सत्यमेव जयते

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

UNION GOVERNMENT

NO. 17 (COMMERCIAL) OF 1995

FOOD CORPORATION OF INDIA

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PREFACE

A reference is invited to the prefatory remarks in Report of the Comptroller and Auditor General of India - Union Government No.1 (Commercial) 1995 where mention was made that reviews of the performance of Companies/Corporations by the Comptroller and Auditor General of India are presented in separate reports.

This report contains a review of some aspects of the working of Food Corporation of India.

OVERVIEW

I. The Food Corporation of India (FCI) was set up in January 1965. Activities of FCI are confined to purchase, storage, movement, distribution and sale of foodgrains and building up buffer stocks. The paid-up capital of FCI stood at Rs.969.98 crores as on 31st March 1994.

(Para 1.1& 1.3)

II. FCI incurred lossess continuously from 1986-87 to1992-93 and earned a small profit of Rs. 9.21 lakhs in 1993-94. The accumulated losses upto 1993-94 were Rs. 22.63 crores.

(Para 1.4)

III. FCI has been signing a Memorandum of Understanding with the Ministry of Food. During 1993-94 FCI failed to achieve targets in respect of sales, transit shortages, stocking at vulnerable places and movement. Overall grading was "very good".

(Para 1.12)

IV. Purchases of foodgrains during 1992-93 and 1993-94 were 18.14 million tonnes and 24.70 million tonnes respectively.

(Para 2.2)

V. There was steep increase in procurement prices and procurement costs over the last four years, but issue prices were not raised proportionately

(Para 2.5)

VI. The subsidy could have been reduced if procurement costs had been held in check and charges paid to State Government on procurement restricted to what were due to them Between the period 1986-87 and 1992-93, payments made to State Governments amounting to Rs.258.26 crores lacked justification and could have been avoided, thereby reducing the subsidy burden on the Government for this period to the same extent. These included payments on interest, establishment charges, storage charges, inefficient use of facilities etc.

(Para 2.6 (i) to (xv))

VII. Total procurement of FCI as a percentage of market arrivals has been low indicating poor utilisation of in-house expertise. The performance of FCI vis-a-vis State Agencies has also been poor.

(Para 2.8 & 2.9)

VIII. FCI procures foodgrains in two seasons but it has not related its storage capacity to the quantities procured. As a result storage capacity has remained under-utilised. Utilisation was less than 50% in respect of 424 godowns out of 1704 as at the end of March ,1994. Open capacities at 52 locations were not utilised at all since March,1991. Cost of idle capacity for the last three years ending 1993-94 was Rs.417.15 crores.

(Para 3.1, 3.7, 3.15 & 3.20)

IX. System of identification of surplus capacity is inadequate. Despite availability of adequate vacant space in the existing godowns, FCI hired/continued to hire capacities and also delayed dehiring of spare capacity.

(Para 3.11 to 3.18)

X. Storage and Transit losses for the 4 years ending 1993-94 amounted to Rs. 813.21 crores, excluding losses on account of deterioration in quality during storage.

(Para 4.1)

XI. Storage losses in excess of norms fixed by FCI in 401 depots totalled Rs.46.18 crores.

(Para 4.7)

XII. Delays in obtaining approvals for disposal of substandard stock and delay in actual disposal thereafter, resulted in loss of Rs.32.42 crores from 1990-91 to 1992-93.

(Para 4.14)

XIII. Number of depots showing transit losses above the norms fixed by FCI has been on the increase but FCI has not taken adequate action to contain this problem. The losses on this account during the two years ending 31st March 1993 amounted to Rs.169.06 crores for rice and wheat.

(Para 5.5)

XIV. Transit losses incurred during movement of foodgrains from one region to another amounted to Rs.16.26 crores in 8 cases during the last 4 years ending 31st March 1994. Shortages of foodgrains worth Rs.1.52 crores were noticed while handling imports during 1992. Similarly, transit losses in riverine movement at Pandu Port amounted to Rs.1.05 crore during 1987 to 1991.

(Para 5.6, 5.7 & 5.8)

XV. Unregularised shortages stood at Rs.774.04 crores as on 31.3.1994. Delay in regularisation of shortages caused delay in recovering the same from Government of India resulting in a loss of interest amounting to Rs.119.98 crores per annum.

(Para 5.11)

XVI. There has been delay of 6 months to 7 years in construction and completion of godowns at 27 places.

(Para 6.5)

XVII. Capacities of 2.59 lakh MTs already completed remained to be taken over till 31st March 1994. This includes capacities completed as far back as 1985-86.

(Para 6.6)

XVIII. Actual cost of construction per tonne of capacity completed during the VIII Plan period has been more than the estimated cost of construction for VIII Plan.

(Para 6.7)

XIX. At number of places, FCI acquired land for construction of godowns but no construction programme was put through. In 9 cases land was purchased for Rs.1.65 crores but due to non-construction of godowns, FCI lost Rs.3.90 crores by way of rent and loss of interest on blocked capital.

(Para 6.11)

XX. 124 railway sidings constructed at a cost of Rs.105.20 crores are maintained by FCI. Out of these, five sidings remained inoperative, two were not put to use and 22 were marginally utilised between January 1991 and July 1994.

(Para 7.1 & 7.4)

XXI. Deposits of Rs.12.47 crores were lying with Railways for the last 6 years for want of final decision about locations for construction of railway sidings.

(Para 7.12)

XXII. Expenditure on account of demurrage paid by FCI to Railways has gone up from Rs.9.89 in 1989-90 to Rs.21.05 in 1993-94 per MT. Rs.123.72 crores were paid as demurrage during the last 5 years ending 31st March 1994.

(Para 8.2 & 8.3)

XXIII. In distribution of levy and imported sugar in 13 States and 2 Union Territories, FCI recorded a net deficit of Rs.475.80 crores during the last 5 years ending 31st March 1994.

(Para 9.1 &9.2)

XXIV. As per FCI norms, no losses are permissible for sugar. Yet losses amounting to Rs.11.12 crores were admitted by FCI during the last 4 years ending 31st March 1994.

(Para 9.5)

XXV. As compared to CWC and SWC, the storage charges of FCI per quintal are higher indicating scope for reduction in storage charges incurred by FCI.

(Para 9.11)

XXVI. FCI had set up 25 Modern Rice Mills by 1977 at a cost of Rs.4.83 crores to popularise modern milling techniques and for higher outturn of rice by 8 to 10%. The operating capacity of the mills was scaled down from 3 to 4 MTs per hour to 1.2. to 1.9 MTs per hour in respect of the mills located in the Eastern region.

(Para 11.1 & 11.2)

XXVII. Till October 1995, FCI has sold machinery of 9 mills out of 13 mills identified for disposal. The average capacity utilisation of the remaining twelve mills was only 4.4% in 1993-94. The average cost of milling was Rs. 2703.33 per MT as against the rate of Rs. 90 per MT paid by FCI to private millers.

(Para 11.4, 11.5 & 11.8)

XXVIII. Keeping in view their performance, FCI decided to dispose off machinery of all the remaining mills. However, no action has been taken so far. In the meanwhile, FCI has been paid Rs.15.21 crores as subsidy on these mills by the GOI during the last ten years.

(Para 11.13)

XXIX. Consumer subsidy which was Rs.7 crores in 1970-71 has gone upto Rs.3175 crores in 1993-94. In addition, Rs.1245 crores were paid to FCI as carry over charges for maintaing buffer stock in 1993-94.

(Para 12.1 &1.8)

XXX. BICP had determined the normative cost for distribution of wheat and rice. The actual costs incurred by FCI were much more. In 1993-94, as against the norm of Rs. 64 per quintal for wheat and Rs. 70.60 per quintal for rice, FCI incurred and claimed Rs. 117.44 and Rs. 124.45 as per quintal distribution costs for wheat and rice respectively.

(Para 12.14)

1. ORGANISATION AND FUNCTIONS

1.1 The Food Corporation of India (FCI) was set up in January, 1965, by an Act of Parliament to meet the following objectives:-

i) To ensure that the primary producer obtains minimum price that may be announced from time to time and to protect the consumer from the vagaries of speculative trade.

ii) To take up State Trading in foodstuffs on an appreciable scale and build up buffer stocks.

iii) To engage itself primarily in the purchase, storage, movement, distribution and sale of foodgrains and other foodstuffs.

iv) To secure for itself a strategic and commanding position in the foodgrain trade of the country.

FCI acts as a bridge between the producer and the consumer and plays a significant role in public distribution system in the country.

1.2 FCI is managed by a Board of Directors consisting of a full time Chairman, a Managing Director and 10 Directors. The total staff strength of the Corporation which was 2150 at the time of its inception increased to 65931 as at March 31, 1994. The wage bill for the year 1993-94 amounted to Rs. 512.30 crores, the average cost per employee per month being Rs. 6475. In addition, there are 17229 departmental labour whose wages during the year amounted to Rs. 95.42 crores. The organisational set up is given at Annexure-I.

1.3 The paid up capital of FCI has gone up from an initial Rs.4.00 crores to Rs.969.98 crores at the end of March 1994. The Government of India have provided cash equity of Rs.280 crores and soft loan of Rs.1200 crores for partly meeting the fund requirement for buffer stock holdings. Borrowings from the banks stood at Rs.9052.49 crores at the end of March, 1994.

1.4 FCI incurred losses continuously from 1986-87 to 1992-93 and earned a small profit of Rs.9.21 lakhs in 1993-94. The accumulated losses upto 1993-94 were Rs.2263 lakhs.

1.5 FCI procures wheat, paddy and rice for Central Pool in association with State Governments and their agencies. Procurement of paddy and wheat is done under Price Support Scheme. Rice is procured as per levy orders issued by the State Governments. Foodgrains are also imported and exported whenever the situation warrants. With effect from 1.4.1990, FCI has also been made the nodal agency for procurement of coarse grains.

1.6 FCI holds stocks of foodgrains for meeting the commitments under Public Distribution System (PDS) and welfare schemes like Integrated Tribal Development Programme (I.T.D.P.) and Jawahar Rozgar Yojna throughout the country and for maintaining buffer stocks. While four months' requirement of foodgrains for issue under PDS and other welfare schemes are earmarked as operational stocks, the balance is treated as buffer stock.

The Corporation also lifts levy sugar from various sugar mills and moves it to States against allocations made by Central Government for distribution through PDS.

1.7 The procurement and issue prices of the foodgrains are determined by the Government of India from time to time. Procurement rates for levy rice vary from State to State.

1.8 Pooled cost of grain, procurement incidentals, carry over charges paid to State Governments and the Agencies and distribution cost constitute Economic Cost. Difference between 'economic cost' and 'sales realisation' represents 'subsidy'. Subsidy rates per quintal in 1992-93 and 1993-94 were Rs.224.74 and Rs.176.15 for wheat and Rs.142.87 and Rs.164.68 for rice respectively. The total subsidy has grown from Rs.7 Crores per annum in 1970-71 to Rs.3175 Crores in 1993-94.

The subsidy for 1993-94 includes Rs.159 crores on account of grain shortages reimbursable by the Government on regularisation of the shortages. The shortages included loss on account of theft, fire, misappropriation and sub-standard purchase of foodgrains. The Government also meets the cost of buffer stock. Expenditure on this account in the last two years was Rs.450.69 crores and Rs.1245.34 crores respectively.

1.9 The quantity of foodgrains moved by the Corporation was 186.60 lakh tonnes in 1991-92; 189.00 lakh tonnes in 1992-93 and 191.60 lakh tonnes in 1993-94. The Corporation generally undertakes transportation of stocks from surplus to deficit states. While bulk of the movement is done through railways, stocks are also moved by road and river wherever necessary. Total transportation cost rose from Rs. 696.89 crores in 1991-92 to Rs. 1027.43 crores in 1993-94.

1.10 Value of foodgrains shortages during movement and storage in godowns (including open storage) was Rs.219.70 crores in 1991-92, Rs.223.33 crores in 1992-93 and Rs.214.20 crores in 1993-94. The Corporation also suffered loss due to damage/deterioration of foodgrains to the extent of Rs.22 lakhs in 1991-92 and Rs.724 lakhs in 1993-94. There was, however, a gain of Rs. 102 lakhs in 1992-93.

1.11 In order to stabilize the market prices and to augment the availability of stocks in the market the Corporation resorts to open sale as and when directed by the Central Government. Releases under open sale scheme made during the last three years were 10.15 lakh tonnes, 0.50 lakh tonnes and 29.79 lakh tonnes respectively. The open sale in 1993-94 resulted in a reduction of subsidy to the extent of approximately Rs.160 crores.

1.12 Based on the targets laid down in the Memorandum of Understanding (MOU) signed by the Corporation with the Ministry of Food for the year 1993-94, the overall performance has been graded as 'very good', as per criteria laid down by the Department of Public Enterprises. However, FCI failed to achieve the targets set in the MOU in respect of sales, transit shortages, stacking at vulnerable places, and movement of stocks by rail/road.

1.13 This review discusses matters relating to procurement, storage and transit losses, storage and construction management, efficiency of railway sidings, payment of demurrage, efficiency of sugar distribution, efficiency of modern rice mills and effectiveness of internal audit. The period covered is upto 1993-94.

2. PROCUREMENT OF FOODGRAINS

2.1 Food security involves managing the food economy in situations of scarcities and shortages. It is the ability to meet the target consumption levels on a year to year basis. This in turn is dependent on efficient procurement from primary producers, maintenance of buffer stocks and managing the public distribution system (PDS). The Public Distribution System caters to consumption patterns of vulnerable sections of society.

2.2 In the last 4 years FCI procured the following quantities during Rabi and Kharif seasons and maintained buffer stocks:

(figures in lakh tonnes)

Year	Rabi	Kharif	Year end Buffer Stock
1990-91	102.16	118.16	74.95
1991-92	84.94	93.80	55.80
1992-93	66.85	114.51	43.48
1993-94	115.29	131.75	106.29

2.3 To achieve the intended procurement levels, Government of India determines the procurement price for wheat and different varieties of rice. The procurement prices between 1990-91 and 1993-94 were as under:

(Rs.per qtl)

	1990-91	1991-92	1992-93	1993-94
Wheat	215	225	275	330
Paddy	225	250	290	350
Rice	393.80	444.80	514.10	620.90

2.4 The procurement costs (exclusive of procurement price) include direct charges, establishment, storage and interest charges reimbursed to the State Governments and agencies for procurement made by them on behalf of FCI. A summary of the procurement costs for wheat, paddy and rice from 1990-91 is given below:-

(Rs.per qtl)

	1990-91	1991-92	1992-93	1993-94
Wheat	**54.50**	**68.95**	**73.05**	**73.04**
Paddy	**43.86**	**55.03**	**49.36**	**71.97**
Rice	**23.66**	**26.33**	**27.07**	**30.85**

2.5 The procurement prices for wheat, paddy and rice have increased by 53%, 56% and 58% respectively over the last four years and the procurement costs (exclusive of procurement price) by 34% in case of wheat, 64% in case of paddy and 30% in respect of rice. Since the issue prices were not raised proportionately upto1992-93 this led to increasing subsidy, however, in the year 1993-94 the increase in issue prices resulted in reduction in subsidy.

The Ministry stated (February 1995) that the procurement costs increased due to steep increase in diesel/petrol prices and increasing interest rates, apart from general inflation.

2.6 The subsidy could have been reduced if controllable costs had been held in check and charges paid to State Governments restricted to what were due.

The Ministry stated (February 1995) that

a) in Punjab and Haryana where maximum procurement is made, the major share of procurement is by the State Government and their agencies because FCI's infrastructure cannot take the entire load,

b) Government of India had reviewed the incidental charges incurred by FCI as well as the State Governments, and

c) due weightage is also given by the Government to ensure that actual expenses are reimbursed to the State Government/agencies so that the procurement operations do not suffer.

However, there are areas where there is substantial scope for controlling costs as brought out below:

i) FCI reimburses to the State Governments and its agencies, the expenditure on procurement which includes cost of grains, mandi charges, purchase tax, mandi labour charges, cost of internal movement, storage charges, forwarding charges and establishment charges. FCI also reimburses interest calculated on all the above, except the forwarding charges and establishment charges, for the average period of storage plus 15 days to cover advance hiring of godowns. Interest for the extra 15 days is justified only on storage charges because these alone are locked up for this period. The consequent excess payments to Punjab Government amounted to Rs.1782 lakhs between 1988-89 and 1991-92 and Rs.481 lakhs during 1992-93.

Similar overpayment to Haryana Government amounted to Rs. 289 lakhs and Rs. 303 lakhs in 1990-91 and 1991-92 respectively.

The Ministry stated (January 1995) that extra interest for 15 days was allowed to enable prepositioning of funds. It however agreed that in future interest/storage charges would be reduced to actuals.

ii) In case of procurement of wheat from Punjab, FCI worked out the average storage period as 87 days instead of 67 days by wrongly including those quantities which were despatched from state godowns. Consequently, FCI made an excess payment of Rs.1112.72 lakhs comprising excess storage charges of Rs.248.85 lakhs and excess interest charges of Rs.863.87 lakhs to the Punjab Government.

The Ministry replied (February 1995) that the storage charges had been correctly worked out and therefore no excess payment had been made.However, it was seen in audit that for working out the average storage period the State Government had not shown any quantities as handed over to FCI during the procurement period i.e. April to June 1991, although considerable quantities were shown by FCI as having been taken over during the same period as per the MIS reports.

iii) The State Government and agencies in Punjab had procured 12.48 lakh MTs of wheat in April, 22.39 lakh MTs in May and 0.68 lakh MTs in June 1991. Out of this only 4.91 lakh MTs, 3.79 lakh MTs and 1.31 lakh Mts respectively were taken over by FCI during these months though it had adequate storage capacity of its own of 22.18 lakh MT. Had the FCI utilised the available storage capacity by taking over the requisite quantities during April, May and June there would have been an additional saving of Rs.1606.86 lakhs in incidental charges. Similarly FCI could have also avoided payment of carry-over charges amounting to Rs.5256.84 lakhs if the monthly despatches from Punjab had been effectively monitored to match the available storage capacity in other parts of the country. In all avoidable payment thus made to Punjab Government during Rabi season of 1991 amounted to Rs.6863.70 lakhs.

In the case of Haryana also FCI had made an avoidable payment of Rs.49.07 crores in 1991-92 and Rs.30.06 crores in 1992-93 on account of carry-over charges. FCI had projected surplus storage capacity at 5.14 lakh MTs in June 1991 and 9.87 lakh MTs in June 1992. The surplus capacity ranged between 7.16 lakh MTs to 11.81 lakh MTs during July 1991 to March 1993. With this capacity FCI could have stored 11.34 lakh MTs of grains in 1991-92 and 6.70 lakh MTs in 1992-93 in their own godowns and avoided the payment of Rs.79.13 crores as carry over charges.

The Ministry replied that the haulage to available storage capacities would have meant longer distances. Also it would have affected kharif storage. It further stated that there were other operational problems like industrial relations,truck availability, mandi operations etc. If these were true, FCI did not offer reasons for owning/hiring these storage capacities.

iv) During 1990-91 Punjab Government claimed interest charges on monthly basis. FCI adopted a year of 360 days as against 365 for calculation of interest. This inflated the rate per quintal towards interest charges as a result of which Rs.46.57 lakhs were paid extra on a procurement of 42.34 lakhs MTs of wheat.

The Ministry stated that interest reimbursement to State Governments would be on actuals in future.

v) The price at which custom milled rice is to be taken over is finalised by the Ministry in consultation with FCI. The price so fixed includes inter-alia interest on paddy price and milling cost. Since rice is taken delivery of immediately on milling, payment of interest on milling charges is not justified. Such overpayment in the last 6 years upto 1991-92 amounted to Rs.217 lakhs. Conceding this, the Ministry excluded the above interest on custom milling while issuing sanction for 1992-93 in March 1994. No recovery was made in respect of earlier years.

vi) During 1986-87 and 1987-88, Punjab Government had claimed storage charges and establishment charges in respect of custom milled rice procured under Price Support Scheme. The claim was opposed by FCI on the ground that foodgrains were delivered ex-mandi and so no storage charge was payable. However, an adhoc amount of Rs.1.79 per quintal for 5 months was allowed to Punjab Government for watch and ward expenses in 1986-87 and 1987-88 over and above the establishment charges. This amount was revised to Rs.4.50 per quintal. in 1988-89. This jump meant payment of Rs.340 lakhs towards watch and ward expenses only for the last three years. In 1991-92, no such payment was made. In the sanction for 1992-93, Government of India had allowed instead of storage charges, custody and maintenance charges @ Rs.5 per quintal for 5 months period which amounted to Rs.815 lakhs.

