the effect that actual expenditure was in fact incurred by SGAs. As the SGAs did not produce any evidence to prove incurrence on the custody or maintenance of paddy, payment of C&M charges of ₹ 144.44 crore to the SGAs was not regular.

The SGAs of Punjab stated (February/March 2015) that they had to bear cost on C&M as they had to provide cost of crates, gunnies/tarpaulins/polythene covers/nets etc. Hence these charges were reimbursable by the GoI/FCI.

[39] *Punjab – 206.84 LMT and Uttar Pradesh – 31.20 LMT*

The reply is not acceptable as the SGAs have not provided details of cost incurred by them as agreed in State Exit Conference (February 2015) held in Punjab; as such the reasonableness of these claims was unverifiable.

Recommendation regarding verification of documentary evidence for payment of C&M charges has been consolidated with similar recommendation below Para No. 2.1.8.

b) In seven[40] revenue districts of Chhattisgarh, though 86.02 LMT paddy was directly lifted by the millers from the purchase centre (Societies), still two months C&M charges amounting to ₹ 31.24 crore were irregularly paid by the Chhattisgarh State Civil Supplies Corporation (CGSCSC) and FCI to Marketing Federation (MARKFED), despite the fact that paddy was not stored by MARKFED even for a single day.

CGSCSC stated (December 2014) that C&M charges are paid to Societies for the period of paddy stored by Societies, till its delivery to millers.

The reply is, however, not acceptable as paddy procured by the Society was directly lifted by the millers from *mandis*. Hence, payment of ₹ 31.24 crore should not have been made on account of C&M charges.

c) FCI Policy allowed millers only 15 days period for delivery of rice to FCI. Further, paddy purchased by SGAs is to be directly transferred to rice mills without storage of paddy. It was observed in audit that FCI Andhra Pradesh region made a payment of ₹ 18.22 crore to Andhra Pradesh Civil Supplies Corporation as C&M charges for two months which was not in accordance with the provisions of Procurement Policy of Andhra Pradesh. Thus, FCI has incurred avoidable expenditure of ₹ 18.22 crore on this account.

FCI Region Andhra Pradesh replied that release of C&M charges was based on cost sheet of the Ministry and certificate obtained from the SGAs. Further, it was contended that all releases were on the basis of provisional cost sheet.

The contention of the Management is not correct as the Procurement Policy clearly states that all CMR should be delivered within 15 days from the acceptance of stocks at procurement point and thus reimbursement of these charges for two months was in contravention of the provisions of Procurement Policy.

The Ministry, while accepting the audit observation (June 2015), stated that SGAs of Punjab, Chhattisgarh, Uttar Pradesh and Andhra Pradesh were asked to provide the proof of actual incurrence as well as details of payments of C&M charges.

[40] *Raipur, Bilaspur, Durg, Rajnandgaon, Dhamtari, Mahasamund, Janjgir - Champa*

2.1.4 Avoidable incidence of subsidy of ₹ 952.37 crore on account of additional driage allowance given to the millers

Moisture content in paddy is an important determinant of its quality and the price it fetches. Regarding moisture, the recommendation contained in the Gokak Committee Report[41] states, "Moisture content in paddy is always a variable factor. It varies from layer to layer, grain to grain, lot-to-lot, gunny to gunny, stack to stack etc. It is completely dependent on the atmospheric conditions prevailing during the storage period. In a normal year of procurement, the moisture content in paddy will be well within the prescribed maximum limit of 18 *per cent*. There is no authentic data to scientifically establish the reduction in weight due to moisture loss during storage of paddy".

The GoI issued guidelines applicable for all procuring States in September 2010 for submission of incidental claims in respect of procurement of paddy/wheat by the State Governments and their Agencies. In the guidelines, it was mentioned that the shortage/driage may be due to various factors like transit losses, storage losses, driage, damage etc. Paddy is procured at the maximum level of moisture content at 17 *per cent* and milled at 14 *per cent* to 15 *per cent*. Hence, some losses occur during the process of procurement to ultimate milling, which is termed as driage.

As per the Gokak Committee's recommendation, two *per cent* to three *per cent* driage of moisture was already inbuilt while fixing 67 *per cent* out-turn ratio for raw rice[42]. As two to three *per cent* driage has already been taken into account for fixation of the out-turn ratio of rice out of paddy, no additional driage allowance should have been permitted. However, it was noticed in Audit that additional driage allowance of one *per cent* was allowed to SGAs/millers by the GoI as per approval of the Cabinet Committee on Economic Affairs (CCEA) in 1998.

Audit noticed that in the note for Cabinet, it was clearly mentioned that as the out-turn ratio of 67 *per cent* takes into account the normal driage, therefore even the two per cent driage permitted is over and above the normal driage. However, the note further stated that the rice millers of Punjab were not prepared to mill paddy if the driage is not increased and the paddy if not milled may deteriorate and this loss may be far higher than the cost of enhancing driage.

Under these circumstances, driage was enhanced from two per cent to three per cent for Punjab and Ex-post facto approval for the same was sought. However, the order of Ministry dated 8 September 1998 extended the driage allowance to all the States. No justification for doing so was found on record especially in view of the fact that both, the experts (Gokak Committee Report), as well as the Ministry, were of the opinion that the existing driage allowance of two *per cent* was more than sufficient. As a result, the GoI has been allowing this one *per cent* additional driage allowance since 1998. This resulted in undue benefit to

[41] *Report of the Expert Committee on technical examination of reports on trial milling of paddy to obtain out-turn ratios and rice specifications. (21 November 1994).*

[42] *Raw rice refers to the shelled yet un-cooked rice.*

millers amounting to ₹ 952.37 crore, and also additional avoidable incidence of subsidy to the same extent, from the period 2009-10 to 2013-14 as detailed in the table as follows:

Table 2.4
Expenditure reimbursed by the GoI on the element of Driage Allowance

(₹ in crore)

Year	Non-DCP states	DCP States*	Total
2009-10	143.98	27.78	171.76
2010-11	180.67	15.10	195.77
2011-12	215.71	39.58	255.29
2012-13	206.00	Accounts not yet finalised	206.00
2013-14	123.55	Accounts not yet finalised	123.55
	Total		**952.37**

**Includes only Chhattisgarh*
Source: FCI Procurement Division and the Government of Chhattisgarh

While accepting the audit observation, the Ministry stated (June 2015) that this decision to allow driage at the rate of one per cent to all States was a decision taken by CCEA. However, as recommended by Audit, the Ministry will revisit the issue of one per cent additional driage in consultation with FCI.

Thus, apparently decision to increase driage was taken because of the demand of the rice millers association of Punjab and not on the basis of any scientific expert opinion. Moreover, provision which was meant only for Punjab for one year was inexplicably extended to whole of the country resulting in huge outflow of money.

Recommendation No. 2	Ministry's Reply
The GoI may consider revisiting the decision to allow one *per cent* additional driage allowance after taking expert technical opinion on the matter.	The Recommendation is accepted and it will be considered in consultation with FCI.

2.1.5 Transportation cost

Transportation cost for movement of paddy/rice from *mandi*/purchase centre to SGAs/FCI depends on the lead distances between procurement centres to storage points, storage points to rice mills, and rice mills to delivery points at FCI/Agencies godowns. Location/concentration of these points and geographic spread of States are, therefore, important determinants of the lead distances. The cost also depends on the rates of transportation per kilometer per quintal applicable for such distances at different places, which varies among the States. In case the food grains are directly delivered from the procurement centres to FCI, no transportation cost is borne by the State Government/SGAs for such quantities.

Transportation cost up to eight kms from purchase centres to mills and from mills to storage godowns on paddy as well as rice is already included in the milling charges fixed for converting the paddy into rice. Thus, such transportation cost is to be borne by millers and the State Governments should not claim these charges and they are also required to submit a certificate that such cost is not included in the claim. In case the distance involved is more than eight kms, breakup of the quantities and gross transportation cost, deductions made up to eight kms and the net cost claimed is to be provided. Slab rates of transportation cost (separately for first eight kms) are also to be enclosed. Such adjustments may, however, be not required in case milling charges are excluding the transportation cost for first eight kms. As per provisional cost sheets, for food grains delivered from procurement centres to the depots/storage point of FCI for Central Pool, transportation charges are payable on the basis of rates fixed by District Magistrate or FCI's rate, whichever is lower, for actual distance involved.

During the period under audit, an amount of ₹ 694.42 crore was incurred in the selected States on the element of transportation charges as payment to SGAs/millers, as below:

Table 2.5
Expenditure reimbursed by the GoI on the element of transportation charges

(₹ in crore)

Year	Non-DCP states		DCP States*			Total
	Levy Rice	CMR	Paddy	Levy Rice	CMR	
2009-10	34.82	59.72	21.09	NA**	50.07	165.70
2010-11	35.86	37.11	23.76	NA	50.55	147.28
2011-12	48.77	53.50	6.04	NA	77.73	186.04
2012-13	31.31	47.39	12.75	NA	NA	91.45
2013-14	11.64	77.89	14.42	NA	NA	103.95
Total						**694.42**

Includes only Chhattisgarh* * NA- Not Available*
Source: FCI Procurement Division and Government of Chhattisgarh

Audit noticed discrepancies amounting to ₹ 45.20 crore as given below:-

a) **Unjustified lump sum transportation charges of ₹ 38.20 crore in FCI, Odisha Region**

During KMS 2009-10 to 2011-12 in Odisha, the 'transportation charge' at the paddy stage was fixed at lump sum rate and included in the cost sheet of CMR while the same at rice delivery stage was fixed at lower of the rate decided by the District Collector (DC) of the State or FCI's rate. This was, however, changed during KMS 2012-13 and 2013-14 wherein transportation charge both at the paddy stage and at the rice stage was fixed at a rate lower of the DC or FCI's rates. During the KMS 2009-10 to 2011-12 transportation charge at paddy stage was paid at lump sum (₹ 27.89, ₹ 31.35 and ₹ 34.20 per quintal) to the SGAs irrespective of the distance covered. Audit noticed that during KMS 2012-13 and 2013-14, the actual distance covered on an average was only 20 km in the seven revenue districts of Odisha region (except Bhadrak); the incidental towards transportation charge during KMS 2009-10 to 2011-12 could have been reduced by ₹ 38.20 crore, had the transportation charges during this period been fixed on the actual distance basis at the existing transportation rate (₹ 0.27 per km) as was fixed in subsequent KMS.

The Ministry stated (June 2015) that specific transportation charges for the Central Pool at acquisition stage for KMS 2009-10 to 2010-11 was allowed to Odisha as a special case with the approval of competent authority, keeping in view the difficult physical condition of the State and location of mills at far-flung areas. However, from KMS 2012-13, transportation charges in the provisional cost sheet for Odisha are also being fixed as per the provision made in the Principles and applicable in case of all other States.

As there was no change in "difficult physical conditions" of the State and/or location of mills at "far flung areas" in 2012-13 as compared to previous years, the Ministry's contention is untenable and the lump sum transportation charges of ₹ 38.20 crore for the period were not justified.

b) **Irregular part-payments of ₹ seven crore in Nalgonda District of Telangana**

Nalgonda District Administration has been making part-payments and terming them as advances though it was not provided in the agreements entered into with the transport contractors. These advances were adjusted from the amounts payable to transport contractors at the end of the season. It was observed in audit that ₹ seven crore was advanced to transporters during KMS 2012-13 and 2013-14, of which, ₹ 0.56 crore was awaiting adjustment as on November 2014.

While accepting the audit observations of non adjustment of advance from transportation charges, the Ministry stated (June 2015) that the amount of ₹0.56 crore would be adjusted.

2.1.6 Avoidable payment of interest charge of ₹ 31.59 crore to SGAs by Bihar and Andhra Pradesh region of FCI

a) Value Added Tax (VAT) was implemented in Andhra Pradesh (AP) w.e.f. 1 April 2005. As per the AP VAT Act, 2005 even though paddy and rice were taxable at the rate of five *per cent*, the paddy was exempted from levy of sales tax in case of first sale of rice in the State. The Government of Andhra Pradesh stated (23 September 2005) that sale of rice would be taxed only at the point of first sale in the State. Thus, in respect of sale of rice by State Civil Supplies Corporation, out of the paddy (custom milled), the VAT was payable only on the value of rice delivered to FCI and paddy was exempted from levy of sales tax. Thus, it is clear that the SGAs were under no obligation to pay VAT at the time of purchase of paddy from the farmers.

However, Audit noticed that FCI Regional office, Andhra Pradesh region intimated to the GoI that five *per cent* tax was payable on the paddy purchases. The fact of exemption of paddy from levy of VAT should have been brought to the notice of the GoI which was not done.

The Management stated that in the final accounts submitted by the State Government the interest element was more and from KMS 2013-14 onwards, while communicating the cost structure to unit offices, the notional element of VAT, and VAT on Rural Development (RD) Cess, Market Fees were excluded and net cost was communicated for release to SGAs.

The reply is not tenable as the final accounts were being submitted by SGAs after considerable time and in case of KMS 2007-08 and 2008-09, the final cost was much less than the provisional amount paid to them. In the process, FCI has now to recover ₹ 30.84 crore from SGAs.

The Ministry accepted the audit observation on avoidable payment of VAT on purchase of paddy and stated (June 2015) that steps for recovery will be taken.

b) In the cost sheet for the CMR, the items of incidentals do include interest cost. Interest at acquisition stage is provided on the elements of MSP/ Bonus, statutory charges and MLC at the prevailing interest rate for time period specified in the Principles, i.e. for two months. In the cost sheet for the KMS 2009-10 to 2011-12, in respect of Bihar and its SGAs, VAT did not form part of the elements on which interest charges were payable. However, w.e.f. KMS 2012-13 the GoI allowed interest on notional VAT @ four *per cent* of MSP of paddy. While notifying the rates of CMR, it was categorically stated in the cost sheet of KMS 2012-13 that VAT, as applicable at every stage, would be payable as per the relevant legal provisions.

Scrutiny of bills relating to payment of CMR at FCI Area Office, Gaya in respect of KMS 2012-13 revealed that payment made to the SGAs included ₹ 27.06 per quintal towards interest cost at acquisition stage of paddy. This amount included ₹ 1.025[43] being the interest on VAT payable on MSP of paddy. The proportionate interest charges on VAT element at rice stage, taking out-turn ratio at the rate of 67 *per cent,* would be ₹ 1.53 (₹ 1.025 x 100/67) per quintal or ₹ 15.30 per MT. During KMS 2012-13, the SGA i.e. Bihar State Food & Civil Supplies Corporation supplied three LMT and 1.90 LMT of CMR to FCI Area Office, Gaya and Patna respectively on which no VAT was paid by the SGA either at paddy or rice stage as the bills submitted to FCI for payment was at the rate of ₹ 2165.56 per quintal which did not include any element of VAT. However, payment was made by FCI without deducting the proportionate cost incidental towards interest charges resulting in excess payment of ₹ 0.75 crore to the SGA.

[43] *(1250*4/100)X 12.30 per cent for two months*

2.1.7 Release of Value Added Tax of ₹ 1,023.92 crore to Private Rice Millers in contravention of the GoI/ GoAP instructions in FCI, Andhra Pradesh region

The GoI while communicating the levy prices payable to private rice millers stipulated that the statutory charges would be payable only on production of relevant official/statutory receipts evidencing payments. Levy procurement prices payable to private rice millers comprises three elements of statutory charges i.e. Market Fee, Rural Development (RD) Cess and VAT. Market Fee and RD Cess were payable on procurement of paddy by private rice millers whereas VAT was payable on sale of rice to Food Corporation of India. FCI Andhra Pradesh Region reimburses the Market Fee on production of proof by private rice millers and pays RD Cess directly to Commercial Tax Department (CTD).

Cases of non-payment of VAT by private rice millers on the entire cost as well as on certain elements of procurement prices were reported, in spite of full reimbursement by FCI, resulting in undue benefit to some millers. Thus, Andhra Pradesh, Revenue (Commercial Taxes-II) Department communicated that, Group of Ministers constituted by the State Government had accepted the request of the rice millers that VAT payable by them on sale of rice to FCI may be deducted at source and remitted to CTD. It was also stated that, insertion of such provision relating to such tax deduction at source may take some more time, and hence FCI was requested to deduct VAT at the rate of five *per cent* from the amounts payable to rice millers for sale of rice, after obtaining willingness for such deduction from the individual millers.

However, FCI Regional Office Hyderabad turned down the proposal put forth by the GoAP mainly on the grounds of shortage of staff /non-maintenance of records of milling and unwilling millers. The FCI RO Hyderabad continued to adopt the existing procedure and released VAT payments to private rice mills and did not act upon the request of the GoAP, thus violating the instructions of the GoI on the subject matter about obtaining evidence before releasing statutory charges. This resulted in irregular release of VAT of ₹ 1023.92 crore for KMS 2012-13 and 2013-14 to private rice millers in contravention of the GoI instructions.

Recommendation No. 3	Ministry's Reply
In view of the huge amount of State revenue involved, the Ministry may direct FCI to accept Government of Andhra Pradesh's recommendation to deduct Value Added Tax (VAT) at source from private rice millers to ensure timely collection of VAT and revenue to the exchequer.	The Recommendation is accepted and it will be considered in consultation with FCI.

The issue of deduction of VAT by FCI and its deposit with the State Commercial Tax Department of the State of Andhra Pradesh was discussed in the Exit Conference (25 June 2015), wherein the Ministry accepted the audit observation and agreed to the audit recommendation of FCI deducting VAT at source from private rice millers.

2.1.8 Irregular payment of ₹ 73.70 crore as commission to Societies for supply of CMR by SGAs during KMS 2009-10 to 2012-13

As per the Ministry's instructions (March, 2010) the commission to Societies, Self Help Groups and Co-operative Societies undertaking procurement of paddy on behalf of FCI/SGAs would be allowed at the maximum of 2.5 *per cent* of MSP for each KMS, after obtaining documentary proof as regards to the eligibility.

During the year 2009-10 to 2013-14, an expenditure amounting to ₹ 768.35 crore was incurred in selected States on Societies commission, as below:

Table 2.6
Expenditure reimbursed by the GoI on the element of Society Commission*

(₹ in crore)

Year	Non-DCP states			DCP States		Total
	Levy Rice	CMR	Paddy	Levy Rice	CMR	
2009-10	-	-	-	NA**	105.96	105.96
2010-11	-	-	14.46	NA	128.28	142.74
2011-12	-	-	5.58	NA	160.90	166.48
2012-13	-	-	19.43	NA	Accounts not yet finalised	19.43
2013-14	-	317.09	16.65	NA	Accounts not yet finalised	333.74
			Total			**768.35**

**Rate of commission to Societies at maximum at the rate of 2.5 per cent of MSP was fixed by the GoI. **NA- Not Applicable*
Source: Annual Report of the Ministry and FCI Procurement Division

However, Audit observed that out of ₹ 768.35 crore, an amount of ₹ 73.70[44] crore was paid by FCI in six[45] area offices of three[46] regions without obtaining any proof to the effect whether Primary Agricultural Co-operative Societies (PACS) were engaged in the procurement process by SGAs. The payment without documentary proof was not only against the GoI instructions but also carried a risk of reimbursement for expenditure not actually incurred by SGAs.

The Ministry stated (June 2015) that PACS are Panchayat level co-operative bodies with elected members. These are engaged in procurement through a notification issued by the Government of Bihar every year. The quantity purchased by PACS was certified by district co-operative officers or nodal officers. Thus, the payment of Society commission was in order.

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[44] *FCI Area offices Gaya-₹46.53 crore and Patna-₹24.42 crore (KMS 2009-10 to 2012-13), Uttar Pradesh- ₹2.57 crore, FCI, Area office Kurnool – ₹0.18 crore.*

[45] *Patna, Gaya, Shahjehanpur, Mirzapur, Basti and Kurnool*

[46] *Bihar, Uttar Pradesh and Andhra Pradesh*

The reply of the Ministry is not tenable as the FCI (August 2013) had withheld the commission to Society for KMS 2011-12, 2012-13 and RMS 2012-13 and had called for the proof of engagement of the Society in procurement operations.

As regards Andhra Pradesh, the Ministry accepted the audit observation and stated (June 2015) that SGAs had been asked to provide the proof of engagement of cooperative Societies and on failure to provide such document, the amount would be recovered.

In the case of Uttar Pradesh also, the Ministry accepted the audit observation and stated that (June 2015) the commission paid to Societies during 2010-11 had already been recovered and no payment on this head was made thereafter. Recovery of inadmissible amount of Societies commission paid in 2009-10 was under process.

However, recovery particulars were awaited in audit (June 2015). Moreover, as much as ₹ 1.10 crore was paid by the Uttar Pradesh as Society commission during 2011-12 and 2012-13, which also needs to be recovered.

Recommendation No. 4	**Ministry's Reply**
The Ministry may direct FCI/SGAs to ensure that payments for custody and maintenance charges and Society commission are made only after verification of documentary evidences for actual incurrence of expenditure by the SGAs on this account.	The Recommendation is accepted and FCI will be asked to ensure its implementation.

2.1.9 Non-submission of certificates for payment of Market Fee amounting to ₹ 17.09 crore in Andhra Pradesh and Telangana

a) In Andhra Pradesh, District Managers did not obtain the market fee paid certificates from the Marketing Department of APSCSC for an amount of ₹ 2.37 crore paid to it as Market Fee. Thus, the end-utilisation of the Market Fee could not be verified.

In the State Exit Conference held with Collectors in Andhra Pradesh (August 2014), it was assured that the certificates would be obtained and submitted to FCI. These were awaited in Audit (June 2015).

b) Audit scrutiny of certificates for payment of market fee amounting to ₹ 14.72 crore for the period 2009-10 to 2013-14, submitted by the Marketing Department of APSCSC[47] in Telangana revealed that these certificates were not supported by the receipt of payment and expenditure particulars. Hence end-utilisation of the amount paid as Market Fee could not be verified in Audit.

[47] *The nomenclature pertains to period prior to bifurcation into two separate States of Andhra Pradesh and Telangana.*

While accepting the audit observation, the State Government replied (December 2014) that the purchaser had to pay the Market Fee and RD Cess to the concerned Departments and the certificates were being obtained in coordination with all concerned and added that Market Fee was being paid from cash credit.

Recommendation No. 5	Ministry's Reply
The Ministry may ensure that payments are released by FCI/State Governments only after obtaining certificates for market fee/tax/cess paid in the previous marketing season.	Market Fee and RD Cess is imposed by the concerned authorities of the State Government under various statutory provisions. Obviously, the payment of such statutory charges cannot be linked to the end utilization of the revenue collected out of it, as the FCI or State Agencies can be subjected to penalties for not paying such fee/ cess. It is the responsibility of the State Government to ensure proper utilization of such funds and C&AG can audit the same at their end. Thus, the Recommendation is not acceptable.

Though the Ministry has not accepted the recommendation, yet it agreed to (during Exit Conference held on 25.06.2015) insist upon State Governments to furnish tax/fee paid certificates for earlier years.

2.1.10 Non-uniformity in fixation of MLC and Gunny Cost for CMR and Levy Operations

The rice for Targeted Public Distribution System (TPDS) is sourced through two operations namely Levy and CMR. Whereas in CMR, the paddy is procured by SGAs/FCI and given to millers, in case of Levy, the paddy is procured directly by millers and delivered to FCI/SGAs at pre-decided rate. However Audit noticed that despite procurement of paddy for both CMR and Levy Rice being made in the same *mandi*, the rates of *mandi* labour charges and Gunny cost were different. Following observations were noticed in this regard:

a) **Excess payment of ₹ 436.69 crore as MLC for CMR in Chhattisgarh, Punjab, Haryana regions of FCI, State Governments of Chhattisgarh and Uttar Pradesh**

The rate of MLC fixed for CMR was higher than the rate of MLC fixed for Levy Rice during the period from 2009-10 to 2013-14 in Non-DCP States of Uttar Pradesh, Punjab, Haryana and DCP State of Chhattisgarh (2009-10, 2011-12 and 2012-13) as follows:

Table 2.7
Rates of *Mandi* Labour charges fixed by the GoI for Paddy Procurement

(₹ per quintal)

Year	Punjab		Haryana		Uttar Pradesh		Chhattisgarh	
	CMR	Levy Rice	CMR	Levy Rice	CMR	Levy Rice	CMR	Levy Rice
2009-10	12.21	6.21	11.95	6.21	7.92	6.21	9.92	6.21
2010-11	13.24	6.98	12.69	6.98	8.90	6.98	6.41	6.98
2011-12	11.05	7.60	13.20	7.60	9.94	7.60	11.81	7.60
2012-13	11.68	8.03	13.84	8.03	10.91	8.03	10.37	8.03
2013-14	13.64	8.89	15.39	8.89	10.91	8.89	5.18	8.89

Source: Annual Report of the Ministry and FCI Procurement Division

As the procurement of paddy for both CMR and Levy Rice was made in the same *mandi*, there should have been no difference between the rate of MLC fixed for CMR and Levy Rice. This has led to an excess payment of ₹ 436.69 crore[48] to SGAs/FCI by the FCI/GoI during the period from 2009-10 to 2013-14.

On the other hand in Chhattisgarh, fixation of higher MLC for delivery of Levy Rice as compared to the MLC for CMR for the Khariff Marketing Season (KMS) 2010-11 and 2013-14 resulted in undue financial benefits to the millers to the tune of ₹ 0.29 crore. Thus in the same State, the State Government and FCI had two diametrically opposite price mechanisms for *mandi* labour which was not justified.

b) **Different rates of gunny cost for CMR and Levy Rice resulted in extra expenditure of ₹ 42.27 crore - Bihar, Odisha, Uttar Pradesh and Andhra Pradesh regions of FCI**

Fixation of gunny cost under CMR operations is done by the GoI on the basis of FCI's recommendation and FCI proposes the rate by adopting a practice of taking average cost of gunnies prevailing during the immediately preceding six months as the basis for the calculation of cost of gunnies. To this, elements like branding charges, safety stitches, Central Sales Tax, Education Cess, etc. are added. However, in the case of Levy Rice, gunny cost is finalized by the GoI on the basis of open market prices of gunny at Kolkata, during normal season, as received from Gunny Traders Association, Kolkata and by adding thereto other elements like freight, incidental charges and interest of one month.

