Reading Material On IFA System

Case Studies

Volume Eight

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Case Studies

Army

Case Study 1

A proposal regarding procurement of 06 VSAT terminals with associated system and spares to have forefront communication infrastructure for the Army to meet operational contingency in hill sector had been received in from a formation at an estimated cost of Rs 2,77,50,000/- out of Tele Adm Grant in 2006-07.

2. The above proposal included purchase of two Gen Sets and UPS for each VSAT along with other equipments required for the purpose. While examining the proposal at necessity stage, it was noticed by IFA that one Gen Set and one UPS should suffice for back up power support for uninterrupted communication. Gen Set will be used in case of power failure and UPS will provide backup till the Gen Set gets started.

3. Considering the high cost and practically little use of the surplus capacity, it had been advised not to insist for spare quantity of Gen Set and UPS avoiding 100% redundancy in each case which can be justified only in critical areas like avionics, life support systems etc. As the formation insisted for building up redundancy, it was advised that in case, it is still felt that the surplus capacity of Gen Sets and UPSs is required, the case may be forwarded to CFA at Army Hqrs at the AON stage itself for consideration/approval. Formation dropped the proposal of two sets and processed the case with one Gen Set and one UPS for each VSAT.

Please discuss

(1) Merit of the proposal with two sets of back up power supply for VSATs.

(2) Stand of IFA and ultimate response of the Formation.

Case Study 2

Procurement of Items/Equipments under Army Commander's Special Financial Powers

Hand held Brush Cutter (Qty 200)

Proposal for procurement of 200 Nos of Hand Held Weed Cutter out of ACSFP for an amount of Rs. 40 lakh was received for concurrence in a Command. The proposal was concurred in for the Acceptance of Necessity and further action. Tenders were floated to the vendors accordingly and the procurement procedure was reached upto Supply Order stage. M/s Alianz Mechanization Indian Pvt Ltd, Bangalore, became the L1 vendor and it was decided to place the SO on the vendor.

However, an anonymous complaint was received against the L1 vendor. It was alleged that the rate of the Brush Cutter inclusive of customs offered by the vendor was Rs. 13,586/-. Hence the difference in price was only marginal i.e Rs. 780/- (5.74%. against Custom Duty leviable 36%). However, the items can be imported by Army without payment of Custom Duty. Hence the full benefit of custom duty has not been passed on by the vendor. It was, therefore, decided to retender the procurement of the items.

Tender Enquiry was floated to 37 vendors and only 5 vendors responded. Trial/demo was carried out by TEC in November 2005 and all the 5 vendors recommended for the opening of commercial bid.

Again M/s Allianz Mechanization India Pvt Ltd was declared as the L1 vendor, PNC was accordingly concluded to place the SO on the vendor.

In the meanwhile, another anonymous complaint addressed to executives was received alleging that the equipment offered by the vendor had the poorest fuel economy ie. the highest fuel consumption. It was alleged that during the trial test it was found that the L1 Vendor's equipment consumed 3900 ml of petrol during 30 minutes of running whereas the petrol consumption of equipments of other competitors was 190, 195, 210 & 235 ml at the same time. Other allegation was against the sudden postponement of date of opening of commercial bid for which the executive had clarified the reason for postponement.

It was, however, decided to retender the case with revised technical specification with specific condition that the cost of fuel consumption would also be one of the factors in deciding the L1 vendor.

M/s Sai Gen Pvt Ltd, Pune emerged as L1 vendor without inclusion of custom duty. However, after placement of supply order, the Customs Deptt did not agree to allow custom duty exemption to the equipments. However, on analyzing the case again, it was found that the same vendor remained L1 even after inclusion of the custom duty and VAT thereon. Accordingly, the proposal for amendment to the Supply Order including Custom Duty was agreed to.

