



# **A Case Study In Urban Local Bodies**



**Misappropriation Of  
Mid-day-Meal Rice  
Worth Rs. 40.49 lakh**

**Regional Training Institute Kolkata  
Indian Audit and Accounts Department**



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## *Preface*

*Regional Training Institute, Kolkata was declared as Knowledge Centre for Local Bodies Audit in August 2012. In pursuit of excellence in our assigned areas of Knowledge Centre, we attempt to bring out series of interesting cases of frauds / deviation from rules and regulation etc. reported and reflected in the Urban Local Bodies and Panchayat Raj Institutions Reports of different State Governments, as case studies. In preparing the instant case study, the models adopted by INTOSAI and some other business schools have been followed.*

*The case study "Misappropriation of Mid-day-Meal rice worth Rs. 40.49 lakh" has been prepared based on the Audit Para 6.3.2 appeared in Report of the Examiner of Local Accounts on Urban Local Bodies for the year ending March 2009, Government of West Bengal.*

*I hope that the readers would benefit from this .The suggestion, if any, are welcome and would help us in future.*

*RTI, Kolkata  
July' 2013*

*Arabinda Das  
Principal Director*



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## **Misappropriation of Mid-day-Meal rice worth Rs. 40.49 lakh**

### **1. Background:-**

The National Programme of Nutritional Support to primary Education, popularly known as Mid-day-Meal (MDM) Scheme, was launched on 15 August 1995 to cover all the students of primary classes. The Programme is intended to give a boost to universalisation of primary education, by increasing enrolment, retention and attendance and simultaneously impacting on nutrition of students in primary classes. The Central Government assists the Urban Local Bodies (ULBs) by providing the food grains, the reimbursement of actual cost incurred on transportation, cooking, assistance to construct kitchen-cum-store, assistance for provisioning and replacement of kitchen devices and assistance for management, monitoring and evaluation of the scheme. At State level, the District Magistrate is the Controlling authority and the Urban Local Body is the implementing authority. Therefore, a Municipality (ULB) has a great role to play in successful implementation of the programme through continuous monitoring at various levels, viz schools under its control and distributors/dealers engaged to supply the food grains to the schools.

### **2. Environment:-**

There were severe lapses in monitoring the position of stock of rice under Mid day meal scheme meant for school going children on the part of the Municipality at various levels resulting in misuse of huge quantity of rice (262.07 tonnes) valuing Rs. 40.09 lakh, fraudulently, by a distributor appointed by the Municipality for supplying the food grains.

**3. Opportunity to Prevent irregularity:-**

Municipality could avoid fraudulent misuse of Mid-day-Meal rice if the following measures were taken by:

- i) ensuring obligatory maintenance of Stock register by the Distributor (agent), Schools as well as by Municipality and their updating regularly,
- ii) ensuring regular reconciliation between the records of the agent and that of the municipality, the schools consuming the rice to ascertain how much quantity was left in the hands of the agent or with the schools before placing further indents,
- iii) ensuring that average consumption of the food grains was assessed and the allotment of rice was regulated as per actual requirement.
- iv) ensuring physical verification of stock of rice kept under the custody of distributor periodically by the municipality,
- v) taking timely action to stop lifting of further rice unless the existing stock lying with the distributor was exhausted.
- vi) taking punitive measures like cancellation of the agency or any other penal action.

**4. Act of irregularity:-**

- i) Municipality failed to monitor the implementation of the programme at various levels which facilitated misappropriation of huge quantity of rice valuing Rs.40.49 lakh.
- ii) The Municipality did not initiate any action against the distributor despite some irregularities had been pointed out by Audit previously.

**5. Opportunity to detect and proving irregularity:-****Red Flag Indicators:-**

During test check of the records of municipality and the authorized distributor it was revealed that:-

- a) They did not maintain any account of receipt, issue, and balance stock of mid-day-meal rice since 2006-07.
- b) The reports regarding lifting, distribution and balance of rice from the distributor were not available.
- c) The routine physical verification of stock of rice kept under the custody of the distributor was never done.
- d) The routine reports on opening balance, receipt during the month, and consumption during the month and balance of rice at the end of a month from the school authorities were not generally received.
- e) The quantity of rice lifted by the distributor during a particular period was always found to be far more than the quantity of rice distributed to the schools for the same period.
- f) The municipality never replied to previous audit observations on the mismanagement of mid-day-meal programme.