Thus different rates of gunny cost have been prescribed for CMR and Levy Rice operations though the gunnies are used in the same time period and for same purpose. The table follows illustrates the position:

Table 2.8
Different rates of gunny cost for CMR and Levy Rice operations

(₹ per quintal)

State	Operations	Years				
		2009-10	2010-11	2011-12	2012-13	2013-14
Punjab	CMR	63.53	78.14	84.22	70.86	81.18
	Levy Rice	59.68	64.78	72.34	70.86	78.00
Haryana	CMR	63.38	78.24	84.10	70.86	81.18
	Levy Rice	59.64	64.74	72.30	70.86	78.00
Odisha	CMR	63.35	78.32	79.64	79.64	81.34
	Levy Rice	54.00	63.48	70.98	69.46	75.66
Chhattisgarh	CMR	65.33	80.00	87.59	73.40	80.18
	Levy Rice	58.82	63.92	70.52	69.90	76.90
Uttar Pradesh	CMR	49.24	51.94	83.74	70.06	80.34
	Levy Rice	49.24	51.94	71.64	70.06	76.36
Bihar	CMR	50.40	62.00	80.80	69.53	79.82
	Levy Rice	50.40	63.60	71.84	69.58	75.78
Andhra Pradesh and Telangana	CMR	58.00	78.16	84.10	70.86	81.18
	Levy Rice	58.00	64.76	72.32	70.86	78.00

Source: Cost sheets issued by the Ministry

[48] *Chhattisgarh- ₹ 55.60 crore, Uttar Pradesh- ₹ 2.55 crore, FCI Punjab- ₹ 288.23 crore, FCI Haryana- ₹ 90.31 crore.*

It was further seen that the rates for gunny used in CMR operations was fixed higher than that for Levy Rice operations even when there was no justification for doing so. This fixation of different rates of 'new gunny' for CMR and Levy Rice respectively led to payment of accumulated higher incidental charges amounting to ₹ 42.27 crore[49] for CMR delivered by SGAs and Levy Rice delivered by rice millers during KMS 2009-10 to 2013-14.

The Ministry replied (June 2015) that as levy operations are being discontinued from 2015-16 thus these observations are no longer relevant.

Though the Ministry has replied that levy operations are being discontinued from 2015-16, the fact remains that different price structure were prevalent for CMR and Levy Rice for MLC and Gunny cost respectively whereas essentially both the operations were similar. This led to higher expenditure and avoidable subsidy outgo and underscores the need for better harmonization of distributed data sets for cost fixation of incidentals to optimally economize the expenditure on the same.

[49] *FCI, Odisha region (2009-10 to 2013-14)-₹20.71 crore, FCI Bihar region (2010-11 & 2011-12)-₹5.84 crore, FCI Uttar Pradesh region (2009-10 to 2013-14)-₹15.72 crore.*

Chapter-III
Procurement of paddy

Every year FCI and SGAs undertake an open-ended procurement of paddy at MSP declared by the GoI for the Central Pool. By this, Government aims to prevent distress sale of paddy/food grains by farmers. The total *mandi* arrivals are estimated based on variables like area under cultivation, previous years' data, etc. Then procurement targets of all the procurement agencies including FCI are fixed each year after considering the factors like availability of storage space, gunnies, dunnage[50] and staff, etc. In order to facilitate purchases and ensure maximum procurement in *mandis,* FCI prepares an Action Plan for each KMS. The Action Plan is to help achieve objectives of Procurement Policy, to render effective price support to the farmers and gear up procurement operations.

Audit observations on procurement of paddy are indicated below:

3.1 Extra expenditure of ₹ 256.73 crore due to shortfall in achievement of procurement targets of paddy by FCI in Punjab and Haryana

During review of records at Regional Office, Punjab, it was observed that target of procurement of paddy for the Region was fixed at 68.40 LMT during the years 2009-10 to 2013-14 against which the actual procurement of paddy was only 25.00 LMT. Similarly, target of procurement of paddy in Haryana region was fixed at 2.28 LMT during the years 2009-10 to 2013-14 against which actual procurement of paddy was only 0.98 LMT. This shortfall in procurement of paddy was eventually made good by procurement through SGAs. The cost of procuring paddy through SGAs is high because of incidence of additional charges such as C&M charges, interest charges and administrative charges in comparison to paddy being procured by FCI.

Short procurement of targeted paddy by FCI resulted in overburden on SGAs to procure additional quantity of 44.70 LMT paddy being the FCI's share during 2009-10 to 2013-14. This also resulted in avoidable extra expenditure of ₹ 256.73[51] crore towards C&M charges, interest charges and administrative charges being reimbursed by FCI to SGAs in Punjab Region, and interest charges in case of Haryana Region of FCI.

The Ministry stated (June 2015) that target of procurement of paddy arrived at after consultation with States is primarily for making adequate arrangements for procurement operations in relation to placing orders for gunnies, opening of Procurement Centres, posting of adequate Quality Control staff and arranging godown space etc. In fact, there had been a complete shift in approach to procurement which is shifting from FCI to States. Thus,

[50] *Loose wood, matting or similar material used to keep a cargo in position*

[51] *FCI Haryana Region-₹ 3.34 crore, FCI Punjab Region-₹ 253.39 crore*

lesser procurement by FCI than the target and increase in procurement by the SGAs need not be construed as incurrence of extra expenditure due to higher cost of CMR.

The Ministry did not justify the shift in approach for procurement by SGAs in view of incidence of higher cost of CMR procured by SGAs.

3.2 Deficiencies in payment of ₹ 17,985.49 crore as Minimum Support Price to farmers

3.2.1 Doubts about the authenticity of MSP payment

The objective of the GoI Procurement Policy is to provide farmers fair value of produce to prevent distress sale. MSP and bonus should be given to the actual beneficiaries i.e. farmers for which procuring agencies should obtain authentic copy of *Jot Bahi/Kisan Bahi/ Khatauni*[52].

Audit observed a large number of deficiencies like non authentication of land holdings of farmers, cases of payments to farmers with doubtful identities and delivery of paddy in excess of the land holdings of farmers etc. in the States. Details are given in ***Annexure-II***.

In the case of observation relating to Punjab, the Food & Supplies Department stated (February 2015) that Identification Documents (ID) of farmers should have been available with the Marketing Board and SGAs cannot ask for ID/land ownership proof as it is responsibility of the Marketing Board which issues forms to all farmers who sell paddy.

The reply confirmed the fact that the SGAs were not having any verifiable land ownership/payment records as was required as per the State Government's directions.

The Ministry replied (June 2015) that for ensuring the payment of MSP to the farmers in every State, the State Governments prescribe documents for identification of farmers and MSP is paid after obtaining such proof of identity. Payments are made by account payee cheque/Real Time Gross Settlement (RTGS) or other electronic mode. It further stated that in Odisha, advance registration of farmers is done and farmer's identity cards are issued mentioning therein the land holdings and in Uttar Pradesh, Khatauni is invariably obtained before payment of MSP. In case of Levy Rice, FCI is accepting milled Levy Rice as per the MSP certificate issued by District Authorities concerned.

The reply is not acceptable as the Audit has noticed large number of deficiencies in case of various States which are included in ***Annexure-II***, for which no specific reply was given by the Ministry. Further, FCI is not having any separate mechanism to check whether millers had paid the full MSP to the farmers or not and FCI is completely dependent on the State Government.

[52] *Land records maintained by State Authority concerned.*

Audit also noticed in case of FCI, Uttar Pradesh region that State Agriculture Produce Market Board had prescribed Form number 6R, which was to be issued on every first purchase of food grains by the buyer. As per practice, the form is made in quadruplicate (1st Copy for Seller, 2nd Copy for *Mandi Samiti*, 3rd Copy for VAT Department and 4th Copy for the buyer) specifying among other things, the name of the seller, name of buyer, quantity purchased, rate of purchase and *Mandi* Fee due etc. Thus, when first purchase is made from the farmers this form is issued to them and it acts as a proof that the purchase was made from the farmers and rate paid to the farmer was not below the MSP. Similarly, when second or subsequent purchase (*Arthia* to *Arthia* or *Arthia* to Miller) is made there is a provision of issue of another Form number 9R which is issued by seller to the buyer. It acts as a proof, among other things, for levy of *Mandi Shulk* and genuineness of purchase from registered seller. Thus, these forms are vital control instruments to ensure that MSP benefit reaches the farmer and not to ineligible persons. However, Audit while reviewing 509 vouchers, noticed several irregularities in the system raising doubts about the genuineness of MSP benefit being given to farmers. For example, in 175 cases, the 6R Form did not contain the farmers' signature; in 19 cases, the handwriting on the 6R Form and the signature of farmers were apparently similar and in 120 cases, neither 6R Form nor 9R Form were found attached.

This raises doubt as to whether the benefit of MSP did actually accrue to farmers. Thus, there was no assurance that the farmers actually did get full MSP for their produce from millers/SGAs/FCI.

While accepting the audit observation, the Ministry stated (June 2015) that the Government of Uttar Pradesh has been sensitized for strict adherence to the prescribed Quality Control and paddy purchase guidelines. Compliance of Ministry's instruction by the Government of Uttar Pradesh was awaited in audit (June 2015).

3.2.2 MSP certificates not obtained for paddy procured in Punjab, Haryana, Telangana, Andhra Pradesh and Uttar Pradesh

a) Under Rule 11(a & b) of Punjab Agricultural Produce Market (General) Rules, 1962, the *Katcha Arthia*[53] shall make payment to the seller through account payee cheque or by electronic transfer after the weighment is over. A quantity of 13.03[54] LMT of paddy was purchased by FCI during KMS 2011-12 to 2013-14 in Punjab and Haryana Region for which payment of ₹ 1,666.07[55] crore was made by FCI to *Arthias* on account of MSP. It was observed in audit that Punjab and Haryana Regions of FCI had purchased 2.32[56] LMT paddy valuing ₹ 296.64[57] crore during KMS 2011-12 to 2013-14 but had not obtained the details of farmers along with name of village, bank account number, phone number, details of purchase and details of payment along with acknowledgement of farmers from the *Katcha Arthia*. This

[53] *Katcha Arthias renders services as immediate intermediary or aggregator in the process of procurement of food grains.*

[54] *FCI Haryana Region-0.23 LMT, FCI Punjab Region-12.80 LMT*

[55] *FCI Haryana Region-₹ 30.51 crore, FCI Punjab Region-₹ 1635.56 crore*

[56] *FCI Haryana Region-0.09 LMT, FCI Punjab Region-2.23 LMT*

[57] *FCI Haryana Region-₹ 12.69 crore, FCI Punjab Region-₹ 283.95 crore*

was in violation of the instructions of the GoI. In absence of this the actual benefit of MSP to farmers could not be verified from records.

b) In Andhra Pradesh and Telangana, the rice millers were required to furnish a certificate to the effect that paddy was purchased at MSP from the farmers, duly countersigned by the *Sarpanch/Panchayat* Secretary and Ward Member. After verifying the details, the Mill Levy Certificates shall be issued by the District Collectors for delivering Levy Rice by the millers/dealers to FCI. This mechanism helps the District Administration to ensure that millers pay MSP to farmers for the paddy purchased at farm-gates. In Telangana and Andhra Pradesh, Audit observed that MSP certificates for 153.79 LMT[58] valuing ₹ 17,681 crore were not obtained by the millers.

Audit also noticed that in FCI Area Office Nalgonda, millers purchased non-FAQ[59] paddy for the KMS 2013-14 and offered less than MSP rate to the farmers. As against the MSP of ₹ 1,345/1,310 per quintal {for FAQ and Under Relaxed Specification (URS) respectively}, the average price paid was ₹ 1,269 per quintal. The District Supply Officer was found to have wrongly issued certificate stating that full MSP was paid by the miller in respect of purchase of non-FAQ paddy, a fact which was not borne out of the actual records. This resulted in excess payment of ₹ 0.21 crore by FCI to private rice millers,

c) Purchase Policy of Uttar Pradesh provides that payment of MSP should be made to farmers immediately after purchase of paddy. It was, however, observed in Mirzapur district that the Uttar Pradesh State Agro and Pradeshik Cooperative Federation (PCF) had not paid MSP to the farmers for purchase of paddy amounting to ₹ 7.85 crore during 2010-11 to 2012-13. It was replied by State Agro that funds were not available. However, PCF in a contradictory reply stated that funds were indeed given to the Societies. Further, in absence of MSP certificates furnished by Societies, payment at MSP rates could not be verified in audit.

The Ministry stated (June 2015) that for ensuring payment of MSP to the farmers in every State, the State Government prescribes documents for identification of farmers and MSP is paid after obtaining such proof of identity. It further stated FCI is not having any separate mechanism to check whether millers have paid the full MSP to the farmers or not and FCI is completely dependent on the State Governments in this regard.

The reply is not convincing as the audit observations detailed in ***Annexure-II*** highlights the violation of these instructions in almost all the States for which no specific reply was given. Thus, there was no assurance that the farmers actually did get full MSP for their produce worth ₹ 17,985.49 crore from millers/SGAs/FCI in these States.

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[58] *41.79 LMT in Nalgonda and Nizamabad districts of Telangana Region valuing ₹ 4,820 crore, 112 LMT in East Godavari and West Godavari districts of Andhra Pradesh Region valuing ₹ 12,861 crore.*

[59] *Fair Average Quality specifications are uniform specifications of food grains which are formulated by the GoI before the commencement of each marketing season.*

3.2.3 Irregular mode of MSP payment by SGAs/FCI

As per instructions of the Food Supplies Department (FSD) of the respective State Governments and Action Plan of FCI Headquarter in vogue for the respective year, the FCI/SGA should make payments to the farmers after purchase of paddy *immediately* or *within 48 to 72 hours*, as applicable. It was also to be ensured that the payment of MSP for paddy procured by FCI (bonus declared by GoI, if any) for KMS 2013-14, was made directly to the farmers, through electronic mode/account payee cheques. However, it was observed in Uttar Pradesh, Odisha and Andhra Pradesh that payment of ₹ 27.27 crore was made in cash to farmers by millers ***(Annexure-III)***. Moreover, delays in payment of MSP to farmers as against the instructions to make payment within 48 to 72 hours were noticed in large number of cases. Details are given in ***Annexure-IV.***

The Ministry stated (June 2015) that response of the State Governments was awaited. It further added that FCI does not have any separate mechanism to check whether millers had paid the full MSP to the farmers or not and it is completely dependent on the State Governments in this regard. It also stated that payments are made by account payee cheque/RTGS or other electronic mode.

The reply is not acceptable as the cases of payment of MSP in cash by millers were noticed as detailed in ***Annexure-III*** which underlines the need to rectify the deficiencies to ensure that the payment are made only to genuine farmers.

Recommendation No. 6	**Ministry's Reply**
In view of large scale MSP related payments being made without ascertaining the bonafide of the farmers, it is recommended that FCI/SGAs may consider direct transfer of MSP payments to the identity linked accounts of the farmers.	The Recommendation is accepted for implementation subject to progress of seeding of Aadhar card numbers with the accounts of the farmers over a period of time.

3.3 Deficiencies in quality of procured paddy

The GoI issues uniform specifications of paddy and rice (Grade 'A' and 'Common') each marketing season so that farmers get due price for their produce and rejection of stocks is avoided.

Uniform Specifications are standards prescribed to take care of quality of food grains marketed in the country and to identify and distinguish the quality differences noticed from lot-to-lot besides explaining purity of the grains for edible requirements. It should always be within the Prevention of Food Adulteration Act, 1954 (PFA) standards {now The Food Safety and Standards Act (FSSA), 2006 w.e.f. 5 August 2011}.

Audit noticed a number of deficiencies in the procurement of paddy which are detailed below:

3.3.1 Non-Compliance of Food Safety Standards in Punjab and Haryana regions of FCI

Uniform specifications of food grains, which are also known as Fair Average Quality (FAQ) specifications, are formulated by the Ministry every year before commencement of marketing season. These specifications are finalized by a High Power Committee constituted by the Ministry and comprises of representatives from producing and consuming States. Renowned institutions like Central Food and Technological Research Institute (CFTRI), Mysore are also consulted before finalizing these specifications. These specifications provide the upper limit (in terms of percentage) of various refractions beyond which the paddy/rice is not to be procured/accepted by procuring agencies.

In addition to the specifications prescribed by the GoI, the procured rice must conform to the Food Safety and Standards Act (FSSA) i.e., Uric acid (not more than 100 mg per kg) and Aflatoxin (not more than 30 microgrms per kg) must be within prescribed limits. {Regulation 2.4.6(5) (v) and (vi) of Food Safety and Standards (Food Products Standards and Food Additives) Regulations, 2011}.

However, it was observed that the GoI procurement specifications of rice do not specify these two specifications/adulterants as mandated by the FSS Act. FCI had not established any mechanism to ensure that rice conformed to food safety standard at procurement stage.

The FSSA, 2006 came into force with effect from 5 August 2011 wherein every Food Business Operator (FBO) was to register afresh under the new Act within one year i.e., by 04 August 2012. During review of records of districts of Punjab Region of FCI, it was observed that the District Offices had not got a valid license covering all the centres (till December 2014) as required under FSSA, 2006.

In case of units hired from Central Warehousing Corporation (CWC)/State Warehousing Corporation (SWC)/private service providers, licenses were to be obtained by concerned parties wherever they were responsible for maintaining the stock. The transport operators engaged for moving food grains are also covered under the Act. In Sangrur District of Punjab, it was observed that out of 17 centres, the Area Office had not obtained licenses in respect of 11 centres and no license was obtained by Ludhiana District in respect of any of its centres till October 2014. Further, requirement of obtaining license under the Act in respect of units hired from CWC/SWC/private service providers and transport operators engaged for moving food grains was also not ensured by FCI.

The Ministry, while accepting the audit observation, stated (June 2015) that registration process under the FSSA has been completed in respect of all depots both owned and hired in Punjab. In respect of all depots in Haryana, the license under FSSA had been applied.

Progress of full compliance to the Act was awaited in Audit (June 2015).

3.3.2 Issue of 1.84 LMT of old rice without tests for insecticides/pesticides residue

After procuring the rice, FCI stores it and preserves it by carrying out fumigation and prophylactic treatment of rice. Before issue of rice for sale under TPDS or other schemes, it must conform to food safety standards, which also provide for maximum tolerance limits of various insecticides and pesticides found in rice. However, it was observed that the FCI did not have a regular system to ensure that the rice conformed to food safety standards at issue stage.

FCI Headquarter vide its circular dated 29 March 1994 instructed that the Zonal as well as Regional chemical labs should test the samples of sound food grains which are in storage for more than two years or had undergone more than twenty fumigations treatments, whichever is earlier for pesticidal residues/uric acid contents to ascertain whether the stocks were well within the tolerance limits prescribed under FSSA.

Picture 3.1
Anti-pest treatment

During review of records of Regional Office, FCI, Punjab (2010-11 to 2013-14) and Haryana (2013-14), it was observed that rice stock totalling 1.835 LMT was more than two years old. This was issued during the years 2011-12 to 2013-14. However, no samples were got checked by FCI for the food safety standards relating to toxins, insecticides or pesticides before issue. There was no system in place for ensuring compliance of food safety standards relating to insecticides and pesticides residue as the District and Regional labs did not have any such facility. In absence of a system for ensuring compliance of food safety standards relating to insecticides and pesticides residue and compliance of the instructions of the GoI/FCI on this subject, the possibility of unsafe food grains being issued for public consumption could not be ruled out.

The Ministry replied (June 2015) that FCI follows a drawl of joint sample at the time of issue and stocks conforming to food safety standards are only issued. Besides, an officer is nominated for each depot by FCI who is responsible for compliance.

However, the procedure prescribed above was not complied with as has been brought out above.

Recommendation No. 7	Ministry's Reply
In view of public health concerns arising from supply of Targeted Public Distribution System food grains without adequately complying with the applicable standards for toxins, insecticides and pesticides residue, FCI/SGAs may augment the testing facilities for the same.	The Recommendation is accepted.

3.3.3 Procurement of substandard paddy valuing ₹ 9,788.50 crore by SGAs in Punjab

In SGAs of Punjab, no separate account was found maintained for paddy purchased under FAQ and under relaxed specification respectively.

A quantity of 82.46 LMT paddy valuing ₹ 9,788.50 crore was procured during KMS 2010-11 and 2013-14 by SGAs[60] under FAQ but the same was found below specification during inspection by the Ministry. It was corroborated from the fact that FCI even imposed recovery of ₹ 4.20 crore against the quality cut imposed on CMR of crop year 2009-10 to 2013-14 in the District Office, Ludhiana of Punjab State Warehousing Corporation (PSWC).

Since no separate record showing purchase of paddy URS was available in Area offices, purchase of paddy under relaxed specifications was not clearly identifiable.

60

Name of the SGA	*Quantity (in LMT)*	*Value(₹in crore)*
Punjab Agro Food Grains Corporation Limited (PAFCL)	*10.24*	*1,234.35*
Punjab Grains Procurement Corporation Limited (PUNGRAIN)	*35.32*	*4,182.67*
Punjab State Warehousing Corporation Limited (PSWC)	*12.29*	*1,446.26*
Punjab State Civil Supplies Corporation Limited (PUNSUP)	*24.61*	*2,925.22*
Total	***82.46***	***9,788.50***

The SGAs admitted (February/March 2015) that no separate account for paddy purchased under FAQ and URS had been kept. Food and Supplies Department stated (February 2015) in State Exit Conference held in Punjab that separate account should have been maintained for paddy purchased under FAQ and URS.

While accepting the audit observation, the Ministry stated (June 2015) that Government of Punjab was sensitized for strict adherence to the prescribed Quality Control and paddy purchase Guidelines.

Compliance of the same by Government of Punjab was awaited in Audit (June 2015). Thus, evidently full payment was made by SGAs for paddy which was substandard in quality.

3.3.4 Procurement of 191.35 LMT paddy without ensuring quality by the Government of Chhattisgarh

It was observed in Chhattisgarh that out of prescribed five checks[61], only moisture content check was conducted by the State Government during procurement of paddy. Further, it was observed that number of samples for test was not fixed either by the GoI or the SGAs. Thus, in absence of above checks and without fixing sample size of checks, it was not clear as how the State Government ensured the minimum quality standard for 191.35 LMT paddy worth ₹ 21,115.13 crore procured during KMS 2009-10 to 2013-14.

While accepting the audit observation, the Ministry stated (June 2015) that Government of Chhattisgarh was sensitized for strict adherence to the prescribed Quality Control and paddy purchase guidelines.

Compliance of the Ministry's instructions by the Government of Chhattisgarh was awaited in Audit (June 2015).

3.3.5 Procurement of paddy worth ₹ 19.56 crore from 2,831 farmers without quality tests in Odisha

As per guidelines for DCP operations in Odisha, the Paddy Purchase Centres (PPCs) are required to conduct sample testing of paddy upon arrival of paddy to see if it conforms to the FAQ standards (moisture content, damaged/weevilled, colouration etc.). If the paddy conforms to the specifications, it is to be purchased and payment made by the PPC to the farmer within seven days. Records regarding quality test report of paddy need to be maintained at the PPC.

[61] *1. Foreign matter, 2. Damaged discolor, sprouted and weevilled grains, 3. Immature, shrunken and shriveled grains, 4. Admixture of lower class and 5. Moisture content*

The District Managers of seven districts (Bargarh, Bhadrak, Bolangir, Deogarh, Sambalpur, Sonepur and Malkangiri) stated that they procured paddy conforming to FAQ specifications and confirmed that no URS paddy was procured during KMS 2009-10 to 2013-14.

However, it was observed in five[62] Primary Agricultural Cooperative Societies (PACS) of four[63] districts that 1.30 LMT of paddy valuing ₹ 19.56 crore was procured from 2,831 farmers for which no records of quality tests being conducted in Bargargh, Bhadrak, Malkangiri and Kalahandi districts of Odisha were found on record. Notwithstanding this fact in all the cases, FAQ price was paid by the Government of Odisha. In absence of quality tests, it is not clear as to how the Government of Odisha satisfied itself about the paddy meeting FAQ requirements, before full payment was made.

While accepting the audit observation, the Ministry stated (June 2015) that State Government of Odisha was sensitized for strict adherence to the prescribed Quality Control and paddy purchase guidelines.

Compliance of the same by the Government of Odisha was awaited in Audit (June 2015).

Recommendation regarding augmentation of manpower resources has been consolidated and placed under Para 7.3.7 of this report.

3.4 Relaxation in procurement of paddy/rice

All procurements are to be made by the State Governments/SGAs or FCI as per FAQ specifications. The State Governments/SGAs, however, request from time to time for relaxation in the FAQ specifications due to circumstances arising out of climatic factors/natural calamities like excessive rainfall, flood and drought etc., which adversely affect the quality of food grains produced in a particular region. To reduce hardship to the farmers, relaxations in specifications are agreed for procurement by the GoI on case-to-case basis. Such relaxation for procurement URS are mainly sought regarding the moisture content, color change, percentage increase in broken/damaged grains etc. and depends upon the extent of the crop affected due to natural climatic changes. Separate cost sheet is issued for such URS grains by normally imposing a value cut depending upon different refractions.

As per procedure, if relaxations in some refraction of uniform specification are allowed in respect of paddy, then a corresponding value cut is imposed on paddy, which is a reduction in the price payable for this paddy. As far as CMR is concerned, there is no value cut as in such cases it is obtained from paddy on which value cut has already been applied. In case of Levy Rice, value cut is imposed on rice as paddy has been procured by rice millers at MSP.