According to the Ministry (January 1995) the State Government was incurring expenditure for the maintenance and custody of the paddy kept in the rice mills by providing platforms, wooden crates, polythene covers, security staff etc. The Ministry also attributed this to the law and order situation that prevailed in Punjab during the relevant period. The reply is not tenable because the State Government was compensated @ Rs.0.90 per quintal per month till 1991-92 which was increased to Re.1 per quintal per month from 1992-93 which was the rate charged by Central Warehousing Corporation for covered storage. In the instant case the millers were storing the paddy in the open for which the rate charged by C.W.C. was Re.0.60 per quintal per month Further, the State Government was allowed these charges for a period of 5 months, whereas period of storage required before conversion of paddy into rice is only about 2-3 months and no such charges are being paid in return for custody of paddy to the Millers by the State Government.

vii) 2.3 bags of paddy are required to deliver one quintal of rice at 67% outturn ratio per standard bag of 65 kg. While one gunny bag is received back with the rice, 40% of the cost of the remaining 1.3 gunny bags is borne by Government of India and 60% by the Millers. It was however, observed that against the intended reimbursement of 40% cost, actual payment was at 46%. In addition, the interest element on the cost of gunny bags also increased proportionately. The total unintended extra payment to Punjab Government and its agencies amounted to Rs.374.08 lakhs during 1986-87 to 1991-92.

The Ministry stated (February 1995) that with effect from kharif 1992-93 the 40:60 ratio had been implemented in the case of Punjab Region. It was silent regarding the extension of the principle to other states.

viii) In 1988-89, FCI received 25859 MTs of superfine rice from three millers. The entire quantity was found as 'Beyond Rejection Limit' and could not be accepted at all. But only 5111.4 MTs thereof was replaced by millers. The quantity of 20000.4 MTs could be disposed of by June 1994 and Rs.659 lakhs were realised. 747.20 MTs was treated as storage loss. The loss of FCI on this deal was Rs.1057 lakhs.

The Ministry stated (January 1995) that responsibility had been fixed and deterrent punishment given to avoid recurrences of such failures.

ix) Incidental charges paid to the Punjab Government for procurement of wheat are calculated on the basis of the average storage period of wheat. During 1990-91, the average storage period was calculated as 2.9 months and the incidental charges as Rs.2.90 per qtl. However, at the time of sanction the Ministry rounded off this figure to Rs.3/- per quintal. No reason was adduced for the rounding off. The overpayment amounted to Rs.42.34 lakhs.

The Ministry stated (February 1995) that allowing of Rs.3/- per quintal was the conscious decision of the Government after hearing the views of the State Government/Agencies.

x) A test check in 7 out of 14 Pay Offices in Haryana revealed that only 2-3 days were taken by the procuring agencies for submission of bills and 96% of the payments were made within a period of 3 days of the presentation of the bills. Thus, the time taken for settlement of bills was only 5 days on an average. On the other hand, interest charges are computed on a standard of 10 days. Thus, during 1988-89 to 1990-91 the avoidable payment of interest for 5 days i.e. taking the upper limit of five days for payment of bills, amounted to Rs.183.96 lakhs.

The Ministry agreed (February 1995) that interest element would be calculated on actuals in future.

xi) In calculating the average storage period for the purposes of calculating interest, FCI had adopted a formula which presupposes that the entire quantity procured during a month is procured on the first of the month. Instead, it should have been calculated as though the quantities had been procured only by the middle of the month so as to average the out-flow of funds which takes place on all days of the month. The incorrect method adopted by FCI resulted in overpayment of Rs.2534 lakhs to Punjab and its procuring agencies during the years 1988-89 to 1991-92.

The Ministry stated (February 1995) that reimbursement in future would be calculated on actuals.

xii) The Uttar Pradesh Government claimed "depreciation for dead stock" as one of the elements of procurement incidentals, in addition to rent on dead stock articles. The Government of India specifically stated in its sanction (August 1991) that depreciation on dead stock should be discontinued from 1987-

88 season. However, this item was again allowed by Government of India in the incidentals from 1988-89 onwards. This resulted in extra payment of Rs.45.83 lakhs to the State Government and its agencies for the years 1988-89 and 1989-90.

xiii) Establishment charges were reimbursed to the Haryana Government and its agencies on the basis of data submitted by them. During the year 1990-91, retirement benefits were taken as Rs.64.92 lakhs as against Rs.45.44 lakhs. This mistake led to a wrong per quintal rate, resulting in overpayment of Rs.76.02 lakhs to the State Government and other procuring agencies.

xiv) Seventy percent of the establishment charges incurred by the Punjab Government on procurement of wheat is reimbursed while thirty percent is borne by the State. As per the Finance Accounts of Punjab, the amount reimbursible for 1990-91 to 1991-92 worked out to Rs.773.20 lakhs and Rs.909.85 lakhs respectively, against which Rs.822.73 lakhs and Rs.926.87 lakhs were reimbursed, resulting in Rs.66.55 lakhs being overpaid.

Similar over payment to Markfed, a procurement agency of Punjab for the year 1989-90 and 1990-91 amounted to Rs.1062.39 lakhs.

Since reimbursement to agencies was higher than the rate of procurement cost paid to the Punjab Government, higher reimbursement to the State automatically resulted in still higher rate for them. While the procurement by Punjab Government had declined from 11.38 lakh MTs in 1990-91 to 7.67 lakh MTs in 1993-94, the quantities procured by the agencies increased from 30.96 lakh MTs to 36.18 lakh MTs during the same period. Lower procurement by the State Government pushed up the procurement cost per quintal, which in turn increased the rate payable to the agencies. Resultantly reimbursements to the agencies went up considerably both on account of higher quantities procured and higher rate.

The Ministry stated (February 1995) that future payment towards establishment charges would be regulated on the basis of certificate from the State Accountant General.

xv) 9.95 lakh MTs of wheat were directly delivered from mandis to FCI during 1989-90 to 1992-93. Though, no storage and interest charges were payable on this, still FCI paid Rs.1306 lakhs. Government of India had clarified in October 1993 that in cases of directly delivered foodgrains interest charges were payable only for 15 days. After allowing such interest, the overpayment worked out to Rs.1152 lakhs.

2.7 Apart from the failure to control procurement cost, efficiency in procurement also required improvement. In this context the Committee on Public Undertakings in their XXII Report had recommended that there should be a scientific system of ascertaining the marketable surplus of wheat and rice and the data should be fairly upto-date. The Committee while reiterating its recommendation in their XXXVI Action Taken Report had stressed that the quantum of purchases by the FCI viewed against marketable surplus is one of the indices of performance of the Corporation. It was, however, observed that no action had been taken in this regard, by the Corporation.

2.8 The total procurement by FCI as a percentage of market arrivals has been quite low. The share of FCI which was 21.9% in 1989-90 in Haryana had come down to 6.66% in 1991-92, 9.4% in 1992-93 and 15.6% in 1993-94. In Uttar Pradesh, FCI was able to procure only 7.8%, 1.36% and 3.63% of the market arrivals in 1990-91, 91-92 and 92-93 respectively. In Rajasthan, FCI which had procured 67.8% of the market arrivals in 1990-91 procured 9.4% in 1991-92 and 19.3% in 1992-93. Such performance indicates poor utilisation of the inhouse expertise available to FCI.

2.9 The performance of FCI vis-a-vis state agencies is also poor. Procurement through State agencies means unproductive expenditure on procurement staff available within FCI. Also it means additional expenditure since State agencies are given Rs.1.25 extra per quintal. Extra expenditure on this alone was Rs.1898.26 lakhs during 1989-90 to 1992-93 in the states of Punjab and Haryana.

2.10 The number of purchase centres opeated by FCI and the State Agencies are shown in the table below:

	1990-91		1991-92		1992-93		1993-94	
	FCI	State Agencies	FCI	State Agencies	FCI	State Agencies	FCI	State Agencies
Punjab	**447**	**476**	**432**	**493**	**409**	**501**	**392**	**470**
Haryana	**88**	**197**	**37**	**275**	**95**	**205**	**90**	**210**
U.P.	**350**	**5401**	**350**	**5401**	**480**	**5812**	**339**	**5751**
Rajasthan	**38**	**95**	**34**	**99**	**34**	**103**	**43**	**92**
M.P.	**455**	**166**	**455**	**166**	**426**	**1300**	**15**	**552**

Since the centres operated by FCI procured very little, BICP had recommended that all purchase centres where procurement was less than 1000 MT should be closed. It was seen that in the last three years a minimum of 31 centres operated in Punjab procured less than 1000 MT of wheat and 4 centres procured nothing. In UP the performance was very erratic and at times nearly 79% of the centres had no procurement, while in Madhya Pradesh all the 426 centres had negligible procurement. Similarly, atleast 12 centres procured less than 1000 MT and 8 had no procurement in Rajasthan.

2.11 In the case of paddy, FCI's share was about 20% of market arrivals in Punjab and 1.74% in Haryana during 1992-93. The procurement in UP and Rajasthan was nil. Overall, while the procurement was marginal, FCI had maintained more than half of the available purchase centres in Punjab and nearly 2/3rd of the available centres in Haryana.

The Ministry stated (February 1995) that the purchase centres are to be operated to avoid distress sale. The share of procurement to different agencies is decided by the State Government and FCI has little say in the matter. It further stated that FCI will also review the selection of mandis in future.

2.12 In addition to paddy, rice and wheat, FCI was also engaged in the procurement of coarse grains i.e. Jowar, Maize, Bajra etc. from April, 1990 as the central nodal agency. In the last 5 years, FCI had procured coarse grains as detailed below:-

<u>Quantities in MTs</u>

Year	Purchases	Storage loss
1989-90	1130	12
1990-91	808	26
1991-92	'nil'	29
1992-93	4292	1
1993-94	11804	1

Though the procurement was minimal, the storage losses were heavy upto 1991-92.

The Ministry stated (February 1995) that coarse grains had limited shelf life and further, they had to be purchased under Price Support Scheme even though they were difficult to sell through PDS.

3. STORAGE MANAGEMENT

3.1 FCI procures foodgrains in two seasons but has not related its storage capacity to the quantities proposed to be procured. The purchases made by the Corporation and the storage capacities available in the last four years were as under:

(in lakh tonnes)

Year	Purchases	Storage capacity
1990-91	223.40	221.10
1991-92	181.70	199.20
1992-93	213.10	194.60
1993-94	251.50	236.60

3.2 The storage capacity is in the form of silos, bins, flats, godowns etc. In addition, in times of need, the foodgrains are stored in bags in Covered and Plinth (CAP) storage in the open. Generally, storage in godowns is preferred since it preserves grains better and is free from theft, pests etc. The total storage capacity at the end of the last four years was as given below:-

(in lakh tonnes)

At the end of	Covered capacity	No.of godowns	CAP capacity	Number of plinths	Total capacity	No.of godowns and plinths
1990-91	196.00	1447	25.10	232	221.10	1679
1991-92	182.70	1303	16.50	197	199.20	1500
1992-93	180.10	1276	14.50	190	194.60	1466
1993-94	209.60	1470	27.00	234	236.60	1704

There was a disproportionate increase in the open capacity in 1993-94 as compared to the previous year.

The above storage capacity is both owned and hired. The storage capacity is hired from Central Warehousing Corporation, State Warehousing Corporations and private parties. The distribution between owned and hired storage capacity in the last four years shows increased reliance on hired capacity, as per details below:

Capacity in lakh tonnes

Year	Owned	Hired	Total
1990-91	130.40	90.70	221.10
1991-92	130.70	68.50	199,20
1992-93	132.80	61.80	194.60
1993-94	135.70	100.90	236.60

3.3 Government of India while conveying the decision on the recommendations of the Buffer Stock Committee, laid down 85% as the optimum level of storage utilisation. Subsequently, BICP recommended attaining 75% average capacity utilisation. During the four years ending 31.3.1994, the achievement of FCI was below this level except in 1993-94, as shown below:-

1990-91	**66.00 percent**
1991-92	**58.00 percent**
1992-93	**53.00 percent**
1993-94	**77.00 percent**

Even during peak level, utilisation was poor except in the last two years which was due to bumper crops.

As on	Covered capacity utilisation %	CAP capacity utilisation %
1.7.90	65.20	67.68
1.7.91	66.00	52.00
1.7.92	55.00	32.00
1.7.93	81.70	58.28
1.7.94	89.00	79.00

The Ministry stated (January 1995) that utilisation was dependent upon procurement and off take which were beyond the control of the Corporation.

3.4 A further analysis of the data, in terms of regions, for the period March 91 to March 94 showed an uneven performance. While some states recorded more than 100% utilisation during certain periods, 19 regions/port offices recorded utilisation of even less than 50% for periods ranging from 1 year to 3 1/4 years. Arunachal Pradesh registered not more than 28% utilisation, except in the last quarter of 1993-94 when it was 43%. Such wide variations indicated that storage capacities were established without proper planning.

The Ministry stated (January,1995) that a policy decision on the long-term use of port godowns would depend on the imports to be decided by the Government.

3.5 The storage capacities available in procurement areas were compared with quantities of actual procurement to determine the efficacy of storage management. The capacities available and stocks held in the last four years in Punjab and Haryana indicated that excess capacities had been held and only by June 1994 the gap between capacity and stock was narrowed, as under:-

(In lakh tonnes)

	Punjab		**Haryana**	
	Capacity	**Stock**	**Capacity**	**Stock**
1.7.1991	**58.29**	**42.31**	**15.43**	**8.74**
1.7.1992	**49.48**	**35.40**	**15.41**	**6.64**
1.7.1993	**54.53**	**48.84**	**14.34**	**10.83**
1.7.1994	**69.24**	**64.50**	**16.55**	**13.41**

Despite availability of capacity in excess of requirement, the Corporation chose to store substantial quantities with the State Governments/Agencies on the plea that it was cheaper. In that case, why FCI did not reduce its storage capacity is not clear.

According to the Ministry (January 1995), storage capacities of state agencies are used at procurement points due to mismatch at micro levels, and the foodgrains stored in these are evacuated to FCI godowns later to make space for subsequent procurement.

3.6 Sample data was also studied to see whether storage capacity available in a particular region was related to the allotment of foodgrains made to that region or the actual quantity of foodgrains lifted by that region against the allotment. Normally the regions store 3 to 4 months stock, but the closing stock was always much less than that. The storage capacities available in Assam, Bihar, Orissa and

West Bengal were many times more than the requirement. In the case of North-Eastern States the storage capacity was far less than the allotment and lifting.

3.7 A further analysis at the depot level indicated that as at 31 March 1988, 1096 godowns out of 1768 had recorded less than 50% utilisation. Even, by 31 March 1994, 424 godowns (including Silos/Bins and godowns at ports) out of 1704 recorded capacity utilisation of less than 50%. With proper planning the Corporation would have saved substantial capital outlay in building godowns or on the rent paid for hired godowns with a consequential reduction in the subsidy claimed from the Government.

The Ministry admitted (January 1995) poor utilisation of silos and bins and stated that when these were constructed bulk handling was anticipated, which had not materialised.

3.8 Some instances of poor utilisation of silos and bins are highlighted below;

(i) Silos having capacity of 1.04 lakh MTs at Borivili which were repaired in 1991-92 by incurring an expenditure of Rs.18.91 lakhs had been utilised upto a maximum of 27% till March 1994.

(ii) At Gobindgarh, while FCI owns silo having a capacity of 20000 MTs it hired capacity in the range of 1726 MTs and 10000 MTs in the same place, the Silo had no utilisation from April 1992 to March 1994.

(iii) At Gaya, bins with a capacity of 32000 MTs were constructed at a cost of Rs.48.03 lakhs in June, 1976. There were reports of some leakage and storing commenced only from April 1977. Serious leakages were again reported and the bins were vacated in 1989, which still remain unutilised.

3.9 The godowns at Kosikalan (Uttar Pradesh) with a capacity of 51250 MTs is not being utilised at all except for storing a stock of 750 MTs, (a mere 1.46% of the total capacity). Even while having an existing capacity of 21,250MTs, FCI went in for construction of a further 30,000 MTs capacity in April, 1986. The godowns were constructed by June 1989 at a total cost of Rs.3.07 crores. These godowns hlad not been utilised after being taken over in December 1990, as the existing capacity was found to be more than adequate. In June, 1992 FCI decided to let out the godowns on hire or sell them outright, which has not materialised. Thus, Rs.3.07 crores invested in Kosikalan did not yield any benefit.

FCI also paid (1987) Rs.3.99 lakhs as survey fee to the Railways for constructing a siding at Kosikalan. In 1988 it was estimated that a siding at this centre would cost around Rs.2 crores. This was considered uneconomical by FCI and the proposal was shelved. The Management stated (August 1994) that utilisation of this godown involved expensive road movement of foodgrains. It further stated this godown could not be utilised during 1991 to 1993 as there was overall reduction in the requirement of storage capacity.

Thus a godown has been constructed which can neither be serviced economically by road nor by rail. It was also not utilised in the years of successive bumper crops of 1991 to 1994.

The Minstry stated (January 1995) that the depot has now re-opened for buffer stock. But a long term view regarding the utilisation of this godown will have to be taken after ascertaining the prospect of providing railway facilities.

3.10 FCI took possession of 350.67 acres of land at Kapa, Madhya Pradesh on a monthly rent of Rs.54123/-. The land was to be used for CAP storage. The land belonged to Defence, Railways and Government of Madhya Pradesh and was expected to afford additional storage capacity of 3 lakh MTs. A Committee constituted (August 1993) to study the feasibility of establishing a storage complex at site did not give a favourable decision. Despite this FCI decided to purchase 101.03 acres of land out of 350.67 acres at a cost of Rs.80.69 lakhs. The originally envisaged additional capacity of 3 lakhs tonnes was reviewed several times and construction of different capacities was suggested. Till date no additional storage capacity has been constructed. So far, FCI has paid Rs.79.98 lakhs and has a further liability of Rs.57.40 lakhs.

The Ministry stated (January 1995) that about 240 acres of land belonging to Railways is being returned, and on the remaining, buffer storage of 50000 tonnes would be constructed. The Management did not explain why it took 12 years to arrive at this decision.

3.11 The depot at Brooklyn with capacity of 67000 MTs has been hired from Calcutta Port Trust. Despite the fact that its utilisation was extremely poor, ranging from 0 to 43 percent, and FCI also had its own capacity of 1.72 lakh tonnes at JJP, FCI continued to hire the depot. The loss to FCI on account of injudicious hiring was Rs.180.78 lakhs (April 90 to March 93).

The Ministry, while admitting poor utilisation of the Brooklyn depot, stated (January 1995) that this depot could be utilised only if it has direct Railway link. It also added that it was road-fed from JJP depot which itself was not being fully utilised.

In the light of the reply, the case for de-hiring the Brooklyn depot becomes even stronger.

3.12 In May, 1991 the Corporation informed the Government that it did not have any surplus storage capacity for alternative use by CWC/SWCs. Yet by March, 1992 the number of godowns were brought down to 1500 from 1679 in March 1991. In May 1992 capacity of 4.87 lakh tonnes was offered to CWC for utilisation either on rental or purchase at market value. This revealed that FCI had surplus capacity but the system of identification of surplus capacity was inadequate.

3.13 Apart from poor utilisation, there were instances of utilisation of hired capacity when own capacity was unutilised in respect of covered storage. It was seen that in 5 locations, the capacity was hired without fully utilising owned capacity, resulting in avoidable payment of rent.

Similarly, in respect of CAPs also it was seen that the hired capacity was utilised while owned capacity remained unutilised in 17 locations.