**Follow up of Red flag: - Audit Examination and evidence collections.**

- a) A detailed check of the records of the Municipality and the authorized distributor was conducted by the Audit Party and it was revealed that they did not maintain any accounts of receipt, issue and balance stock of rice since 2006-07. The Municipality did never obtain any report regarding lifting, issue and balance of rice from the distributor or took any action against the distributor. The Municipality never conducted any physical verification of its stock of rice kept under the custody of the distributor.

- b) A detailed scrutiny of available delivery/lifting orders and receipted challans for a particular period (April 2006 to 15 September 2009) was conducted by the Audit Team and it was revealed that the quantity of rice lifted by the distributor was far more than the quantity distributed to the schools for the same period.
- c) The Municipality also did not ask any routine report from the schools under its control, about quantity of rice at the beginning of a month, receipt during a month, consumption during the month and closing balance at the end of the month.
- d) At the instance of Audit, a joint physical verification of stock was conducted by the municipality in presence of audit team and found only 81 tonnes of rice was available with the distributor while the actual balance should have been 343.07 tonnes.
- e) It was assessed by the audit party that the price of 262.07 tonnes of rice would come around Rs.40.49 lakh which was apparently misused by the distributor fraudulently.

**6. Lessons Learnt :-**

- i) Average consumption of the food grains was supposed to be assessed regularly and the allotment of rice was required to be regulated as per actual requirement
- ii) Stock registers of the rice were required to be maintained by the municipality, distributor and the schools and should have been monitored regularly.
- iii) Physical verification of its stock of rice, kept under the custody of distributor, was required to be made periodically by the municipality.
- iv) The distributor should have been compelled to make good of the loss within specified time, otherwise punitive/legal action was required to be initiated against him.
- v) Municipality's failure to monitor the implementation of the programme facilitated misappropriation of huge quantity of rice valuing Rs.40.49 lakh.

**7. Enclosure for reference :-**

- i)** Copy of the Inspection Report issued to Auditee Entity.
- ii)** Audit Para 6.3.2 appeared in Report of the Examiner of Local Accounts on Urban Local Bodies for the year ending March 2009, Government of West Bengal.

Part II A

**Suspected fraudulent misuse of Huge quantity (2621.45605 Qtls. valuing Rs. 41,04,578.72) of Mid Day Meal rice meant for school going children by the agent, apart from wasting of rice of 85 Qtls. (valuing Rs.1,33,025) due to gross negligence in monitoring by the Panihati Municipality. (AQ 8 & 26).**

I. In the last Audit Report (2007-08) it was pointed out that huge advance (Rs.55.74 lakh) was given to a particular person irregularly on account of Mid day meal without ascertaining the actual utilisation of food grain. Despite calling for the adjustments in the current Audit not a single adjustment was shown to Audit. Thus advance of Rs. 55.74 lakh remained unadjusted till the present Audit. Regarding utilisation of Mid day meal rice a through review was conducted and following observations were noted in Audit:

II. The Panihati Municipality authorized SK.Mizanul Hossain, Proprietor of M/s SK. Illias Hossain of Fatullaopur, Nimta as agent to receive the D.O. (Delivery Order) of Mid Day Meal Rice as well as to take delivery of the rice from the Dist. Controller (Food & Supply), Govt. of West Bengal, Barasat. Although huge quantity of rice was lifted by the Agent every year no stock register was ever maintained either by the agent or the Municipality. Therefore, no reconciliation was ever been made between the records of the agent and that of the Municipality and the schools consuming the rice to ascertain how much quantity was left in the hands of agent or with the schools. The Municipal authority only started writing a few letters from August, 2009 to the agent to let the Municipality know about the quantity of the food grains lifted by him & quantity remained undistributed that too after being pointed out by previous Audit. But that was futile. The Municipality also did not take any action either to cancel the agency or any other punitive measure like stopping of authorization for lifting the further rice unless the existing stock lying with the Agent was exhausted. Since the agent was authorized to collect the Delivery Order (D.O) on behalf of the Municipality he did never supply the copy of the D.O. to the Municipality till the matter was pointed out by the previous Audit.