[62] *Jharbanda, Thumbapada, Medinipur, Malkangiri and Korukonda.*

[63] *Bargarh, Bhadrak, Kalahandi, Malkangiri.*

Normally, relaxation in any State is to be allowed after examination and joint analysis of paddy/rice samples with due approval of the Hon'ble Minister of Consumer Affairs, Food & Public Distribution, the GoI.

Audit noticed following deficiencies regarding grant of relaxation in paddy/rice:

3.4.1 Excess payment of ₹ 208.27 crore to millers in Punjab due to acceptance of rice under relaxed specifications (URS) without corresponding value cut for KMS 2009-10

The GoI relaxed (October 2009) the permissible limit of damaged/slightly damaged grains from three *per cent* to four *per cent* considering request of the Government of Punjab (GoP) during KMS 2009-10. This relaxation was again enhanced (March 2010) to 4.75 *per cent* for damaged/slightly damaged grains for three[64] revenue divisions of Punjab. Thereafter, Government of India further relaxed (7 January 2011) the permissible limit of damaged/slightly damaged, including pin point damaged grains, for custom milled raw rice Grade A/common rice, up to four *per cent* (against the limit of three *per cent)* with full value cut during KMS 2010-11 for the entire State of Punjab. Later, the GoI (18 January 2011) changed these relaxations whereby percentage of damaged/slightly damaged grains, including pin point damaged grains, was relaxed up to four *per cent.* This was subject to the condition that damaged/slightly damaged grains, should not exceed three *per cent* without any value cut. As these relaxations were applicable for CMR, out of paddy procured by SGAs, the relaxation in uniform specifications of rice was not allowed by the GoI for Levy Rice and CMR.

The GoP had first requested for relaxation in specifications of rice (KMS 2009-10) as early as 25 August 2009 when the paddy crop was in growing stage. No scientific analysis of samples was carried out before granting relaxation, inspite of the fact that CMD, FCI had recommended (October, 2009) to the Ministry for scientific analysis of samples before allowing relaxation. During KMS 2009-10, permissible limit of damaged/slightly damaged grains was enhanced from three *per cent* to four *per cent* and thereafter up to 4.75 *per cent,* but no corresponding value cut was imposed for relaxation in specifications. The relaxation in specifications without any value cut resulted in benefit of ₹ 196.87 crore to the millers in Punjab who got FAQ rates for supplying non-FAQ rice. This also resulted in avoidable subsidy burden of the equal amount on the GoI.

Relaxation was also allowed for left over CMR of KMS 2008-09 despite recommendation (October 2009) of CMD, FCI that poor quality of remaining rice was owing to the omissions and commissions on the part of rice millers and SGAs of Punjab, who did not adhere to the Government's specifications at the time of procurement. CMD, FCI had specifically recommended not to allow any relaxation in the specifications.

[64] *Patiala, Ferozepur and Faridkot*

The Ministry while replying to the above observations stated that Government of Punjab had requested for relaxation in KMS 2009-10 due to incidence of higher damaged, discoloured and pin point grains in paddy variety PAU 201 of KMS 2008-09. It was further stated that relaxation was issued on 3 October 2009 and not in the month of August 2009, keeping in view the anticipated severe shortfall in production of rice that year and in order to maximize the procurement of rice in drought year. The Ministry further stated that FCI was subsequently asked to analyse the field samples, as officers from the Ministry were also sent to Punjab for collection of samples.

The reply is not acceptable as relaxation order was issued on 03 October 2009 but the process of considering request was initiated on 02 September 2009 itself by sending proposal to CMD, FCI by the Ministry for comments. However despite the CMD's recommendation (18 September 2009) to consider extending time instead of giving relaxation, relaxation was granted on 03 October 2009. As the 2008-09 KMS had already ended in March 2009 and the stock situation was already known six months before relaxation was granted in October 2009, it is evident that relaxation was granted without taking into account the actual situation. Also, subsequent analysis of samples, once the relaxation is already granted, does not serve any purpose. Moreover, no evidence for conducting such analysis was found on record.

Audit further observed that in case of FCI, in terms of milling agreement, the millers were required to deliver the rice to FCI as per the uniform specifications fixed by the GoI. During examination of records of Regional Office (RO) FCI, Punjab it was noticed that 6,35,806 MT of URS rice was delivered by millers during KMS 2009-10 and 2010-11. However, no corresponding value cut was recovered from millers. As the permissible limit of damaged/slightly damaged grains was enhanced from three *per cent* to four *per cent*, a corresponding value cut was to be imposed on the cost of CMR which was not done. Thus, due to allowing relaxation in specification without value cut, the FCI also made excess payment of ₹ 11.40 crore to the millers.

The Ministry stated (June 2015) that relaxation in uniform specification allowed by the GoI was equally applicable for FCI procured CMR and Levy Rice as per the GoI's instructions dated 07 January 2011 and relaxation was given without any value cut considering the prevailing circumstances. As a result there was no excess payment to the millers.

The reply is not tenable as records of the Ministry did not indicate any justification for making full payments without any value cut to the millers for rice which was lower than the required specifications.

3.4.2 Payment of ₹ 124.23 crore as upgradation charges in Punjab without determining quantities of specified variety of rice and actual expenditure incurred thereon

The GoI fixes the rates to be reimbursed by FCI for the rice delivered by the SGAs in Central Pool. The GoI, relaxed the uniform specifications[65] of raw rice during KMS 2009-10 on the basis of requests received from the GoP from time to time to expedite the milling of paddy and in order to maximize procurement of rice in drought year (as brought out in para 3.4.1 above). Subsequently, when the required quantity of rice to be milled out of paddy procured by SGAs of Punjab during KMS 2009-10 could not be delivered in Central Pool in spite of the relaxations, the GoP sought further relaxations (beyond 4.75 *per cent*) in respect of damaged grains. This was not acceded to by the GoI owing to the fact that the percentage of damaged grains should not exceed five *per cent* for food grains to be classified as fit for human consumption as per norms. Thus, the relaxations in specifications of raw rice in respect of discolored, damaged and broken grains during KMS 2009-10 had put the quality of rice almost at the verge of being declared unfit for human consumption.

As the SGAs of Punjab could deliver only about 69 *per cent* of the rice pertaining to KMS 2009-10 by June 2010, the GoP requested (June 2010) the GoI for allowing export of 15 LMT of rice milled out of paddy stocks procured for Central Pool during KMS 2009-10, to reduce losses.

Based on the recommendations of the Committee of Secretaries (CoS) after examination of proposals through Inter Ministerial Committee (IMC), the Empowered Group of Ministers (EGoM) decided (28 September 2010) that the leftover stocks of PAU 201 variety of paddy be milled, de-reserved and allowed to be disposed. This was to be done in open market as rice, and was not to be disposed of as paddy (with MSP as reserve price). The loss incurred in the process was to be shared equally by the GoI and GoP, after deducting Statutory and other charges. The carrying cost from 01 April 2010 to 30 September 2010 was to be borne solely by the GoP. At the same time, the total loss to be borne by the GoI was capped at ₹ 277.29 crore.

The GoP did not agree with the decision of the GoI and submitted the revised proposal as under-

i) The balance quantity of paddy as on 1 October 2010 be got milled and resultant rice delivered to FCI within relaxed specifications applicable for KMS 2009-10.

ii) As the resultant rice was likely to have higher percentage of damaged grains than allowed (4.75 *per cent*) for KMS 2009-10, upgradation[66] of rice would be undertaken.

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[65] *Discolored/red grains, damaged/slightly damaged grains from three to four per cent; broken grains from 25 to 28 per cent; damaged/slightly damaged grains from already relaxed limit of 4 to 4.75 per cent.*

[66] *Blending of good quality of rice with low quality rice to bring it at acceptable specification*

iii) Cost of upgradation ₹ 200 per quintal (in two[67] revenue districts) and ₹ 100 per quintal (in eight[68] revenue districts) be allowed by the GoI.

iv) The GoP would ensure delivery of balance rice for KMS 2009-10 before delivery of rice for KMS 2010-11; the delivery of rice for KMS 2009-10 would be completed by 31 January 2011.

The proposals were approved (5 October 2010) by the GoI with the conditions that the GoI's assistance for upgradation would be limited to district wise quantities as intimated by the GoP vide letter dated 3 September 2010 minus any subsequent quantities delivered thereafter. This was to be an exceptional case not to be cited as precedence in future. Accordingly, revised orders regarding leftover stocks of PAU 201 variety of paddy were issued by the Ministry (6 October 2010) and the *ibid* decision was given ex-post-facto approval by EGoM (28 December 2010). Subsequently, the due date for completion of delivery of rice of KMS 2009-10 was further extended first up to 15 May 2011 and then again up to 15 July 2011.

The SGAs of Punjab procured 131.36 LMT of paddy during KMS 2009-10 and 72.41 LMT of rice was delivered by SGAs to FCI in Central Pool up to 30 September 2010. Subsequently, 10.05 LMT of CMR was delivered by SGAs following the sanction of upgradation charges in the revenue districts where such charges were allowed. An amount of ₹ 139.26 crore was payable on this quantity of rice delivered by SGAs in Central Pool as per the orders of the GoI of which an amount of ₹ 124.23 crore had already been paid by the GoI/FCI.

As the relaxations in specifications of raw rice allowed by the Ministry during KMS 2009-10 was without imposition of any quality cut, the subsequent sanction of upgradation cost to compensate the expenditure incurred by SGAs on making the leftover CMR conform to the already relaxed specifications was not justified.

Moreover, the sanction of upgradation cost was done without checking the actual procurement of PAU 201 variety of paddy or the evidence of actual activities/processes carried out for upgradation. Similarly no verification was done about the actual expenditure involved therein and also without ensuring that rice of KMS 2010-11 was not passed off as upgraded rice of KMS 2009-10. All this led to avoidable subsidy outgo of ₹ 124.23 crore on acceptance of 10.05 LMT of upgraded rice.

The Ministry stated (June 2015) that the sanction for upgradation had the approval of the EGoM and was granted in view of special circumstances after careful consideration.

Evidently, the payment was made by FCI/SGAs of GoP without going into detailed procedure as to the actual procurement of PAU 201 variety or the actual activities/processes carried out for upgradation, more so when relaxation in specifications was done without any

[67] *Bathinda and Mansa*

[68] *Barnala, Faridkot, Fatehgrarh Sahib, Ferozepur, Moga, Muktsar, Patiala and Sangrur*

value cut. Thus, the FCI/SGAs of GoP could not ensure proper compliance of the relaxation given by EGoM.

3.4.3 Relaxation in specification without imposition of value cut in Punjab in KMS 2010-11 leading to avoidable subsidy burden of ₹ 142.64 crore

During KMS 2010-11, Government of Punjab (GoP) requested (October 2010) the GoI for allowing relaxations in the uniform specifications of paddy and rice citing damage due to untimely rains at pre-maturing stage of PUSA-44 variety of paddy which took more time to mature and which had been sown in seven lakh hectares with likely production estimates of around 50 LMT. After collection of 101 samples of paddy from *mandis* of 10 districts[69] and analysis of quality parameters in Central Grain Analysis Laboratory (CGAL), New Delhi, the GoI relaxed (November 2010) the uniform specifications of paddy in respect of damaged, discoloured, sprouted and weevilled grains from the limits of four *per cent* prescribed in uniform specifications to ten *per cent*.

At the same time, 20 of the samples *ibid* (two from each district) were test milled to assess the quality of rice and it was decided that the matter regarding relaxations in specifications of resultant rice would be decided after test milling of more samples. Accordingly, 79 more samples of paddy were collected, milled and resultant rice samples were analyzed. Analysis results of 99 samples of rice showed that 71 samples were found to be within uniform specifications and 28 samples were found to be eligible for relaxations sought by the GoP in the intervening period. However, the uniform specifications of raw rice in respect of damaged/slightly damaged grains including pin point damaged grains were relaxed by the GoI (07 January 2011) from the limits of three *per cent* prescribed in uniform specifications to four *per cent* with value cut. The recorded reason for imposition of value cut was that it would ensure maximum rice deliveries within uniform specifications as it was an industry practice to mix different varieties of rice to bring it within specifications. However, on being informed by the GoP (14 January 2011) that the *ibid* decision was not acceptable and the millers had halted the milling process in the State, the value cut was withdrawn by the GoI (18 January 2011). The decision of the GoI to withdraw the value cut and pay for the URS rice received at the rates fixed for FAQ food grains during KMS 2010-11 was not justified due to the following reasons –

i) The primary issue necessitating relaxations in uniform specifications of paddy and rice during KMS 2010-11 was sowing of PUSA-44 variety of paddy which constituted about 1/3rd of the total paddy production. However, the relaxations allowed by the GoI for paddy as well as rice were not restricted to any particular variety or a specified quantity as the GoI expressed impracticability of such restrictive relaxations owing to non maintenance of variety wise records of procurement and practice of mixing different varieties of rice to bring it within specifications amongst the rice millers of Punjab. In

[69] *Ropar, Fatehgarh Saheb, Mukatsar, Ludhiana, Moga, Patiala, Sangrur, Barnala, Mansa and Bhatinda.*

such a scenario, the relaxations in uniform specifications of rice should logically have been accompanied with a corresponding value cut which was not done.

ii) The relaxations were granted based on analysis of 99 samples of rice of which 71 samples were found to be within uniform specifications and only 28 samples were found to be eligible for relaxations finally granted by the GoI. However, eventually the relaxations in uniform specifications were granted without imposition of any value cut and without restricting the relaxations to a particular variety or a specified quantity. Moreover as 96.5 *per cent* (74.72 LMT out of a total of 77.43 LMT) of rice finally delivered by SGAs in Central Pool during KMS 2010-11 was URS, it clearly indicated that the decision to do away with the value cut was not justified.

iii) Incidentally relaxations in uniform specifications of paddy in Chhattisgarh and Tamil Nadu and rice in Odisha had also been allowed by the GoI during KMS 2010-11 itself but the same had been accompanied with full value cut.

It is pertinent to mention here that the value cut imposed on paddy is borne by farmers while the value cut on rice is to be borne by SGAs/millers. In case of Chhattisgarh and Tamil Nadu the relaxations in uniform specifications had only been granted for procurement of paddy and the uniform specifications for the resultant rice had not been relaxed and the rice delivered in Central Pool was conforming to the uniform specifications. The cut which had been imposed on the relaxations granted for procurement of paddy was borne by the farmers in Chhattisgarh and Tamil Nadu, whereas in the case of Punjab no value cut was imposed even when 96.5 *per cent* of rice finally delivered by SGAs/millers in Central Pool during KMS 2010-11 was URS. It implies that there was no consistency in the manner of allowing relaxations in uniform specifications for different States and the same were being dealt in an ad-hoc manner.

Thus, had the decision to accompany the relaxations in uniform specifications of rice with value cut during KMS 2010-11 not been withdrawn by the GoI merely due to non acceptability of the decision by the GoP/millers of Punjab an amount of ₹ 19.09 per quintal would have been imposable as value cut on URS rice received in Punjab during KMS 2010-11. A quantity of 77.43 LMT of rice had been delivered in Central Pool by SGAs of Punjab during KMS 2010-11 of which 74.72 LMT URS rice was delivered against the estimated production of 50 LMT. This was accepted by FCI without imposing any value cut leading to an avoidable subsidy burden amounting to ₹ 142.64 crore on the GoI.

The Ministry stated (June 2015) that paddy is procured in the Central Pool irrespective of variety, if it meets the uniform specifications.

The reply is not specific and does not address the concerns enunciated in the audit observation.

3.4.4 Relaxation in uniform Specification of normal paddy/rice in Haryana without following the mandatory procedure in KMS 2013-14

During review of records pertaining to relaxation granted in uniform specification of rice for Haryana for KMS 2013-14, it was observed that on request of Government of Haryana (initially requested in October 2013), the Ministry deputed a joint Team for analysis of extent of damage of rice due to unseasonal rain and for relaxations required in rice for KMS 2013-14. On the basis of sample collected and analyzed in laboratory, the Team had recommended that there was no problem of damaged/slightly damaged grains in Ambala, Panchkula and Kaithal (Gulha Cheeka belt) districts as all the samples collected from these districts were found well within the prescribed limit. Relaxation, if allowed, may be considered only for balance CMR in Karnal, Kurukshetra, Yamuna Nagar and Palwal districts. Accordingly as a special case, GoI decided (02 January 2014) to allow relaxation in the percentage of damaged/slightly damaged grains up to four *per cent,* as against the existing limit of three *per cent,* with full value cut in balance quantity of CMR of KMS in Karnal, Kurukshetra, Yamuna Nagar and Palwal district in Haryana.

However, later on the basis of request from the Government of Haryana (GoH) dated 9 January 2014, the GoI extended (10 January 2014) the benefit of relaxation to three more districts which were not recommended by the Team, namely Ambala, Panchkula and Guhla Cheeka belt of Kaithal district for the balance quantity of CMR with the same terms and conditions and with immediate effect. The relaxation granted to Ambala, Panchkula and Kaithal (Gulha Cheeka belt) districts for which the Team did not recommend any relaxation was not justified in absence of damaged/slightly damaged grains in samples collected from these districts.

The Ministry stated (October 2014) that it was given as a special case by the then Hon'ble Minister (Ministry of Consumer Affairs, Food and Public Distribution) in November 2009.

Later, on request of the GoH (9 January 2014) and based on the Team report, GoI extended (5 February 2014) relaxation for the balance quantity of CMR raw rice in Dhand centre of Kaithal district and Narwana centre of Jind district. However GoI, thereafter, extended (25 July 2014) the relaxation benefits for the balance quantity of 4,336 tons custom milled raw rice in Kaithal, Pundari and Siwan centres for which neither Team was formed nor recommendation of FCI was sought.

On inquiring about reasons for granting above relaxation for 4,336 tons CMR raw rice, *the Ministry replied (October 2014) that it was done as the State Government had been repeatedly requesting for relaxation in these centers.*

The reply is not acceptable as repeatedly calling for the relaxation in specification does not make one eligible for it in the absence of justification for the same.

Importantly, it was noticed in Audit that no relaxation was sought in case of paddy as the paddy procured was apparently conforming to uniform specifications prescribed by the

Ministry. Thus, even though the rice should also have been within specifications, relaxation was granted in its respect. On being pointed out, the Ministry replied that due to heavy rains in second week of October 2013, the paddy crop which was lying in open fields led to some of the standing crop getting damaged and thereby quality was affected. The Ministry's reply highlighted the fact that the compensation for standing crops getting damaged which should have been given to farmers by relaxing paddy specifications was actually passed on to the rice millers by relaxing milled rice specifications.

The Ministry further replied (October 2014) that it was assumed that SGAs *must have procured paddy as per uniform specifications and accordingly paid MSP for it.*

However, mere assumption does not suffice as the Ministry should have confirmed this assumption by writing to the State Government, along with confirmation from them that paddy procured from farmers was within specifications and full MSP was paid to farmers on this account. The above indicates that benefits meant for farmers were actually passed on to ineligible rice millers.

Recommendation No. 8	**Ministry's Reply**
The GoI may devise a mechanism whereby the benefits of relaxation in Fair Average Quality, because of adverse weather conditions affecting the crops, may accrue only to the intended beneficiaries, that is the farmers and not to the millers.	The Recommendation is accepted.

3.5 Inadequate deployment of staff in *Mandis* to conduct quality checks

Audit noticed insufficient deployment of staff across the States for procurement of paddy. This situation was exacerbated in Haryana by deployment of unqualified staff at the *mandis*. The shortcomings are detailed below:

a) In 16 districts of Punjab four procurement agencies, only 1,336 officials were deputed for 2,390 *mandis* during the KMS 2009-10 to 2013-14 which was less than even one person per *mandi*. This raises concerns about the process of ensuring quality and quantity of procurement of paddy.

While accepting the fact of inadequate staff the SGAs and Food Supplies Department (FSD) stated (February 2015) that it is not possible to post one inspector in each mandi by each SGA as the Ministry pays administrative charges to the SGAs on one crop only.

The Ministry also admitted (June 2015) that due to paucity of staff in few cases, one staff is, at times, allotted more than one mandi and depending upon arrivals, such mandis are operated on alternate days by single staff. The reply corroborates the fact that insufficient *staff is leading to less than adequate operation of the mandis thereby increasing the risk of procurement of sub optimal quality of paddy.*

b) As far as procurement by FCI is concerned, it was noticed in four districts each (Ludhiana, Sangrur, Moga and Patiala) of Punjab and (Fatehabad, Karnal, Kaithal and Kurukshetra) Haryana regions of FCI, 6.44[70] LMT of paddy valuing ₹ 720.85[71] crore was purchased by FCI during KMS 2009-10 to 2013-14. Out of this, samples of 0.13 LMT were sent to district laboratory in case of only the Punjab region. No sample was sent to laboratory in case of Haryana region. Thus, sample pertaining to only 2.02 *per cent* of paddy was checked in district laboratories. Moreover, the analysis results of paddy sample were not even transmitted to Regional Office and Zonal office concerned for feedback. Thus, the instructions issued by the FCI Headquarters for purchase of paddy from *mandis* were not followed in the District Offices in absence of which the adherence to quality parameters could not be vouchsafed in Audit.

The Ministry stated (June 2015) that samples submitted to district lab are based on lot-wise acceptance and not on percentage of quantity procured. Besides, stocks were checked by Manager (Quality Control) and subsequently by the Area Manager and Assistant General Manager (Quality Control). All paddy procured was milled and no loss had occurred to FCI.

The reply is not specific as the audit observation is about non-compliance of prescribed instructions by FCI headquarters which carries the undesired consequence of procuring paddy without fulfilment of the prescribed specifications.

c) The Haryana Agro Industries Corporation (HAIC) deployed unqualified staff and FSD, provided moisture meters[72] only in 30 out of 85 *mandis*, but still claimed and got the entire reimbursement amount on this account (2009-10 to 2013-14). Moreover, the samples were found to be drawn from only few heaps as against the requirement of selection of sample from each heap and in case of Haryana State warehousing Corporation (HSWC); no record of day-wise representative samples taken was available.

The Management accepted (January 2015) the audit observation and stated that sufficient number of moisture meters were provided to the inspectors during the KMS 2014-15.The reply was endorsed by the Ministry (June 2015).

d) In Uttar Pradesh, the prescribed norm for manpower deployment for purchase of paddy was three officials in each purchase centre for ensuring the quality of paddy. However, prescribed number of staff was not deployed in 617 purchase centres (80 *per cent*) out of 768 purchase centres. There was an overall shortage of 60 *per cent* (925 officials were deployed against norms of 2,304).

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[70] *FCI Haryana region – 0.74 LMT, FCI Punjab region – 5.70 LMT*

[71] *FCI Haryana Region-₹ 79.18 crore, FCI Punjab Region-₹ 641.67 crore*

[72] *One moisture meter is required in each mandi*

e) In Odisha, as per operational guidelines, each purchase team shall consist of one Purchase Officer, one Junior Accountant, one Sales Assistant (SA) cum Godown Assistant (GA) and one supporting staff in case of purchase centers run by Odisha State Civil Supplies Corporation (OSCSC). Purchase team may work on rotation basis and cover up to three to four purchase centres in a week. Audit noticed that very few personnel were deployed in PPC in Bhadrak (2009-10 to 2011-12) and Deogarh (2012-13 to 2013-14). In fact, not even one staff on an average per Primary Agricultural Cooperative Society was deployed in Bhadrak during the above period.

Similarly, Operational Guidelines prescribed specific strength of Rice Receiving Centre (RRC)-in-charge, Sales Assistant-cum-Data Entry Operator, Quality Analyst, Dusting Operator, Sweeper and Security Guard in each RRC. The manpower in RRCs in Bargarh and Bhadrak was found to be deficient. Moreover, despite having 80 *per cent* to 87 *per cent* vacancies, the quality of rice surprisingly was stated to be at accepted levels as per acceptance notes signed by the Sales Assistant-cum-Godown Assistant/others. Audit also observed that acceptance notes did not bear the signature of the Quality Analyst in a large number of cases in Bargarh district. Though the District Manager of Bargarh stated that each and every lot of rice had been checked before its receipt in RRCs, such checks fell short by 90 *per cent* in Bhadrak district.

3.6 Pre-Milling storage and damage to paddy

As per custom milling policy of each State, paddy procured by the SGAs need to be safely stored in the premises of the allotted Rice Mills in joint custody with millers. It needs to be ensured that paddy purchased by the SGA is stored and kept under safe custody so that pilferage or damage to stocks is minimised.

However due to inadequate storage facilities or storage in open area, following cases of damage to paddy were noticed in audit:

3.6.1 Storage in open area resulted in damage to paddy worth ₹ 179.76 crore in Chhattisgarh

As per instructions issued (September 2009) by the Department of Food, Civil Supplies and Consumer Protection, procured paddy should be stored by way of Covered and Plinth (CAP), covered with polythene along with provision of drainage at site.

It was observed that in four out of seven districts viz. Raipur, Durg, Mahasamund and Rajnandgaon, 1.96 LMT of paddy amounting to ₹ 85.93 crore procured during KMS 2012-13 was stored in open space without plinth, which was to be milled up to September 2013. Further, as per information furnished by the MARKFED, Chhattisgarh, 1.50 LMT paddy valuing ₹ 179.76 crore, procured during KMS 2011-12 and 2012-13, was damaged in the State due to non milling of paddy in time (September 2014), as detailed below:

Table 3.1
Details of damaged paddy in Chhattisgarh

(₹ in crore)

KMS year	Quantity of damaged paddy (in MT)	Rate of damaged paddy (₹ per MT)	Value of damaged paddy (₹)
2011-12	46,674	10,800	50.41
2012-13	1,03,483	12,500	129.35
Total	**1,50,157 or say 1.50 LMT**		**179.76**

Source: Records of MARKFED, Chhattisgarh

While accepting the audit observation, MARKFED, Chhattisgarh stated (December 2014) that excessive procurement of paddy, storage in open area up to two KMS periods and non-milling of paddy within stipulated time resulted in damage and discoloration of paddy.