Points for Cosideration

- Rationale of the Procurement of Brush cutters
- Efficacy of multiple retendering based on anonymous complaints
- Action of executive and finance authorities

Case Study 3

(Upgradation of Communication infrastructure at underground Operation Room, Jodhpur, out of ACSFP

Proposal for the procurement of Communication equipment such as OFC cable, Primary Mux, 30 CH PCM System Pair, Power Supply etc for upgradation of Underground Operation Room, Jodhpur for an amount of Rs. 60 lakh was received for concurrence.

(i) Proposal was not included in the PPP hence IFA advised to get the proposal approved by MGO’s Branch.

(ii) Further, Underground Ops room already existed in Jodhpur with communication equipment procured out of Tele Adm Grant. Hence proposal for procurement of communication equipments again partly out of ACSFP should not be done.

The case file was again resubmitted for concurrence stating that the items procured out of Tele Adm Grant has been dropped and requested to concur the case.

While it was agreed to concur the case in principle, it was advised to make certain modification in the proposal as item like PC cannot be procured out of ACSFP. The matter has been referred to other IFAs to ascertain their considered views and practice being followed by them in such cases.

IFA Eastern Command opined that the items can be procured under Army Commander’s Special Financial Powers justifying operational & urgent requirements although some items of the Ops Room were procured out of Tele Adm Grant previously.

IFA Northern Command has, however, a different opinion that the said items fall under Tele Adm Grant as per SOP of TAG. Hence the proposal needs to be processed under TAG viz Major head 2076 Minor Head 800B and not under ACSFP Major Head 2076 Minor Head 110(C). In any case TAG Eqpt and IT Eqpt have to be processed out of respective grants and not under ACSFP.

However, since the items like OFC with terminal eqpt, Exchange (100 lines) Multi Service Platform etc was dropped, the proposal for remaining items for the project estimated to Rs. 17.50 lakhs was concurred in for AON.

Points for consideration

- Procurement of communication equipment out of ACSFP
- Stand taken by IFA and executives

Case Study 4

Hiring of CHT for dispatch of 200 Dronas from 515 base Wksp Bangalore to various Stations

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515 Army Base Work Shop manufactured 200X4 Lane Small Arms Rg Training Simulators "Drona" for the Army. Proposal initiated for obtaining sanction of GOC-in-C for dispatch of Drona Simulators to various Stations located beyond 1000 Kms from Bangalore by hiring 42 CHT for Rs. 10,69,200/-. The equipment being electronic in nature is therefore delicate and transportation by train might cause damage therefore transporting by CHT preferred. Other 158 simulators had already been dispatched by obtaining sanction of local CFA ie Stn Cdr/Area Cdr.

2. Above proposal was examined by the IFA (SC) and following points observed:

(a) Details sought for simulators dispatched under local CFA's sanction.

(b) Whether the same have also been dispatched through CHT.

© A consolidated sanction of CFA required for hiring CHT for entire items under whose power the financial sanction is delegated.

(d) Piecemeal sanction comes under the purview of splitting of delegated financial powers and suggested to revise SOC accordingly for obtaining CFA's sanction duly indicating amount already incurred and proposed.

(e) Certificate from Station Cdr regarding non availability of service transport.

(f) Whether there is any regular approved hired Tpt contract in the Station between places proposed and whether the present proposal is due to the failure of the contractor. If so, whether the present hiring is at the risk and expense of regular contractor.

(g) Why 2 CHTs for same place of location. Rate quoted as Rs. 9/- per KM for 9 Ton Veh requires clarification as how it has been arrived at previous 3 years rates alongwith prevalent RTO rates also called for.

(h) Draft Tender Enquiry and the list of Regd contractors to whom TEs to be issued, have not been found for vetting.

(i) Whether funds are available or not.

(j) SOC has not ben signed by the Officer.

3. Revised statement of case submitted for obtaining sanction as below:

(a) To obtain sanction for transport of 43 balance SARTS DRONA at a cost of Rs. 10,94,850/- to various units located beyond 1000 Kms.