In an order No.75/MDM, dt.26.6.08 Dist. Magistrate/Barasat instructed the Dy. Director of Rationing (DDR), Barrackpore, North 24 Paraganas (with the copy to the Chairman of Panihati Municipality) that the lifting of foodgrains should be completed by the 5<sup>th</sup> of the following month and Monthly lifting report should be sent to his Office by the 15<sup>th</sup> of the following month. But neither the Municipality nor DDR/North 24 Pgn/Barrackpore chased the matter with the agent to send monthly report to the Dist. Magistrate/North 24 Paraganas.

Test check of few returns furnished by the schools to the Municipality revealed that a very few school informed the Municipality correctly, how much quantity was in hand at the beginning of a particular year, how much was received from the agent/distributor during the year and how much quantity was in hand at the end of year after consumption. The Municipality never issued any letter in this regard to the school authority also to furnish the information properly. Thus it was very difficult to identify exactly how much quantity lying in the hand of the agent remained undistributed. The Challans submitted by the schools regarding receipt of the foodgrains were also not embodied with the stamp of the recipient schools in many cases. The cross checking of actual receipts by the Schools with that of agent's supplies could not be done in absence of Stock Register of the agent. However, from the available Allotment Orders of the Dist. Magistrate/Barasat, Delivery Orders issued by the Dist. Food & Supplies and Delivery Challans received by the schools the summarized position of the quantity ordered, quantity lifted by the agent and quantity received by the primary schools and quantity left with the agent, during the years 2006-07 to 2009-10 revealed the following:

Year	Quantity Ordered/ allotted (Qtls.)	Quantity lifted by the Agent/ distributor (Qtls.)	Short lifting by the agent/ distributor (Qtls.)	Quantity received by the schools (Qtls.)	Quantity in the hands of the distributor/ agent not distributed (Qtls.)	Remarks
2006-07	1826.91520	1598.15915	0.39165	358.50000	1239.65915	228.36440 qtl. allotted not supplied by the FCI.
2007-08	1033.92300	1033.46390	0.45910	316.00600	717.45790	
2008-09	1545.78400	1545.76900	0.01500	284.00000	1261.76900	
2009-10	300.76.810	300.76.810	0	89.00000	211.76.810	(Received upto 15.9.09)
<b>Total</b>	<b>4708.1922</b>	<b>4478.96205</b>	<b>0.86575</b>	<b>1047.506</b>	<b>3431.45605</b>	

The opening stock of foodgrains as on 1.4.06 could not be ascertained due to non availability of Stock registers. Thus the actual stock in hand of the agent/distributor would be much more than 3431.4505 qtls. in view of the fact that huge quantity of rice was lying in the hand of the agent at the end of each year. A joint physical stock verification of foodgrains (rice) lying at the godown situated at Fatallapur, Nimta, Kolkata-49 of the agent was conducted on 03.11.2009 between 16.40 hrs. to 16.45 hours in presence of Audit team. Other representatives presented from Municipality's side were Executive Officer (who did not sign the joint verification report deliberately to avoid the responsibility), one CIC member and one clerical

staff. It was found that total 810 qtls. (i.e. 1620 bags each were having 50 kgs.) (approx) of rice were available in the godown against 3431.45605 qtls. Out of 1620 bags, 20 full bags and 150 bags loose rice (approx.) (as stated by the agent), lying on the floor of the godown were rotten and very bad in quality (some of which were not accepted by the schools as stated by the agent) and 900 bags were more than 3 months old and rest 550 bags were fresh stock. The Agent neither informed the matter of bad quality of rice not accepted by the schools to the Municipal authority nor to the Dist. Controller, Food & Supplies/North 24 Paraganas/Barasat or District Magistrate, Barasat. No physical verification was found to have been made ever either by the Municipality or by the Dist. Controller, Food & Supplies/Barasat. Therefore, the condition of rice and huge stock remained unnoticed.

The cost of rice of 2621.45605 (3431.45605 - 810) Qtls. not available in the godown would be Rs. 41,04,578.72 @ Rs.15.65 per kg.