Audit also noticed that in FCI Chhattisgarh region, out of total paddy of 6.67 LMT, a quantity of 6.26 LMT of paddy was issued to millers and 0.26 LMT of paddy was stated to be storage loss for KMS 2010-11. However, in respect of balance 0.15 LMT paddy valuing ₹ 16.67 crore[73], no details were found about its whereabouts in the records of FCI.

While accepting the audit observation MARKFED, Chhattisgarh stated (December 2014) that the time schedule for milling was not adhered to due to excessive procurement of paddy.

Picture 3.2
Damaged Paddy at Storage Centres – Rajnandgaon, Chhattisgarh

[73] *Calculated on the basis of cost of ₹ 1,103.41 per quintal as per provisional incidental of paddy being taken over by FCI for KMS 2010-11, no detail was available.*

3.6.2 Loss due to storage in open area resulted in damage to paddy worth ₹ 21.28 crore in Bihar

In Bihar, as per provision contained in BSFC guideline (28 October 2013), it was specified that the total storage capacity should be at least 50 *per cent* of total paddy procured and 25 *per cent* of CMR. It was observed in audit that against the required storage capacity of 27.55 LMT, BSFC had 12.03 LMT storage capacity in which a quantity of 55.10 LMT of food grains was stored during 2011-12 to 2013-14. Thus, due to procurement in excess of storage capacity, 0.17 LMT of paddy worth ₹ 21.28 crore was reported as damaged by the concerned District Managers of the BSFC in three[74] selected districts.

It was further observed in BSFC, Patna that paddy relating to KMS 2012-13 was auctioned (1,47,373 quintal valuing ₹ 18.42 crore at the rate of ₹ 1,250/quintal) for ₹ 9.72 crore resulting into loss of ₹ 8.70 crore. Incidentally, two tenderers (M/s Arena Agro Industries and M/s Kalyani Enterprises) had reported that the paddy worth ₹ 0.24 crore which they had bid for was not available at godowns[75]. This implies that either the bid was invited by BSFC without availability of the paddy in these godowns or the paddy which was available in the godowns was removed without proper authorization/procedure.

The BSFC accepted the facts and stated that paddy was kept in the open space due to inadequate storage space.

While accepting the audit observation, the Ministry stated (June 2015) that the Government of Bihar has repeatedly been requested to develop intermediate storage as well as milling capacity. However, no claim lies with the Ministry for any damaged paddy.

Compliance of Ministry's request by Government of Bihar with a view to prevent damage to precious food grains is awaited in Audit (June 2015).

[74] *Rohtas, Patna and Aurangabad*

[75] *Pandarak, Ghoswari, Athmalgola, Belchhi, Barh, Chandor, Patut, Mokamch, Fatuha and Nathpur.*

Picture 3.3
Damaged Paddy at Storage Centre – Sasaram, Bihar

3.6.3 Non-availability of adequate and proper storage facilities leading to damage of paddy worth ₹ 7.93 crore in Odisha

Audit observed that SGAs of Odisha (OSCSC) had no pre milling storage facilities for paddy. The paddy procured at purchase centres were transported to millers' premises for joint custody to be milled within three days under execution of agreement.

Audit observed that the District Managers of SGA had not made prior visits to the millers' premises to ensure adequacy of infrastructure for proper storage of the paddy. Eventually, the paddy stored in the millers' premises exceeded the storage capacity in Baragarh (2009-10 to 2013-14) and Bolangir (2009-10 and 2013-14) districts. Though in other districts it was stated to be within the storage capacity a joint inspection of the selected millers in the presence of Audit in Bargarh, Bolangir and Malkangiri districts revealed that no separate fencing was made in mills to identify the stock of the respective agency and that of the miller, some of the paddy stock was kept in open without cover. Thus, the prescribed method of First-In-First-Out (FIFO) of storage was not possible in these districts. This practice carries the risk of outward movement of new stock before the old stock resulting in deterioration of food grains because of prolonged storage. Audit observed that 6,054.99 MT of paddy worth ₹ 7.93 crore, was damaged in millers (21) premises in Sambalpur district due to heavy rain (August 2014). The SGA instructed (September 2014) the District Manager for immediate milling of damaged paddy to determine salvage value. However, action taken reports for claim of insurance and recovery from the millers as per terms of agreements were not available with the District Authorities.

The Ministry replied (June 2015) that the GoI reimburses the subsidy claim of the DCP State based on offtake from the Central Pool stock out of procurement undertaken by State. The stock conforming to PFA/FSSA only is issued under TPDS. Thus, for any damaged paddy no claim lies with the GoI.

Though the Ministry has stated that for any damaged paddy, no claim lies with the GoI, the fact remains that this deficiency has led to damage to paddy worth ₹ 7.93 crore which clearly being a loss needs to be addressed on priority.

Recommendation No. 9	**Ministry's Reply**
In view of widespread damage to paddy because of lack of pre-milling storage, the GoI/FCI/State Governments may augment the pre-milling storage capacity to minimize the risk of damage to precious food grains.	The Recommendation is accepted.

3.7 Unsecured paddy worth ₹ 5,221.09 crore and non-insurance of paddy stock in Chhattisgarh, Odisha, Uttar Pradesh and Andhra Pradesh

As per milling agreements of the respective States, millers are required to furnish security deposit in the form of bank guarantee/post dated cheques/advance rice etc. to the State Governments and paddy is to be given to millers only after obtaining the required security for the paddy.

However, it was noticed in audit that security was either not obtained or was partially obtained from the millers, leaving paddy worth ₹ 5,221.09 crore unsecured in the millers premises. Details are given in ***Annexure-V.***

While accepting the audit observation, the Ministry stated (June 2015) that it is seeking latest status of obtaining bank guarantee in place of post dated cheques.

As per the conditions of the milling agreement of respective States, millers have to safeguard their factory premises against all risks by an insurance coverage at their own cost for insuring the risk and cost of paddy lying in their premises.

However, in FCI Chhattisgarh region, no proof of insurance of paddy was produced to Audit. Similar discrepancy was noticed in Odisha during KMS 2009-10. Though in subsequent KMS, insurance was undertaken by OSCSC centrally, insurance particulars were not furnished to Audit in this regard, stating that the same were not available. In Uttar Pradesh

120 millers in nine revenue districts[76] had taken no insurance coverage for 5.69 LMT paddy valuing ₹ 631.31 crore during the period from 2009-10 to 2013-14. Thus, paddy remained uninsured in the premises of rice millers during the period from 2009-10 to 2013-14.

This practice creates a risk of non recoverable loss in the event of damage/theft/loss of paddy from the premises of the miller.

The Ministry stated (June 2015) that in Chhattisgarh, the practice of releasing paddy to the miller after receipt of equivalent rice in advance was followed and as such insurance of stock was not required and in case of any damage, loss etc. to paddy of SGAs in storage is not borne by the GoI.

The reply of the Ministry only partially addresses the issue regarding the FCI but is silent regarding observations pertaining to the States. Moreover, the practice of leaving paddy in control of private rice millers without any collateral security is fraught with the risk of non delivery of rice, the magnitude of which is brought out in para 6.3, later in this report.

Recommendation No. 10	**Ministry's Reply**
The State Governments/SGAs should ensure that paddy is given to millers only after obtaining the required security for the paddy.	The Recommendation is accepted.

[76] *Includes Kushinagar, Deoria, Maharajganj, Gorakhpur, Pilibhit, Allahabad, Ghazipur, Amethi and Mirzapur*

Chapter-IV
Selection of millers and linkage of mills with the *mandis*

As a part of process of paddy procurement, the rice mills are selected every year by District Milling Committees (DMC)[77] keeping in view criteria like distance of mills from the *mandis*, (normally within eight kms from the *mandi*), milling capacity of the rice mill and past record of timely delivery of rice in the earlier years. This process is called tagging of mills. As transport charges up to eight kms are included in the milling charges, maximum tagging of mills should be done with those mills situated within eight kms from the *mandi*/storage point to minimize expenditure.

Paddy procured by the SGAs is to be distributed equally amongst all the eligible rice mills at a particular main/permanent/storage milling centre for the purpose of custom milling on the basis of their milling capacity, which is to be certified by the District Food and Supplies Controller as per the provisions of respective State's custom milling policy.

A number of deficiencies noticed in the selection of millers are detailed below:

4.1 Improper linkage of *mandis* with rice mills

4.1.1 Injudicious linking of paddy purchase centres with rice mills

As per custom milling policies in various States, purchase centre/*mandis* should be linked with the nearest milling centre/storage centre, keeping in view the availability of milling capacity at the milling/storage centre(s) at which paddy is proposed to be stored/milled. All the procuring agencies should make necessary arrangements of linking the proposed purchase centres/*mandis* with storage points/milling centres in such a way as to incur minimum expenditure on transportation.

It was however, noticed in Uttar Pradesh, Chhattisgarh, Punjab and FCI Bihar region that rice mills were tagged to purchase centre/*mandis* at a distance much beyond eight kms leading to avoidable transportation cost of ₹ 407.33 crore[78] in case of SGAs/FCI.

The SGAs and the Government of Punjab stated (February 2015) that it was due to delay in finalization of the issue by the GoI. It was further stated that as per the decision of the GoI,

[77] *District Milling Committee constitutes the Deputy Commissioner of the concerned District as Chairman and Director of Food and Supplies Corporation as Member Secretary. The districts heads of procuring agencies including FCI and two nominees of rice millers are its members.*

[78] *SGAs-Uttar Pradesh region-₹ 6.78 crore, Chhattisgarh region-₹ 248.15 crore, Punjab-₹ 152.28 crore, FCI Bihar region-₹ 0.12 crore*

the claims for reimbursement of transportation charges had been submitted as per revised checklist and payment was likely to be released by the GoI.

The reply is not acceptable as the distance limit of eight kms was well known before linking the mills to *mandi*. Thus, there was no justification for transportation of paddy beyond eight kms for milling.

The Ministry stated (June 2015) that there was no stipulation that mandis could not be tagged to mills beyond eight kms. However, the least cost principle was to be followed.

The reply lacks proper justification for selecting mills beyond eight kms and satisfactory justification of such selection were not found on record. Thus, injudicious tagging of rice mills which were at a distance more than for which transportation cost was already included in the milling charges led to huge avoidable outflow of ₹ 407.33 crore on account of transportation of paddy/rice by FCI/SGAs in the States of Uttar Pradesh, Chhattisgarh, Punjab and Bihar.

4.1.2 Irregular expenditure of ₹ 163.72 crore on transportation of paddy in Punjab

As per provisional cost sheet of CMR approved by the GoI for the Central Pool for KMS 2009-10 to 2013-14, milling charges already included transportation charges within a distance of eight kms, from/to mills, for transportation of paddy as well as rice. However, from records/information furnished by four districts[79] of Punjab, it was noticed that during KMS 2009-10 to 2013-14 the SGAs incurred an expenditure of ₹ 163.72 crore on transportation of paddy from purchase centre/*mandis* to milling centres/storage centres located at a distance within eight kms. Incidentally, in the neighbouring State of Haryana, transportation charges of paddy within eight kms were being borne by millers themselves. Thus, expenditure on transportation of paddy by the SGAs, within eight kms resulted in avoidable payment of transportation charges of ₹ 163.72 crore and passing of undue benefits to the millers of the same amount.

The State Government and the SGAs stated (February 2015) that this was part of milling cost and cited operational difficulties in implementing the same. It was also brought to notice that the matter was again referred to the GoI.

The reply is not acceptable because as per the instructions of the GoI transportation charges up to eight kms are already in-built in the milling charges determined by the GoI and were not payable separately.

While accepting the audit observation, the Ministry stated (June 2015) that FCI had not released the transportation charges up to eight kms for transportation of paddy by SGAs in Punjab for KMS 2009-10 to 2013-14 as the same was not payable.

[79] *Sangrur, Patiala, Ludhiana and Moga.*

Thus, the millers whose mills were tagged within a distance of eight kms were not eligible for transportation charges (as this element was included in the milling charges), in Punjab and an amount of ₹ 163.72 crore was incurred on transportation of paddy by SGAs for mills tagged within eight kms, thereby passing of undue benefit to the rice millers to the same extent.

4.1.3 Extra expenditure of ₹ 44.27 crore due to incorrect fixation of transportation charges

For transportation of paddy from *mandis* to the storage points, *mandi* Transportation Contractor (MTC) is appointed for each agency in each district. Allotment is done by a tender committee comprising of all District Heads of all SGAs and a representative of Deputy Commissioner of the district concerned. The Director, Food & Supplies and ex-officio Special Secretary to Government of Punjab stressed (July 1998) that while fixing transportation rates, the Committee should ensure that for same distance, similar rates are fixed.

However, it was observed in audit that tenders for transportation from *mandis* to Storage points were allotted by allowing certain adhoc percentage enhancement over the previous years' rates. Moreover, the rates were fixed on per quintal basis without considering the distance, resulting in extra expenditure of ₹ 44.27 crore[80] during 2009-10 to 2013-14. It is also worthwhile to mention here that in the neighbouring State of Haryana, basic 'schedule of rates' was fixed for transportation of food grains from *mandi* to storage point allowing fixed per quintal per kilometer rates to the transporters thus reducing the risk of such extra expenditure.

While accepting the audit observation, the Ministry stated (June 2015) that necessary instructions were issued to the GoP for keeping the distance involved as primary factor while finalizing mandi transport contracts.

Recommendation No. 11	Ministry's Reply
The State Governments may ensure that all mills within a distance of eight kilometres are tagged first, only after which mills situated at further distance may be considered, taking into account the milling capacity and quantity of paddy to be milled.	The Recommendation is accepted.

4.1.4 Payment of extra transport charges of ₹ 32.23 crore in contravention of the GoI guidelines in Odisha

In Odisha, as per the GoI instructions issued from time-to-time, milling charges were allowed at ₹ 10 per quintal for raw and at ₹ 20 per quintal for par-boiled rice, wherein transportation charges were excluded. The transportation charges were fixed at the rate of ₹ five per quintal

[80] *Area offices- Sangrur- ₹ 8.58 crore, Moga- ₹ 8.89 crore, Patiala- ₹ 1.73 crore, Ludhiana- ₹ 25.07 crore*

for distance from 0-8 kms from the *mandis*/purchase centres to mills for paddy and from mills to storage points for rice respectively. Thus, milling charges of ₹ 15 and ₹ 25 per quintal fixed by the GoI for KMS 2009-10 to 2013-14, were inclusive of transport charges up to eight kms.

However, as per information furnished by the District Managers, Odisha State Civil Supplies Corporation (OSCSC), transport charges for 0-10 kms were paid to millers at ₹ seven per quintal for KMS 2009-10 to 2011-12 and at ₹ 12.50 per quintal for KMS 2012-13 and 2013-14. Thus, payment of transportation charges in excess of norm fixed by the GoI for distance up to eight kms (₹ five per quintal), led to extension of undue benefit to the millers to the tune of ₹ 32.23 crore during 2009-10 to 2013-14. No recorded reasons were available either at the corporate office of the OSCSC or at district offices for fixing higher transportation charges than that prescribed by the GoI.

The Ministry stated (June 2015) that in Odisha, the milling charges do not include the transportation cost up to eight kms from KMS 2010-11 onwards.

The reply is not specific as the audit observation points toward difference in rates provided in cost sheet where transportation charges are included in milling charges and those paid where transportation charges are de-linked from milling charges leading to extra expenditure.

4.2 Irregularities in allotment of paddy in Haryana

The District Milling Committee (DMC) allots rice mills to each SGA on the basis of paddy to be procured by it. As per the norms fixed by the Food and Supplies Department (FSD), the SGAs are required to allot paddy to each miller according to its milling capacity so that milling of paddy by rice millers is carried out efficiently.

However, it was observed in Kurukshetra district during KMS 2013-14 that in majority of the cases in the State, paddy was not allotted to millers as per the norms fixed by the FSD. Out of 142 cases, paddy was allotted in excess of the norms fixed by FSD in 60 cases. In the remaining 82 cases, paddy was allotted less than the norms. Non adherence to norms indicated poor management by SGAs in allotment of paddy.

The Department of Civil Supplies admitted (January 2015) the audit observation and intimated that an enquiry would be conducted.

The Ministry endorsed (June 2015) views of the State Government.

4.3 Non-recovery of extra expenditure due to transfer of paddy from the allotted rice mill to another mill in Telangana

The Nizamabad District Administration transferred 18,079 MT of paddy (cost: ₹ 22.79 crore) from the originally allotted rice mills to another rice mills during KMS 2011-12 to 2013-14 due to non/delayed delivery of CMR to FCI by the originally allotted rice mills. This constituted 52 *per cent* of allotted paddy. The maximum transfers were reported during KMS 2012-13. It was also observed that even though two rice mills[81] were chronic defaulters, yet 5,026 MT of paddy valuing ₹ 6.34 crore[82] was unloaded at these two mills (KMS 2011-12 to 2013-14). Out of this, as much as 4,223 MT of paddy worth ₹ 5.32 crore had to be transferred to other rice mills for custom milling.

No action was taken against the two erring rice mills and allotment of paddy was continued to be made.

The Commissioner of Civil Supplies accepted the Audit observation and stated (December 2014) that paddy was shifted due to the failure of the designated rice mills and the extra expenditure incurred on such shifting was to be recovered from millers.

The Ministry accepted (June 2015) the audit observation and stated that the Government of Telangana was being reminded to confirm the recovery of cost of shifting of paddy from millers. Progress of recovery was awaited in audit (June 2015).

4.4 Doubtful means of transport used for movement of paddy/rice

Transportation of paddy/CMR is to be carried out by executing an agreement between transporters and SGAs. The transporters also have to specify the registration number of the truck while executing the contract. However Audit noticed a number of discrepancies indicating doubtful transportation claims which are detailed below:

a) It was observed in Uttar Pradesh, Bihar and Chhattisgarh that large quantities of paddy/CMR ranging from 14 quintals to 1,800 quintals were shown as transported through Motorcycle, Auto Rickshaw, Jeep Taxi, Thela (Jugad), Car etc. In all, the total quantities of paddy/CMR depicted as transported through these doubtful means was 5,744.09 MT valuing ₹ 6.58 crore. Details are given in ***Annexure-VI.***

While accepting the audit observation, the Ministry stated (June 2015) that the State Governments have been asked to look into the discrepancy and initiate suitable action.

b) In Punjab, out of 3,319 registration numbers of vehicles scrutinised by Audit, 3,231 (97.35 *per cent*) registration numbers did not match with computerised data of the transportation Authority of the State. Out of 88 traceable vehicles, 15 vehicles (17.05 *per cent*) were found to be other than trucks i.e. bus, car, bike and tanker etc. Further, in nine offices, incomplete registration numbers of 41,033 vehicles were provided to Audit by FCI which were not verifiable for the genuineness of the transportation of 4.36 LMT paddy involving an expenditure of ₹ 13.86 crore (4.51 *per cent* of total transportation cost).

[81] *Dhana Laxmi Rice Mill, Yellareddy and Sri Raghavendra Industries, Kamareddy*

[82] *On the basis of proportion to the total amount*

Similarly, in 15 out of 16 district offices (of four procuring agencies[83] in the four selected districts of SGAs), information regarding registration number of vehicle used for transportation of paddy (constituting 19.92 *per cent* of total transportation cost) was not made available to Audit, though categorically asked for.

While accepting the audit observation, the Government of Punjab and the SGAs stated (February 2015) that due to heavy volume of paddy and pressure from various authorities for lifting of paddy in short time, other vehicles might have been used.

From the reply it is not clear as to how vehicles like motorcycle, cars etc. were used for transportation of tons of paddy/rice, in these cases. As transportation of paddy/rice in various States were observed to have been carried out through vehicles other than regular means of transport (like car, motor cycle, delivery van, etc.) it indicated possibility of false claims being submitted by the transporters. These cases need to be investigated to rule out any misappropriation of Government money and/or payment of false claims towards transportation of paddy/rice.

Recommendation No. 12	**Ministry's Reply**
All doubtful cases of transportation of paddy need to be properly investigated by the State Governments concerned and FCI needs to exercise due diligence before passing such claims for payment.	The Recommendation is accepted.

4.5 Improper selection of millers

4.5.1 Non-constitution of competent authority for selection of rice mills in Andhra Pradesh and Telangana led to extra expenditure of ₹ 39.64 crore

As per operational guidelines of the Government of Andhra Pradesh on custom milling of rice, a District Milling Committee should be constituted for selection of rice mills within a distance of eight kms from the Paddy Purchase Centre (*Mandi*) for custom milling of paddy and delivery of rice to the FCI/SGAs. Records produced to Audit did not contain any evidence in support of such Committees having been constituted in three districts[84] of Andhra Pradesh and two[85] districts of Telangana. Instead, District Rice Millers' Association were seen to have been asked from season to season to provide the mill-wise targets, keeping in view the milling capacity of each rice mill.

In Andhra Pradesh, besides non-constitution of committees for selection of rice mills, 558 mills out of 709 mills got selected which were at a distance beyond eight kms from paddy

[83] *PSWC, PUNSUP, PUNGRAIN and PAFCL*

[84] *East Godavari, West Godavari and Krishna*

[85] *Nizamabad and Nalgonda*

procurement centers, leading to avoidable expenditure of ₹ 6.99 crore on account of excess transportation expenses.

In reply, Commissioner of Civil Supplies agreed to consider constituting designated committees. Progress in this matter was awaited (May 2015). On the other hand, the Ministry stated (June 2015) that though the Committee was not constituted but the paddy procurement centres were tagged to rice mills on least cost and milling capacity basis.

The reply of the Ministry is not tenable as in absence of constitution of District Milling Committees, the compliance of the operational guidelines for tagging of mills was unverifiable.

Audit also observed that out of a total of 2478 selected mills in Telangana in the districts of Nizamabad and Nalgonda, during KMS 2009-10 to 2013-14, only 624 mills (25 *per cent*) were within a distance of eight kms. Thus, paddy was sent for milling to rice mills located beyond eight kms in Nizamabad and Nalgonda districts leading to excess expenditure of ₹ 32.65 crore on transportation of paddy.

4.5.2 Improper Selection of rice millers during KMS 2009-10 to KMS 2011-12

Audit observed a number of deficiencies in records pertaining to millers in Odisha, Andhra Pradesh, Telangana and FCI Bihar region, some of which are as follows:

i) Physical verification of 151 premises of millers was not conducted before the selection of millers;

ii) Permanent Account Number was not available in 81 cases while in 89 cases Taxpayer Identification Number was not available;

iii) Land documents were not collected from 85 millers;

iv) The validity of the certificate issued for boilers had expired long back in 37 cases; and

v) There was no certificate regarding running status of the 22 mills granted by the District Task Force (DTF), current electricity bill and Income Tax Return during the year 2009-10 to 2011-12.

Thus, the selection procedure of *bonafide* millers in these States was questionable. Further details about deficiencies are pointed out in ***Annexure-VII***.

The Ministry, while accepting the audit observation, replied (June 2015) that in Bihar, millers were reluctant to mill FCI paddy on account of lower milling charges. However, the issue was drawn to the notice of the respective States seeking remedial measures taken by them.

4.5.3 Selection of millers despite non-delivery of CMR in Odisha

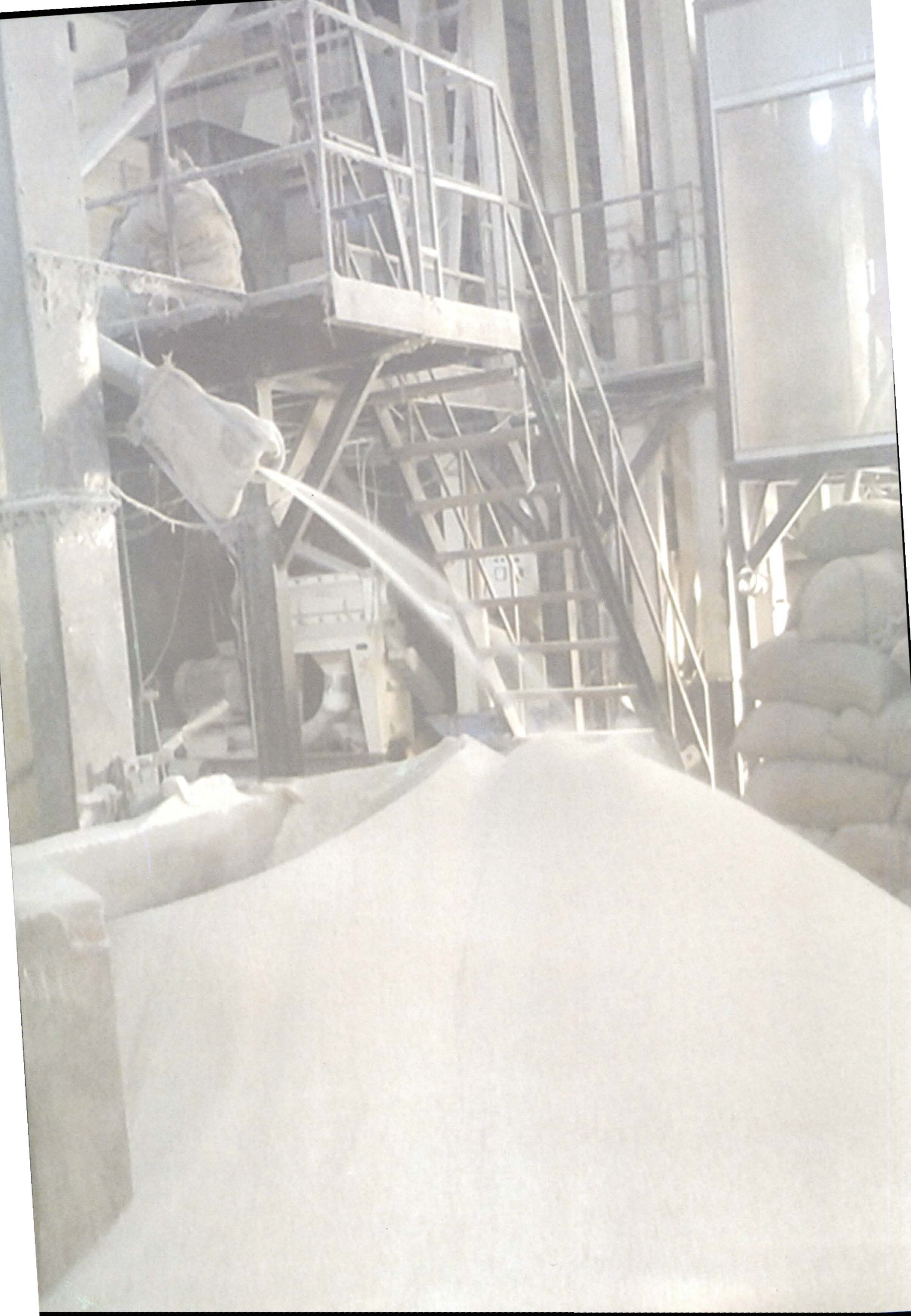
Audit noticed that in Kalahandi district, two millers failed to deliver 1,773.34 MT of rice relating to KMS 2010-11, till 31 December 2014. However, they were again selected as custom millers for KMS 2013-14 on the basis of the order issued by the General Manager (Procurement), Odisha State Civil Supplies Corporation. Later, ₹ 2.98 crore being the value of 1,773.34 MT rice not delivered by the millers for 2010-11 KMS along with 193.84 MT rice due for 2013-14 remained unrecovered from these two[86] millers as of December 2014. Similar cases of selection of twelve millers in two[87] districts despite their failure to deliver 4,770.02 MT of custom milled rice due by cut-off date during the period from 2009-10 to 2013-14 were also noticed by Audit. These examples are indicative of lack of due diligence by the officers concerned of the SGAs in these districts.