The Ministry stated (January 1995) that owned CAP capacities at these 17 centres could not be utilised because of poor procurement. If that were so, hired capacities should have been surrendered.

3.14 The Corporation hired at Khandwa (Madhya Pradesh) two godowns of 5000 & 2500 MTs capacity constructed under Agriculture Refinancing and Development Corporation (ARDC) scheme from a private party during November 1977 and January 1978 respectively. These godowns were taken on the basis of a Five Year guarantee. Even after the expiry of the guarantee period, the godowns continued to be hired till February 1989 and April 1989 respectively. A base depot of 50,000 MTs capacity and another godown of 40,000 MTs capacity at Khandwa were also taken on hire from CWC in July 1982 and May 1985 respectively. Continued hiring of private godowns beyond the requirement of FCI after 1985, when FCI had base depots, resulted in avoidable payment of rent of Rs. 11.82 lakhs.

3.15 Further in 52 locations, owned open capacity was not utilised at all between March 1991 and March 1994.

The Ministry stated (January 1995) that capacities were not utilised due to little procurement and because of the availability of covered capacity. According to the management there was no wastage of resources in the case of owned CAP capacity. This contention is not tenable because acquisition of land for unutilised CAP means blocking of capital.

3.16 A summary of the un-utilised hired capacity at peak level stocking in the last four years both in respect of covered and open storage capacities is as under:

	As on		**(in lakh tonnes)**	
	01.07.91	**01.07.92**	**01.07.93**	**01.07.94**
Total hired capacity	**90.22**	**64.59**	**87.13**	**120.43**
Totally unutilised	**22.56**	**17.88**	**9.36**	**9.09**
%age of under-utilisation	**25.00**	**27.70**	**10.74**	**7.54**

While the utilisation of hired capacity showed a rising trend and under-utilisation was only 7.54% as on 01.07.1994, it was 17.36% in the case of owned capacity.

There is thus scope for improvement not only in reducing the hired capacity but also in putting to use the owned unutilised capacity.

According to the Ministry (January 1995), the field offices have now been vested with greater powers to hire and dehire.

3.17 It was observed that in the following cases there were delays in dehiring surplus storage capacity resulting in draining of funds :

District	Month from which vacant	Month from which dehired	Month of proposal	Month of sanction	Avoidable rent (Rs. in lakhs)
Saharanpur	4/88	3/91	6/88 & 2/90	2/89 & 5/90	41.07
Hapur	11/87	3/89	4/88 & 5/88	2/89	14.40
Jhansi	8/87	3/89	8/87 & 6/88	2/89	36.30
Siwan	4/87	3/92	9/88	N.A.	11.37
Dogiaparthy	3/89	7/92	3/89	7/92	29.40

The total avoidable expenditure on rent was Rs.132.54 lakhs.

3.18 Instances where the hired capacity was not optimally utilised are detailed below:

(i) Bihar region failed to conduct a review of the requirement of storage capacity in time resulting in avoidable expenditure of Rs.205.90 lakhs on rent of surplus hired capacity for the period 1985-86 to 1990-91.

(ii) In Assam region, FCI had 31060 tonnes of owned capacity and 14180 tonnes of hired capacity from 1977-78. Out of this, the corporation could utilise only upto 50% of its owned capacity during the years 1985-86 to 1990-91. The hired godowns were, therefore, surplus to the needs. These hired godowns also lacked railway siding and stocks had to be moved by trucks at an extra cost. The additional expenditure during October, 1988 to March 1991 for moving 105125 tonnes amounted to Rs.44.31 lakhs. Besides, the avoidable expenditure on rent amounted to Rs. 0.73 lakh per month.

(iii) A private godown of 5000 MT capacity was hired at Choudwar (Orissa) in 1976. Initially the adjoining railway siding belonging to the owner company was utilised for unloading foodgrains which facility was withdrawn in February 1977. This necessitated unloading of foodgrains at a nearby railway station and road transportation to the depot. In January 1987 Railways withdrew the facility of unloading the wagons at the particular railway station. Resultantly the private godown became useless. The Management decided to surrender the depot (June, 1989) after liquidating the residual stock. The value of the residual stock was only Rs.4.21 lakhs and needed reconditioning. The handling and transport contractor could recondition only a part of the stock by which time his contract came to an end by December 1989. The labour belonging to the contractor also demanded alternative employment from the FCI since the godown was to be closed. The issues could not be resolved and ultimately the godown was handed over to the owner (October 1992). By that time Rs.14.38 lakhs had been incurred towards rent and pay and allowances in trying to dispose of the stock valuing Rs.4.21 lakhs.

(iv) Capacities hired at Jalana, Parbhani, Nanded and Aurangabad between October 1990 and February 1991 from Maharashtra State Warehousing Corporation on reservation basis were not utilised resulting in infructuous expenditure of Rs.3.66 lakhs towards rent during that period as no movement of grains was planned by FCI.

(v) Despite availability of capacity in the existing ARDC godown at Jalagaon, 30000 MTs capacity was hired from Maharashtra State Warehousing Corporation from January 1991 to September 1991 resulting in infructuous rental expenditure of Rs.2.39 lakhs.

(vi) In addition to owned capacity of 30,000 MTs at Gondia, 5000 MTs capacity was hired from CWC from January 1992 to July 1993 on reservation basis. It was observed that except for a period of 4 months (February and March 1992 and March and April 1993) for which capacity could be hired on actual basis, adequate vacant space was available with FCI. This resulted in infructuous rental expenditure of Rs.7.37 lakhs.

(vii) Storage capacity of 2243 MT taken on lease from Bombay Port Trust has been lying vacant since August 1989. The Corporation had not surrendered it even after the expiry of lease period in October 1990. Avoidable expenditure of Rs.18.07 lakhs was incurred upto March 1994.

(viii) 20,000 MTs capacity of CWC godown in Thanjavur hired in May 1989 had no utilisation except for storing a few dead stock articles. A capacity of 15,000 MTs was dehired in March 1990 and the balance is still being retained on the plea that there is resistance from the staff to dehiring. The infructuous expenditure on account of rent and salaries paid to staff who remained idle from May 1989 to November 1993 worked out to Rs.156.12 lakhs.

The Ministry admitted (January 1995) that there was poor utilisation of godown and consequently of the labour and added that utilisation had since picked up. It further stated that surplus labour could not be transferred since there was general surplus throughout the region. However, the reply is not tenable as it did not explain why a new godown had to be hired and subsequently major portion surrendered.

3.19 Besides delays in decisions, delays in actual dehiring after the decision to dehire also resulted in infructuous expenditure.

(i) It was decided by FCI (February 1989) that all the hired godowns, excepting the base depots in the revenue districts of North and South 24-Parganas, should be either dehired or handed over to the State Government immediately on its taking over the functions of internal distribution. Though the functions were taken over by the State Government by July 1990, only 7 out of 12 non-base godowns were dehired between January 1991 and March 1995 resulting in an infructuous expenditure of Rs.31.67 lakhs on rent.

(ii) Delays ranging from 9 to 47 months in dehiring surplus capacity of 7640 MTs in Madras Port Trust resulted in avoidable expenditure of Rs.29.68 lakhs for the period July 1989 to March 1993.

3.20 The efficiency in storage management can also be measured with reference to the cost of storage. Unless available storage capacity and utilisation thereof are streamlined, storage cost cannot be contained. Storage cost is one of the important constituents in the economic cost of the grains. In the year 1991-92, Rs.309.29 crores were spent by FCI as storage cost, which went upto Rs.408.73 crores in 1992-93 and Rs.413.72 crores in 1993-94. Since in these three years, the capacity was utilised only to the extent of 58,53 and 77 percent respectively, Rs.129.90 crores, Rs.192.10 crores and Rs.95.15 crores respectively represent the cost of idle capacity without return. Storage costs kept increasing because of delay in dehiring surplus capacities, delay in constructing own godowns, uncontrolled running and repair costs etc. According to the Ministry, dehiring would also save rent in some of the places but establishment expenses are fixed and cannot be curtailed.

3.21 Storage cost includes staff cost, depreciation, repairs and maintenance, fumigation, dunnage, spares etc. in the case of its own godowns while for godowns hired from CWC and SWCs it represents only the rent paid to them since these are manned by them. For private godowns, FCI pays the rent and the godowns are also manned by the staff of the Corporation. An analysis of the break-up of the annual storage cost per quintal of average capacity revealed that CWC and SWCs controlled the storage cost far better than FCI. The cost of storage in private godowns was the highest. The relevant comparative data on average annual storage for the last 5 years is given below:-

(in Rs. per quintal)

Covered	1989-90	1990-91	1991-92	1992-93	1993-94
Owned	14.04	14.88	15.84	22.80	20.88
CWC	10.56	10.80	13.68	13.32	13.44
SWC	8.88	11.28	12.84	13.32	13.92
Private	14.16	16.44	16.32	22.80	21.12
State Govt.	10.92	13.44	14.16	20.14	19.20

CAP

Owned	5.28	6.12	6.24	10.80	10.56
Hired	8.04	6.12	6.24	15.60	12.12

FCI had spent about Rs.12.47 crores in 1993-94 on repairs and maintenance in respect of owned godowns. The average annual expenditure on maintenance and repairs per metric tonne had gone up from Rs.5.93 to Rs10.18 in the last six years, representing an increase of 71.67%.

The Ministry stated (January 1995) that only Rs.8.75 crores has been spent on repairs and maintenance and that expenditure on railway sidings, weighbridges etc. should be excluded. This argument is not tenable since these maintenance costs are also incurred in the course of storage.

4. STORAGE LOSSES

4.1 One of the important elements in the economic cost of foodgrains is the value of foodgrains lost during storage and transit. Foodgrains are lost at various stages starting with the procurement operations in the mandis, transportation through the length and breadth of the country, storage in various godowns which involves loading, unloading, stacking, destacking etc. and ends with issue to Public Distribution System. The extent of losses, both on account of storage and transit, amounted to Rs. 813.21 crores in the last four years.

(Qty.in lakh MTs)

Year	Purchases Qty.	Sales Qty.	Total Qty.	Loss Qty.	% Loss on total	Value (in crores)
1990-91	235.19	182.55	417.74	4.60	1.12	Rs. 155.98
1991-92	194.01	226.25	420.26	5.90	1.42	Rs. 219.70
1992-93	225.73	191.60	417.33	5.02	1.21	Rs. 223.33
1993-94	263.60	198.70	462.30	4.20	0.95	Rs.214.20
						Rs. 813.21

The above losses do not include losses on account of missing wagons and on account of deterioration in quality during storage.

4.2 Out of Rs.813.21 crores, Rs.280.42 crores relates to storage loss and Rs.532.79 crores to transit loss. According to a BICP report (June 1990), FCI has a poor record of fixing responsibility for storage losses & effecting recovery. In the absence of such a mechanism, the storage losses remained uncontrolled as evidenced by increasing losses, which went up from Rs.45.71 crores in 1990-91 to Rs.87.94 crores in 1993-94.

The Ministry intimated (January, 1995) that administrative authorities were initiating disciplinary action for high losses, wherever the situation so warranted. It also stated that cases of tranist losses were also enquired into.

4.3 The details of storage losses, during the last three years shown below, reveal an upward trend relative to average stocks held:-

(Lakh MTs)/(Rs.in crores)

Year	Qty.	Value	Average stock	Percentage of loss
1990-91	1.16	45.71	130.53	0.89
1991-92	1.78	73.17	124.58	1.43
1992-93	1.54	73.60	99.55	1.55
1993-94	1.56	87.94	168.30	0.93

There was an upward trend in losses relative to the average stocks held, except in 1993-94 when it came down as compared to the previous two years. Further, the storage losses in a dèpot are calculated only at the time of destacking and no loss is computed if the stacks are not killed.

The Ministry clarified (January, 1995) that the storage losses are determined at the time of sale and in years of higher sale higher storage loss would be recorded. Though this is broadly true, FCI lost 1.50 lakh MTs in the case of rice in 1993-94 against the issue of 94.9 lakh MTs as compared to the loss of 1.43 lakh MTs on a sale of 99.0 lakh MTs in 1992-93.

4.4 The storage losses were further analysed in terms of different grains since wheat gains weight during storage. The broad break-up of shortages, in the last four years, in terms of wheat, paddy and rice is given below:-

(Lakh MTss/ Rs.in Crores)

Commodity	1990-91		1991-92		1992-93		1993-94	
	Qty	Value	Qty	Value	Qty	Value	Qty	Value
Wheat	-0.24	-6.90	-0.09	-2.87	-0.13	-5.07	-0.30	-13..07
Paddy (in rice term_	0.37	14.71	0.30	12.64	0.24	12.14	0.36	21.46
Rice	1.03	37.90	1.57	63.40	1.43	66.53	1.50	79.55
Total	1.16	45.71	1.78	73.17	1.54	73.60	1.56	87.94

There was a significant increase in losses of rice in 1991-92 both in terms of quantity and value. The actual absolute losses would be even more if the gain made in weight by wheat during storage due to natural reasons is not considered .

4.5 The storage losses were analysed zone-wise and grain-wise. Since the storage capacity is minimum in the North-East Zone, it has been aggregated with that of East Zone in the following 3 tables:

Rice **(in tonnes)**

	1990-91	1991-92	1992-93	1993-94
North Zone	60312	83178	90640	89185
South Zone	14456	27039	13540	24876
West Zone	14557	26082	23943	19164
East Zone	13782	20468	14790	17226
Total	103107	156767	142913	150451

Paddy **(in tonnes)**

	1990-91	1991-92	1992-93	1993-94
North Zone	36399	28020	24005	35253
South Zone	516	1260	453	478
West Zone	50	104	6	--
East Zone	187	549	143	136
Total	37152	29933	24601	35867

Wheat **(in tonnes)**

	1990-91	1991-92	1992-93	1993-94
North Zone	-31774	-19467	-14580	-32559
South Zone	- 3771	- 2534	- 2556	-2561
West Zone	- 3541	303	481	-565
East Zone	14642	12902	3827	5672
Total	-24444	-8796	-12828	-30013

It was seen that during all the years, East Zone recorded maximum losses for wheat. Interestingly this has happened though wheat gains weight during storage and other regions generally showed gains

In the case of rice, North Zone recorded an upward movement.

4.6 Food Corporation of India has fixed an All India norm of 1% loss for wheat, 1.5% for rice and 2.5% for paddy on quantitites issued. Further, the Zonal Managers are to fix storage loss norms in respect of regions functioning under them and also for the various depots in different regions on the basis of past experience. These norms for regions and depots have not yet been fixed.

The Ministry intimated (January 1995) that there was an apprehension that if norms were fixed for shortages they would become bench marks and may lead to higher level of shortages.

4.7 A study of the storage losses in the last three years, region-wise, indicated that Bihar, Orissa and West Bengal in respect of wheat and Uttar Pradesh, Punjab, Gujarat, Orissa and Madhya Pradesh for rice had chalked up heavy losses. However, these losses were within the norms fixed by the Corporation.

Review of depot-wise losses showed that 52 different depots had reported losses in excess of 1% for wheat during the years 1991-92 and 1992-93. In these two years alone, 3091 MTs of wheat valued at Rs.103.44 lakhs was lost by these depots.

In the case of rice also, 349 depots had reported losses in excess of the FCI norm of 1.5% 182 depots had lost 69557 MTs in 1991-92 and 167 depots lost 35376 MTs in 1992-93 totalling a storage loss of Rs.45.15 crores.

4.8 The recoveries effected from millers/agents, handling and transport contractors, and officials, in respect of storage losses, in the last 4 years were as under :-

Year	Amount(Rs.in lakhs)
1990-91	86.32
1991-92	60.73
1992-93	67.65
1993-94	253.13

After adjusting the above recoveries, Rs.193.66 crores including shortages of earlier years remained unadjusted in the accounts. The details for last four years are as under:-

(As on 31.03.1994)

Lakh MTs/ Rs. in Crores.						
	Total Shortages		Regularised		Pending Regularisation	
Year	Qty	Value	Qty	Value	Qty	Value
1990-91	1.16	45.86	1.15	40.97	0.01	4.89
1991-92	1.78	73.63	1.45	56.90	0.33	16.73
1992-93	1.55	74.40	1.07	48.70	0.48	25.70
1993-94	1.57	88.24	0.59	31.01	0.98	57.23

4.9 Some of the storage shortages are due to misappropriations and thefts which were on the increase in recent years despite a number of vigilance cases.

The value of foodgrains lost on account of misappropriation and theft amounted to Rs.154.73 lakhs in 1990-91, Rs.87.95 lakhs in 1991-92 Rs. 91.54 lakhs in 1992-93 and Rs.290.38 lakhs in 1993-94 and form part of the total shortages.

The Ministry intimated (January 1995) that the percentage of loss was showing downward trend from 0.39% in 1991-92 to 0.37% in 1993-94 and that appropriate steps are taken to investigate and fix responsibility.

4.10 FCI loses substantial amounts as a result of fire accidents and other natural causes every year.The Corporation lost stocks of an estimated value of Rs.148.97 lakhs on this count during the five year period from 1989-90 to 1993-94 as shown below:-

(Rs in Lakhs)

Year	Loss
1989-90	35.00
1990-91	28.14
1991-92	NIL
1992-93	85.83
1993-94	NIL

4.11 Apart from shortages, thefts, misappropriation and natural calamities, poor storage management is also revealed by damage and deterioration to foodgrains stored. Stocks suffer losses due to controllable factors like inadequate prophylactic treatment, excessive stocks and absence of handling and transport contractors. Some cases of such losses above the norm are detailed below.

S.No	Name of Depot	Period of loss	Qty in MTs	Value Rs.in lakhs	Percentage	Reasons
1.	Amadalvalsa (A.P.)	1992-93	958	59.12	2.27	Poor prophylactic Treatment. Excessive stocks.
2.	Miryalguda (A.P.)	1993-94	287	14.24	1.84	Non-availability of fumigants.
3.	Zangalapally (A.P.)	1990-91	1043	34.67	1.91	Infestation. Long storage. Different modes of weighment.

4.12 Losses also occur due to poor quality foodgrains being despatched. To detect and rectify such cases, FCI has prescribed joint inspection by the consignor and consignee within 21 days of the assessment of the quality by the Quality Control division of the consignee. The sub-standard grain is to be disposed of and the final loss assessment statement should be completed within 10 weeks of the receipt of stock.

A few cases of non-observance of these procedures are detailed below:

i) In April, 1987,797.106 MTs of wheat in Sangrur depot was found to be heavily infested. Two attempts in March 1988 and May 1988 to dispose of the stock as cattle feed did not succeed since buyers did not find it fit even for cattle feed. The damaged stock was finally disposed of during 1988-89 and 1989-90 at a loss of Rs.12.18 lakhs. With a view to fixing responsibility, an inquiry was ordered (August 1988) and conducted in February 1989 i.e. after a lapse of one year. The inquiry report was considered incomplete and another inquiry was ordered after a delay of 2 years in March 1991. It is stated to be in progress (March 1994). Thus even after a lapse of 7 years, for a loss of Rs.12.18 lakhs no responsibility has been fixed.

ii) Kurali storage depot (May 1990) despatched 11306 bags of common rice to Midnapore. Midnapore received only 10147 bags and the balance was received in Palghat, Kerala. The consignee complained about the sub-standard quality and filed provisional loss assessment statement. No joint inspection was conducted till June 1993. The consignee submitted a final loss assessment statement in September 1993 for Rs.11.01 lakhs. The carrying and financing cost for sub-standard stock till March 1994 was Rs.18.07 lakhs. The loss will go up if the loss on stock sent to Palghat is also taken into account. Besides, the system of joint inspection was not followed and responsibility for despatching substandard grain was also not fixed.

iii) Similarly, Gorakhpur (U.P.) received from Machiwara (Punjab) 21990 bags of superfine rice weighing 2052 MTs on 23rd April 1991. Though a quality complaint was lodged on 26th April 1991, joint inspection has not taken place and the consignee has not prepared a Final Loss Assessment Statement. In the absence of Final Loss Assessment Statement no write off proposal could be processed, though more than three years have elapsed. According to the provisional Loss Assessment Statement sent in October 1991, the loss was Rs.84.13 lakhs.

iv) A quantity of 3408 MTs rice received at Avadi in March and April 1992 from Moga, Punjab as sub-standard is still awating disposal incurring heavy carrying cost besides transportation cost of Rs.15.23 lakhs already incurred.

v) 948 MTs of superfine raw rice received at Dehradun from Kapurthala (Punjab) in October 1988 was found to be sub-standard because of excessive admixture and dull appearance. The joint inspection was not carried out due to the absence of consignor's representative. It was disposed off only in November 1993 resulting in avoidable storage and administrative expenditure. In addition there was a loss of Rs.7.08 lakhs on its disposal.