(b) To obtain covering sanction for 157 SARTS DRONA which have already been transport after getting CHT at a cost Rs. 26,71,439/-

4. Revised SOC was further examined and following points observed:-

(a) Revised SOC is silent on the aspect whether any sanction already exist for acceptance of contract for CHT for and amount Rs. 26,71,439/-

(b) 2 documents conveying the acceptance of amount for CHT have been found enclosed.

(i) Rs. 16.00 lakhs on 13/03/03 by Cdr KK Sub Area.

(ii) Rs. 25.00 lakhs on 16/04/04 by Cdr ATNK&K Area.

(c) Financial concurrence of above acceptance not found recorded therein.

(d) It is observed that even if the concurrence of IFA/CDA had been obtained both the above authorities have exceeded their corresponding powers vide Sl No. 3 of Schedule XXII of GOI MOD letter dated 22/04/2002 vide which Sub Area Cdr vested with only Rs. 1.00 lakhs without financial concurrence and Rs. 3.00 lakhs with financial concurrence. Similarly Area Commander is vested with only 3.00 Lakhs without financial concurrence and Rs. 10.00 lakhs with financial concurrence. No other documentary evidence found to show that sanction has been accorded.

(e) No receipt or actual proof of expenditure found in order to check the expenditure.

(f) It is not clear whether any board of officers was appointed to conclude the contract by resorting to competitive tenders. Working out details of proposed expenditure Rs. 10,94,850/- also not found enclosed.

5. In reply Army authorities submitted the following:

(a) Necessary action is being taken to obtain copies of sanction already approved by the authorities I piecemeal and all information as asked for will be submitted in short time.

(b) The equipments are stock pilling, since the move has been stopped and requested for provisional financial concurrence for consolidated amount Rs. 37,66,289/-

© A concrete proposal with documents will be submitted in short time to regularize the provisional sanction.

6. Army authority's above requested was acceded to and provisional concurrence was given for Rs. 37,66,289/-

7. Finally expenditure was regularized for Rs. 37,97,806/- after submission of all necessary documents.

Case Study 5

Procurement and laying of Jelly Filled UG cable between MALAD AND KANDIVILI Mily Stations

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Sl No.	Date	Nature of instances for forwarding of case by HQrs	Date	Advice rendered by IFA HQ (SC)
1	2003-04	The Proposal was floated in 2003-04 for an amount of Rs. 10 lakhs. RFP was issued, tenders received, technical and commercial bids were opened and M/s ITI Ltd ., was declared as L1 at Rs. 6.6 lakhs, and DSO forward for vetting	March 04	DSO for Rs. 6.6. lakhs
2	June 04	Proposed retendering of the proposal, since the L1 vendor, M/s ITI Ltd., did not submit Performance Bank Guarantee (PBG), nor delivered the materials within the time-limit specified in the RFP. The proposal was included in the PPP for 2004-05	June 04	Case was concurred in for retendering
3.	October 04	RFP was once again issued, tenders received technical and commercial bids opened and M/s Telephone Electronics Corpn., Mumbai was declared L1, at a cost of Rs. 17,49,150/-. DSO forwarded for vetting	October 04	DSO scrutinized. On perusal of the CST an amount of Rs. 9,60,000/- was cited as Misc. charges being levied on a/c of Row charges It was pointed out that levying of such a huge amount in the mask of Misc. charges would tantamount to gross misutilisation of Govt. money. In a absence of any system for counter checking whether any Row charges are actually paid to Municipal Corporations, unintended benefit passed on to the vendors is least appreciated. The executives were asked to take up the issue for necessary waiver/rebate with higher civic authorities, in r/o defence projects, so as to ensure that the amount being paid as charges of ROW reaches them and proper document is looked for.
4	December04	The case file was resubmitted after taking up the issue with Municipal Corporation of Greater Mumbai (BMC). BMC confirmed that only an	December 04	The BMC quote for levying such charges was not very clear. Thus it was suggested that correct figure be obtained from BMC and also confirm that the vendor's quote would be inclusive of the amount, in which case the vendor quote would have to be