While accepting the audit observation, the Ministry stated (June 2015) that there was no subsidy burden on the GoI for this but the State Government was suitably sensitized to avoid any short delivery of CMR by the millers.

The reply of the Ministry is not tenable because though there may not be an addition to the subsidy burden on the GoI but the above observation points towards non compliance of the GoI orders by the millers and needs to be addressed on priority.

[86] *Sivananda Rice mill (529.93 MT and 100.03 MT for 2010-11 and 2013-14 respectively– ₹ 0.97 crore), Sri Manikewari Food Products (1243.41 MT and 93.81MT for 2010-11 and 2013-14 respectively– ₹ 2.01 crore)*

[87] *Bhadrak and Bargarh*



Chapter-V
By-products and out-turn ratio

5.1 Introduction

As per the CMR Scheme, the paddy procured by FCI/SGAs is required to be delivered to the mills for milling operation and the resultant rice is to be delivered to FCI stocking point for which transportation cost is reimbursed by FCI. After conversion by milling as per norms laid down by Tariff Commission, (2005), 100 kg of paddy is expected to produce 67 kg raw rice or 68 kg in case of par-boiled rice. During conversion process of paddy, valuable by-products such as rice bran, broken rice, phack (by-product of paddy used as cattlefeed) and husk are generated, which have a realizable market value. These by-products are retained by the rice millers and the GoI recovers market value of by-products at the rates fixed in 2005 on the basis of report submitted by the Tariff Commission (TC), Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India. These rates have neither been revised thereafter nor is there any provision for yearly increase in the by-product recovery rates. Audit examined the impact of non-revision of these rates. For this, Audit compared the prevailing market rates of by-products, wherever made available, vis-à-vis those fixed by the Tariff Commission. Important audit observations are brought out in subsequent paragraphs.

5.1.1 Non revision of milling charges/deductible value of by-products resulting in undue benefits of ₹ 3,743 crore to the Millers

Tariff Commission was entrusted (January 2005) the study for determination of normative milling charges[88] for raw rice and par-boiled rice, by the Ministry. The Commission submitted its report in September 2005 after conducting a detailed study of various rice mills situated in different States[89] of the country. The recommendations of the Commission were accepted (October 2005) by the Ministry resulting in fixation of milling charges of ₹ 15 per quintal for raw rice and ₹ 25 per quintal for par-boiled rice. These milling charges include transportation cost of paddy and rice from 0-8 kms from the mandis/Paddy Purchase Centres to mills and from mills to storage point, for all the states. These normative milling charges were arrived at by the Tariff Commission after deducting the value of by-products[90] from the cost of milling, as the by-products are retained by the millers and sold in the open market, as per the instructions of the GoI. All these by-products have realizable market value because of their varied use (especially broken rice and rice bran which is used to make rice bran cooking

[88] *The normative milling costs was computed on the basis of actual cost assessed in respect of selected millers in the State covered under the study and by adopting the technical norms assessed by the Tariff Commission.*

[89] *Andhra Pradesh, Chhattisgarh, Haryana, Orissa, Punjab, Tamil Nadu and Uttar Pradesh.*

[90] *During conversion process of paddy, the by-products such as broken rice, rice bran, phack and husk are generated which have a reasonable realizable value and these by-products are retained by the rice millers.*

oil). The Tariff Commission while fixing the normative milling charges for raw and par-boiled rice had worked out the realizable market rate of rice by products at ₹ 339.60 per MT of paddy milled for raw rice and ₹ 373.80 per MT of paddy milled for par-boiled rice.

These milling charges as well as deductible value of by-products have not been revised since 2005 despite significant increase in the realizable value of by-products extracted out of convertible paddy into rice. This was reported by Tariff Commission (2012) and also in subsequent report of Quick Study (2012) which involved members from FCI and the Ministry.

It was also seen in audit that though the Government of India entrusted fresh study for fixation of milling charges to the Tariff Commission way back in April 2009, out of 12 States[91] covered in the study, only four States[92] responded. The millers were stated to be hesitant to disclose their financial information; the Government of Haryana in fact stated that due to fear of Income Tax Authorities, the millers were not submitting the required information. As a result, the Tariff Commission has not been able to suggest a formula for increase in milling charges.

Based on the information provided by the State Governments, Audit noticed that excess net realization per MT on sale of by-products ranged from a low of ₹ 10.13 (during 2011-12 in case of Uttar Pradesh) to a high of ₹ 2,226.47 (during 2013-14 in case of Andhra Pradesh). Audit collected data of the excess net realization by millers in different States. Based on the data available from the States (Andhra Pradesh, Telangana, Uttar Pradesh and Chhattisgarh), it was seen that ₹ 3,743 crore ***(Annexure - VIII)*** was retained as excess net realization value by the private rice millers between 2009-10 and 2013-14 in selected districts of above States. Details are given in table below:

Table 5.1
Statement showing excess net realisation derived from by-products during the period from 2009-10 to 2013-14

States	Procurement in selected districts (in LMT)	Total Excess net realization in selected districts (₹ in crore)
Andhra Pradesh	267.47	3156.06
Telangana	40.02	185.93
Uttar Pradesh	37.22	-9.85
Chhattisgarh	50.39	410.86
Total	**395.10**	**3743.00**

[91] *Punjab, Haryana, Andhra Pradesh, Chhattisgarh, Odisha, Tamil Nadu, West Bengal, Bihar, Madhya Pradesh, Uttar Pradesh, Uttarakhand and Kerala*

[92] *Chhattisgarh, Tamil Nadu, Punjab and Kerala*

Thus, non revision of milling charges resulted in undue benefit of ₹ 3,743 crore to the millers. This also led to loss of revenue to the GoI and consequently lost opportunity to reduce food subsidy to that extent.

Importantly, the above excess net realization of ₹ 3,743 crore pertains only to 15.81 *per cent* of total paddy procurement in the country during 2009-10 to 2013-14. As the actual figures for the entire country will invariably be much higher, it is recommended that the GoI may ascertain the full quantum of excess realization by millers in order to realistically revise the milling charges and reduce the food subsidy burden on the exchequer.

Recommendation No. 13	**Ministry's Reply**
The GoI may take up with the State Governments to impress upon the millers to provide the data about milling and other costs to Tariff Commission for timely completion of study for refixation of the milling charges and out-turn ratio.	The Recommendation is accepted.

5.1.2 Non-revision of out-turn ratio led to excess retention of rice by millers valuing ₹ 1,195.40 crore in Andhra Pradesh Region of FCI

The Government of Andhra Pradesh (GoAP) with the prior approval of the GoI imposes levy on private rice millers for delivery of Levy Rice. The levy percentage was fixed at 75 *per cent* for the seasons KMS 2009-10 to 2013-14.

The rate payable for levy deliveries is communicated by the GoI and FCI admits the bills of private rice millers accordingly. The rates payable for the levy deliveries are derived by adopting 67 *per cent* out-turn ratio for raw rice and 68 *per cent* out-turn ratio for par-boiled rice.

In 2005, the Indian Institute of Crop Processing Technology (IICPT) Thanjavur (under the administrative control of Ministry of Food Processing Industries, the GoI) conducted test milling of MTU 7029 variety of paddy largely grown in East Godavari and West Godavari districts (referred to as the rice bowl of Andhra Pradesh). The out-turn ratio was reported for such variety at 72.08 *per cent* and the reports were intimated to FCI Head Office, New Delhi.

However, the above mentioned higher out-turn ratio obtained on milling of the paddy and deliveries thus made under levy route was not considered by FCI/the GoI in the Cost Sheet and no suitable adjustment for higher out-turn ratio was incorporated for Andhra Pradesh region. The lower out-turn ratio adopted for these two districts would result in retention of excess rice by private rice mills. Even though the entire cost in terms of paddy was reimbursed to private rice mills due to fixation of lower out-turn ratio, the private rice mills benefited by way of retention of excess rice obtained (on account of higher output). The value of such excess rice retained for KMS 2009-10 to 2013-14 worked out to around ₹ 1,195.40 crore.

FCI Regional Office, Andhra Pradesh replied that out-turn ratio was fixed by the GoI and it is accepting the Levy Rice accordingly.

In respect of Paddy MTU 7029 variety, the IICPT, Thanjavur carried out test milling and concluded that the out-turn ratio was over 72 per cent and this was also communicated to FCI Head Office.

As the Mill Levy receipts at Area Office, Kakinada (East Godavari) and Tadepalligudem (West Godavari) forms part of this variety, a change in out-turn ratio at least in respect of these two districts is need of the hour.

Moreover, technology advancement since last report of Tariff Commission report (2005) warrants that out-turn ratio of 67 *per cent* is reassessed to ensure that the millers do not reap undue benefits at the cost of the GoI leading to non-reduction of subsidy on this account.

The Ministry stated (June 2015) that test milling study on MTU 7029 paddy by IICPT, Thanjavur pertains to one specific variety and the paddy procurement under the Central Pool is not done on varietal basis. It further replied that a fresh study has been assigned by FCI to IICPT, Thanjavur to ascertain out-turn ratio in various States including Uttar Pradesh where hybrid varieties are also to be taken for the study.

5.1.3. Wrongful payment of VAT to the tune of ₹ 6.26 crore to State Excise and Taxation Department of Punjab

As per milling agreements between Millers and SGAs, by-products are the property of millers. However, the State Excise and Taxation Department of Punjab served notices to the district drawing and disbursing officers of all four[93] SGAs in Punjab and FCI to pay VAT, since 2009-10, on the amount generated by the sale of by-products of paddy, by rice millers. SGAs in Punjab also paid ₹ 6.26 crore as VAT on the income generated by the sale of by-products of paddy by rice millers. Thus, despite the by-products of paddy being the property of rice millers, SGAs wrongfully paid VAT which otherwise should have been paid by rice millers.

[93] *PSWC, PUNSUP, PAFCL and PUNGRAIN*

Chapter-VI
Delivery of rice by rice millers to FCI/SGAs

Delivery of CMR/Levy Rice is governed by various instructions stipulated in Custom Milling Agreement/Levy orders of the respective States. Some of the instructions enunciated in these agreements/orders include utilization of milling capacity strictly on the basis of paddy stocks stored by SGAs and paddy purchased by millers on their own, maintaining the ratio for delivery of custom milled and Levy Rice, process the paddy as per specifications laid down by the GoI, compliance to delivery schedule etc.

Procurement of rice under statutory levy system is one of the significant sources of the Central Pool Stock. FCI is the designated procurement agency to receive Levy Rice from the millers. As per the procedure of levy orders of respective States, District Collectors are to ensure that the Levy Rice as per law is collected from the miller before they dispose any stock in open market. The target for levy is set for the millers by the District Administration on the basis of their milling capacity and also in proportion to the target set for delivery of CMR.

6.1 Grant of extensions for delivery of rice in excess of prescribed norms and waiver of pending delivery of CMR/Levy Rice

Prior to KMS 2012-13, extensions for delivery of rice were used to be given by the Ministry on case to case basis for various States. In KMS 2012-13, the GoI laid a clear-cut policy that in case of any constraints on the part of FCI, the last date of delivery of CMR/Levy Rice will be considered for extension by one month at a time and up to three months in all, on the receipt of request in a prescribed format duly countersigned by the General Manager of FCI concerned.

It was observed in the case of Punjab that target date for milling of entire paddy procured during KMS 2009-10 was 31 March 2010. However, based on requests of the Government of Punjab, the period was extended six times (up to 10 July 2010, 31 July 2010, 30 September 2010, 31 January 2011, 15 May 2011 and 15 July 2011). Moreover, substantial relaxation in the specification regarding damaged grains was also given more than once and the same was intimated to the State Government from time to time. While claiming the extension, the reasons furnished by the State Government for non delivery of rice in time were inadequate space and manpower with FCI. However these reasons were countered by FCI, stating that the State Government was not giving its mill wise schedule for delivery of rice and as such, it is not able to create space specifically at such places as and when it was required.

Further, it has been observed that with a view to clean slating of pending cases, the GoI removed (August 2013) the obligations of CMR and Levy Rice purchased by the State

Governments and their Agencies on behalf of Central Government during marketing seasons (2007-08 to 2011-12) pending for delivery in the Central Pool. Till KMS 2011-12, 23.35 LMT of Levy Rice and 15.94 LMT of CMR was pending for delivery with various State Governments pertaining to KMS 2007-08 to 2011-12. On the basis of difference between the rates of KMS 2012-13 and the rates of respective year for which CMR/levy obligation was pending, along with carry over cost on storage and interest on capital employed, a notional gain of ₹ 118 crore to the GoI was stated to have been worked out in the Ministry. Despite various objections of FCI and Integrated Finance Division (IFD) of the Ministry, it was decided to close the chapter of undelivered Levy Rice and CMR of all previous KMS up to 2011-12. Status of imposition of prescribed penalty imposed (if any) on rice millers/SGAs, for not supplying CMR/Levy rice as per quantities prescribed and as per target dates was not known from the records made available to Audit.

The Ministry stated (September 2014) that the Government believed that whatever quantity of CMR or Levy Rice was not delivered in time, virtually did not exist in the stock of millers and if the Ministry allowed it to be considered as pending for delivery for an indefinite period it offered chance to serious malpractices including recycling of PDS-leaked stock. The strict enforcement of a cut-off date for delivery alone could bring discipline and force SGAs to arrange timely milling and prevent malpractices. As SGAs took penal action against defaulting millers including their exclusion from operations in next season, there was no chance of old stocks coming in for delivery in next season. Moreover, proper quality check also helped in identifying old stock and its rejection. The Ministry further stated that the concerned State Governments/SGAs did take necessary action against the defaulting rice mills for non-delivery of CMR/Levy Rice and recover the losses from the defaulting mills as per their policy. These penalties vary from State to State.

The reply is not satisfactory as this decision of the Ministry opens the possibility for the millers to sell the undelivered rice in open market at higher rates, and/or deliver the rice of earlier KMS to FCI at current KMS rate which is obviously higher than earlier rates. This allows the millers to gain undue benefit without passing the benefits to the farmers who have been paid at the lower price (MSP) of the year in which the paddy was procured from them by the millers. The practice, in fact, increased the benefit margin of millers.

6.2 Waiver of penal interest of ₹ 159.47 crore led to undue benefit to millers in Punjab

As per Custom Milling Policy (CMP) and Draft Agreements, the millers in Punjab were required to deliver CMR by 31 March of KMS 2009-10, 2010-11, 2012-13 and 2013-14 (except KMS 2011-12 where the rice was to be delivered by 30 June 2012).

To avoid unnecessary delay in milling of paddy by the millers, which leads to interest burden on SGAs, a clause of penal interest was incorporated in the CMP of KMS 2009-10, 2010-11, 2012-13 and 2013-14. According to this clause, in the event of delay in delivery of CMR, penalty in the shape of interest at specified rates (12 *per cent* for KMS 2009-10 and 2010-11 and 13 *per cent* for 2012-13 and 2013-14) was to be recovered from the defaulting millers.

However, Audit noticed that the penal interest clause applicable for KMS 2010-11 was dispensed with (October 2010) by the GoP without compensating the procuring agencies for their increased liability of interest on cash credit, in case of delayed period of milling of paddy and delivery of rice. Further, in CMP of KMS 2011-12, approved by the State Government (September 2011), the penal interest clause was not even incorporated.

As per provisional rates for CMR for each KMS, the GoI allowed interest for only two months on the amount invested by the procuring agencies for procurement and milling of paddy. On the request of the Government of Punjab, the GoI extended the delivery period of rice from time to time up to July 2011 (16 months), June 2012 (15 months), December 2012 (six months), January 2014 (ten months) and June 2014 (three months) for KMS 2009-10 to 2013-14 respectively. Consequently, the milling operations also continued up to the extended period. However, the procuring agencies did not recover the applicable penal interest from the millers for delayed milling of paddy/delivery of rice for KMS 2009-10, 2012-13 and 2013-14 resulting in loss of penal interest of ₹ 159.47 crore.

Further, in CMP for 2012-13 and 2013-14, though the clause of penal interest was incorporated but charging of penal interest was not linked to delay in delivery against monthly milling/delivery schedule. The clause was applicable only for delivery of rice after the last date i.e. 31 March 2013 for KMS 2012-13. For the KMS 2013-14, interest was chargeable w.e.f. 1 April 2014 in the event of delivery of rice after 30 June 2014. As penal interest was not to be charged for default in adhering to the monthly delivery schedules, the inclusion of delivery schedule in CMPs was pointless.

SGAs and Food & Supplies Department of the State Government stated (February 2015) that delay in delivery of rice is not due to the fault of the rice millers, but was due to failure of FCI in providing space and technical staff. The Ministry stated (June 2015) that due to fixation of interest for a fixed period of two months in the cost sheet for CMR delivery by Punjab, the GoI has not suffered any loss.

The reply does not address the fact that the decision of waiver of penal interest by GoP led to avoidable expenditure of ₹ 159.47 crore and was unjustified. Moreover, the SGAs were left with no remedy to recoup the loss of interest which they were paying on outstanding cash credit due to delays in delivery of rice by the millers. This resulted in undue benefit of ₹ 159.47 crore to the millers.

6.3 Non-delivery of paddy/CMR/Levy rice by millers

The paddy given to Rice Millers is to be delivered back in the form of resultant rice in proportion to the out turn ratio. However, Audit noticed in the selected districts of following

States that 15.89 LMT paddy/CMR amounting to ₹ 3,042.87 crore (including penalty) was not delivered by millers. Details are as follows:

Table 6.1
Non-delivery of paddy/CMR by millers

Name of the State	Year	Quantity of paddy non-delivered (in LMT)	Value of paddy non-delivered (net of recovery) (₹ in crore)
Punjab	2009-10 to 2013-14	8.84	1,485.06
Haryana	2012-13 to 2013-14	0.46	200.07
Telangana	2010-11 to 2013-14	0.63	147.26
Utttar Pradesh	2009-10 to 2013-14	0.95	161.86
Bihar	2011-12 to 2013-14	3.35	647.68
Odisha	2009-10 to 2013-14	1.66	400.94
	Total	**15.89**	**3,042.87**

The Ministry stated (June 2015) that it reimburses the subsidy claim of the State Governments based on offtake from the Central pool stock procured by the SGAs. The shortages are borne by the State Governments and not reimbursed by the GoI.

Though the Ministry stated that shortages were borne by the State Governments and not reimbursed by the GoI, however, 15.89 LMT paddy worth ₹ 3,042.87 crore was not delivered which was a huge loss for which remedial action needs to be taken on priority.

Regarding non delivery of CMR in Odisha, Punjab and Uttar Pradesh, it stated that undelivered quantity was deleted from the Central Pool and the final figures are being reconciled. In case of Telangana, recovery position was called for from the State Government. In case of other States, the reply is awaited.

Further, Audit noticed that in the selected States the quantum of Levy Rice, not delivered, from 2009-10 to 2013-14 was 23.34 LMT valuing ₹ 4,527.91 crore as detailed below:

Table 6.2
Non-delivery of Levy Rice

Name of the State	Year	Quantity of Levy Rice not delivered (in LMT)	Value of Levy Rice not delivered (₹ in crore)
FCI Andhra Pradesh	2009-10 to 2013-14	15.27	3,060.55
FCI Haryana	2009-10 to 2013-14	1.04	197.35
Uttar Pradesh	2009-10 to 2013-14	4.23	782.94
FCI Odisha	2009-10 to 2013-14	2.80	487.07
	Total	**23.34**	**4,527.91**

Salient observations with regard to CMR/Levy Rice are given below:-

a) In Haryana, Audit noticed that in the case of Haryana Agro Industries Corporation Ltd. (HAIC), physical verification reports were not available. Moreover, in case of Haryana State Warehousing Corporation (HSWC) and Food and Supplies Department (FSD), physical verification reports were deficient as only a summary of stocks was prepared without actually conducting physical counting of the gunnies and stacks. Moreover, neither the record of paddy received, paddy milled/un-milled was maintained by the millers nor any related information was sent by them to the SGAs, though it was required under agreement.

It was observed that allotment of paddy in excess of millers' capacity, non-obtaining of proper guarantee from the millers, non-conducting of physical verification of paddy lying with the millers coupled with poor monitoring resulted in the non-delivery of 0.24 LMT paddy valuing ₹ 122.10 crore by 11 millers in Haryana during the period KMS 2009-10 to 2013-14. Further, as much as 0.22 LMT of CMR valuing ₹ 77.97 crore was not delivered (November 2014) by the 19 millers in Haryana.

The Food and Civil Supplies Department accepted (January 2015) the audit observation and stated that necessary action was taken against the millers and necessary details in this regard would be provided to Audit. It further stated that in order to avoid the recurrence of such events in future, efforts were being made to strengthen the monitoring and control mechanism.

While accepting the audit observation, the Ministry stated (June 2015) that Government is seeking latest status on obtaining bank guarantee from the millers in place of post dated cheques; implementation of the same was awaited in Audit (June 2015).

b) In Punjab region of FCI, Audit noticed that procurement of Levy Rice from millers was a cheaper option than CMR obtained from SGAs during 2009-10 to 2010-11 due to significant price difference ranging from ₹ 1,268.20 to ₹ 1,433.50 per MT. As there was short delivery of Levy Rice by millers it resulted in extra cost to the GoI amounting to ₹ 31.26 crore during these two years on account of purchase of CMR to fill the gap. Similarly in case of Haryana region, due to significant price difference ranging from ₹ 838.10 to ₹ 1,160.90 per MT, short delivery of Levy Rice by millers resulted in extra cost to the GoI amounting to ₹ 9.78 crore.

c) Against the target of 152.75 LMT of paddy under levy, millers supplied rice to the tune of 129.29 LMT with a short delivery of 23.46 LMT during KMS 2009-10 to 2013-14. Audit observed that the percentage of milled rice, out of Government paddy delivered to the Central Pool through CMR route, ranged only from 34 *per cent* to 40 *per cent* against the prescribed out-turn ratio of 67 *per cent.* No reasons for this exceptionally low out-turn ratio were ascertainable from the records. Out of 20.79 LMT paddy procured for CMR during KMS 2012-13 and 2013-14, only 7.78 LMT of paddy (5.23 LMT rice) was delivered to FCI/SGAs and 13.01 LMT was still lying with millers.

Further, only seven rice mills supplied CMR within stipulated 15 days and 75 mills supplied rice with delay ranging between 46 and 90 days; in RMS 2012-13, delay up to 205 days was noticed. In the selected district of Andhra Pradesh, Audit noticed incidents of non-delivery/delay in delivery of CMR where the cost of paddy/interest/penalty to the tune of ₹ 0.47 crore was not recovered from the millers. Such practices carry the risk of diversion of Government paddy to outside market or alternatively, utilization of the same for making levy deliveries and/or trading of Government paddy by the millers for their private business.

While accepting the audit observation, the Ministry stated (June 2015) that separate data for Andhra Pradesh is not available up to 2013-14. However, as per combined data available, an undelivered quantity of 0.13 LMT has been deleted from the Central Pool and final figures are being reconciled.

d) The Purchase Policy 2009-10 to 2013-14 of Uttar Pradesh provided that the State Government and SGAs were responsible for getting delivery of the CMR after milling of paddy, within 20 days from the date of receipt of paddy to the nearest depot of FCI. Further, Para 32.3 of Policy 2011-12 and Para 29.8 of Purchase Policy 2012-13 of Uttar Pradesh provide that the next lot of paddy would be delivered to the miller only after delivery of resultant rice from the previous lot of paddy to FCI. However, the envisaged targets of CMR were not achieved in the State of Uttar Pradesh and the shortfall ranged between 7 *per cent* and 64 *per cent* for 2009-10 to 2013-14. A quantity of 2.39 LMT CMR (October 2014) was outstanding for delivery from the rice millers in Uttar Pradesh.

In reply, Food and Civil Supplies Department, Uttar Pradesh stated (July 2014) that Recovery Certificates (RC) had been issued against the millers and departmental action against erring employees had been referred to the Commissioner, Food & Civil Supplies.

However, neither the details about RC amount recovered nor departmental action initiated were available (June 2015).