4.13 The Corporation sustained heavy loss not only in quantity and quality in respect of stocks received from other zones but also in respect of grains moved within the zones. Such sub-standard stocks which are not issued to the PDS are to be auctioned.

A few illustrative cases are given below:

i) 8794 MTs of sub-standard rice, accumulated at several food storage depots in Ludhiana district, was declared unfit (March 1986) for distribution under Public Distribution System. A Committee determined (May 1986) that 1841 MTs of common rice and 4495 MTs of superfine rice out of 8794 MTs was not fit for use. By the time the sub-standard stock was put to sale in December 1986, 6274 MTs of rice valuing Rs.181.80 lakhs could fetch only Rs.98.27 lakhs resulting in a loss of Rs.83.53 lakhs.

(ii) The Mokameh depot, Bihar had a stock of 39501 MTs in September 1990, out of which 33750 MTs were downgraded between October 1990 and September 1991 because of poor turnover. Out of the downgraded stock, 2599 MTs were issued to PDS and 29173 MTs sold in the open market. The balance quantity of 1978 MTs was reckoned as storage loss. The open sale was made at a lower price since the foodgrain was of poor quality. The loss on account of lower price was Rs.43.76 lakhs and Rs.53.38 lakhs on account of storage loss.

(iii) By April 1988 the Orissa Region had accumulated 3994 tonnes of paddy over a period of 12 years. Sale by auction of 3717 MTs of paddy resulted in a loss of Rs.49.79 lakhs including loss towards storage shortage of 273 MTs.

(iv) District Office Purulia procured a quantity of 3771 MTs of paddy in 1984-85. Out of this quantity, 3398 MTs was retained for 6 years without milling or selling the paddy. 3105 MTs was disposed off through tenders at a price lower by Rs.22.67 lakhs than the reserve price. A quantity of 271 MTs worth Rs.3.81 lakhs was declared as storage loss. Due to prolonged retention of paddy for well over six years, FCI had to forego an inflow of funds of Rs.26.48 lakhs. In addition, storage, transportation and administrative costs had been incurred in carrying the stock for six years. While these costs could not be quantified, rent for the godown where the paddy was retained, amounted to Rs.17.54 lakhs. In all, the avoidable loss exceeded Rs.44.02 lakhs.

(v) A quantity of 3848 MTs received during 1984 to 1989 in various depots of Kochi (Kerala region) was disposed off after a period of five to eight years. Considerable time, ranging between 1 to 2 years, was taken in identifying the stock as substandard/damaged. Besides this, disposal of such stocks was delayed between 20 to 79 months after identification. FCI incurred an expenditure of Rs.124.12 lakhs by way of carrying cost of stock and Rs.48.39 lakhs was lost due to further deterioration in quality on account of prolonged storage.

4.14 The Ministry of Food & Civil Supplies (Department of Food) delegated (April 1986) the power to dispose off sub-standard rice after observing certain norms to FCI. The Corporation was required to submit a quarterly report to the Ministry giving full details of the lots of sub-standard rice so disposed of. The powers of FCI were enhanced from time to time and in August, 1992 the Ministry delegated full powers to it to dispose off the sub-standard stocks of foodgrains.

During the test check of disposal of sub-standard rice for the period 1990-91 to 1992-93, it was seen that there were delays in obtaining internal approvals for the disposal and there were delays in actual disposal after approvals were given. Such delays resulted in losses to the tune of Rs.3242.39 lakhs on account of increased deterioration due to prolonged storage, incurring of storage charges and interest charges.

4.15 To conceal the storage losses, some of the depots were recording stock at lessweight at the time of receipt, thus showing abnormal transit losses while storage gain was noticed at a later date for the same consignment. Some such instances of stock received at Indore depot in 1992 are detailed below:-

(i) A consignment of wheat received at Indore (April 1992) recorded 2.21% transit loss. A baby stack built out of the above consignment recorded an abnormal storage gain of 143%.

(ii) A rake of wheat received from Moga (May 1992) recorded a transit loss of 1.37%. After storage for 3 to 4 months the stacks raised out of the above consignment showed a storage gain of 0.63 to 10.64 quintals.

(iii) A rake received from Ajitwal (August 1992) recorded a loss of 2.27%. Eight stacks raised from this consignment recorded storage gains of 1.80 to 13.40 quintals.

4.16 Heavy losses also occurred due to storage in temporary and transit sheds. Stocks received at Food Storage Depot (FSD) Sewree were stored in temporary sheds resulting in substantial losses as indicated below:-

Period	Qty.Kept (MTs)	Storage duration in No.of days	Loss(MTs)	Percentage of loss
Sept.91	2891	20	83	2.87
Oct.91	2540	11 to 17	75	2.95
Jan.92	5740	6 to 28	138	2.40

FCI could have avoided/reduced the losses by transferring the stocks to a regular godown, which had available capacity to handle the above stocks.

4.17 Periodical physical verification of stocks is important in the case of FCI because stocks are moved through the length and breadth of the country, and stored in over 1500 godowns and plinths, and also because 80% of the assets of FCI are in the form of foodgrains. FCI loses heavily on account of thefts, misappropriations and shortages. Despite the overwhelming need, FCI has paid scant regard to this important item of work. Every year the annual financial accounts of FCI include many qualifications regarding the value of stocks held. Such qualifications to accounts are persistent and preponderant.

The Ministry intimated (January 1995) that improvement had already been brought in conducting annual physical verification and ZMs/SRMs had been directed to conduct 100% weighment of one compartment in 52 centres Besides, physical verification in March 1994 was conducted by persons other than the stock holders. Similar instructions were being issued for conducting annual physical verification in March 1995.

5. TRANSIT LOSSES

5.1 Transit losses represent the difference between the despatched weight and the receipted weight of foodgrains. Transport of foodgrains over long distances by rail, road, or steamer invariably results in loss of some amount of foodgrains. Such losses are determined in totality at the destination point on receipt of the consignments, by the recipient depots. The quantum of such losses in respect of wheat, paddy in terms of rice, and rice in the last four years was as under:-

	1990-91	1991-92	1992-93	1993-94	Total
Movement (lakh tonnes)	**206.60**	**219.20**	**210.37**	**214.77**	**850.94**
Transit shortage (lakh tonnes)	**3.44**	**4.12**	**3.48**	**2.61**	**13.65**
% of shortage	**1.67**	**1.88**	**1.65**	**1.21**	**1.60**
Value (Rs.in crores)	**110.27**	**146.53**	**149.73**	**126.26**	**532.79**

These losses do not include losses on account of missing wagons which are pending settlement with railways.

The Ministry stated (January 1995) that the higher losses during 1991-92 were due to movement of old stock. It further stated that the losses have shown a downward trend due to installation of four in-motion electronic weigh bridges, machine stitching, frequent squad checks etc. at loading and unloading points.

5.2 According to a BICP study (June 1990) FCI has the unusual feature of transit loss being much more than storage loss, presumably because responsibility cannot be fixed for transit losses. It further goes on to state;

"The first and foremost point is that the break up of the grain losses as transit losses and storage losses as determined and accounted for by the FCI in its books is not fool-proof and is open to doubt and question. The weighments of the foodgrains at the different points of handling are not being done fully, systematically and religiously. Fool-proof weighment facilities in the form of weighbridges have not been provided in several of the storage depots. In order to escape the accountability for storage losses the issue weights are adopted as the receipt weights and the entire difference between the issue weights and the despatch weights is shown as transit loss and no storage losses shown. The practice of understating the storage loss and overstating the transit loss so that the bulk of the responsibility for the grain losses is thrown on Railways cannot be ruled out under the present set up. It is generally believed that there is a lot of underloading at various despatching points by the FCI."

5.3 A study of losses zonewise over four years indicated that during all the years, East Zone including North-Eastern Frontier (NEF), recorded maximum losses in all the years for wheat as well as rice. In other zones also, except North Zone in 1990-91, these losses were more than 1 percent, the norm fixed by the Corporation for such losses as may be seen from the zone-wise percentage of losses shown below:-

	Wheat				**Rice**			
	1990-91	1991-92	1992-93	1993-94	1990-91	1991-92	1992-93	1993-94
North	0.94	1.52	1.40	0.75	1.52	1.67	1.75	0.66
South	1.61	1.58	1.20	1.03	1.56	1.67	1.34	1.26
West	1.48	1.61	1.26	0.77	1.74	1.99	1.69	1.52
East	2.17	2.45	2.02	1.68	2.24	2.39	2.65	2.23
Average	1.56	1.84	1.51	1.06	1.80	1.94	1.78	1.38

The Ministry intimated (January 1995) that transhipment, industrial relation problems and law and order situation in East Zone and NFF were responsible for transit losses and that overall losses have shown a downward trend because of effective steps taken by FCI. The reply does not explain heavy losses in other zones as well.

5.4 A study of the transit losses region-wise in the last three years indicated that Jammu and Kashmir, Uttar Pradesh, Rajasthan, Andhra Pradesh, Tamil Nadu, Maharashtra, Calcutta Port, Assam, Bihar, Orissa and West Bengal incurred heavy losses for wheat. In the case of rice, Jammu and Kashmir, Maharashtra, Calcutta Port, Assam and Bihar incurred heavy losses in all the years; Tamil Nadu incurred heavy losses in the first two years and NEF only in 1992-93.

5.5 Review of depot-wise losses during 1991-92 and 1992-93 showed that in case of wheat, 207 and 230 depots lost 112817 MTs and 67372 MTs respectively valued at Rs.59.29 crores. These represented transit loss of 2.17% and 2.06% during these two years compared to FCI's norm of 1%. In the case of rice, losses in excess of norms (1%) were recorded in 187 and 212 depots in these two years. In terms of quantity it was 133079 MTs and 117519 MTs valued at Rs.109.77 crores. This represented a loss of 2.36% and 2.37% respectively. Thus the Corporation incurred a loss of Rs.169.06 crores as transit shortages, both for wheat and rice, in two years. Out of the depots mentioned above, 136 depots for wheat and 130 depots for rice incurred losses above the norm in both the years. The number of depots incurring losses in excess of norms is on the increase and FCI has not taken adequate action to contain this problem.

5.6 It was noticed that substantial transit losses were incurred on movement of foodgrains from one region to another, especially from procurement regions (Punjab and Haryana) to consuming regions. A few such instances are given below:-

i) Bangalore and Hubli districts registered heavy transit losses both in the case of rice as well as wheat despatched from Punjab during the years 1990-91 to 1992-93. The losses were as high as 9.83% in respect of despatches made from Amritsar. A quantity of 14902 MT valuing Rs.534.20 lakhs was so lost.

ii) District Office, Madras registered losses ranging between 5.54% to 10.56% during 1990-91 to 1992-93. Bulk of these losses were on the despatches made from Punjab. Rice received at Arakonam and Sevur from Makhu (Punjab) during 1990-91 was less by 9.31% and 8.31% respectively. Similarly in the case of wheat Avadi and Arakonam depots registered transit losses of 7.09% and 6.73% respectively.

iii) Coimbatore depot in Tamil Nadu registered a loss of 256.225 MTs valued at Rs.6.15 lakhs in March 1991 which included 1377 full bags shortage valuing Rs.3.14 lakhs. Similarly, transit losses of Rs.6.74 lakhs were incurred in respect of rice in the same month.

iv) Miryalguda, Visakhapatnam, Renigunta, Jammigunta & Zangalapally depots in Andhra Pradesh region reported losses valued at Rs.42.98 lakhs on stocks received ex-Punjab during the years 1990-91 to 1993-94.

v) In East and North East Frontier Zones also, seven district offices registered losses of Rs.904.77 lakhs between the period 1989-90 to 1993-94. The quantity thus lost was 5966 MTs of wheat, 19486 MTs of rice and 132 MTs of sugar.

vi) Stocks Ex-Makhu (Punjab) received at Bombay and Baroda registered losses worth Rs.33.05 lakhs in April/May 1991 which went upto 8.4% in rice and 19.02% in wheat. Similarly, wheat stock received Ex-Makhu/Jakhal (May 92) at Bharuch registered loss ranging between 6.09% and 7.39% which amounted to Rs.6.11 lakhs. Stocks ex-Patiala received at Sabarmati and Hapa during January 1992 to March 1992 registered losses amounting to Rs.18.29 lakhs. Stocks ex-Sangrur received at Jabalpur in April, 92, registered loss of Rs.5.31 lakhs.

vii) One rake of superfine rice despatched ex-Dhuri and rebooked from Bhopal was received at CWC, Khandwa (October 1990). The loss worked out to 9.59% and amounted to Rs.6.08 lakhs. The stock remained dumped for 15-20 days on the platform. Losses on account of rain, pilferage and exposure to elements were also accounted for as transit losses. FCI's zonal squad also observed that the losses at CWC Khandwa were higher than other godowns in Madhya Pradesh due to under weighment at Khandwa.

viii) Stock ex-Jandiala (Punjab) received at Dehradun and Rishikesh registered losses ranging between 19.7% and 20.8% which amounted to Rs.10.80 lakhs. Though short receipt was reported by receiving region, no action was taken by despatching region.

ix) Transit shortages ranging between 3.2% and 13.2% were observed during 1993-94 at Hapur, Kanpur, Moradabad and Jhansi district offices. The transit losses amounted to Rs.51.11 lakhs.

x) Heavy transit losses ranging from 2.75% to 3.32% were noticed in movement of foodgrains during 1990-91 to 1992-93 from Punjab to Delhi region where the distance involved was not much.

The Ministry intimated (January 1995) that each case of high incidence of transit loss was being investigated for fixing responsibility on delinquent officials and for tightening up the loopholes in the system and that close monitoring of receipts at rail heads and surprise checks of unloading operation were also being made.

5.7 Apart from transit losses in movement by rail, heavy losses were also noticed while handling imports, especially of Canadian wheat during December 1992. On arrival in India, the vessel carrying 123556 MTs of wheat was unloaded in seven daughter vessels for transportation to various Indian ports. All these seven vessels unloaded 124311 MTs according to the Draft Survey report, against which the FCI recorded a receipt of only 120927 MTs. The minimum overall short receipt was thus 2629 MTs valuing Rs.151.66 lakhs. No claim with the shippers could be lodged because what was unloaded according to survey report was more than what was due. The reasons for shortages from seven daughter vessels were not investigated.

5.8 The Corporation also sustained heavy transit losses of 5.77% in riverine movement. The total value of the loss above 0.25% allowed under the agreement was Rs.105.29 lakhs at Pandu port during December 1987 to February 1991. The foodgrain bags offered to Central Inland Water Transport Corporation (CIWTC) at Calcutta Port were in non standard bags and the agreement did not provide for 100% weighment of such bags. In the absence of this, the CIWTC could not be held responsible for any transit loss.

According to the Ministry (February 1995), terms of transportation were revised from May 1993 providing for 100% weighment on handing over and taking over of foodgrains and that the delay in varying the terms was because CIWTC wanted to change the percentage of transit loss from 0.5% to 2%.

5.9 Transit losses were also heavy in intra zonal movement. It is noteworthy that generally such movements were over short distances and usually by road. Therefore, the circumstances of such despatches were far more conducive to reduce or eliminate losses than the bulk movement from procurement centres, over long distances.

Rice moved from Khammam, Miryalguda and Tadepalligudem in Andhra Pradesh to Egmore/Avadi depot in Tami Nadu region during 1992-93 ended in a loss of Rs.6.33 lakhs which represented 1.06% to 2.84% of the total quantity despatched.

5.10 Intra regional movement also suffered losses in transit. District offices at Madras and Bangalore recorded a total transit loss of 1858 MTs of rice valued at Rs.64.03 lakhs, during the years 1990-91 and 1991-92. Similarly, in Andhra Pradesh region, losses on movement within the region ranged upto 4.49% amounting to Rs.21.22 lakhs during April 1991 to March 1993.

5.11 FCI regularised only some of the transit losses and claimed subsidy. Unregularised shortages for transit as well as storage amounted to Rs.774.04 crores as on 31.03.1994. Some of these losses pertain to 1980-81. Since the Corporation avails cash credit, delay in regularisation of these shortages results in postponement of receipt of subsidy and loss of Rs.119.98 crores per annum as interest @ 15.50% per annum. The Government of India insists upon regularisation of losses only after investigation. The objective of such insistence is to scale up discipline and bring down transit and storage losses. FCI was, however, unable to match these requirements and hence these losses remained uncompensated from 1980.

5.12 In order to control transit as well as storage losses so that the subsidy bill may be contained, the BICP Report had listed 25 recommendations. Other administrative measures had also been indicated in the 15 Point Action Plan of the Managing Director in December 1987. Broadly these related to procurement of foodgrains within the quality specifications, packing in standardised bags, proper weighment, reduction of spilling, avoidance of losses due to natural process, periodical prophylactic treatment, sending escorts with wagons, enforcement of surprise checks, liquidation of CAP storage, accountal of stocks at the time of receipt and disposal, monitoring of exceptionally bad depots, periodical inspection of depots, induction of Central Industrial Security Force etc. Inspite of this, the storage and transit losses have not been contained. They went up from Rs.155.98 crores in 1990-91 to Rs.214.20 crores in 1993-94

The Ministry intimated (January 1995)that FCI have accepted most of the BICP recommendations and initiated several measures resulting in both types of losses showing a downward trend.

6. CONSTRUCTION MANAGEMENT

6.1 FCI procures foodgrains in two seasons every year. Requirement of storage capacity should therefore be limited to the peak stock held during the year. A comparison of peak stock held in the last four years with the available storage capacity indicates that the two were not properly matched. The peak level capacity was far in excess of requirement. The details are as under:

(in lakh tonnes)

Year	Peak stock (1st July)	Peak level capacity Ist July
1990-91	131.45	200.79
1991-92	144.15	227.90
1992-93	104.10	195.40
1993-94	174.45	220.52

6.2 While reviewing the storage capacity needed during the VIII Five Year Plan, the Working Group of the Planning Commission had opined that at the macro level no additional capacity was required and at the micro level, an additional capacity of 8.23 lakh tonnes was required by end March, 1995 to correct regional and locational imbalances. Out of this, FCI's share was to be 4.23 lakh tonnes, besides spill over work of 2.71 lakh MTs making the total capacity addition of 6.94 lakh MTs. Accordingly, the Minisitry advised the FCI that covered capacity should be increased by the end of March, 1995 to 126.30 lakh MTs as detailed below:

Capacity as on 1.4.90	**119.36 lakh tonnes**
Spill over works	**2.71 lakh tonnes**
Additional Construction	**4.23 lakh tonnes**
Total VIII Plan period	**126.30 lakh tonnes**

However since the plan period was shifted from 1990-95 to 1992-97, FCI suggested an additional capacity of 10 lakh tonnes by the end of March, 1997. This is yet to be approved. The Management admitted (January 1995) that though it had submitted proposals for addition of 10 lakh MTs capacity at an estimated cost of Rs.177 crores, FCI was allotted Rs.120 crores which would enable it to add only 6.6 lakh MTs to its capacity.

6.3 FCI commenced its operations in 1965 with a total storage capacity of 6 lakh tonnes transferred to it by Government of India. By 1969, 22.93 lakh tonnes capacity had been so transferred. From 1970 FCI embarked upon its own construction programme. By March, 1994 it owned covered capacity of 122.50 lakh tonnes.

