Audit reported (February 2019) the matter to Government, their reply is awaited (February 2020).

The State Government should conduct an enquiry on above irregularities pointed from vigilance angle and fix responsibility.

4.3 Procurement of food baskets at exorbitantly higher rates

Procurement of food baskets under Chief Minister TB Nutrition Scheme at exorbitantly higher rates from lone ineligible bidder resulted in avoidable extra expenditure of ₹ 5.04 crore.

The Government of Chhattisgarh (GoCG) introduced (3 May 2016) the Chief Minister Tuberculosis (TB) Nutrition Scheme (Scheme). As per the Scheme Food Basket -Soyabean Oil (one litre), Groundnut (1.5 kg) and Skimmed milk powder (one kg) was to be provided on monthly basis through Primary Health Centres. The responsibility of procurement and distribution of food basket to TB patients for supplementary nutritions was entrusted (18 May 2016) to Chhattisgarh Medical Services Corporation Limited (Company) by GoCG.

The Company invited (27 September 2016) online tender for supply of 2.13 lakh food baskets but due to receipt of only one bid, the tender was cancelled (16 November 2016). The Company re-invited (18 November 2016) the tender, in three stage bids against which only two bids i.e. from M/s Mahadev Foods Corporation and M/s Shri Shyam Pulses (SSP) were received (7 December 2016). The bid of M/s Mahadev Foods Corporation was rejected (December 2016) due to non-fulfilment of required pre-qualification criteria by the tender committee. The price bid of the technically qualified bidder SSP was opened (18 January 2017). The rate quoted by SSP was ₹ 1,124.55 per food basket (including VAT) which was significantly higher than the price of ₹ 633 per food basket (including VAT) gathered (19 January 2017) by the Company through local retail market. Hence, the Company negotiated (25 January 2017) the rate and executed (31 January 2017) the supply agreement with SSP accepting the negotiated rate of ₹ 1,039.50 per food basket (including VAT).

Meanwhile, GoCG sanctioned (6 March 2017) ₹ 12.20 crore against the demand of ₹ 24.25 crore raised (10 February 2017) by the Company for the procurement of food basket. In view of this, the Company called (14 March 2017) SSP for further price negotiation where after a series of three negotiation meetings[14] the Company finalised (26 April 2017) rate of

[14] 3 April 2017 – agreed rate ₹ 900 per food basket; 21 April 2017 – agreed rate ₹ 890 per food basket and 25 April 2017 – agreed rate ₹ 850 per food basket excluding VAT

₹ 892.50 per food basket (including VAT) and revised (28 April 2017) the supply agreement.

The Company placed (1 May 2017) the initial supply order for 54,084 food baskets valuing ₹ 4.83 crore on SSP which it supplied by 23 June 2017.

In this regard Audit observed the following:

- Clause 2.1 (xv) of the tender (dated 27 September 2016) terms and conditions provides, "tenderer should at least have three years market standing as a manufacturer for each food item quoted in the tender as manufacturer". However, the Company[15] changed (29 October 2016) the eligibility criteria without any recorded justification on the request of SSP (26 October 2016) and stipulated that the "tenderer should at least have three years' experience in sale/manufacture of food item. The tenderer shall obtain authorisation from manufacturer for the quoted items". This fact was not indicated in Tender notice published in newspapers on 18 November 2016. This indicates that the said amendment in the eligibility criteria was made by the Company to enable SSP participate in bidding and pass on undue favour to a private person which consequently resulted in finalisation of tenders at exorbitantly higher rates as discussed in succeeding paragraphs.

The Government stated (August 2018) that the amendment in the tender conditions from manufacturer to sales/manufacturer was made by the Company because all the three ingredients of food basket have different manufacturers. It was further stated that the Company has power to amend the tender conditions.

It is evident from the reply that the Company was well aware about different manufactures and could get more competitive rates by inviting separate tender from manufacturers only.