Moreover, as per Purchase policy in Uttar Pradesh, in case CMR is not delivered within stipulated period, millers would be responsible to pay holding charges at the rate of ₹ one per quintal per day to the Government. However, Audit noticed that on the total quantity of 95,283.86 MT of rice, pending for delivery for the period 2009-10 to 2013-14 in the selected districts[94], the corresponding holding charges of ₹ 65.16 crore were lying unrecovered from millers till June 2014.

The Ministry replied (June 2015) that the estimate for procurement is drawn up after discussion with States Food Secretaries before onset of the Kharif Season. However the actual procurement is dependent on factors like production, market arrival and procurement by private traders.

[94] *Allahabad, Amethi, Basti, Deoria, Ghazipur, Gorakhpur, Kushinagar, Maharaj Ganj, Mirzapur, Pilibhit, Shahjahanpur*

The reply is not convincing as targets should be realistically fixed based on procurement trends of earlier years and taking into account other known variables. Major deviations should be recorded and got approved from the competent authority.

e) In case of one district (Kurukshetra) of Food and Supplies Department (FSD), Haryana, four rice millers did not deliver the due CMR to FCI as per approved schedule during KMS 2009-10, 2011-12 and 2012-13. As such, ₹ 2.65 crore holding charges were due from these millers. However, FSD could recover only ₹ 0.32 crore and balance ₹ 2.33 crore were still recoverable from the millers. In one case the rice mill was closed and the owner of the rice mill had expired in another case. Thus, the chances of recovery were remote in these cases. For the other two millers from whom ₹ 2.14 crore was recoverable the cases were in arbitration. It was observed that SGAs did not take security in the form of mortgage of the property of the millers, due to which it could not recover the dues. Thus, there was non-recovery of ₹ 2.33 crore out of which recovery of ₹ 2.14 crore was doubtful.

The Food and Civil Supplies Department stated (January 2015) that comments of the concerned Director General of Food and Supplies (DGFS) of State Government would be obtained and FIR would be lodged against the defaulting officials.

Similarly, in Haryana State Warehousing Corporation (HSWC) Fatehabad, for the year 2013-14, it was noticed that ₹ 0.67 crore was shown recoverable from various millers. However, details regarding the nature of recovery, period since when the amount was recoverable and the millers from whom this amount was recoverable were not available on the record.

The Food and Civil Supplies Department stated (January 2015) that ₹ 24 lakh was recovered and ₹ three lakh shall be recovered very soon and balance amount of ₹ 40.43 lakh was pending due to litigation.

f) A review of delivery of CMR by the State Governments/SGAs during KMS 2009-10 to 2013-14 in Punjab and Haryana regions revealed that State Government/SGAs had delivered 102.64[95] LMT (38 *per cent*) of rice to FCI after a delay of one to 18 months.

In the case of Levy Rice, the Department of Food and Civil Supplies, Haryana accepted (January 2015) the audit observation and stated that action would be taken against the defaulting millers.

The Ministry replied (June 2015) that in addition to the normal milling period allowed by the GoI, extension in milling are given based on request of the State Governments and taking into consideration the availability of milling capacity in the area/ State.

The reply is not tenable as the GoI has a clear cut policy that in case of any constraints on the part of FCI, the last date of delivery of CMR and Levy Rice will be considered for extension by one month at a time and up to three months in all on receipt of request in a prescribed format duly countersigned by the General Manager of FCI concerned. However, in the above

[95] *Haryana Region-15.04 LMT, Punjab Region-87.60 LMT*

case the extension was up to 18 months, a period much longer than the maximum permissible period of three months.

g) In Chhattisgarh, as per instruction issued (November 2013) by the State Department of Food, Civil Supplies and Consumer Protection (for KMS 2012-13), for those millers who lifted the paddy from the Societies and were unable to deposit rice in FCI or Chhattisgarh State Civil Supplies Corporation (CGSCSC), the cost of paddy was to be recovered from them. The rates of paddy for adjustment/recovery from the millers was to be as follows:

i. Common Paddy- ₹ 1,285.53 per quintal
ii. Grade 'A' Paddy- ₹ 1,316.19 per quintal

The cost sheet for KMS 2012-13 the CMR rate for Common and Grade 'A' paddy was found as ₹ 1,336.48 per quintal and ₹ 1,367.89 per quintal respectively. Further, in the rate of CMR, the Society Commission, administrative charges, MLC etc. are included. After inclusion of above charges, cost of CMR becomes higher than the rate fixed by the State Government for the recovery/adjustment of cost of the paddy for rice not deposited by the miller. Thus, the recovery from the miller should have been made after inclusion of the above charges instead of the rate fixed by the Department.

However, Audit noticed in District Marketing Office (DMO), Raipur (September 2014) that due to non-delivery of rice by the millers against 59,301.62 MT of paddy lifted (Common-20,840.77 MT and Grade A-38,460.85 MT), the Department had recovered only ₹ 77.41 crore from the millers as per the rate fixed by the Department and not at the rate after inclusion of other charges. Thus, non-recovery of amount of paddy at the appropriate rate resulted in loss of ₹ 3.05 crore to the Government of Chhattisgarh.

The Ministry replied (June 2015) that the shortages are borne by the State Government and not reimbursed by the GoI.

The reply of the Ministry is not tenable because though the shortages are borne by the State Government and not reimbursed by the GoI, the above observation points towards non compliance of the GoI orders by the millers and needs to be addressed on priority.

h) Audit noticed that there was sub-optimal performance of the rice mills in the selected revenue districts of Odisha as a whole during KMS 2009-10 to 2013-14 (except in Bhadrak and Kalahandi during KMS 2011-12). During KMS 2013-14, millers of selected revenue district did not deliver any Levy Rice except two revenue districts[96] where only 165 MT and 107 MT respectively were delivered.

As per procurement policy, the District Collector of the district concerned was required to ensure that the levy dues were collected from the millers in the district before they sell any stock in the open market. However, there was no persuasion by district authorities as well as FCI for the compliance of levy order and fulfillment of targets set for individual miller during

[96] *Malkangiri and Sambalpur*

the respective KMS. Also, no action was taken against the defaulter millers by the State Authority. Thus there was no preventive or corrective action to guard against non delivery of CMR/Levy Rice by the millers in Odisha.

Thus, Audit noticed that there were multiple instances of non-delivery of rice by private rice millers even after having taken custody of the paddy meant for conversion into CMR/Levy Rice. The total value of such non-delivery of rice in the States of Andhra Pradesh, Bihar, Haryana, Odisha, Punjab, Telangana and Uttar Pradesh was ₹ 7,570.78 crore (15.89 LMT paddy/CMR valuing ₹ 3,042.87 crore and 23.34 LMT of Levy rice valuing ₹ 4,527.91 crore). In absence of a collateral security from the millers, the State Governments/SGAs/FCI had no recourse to recover the losses on this account. This also increases the risk of misappropriation of CMR and diversion to open market of Levy rice by the private rice millers.

Recommendation No. 14	Ministry's Reply
The State Governments/SGAs/FCI may consider a mechanism by way of obtaining bank guarantee from rice millers as collateral security to safeguard against non delivery of CMR/Levy Rice. Also, they may consider recourse to legal proceedings to recover the value of non- delivered CMR/Levy Rice.	The Recommendation is accepted.

Chapter-VII
Review and Monitoring Mechanism

During procurement of paddy, its transportation to FCI/SGAs godowns and premises of rice millers and up to the stage of delivery of rice to FCI/SGAs, various deviations from norms such as procurement of substandard paddy, damages/misappropriation of paddy in millers' premises and absence of periodical physical verification of paddy stock etc. were noticed in audit. These were attributable to lack of monitoring system and weak internal controls. Audit observations in this regard are discussed in the following paragraphs.

7.1 Delay in finalization of incidentals by the Ministry

Under the existing system of release of food subsidy to the State Governments, after receiving proposals from all the States, the Ministry issues provisional costing sheets indicating various incidentals to be paid to SGAs (millers in case of Levy Rice) before each marketing season. The incidentals for provisional cost sheets are decided on the basis of standard principles fixed by the Ministry and are subsequently finalised based on the audited accounts of SGAs. Similar system for payment of subsidy is applicable for FCI.

The Ministry issued Guidelines in September 2010 with revised procedure for submission of accounts, audited by auditors appointed by the C&AG in order to finalise procurement incidentals of SGAs and economic cost of rice, wheat and coarse grains for the past years. As per the guidelines *ibid*, while finalizing cost sheet on the basis of audited accounts submitted by the State Governments, a copy of the provisional findings is to be sent by the Ministry to the State Government with a request to send its comments, if any, within 30 days of receipt of the provisional findings. An option may also be given to the State Government to indicate whether it wants further discussion in the matter. And, in case the comments/view of the State Government are not received within a period of 30 days from date of receipt of provisional findings, the procurement incidentals are to be finalized on the basis of provisional finding and other information available.

It was noticed in Audit that finalisation of the incidentals and claims of the State Governments/ SGAs for many years (varies from State to State) were pending in the Ministry due to various reasons viz. non submission of audited accounts in time by the State Governments, delay in furnishing provisional findings by the Ministry, delay in submission of comments on provisional findings by the State Governments etc.

The discrepancies noticed during KMS 2009-10 to 2013-14 are discussed below:

a) Provisional findings of the Ministry on the accounts of the Government of Haryana for KMS 2009-10 were issued on 27 December 2013 but the comments of the State Government were received on 28 March 2014. Similarly, for KMS 2010-11 provisional findings were sent to the State Government on 7 January 2014 but the replies were received on 29 April 2014.

Thus, the State Government replied after a period of about 90 days as against the prescribed time limit of 30 days. The incidentals were not finalized till September 2014.

b) The State Government of Uttar Pradesh sent audited accounts and other documents for finalization of incidentals for KMS 2009-10 on 31 October 2013, however, provisional findings were not issued by the Ministry till August 2014.

Similarly, pendency was also observed in finalization of incidentals of the remaining five States (Punjab, Bihar, Odisha, Andhra Pradesh and Chhattisgarh). At the same time there were also delays on the part of the Ministry in sending the provisional findings to the State Governments. As such, incidentals are lying in provisional form despite lapse of one to five years for different States.

c) In the case of Andhra Pradesh, Audit observed that the final rates approved by the GoI for KMS 2007-08 and 2008-09 were lower than the provisional rates communicated earlier. Audit worked out the differential amount and found that an amount of ₹ 30.84 crore is recoverable from Andhra Pradesh State Civil Supplies Corporation Ltd (APSCSCL) for the CMR stocks delivered for the seasons KMS 2007-08 and KMS 2008-09. However, no amount was recovered from APSCSCL in spite of lapse of considerable time from the date of communication of final rates by the GoI.

The Ministry, while accepting the audit observation, replied (September2014 and June 2015) that most of the States are unable to submit their proposals in spite of repeated reminders and regular meetings. However, in case no progress is made in case of the defaulting States, it will consider some deterrent such as disallowing benefit of indexation, etc.

Thus, though the Ministry accepted the audit observation but monitoring of timely submission of accounts by the States and finalization of incidentals is not being done as per the prescribed schedules.

Recommendation No. 15	**Ministry's Reply**
Finalization of procurement incidentals needs to be carried out in a time bound manner by adhering to the prescribed schedule.	The Recommendation is accepted.

7.2 Lack of monitoring leading to delivery of rice pertaining to previous seasons in Punjab and Haryana regions of FCI

As per Action Plan of the KMS 2009-10 to 2013-14, General Managers (Region) were to ensure through their own control mechanism that the recycling of PDS food grains in procurement process do not take place and strict vigilance is kept with respect to the milling capacity of mills, quantity of paddy processed by the millers during current KMS qualifying for levy etc. Any incident of recycling[97] of PDS rice in procurement is to be immediately brought to the notice of the State Government for remedial action.

Audit noticed in Sangrur, Ludhiana, Patiala and Moga districts in Punjab region that CMR of 19.13 LMT valuing ₹ 3,739.96 crore, which pertained to previous crop years i.e. 2009-10 to 2012-13 was delivered by millers to FCI during subsequent KMS i.e. 2010-11 to 2013-14 respectively.

Similarly, in districts of Karnal, Kaithal and Kurukshetra of Haryana region CMR of 1.14 LMT valuing ₹ 242.25 crore, which pertained to previous crop years (2009-10 to 2012-13) was delivered by millers to FCI during the ensuing KMS i.e. 2010-11 to 2013-14.

The observations indicated that custom milled rice (CMR) of SGAs was being delivered by millers after one year of purchase of paddy and delivery of CMR for two seasons was done simultaneously to FCI. FCI quality staff follows the old manual procedure for physical analysis of food grains and had not put in place any procedure in the rice quality analysis (lab test) to detect old/recycled rice delivered by millers.

Recommendation No. 16	Ministry's Reply
There is an urgent need to have a mechanism in place to reduce the chances of recycling and to detect old versus new rice. The GoI may consider to evolve a procedure to detect old/recycled rice delivered by millers.	The Recommendation is accepted.

7.3 Deficiencies in monitoring mechanism

Audit noticed a number of deficiencies in the mechanism related to activities associated with milling of rice. Salient State-wise observations are given in following paragraphs.

7.3.1 Position in Punjab

a) Up to the crop year[98] 2012-13, the paddy stock procured from *mandis* by the SGAs for the Central Pool on behalf of FCI was stored directly in the miller's godown/premises, under joint custody for milling purpose. However, for the crop year 2013-14, the paddy procured was kept in the millers' premises and not under joint custody. As per the provisions of Custom Milling Policy relating to KMS 2009-10 to 2013-14, the SGAs staff was required to conduct physical verification (PV) of the paddy stocks on a fortnightly basis to monitor the quantity and quality of paddy and submit copies of PV reports regularly to the District

[97] *It means deferred delivery wherein paddy procured in one KMS is used to produce rice which is supplied at higher rate in next KMS resulting in undue benefit to millers.*

[98] *Crop year is analogous to the financial year, similar to the Rabi crop from April to September and Kharif crop from October to March.*

Offices of the concerned agencies. These reports, besides indicating physical availability of stocks and their quality, should clearly give the quantity delivered and available with the miller.

Audit observed that there was shortfall of 58 *per cent* in conducting PVs in the three SGAs. District offices of Punjab State Warehousing Corporation did not supply information relating to PVs conducted.

The SGAs and Food and Supplies Department stated (February 2015) in the State Exit Conference held in Punjab that due to shortage of manpower and non-reimbursement of Physical Verification expenses by the GoI only peripheral PV of paddy was conducted. Otherwise too, it is not possible to conduct PVs by destacking, weighment and restacking, being a huge operation.

The reply is not acceptable as the shortfall in PV, as brought out by Audit, is against the target fixed by the State Governments which already take into account the method of conducting PV, whether through peripheral count or through weighment.

b) **Non compliance of clauses of Custom Milling policy and inadequate monitoring**

As per custom milling policies, the entitlement of millers is fixed according to their milling capacity, both, with and without cash security. Since paddy is stored in the miller's premises, regular fortnightly PV is required to be conducted to safeguard the interests of the SGAs. SGAs did not comply with provisions of CMPs mentioned below in selected district offices:

i) In two districts {Punjab State Warehousing Corporation (PSWC), Ludhiana and PSWC, Patiala}, paddy allotted was more than milling capacity.
ii) In 13 cases out of 14 (except PSWC Sangrur) fortnightly PVs were either not conducted or not conducted properly.
iii) In spite of slow milling, timely action to shift the paddy to other millers was not taken.

Non-compliance of the provisions of CMPs like allotment of paddy more than the milling capacity of the millers, non verification of stock lying in millers' premises by the State Government/FCI and lack of internal control resulted in non-delivery of paddy stocks worth ₹ 73.08 crore.

The SGAs stated that due to shortage of manpower and non-reimbursement of PV expenses by the GoI only peripheral PV of paddy stock was being conducted.

The SGAs accepted the audit observation. However the fact remains that lack of PV as per prescribed procedure greatly increases the risk of non-delivery of food grains.

c) **Procurement of sub standard rice by technical staff**

It was noticed that in districts of Sangrur, Ludhiana, Patiala and Moga, the Area Manager/ Assistant General Manager (Quality Control) detected 0.99 *per cent,* while Regional Office squad detected 26.95 *per cent* rice as not conforming to the specification during 2009-10 to 2013-14. Moreover, Zonal Office/Headquarter team detected 9.15 *per cent* rice as beyond rejection limit during the same period. This indicated that there was wide spread acceptance of sub-standard [99]rice by the technical assistants.

Though the Ministry stated (June 2015) that non detection of beyond rejection level sample in district lab does not indicate that district labs have not discharged the duties in a fair manner.

It is evident that the district labs did not properly perform one of the main functions for which they were established in Punjab i.e. detection of beyond rejection level rice in samples tested.

7.3.2 Position in Andhra Pradesh and Telangana

a) **Non-submission of prescribed returns**

Staff members[100] of Enforcement in District Supply Officers' (DSOs) offices in Andhra Pradesh were required to conduct inspections of stocks with reference to book balance at regular intervals, obtain required information from the millers and submit business returns at fortnightly intervals to DSOs. However, the Enforcement staff did not submit such business returns. Rice millers also did not submit monthly returns to the DSOs. Due to this, compliance by millers with the instructions issued by the Government from time to time with regard to supply of Levy Rice and custom milling of paddy could not be examined in audit.

b) **On paper transfer of levy-free rice without physical movement in Andhra Pradesh and Telangana**

Movement of Levy Rice is carried out under the statutory system wherein the State Government issues levy orders, in consultation with the GoI, directing the private rice millers/ dealers to deliver specified percentage of the rice resulting from milling of paddy, to FCI for the Central Pool. The private rice miller or dealer shall deliver 75 *per cent* of resultant rice, and balance 25 *per cent* as levy-free rice can be sold in the free market.

Audit noticed that in all the five districts[101], 20.45 LMT rice valuing ₹ 4187.48 crore was stated to have been used by millers as levy free rice. However, analysis revealed that these stocks were not actually moved from the millers' premises to other millers/traders during KMS 2012-13 and KMS 2013-14. The movement of stock was only on paper and no physical movement of rice took place. This practice carries the risk of use by millers of previous years' levy free rice to fulfill the levy quota for the next year at a higher price as the old stock was likely to fetch higher price realization in subsequent year.

[99] *Rice not conforming to uniform specifications, prescribed by GoI.*

[100] *Grain Purchasing Assistants, Assistant Grain Purchasing Officers and Food Inspectors*

[101] *East Godavari, West Godavari, Krishna, Nizamabad and Nalgonda*

While accepting the audit observation that transfers were only on paper and did not involve physical movement of rice, the Andhra Pradesh State Civil Supplies Corporation Limited stated that the transfer of levy free eligibility was issued in compliance with the orders of the Government issued from time to time. The miller were not instructed to transfer the rice physically after obtaining the eligibility certificate; however it was ensured to achieve the district levy targets.

The practice of carrying out movement of levy free rice without actual transfer is fraught with the risk of millers recycling the old stock in the next year and getting a higher price for the same.

7.3.3 Position in Uttar Pradesh

a) **Lack of Special Physical Verification (SPV)**

As per Purchase Policy, SPV should be conducted by the authorities to ensure safe storage and quality norms. However, SPV of 160 millers of 11 districts were not carried out by the various higher authorities viz. Commissioner, Regional Food Commissioners and district level authorities to check the status of stock in millers' premises.

Further, Regional and District level officers were responsible to conduct weekly verifications, to ensure safe storage of paddy in the miller's premises and timely delivery of CMR to FCI. However, SGAs did not maintain any verification reports. In absence of verification reports, there were no means to ascertain whether delivered paddy and resultant rice was stored in open or covered and plinth (CAP) area during 2009-10 to 2013-14.

b) **Inadequate monitoring for ensuring quality of paddy**

As per prescribed norms of purchase policy, District Food & Marketing Officer (DFMOs) should inspect each purchase centre at least once in a week to ensure that required facilities[102] are given to farmers along with timely opening of centre, besides, ensuring that procurement of paddy was made as per standard and required quality.

The required number of inspections were not carried out by DFMOs in all the selected districts. Further, it was also observed that no separate laboratory was established at the district/regional level, which implied that quality of paddy procured, was not ascertained by the SGAs.

The millers of 11 districts had not submitted any return/ reports to the authorities prescribed in the purchase policy during the period from 2009-10 to 2013-14. The above facts indicate inadequacy in monitoring mechanism, leading to risks of misappropriation of paddy/rice.

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[102] *Drinking water, fan, tent etc.*

c) **Unadjusted damaged Paddy worth ₹ 7.33 crore**

Audit noticed in Regional Accounts Office, Bareilly that 38,653.03[103] quintals of rice valuing around ₹ 7.33 crore was shown as damaged in the financial year 2011-12, which was not adjusted/written off by the Commissioner, Food & Civil Supplies. Justification for damage of paddy and action taken were not provided by the Department of Food and Civil Supplies, Uttar Pradesh to Audit in absence of which reasonableness of justification could not be examined in audit.

7.3.4 Position in Haryana

a) **Procurement of sub standard rice by technical staff**

Analysis of rice in the district laboratories in revenue districts of Kaithal, Kurukshetra and Fatehabed during 2009-10 to 2013-14 revealed that the district laboratories had checked 4.68 LMT (9.47 *per cent*) of rice after taking 2907 samples (out of 49.42 LMT of rice received in these revenue districts) and detected none of the sample as Beyond Rejection Limit (BRL). Thus district labs found the rice conforming to specifications.

However in Haryana region of FCI, Area Manager/ Assistant General Manager (Quality Control) detected 0.16 *per cent*, while Regional Office squad detected 2.44 *per cent* rice as not confirming to the specification during 2009-10 to 2013-14. Moreover, Zonal Office/Headquarter team of FCI detected 13.58 *per cent* rice as beyond rejection limit during the same period. This indicates that there was wide spread acceptance of sub-standard rice by the Technical Assistants. As no case of substandard rice was noticed in the above district labs during the last five year from 2009-10 to 2013-14 it raises question marks on the sampling techniques adopted and the effectiveness of district labs.

b) **Shortcomings in records relating to rice millers**

Guidelines for the purchase of paddy issued by the Food & Supplies Department every year provide that millers undertaking custom milling of paddy shall execute an agreement with the concerned SGAs immediately in the prescribed proforma. Further, the guidelines provide that each miller would prepare in triplicate a pictorial chart/sketch depicting the positioning of the stacks, stack number with the number of gunnies in each stack. Guidelines also provide that storage capacity available with the millers should be ensured. Further, milling agreements entered into by the SGAs with the millers, provided that each miller would get the entire paddy and rice insured.

Audit, however, observed that:

i) No pictorial chart/sketch was submitted by the millers.

ii) The proof of the storage capacity of the millers was not available in the district offices of the SGAs.

[103] *26,253.42 quintal of rice in district Pilibhit and 12,399.61 quintal of rice in district Shahjehanpur.*

iii) There was no record showing that any miller had insured the paddy.

iv) Further, in case of Haryana State Warehousing Corporation, Panipat, agreement entered with millers for the KMS 2009-10 and 2010-11 were not made available to Audit, though asked for.

The Department of Food and Civil Supplies, Haryana assured that remedial action would be taken in this regard.

7.3.5 Position in Chhattisgarh

a) **Shortfall in inspections**

As per the inspection, sampling and analysis procedure of FCI to be followed in procurement of paddy and acceptance/purchase of rice stock, in order to ensure acceptance of rice conforming to laid down specifications only, super inspection shall be done.

It was, however, observed in audit that there was considerable shortfall in the super inspections done by the higher officials. During the year 2010-11 to 2013-14, in three cases the Area Manager had test checked less than two *per cent* of the accepted stock and in six cases the Assistant General Manager (Quality Control) had test checked less than ten *per cent* of the stock accepted during a fortnight. The shortfall of inspection in respect of Deputy General Manager (Quality Control) ranged between 63 *per cent* and 72 *per cent* during 2010-11 to 2012-13 and between eight *per cent* and 63 *per cent* in respect of General Manager (Region) during the year 2010-11 and 2013-14.

The FCI Regional Office, Chhattisgarh replied (December 2014) that mandatory inspections by all the supervisory officers are being carried out regularly as prescribed by FCI Hqrs. In regard to shortage of quality control staff/officers (Technical Assistants) for initial inspections, while confirming the fact, it was replied that the matter was taken up with FCI Zonal Office/Hqrs. and on the request FCI Zonal Office/Hqrs. arranged staff from other regions on temporary basis.

The reply is not tenable since there was shortfall in the prescribed inspections by the higher authorities as well. Further, it was observed that under Mahasamund Centre though the milling capacity of the mills was 100 lot per day, due to shortage of technical staff only 45 lots were accepted. Thus, shortage of staff was adversely affecting the procurement operations.

The Ministry stated (June 2015) that prescribed check of ten per cent and two per cent by Assistant General Manager (Quality Control) and Area Manager is based on the number of lots procured after their last inspection whereas the Audit has calculated the percentage on the quantity procured during the fortnight. It also stated that shortfall on the part of GM occurred when he was occupied in other important assignments.

The reply is not tenable as the norms do not specify that the prescribed checks should be done after the last inspection and thus the existing practice led to shortfall in inspections in Chhattisgarh.

b) **Inadequate physical verification of stocks in millers' premises**

As per milling agreement/ levy orders of the State Government, mandatory PV of stock of paddy and rice is to be conducted in millers' premises on a regular basis. The enforcement officials are required to inspect rice mills periodically to ensure purchase of paddy at MSP, milling of paddy and delivery of Levy Rice. The PV report should clearly depict the quantity delivered and available with the millers besides indicating physical availability of stocks and their quality.

In seven selected districts of Chhattisgarh, it was observed that PV was not conducted by the officials concerned on regular basis and no norms were fixed regarding periodicity of PV. In some instances where PV was conducted, it was observed that miller had either not maintained or improperly maintained stock records. MARKFED, Chhattisgarh also registered nine cases against the defaulter mills and 1,347.80 MT of paddy and 380.14 MT of rice was seized in the selected four districts.[104]

On this being pointed out, the Food Controller, Chhattisgarh (November 2014) accepted the audit observation that no norms for PV were fixed by the Department.