6.4 In addition to the owned covered capacity, FCI hires covered capacity and CAP capacity. As of 31st March, 1994 the available covered and CAP capacities (including its own) were 209.60 lakh tonnes and 27.00 lakh tonnes respectively. As against this, the total stock held was only 190.80 lakh tonnes. Thus 45.80 lakh tonnes capacity (i.e. 19%) was unutilised. According to the Ministry (January, 1995), availability of capacity should not be the deciding criterion and factors like allotment, Railways capacities, Industrial relations problems, ensuing seasons requirements for covered/CAP capacity etc., off-take determine storage and movement. The reply indicated availability of capacity at wrong places.

6.5 FCI's construction activity was replete with instances of delay. 27 cases were noticed in which the delay ranged from 6 months to 7 years. The details are given in Annexure II.

The Ministry (January 1995) attributed the delays to prolonged arbitration proceedings in respect of godowns being constructed by NPCC. The reply, however, does not explain the delays in the case of the other 13 godowns where the delay in completion was as much as 7 years in one case.

6.6 It was also noticed that 2.59 lakh MTs of capacity already completed remained to be taken over as on March, 1994. Out of this, 0.27 lakh tonnes was in North-East-Frontier region, 0.13 lakh tonnes in East Zone, 0.65 lakh tonne in South Zone, 0.13 lakh tonnes in West Zone and 1.41 lakh tonnes in North Zone.

These capacities have not been taken over in the last 9 years as detailed below, and the reasons therefor are not on record.

Year	Capacity (in 000 MTs)	Cost (Rs. in lakh)
1985-86	4.52	123.77
1986-87	14.60	82.59
1987-88	35.00	242.59
1988-89	40.50	322.12
1989-90	1.25	9.01
1990-91	10.00	66.32
1991-92	20.55	416.66
1992-93	64.31	1283.45
1993-94	68.35	494.15

The Ministry admitted (January 1995) delays in taking over of NPCC constructed godowns and stated that in other cases information was awaited from the field offices.

6.7 As regards cost of construction, estimated cost per tonne of storage considered for construction during the Eighth Plan period was Rs.700 for addition to existing godown; Rs.1000 for new construction where land is available; Rs.1200 where land is to be acquired; Rs.1650 in remote and hilly areas; and Rs.2750 in North East Frontier areas.

In several places where godowns existed the actual cost on construction completed during the Eighth Plan period ranged from Rs.765 to Rs.1183 per tonne against the estimated cost of Rs.700 per tonne. The details are as under:-

Name of the Centre	Capacity (MTs)	Actual expenditure (Rs.in lakhs)	Cost per tonne (Rs)
Samalkot(AP) Phase I	10000	76.55	765
Samalkot(AP) Phase II	10000	85.37	853
Doleshwaram(AP)	10000	108.11	1081
Dhamtri(MP)	3340	32.75	980
Khammam	10000	98.70	987
Ongole	5000	59.15	1183
Bhimavaram	15000	138.89	926

The Ministry intimated (January 1995) that construction cost varies from time to time and is dependent on a variety of factors. The relatively higher cost at Doleshwaram was due to heavy earth filling and at Ongole due to adopting column and beam construction necessitated by the site condition.

6.8 FCI has been adding additional capacities through the agencies of NPCC, NBCC and PWD. The cost of construction as charged by these respective agencies during 1990-94 is mentioned below:

(Rate per MT)

Agency	Terrain	Minimum	Maximum
NPCC	Plain	886.50 (Moradabad)	933.44 (Chanderia)
NBCC	Plain	717.13 (Itarsi)	1050.70 (Bhimavaram Ph.II)
NBCC	Hilly	1214.60 (Kharsang)	4744.50 (Lunglie)
PWD	Hilly		1441.96 (Kargil)

The Management intimated (January 1995) that the cost of construction by agencies is much higher than that of FCI.

6.9 The construction programme of FCI is financed by Government through subscription to the equity of the Corporation. In the last 5 years, funds allotted for the purpose and actual expenditure were as under:

(Rs. in crores)

Year	Allotment	Expenditure
1989-90	23.75	22.11
1990-91	23.32	16.10
1991-92	15.00	17.96
1992-93	27.49	30.99
1993-94	19.00	12.05

In 2 years the expenditure was in excess of allotted funds as FCI had been spending out of 'Depreciation Reserve'.

Out of equity funding of the Government, FCI created ancillary facilities in the existing godowns in the shape of water supply arrangements, fire fighting facilities, construction of compound wall, canteen block etc. In the last four years such diversion of funds was as under

(Rs. in crores)

Year	Equity contributed for construction	Expenditure out of equity	Funds for ancillary facilities	Percentage of utilisation
1990-91	23.32	16.10	5.43	33.73
1991-92	15.00	15.00	4.82	32.13
1992-93	27.49	27.49	3.06	11.13
1993-94	19.00	19.00	3.93	20.68

The Ministry intimated (January 1995) that construction of godowns was a continuous process and it could not be stopped due to non-release or late release of equity. It further clarified that depreciation charged was taken into account for the purpose of claiming subsidy and subsidy so received was ploughed back to meet the working capital requirements.

6.10 Since 1985 FCI has been constructing its own capacities and has created a separate Division called Project Implementation Division (PID) for this purpose under a separate Executive Director. The Division has 6 Managers, 10 Jt.Managers, 65 District Managers, 245 Asstt.Managers and 376 Junior.Engineers.

Since the construction programme of the Corporation is minimal, the main function of PID is maintenance of the godowns. However, a comparison of man-power to covered capacities maintained revealed wide divergence among the regions as shown below:

		Covered Capacity in lakh tonnes	Total sanctioned strength/men in-position	Strength per lakh tonne
1993-94	North	55.00	170/166	3.09
	South	25.19	233/215	9.25
	East	15.02	140/139	9.32
	NEF	2.58	31/31	12.02
	West	24.71	136/103	5.50
	H.Q	-	52/48	-

The Management intimated (January 1995) that the distribution pattern of engineering personnel could be related to maintenance responsibilities since construction responsibilities had tapered.

6.11 In a large number of places, FCI acquired land for constructing godowns. But no construction programme was put through. A few illustrative cases are given in Annexure III and a few others mentioned below:

i) A plot of land was acquired at Rajkot during 1985-86 at a cost of Rs.29.14 lakhs for construction of 20000 MTs godowns. Non-construction of own godowns at Rajkot had cost the Corporation Rs.1.66 crores (upto 1991-92) on account of rent and loss of interest on the blocked capital of Rs.29.14 lakhs.

ii) A plot of land measuring 42 acres and 16 guntas was acquired at Raichur during 1987 at a cost of Rs.16.47 lakhs for construction of a buffer complex of 25000 MTs. In April 1994 it was decided not to construct the complex as the Corporation already had two buffer complexes at Hoogly and Bellary.

iii) Land acquired in Shillong at a cost of Rs.30.08 lakhs was found to be unsuitable and the Management decided not to construct a godown on this land. Similarly, acquisition of unsuitable land at Goa resulted in unfruitful expenditure of Rs.151.51 lakhs towards lease rent for the period from November 1983 to March 1994.

iv) In August 1981, FCI decided to have a storage capacity of 30000 MTs at Peddautahalli. As against this, land for construction of 60000 MTs capacity godowns was acquired in October 1981. This resulted in excess acquisition of land measuring 25 acres valued at Rs.13.46 lakhs. The idle investment including interest amounting to Rs.20.95 lakhs worked out to Rs.34.41 lakhs.

v) With a view to having 20,000 MTs capacity with railway siding at Ditchapally, land measuring 32.38 acres was acquired in February 1983 at a cost of Rs.26.69 lakhs. This project was subsequently found uneconomical and dropped. FCI failed to dispose off this land, resulting in the blocking of funds to the tune of Rs.46.66 lakhs including interest element of Rs.19.97 lakhs.

vi) In October 1976, FCI decided to construct 50000 MTs godown at Katihar. Accordingly, 28.17 acres of land was acquired at Mirchai and Tiharpara at a cost of Rs.4.79 lakhs (October 1978). Subsequently, the site was changed to Deharia for reason not on record and additional 42.44 acres of land (cost Rs.15.92 lakhs) and 7.55 acres (cost Rs.3.36 lakhs) were acquired in August 1984 and April 1990 respectively. However, construction has not started and encroachment of land has taken place. Funds blocked amounted to Rs.28.97 lakhs.

vii) The Corporation took on lease five plots, each measuring 0.93 acre from New Mangalore Port Trust, Mangalore in November 1985 at the initial premium of Rs.93000 per plot for construction of godowns. One was surrendered in November 1991 and the balance four in November 1992. This resulted in infructuous expenditure of Rs.14.14 lakhs (Rs.4.65 lakhs on account of premium on plots and Rs.9.49 lakhs on account of ground rent).

viii) A plot of land was acquired in 1986 at a cost of Rs.20.00 lakhs for construction of 30000 MTs capacity at Dhamora. A compound wall was raised in March 1988 at a cost of Rs.12.78 lakhs. Security guards were deployed from February 1986 and Rs.5.03 lakhs was incurred on this account till February 1994. In February 1993 it was decided that since capacities were available at nearby places, no godown was necessary at Dhamora. Thus, the expenditure of Rs.37.81 lakhs till February 1994 went infructuous.

The Management intimated (January 1995) that review of the lands owned was being undertaken and land at centres where godowns were not considered necessary would be surrendered or used for other purposes such as staff quarters.

6.12 Five Silos in UP, Punjab and Delhi constructed at a cost of Rs.16 crores remain mostly unutilised. As on 31st March, 1994, the number of godowns with zero utilisation was 150 with a capacity of 10.69 lakh tonnes, with Punjab topping the list with 56, followed by U.P. at 31 and Haryana at 24. These are the three states which accounted for 95% of the total procurement of wheat during 1993-94.

6.13 Some of the godowns constructed have not been found useful because of locational disadvantage.

i) A godown of 5000 MTs capacity constructed at Kharsang at a cost of Rs.64.19 lakhs in 1987-88 was not taken over as it is situated in the middle of a jungle.

ii) In order to construct 10,000 MTs godown at Kumarghat in October 1985, FCI asked Railways to survey and supply design drawings of Railway sidings. Since the volume of earth cutting involved was large, railway siding at the site was not considered viable. Consequently, NBCC was asked (April 1987) to construct a roadfed godown at Kumarghat at a cost of Rs.153.69 lakhs. The project was to be completed by May 1988. By March 1988, NBCC had constructed upto roof level 3340 MTs capacity and upto below plinth level 835 MTs capacity. As the site was found unsuitable because it was 40 kms away from the nearest town and Kumarghat had a demand of only 1000 MTs and even the small godown of 835 MTs would be superfluous, a Committee was appointed to review the project. The Committee concluded that the site was unsuitable from the operational point of view and the plan for construction was not technically sound. No further decision had been taken and Rs.35.91 lakhs paid to NBCC in December,1987 remained blocked.

The Management stated (Feberuary 1995) that keeping in view the extension of rail line to Kumarghat now, the reduction in road movement to Agartala, and the expenditure already incurred on it, it was felt that it would be advisable to go ahead with the construction of godowns for a reduced capacity of 3340 MTs subject to the receipt of certain technical clarifications.

6.14 There were instances of administrative delays resulting in extra expenditure. An illustrative case is given below :-

A plot of land was acquired at a cost of Rs.43.33 lakhs for construction of building for Regional Office at Jaipur. Estimates were submitted to the competent authority in September 1988, for an estimated cost of Rs.1.34 crores, which were sanctioned in December 1989. Coupled with the delay in sanctioning the project, there was delay of 7 months in the appointment of architects and consultants, and delay in the approval of building plans. All these contributed to a cost escalation of Rs. 80.00 lakhs.

7. RAILWAY SIDINGS

7.1 The Corporation has 124 railway sidings costing more than Rs.105.20 crores, of which Rs.82.15 crores have been written off as depreciation till March, 1994. The Corporation incurred an expenditure of Rs.3.12 crores, Rs.4 crores and Rs.2.97 corores respectively during 1991-92, 1992-93 and 1993-94 to maintain these sidings.

7.2 The Committee on Public Undertakings (COPU) had recommended in their XXII Report that the FCI should construct its future godowns, as far as possible at rail heads so that railway wagons could be moved through sidings to the godowns to facilitate handling operations. Accepting the recommendation, the Ministry of Food had stated that it was the policy of the FCI to set up rail-fed depots as far as practicable and all large depots under construction and the further ones proposed were planned accordingly." FCI has also provided in its Manual that provision of railway sidings should be considered essential for godowns to be constructed with 10000 MT or more capacity.

However, there are 92 locations where FCI godowns with capacity in excess of 10,000 MTs are without railway sidings.

The Ministry stated (February 1995) that provision of sidings at godown with 10000 MT to 20000 MT capacity is dependent on scarce funds and hence it has not been possible to provide sidings liberally.

7.3 Region-wise analysis indicated that at the end of the year 1992-93, the storage capacity per railway siding varied from 0.21 lakh MTs in Vishakhapatnam Port to 1.69 lakh tonnes in Maharashtra region. A sample check of Food-grains handled by railway sidings in various states revealed that Punjab handled 0.55 lakh tonnes per railway siding, Haryana 0.66 lakh tonnes and Andhra Pradesh 0.79 lakh tonnes. Andhra Pradesh had disproportionate number of sidings and the average storage capacity serviced amounted to only 0.64 lakh tonnes per siding as against 1.74 lakh tonnes, 1.10 lakh tonnes and 1.14 lakh tonnes in Punjab, Haryana and UP respectively. During 1993-94 no new siding was commissioned. The region-wise data is given in Annexure-IV.

7.4 A review of the utilisation of the sidings during the period from January 1991 to July 1994 revealed that 5 railway sidings were inoperative, 2 sidings were not put to use since inception and 22 sidings were only marginally utilised. A few illustrative cases are given below:

i) Railway siding at Neoli was sanctioned in June 1984 for Rs.1.07 crores. This was completed in December 1990 at a cost of Rs.2.40 crores. The siding with 66000 MTs was utilised only for two superfine rice specials in May 1991 and 8 specials in 1992-93, and 16 specials were moved in 1994-95.

ii) Railway siding at Sirsa was sanctioned in June 1984 at a cost of Rs.43.67 lakhs. It was completed in July 1988 at a cost of Rs.109.29 lakhs. Due to delay in entering into an agreement for operation and maintenance of the siding by the railways, the siding could be put to use only in May 1991. Consequently, FCI incurred Rs.94.35 lakhs as transportation charges between January 1989 and April 1991 in respect of 2.4 lakhs MTs of foodgrains from the godowns to the railway shed. In 1991-92, 1992-93 and 1993-94 only 16, 27 and 32 specials were loaded and with effect from February 1994 the siding had become inoperative due to gauge conversion. After gauge conversion (November 1994) two specials were loaded till February 1995.

iii) Khurja has a silo of 20,000 MT capacity without a railway siding for want of land. However, Rs.14.03 lakhs deposited with Railways in October 1977 remains unrecovered.

The Ministry stated (February 1995) that as there is no possibility of acquiring land, the matter regarding finalisation of accounts with Railways will be taken up.

iv) Railway siding at Barabanki was approved in March 1982 for Rs.29.54 lakhs. This was completed in June1992 at a cost of Rs.92.32 lakhs but not put to use till October 1995.

The Ministry stated (February 1995) that the siding was not put to use because of litigation and efforts are being made to reach an out of court settlement.

v) The railway siding at JJP, West Bengal, has 8 tracks and all of them are in disuse. Consequently, rakes nominated for this depot are received at Calcutta Port Trust. This has led to delay in releasing the rakes and during the years 1992-93 and 1993-94 FCI paid Rs.69.90 and Rs.59.18 lakhs respectively as demurrage charges.

vi) Railway siding at Itarsi completed at a cost of Rs.260.76 lakhs in March 1987 was not put to use till December 1989. During this period FCI incurred Rs.17.07 lakhs on transportation from goods shed to godowns. In addition, Rs.12.41 lakhs were paid as maintenance charges. The Ministry stated (February 1995) that trials had to be conducted even after railways notified it for use in February, 1987 and trials were completed in July, 1988.

The Ministry stated (February 1995) that utilisation has been varying from year to year on account of labour problems and requirements of movement. It further added that this facility has to be maintained even if demand fluctuates over the years.

7.5 As mentioned in paragraph 7.2, there are 92 locations where FCI godowns with capacity in excess of 10000 MT are without railway sidings.

Some of the locations which are suffering for want of railway siding are discussed below:-

i) Proposals for railway sidings at Tuticorin (35,200 MTs) and Arkonam (59,640MTs) were dropped as the godowns had not been suitably planned to provide railway sidings. Consequently the Corporation continues to incur extra expenditure for transportation of foodgrains from the respective railheads which aggregated Rs.131 lakhs for four years ending 1993-94 at Tuticorin and Rs.51.79 lakhs for two years ending 1992-93 at Arkonam.

The Ministry stated (February 1995) that siding at Arkonam was dropped because of enormous cost and at Tuticorin due to dwindled imports, non-availability of land near the godown complex and economic viability.

ii) In the absence of railway siding at Ranital (Orissa) godown (20000 MT) it is fed by road from Bhadrak. The road freight amounted to Rs.33.03 lakhs from 1990-91 to 1993-94. Estimates for a siding at Ranital had been obtained in August 1984 but no action has been taken.

The Ministry stated that additional land was not available for a siding.

iii) Midnapur godown was augmented to the level of 35780 MT. In May 1985 Railways were approached for a siding which was found to be not feasible in August 1988. Creation of huge capacity and its augmentation without assessing the feasibility for a railway siding was wrong. Transportation cost incurred on movement of grains amounted to Rs.104.12 lakhs from 1990-91 to 1993-94.

7.6 It was also observed that there were long delays in completion of railway sidings. For example, World Bank had extended credit to construct 58 railway sidings under Second Foodgrains Storage Project which were to be completed by June 1985. Only 24 sidings were completed by 1985-86 and the remaining by June 1992.

According to the Ministry the delay was due to delay in acquisition of land, non-availability of Permanent Way materials, etc. which were beyond the control of FCI.

7.7 Similarly 6 railway sidings were to be completed by June 1985 under the Crash Programme. Not even a single siding was completed as scheduled and the last of these six sidings was completed by June 1989.

The Ministry attributed (February 1995) the delay in completion of sidings to delay in acquisition of additional land, non-availability of Permanent Way materials, etc. Final commissioning of four sidings completed by RITES was also delayed due to lack of co-ordination between RITES and South Central Railways.

7.8 Under Additional Storage Programme also, the delays in 5 sidings (1.53 lakh MTs capacity) were attributed to delays in acquisition of land, scarcity of Permanent Way materials, disputes with sub-contractors etc. The Ministry further stated that the siding works are given low priority by Railways.

7.9 An instance of delay in completing the sidings resulting in blocking of FCI funds is detailed below.

In March 1988, a sum of Rs.80.05 lakhs was deposited for electrification of railway siding at Sawaimadhopur. In October 1990, Railways raised a further demand for Rs.25.50 lakhs due to price escalation, out of which Rs.25.20 lakhs was deposited in March 1991 and Rs.0.30 lakh in July 1992 after a period of five months and twenty one months respectively. It was only in March 1993 that the Railways finalised the tenders and awarded contracts. The work was completed in January 1994. These delays on the part of FCI and Railways resulted in cost escalation of Rs.25.50 lakhs, blocking of funds and interest loss of Rs.81.12 lakhs.