On the other hand the quantities of rice received by the schools from the agent during 2006-07 to 2008-09, consumption during above period and stock of rice with the schools at the end of each year were as under:

Year	Opening Balance	Quantity received during the year	Quantity consumed during the year	Closing stock at the end of the year	Remarks
	Qtl.Kgs.gms	Qtl.Kgs.gms	Qtl.Kgs.gms	Qtl.Kgs.gms	
2006-07	840.92.222*	358.50.000	693.71.192	150.79.530	* Opening stock calculated on the back calculation basis
2007-08	410.16.735*	316.00.600	615.52.989	110.64.346	
2008-09	256.89.011*	284.00.000	347.97.880	192.91.131	

It would be evident from above that Closing stock at the end of the year never tallied with that should be in hand. But there was no caution from the Municipality's side to the schools to submit the returns correctly. Thus there was no monitoring at any level to account for the food grains correctly. Reasons for accumulation of huge stock with the Schools indicates that the programme was not functioning properly. But the reason for such huge accumulation was never investigated by the Municipal authority.

It would also be evident from above that although the consumption of the foodgrains was about 552.40667 qtls. in average during the above three years, the allotment of rice was 1468.8741 Qtl. (average) during the same period which was far above the average quantity of consumption as mentioned above for which no review was apparently done to refix the allotment and issue of lifting order as per requirement.



Thus due to severe lapse in monitoring of Mid day meal rice meant for the school going children on the part of the Municipality not only considerable quantity of rice (85 qtls. approx) valuing Rs.1,33,025 were rotten in the godown of the agent but also huge quantity of rice (2621.45605 qtls.) valuing Rs. 41,04,578.72 were misused by the agent the cost of which is required to be recovered from the agent apart from other penal action.

**6.3.2 Misappropriation of Mid-day-Meal rice worth Rs. 40.49 lakh**

**The Municipality and the authorized distributor did not maintain any accounts of receipt, issue and balance stock of rice since 2006-07. The Municipality never conducted any physical verification of its stock of rice kept under the custody of the distributor. Absence of monitoring of the implementation of the programme by the Municipality led to misappropriation of Mid-day-Meal rice worth Rs. 40.49 lakh.**

The Panihati Municipality, while implementing the programme in its municipal area, appointed a transporter-distributor who was responsible for lifting rice from godown, distributing the same to the schools on monthly basis and maintaining the accounts of stock of rice.

A test check (October - November 2009) of the records of the Municipality and the authorized distributor revealed that they did not maintain any accounts of receipt, issue and balance stock of rice since 2006-07. The Municipality did not ever obtain any report regarding lifting, issue and balance of rice from the distributor. The Municipality never conducted any physical verification of its stock of rice kept under the custody of the distributor. In absence of any record regarding day to day stock balances, the opening stock balance of rice lying with the distributor as on April 2006 could not be ascertained.

A scrutiny of delivery / lifting orders and receipted challans furnished by the schools for the period from April 2006 to 15 September 2009 revealed that the authorised distributor lifted 447.82 tonnes of rice against which the schools received only 104.75 tonnes of rice till 7 September 2009. Thus, there was a closing balance of rice to the tune of 343.07 tonnes with the authorised distributor as of 15 September 2009 excluding opening stock as of 1 April 2006, if any.

The Municipality instructed (August / September 2009) the agent to submit accounts of lifting of rice and its distribution to the schools. The distributor did not respond till October 2009. However, at the instance of Audit, the Municipality conducted a joint physical verification of the stock on 3 November 2009 in presence of Audit and found 81 tonnes of rice available with the distributor as against the actual balance of 343.07 tonnes. This resulted in a shortfall of 262.07 tonnes of rice valued at Rs.40.49 lakh at the prevailing rate of Rs.15450 per tonne. Thus, Municipality's failure to monitor the implementation of the programme facilitated misappropriation of rice worth Rs.40.49 lakh. The Municipality did not initiate any action against the distributor for misappropriation of such huge quantity of rice meant for the students.

The Municipality confirmed (October 2010) that a good quantity of food grains had not been properly utilised due to gross negligence of the distributor. The Municipal Affairs Department observed (October 2010) that the misappropriation was done by the distributor appointed by the Municipality. The Department advised that a notice immediately be served upon the distributor to show cause as to why his distributorship would not be cancelled and penal action would not be initiated against him. The distributor should be compelled to make good of the loss within specified time fixed in the show cause notice. If not complied with, FIR should be lodged against him.

The Municipality directed (6 November 2010) the distributor to show cause within seven days (from the date of receipt of the notice) as to why his distributorship should not be cancelled and penal action would not be initiated against him.