Audit is of the view that the norms for conducting PV should be in place for better and effective storage management of paddy/rice stocks.

While accepting the audit observation, the Ministry stated (June 2015) that Government of Chhattisgarh is being advised to adhere to fortnightly PV of stocks remaining in miller premises.

c) **Non-submission of reports by millers**

As per clause 10.1 (2) of custom miller agreement, every miller has to submit the details of lifting of paddy and delivery of rice on the seventh of every month to respective District Marketing Officers (DMOs). It was observed in seven districts that in contravention of the condition of agreement no report regarding lifting of paddy and delivery of rice was submitted by the millers.

DMOs of these districts accepted the fact and stated that no instructions were issued by the State Government regarding submission of returns/ reports by the millers.

[104] *Raipur, Dhamtari, Durg and Rajnandgaon*

d) **Double handling of stock resulting in avoidable handling charges of ₹ 3.94 crore in Chhattisgarh**

In Chhattisgarh, the Ministry made (May/June 2011) additional allocation of rice for Below Poverty Line (BPL) and Above Poverty Line (APL) for the period June 2011 to March 2012. In view of this, the Ministry approved additional allocation of 5,180 MT of rice per month in Chhattisgarh for APL category and 1.35 LMT of rice for BPL families under central issue price up to March 2012. The stock of additional allocation under APL and BPL schemes were to be lifted from the FCI stock. Against the allocated quantity, FCI issued 1.66 LMT of Rice from stock held by FCI to the State Government during June 2011 to March 2012.

It was observed from the stock position extracted from Stock account of the State Government that the State Government had sufficient stock of rice during the period June 2011 to March 2012. However, to meet the additional allocation, the Ministry instructed to lift the food grains from the FCI Stock which involved incidence of expenditure on handling etc. This resulted in extra expenditure towards handling cost of ₹ 3.94[105] crore during the year 2011-12.

7.3.6 Position in Odisha

a) **Inadequate physical verification for ensuring quality and quantity of paddy**

Despite having a laid down mechanism of checks (by an authorised officer) and counter checks {by Enforcement Officer, periodical inspection of District Manager-cum-Civil Supply Officer (DM cum CSO), District Magistrate} for ensuring quality and quantity stored at millers premises, these were not implemented properly as authorised officers were not regular in conducting the physical verification of stock and there were lack of periodical inspection by DM-cum-CSO, Enforcement Officer and the District Magistrate. The findings of special audit conducted by Odisha State Civil Supplies Corporation Ltd (OSCSC) also corroborate this fact.

b) Authorised officers appointed for joint custody and maintenance of paddy and rice are to make weekly physical verification for submission to the district offices. Any discrepancies in the stock, misappropriation, diversion, slow delivery of CMR compared to milling capacity is to be brought to the notice of District Manager immediately. The agreement entered by OSCSC with the millers provided that the District Manager or his authorized official is responsible to conduct physical verification of the paddy stocks on a regular basis. Under levy, enforcement officer shall verify the stock at a periodicity of not less than once in a week.

[105] *Calculated at the average handling cost of ₹ 239 per MT*

Audit noticed that the regularity in periodicity of physical verification was not maintained. In Bhadrak district, in respect of 153 agreements, only 2,472 verifications (50 *per cent*) were conducted against 4,949 verifications required during the period from 2009-10 to 2013-14. In Bargarh district, against 442 agreements, 8,502 verifications (39 *per cent)* were done against 21,408 required during 2009-14. During 2009-2014, in Malkanigiri district, 1,259 physical verifications (26 *per cent*) against the requirement of 4,784 verifications in respect of levy orders were conducted.

7.3.7 Position in Bihar

The deficiencies noticed in respect of monitoring mechanism of paddy procurement are illustrated as follows:-

i) As per norms fixed by the Bihar State Food & Civil Supplies Corporation (BSFC), paddy was to be provided to the miller only after proper physical verification of the mill by the District Administration before selection of mill. However, such physical verifications were not conducted by the authority concerned in the State.

ii) Further, as per agreement between millers and SGAs, the millers had to deliver/supply rice to the FCI in advance. After milling of rice proportionate quantity of paddy was to be issued to the millers. However this was not complied with.

iii) Deputy Collector and above were made enforcement officer to verify the paddy receipt with verification of necessary land records but in 14 blocks of seven selected districts it was not done as per prescribed norms. The reasons cited was multiplicity of work resulting in poor verification.

iv) Important control documents like details of cash book, cash credit account, Fixed Deposits accounts and Budget/allotment records were not properly maintained.

v) While framing the guidelines for distribution of food grains under DCP scheme for KMS 2013-14 (April 2014), the SGA i.e. BSFC had defined the role of FCI. Accordingly, the representatives of FCI were to check the availability of CMR and conduct PV thereof and affix their signature in the prescribed format meant for PV. However, it was observed in audit that FCI did not associate with BSFC in checking the quality aspect of the CMR procured under DCP Scheme during KMS 2013-14, as prescribed in the GoI guidelines for DCP states. FCI on its part stated that BSFC stocks were not kept in countable position, and hence it would be difficult for FCI staff to assess the number of gunnies/weight of stocks. It further added that FCI, Bihar Region was facing staff shortage. Further, to check the quality aspect of the stock during KMS 2013-14, BSFC requested FCI, Regional Office Patna to depute 101 quality controllers for which action was not taken by FCI.

Slow pace of delivery of CMR resulted in additional requirement of food grains from other States for meeting the requirements of National Food Security Act (NFSA) in Bihar Region which involved substantial transportation costs. However FCI was found lacking in monitoring the pace of procurement by the SGA to avoid additional cost on freight and multiple handling.

Audit also observed that guidelines issued by the GoI with respect to quality control aspect for CMR procured under DCP scheme were not followed properly by FCI. The State Government is still dependent upon FCI to meet its requirement under NFSA as it lifted 13.28 LMT rice during April 2014 to Oct 2014, though the State has switched over to DCP scheme with effect from KMS 2013-14.

Recommendation No. 17	Ministry's Reply
FCI/SGAs may consider augmenting manpower for quality checks at the stage of procurement and redress the weaknesses in monitoring and internal control system for procurement of paddy, milling and delivery operations.	The Recommendation is accepted.

Conclusion:

The Custom Milled Rice/Levy Rice scheme was envisaged by the GoI to take advantage of the synergies between public sector procurement structures and private sector milling capacities. However, delay in revising the milling charges and poor control over custody of paddy/rice resulted in not only undue gains to the rice millers but also widespread and large scale non-delivery of paddy and rice by them. Moreover, because of uneven operational practices and costing parameters huge avoidable expenditure was incurred throughout the country. Further, there is possibility of MSP being released without ascertaining the bonafides and genuineness of the farmers. Additionally, the benefit of quality relaxation in paddy/rice due to adverse climate conditions ended up being passed on to the millers instead of the farmers. These deficiencies also contributed to avoidable increase in food subsidy expenditure of the GoI.

The scheme needs to be comprehensively revisited to address the lacunae brought out in this report. The Government may consider, *inter alia*, the following for immediate implementation:

(i) Obtaining collateral security for paddy and rice handed over to the millers for milling.

(ii) Bringing uniformity in the cost sheet parameters relating to gunny bags depreciation, custody and maintenance charges and *mandi* labour charges.

(iii) Bringing uniformity in the specification of paddy packed in a gunny bags, based on best practices across the country.

(iv) Direct benefit transfer of MSP into the account of the farmers.

(v) Re-fixing the milling and costing charges

(vi) Create sufficient facilities for ensuring compliance of applicable standards related to food safety pertaining to toxins, insecticides and pesticides residue.

As the CMR/Levy Rice scheme is a very important component in the food security scenario, especially for the BPL families, it needs immediate fine tuning to make it more efficient and effective to make it serve its intended purpose.

(A .K. SINGH)
Deputy Comptroller and Auditor General
(Report Central and Local Bodies)

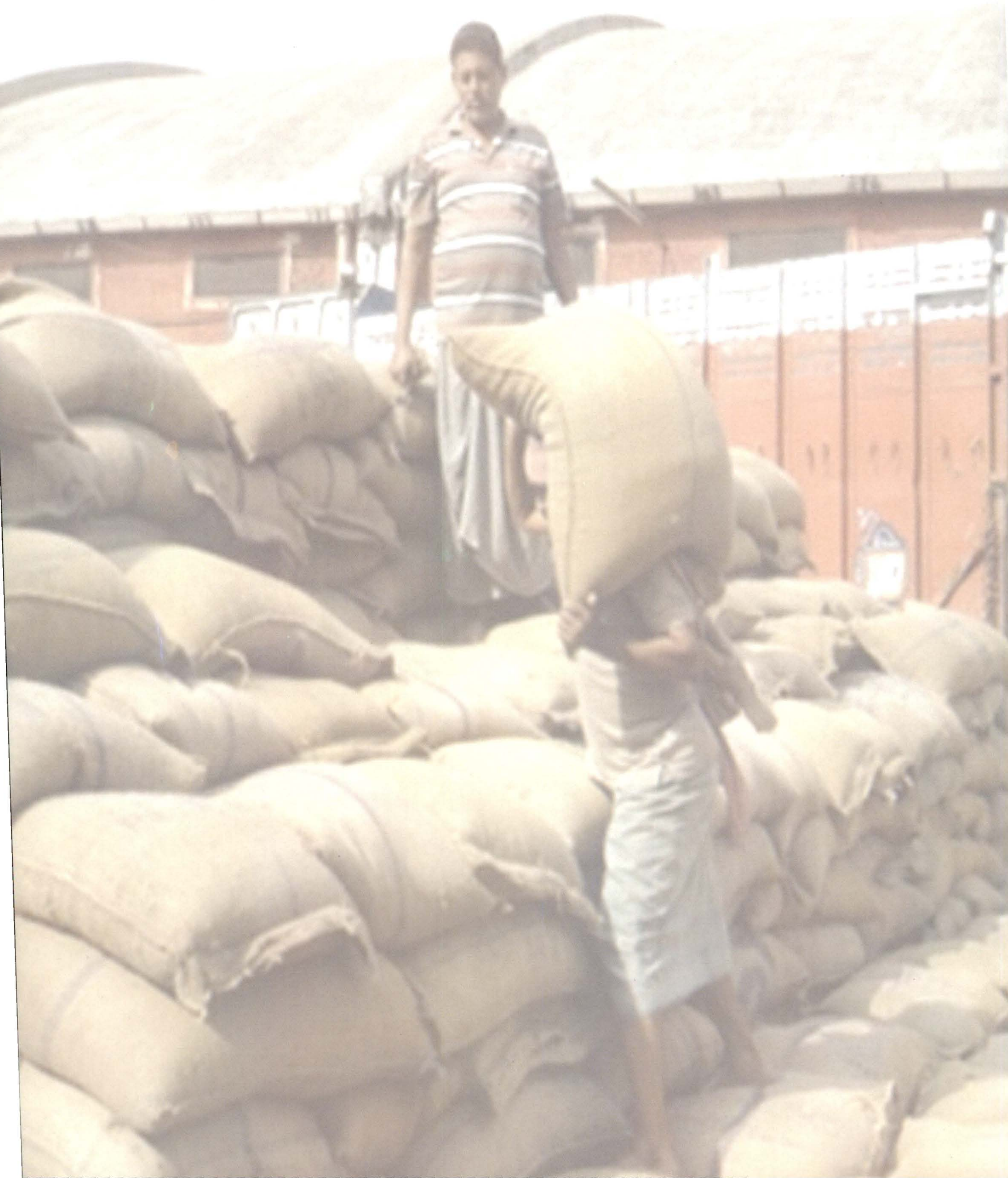
New Delhi
Dated : 14 August 2015

Countersigned

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India

New Delhi
Dated : 17 August 2015

ANNEXURES



ANNEXURE- I

(Refer to Para 1.10)

Name of the State	Name of the selected revenue District	Name of the selected FCI Area Offices
Andhra Pradesh	1. East Godavari 2. West Godavari 3. Krishna	1. Kakinada (covering East Godavari) 2. Tade Palli Gudem (covering West Godavari) 3. Vijaywada (covering Krishna)
Bihar	1. Rohtas 2. Kaimur 3. Nalanda 4. Aurangabad 5. Patna 6. Bhojpur 7. East Champaran	1. Gaya (covering Rohtas, Kaimur and Aurangabad) 2. Patna (covering Patna, Nalanda and Bhojpur)
Chhattisgarh	1. Raipur 2. Bilaspur 3. Durg 4. Rajnandgaon 5. Dhamtari 6. Mahasamund 7. Janjgir-Champa	1. Area Office Raipur- (covering Revenue Districts-Raipur, Dhamtari, Mahasamund, Baloda Bazar and Gariaband) 2. Area Office Durg- (covering Revenue Districts Durg, Rajnandgaon, Baalod, Bemetra, Kabirdham, Bastar, Kondagaon, Narayanpur, Kanker, Dantewada, Sukma and Beejapur) 3. Area Office Bilaspur- (covering Revenue Districts Bilaspur, Janjgir, Mungeli, Korba, Raigarh, Sarguja, Surajpur, Balrampur, Karia and Jaspur)
Haryana	1. Karnal 2. Kurukshetra 3. Kaithal 4. Fatehabad	1. Karnal 2. Kurukshetra (covering Kurukshetra and Kaithal) 3. Hissar (covering Fatehabad)
Odisha	1. Bargarh 2. Bhadrak 3. Bolangir 4. Deogarh 5. Kalahandi 6. Malkangiri 7. Sambalpur 8. Sonepur	1. Balasore 2. Titilagarh 3. Sambalpur 4. Jeypore
Punjab	1. Moga 2. Ludhiana 3. Sangrur 4. Patiala	1. Moga 2. Ludhiana 3. Sangrur 4. Patiala
Telangana	1. Nalgonda 2. Nizamabad	1. Nalgonda 2. Nizamabad
Uttar Pradesh	1. Allahabad 2. Amethi 3. Basti 4. Deoria 5. Ghazipur 6. Gorakhpur 7. Kushinagar 8. Maharaj Ganj 9. Mirzapur 10. Pilibhit 11. Shahjahanpur	1. Allahabad 2. Faizabad (covering Amethi) 3. Gorakhpur (covering Basti, Deoria, Gorakhpur, Kushinagar and Maharajganj) 4. Varanasi (covering Ghazipur and Mirzapur) 5. Bareilly (covering Pilibhit) 6. Shahjahanpur

Annexure-II
(*Refer to Para 3.2.1*)

Doubts about authenticity of MSP payment

States

Name of the States	Name of selected district	Doubtful MSP amount worth (₹ in crore)	Period	Sample	Remarks
Bihar	All selected revenue districts	₹ 14.88 (Fake: ₹ 6.82 crore, Fabricated: ₹ 3.07 crore and Irregular land receipt: ₹ 4.99 crore)	2009-10 to 2013-14	14 block level circle offices (Shiv Sagar, Akodhigola, Bihar Shariff, Islampur, Udwantnagar, Ara Sadar, Bhabua, Ramgarh, Obra, Daudnagar, Fatuha, Bihta, Motihari Sadar, Banjara)	Land records did not match with entry in Register-II maintained by Circle Officer.
Haryana	All selected revenue districts	-	-	-	No documents obtained from farmers before procuring food grains
Odisha	Bhadrak & Bargah	-	2013-14	608 (332 and 276) farmers in Tihidi block and Jharbandh Primary Agricultural Cooperative Society of Bargarh Women Self Help Group in Bhadrak and Bargah	1. Land details of farmers, who had sold paddy during KMS 2013-14 were not produced. There was no authentication of land holding based on revenue records. 2. Name of account holders as mentioned in cheques issued and purchase register differed from bank records.
	Bolangir	-	2011-12 to 2013-14	Tusura	360.25 quintal of paddy was procured against fake Farmer Identity Card Numbers in case of six farmers. 4068.25 qunital Paddy was purchased from 16 farmers whose land ownership/land under cultivation details were not available with the Revenue Inspector of Tusura.
	Bolangir	-	-	Tusura and Sauntpur Primary Agricultural Cooperative Societies.	1. 4861.82 quintal of paddy purchased from farmers in excess of their eligibility limit 2. Cheques issued to 12 farmers credited to 6 other persons. 3. Out of cheques for ₹ 0.19 crore issued to 36 farmers, amount worth ₹ 0.08 crore only was credited to accounts of 13 farmers.
Punjab	All selected revenue districts	-	-	-	No documents obtained from farmers before procuring food grains. Moreover, the State Government did not prescribe any conditions of payment after verification of bank accounts or Kisan cards of farmers.

Telangana	Nalgonda and Nizamabad	-	-	-	1. In RMS 2012-13 in Nizamabad district, 0.32 LMT paddy valuing ₹ 40.75 crore was purchased from 9244 farmers without obtaining crucial details such as acreage, land classification, details of tenant farmers. 2. For the KMS 2013-14 in Nizamabad district, in more than 50 *per cent* cases (51 *per cent* to 59 *per cent*), details of Pahani (land record) were kept blank. Details of tenant farmers were kept blank in 51 *per cent* cases during Kharif and Rabi 2013-14. 3. In Nalgonda and Nizamabad district, for purchase of 80302.94 quintals of paddy from the farmers, the sales transactions were made either without Pahani number or on the same Pahani number. 4. In Nizamabad district, there were several incomplete and unfilled columns in the data provided by Paddy Purchase Centres (PPCs) to the District Administration. 5. In Nalgonda district due to non-implementation of on-line payment system directly from Civil Supplies Corporation (CSC), the CSC did not have details regarding information in 25-column relating to the critical information like acreage, land classification details, details of tenant farmers, paddy sown acreage, expected yield and *Pahani* number, etc.

FCI Regions

Name of FCI region	Name of selected office	Doubtful MSP amount worth (₹ in crore)	Period	Sample	Remarks
Andhra Pradesh	All Sampled offices	Not Available	2012-13		Out of 84.12 LMT paddy(in terms of rice) arrivals, 66.07 LMT (78.54 *per cent*) was procured by millers till January 2013 whereas mill levy rate was communicated by the GoI on 4-2-2013. Though millers had produced MSP certificates while claiming Mill levy rate, the payment of full MSP to farmers is doubtful because of the above discrepancy.
Bihar	All selected Area Offices	Not Available	-	-	In Area Office Patna and Gaya (under FCI, Bihar region), no records were kept and no checks were carried out regarding genuineness of the farmers before releasing the payment
Uttar Pradesh	Gorakpur and Mahrajganj revenue districts	Not Available	2009-10	19 out of 22 cases reviewed	Tampered Kishan Bahi/ documents with respect to names and identities of farmers.

Annexure-III

(Refer to Para 3.2.3)

Payment in cash by Millers

Sl. No.	Name of the State	Period	Sample	MSP paid by	Remarks
1.	Uttar Pradesh	2013-14	Selected revenue districts	Millers	Payment made for ₹ 27.21 crore in cash for 0.21 LMT of paddy
2.	Odisha	2013-14	*Aditi Rice Mill in Bhadrak revenue district*	Millers	Payment made to 32 farmers (₹ 0.06 crore for 46.33 MT of paddy)
3.	Andhra Pradesh	2009-10 to 2013-14	*Selected districts*	Millers	In case of purchases by APSCSC and IKP, payment of MSP through Account Payee cheque not confirmed by State Authorities

Annexure-IV

(Refer to Para 3.2.3)

Delay in payment of MSP to farmers

Sl. No.	Name of the State	Delay in payment of MSP (in days)	Remarks
1.	Andhra Pradesh	10 days on average in case paddy was purchased at farm gates.	Delay noticed in all three selected districts.
		Upto 55 days in case payment was made at PPCs	Delay noticed in all three selected districts.
2.	Haryana	Payment not made within the prescribed period in two selected districts (Karnal and Kaithal) of Food and Supplies Department.	
3.	Odisha	Delay of seven months in Kalahandi revenue district	
4.	Telangana	More than 30 days (prescribed period – three days)	Delay noticed in Nalgonda district.
		12 to 17 days (prescribed period – three days)	Delay noticed in Nizamabad district.
5.	Uttar Pradesh	Delay of 10 to 86 days	Delay noticed for MSP amounting to ₹ 0.98 crore during 2012-14 in Mahrajganj revenue district.
FCI Region			
6.	Uttar Pradesh	Upto 25 days (prescribed period of 24 hours)	Delay noticed in 8 revenue districts for procurement of 2315.96 MT.

Annexure-V

(Refer to Para 3.7)

State wise details of unsecured paddy

Sl. No.	Name of the State	Selected districts	Period	Type of security taken from millers	Amount of security taken	Unsecured paddy worth (₹)	Remarks
1.	AP and Telangana	All	2009-14	Security not obtained	Not given	₹ 2559.83 crore for 21.71 LMT paddy.	Though the agreement stipulated obtaining of Bank guarantee/collateral security equivalent to value of paddy or 'Undertaking' from Rice Millers Association on behalf of mills owning the responsibility for delivery of CMR, these provisions were not invoked in Andhra Pradesh region.
2.	Bihar	All	2011-12	Security deposit ₹ 0.50 lakh from each miller in the form of Demand draft	₹ 0.50 lakh	Security deposit obtained but advance rice was not obtained as per the agreement	Terms of agreement provided for delivery of advance rice and security advance of ₹ 0.50 lakh by millers, out of which no advance rice was received from millers.
			2013-14	Bank Guarantee	₹ 5 lakh	Security deposit and deed of pledge of immovable property obtained but the deeds were not registered.	1. During KMS 2013-14 amount of bank guarantee and security deposit fixed as security deposit of ₹ five lakh up to two MT per day, ₹ 10 lakh up to five MT per day and ₹ 15 lakh for above five MT per day. A deed of pledge of immovable property also to be obtained to secure the recovery in case of default. Deed of pledge of immovable property obtained during 2013-14 from the millers not registered, led to non-compliance of deed related provisions under Bihar and Orissa Public Demand Recovery, Act, 1914. 2. No specific provision of security deposit, proportionate to the quantity and cost of paddy provided in the guidelines. Clause for recovery and penalty in case of non-delivery of CMR in time not incorporated in the agreement.
3.	Chhattisgarh	Raipur	2013-14	Post dated cheques	₹ 2.62 crore	₹ 0.64 crore	In the inter-state milling agreement for 1995.18 MT between the States of Chhattisgarh and Andhra Pradesh, ₹ 0.97 crore (out of ₹ 2.62 crore) was irregularly recovered from other millers of Andhra Pradesh region.

4.	Haryana	All	2009-10 to 2013-14	Post dated cheques	Not given	Not given	SGAs' funds to the tune of ₹ 122.10 crore blocked and involved unnecessary litigation with resultant non-recovery of ₹ 2.59 crore.
5.	Odisha	All	2009-14	Security not collected	₹ 53.44 crore	₹ 2270.09 crore	1. Non-collection of security deposit with reference to milling capacity resulted in short collection of ₹ 139.66 crore from selected millers of selected districts except Sonepur during 2009-14 KMS. 2. In case of M/s Manikyam Rice Mill 41059.15 quintal of paddy lifted, and rice to the extent of 11073.313 quintal only delivered, leaving a balance of CMR 16846.909 quintal of 2013-14 KMS amounting to ₹ 3.66 crore, against which available bank guarantee of ₹ 50 lakh was only revoked (November 2014) and recovery of the remaining amount awaited (December 2014). 3. Of 7590.053 MT paddy for KMS 2012-13 valuing ₹ 11.31 crore yet to be realised from Mangalam Agro Tech (P) Ltd (September 2014) for which security deposit of only ₹ 18.50 lakh was available. 4. Non-collection of security deposit from five selected millers (Shree Mahalaxmi Rice Industries, Utkal Industries, Sri Jyoti Rice Industries, Laxminarayan Paddy Processing Private Limited, Triveni Food Products) in Bargarh district for 2013-14 KMS.
6.	Uttar Pradesh	9 (Kushinagar, Deoria, Gorakhpur, Mahrajganj, Pilibhit, Shahjahanpur,Allahabad, Ghazipur, Basti)	2009-10 to 2013-14	Adequate Security not obtained. (Security obtained in the form of Fixed Deposit and Bank Guarantee)	₹ 6.82 crore	₹ 390.53 crore	3.62 LMT paddy amounting to ₹ 390.53 crore during 2009-10 to 2013-14 delivered to millers without obtaining bank guarantee.
FCI Region							
7.	Chhattisgarh	Raipur	2009-10 to 2013-14	Security not obtained	Not given	Not given	In FCI, District Office, Raipur, out of 1010 cases, in respect of 272 cases, the details relating to completion of contracts, availability of Security Deposits was not available with the Accounts Section of the District Office; furnishing of Security Deposits by the millers unverifiable.