7.10 Apart from absence of prioritisation, under-utilisation and delay in completion, the decision making of FCI regarding railway sidings also left a lot to be desired. These hurt the interests of FCI by way of blocking capital, additional interest costs, additional handling and transportation cost and infructuous payments. Some illustrative cases are detailed below:-

i) Between June 1984 and October 1986, FCI paid a deposit of Rs.91.95 lakhs for a siding at Arkonam. Subsequently the proposal was dropped on technical grounds and viability. Due to premature decision, FCI lost Rs.16.95 lakhs and the entire deposit of Rs.91.95 lakhs remained idle from October 1986 to May 1991.

ii) A similar decision was taken in respect of gauge conversion from Milavittan goodshed to Tuticorin port. FCI paid Rs.7.50 lakhs in January 1986, being its share of the cost of gauge conversion. In July 1988 the FCI intimated the Railways that their earlier proposal for construction of 30000 MT godown in Tuticorin was dropped and so the railway line was unlikely to be used. The refund claim was, however, turned down by the railways since the gauge conversion had already taken place. FCI incurred Rs.213.02 lakhs between July 1988 to June 1990 as transportation charges of foodgrains from Tuticorin to Milavittan by road. Had FCI used the converted siding it could have saved Rs.175.63 lakhs as it would have incurred only Rs.37.39 lakhs for the use of the siding.

iii) Railway siding at a cost of Rs.8.69 lakhs was proposed in April 1975 to service a capacity of 10000 MT at Mavelikkara (Kerala). The amount was deposited by August 1980. The railway revised the estimates to Rs.32.64 lakhs in February 1984 and to Rs.90.55 lakhs in June 1985. FCI gave up the idea of the siding due to paucity of funds and also because there was no proposal for additional storage capacity at this centre. But in October 1988, a siding was found essential due to increased activities and FCI approached the Railways in May 1990. Railways revised the estimated cost to Rs.167 lakhs in January 1991. No decision had been taken by FCI till April 1994 and FSD Mavelikkara has already incurred avoidable handling and transportation charges of Rs.68.90 lakhs during April 1987 to March 1994.

The Ministry stated (February 1995) that the project had been accepted by the FCI management in principle at a re-estimated cost of Rs.248 lakhs and the preliminary works were in progress.

iv) A proposal to provide additional railway siding for 45240 MT godowns at Mulangunnathukavu (Thrissur district) at a cost of Rs.16.52 lakhs was approved in March 1979, and land was acquired at a cost of Rs.24.37 lakhs from the State Government in January 1984. In September 1989, the proposal was dropped because the existing siding could cater to the godowns by placement of 50 wagons each month and additional siding at revised cost was found to be uneconomical. These factors were, however not considered before acquisition of land in 1984.

The Ministry stated (February 1995) that on reconsideration the siding is found viable and FCI management have accorded approval for the additional siding and centage charges paid.

v) Railway siding at Angamaly (40,000 MT) was proposed with three tracks, one for each row of godowns and the third track to serve as engine escape line. Railways had completed about 450 metres of escape line by August 1988 when FCI decided that escape line was superfluous. An amount of Rs.9.45 lakhs incurred on escape line became infructuous.

vi) FCI had a storage capacity of 68220 MT in Kapa, Madhya Pradesh. Over a period of time this facility got downgraded as it suffered from a high percentage of storage loss due to the floor level of sheds being lower than the adjoining roads, necessitating use of wooden crates. Also, the facility suffered from roof leakage because of the multiple span type construction with many valley gutters. Consequently, by April 1988 the monthly stock held in the facility tapered down to 4019.36 MTs. There was no handling of foodgrains in Kapa since April 1988. Despite non-utilisation of the storage facility, maintenance charges for 13 railway sidings amounting to Rs.34.63 lakhs were paid for the period April 1988 to June 1992.

vii) In March 1987, the Corporation deposited Rs.79.35 lakhs with the Railways for providing additional siding facilities at Manmad. In March 1991, the

Corporation further deposited Rs.29.95 lakhs as estimates were revised to accommodate (a) installation of in-motion wagon weigh bridge (b) extension of existing siding (c) providing culvert below railway track. The siding was to be completed within 19 months from the date of deposit of funds but was ultimately completed in July 1994 after a delay of 6 years. Provision of in motion weigh bridge was also dropped.

7.11 FCI had also made avoidable payments to Railways after sidings were completed. For example, Railway Board had notified in September 1987 that wagon siding charges would not be levied on "trip basis" but on "through distance basis". FCI did not take advantage of this notification in respect of Gandhidham railway siding and paid Rs.39.40 lakhs till November 1994. The Corporation took up the matter with Western Railways after a delay of 20 months.

Railway siding at Santhanagar, K.C. Canal, Timmencherla depots could not avail through-distance-basis freight charges as these sidings lacked escape lines. Consequently FCI paid Rs.70.62 lakhs on trip basis for the period July 1987 to March 1994.

The Ministry stated (February 1995) that at this distant time, with godown complex already built, the provision of escape line in these depots is not possible.

7.12 Railway sidings are constructed as deposit works by the Railways. An analysis of the deposits by the FCI indicated that Rs.12.47 crores were lying with the Railways for the last 6 years without any final agreement on the locations where these sidings are to be constructed. The details of deposits with railways are as under:

Year	Amount of deposits (Rs in Lakhs)
1988-89	2982.59
1989-90	2568.15
1990-91	1829.32
1991-92	1340.57
1992-93	1315.38
1993-94	1364.60

As against the deposit of Rs.1364.60, only one railway siding (Wardha) at the estimated cost of Rs.117.27 lakhs was in progress at the end of the year 1993-94. Such big deposits without immediate benefits adversely affect the liquidity position of the Corporation.

The Ministry stated that such a huge outstanding is because respective Railways have not rendered the accounts.

8. DEMURRAGE

8.1 In order to ensure quick turn around of wagons, Railways have specified the free wagon hours, both for loading and unloading, according to the type of wagons. If these free-hours are exceeded, the Railways levy demurrage charges. The rates of demurrage payable vary from Rs.1 per hour per tonne for 1 to 24 hours, to Rs.2 per hour per tonne for free wagon hours exceeding 48 hours.

8.2 Food Corporation of India has incurred enormous expenditure on demurrage in the last 5 years as indicated below:-

Year	Demurrage (Rs. in lakhs)	Qty.moved (in lakh tonnes)	Incidence per MT moved(in Rs.)
1989-90	Rs. 1623.90	164.22	9.89
1990-91	Rs. 2222.56	178.10	12.48
1991-92	Rs. 2121.33	191.70	11.06
1992-93	Rs. 2478.17	183.70	13.49
1993-94	Rs. 3925.97	186.50	21.05

8.3 Zone-wise expenditure on demurrage over the last five years ending 1993-94 is as under :-

(Rupees in crores)

Zone	1989-90	1990-91	1991-92	1992-93	1993-94
East	7.57	11.52	11.46	10.85	11.33
West	0.78	1.83	1.07	1.63	5.06
South	0.70	1.65	1.09	1.21	5.34
North	2.20	2.54	2.27	2.79	4.64
NEF	4.99	4.68	5.32	8.30	12.89
Total	16.24	22.22	21.21	24.78	39.26

Clearly, East and North-East Frontier zones were weak in controlling demurrage. In 1993-94, demurrage charges went up substantially in all the zones.

The Ministry stated (February 1995) that increase in East and North-East Frontier zones were due to law and order situation and conversion of Broad Guage beyond Guwahati and Lumding. As regards increase in South and West Zones even when godowns were saturated in these two regions, additional stocks were sent from the North. In North Zone, the increase was due to labour agitation in Delhi Area.

8.4 Region-wise analysis indicated that Assam (Rs.12.48 crores), West Bengal (Rs.9.11 crores), Karnataka (Rs.2.04 crores), Tamil Nadu (Rs.1.92 crores), Uttar Pradesh (Rs.1.45 crores), Maharashtra (Rs.2.52 crores), Gujarat (Rs.1.40 crores) and Delhi (Rs.1.34 crores) required closer monitoring.

8.5 A further analysis was done of the depots where heavy demurrages were paid. In Delhi region, Ghevra and Narela incurred 42% and 29% of the regional total in 1992-93. In 1993-94, their share was 24% and 13.6% respectively. In Naraina depot the expenditure had gone up from 29% in 1992-93 to 62.3% of the regional expenditure in 1993-94.. In April 1993, in Naraina depot alone demurrage charges accrued were Rs.10.66 lakhs and in September, 1993 Rs.28.78 lakhs.

In UP region Kanpur, Allahabad, Varanasi, Lucknow, Gorakhpur and Haldwani accounted for 76% and 94% of the total demurrage charges incurred. during 1991-92 and 1992-93. Kanpur district alone accounted for 34% in 1991-92 and Varanasi's share was 26.5% in 1992-93. During the three years demurrage and wharfage charges accrued due to the fault of Handling and Transport contractors stood at Rs.72.82 lakhs, which was recoverable from them.

8.6 According to FCI, the reasons for payment of demurrage are as under;-

i) Placement of wagon on Sundays/holidays.
ii) Paucity of storage space
iii) Slow work by DPS labour.
iv) Wagons placed beyond railway siding capacity.
v) Late receipt of rebooking order.
vi) Bunching of rakes.
vii) Inadequate facilities available for unloading.
viii) Arrivals of excess rakes than Despatch Instructions.
ix) Poor productivity of staff and labour and
x) Inadequate handling arrangements.

All these are controllable factors. Since the demurrage expenditure is showing an upward trend, it is imperative that FCI management effectively control these.

According to the Ministry (February 1995), in addition to the above reasons, reasons like law and order, poor off take, saturation of godowns and practices of Railways in placement of wagons and claims should also be taken into account which are uncontrollable.

8.7 Amongst the regions, Maharashtra paid Rs.160.20 lakhs in 1993-94 as against Rs.17.34 lakhs in 1989-90 i.e. an increase of 824%. Similarly in Madhya Pradesh Region it rose from Rs.2.46 lakhs to Rs.74.95 lakhs, an increase of 2940%. In Bihar Region demurrage charges ranged between Rs.117.32 lakhs to Rs.151 lakhs when quantity handled was 5.65 lakh tonnes to 9.50 lakh tonnes during 1990-91 to 1992-93. Similarly, West Bengal Region handled 13.82 lakhs to 17.04 lakh tonnes during the above period but consistently paid over Rs.500 lakhs as demurrage. These amounts when compared to payments made by Punjab Region (Rs.0.84 lakh to Rs.6.77 lakhs) which handled 89 lakh tonnes to 100 lakh tonnes, would seem to be abnormally high. In case of Orissa and NEF Regions, demurrage payment per tonne ranged between Rs.6.76 to Rs15.22 and Rs.12.50 to Rs 17.57 respectively.

The Ministry stated that the abnormal increase in Bihar, Maharashtra and West Bengal was mainly on account of labour agitation, law and order problem and saturation of godowns.

8.8 There were instances when FCI paid demurrage on import also. FCI had paid Rs.105.05 lakhs as demurrages for delay by an exporter in loading the rice on the vessel. It, however, failed to realise the demurrage from the seller.

In case of import of wheat and milo from Houston USA a demurrage claim for $ 1,86,916.67 was made(October 1974) which was contested by FCI although the merits of the case were in favour of shipowners. The Arbitrator awarded

(October 1990) US $ 3,00,089.13 towards unpaid freight, disport demurrage and interest thereon. FCI paid US $ 2,96,834.13 (March,1994) and the balance of US $ 3,255.00 plus accrued interest upto March, 1994 remained to be paid. Besides this, FCI paid litigation costs of Pounds 2,27,107.54 (March 1992) and has still to pay Pounds Sterling 50,340.33 for interest and Pounds Sterling 10,750 for taxing fee. The total payment by FCI was thus more than the original claim by US $ 1,13,172, apart from legal cost of Pounds Sterling 2,88,197.87 incurred.

9. DISTRIBUTION OF LEVY AND IMPORTED SUGAR

9.1 Sugar, both levy and imported, is distributed by the State Governments and Food Corporation of India (FCI). Responsibility of the FCI in distributing levy sugar is limited to states of Assam, Arunachal Pradesh, Meghalaya, Manipur, Nagaland, Tripura, Mizoram, Sikkim, West Bengal, Orissa, Bihar, Jammu & Kashmir, Delhi and the Union Territories of Andaman and Nicobar and Lakshadweep. For imported sugar, FCI handles it right from the ports to the consuming destinations.

9.2 The operating results in respect of levy sugar for the five years ending 1993-94 are as under:

(Rs. in lakhs)

	1989-90	1990-91	1991-92	1992-93	1993-94
Cost of Sales	58,071.39	63,780.57	69,799.98	75,450.29	86772.59
Distribution Cost a) Freight	5,946.66	5,797.07	6,528.03	6,484.67	9565.93
b) Handling Charges	930.31	1,055.62	1,460.79	1,456.44	1588.07
c) Admn. Charges	1,079.13	1,172.60	1,275.54	2,063.20	1823.65
d) Octroi Charges	122.73	116.12	139.81	104.41	13.56
e)Other direct Expenses	17.55	22.27	8.26	8.06	3.94
f) Storage Charges	387.25	319.58	359.51	747.69	382.35
g) Fee on Bank guarantee	-	-	-	31.62	33.75
Interest a) On FCI Funds deployed	995.06	1,304.61	1,751.55	2,567.47	2147.23
b) On Expenses	689.29	712.24	1,073.45	1,280.15	1372.98
Losses	1,065.90	1,065.66	1,675.99	1,755.64	1251.58
Economic Cost	69,305.27	75,346.34	84,072.91	91,949.64	104955.63
Gross Sales Realisation	60,065.53	61,810.07	72,542.21	85,149.33	102235.81
Margins and other charges	1,672.91	1,853.63	1,988.35	1,738.80	2269.61
Net Sales Realisation	58,392.62	59,956.44	70,553.86	83,410.53	99966.20
Gross Deficit	10,912.65	15,389.90	13,519.05	8,539.11	4989.43
Claims Recoverable	796.70	729.65	1,458.41	1,645.48	1234.47
Adjustment relating to Previous year	51.97	18.26	28.70	3.89	-
Net Deficit	10,167.92	14,678.51	12,089.34	6,889.74	3754.96

9.3 The annual net deficit increased from Rs.101.68 crores in 1989-90 to Rs.120.89 crores in 1991-92. In 1992-93 and 1993-94 the deficit came down sharply to Rs.68.90 crores and Rs.37.55 crores despite loading of bank fee and higher losses, only because sugar prices had been hiked more than the increases in purchase cost to cover the deficit.

9.4 A further analysis revealed that the distribution costs and interest remained largely uncovered in the first three years. These distribution costs included freight, handling charges, administration charges, storage charges and bank guarantee. Out of these, handling charges, administration charges, storage charges and interest costs increased disproportionately.

The average handling, administration, storage and interest overheads per quintal of sugar sold during the last five years ending 1993-94 are as under :

(Rs. per quintal)

	1989-90	1990-91	1991-92	1992-93	1993-94
Handling	8.14	8.98	12.09	12.10	13.07
Administration	9.44	9.97	10.55	17.14	15.01
Storage	3.39	2.72	2.97	6.21	3.15
Interest	14.73	17.15	23.37	31.97	28.98
Total	35.70	38.82	48.98	67.42	60.21

The Management stated (January 1995) that increase in administrative charges and interest charges was mainly due to payment of salary arrears and hike in interest rates respectively.

9.5 There were losses in transit and storage which went up from Rs.10.66 crores in 1989-90 to Rs.17.56 crores in 1992-93. In 1993-94 these came down to Rs.12.52 crores. As per the norms of FCI no losses are permissible for sugar since it is bagged in A Twill bags. Yet the following type of losses were admitted by FCI during the years 1990-91 to 1993-94.

(Rs. in lakhs)

	1990-91	1991-92	1992-93	1993-94
Storage Loss	**21.33**	**21.30**	**15.67**	**14.99**
Transit Loss excluding missing wagons	**250.45**	**245.70**	**267.99**	**266.71**
Physical Verification Loss	**6.32**	**1.67**	**-**	**-**

These losses were not fully investigated.The loss per quintal of sugar sold was Rs.9.06 in 1990-91, Rs.13.87 in 1991-92, Rs.14.59 in 1992-93 and Rs.10.31 in 1993-94.

An illustrative case is narrated below:

1159.59 MT of sugar (899.88 MT indigenous and 259.71 MT imported) in sweated condition valuing Rs.58.19 lakhs was reported lying in Food Storage Depot (FSD) Jamshedpur for the last 4 to 8 years. In all 12 stacks of sugar were found to be missing on inspection by Regional Categorisation Committee. No action was taken on the missing stacks. In May, 1993 the Committee again found itself helpless as the stacks were in unapproachable and in an uncountable position. The stalemate has not been resolved though 100 percent physical verification and fixation of responsibility is overdue. This was reported by Audit to FCI in July 1993. After a lapse of 18 months the Management stated (January 1995) that it was collecting facts.

9.6 Since the FCI is being reimbursed costs and losses on actuals, there is no incentive to control costs or losses, unlike State Governments which store and distribute sugar and are paid fixed margins for handling charges, administrative charges , bank commission, interest and storage losses. The Management stated (February 1995) that FCI operations were larger than that of State Governments and hence losses were more.

9.7 FCI is allowed six handlings/movements which determine the amount reimbursible to it under handling charges and administrative charges. These six handlings cover purchases, sales, two transfers in and two transfers out. In other words, the volume of turn over paid for by the Government was five times that of volume of purchases. Unlike foodgrains, sugar purchased from mills in bags is immediately transferred to consuming stations by Mills themselves. Thus there is little handling by FCI. But purchase and sales were counted as two operations and claim on the above basis for handling and administrative expenses amounted to Rs.3307.28 lakhs during the last 5 years upto 1993-94 as detailed below:

	1989-90	1990-91	1991-92	1992-93	1993-94
FCI all India Average rate for Handling (per MT)	18.50	21.20	28.10	27.90	30.80
Transfer out Quantity (MT)	11,24,653	11,11,304	11,70,748	12,01,124	11,84,787
Excess amount(Rs.in lakhs)	208.06	235.60	328.98	335.11	364.91
FCI all India average rate for Admn.Expenses (Per MT)	23.70	26.10	26.80	42.60	38.20
Excess charges (Rs.in lakhs)	266.54	290.05	313.76	511.68	452.59

The Ministry stated (January 1995) that under no circumstances six handlings are admissible. It further added that almost all State Governments are being given two or more operations for handling the sugar. Hence FCI claim for two operations as a wholesaler is valid. The Ministry also considered the average handling rate and average rate for administrative expenses of FCI to be on the higher side.

9.8 FCI charged the Government for inter-depot transfers. The inter-depot movement of sugar during the last four years was as under:

Year	Quantity(in lakh MT)	% to transfer out
1989-90	2.28	21
1990-91	2.06	20
1991-92	2.20	19
1992-93	1.89	16
1993-94	1.91	16

Such heavy inter-depot movement resulted in avoidable expenditure on freight and handling and also showed lack of planning in movement of sugar by FCI.

The Ministry stated that inter-depot movements may be necessary during years of shortages. Secondly, since FCI had no control over the allotment to retailers there could be mismatch between availability in certain depots and demand. This indicated that efforts were not made by FCI to reduce this expenditure by suitable co-ordination with the State Governments to minimise inter-depot transfers.

9.9 FCI derives all-India average storage cost, handling cost and administration cost by dividing the total cost by the total quantitites of both foodgrains and sugar, which are then used for calculating the subsidy for both foodgrains and sugar as per the principles laid down by Government in April 1980 for working out the subsidy. This seems improper as the foodgrains are stored for long periods and buffer stocks are maintained. For sugar the average storage period is only about six weeks and no buffer stocks are maintained. Further, foodgrains are to be procured in mandis in volumes and in unpacked form. In the case of sugar, the operation is simpler in as much as these are taken delivery of from the mills and immediately transported to the destination States. Also foodgrains are procured in a period of 3 to 4 months whereas sugar can be procured round the year. By following a uniform principle for calculation of costs, the inefficiencies of procurement and storage of foodgrains is passed on to sugar.

The Ministry stated (February 1995) that Government of India's order dated 25.4.1980 shall be amended keeping in view the recommendation of the Committee for Margins and the comments of audit.

9.10 The storage charges are calculated by taking into account rent for godown, municipal taxes, insurance cost, stores and spares, repairs and maintenance cost, establishment charges and depreciation on godowns, weigh bridges etc as incurred by FCI. Establishment charges constitute the biggest component of average storage cost. The total establishment charges had gone up from Rs.156.37 crores in 1989-90 to Rs. 311.06 crores in 1992-93. Due to this increase, allocated establishment costs for levy sugar had also moved from Rs.10.79 crores to Rs.20.63 crores. Thus the burden of establishment charges on levy sugar had more than doubled in a four year period This could have been brought down to some extent with better utilisation of storage capacity. The utilisation ranged from 42% to 66%, whereas it should have been not less than 80%. In sum, establishment charges of FCI, multiple handling charges and poor utilisation of storage capacity had a three way cost push on levy sugar.