- As per the tender terms and conditions, five *per cent* of the total contract value was to be submitted by the successful bidder as performance security within 10 days after notification of award with validity of two years from date of contract agreement.

  Audit observed that SSP had submitted (5 May 2017) performance security of ₹ 25 lakh only being five *per cent* value of initial purchase order of ₹ 4.83 crore instead of ₹ 95.17 lakh on the ground that the performance security for total contract value is a huge amount. This has also resulted in passing of undue financial benefit to SSP.

  On being pointed by Audit (September 2017), the Company terminated (28 February 2018) the contract for supply of food basket with SSP due to non-deposit of sufficient performance security. SSP contested the

[15] Managing Director

Company's action by filing appeal in the Hon'ble High Court of Chhattisgarh who directed (22 June 2018) the appellate authority-Secretary, Department of Health, GoCG to consider the matter as per the terms of the contract. After hearing (29 June 2018) the case, the Secretary ordered SSP to deposit the balance performance security.

The Government stated (August 2018) that SSP has deposited the applicable amount of performance security.

However the fact remains that the performance security was obtained after being pointed out in Audit.

- As only one qualified bid was received the Company without recording any justification accepted the same. This led to placement of supply order at an exorbitantly higher rate of ₹ 892.50 per food basket (including VAT) offered by SSP and the Company ignored the fact that cost of food basket with same ingredients/quantities to State Health Resource Centre (SHRC) was ₹ 409 per basket during the pilot project and the local market price of ₹ 633 per food basket (including VAT) gathered (19 January 2017) by it through local market. Later on after being pointed (September 2017) by Audit, the Company sought (23 November 2017) clarification from SSP as a result SSP reduced (15 February 2018) the per food basket price from ₹ 892.50 to ₹ 728 which was further reduced (4 July 2018) to ₹ 714 per food basket (₹ 680 plus GST) on further negotiation in view of orders passed (29 June 2018) by the Secretary, Department of Health, GoCG. Accordingly, the Company extended (16 July 2018) the earlier agreement with SSP with revised rates for further six months i.e. upto 15 January 2019 and procured 1.11 lakh food baskets upto the validity of agreement.

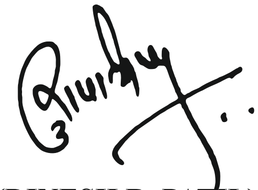
  In this connection, Audit observed that the Company again did not assess the reasonability of rate of ₹ 714 per food basket offered by SSP in negotiation meeting of July 2018. This had resulted in avoidable extra expenditure of ₹ 5.04 crore[16] on total 1.65 lakh food baskets procured from SSP.

The Government stated (August 2018) that the SHRC had not communicated about its pilot project and rates mentioned in the pilot project to the Company. The Government further stated that SSP has reduced the rates from ₹ 850 per food basket to ₹ 680 per food basket (excluding VAT) and that too for already supplied quantity.

The reply is factually incorrect because SHRC forwarded a copy of Report on pilot project to DHS in which rate was mentioned and Audit had found it in Company's records. The reply also confirms that the accepted rate of food basket was exorbitantly higher whereas reply is silent about the retail market

[16] (₹ 714 – ₹ 409) X 1,65,394 food baskets

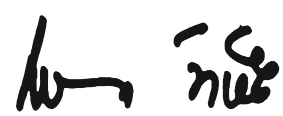
price of ₹ 633 per basket, which was already known to the Company at the time of finalisation of bid. Further, the plea of reduction in price is also not acceptable as Company has not assessed the reasonability of reduced rates offered by the SSP during the negotiation meeting (4 July 2018) and no detailed price breakup could be provided by the Company in support of revised offer rate of ₹ 680 per food basket.



Raipur
The: 22 June 2020

(DINESH R. PATIL)
Accountant General (Audit)
Chhattisgarh

Countersigned



New Delhi
The: 30 June 2020

(RAJIV MEHRISHI)
Comptroller and Auditor General of India