Annexure-VI

(Refer to Para 4.4)

Means of transport other than trucks used for movement of paddy/rice Uttar Pradesh

Sl. No.	Name of districts	Name of SGAs	Purchase centres	Type of Vehicle	Period of Transportation	Transported quantity (in Quintal)
1.	Maharajganj	FSD*	Maharajganj	Motorcycle	16.12.2010	60.00
		Pradeshik Cooperative Federation (PCF)	Ramhauli	Auto rickshaw	11.12.2010 to 20.12.2010	2000.00
2.	Gorakhpur	FSD	Chargawan	Jeep Taxi	17.12.2012	150.00
			Khorabar	Bus	25.12.2009	160.00
			Khorabar	Motorcycle	15.12.2010 to 19.1.2011	663.60
3.	Shahjehanpur	PCF	Chandpur - Waratpur	Auto rickshaw	11.01.2011 and 19.12.2011	398.98
			Atsalir-Roja	Jeep Taxi	22.11.2011 & 11.12.2011	358.60
		FSD	Jalalabad	Motorcycle	24.11.2010	176.80
4.	Deoria	FSD	Deoria	Pick-up van	3.12.2011 to 7.1.2012	600.00
5.	Pilibhit	Department, Uttar Pradesh Upbhokta Sahakari Sangh (UPUSS) and Uttar Pradesh Agro	Pilibhit *mandi*, Neuriya	Thela (jugar),three wheeler, motor cycle,scooter, combine (paddy cutter)	27.01.2010 to 26.11.2012	25629.67
6.	Allahabad	FSD	Meza road and Meza Tehsil	Auto-rickshaw, Vikram, bus, motorcycle, moped, scooter and car	09.12.2011 to 31.01.2014	4453.60
7.	Ghazipur	FSD and PCF	Sadar, Jangipur, Mardah, SSS Mubarakpur, SSS Sultanpur	Motorcycle, car	04.12.2011 to 12.02.2014	7909.20
8.	Mirzapur	FSD	Gaipura & Mirzapur/Rajesh Trading	Tanker, car and Auto-rickshaw	26.12.2010 to 22.02.2014	1370.00
9.	Basti	FSD	Saughat and Bahadupur	Motorcycle, Auto-rickshaw, Bus and Jeep Taxi	30.12.2011 to 20.03.2013	1711.00
10	Amethi	FSD	Gauriganj and Jais	Moped and Qualis	11.12.2012 to 24.01.2014	4917.60
Total						**50559.05**
Cost =Quantity transported * Minimum Support Price of respective KMS						**₹ 5.50 crore**

*** Food and Civil Supplies Department**

Annexure-VI

(Refer to Para 4.4)

Means of transport other than trucks used for movement of paddy/rice - Bihar District-Patna (2013-14)

Sl. No	Type of vehicle (1)	Quantity of paddy/CMR transported (in Quintal) (2)	From (3)	To (4)	Cost of Transportation including Handling Charge (in ₹) (5)	MSP/Cost price per Quintal (6)	Total cost (in ₹) (7)=((2)*((6)
1	Delivery Van	90.00	Purchase centre	M/s Baba Sidhi Vinayak rice mill, Masaudhi	3287	1560	1,40,400
2	Delivery Van	90.00	Purchase centre	M/s Baba Sidhi Vinayak rice mill, Masaudhi	3287	1560	1,40,400
3	Loader (Medium Goods Vehicle)	200.00	Purchase Centre Lala Bhusver	Apolo rice mill, Amhara, Bihta	7530	1560	3,12,000
4	Loader	90.00	Purchase centre	Maan Ambe Rice Mill Sonar, Fatuha	2987	1560	1,40,400
5	Loader	90.00	Purchase centre	Maan Ambe Rice Mill Sonar, Fatuha	2987	1560	1,40,400
6	Loader	90.00	Purchase centre	Maan Ambe Rice Mill Sonar, Fatuha	2987	1560	1,40,400
7	Delivery Van	135.55	Maa Vaishno rice mill, Fatuha	FCI Depot Mokama	7043	2478.56	3,35,969
8	Delivery Van	89.60	Apolo rice mill	FCI Depot Phulwari	3320	2478.56	2,22,079
9	Delivery Van	90.20	R.K.Gupta rice mill, Khedalpur	FCI Depot Phulwari	3305	2478.56	2,23,566
	Total	**965.35**					**17,95,614**

Annexure-VI (Contd...)

Means of transport other than trucks used for movement of paddy/rice District-Motihari, Bihar, 2013-14

Sl. No	Type of vehicle (1)	Quantity of paddy /CMR transported (in Quintal) (2)	From (3)	To (4)	Cost of Transportation including Handling Charge (in ₹) (5)	MSP/Cost price per Quintal (6)	Total cost (in ₹) (7)=(2)*(6)
1	Tractor(Com)	250.00	PPC/Raxual	Trideo Rice Mill	NA	1560	3,90,000.00
2	SFC/407 (Medium Goods Vehicle)	130.00	do	do	NA	1560	2,02,800.00
		130.00	do	do	NA	1560	2,02,800.00
		120.00	do	do	NA	1560	1,87,200.00
		120.00	do	do	NA	1560	1,87,200.00
		104.00	do	do	NA	1560	1,62,240.00
		200.00	do	do	NA	1560	3,12,000.00
		200.00	do	do	NA	1560	3,12,000.00
		230.00	do	do	NA	1560	3,58,800.00
		224.00	do	do	NA	1560	3,49,440.00
		190.00	do	do	NA	1560	2,96,400.00
		180.00	do	do	NA	1560	2,80,800.00
		196.00	do	do	NA	1560	3,05,760.00
3.	Saloon (LMG)	200.00	do	Vikash Rice Mill, Raxaul	NA	1560	3,12,000.00
4.	Tractor	140.80	Base Godown	S.K.Rice Mill,Kolharwa	NA	1560	2,19,648.00
5.	Delivery Van	200.00	do	Jai Ambe Rice Mill,Chhapwa	NA	1560	3,12,000.00
6.	Trailer	160.00	do	PPC,Chhauradano	NA	1560	2,49,600.00
7.	Pick-up	240.00	do	do	NA	1560	3,74,400.00

8.	Pick-up	140.00	do	Shakil Rice Mill, Ramgharwa	NA	1560	2,18,400.00
	Pick-up	132.80	do	do	NA	1560	2,07,168.00
	Pick-up	142.00	do	Baba Baikunth Nath Rice mill Chhauradano	NA	1560	2,21,520.00
	Pick-up	142.00	do	do	NA	1560	2,21,520.00
	Pick-up	144.00	do	do	NA	1560	2,24,640.00
	Pick-up	114.00	do	do	NA	1560	1,77,840.00
	Pick-up	98.00	do	do	NA	1560	1,52,880.00
	Pick-up	100.00	do	do	NA	1560	1,56,000.00
9.	Pick-up	200.00	do	S.K. Rice Mill, Kolharwa	NA	1560	3,12,000.00
	Total	**4,427.60**					**69,07,056.00**

District-Ara (2013-14)

Sl. No	Type of vehicle (1)	Quantity of paddy/CMR transported (in Quintal) (2)	From (3)	To (4)	Cost of Transportation including Handling Charge (in ₹) (5)	MSP/Cost price per Quintal (6)	Total cost (in ₹) (7)=(2)*(6)
1	Light Goods Vehicle-407 Model	80.00	B.S.ARA	Maa Tara Mordern Rice Mill,Acona	Not Available	1560	1,24,800.00
		80.00	do	do	Not Available	1560	1,24,800.00
		80.00	do	do	Not Available	1560	1,24,800.00
		80.00	do	do	Not Available	1560	1,24,800.00
		80.00	do	do	Not Available	1560	1,24,800.00
		80.00	do	do	Not Available	1560	1,24,800.00
		80.00	do	do	Not Available	1560	1,24,800.00
		80.00	do	do	Not Available	1560	1,24,800.00
	Total	**640.00**					**9,98,400.00**

Annexure-VI (Contd…)

Means of transport other than trucks used for movement of paddy/rice District-Nalanda, Bihar (2013-14)

Sl. No	Type of vehicle (1)	Quantity of paddy/CMR transported (in Quintal) (2)	From (3)	To (4)	Cost of Transportation including Handling Charge (in ₹) (5)	MSP/ Cost price per Quintal (6)	Total cost (in ₹) (7)=(2)*(6)
1.	Auto Rickshaw	150.20	Base Godown	Maa Gayatri Rice Mill,Harnaut	Not Available	1560	2,34,312.00
2.	Jeep	149.30	do	do	Not Available	1560	2,32,908.00
Total		**299.50**					**4,67,220.00**
Grand total (Patna+Motihari+Ara+ Nalanda)		**6332.45**					**1,01,68,290**

Annexure-VI (Contd…)

Means of transport other than trucks used for movement of paddy/rice - Chhattisgarh State

Market-ing Season	Name of the district	Name of the miller	Date of issue of Release order	Supply of paddy		Rate of paddy (Amount per quintal in ₹)	Value (Amount in ₹)	Name of *mandi*/go down from where paddy is released	Transportation vehicle no. (from godown/ *mandi* to mill)
				Date	Qty (in Quintal				
1	2	3	4	5	6	7	8(6*7)		
2009-10	Jaanjgir-Champa	Bhagwati Rice Mill(MA542909)	13/03/2010	18/03/2010	142.23	950	135119	Akaltara	CG10G0363 Mini Bus
2009-10	Jaanjgir-Champa	Bhagwati Rice Mill(MA542909)	13/03/2010	18/03/2010	14.40	950	13680	Akaltara	CG10G0363 Mini Bus
2009-10	Jaanjgir-Champa	Tirupati Rice Industries (MA542755)	17/03/2010	18/03/2010	20.48	950	19456	Akaltara	CG10G0363 Mini Bus
2012-13	Raipur	Balaji Enterprises (MA441248)	20/07/2013	23/07/2013	37.84	1250	47300	Abhanpur	CG 04 B 7957 Light Motor Vehicle-Car
2011-12	Rajnandgaon	Annapurna Industries (MA421471)	08-03-2012	08-04-2012	167.92	1080	181354	Thelkadih	CG08A3282 Motor Cycle
2012-13	Raipur	Agrasen Industries (MA441569)	30/04/2013	05-03-2013	166.56	1250	208200	Lakholi	CG 04 JB 1556 Light Goods Vehicle
Total					**549.43**		**605109**		

Annexure-VII
(Refer to Para 4.5.2)

District-wise deficiencies in selection of millers

Sl. No.	Name of the State (s)	Selected Districts	Period	Remarks
State Government/SGAs				
1.	Odisha	3(Kalahandi, Bhadrak, Bargarh)	KMS 2009-10 to 2013-14	In 14 cases, millers failed to deliver prescribed percentage of CMR (6523.45 MT) due for KMS 2009-10 to 2013-14 yet were selected for milling in subsequent years.
				In all the cases, financial position of the millers were not considered while selecting the millers for KMS 2009-14.
				In seven cases, clearance from State Pollution Control Board and land documents with registration details were not obtained from millers before executing agreement with millers.
				The miller code was not available for 13 out of 24 millers for KMS 2012-13 in Sonepur district for ascertaining the PAN/ TIN registration of the millers.
				In Bolangir district, information about electricity connection was not available (seven cases); permission not obtained from Pollution Control Board (18 cases); period of validity expired in 36 cases; Boiler Certificates not available in 11 cases; No registration certificate were issued by the District Industries Centre in 15 cases out of 41 cases.
2.	Andhra Pradesh		KMS 2009-10 to 2013-14	Agreement with the rice millers were not concluded for the KMS 2009-10 and 2010-11 in West Godavari District, for KMS 2010-11 and 2011-12 in Krishna district and for KMS 2009-10 to 2013-14 in East Godavari District.
3.	Telangana		KMS 2009-10 to 2013-14	District managers of the Civil Supplies Corporation did not enter into an agreement with the rice mills in Nizamabad and Nalgonda districts.
FCI Regions				
4.	Bihar region			No transparency in the selection procedure of the rice millers as no Expression of Interest (EOI)/ Request for Proposal were invited from the prospective rice millers through advertisements in newspapers for milling of FCI procured paddy.
				No physical verification of the rice mills engaged in milling of FCI paddy was conducted to ascertain whether actual milling of the paddy was carried out or the rice was supplied through other means.
				During KMS 2010-11, no tagging of the concerned rice mills with the Paddy Procurement Centers (PPCs).
				For KMS 2009-10, no milling agreements were furnished, except for revenue district Rohtas.
				In case of FCI, Area office, Gaya, no committee was constituted for selection of rice millers interested in milling of FCI procured paddy.

Annexure-VIII

(Refer to para 5.1.1)

Total excess realisation on sale of by-products by the millers

Year/State	Districts	CMR Procurement (MT)	Levy Rice Procurement (MT)	Milling Cost per MT (in ₹)	Realisation from by product per MT (in ₹)	Excess Realisation per MT (in ₹)	Total Excess Realisation (in ₹)
1	2	3	4	5	6	(7)= (6)- (5)	(8) = [(3)+(4)]X7
2009-10							
Andhra Pradesh	West Godavari	1322.71	3294114.00	1050.00	1551.79	501.79	1653617186.71
	East Godavari	NA	2275023.00	310.00	1997.60	1687.6	3839328814.80
		1322.708	5569137.00	**680.00**	**1774.70**	**1094.695**	
Uttar Pradesh	Kushinagar	35796.23	11229.48	937.50	548.43	-389.07	-18296292.99
	Deoria	33518.10	14644.47	358.20	383.89	25.69	1237296.42
	Gorakhpur	45925.62	16532.76	651.20	464.50	-186.70	-11660979.55
	Mahrajganj	49522.79	33593.04	500.50	602.50	102.00	8477814.66
	Basti	46734.27	0.00	916.70	846.67	-70.03	-3272800.93
	Mirzapur	19571.19	44286.95	644.47	390.30	-254.17	-16230823.44
	Pilibhit	95053.49	44199.12	700.00	847.47	147.47	20535582.40
	Sahajehanpur	89850.00	21708.81	809.72	902.11	92.39	10306918.46
	Ghazipur	28887.46	106199.75	733.33	575.50	-157.83	-21320814.35
		444859.15	292394.38	**694.62**	**617.93**	**-76.69**	
Chhattisgarh	Durg	639314.35	NA	350.00	1253.84	903.84	577837882.10
	Rajnandgaon	182148.06	NA	350.00	1043.30	693.30	126283250.00
		821462.41		**350.00**	**1148.57**	**798.57**	

Year/State	Districts	CMR Procurement (MT)	Levy Rice Procurement (MT)	Milling Cost per MT (in ₹)	Realisation from by product per MT (in ₹)	Excess Realisation per MT (in ₹)	Total Excess Realisation (in ₹)
2010-11							
Andhra Pradesh	**West Godavari**	168016.70	3913340.00	1150.00	2064.85	914.85	3733829177.00
	East Godavari	9308.12	2352082.00	350.00	2275.60	1925.60	4547092815.07
		177324.822	6265422.000	**750.00**	**2170.23**	**1420.23**	
Uttar Pradesh	**Kushinagar**	44974.34	10791.06	1012.50	601.00	-411.50	-22947462.10
	Deoria	56545.68	12228.70	472.70	529.68	56.98	3918764.172
	Gorakhpur	54621.32	17816.50	749.30	491.80	-257.50	-18652738.65
	Mahrajganj	57999.09	27978.22	703.30	662.17	-41.13	-3536246.76
	Basti	46870.22	16887.59	933.33	1013.33	80.00	5100624.80
	Mirzapur	39387.36	28564.66	808.30	391.20	-417.10	-28342787.54
	Pilibhit	67082.08	16821.24	700.00	1031.35	331.35	27801365.08
	Sahajehanpur	87833.00	21708.81	792.10	1201.80	409.70	44879279.56
	Amethi	26268.70	19434.20	617.50	926.00	308.50	14099344.65
	Ghazipur	38524.76	159278.64	1015.91	713.64	-302.27	-59790033.72
		520106.55	331509.61	**780.49**	**756.20**	**-24.30**	
Chhattisgarh	**Durg**	795368.35	NA	400.00	1221.47	821.47	653371238.47
	Rajnandgaon	318544.01	NA	400.00	1112.90	712.90	227090024.73
		1113912.36		**400.00**	**1167.18**	**767.18**	

Year/State	Districts	CMR Procurement (MT)	Levy Rice Procurement (MT)	Milling Cost per MT (in ₹)	Realisation from by product per MT (in ₹)	Excess Realisation per MT (in ₹)	Total Excess Realisation (in ₹)
2011-12							
Andhra Pradesh	**West Godavari**	13477.56	3318481.00	1260.00	2095.08	835.08	2782451954.28
	East Godavari	5350.57	1636144.00	530.00	2091.97	1561.97	2563965273.50
		18828.125	4954625.00	**895.00**	**2093.53**	**1198.53**	
Telangana	**Nizamabad**	292036.59	1398270.63	1150.00	1555.00	405.00	684574424.10
		292036.59	1398270.63				
Uttar Pradesh	**Kushinagar**	65165.08	6444.04	1212.50	664.71	-547.79	-39226759.85
	Deoria	76924.21	15109.10	461.90	565.02	103.12	9490474.93
	Gorakhpur	85065.61	21750.91	811.30	533.80	-277.50	-29641584.30
	Mahrajganj	92966.85	36657.27	754.30	764.43	10.13	1313092.34
	Basti	62596.08	19018.34	933.30	926.67	-6.63	-541375.65
	Mirzapur	66952.36	54792.86	775.50	375.50	-400.00	-48698088
	Pilibhit	80527.19	42875.07	700.00	1049.35	349.35	43110579.53
	Sahajehanpur	95804.00	36285.06	718.60	1151.70	433.10	57207771.89
	Amethi	60704.77	18612.65	723.00	1117.50	394.50	31290722.19
	Ghazipur	66003.85	157020.47	1155.30	896.67	-258.63	-57680779.88
		752710.00	408565.76	**824.57**	**804.53**	**-20.04**	
Chhattisgarh	**Durg**	1009920.10	NA	450.00	974.80	524.80	530006068.48
	Rajnandgaon	392527.16	NA	450.00	1215.90	765.90	300636551.84
		1402447.26		**450.00**	**1095.35**	**645.35**	

Year/State	Districts	CMR Procurement (MT)	Levy Rice Procurement (MT)	Milling Cost per MT (in ₹)	Realisation from by product per MT (in ₹)	Excess Realisation per MT (in ₹)	Total Excess Realisation (in ₹)
2012-13							
Andhra Pradesh	**West Godavari**	7442.99	3872027.00	1380.00	2276.26	896.26	3477013773.23
	East Godavari	1463.20	1961845.00	550.00	1877.50	1327.5	2606291635.50
		8906.185	5833872.000	**965.00**	**2076.88**	**1111.88**	
Telangana	**Nizamabad**	124525.36	1175440.00	1220.00	1788.00	568.00	738380324.48
		124525.36	1175440.00				
Uttar Pradesh	**Kushinagar**	50189.56	2540.29	1327.50	629.83	-697.67	-36788034.45
	Deoria	44663.95	6534.39	714.90	662.48	-52.43	-2683816.98
	Gorakhpur	54010.01	5450.23	952.70	584.00	-368.70	-21922990.49
	Mahrajganj	55034.67	9421.05	819.90	834.47	14.57	939119.84
	Basti	34829.81	2578.25	933.30	930.00	-3.30	-123446.60
	Mirzapur	52569.20	52305.70	807.20	471.67	-335.53	-35188675.20
	Pilibhit	37139.21	28534.50	700.00	1319.57	619.57	40689460.51
	Sahajehanpur	85766.52	18045.09	753.90	1510.19	756.29	78511682.53
	Amethi	47779.16	5406.51	813.33	1265.21	451.88	24033540.56
	Ghazipur	47178.11	124040.60	1300.00	1069.30	-230.70	-39500156.40
		509160.21	254856.61	**912.27**	**927.67**	**15.40**	
Chhattisgarh	**Durg**	347900.23	NA	450.00	1582.73	1132.73	394077027.53
	Rajnandgaon	444609.39	NA	450.00	1343.40	893.40	397214029.03
		792509.62		**450.00**	**1463.06**	**1013.06**	

Year/State	Districts	CMR Procurement (MT)	Levy Rice Procurement (MT)	Milling Cost per MT (in ₹)	Realisation from by product per MT (in ₹)	Excess Realisation per MT (in ₹)	Total Excess Realisation (in ₹)
2013-14							
Andhra Pradesh	**West Godavari**	2617.20	1867658.00	1520.00	2482.23	962.23	1799634905.69
	East Godavari	192.320	2046697.00	570.00	2796.47	2226.47	4557337664.30
		2809.515	3914355.000	**1045.00**	**2639.35**	**1594.35**	
Telangana	**Nizamabad**	326511.09	685958.62	1470.00	1901.00	431.00	436374445.01
		326511.09	685958.62	**1470.00**	**1901.00**	**431.00**	
Uttar Pradesh	**Kushinagar**	3224.94	212.20	1350.00	696.83	-653.17	-2245036.73
	Deoria	11633.97	1386.00	826.60	601.91	-224.69	-2925457.06
	Gorakhpur	12084.06	3165.33	1028.30	620.30	-408.00	-6221751.12
	Mahrajganj	15239.64	924.23	896.70	894.00	-2.70	-43642.45
	Basti	2121.27	0.00	933.30	1016.67	83.37	176850.28
	Mirzapur	13438.25	28245.58	791.70	468.50	-323.20	-13472213.86
	Sahajehanpur	18833.28	10708.40	841.70	1306.00	464.30	13716202.02
	Amethi	26214.85	3046.82	934.67	1357.89	423.22	12384123.98
	Ghazipur	4866.39	52381.67	1383.33	1265.00	-118.33	-6774162.94
		107656.64	100070.23	**998.48**	**914.12**	**-84.36**	
Chhattisgarh	**Durg**	397921.00	NA	**500.00**	1471.85	971.85	386719523.85
	Rajnandgaon	510795.53	NA	**500.00**	1508.90	1008.90	515341610.22
		908716.53		**500.00**	**1490.38**	**990.38**	
		15742893.70	**62368953.68**			**Total Excess Realisation**	37429961259.00

Glossary

Sl. No.	Term used in Report	Description
	A	
1.	AGM	Assistant General Manager
2.	APL	Above Poverty Line
3.	APSCSC	Andhra Pradesh State Civil Supplies Corporation
	B	
4.	BPL	Below Poverty Line
5.	BSFC	Bihar State Food & Civil Supplies Corporation
	C	
6.	C&AG	Comptroller and Auditor General of India
7.	C&M	Custody and Maintenance Charges
8.	CACP	Commission on Agricultural Costs and Prices
9.	CAP	Covered and Plinth
10.	CCEA	Cabinet Committee on Economic Affairs
11.	CFTRI	Central Food and Technological Research Institute
12.	CGAL	Central Grain Analysis Laboratory
13.	CGSCSC	Chattisgarh State Civil Supplies Corporation
14.	CIP	Central Issue Price
15.	CMD	Chairman & Managing Director
16.	CMR	Custom Milled Rice
17.	CoS	Committee of Secretaries
18.	CSC	Civil Supplies Corporation
19.	CTD	Commercial Tax Department
20.	CTR	Contaminants, Toxins and Residues
21.	CWC	Central Warehousing Corporation
	D	
22.	DC	District Collector
23.	DCP	Decentralised Procurement
24.	DFMO	District Food & Marketing Officer
25.	DGFS	Director General of Food and Supplies
26.	DGM	Deputy General Manager
27.	DGS&D	Director General of Supplies and Disposals
28.	DMC	District Milling Committees
29.	DM-cum-CSO	District Manager-cum- Civil Supply Officer
30.	DMO	District Marketing Officer
31.	DSO	District Supply Officer
32.	DTF	District Task Force
	E	
33.	EGoM	Empowered Group of Ministers
34.	EOI	Expression of Interest

	F	
35.	FAQ	Fair Average Quality
36.	FBO	Food Business Operator
37.	FCI	Food Corporation of India
38.	FIC	Farmers Identity Card
39.	FIFO	First-In-First-Out
40.	FIR	First Information Report
41.	FOR	Freight on Receipt
42.	FPS	Fair Price Shop
43.	FSD	Food Supplies Department
44.	FSSA	Food Safety and Standards Act
	G	
45.	GA	Godown Assistant
46.	GoAP	Government of Andhra Pradesh
47.	GoB	Government of Bihar
48.	GoI	Government of India
49.	GoM	Group of Ministers
50.	GoP	Government of Punjab
	H	
51.	HAIC	Haryana Agro Industries Corporation
52.	HSWC	Haryana State Warehousing corporation
	I	
53.	IFD	Integrated Finance Division
54.	IICPT	Indian Institute of Crop Processing Technology
55.	IKP	Indira Kranthi Padhakam
56.	IMS	Inter Ministerial Committee
	K	
57.	KMS	Kharif Marketing Season
	L	
58.	LMT	Lakh Metric Tonnes
	M	
59.	MARKFED	Marketing Federation
60.	MLC	Mandi Labour Charges
61.	MOCAF&PD	Ministry of Consumer Affairs, Food & Public Distribution
62.	MSP	Minimum Support Price
63.	MTC	Mandi Transportation Contractor
	N	
64.	NFSA	National Food Security Act
	O	
65.	OSCSC	Odisha State Civil Supplies Corporation
66.	OWS	Other Welfare Schemes
	P	
67.	PACS	Primary Agricultural Cooperative Societies
68.	PAFCL	Punjab Agro Foodgrains Corporation Limited

69.	PAN	Permanent Account Number
70.	PCF	Pradeshik Cooperative Federation
71.	PDR	Public Demand Recovery
72.	PDS	Public Distribution System
73.	PFA	Prevention of Food Adulteration
74.	PI	Procurement Incidentals
75.	PPCs	Paddy Purchase Centres
76.	PSU	Public Sector Undertaking
77.	PSWC	Punjab State Warehousing Corporation
78.	PUNGRAIN	Punjab State Grains Procurement Corporation Limited
79.	PUNSUP	Punjab State Civil Supplies Corporation Limited
80.	PV	Physical Verification
	Q	
81.	QC	Quality Control
	R	
82.	RC	Recovery Certificates
83.	RD	Rural Development
84.	RFC	Regional Food Commissioners
85.	RI	Revenue Inspector
86.	RMS	Rabi Marketing Season
87.	RO	Regional Office
88.	RRC	Rice Receiving Centre
89.	RTGS	Real Time Gross Settlement
	S	
90.	SA	Sales Assistant
91.	SGAs	State Government Agencies
92.	SWC	State Warehousing Corporation
	T	
93.	TA	Technical Assistant
94.	TC	Tariff Commission
95.	TDPS	Targeted Public Distribution System
96.	TIN	Taxpayer Identification Number
	U	
97.	UPUSS	Uttar Pradesh Upbhokta Sahakari Sangh
98.	URS	Under Relaxed Specification
99.	UT	Union Territory
	V	
100.	VAT	Value Added Tax
	Z	
101.	ZO	Zonal Office