9.11 FCI had charged between Rs.1.71 and Rs.3.29 per quintal for storage charges during 1989-90 to 1992-93. On the other hand, the storage charges with CWC/SWC were lower during the same five year period

(In Rupees)

Year	CWC	SWC
1989-90	0.88	0.74
1990-91	0.90	0.94
1991-92	1.14	1.07
1992-93	1.11	1.11
1993-94	1.12	1.16

Thus, there seems to be ample scope for reduction in storage charges incurred by FCI.

9.12 Like storage charges, interest charges also went up from Rs.16.84 crores in 1989-90 to Rs.35.20 crores in 1993-94. This alone pushed up the cost of levy sugar by Rs.14.25 per quintal in this five year period. In the states where FCI did not distribute sugar the interest element in the wholesalers' margin effective from April 1993 varied between Rs. 9.82 to Rs.13.84 per quintal. As against this , the interest element charged by FCI ranged between Rs. 14.73 per quiintal and Rs.31.97 per quintal during the period 1989-90 to 1993-94. The extra payment thus made to FCI, worked out to Rs.78.18 crores.

The Ministry stated (February 1995) that time lag between lifting and distribution of sugar in the case of States and FCI were different. The reply is not correct because FCI also lifts levy sugar from mills and distributes it within a month, which was also admitted by FCI.

9.13 Further there were also losses on account of missing wagons. Since FCI and the Railways have not reached any settlement on the transactions, these losses have not been fully determined. The following are the unreconciled losses on account of missing wagons for the last four years:

Year	Qty. in tonnes	Rs. in lakhs
1990-91	13762	746.79
1991-92	24031	1385.58
1992-93	23491	1468.27
1993-94	13435	958.10

The Management stated that continuous efforts are made in tracing and linking missing and unconnected wagons.

9.14 FCI also claimed heavy amounts from the Government of India on account of carrying cost and financing cost of damaged levy sugar which was not disposed off in time. Between 1991 and 1993, the total amount claimed was Rs.63.82 lakhs in respect of 22,100 MTs

9.15 FCI distributed sugar in 13 states and 2 Union Territories and claimed a deficit of Rs.475.81 crores between 1989-90 and 1993-94, whereas the States had claimed a subsidy of only Rs.190.95 crores during the same period. Some States even made surpluses and contributed Rs.265.85 crores to the Sugar Price Equalisation Fund. In 1992-93 and 1993-94, none of the states claimed deficit from Sugar Price Equalisation Fund, while FCI claimed Rs.68.90 crores and Rs.37.55 crores respectively.

9.16 Government of India imported 2.42 lakh MTs of sugar in September 1989, the distribution of which was handled by FCI. Taking into account the balance stock of sugar imported earlier, the year-wise disposal of 2.61 lakh MTs of imported sugar is as under:-

(in lakh MTs)

Year	PDS	Free Sale
1989-90	0.15	1.39
1990-91	0.10	0.50
1991-92	-	0.40
1992-93	-	0.02
1993-94	-	0.01

Rs.3.33 crores were incurred as storage cost and Rs.20.73 crores as interest charges.

The Ministry stated (February 1995) that the imported sugar could not be sold out completely due to consumer resistance. However, by making persistent efforts only 323 MTs was left over as on December, 1994 against total import of 2.42 lakh MTs. The Ministry also stated that specific instructions had been issued to liquidate this on or before 31st March, 1995. However, the stocks were yet to be disposed off (July 1995).

10. INTERNAL AUDIT

10.1 FCI has a full-fledged Internal Audit and Physical Verification (IA&PV) Division headed by an Executive Director and 591 other staff including Managers, Joint Managers, Deputy Managers, Asstt. Managers, and Assistants. Against this the staff in position in February 1994 was 465. There are zonal and regional formations except in Himachal Pradesh, Jammu & Kashmir and Port Offices.

The sanctioned strength of 591 for the IA&PV Division has been static since 1976, when the total strength of the Corporation was 51475. This had gone up to 65931 in March,1994. Similarly, the turnover of the Corporation went up from Rs.4312 crores in 1975-76 to Rs.22911 crores in 1993-94. Thus, while the staff strength of FCI has gone up by 28%, the strength of IA & PV Division had remained static. Over the years this has weakened the efficacy of IA.

In addition to District Offices and Depots Internal Audit is also responsible for the audit of regional/zonal offices, Modern Rice Mills, units in Headquarters and any other special audits assigned to it.

10.2 The IA&PV Division has the following targets:-

a) Develop paragraphs that have to be brought to the notice of Board of Directors to be picked up from the observations made by the field audit officers alongwith reaction/comments of auditee units.

b) Monitor the coverage of internal audit/physical verification in each region.

c) Monitor the response and settlement of paragraphs already reported.

d) Develop, circulate and review the policy guidelines for determination of money value objections/categorisation/check list for conducting the audit of each specific area/function.

e) Develop and monitor the feasibility of simplifying the audit procedures with a thrust to give wider coverage with lesser mandays by prescribing random sampling and other techniques.

10.3 The performance of IA&PV Division was reviewed and the following points emerged :-

i) Zonal and Regional Offices are required to be audited twice a year. In practice, the periodicity ranged between 1 year and 2 years in respect of Regional offices in Punjab, Haryana, Jammu & Kashmir.
Similarly District Offices are required to be visited only once a year. Contrary to these instructions, all the offices were covered twice a year in Punjab, Haryana, J&K and West Zone.

Due to shortage of staff, the audit of Zonal and Regional Offices in the East Zone was conducted only once a year.

ii) Each Audit Team consists of one Asstt. Manager and 2 Assistants. While the Asstt. Managers are trained, no such training was provided to the Assistants except in East Zone.

The Management intimated (January 1995) that conducting training workshops for Assistants in Internal Audit and Physical Verification Division is under consideration.

iii) IA&PV Division is expected to conduct transaction audit, accounts audit, systems audit, efficiency audit and physical verification of stock. In practice, more emphasis was laid on establishment audit and vouching. Systems audit was scarcely attended to.

The Management intimated (January 1995) that systems audit is carried out together with transaction audit but the work relating to System Audit is facing hindrance in certain regions due to paucity of trained and suitable personnel.

iv) As of 1st March, 1995, 36 offices and 83 depots remained to be audited and Physical Verification in 80 depots was yet to be carried out. Some of these had not been audited for more than 3 to 5 years. The reason for arrears was stated to be the inadequacy of staff. The statutory auditors have also regularly commented upon the poor coverage of physical verification of stock.

The Management stated (January 1995) that the review of sanctions in IA&PV Division with reference to present level of work load, taking into account the volume and complexity of operations, would be taken up as a part of HRD programme as early as possible.

v) An analysis of the objections raised by IA revealed that it had not concerned itself with some of the important functions of FCI. Illustratively, IA had not raised any objection on Manpower, Subsidy, Budgetary control, Construction Management, Port Operations, Import and Export, Open sale of Wheat, Procurement, Procurement incidentals, Sales and Purchase of gunnies.

The Management informed (January 1995) that an agenda note was being prepared to be put up to the Board to determine the scope of levels and functions which would be subjected to scrutiny by IA&PV Division.

vi) Internal Audit also suffered because of poor response from the operational executives of FCI and lack of necessary support from the Management. As on 1st March, 1995, 64113 paragraphs having money value of Rs.2839.86 crores were pending settlement. Similarly, 30395 paras on physical verification of stock were also pending settlement.

The Management while accepting the observations stated that the Regional Heads felt that IA&PV Division ought to settle their own paras even without District Managers becoming aware of the paras or replies.

vii) ·22 cases of serious nature referred by IA Wing to Vigilance Wing for appropriate action during 1990 were still pending action.

viii) Follow up action had not been taken on 19 important observations involving Rs.743.06 lakhs put up by Internal Audit to the Board in the 174th Meeting held on 27th November, 1986 and no further report was put up to the Board thereafter.

ix) Similarly, final action was pending on the reports submitted as a result of special audit relating to the periods 1985-88. Due to inordinate delay, it has not been possible to initiate action/effect recovery in 7 cases since the employees are no longer in the service of the Corporation due to retirement, resignation etc.

x) Some of the important objections raised by internal audit in regard to quality of foodgrains, excess freight, ill stocking, unnecessary transportation etc. involving an amount of Rs.177.85 crores in respect of 49 cases were not replied to by the operational chiefs. No system corrections were made by FCI.

Giving the assessment of the overall functioning of the IA&PV Division, the Management acknowledged (January 1995) that the Internal Audit teams required a thorough qualitative upgradation. It further added that the inefficacy of Internal Audit had to be properly attributed to the inadequate importance given by the Policy Level Management and comparative insensitivity of auditee to such non-glamorous operations at lower level.

10.4 The IA&PV Division is also required to audit the accounts of the Corporation before their submission to the Statutory Auditors. However, the annual accounts of the Corporation continue to reveal persistent irregularities. There is no reconciliation between MIS data and figures appearing in the accounts, storage losses, transit losses, railway claims, deposits with Railways etc. are inadequately reconciled. These deficiencies reflect poorly on the quality of work of the IA&PV Division.

11. MODERN RICE MILLS

11.1 By 1977 FCI had set up twenty five Modern Rice Mills (MRM) to popularise modern milling techniques by introducing mechanical drying, par-boiling, post-harvest drying of paddy, paddy cleaning, roller shelling etc. It was anticipated that these techniques would yield higher outturn of rice by eight to ten percent.

11.2 25 MRMs were set up at a cost of Rs.483.27 lakhs, out of which Rs. 355.12 lakhs was met by Government of India by way of equity contribution. The rated capacity of 24 MRMs ranged between 3 and 4 MTs per hour and it was 2 MTs per hour for the remaining one. The total annual attainable capacity for 25 mills was 4.4 lakh tonnes. This capacity was achievable if the moisture content of input paddy was not beyond 15% and foreign matter not beyond 2%. However, in practice the moisture content exceeded 16% and foreign matter 5%. Consequently the rated capacity of each mill was reduced to an average of 3 MTs per hour. Over a period of time the operating capacity itself came down to 2 to 3 MTs in Southern and Northern zone and 1.2 to 1.9 MTs in Eastern zone mills due to several operational problems like wear and tear of the machinery, power factor, policies for procurement of paddy by State Governments etc. Transporting paddy procured in Punjab and Haryana to Eastern & Southern mills became expensive and local custom milling in private mills became attractive. The operational efficiency of the rice mills of the Corporation made local procurement also less attractive. The comparative economics of the operations in modern rice mills and private mills is discussed in detail separately.

11.3 Another operational bottle-neck for MRMs was the labour problem. The mills were to operate in shifts, but the overtime rate for other than general shift made these expensive. Frequent break downs of the machinery and non-availability of spare parts aggravated the problems.

11.4 The Committee on Public Undertakings (COPU) had reviewed the performance of these mills in 1973-74 and 1980-81. The committee noted that capacity utilisation had come down from 64% in 1976-77 to 24% in 1979-80. As a sequel, FCI decided in March 1984 to improve the performance of 12 mills located in South and North Zones, by replacement of huskers and polishers, installation of pre-cleaners, provision of generators etc. Despite these steps, capacity utilisation remained low as brought out in paragraph 11.6 below.

These difficulties led to an appraisal (May 1986) of the viability of these mills by the Corporation for the first time. The mills were categorised into three groups viz.well performing mills, mills that could be improved and mills which should be scrapped. In pursuance of these decisions, thirteen mills mainly in Eastern India were identified for closure. The Ministry of Food and Civil Supplies directed (February 1987) that a time bound programme should be chalked out for the disposal of these mills by open tender inquiry/auction. Storage godowns were to be constructed on the land where the mills were standing. Accordingly a time table for disposal was drawn up which envisaged opening of tenders for sale by end of May, 1987.

Till October, 1995 the Corporation has been able to sell off machinery of only eleven mills out of the thirteen decided to be scrapped. Of these eleven, the machinery from nine mills has already been lifted by the buyers. In respect of the remaining two, the buyers were not allowed to lift the machinery due to labour problem though payment had been made by them. Consequently, the buyers have gone to court. In all, against the capital outlay of Rs. 205.94 lakhs for nine mills, FCI realised Rs.42.56 lakhs only.

11.5 The written down value of the remaining twelve mills was Rs.0.32 crores as on 31.03.94 as against the initial capital cost of Rs.2.99 crores. The capacity utilisation of these twelve mills was 26.6% in 1990-91, 20.6% in 1991-92, 9.0% for 1992-93 and 4.4% for 1993-94. In other words, average capacity utilisation which was 24% in 1979-80 had dipped to 4.4% only by 1993-94.

11.6 Against available working hours of 78525, 81834, 77742 and 81684 during the years 1990-91 to 1993-94 respectively, the actual working hours were only

29869, 24247, 11894 and 5641 in these four years. The down time analysis indicated that loss of working hours was mainly due to non-availability of paddy which accounted for 23.5% to 66.23% of the total down-time during this period The details are as under:

Loss of working hours due to	1990-91	1991-92	1992-93	1993-94
i) Want of paddy	11437	14860	42823	50369
ii) Absence of labour	5288	6223	7181	16582
iii) Absence of space	2411	854	2540	1477
iv) Absence of power	6790	5270	2682	1487
v) Break down	7007	5812	2155	506
vi) Absence of spares	2260	1840	841	292
vii) Maintenance	6105	8274	2483	1825
viii)Miscellaneous	7358	14454	5143	3505
Total down-time	48656	57587	65848	76043

11.7 While the above analysis indicated nonavailability of paddy as a reason for excessive downtime, it was observed that 44734 MTs of paddy was handed over to private millers for custom milling in Karnal in the last five years, while the capacity utilisation of MRM Karnal during this period ranged from 3.7% to 29.6%, as shown below:-

(figures in MTs)

Year	Paddy required for MRM	Paddy supplied	Shortfall	Paddy given for custom milling
89-90	18000	1144	16856	3021
90-91	18000	3958	14042	18779
91-92	18000	2424	15576	16704
92-93	18000	5988	12012	6230
93-94	18000	2069	15931	NA

11.8 The average cost of milling of rice in the twelve mills of FCI was Rs.187.18 per MT in 1991-92 which went up to Rs.2703.33 per MT in 1993-94. The abnormal increase was due to decline in quantity milled which came down to 9438 MTs in 1993-94 from 44,460 MTs in 1991-92. In comparison, the rate paid by FCI to private millers for custom milling was only Rs.90 per MT during 1993-94. This indicates that operation of MRMs is no longer economically viable. Some of the factors contributing to high cost of milling are discussed below.

11.9 Power accounted for more than 64% in 1993-94 of the variable cost for milling. Steps had not been taken by the Corporation to control this cost. Illustratively, it was seen that FCI took upto 40 months to initiate proposals for reduction of the requirement of power in the case of six mills which were closed. Such delays resulted in each mill paying upto Rs.20,000 per month as minimum demand charges. The financial impact of delayed intimation resulted in avoidable payment of Rs.6.10 lakhs in respect of three mills in Orissa.

11.10 Amongst the fixed costs, salary and wages constitute the biggest component. This increased from Rs.308.37 per MT in 1991-92 to Rs.1976.80 per MT in 1993-94. According to FCI, the complement of staff to be attached to the MRMs has not been determined. The mills are treated as Districts and staff is posted accordingly. It was seen in October 1994 that 22 districts are still reckoned in the records of FCI though 13 mills had been closed. Thus, to this extent the staff is in excess.

11.11 The Zonal Manager (South) proposed (September 1991) that either full scale revamping of the MRMs alongwith streamlining of all the activities should be decided upon and implemented or the MRMs should be shut down and disposed off. Such revamping was to cost Rs.40 lakhs per mill. Even after such investment economic viability of the mills was not guaranteed. In December 1992 it was decided not to undertake modifications etc. However, again in January 1993 it was decided to carry out minimum repairs. Two expert committees were appointed to assess the financial requirements and propose administrative changes necessary. On the basis of their recommendations, a sum of Rs.13.60 lakhs was sanctioned for the mills located in South Zone against which a sum of only Rs.4.09 lakhs could be spent in Andhra Pradesh Region. The mills in Tamilnadu and Andhra Pradesh were also asked to explore the possibility of custom milling for Tamilnadu Civil Supplies Corporation and commercial purchase of paddy for milling in Andhra Pradesh. No headway could be made in either of the directions.

In the absence of decision, the Corporation continued to pile up its losses. During the period 1980-81 to 1992-93, MRM Karnal alone suffered net storage loss of 265.904 MTs of paddy and 53.25 MTs of rice. These were valued at Rs.3.56 lakhs and Rs.1.68 lakhs respectively.

11.12 A study conducted by FCI (April 1989) on the economics of running the MRMs indicated that FCI would incur lesser losses if the mills were closed. FCI is also of the opinion that the technology of MRMs is outdated and private custom milling is cost effective. It was analysed that the loss in four mills in Andhra Pradesh would be Rs.28.07 lakhs on fixed incidentals if the mills in Andhra were closed, Rs.243.63 lakhs if paddy were procured locally and milled and Rs.293.56 lakhs if paddy were moved from North and milled. Captive operations were thus found to be the costliest. A further study carried out in September 1993 by a Committee appointed by FCI concluded that the loss would be Rs.32.84 lakhs per annum per mill if mill was operated and Rs.18.63 lakhs if the mill was closed.

11.13 On the basis of such analysis the Corporation decided (September 1994) to dispose of the machinery of the remaining mills by tender/auction and to utilise the land for augmenting the existing storage capacity. No action has been taken so far (October 1995), and FCI continues to claim subsidy on account of MRMs. Because of the high costs incurred on MRMs, the subsidy claimed by FCI on this account also increased from Rs.122.23 lakhs in 1990-91 to Rs.255.14 lakhs in

1993-94. The total amount of subsidy paid to FCI on this account in the ten year period of 1984-85 to 1993-94 was Rs.1521.24 lakhs.

12. SUBSIDY

12.1 The difference between economic cost and selling price of foodgrains is paid by Government of India to FCI as subsidy. Since the Corporation carries buffer stocks as well as operational stocks, two different rates are applied to compensate the Corporation. In the case of buffer stock, subsidy is towards storage cost, storage loss, interest cost etc. In the case of operational stock it includes procurement costs like administrative costs of procurement and post-procurement costs like transportation costs, demurrage, storage/transit loss, interest charges etc. and is called 'consumer subsidy' In the last four years, the consumer subsidy (including unregularised shortages) and buffer stock carry over charges were as under:-

	Consumer subsidy		Buffer stock carry over charges	
Year	Rate per quintal (in rupees)	Total (Rs.in crores)	Rate per qtl. (in rupees)	Total (Rs.in crores)
1990-91	121.77	2072	63.53	476
1991-92	135.32	2891	77.55	433
1992-93	179.60	3224	103.65	451
1993-94	170.28	3175	117.16	1245

12.2 Subsidy is claimed from the Government to support several programmes like Public Distribution System, Integrated Tribal Development Programme, Jawahar Rojgar Yojna etc. The Government of India also determines the price in the case of sales to Defence Department and to Foreign Governments. In the last three years, the Corporation has been afforded subsidy under different schemes as detailed below:

(Rs.in crores)

	1991-92		1992-93		1993-94	
	Wheat	Rice	Wheat	Rice	Wheat	Rice
PDS	1239.65	1101.03	1338.23	997.85	791.99	980.75
Export	114.36	-	2.54	-	-	1.20
ITDP/RPDS	160.68	255.11	403.06	366.37	423.41	481.41
Open sale	(-)15.76	31.00	2.41	8.72	336.63	30.33
JRY	0.54	2.00	36.07	17.47	35.10	35.71
Defence/others	0.90	-	26.52	22.37	22.62	18.01
Damaged	0.17	1.23	0.78	1.38	1.52	15.21
Total	1500.54	1390.37	1809.61	1414.16	1611.27	1562.62

12.3 Significant costs which contribute to the increase in subsidy are transportation, storage, administrative and interest costs. The actuals of these in the last three years were as under:-

(Rs:in crores)

Year/Cost	Transportation	Storage	Interest	Administrative
1991-92	626.91	302.36	817.22	189.31
1992-93	578.65	399.45	876.71	297.32
1993-94	930.48	409.37	1379.48	291.31

12.4 Bureau of Industrial Costs and Prices (BICP) had analysed these (June 1990) and recommended adoption of normative costs so that there is an impetus to controlling the costs. According to the study, transportation costs contribute between 33% and 37% of costs and reduction in this would mean a sizeable reduction in subsidy. Instead, this cost went up considerably. As a norm the BICP suggested that quantity moved should not exceed procurement by more than 125%. As against this the quantitites procured and moved in the last three years are given below:-

(Qty.in lakh tonnes)

Year	Procured	Moved	Sales	%age of movement to procurement
1991-92	171.37	259.97	213.80	152%
1992-93	178.30	272.91	179.50	153%
1993-94	259.91	278.16	186.50	107%

12.5 Except in the last year, the ratio of movement to procurement was not within the norm. In absolute terms, movement has continued to increase. It is more because of inter-depot, inter-regional and inter-zonal movement of foodgrains. The criss-cross movement of foodgrains remained because of problems like locations of storage facilities, availability of rail head, absence of railway sidings and need to move substandard stocks etc. These structural weaknesses can be eliminated only with a consistent policy of updating facilities with reference to emerging demand patterns. Even the reduction in movement in the last year was achieved only because of bumper crops for four consecutive years and due to procurement in a big way in Uttar Pradesh and Andhra Pradesh. The bumper crop resulted in greater availability of foodgrains at points of consumption even in the open market and procurement in the two big States meant reduction in long haulage from Punjab.

12.6 Transportation Cost also includes cost of road movement of foodgrains. BICP had recommended control of this cost. While the total movement in 1993-94 was almost the same as in 1992-93, the incremental expenditure on road transportation was much more as shown below :-

	Rs.in crores
1991-92	60.93
1992-93	72.26
1993-94	91.95

12.7 An allied cost is demurrage,detention,diversion charges etc.BICP had recommended 2% of the total rail freight as the norm. The Corporation has not been able to achieve this norm as shown below :-

(Rs.in crores)

Year	Railway freight	Demurrage	% of demurrage to freight
1991-92	523.11	17.44	3.33
1992-93	464.12	17.65	3.80
1993-94	791.69	22.90	2.89

12.8 Administrative cost also had gone up causing an increase in subsidy. Since the Corporation does not allocate administrative costs to procurement, it is not possible to indicate the trend of the administrative cost component in procurement and distribution separately. The trend of administrative cost per quintal of sales is as under:

Year	Unit cost per qtl.
1991-92	Rs. 7.40
1992-93	Rs. 13.98
1993-94	Rs. 10.94

12.9 The number of employees and officers in the organisation is given below:-

Year	Total strength	No.of officers
1990-91	68502	4922
1991-92	67788	4890
1992-93	66631	4788
1993-94	65931	4851

The number of officers and staff put together had registered a marginal decline of 2571 between 1990-91 and 1993-94. The number of godowns, however did not show any appreciable decline and ranged between 1679 and 1704. As the bulk of FCI's Staff (54%) is employed in its storage godowns, the corporation had agreed before the Bureau of Industrial Costs and Prices (BICP) that there was surplus available staff in bigger depots as compared to the quantum of work.

BICP's study also pointed out that the higher storage cost in the case of FCI's owned godowns was mainly due to large staff strength employed by FCI as a result of more liberal staff norms as compared to the man-power employed by CWC and SWC.

The controllable office expenses of FCI also increased from Rs.4894.31 lakhs in 1991-92 to Rs.6286.32 lakhs in 1993-94.

12.10 One of the important suggestions made by BICP to contain the procurement cost was to fix a norm of 50% procurement by FCI and 50% through State Governments and their agencies. As already indicated in Chapter 2, performance of the Corporation on this front was far lower. Since agencies were procuring bulk of the foodgrains, staff of the Corporation was underutilised even for seasonal work. The cost also went up because agencies procured at a higher rate of Rs.1.25 per quintal. Since the total volume of procurement in 1993-94 was 259.91 lakh MTs, a major portion of which was through agencies, the extra cost is obvious.

12.11 Absence of timely regularisation of storage and transit losses is another area of weakness. Losses worth about Rs.774 crores remain to be regularised. The pace of clearance has been poor and the Corporation continues to lose about Rs.120 crores per annum at the borrowing rate of 15.50%.

The Ministry stated (March 1995) that Senior Regional Managers have been advised to bestow personal attention in this regard and a target of Rs.150 crores for regularisation of losses is fixed.

12.12 Interest is another significant item of expenditure. An amount of Rs.3073.41 crores was incurred on this account during the period of three years from 1991-92 to 1993-94. For selling 180 lakh MTs of foodgrains and for holding 60 lakh MTs of operational stock BICP had estimated the interest cost to be Rs.10.90 per quintal of sales for wheat and Rs.15.70 per quintal of sale for rice. For holding a buffer stock of 60 lakh MTs, BICP had estimated the interest cost to be Rs.24.70 per quintal for wheat and Rs.35.70 per quintal for rice. The actual interest cost for the year 1993-94 was as under:-

(Rs.per quintal)

	Operational stock	**Buffer stock**
Wheat	**33.06**	**43.24**
Rice	**42.96**	**74.15**

12.13 In addition to the above, there were marginal losses on account of failure to dispose of damaged foodgrains in time and failure to fix suitable price for open market sale of wheat and rice. It meant avoidable carrying cost and increase in subsidy.

12.14 In sum, normative distribution cost for wheat and rice as determined by BICP and the actuals were as under:

(1993-94)

	NORMATIVE COST		**ACTUALS**	
	Wheat	**Rice**	**Wheat**	**Rice**
Transportation	**30.50**	**30.50**	**50.22**	**41.82**
Interest	**10.90**	**15.70**	**33.06**	**42.96**
Storage	**4.70**	**4.70**	**8.11**	**8.07**
Grain loss	**1.90**	**3.70**	**4.40**	**9.97**
Handling labour	**8.80**	**8.80**	**10.70**	**10.69**
Administrative overheads	**7.20**	**7.20**	**10.95**	**10.94**
Distribution cost	**64.00**	**70.60**	**117.44**	**124.45**

BICP had estimated that adoption of normative costs would result in savings of Rs.205 crores which would directly reduce the subsidy. However, as against the normative cost of Rs.64 per quintal, FCI was incurring and claiming Rs.117.44 per quintal for wheat. In the case of rice it was Rs.124.45 per quintal against the norm of Rs.70.60.

13. OTHER TOPICS OF INTEREST

13.1 Some instances of important irregularities not covered in the previous chapters are detailed in this chapter. The net monetary implication of these irregularities is Rs.3530.51 lakhs. Since this amount added to the economic cost, it was reimbursed to FCI as subsidy. Avoidance of such occurrences would have, therefore, reduced the subsidy burden on the Government to this extent.

13.2 FCI handled imported fertiliser on agency basis from 1966 onwards on behalf of Ministry of Agriculture on no-profit no-loss basis. In March 1978, the Ministry of Food introduced six more agencies for handling imported fertiliser and further allotment to FCI was stopped from February 1982. The Corporation, however, continued to purchase packing material in excess of requirement as under;

(In lakh bags)

Year	Particulars	Opening Balance	Purch-ases	Transfer in	Transfer out	Consumption	Balance
1979-80	SBT gunnies	9.05	64.86	8.85	Nil	29.60	53.16
	Laminated gunnies	8.85	73.74	2.40	Nil	67.49	17.50
	Polythene Liners	35.04	38.17	Nil	5.30	24.38	43.53
1980-81	SBT gunnies	53.16	15.45	Nil	28.01	23.69	16.91
	Laminated gunnies	17.50	108.91	Nil	Nil	51.83	74.58
	Polythene liners	43.53	29.59	Nil	14.50	20.65	37.97
1981-82	SBT gunnies	16.91	Nil	1.03	Nil	3.91	14.02
	Laminated gunnies	74.58	Nil	Nil	Nil	44.84	29.74
	Polythene liners	37.97	10.00	Nil	Nil	4.00	43.97

Out of the stock of gunnies valuing Rs.286.61 lakhs at the end of March 1982, stock worth Rs.173.01 lakhs was consumed during 1982-83 to 1984-85 and the balance gunnies valuing Rs.113.60 lakhs were auctioned only in December 1987 at a loss of Rs.21.58 lakhs. In all, FCI suffered a loss of Rs.72.29 lakhs including storage charges of Rs.5.30 lakhs, storage shortages of Rs.1.68 lakhs and avoidable interest of Rs.43.73 lakhs on cash credit for 2 years and 9 months.

The Management stated that fall in business could not be predicted and the delay in disposal was unavoidable in the context of delegated decision-making at various levels. The reply is not tenable as FCI made bulk purchases of packing material during 1979-80 and 1980-81, after the Government had introduced multiagency system in March 1978.

13.3 Contrary to the mandatory provisions contained in its Office Manual Vol.I Food Supply-Depot, Barrackpore had been accepting Demand Draft/Deposit at Call Receipts drawn on outstation banks as payment from purchases towards cost of Foodgrains, sugar etc. This led to incurring of avoidable expenditure of Rs.10.93 lakhs on account of collection charges during the period April 1986 to February 1989.

13.4 Bankers cheques remitted by Andhra Pradesh Civil Supplies Corporation were credited to the account of FCI after a delay ranging from 2 to 6 days during November 1991 to June 1994. This resulted in loss of interest of FCI to the tune of Rs.14.38 lakhs.

The Management stated (January 1995) that with effect from 01.07.1994 FCI had since opened a bank account in the branch from where the bankers cheques are issued and are thus getting credited on the same day. Had this been done earlier, the loss of interest of Rs.14.38 lakhs could have been avoided.

13.5 Food Corporation of India purchased 25,500 blank low density polythene covers in September 1980 @ Rs.969.99 per cover. The supply of material was subject to inspection before acceptance. The covers were supplied by January 1981. These covers, despatched to Haryana, Tamil Nadu, Andhra Pradesh and Punjab invited complaints of lesser weight, lesser gauge, lesser dimensions and big holes. In August 1983, the Corporation claimed Rs.24.83 lakhs from the supplier. The supplier rejected the claims and the matter was referred to arbitration. The claims pertaining to Andhra Pradesh and Tamil Nadu were rejected as these were time barred. FCI suffered a loss of Rs.22.80 lakhs and recovered only Rs.2.03 lakhs. No responsibility was fixed for failure to conduct pre-supply inspection and to lodge the claims in time.

The Management stated (January 1995) that the loss to FCI was only Rs.7.36 lakhs and not Rs.22.80 lakhs. The reply is not tenable as it does not take into account the loss suffered on account of 6880 sub-standard covers which were accepted under relaxed standards.

13.6 In August 1986, the Department of Food and FCI agreed to a time schedule for submission of subsidy claims to the Ministry and for release of cheques. Neither the FCI nor the Ministry adhered to this schedule resulting in loss of interest to FCI to the tune of Rs.37.54 crores during 1990-91 to 1992-93 due to late receipt of claim cheques. Had this amount been paid on time, FCI could have saved interest to this extent on the cash credit availed by it, which is reimbursed to FCI as a component of subsidy.

The Ministry stated (May 1994) that the scheduled dates fixed in August 1986 represented internal targets. It also added that the situation had improved considerably in 1993-94. The reply is not tenable as the fact remains that subsidy to the extent of Rs.37.54 crores could have been saved if claim cheques had been issued on time.

13.7 In cases where the despatches of foodgrains are not accompanied by railway receipts or convoy notes, the District Categorization Committee determines the variety of foodgrains so that the issues to Public Distribution System are not delayed. A test check of such determination by the Committees in 9 districts of Kerala indicated that 31518 MTs were wrongly classified under higher categories in 1990-91, 51282 MTs in 1991-92, 36330 MT in 1992-93 and 17300 MT in 1993-94. These resulted in FCI earning an additional amount of Rs.418.71 lakhs. This money was not due to the Corporation as customers were overcharged.

The Management informed (January 1995) that there was a downward trend of such mis-categorisation due to improved procedures. As regards excess amount realised, the Corporation stated that this benefits Government because the amount of subsidy is correspondingly reduced. The reply is not acceptable as the consumer paid higher prices for these mistakes.

13.8 In April/May 1990, 3861.40 tonnes of paddy stored in Nellore and Rajupalam godown in Andhra Pradesh were moved to Trichi/Sevur in Tamilnadu on the plea that additional storage space was required in Andhra Pradesh and the above paddy required immediate milling. It was seen that the paddy moved to Tamilnadu was milled only after ten to eighteen months and fresh paddy was brought to Nellore for milling there. Thus there was unplanned movement of paddy and avoidable expenditure of Rs.11.02 lakhs on freight and handling.

13.9 According to Section 8 of the Employees Provident Fund Act, the principal employer is required to deduct contributions towards provident fund. FCI did not deduct such contributions from the wages of labourers employed through contractors. The Regional Provident Fund Commissioner, Jaipur raised a demand for Rs.22.48 lakhs for the period 1968 to 1984. FCI unsuccessfully contested this twice in the Supreme Court and ultimately made the payment of Rs.10.37 lakhs in January and March,1993.

The Management informed (December 1994) that sufficient and adequate instructions were issued in July 1975 and these had been reiterated in June 1994 for meticulous implementation by regions.

13.10 There are differential rates for temporary stacking and permanent stacking. In permanent stacking the bags are stacked upto 16 to 20 layers which involves more work, both at the time of stacking and destacking. During the calendar years 1988 to 1989, 21.79 lakhs bags were temporarily stacked in transit shed at Cochin Port Trust. FCI paid the higher rate applicable to permanent stacking. The excess payment amounted to Rs.15.08 lakhs.

The Management stated (May 1994) that port sheds were meant for long storage and conventional stacking upto 16-20 bags high was resorted to. The reply of the Management is not convincing as the bags were despatched from the godowns within 10 days of receipt. Therefore stacking in port shed was only temporary and deserved a rate lower than the rates payable for permanent stacking in godowns.

Similarly in nine sub-depots, 84.17 lakhs bags were temporarily stacked for which higher rates were paid. The overpayment was Rs.38.35 lakhs.

According to FCI (December 1994), eventhough the stocks of sub-depots were meant for quick disposal, conventional stacking was done and paid for accordingly. The reply does not explain the necessity for conventional stacking when simple stacking involving lower rate of handling was sufficient.

Rchandra

(RAMESH CHANDRA)
Deputy Comptroller and Auditor General-cum-Chairman, Audit Board

New Delhi
The 28 DEC 1995

Countersigned

(C.G. SOMIAH)
Comptroller and Auditor General of India

New Delhi
The

02 JAN 1996

ANNEXURE-I

(As referred to in Paragraph 1.2)

ORGANISATION STRUCTURE

FCI HEADQUARTERS

EXECUTIVE COMMITTEE

MANAGING DIRECTOR

EXECUTIVE DIRECTOR (Commercial) Manager (QC) Manager (P&R) Manager (PROC) Manager (Sugar)	**EXECUTIVE DIRECTOR (Internal Audit)** Manager (IA & PV) Manger (Computers)	**EXECUTIVE DIRECTOR (Finance)** Addl.FA(A/cs) Addl.FA(Funds) Addl.FA(B&CC) Manager(Fin) Manager(CPF)
EXECUTIVE DIRECTOR (Storage & Sales) Manager (S&C) Manager(Sales)	**EXECUTIVE DIRECTOR (Engineering)** Manager(Engg) Manager(WBP)	**EXECUTIVE DIRECTOR (Transport)**
EXECUTIVE DIRECTOR (Vigilance) Manager(Vig) Manager (Sec) Manager(Enquiry) Manager (Appeals & Review)	**EXECUTIVE DIRECTOR (General)** Manager(Legal) Manager(Lit) Manager(IR-L) Manager(Fert) Manager(I&E)	**EXECUTIVE DIRECTOR (Personnel)** Manager(PR) Manager(PE) Manager(P&IR) Manager(Trg)

SECRETARY

Zonal Managers North, South, East, West, North East

Regional Managers (19 Regions)

District Managers (162 Districts)

1704 depots

ANNEXURE-II

(as referred to in Paragraph 6.5)

DELAY IN CONSTRUCTION OF GODOWNS

Centre	Capacity (thousand tonnes)	Agency	Stipulated date of completion	Actual date of completion
Gudivada	30.00	NPCC	8/85	11/92 to 5/93
Hubli	30.00	NPCC	1/86	3/93 to 2/94
Ghevra	25.00	NPCC	8/85	6/92
Baran	2.50	NPCC	7/85	10/92
Barmer	10.00	NPCC	7/85	10/92
Chanderia	12.08	NPCC	6/85	10/92
Hanumangarh	5.00	NPCC	6/85	10/92
Keshorampathnam	11.67	NPCC	6/85	10/92
Srivijayanagar	11.74	NPCC	9/85	10/92
Bulandshahar	3.34	NPCC	4/85	11/92
Kosikalan	6.83	NPCC	7/85	3/93
Mathura	2.24	NPCC	7/85	10/92
Partapur	19.58	NPCC	6/85	6/92 to 9/92
Moradabad	10.00	NPCC	4/85	3/93
Varanasi	3.49	NPCC	7/85	10/92
Roza	30.00	FCI	10/88	3/92
Passighat	2.50	FCI	6/90	2/94
Lawngtlai	3.34	NBCC	3/88	Not yet completed
Mon	2.22	NBCC	6/89	3/92
Kumarghat	4.18	NBCC	3/89	Work held up for Policy decision
Churaibari	1.67	FCI	9/91	3/92
Kargil	2.50	PWD	6/89	8/93
Dhankuni -Ph I	10.00	FCI	7/89	3/90 to 11/91
Ph II	10.00	FCI	1/90	12/91 to 6/94
Bellary	25.00	FCI	6/93	9/93 to 3/94 (completed 15.0)
Poonch	2.50	FCI	5/91	10/93
Bhairabi	5.00	FCI	10/93	Yet to be completed
Karunagapalli	10.00	FCI	5/90	3/92 to 7/92

ANNEXURE-III

(as referred to in Paragraph 6.11)

LAND OWNED BUT GODOWNS NOT CONSTRUCTED

Name of the place	When acquired	Area (in acres)	Cost (Rs.in lakhs)
1. Hassan	1986	6	0.46
2. Koppal	1986	8.36	2.57
3. Tumkar	1986	8.00	0.82
4. Shimoga	1986	25	6.46
5. Imphal	1986	NA	NA
6. Kapa (MP)	1984	350.67	42.08
7. Todiramjanipura(Raj)	1985	NA	NA
8. Belgaum	1987	10	3.19
9. Bijapur	1987	10	1.45
10. Kathua-II (J&K)	1989	NA	NA
11. Alwar (Raj)	1990	NA	NA
12. Udipi	Oct.92 May 93	10.00	42.70
13. Baramulla	1989	24 Kanals	19.32
14. Kishtwar	1989	24 Kanals and 19 Marlas	7.50

ANNEXURE-IV

(as referred to in Paragraph 7.3)

Region	No.of railway sidings	Capacity serviced per siding	Qty. handled per operation siding
		(Based on 1992-93 figures) Lakh Mts	Lakh MTs
North Zone			
Delhi	3	1.18	
Haryana	5	1.10	0.66
J&K	1	0.67	3.07
Punjab	12	1.74	0.61
Rajsthan	6	1.18	
UP	13	1.14	0.46
South Zone			
AP	18	0.60	0.79
POVizag	2	0.21	
Kerala	10	0.52	1.30
Karna-taka	2	1.05	2.07
Tamil Nadu	4	1.58	1.03
PO Madras			
West Zone			
Gujarat	2	1.69	2.21
PO Kandla	1	1.43	1.79
Maharashtra	7	1.69	1.33
MP	7	1.15	0.49
NEF Zone			
Assam	5	0.40	0.39
NEF	1	0.56	
East Zone			
Bihar	10	0.41	0.67
Orissa	5	0.45	
West Bengal	5	0.85	1.11
PO Calcutta	5		
Sikkim	-		

NOTE: Information restricted to Qty.handled on 9,12,8 & 1 sidings in Punjab, AP, Bihar and Gujarat respectively.