		Amount of Rs. 2,58,063/- would be levied towards supervision charges		amended to reflect the charges.
5	January 05	It was confirmed that only an amount of Rs. 2,58,063/- would be levied, and accordingly revised bid included the said amount by the vendor was furnished.	January 05	It was insisted that if the benefit of the supervision charges of Rs. 2,58,063/- was passed on to all the vendors, to be quoted as a constant element, towards ROW charges being levied by BMC, then there would be a revision in L1. In which case, M/s Microscan Computers would emerge L1 at Rs. 6,21,890/- plus Rs. 2,58,063/- towards Row/Supervision charges, which presently in L2. In the absence of a proper yardstick to measure Row charges, the vendors have quoted at their freewil, which was not felt to be in order. Thus, the executives were asked to review the case in view of the supervision charges remaining constant in the bids of all the vendors.
6	February 05	The case was reviewed. The executives stated in the first PNC, the vendors including L1 had quoted for an omnibus misc/row charges, and as such recommended that only the commercial bids be retendered, in r/o the vendors short listed by the TEC Board, after inclusion of a suitable clause in the bid informing the vendors that the row/misc charges payable to the MCGM should be supported by a quote obtained from the MCGM and forwarded alongwith the commercial offers.	February 05	The case was concurred in.
7	May 05	The commercial bids were retendered. M/s TEC again emerged as L1, at Rs. 12.50 lakhs DSO furnished for vetting	May 05	On scrutiny of the DSO it was observed that Supervisory charges of Rs. 2,58,063/- to be levied by MCGM/BMC was constant in r/o all the vendors. As such level playing between the vendors was justified DSO was vetted for Rs. 12.50 lakhs.
8	August 05	BMC intimated the executivies that the rates had been revised as per new guidelines issued	August 05	The executives were asked to review the project cost accordingly.
9.	April 05	It was confirmed that the project cost would involve an additional burden of Rs. 6,16,150/- thus revising the project cost to Rs. 16.08 lakhs from Rs. 12.50 lakhs. It was also brought out that the BMC withheld digging	April 06	Revision in cost concurred and asked to furnish amendment in the SO amount.

		upto Oct'05		
10	May-June06	Amended DSO furnished	May-June 06	Amended DSO acknowledged.

Case Study 6

PROCUREMENT OF IT EQUIPMENT FOR THE ESTABLISHMENT OF LAN AT 21 SUB AREA OUT OF IT GRANT.

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A case file for procurement of IT Equipment for establishment of LAN of 21 Sub Area was received in the office of Pr. CDA, NC, Jammu, in September 2001 for final concurrence of the IFA/PCDA.

On examination of the case it was seen that the total cost of the project was arrived at Rs. 7,38,000/-. The details of the same are given below:-

SL. NO.	ITEM	QTY	RATE PER ITEM	TOTAL PRICE	REMARKS
1.	PC (P-III)	7	47500	332500	Including price of 6 UPS
2.	Server	1	279000	279000	
3.	Server Stabilizer	1	25300	253000	
4.	UPS 625 VA	6	-	-	Amount included in S.N.1
5.	LAN Card	11	690	7590	
6.	Hub 16 Port	1	8000	8000	
7.	Cable Multicore OSL	1000 mtr.	22	22000	
8.	Printer Ink Jet 640	5	6270	31350	
9.	Cost of Training		10000	10000	
10	Installation	38/	38000	38000	

.	charges	mtr			
11.	Total			753740	
12.	Negotiated Price			738000	

3. During, further examination of the case following observations were found which were intimated to the unit and the case was returned.

(i) Out of 5 vendors only 3 had been considered and nothing was mentioned about the other two.

(ii) Cost of 7 UPS was taken into account where as that of only 6 was called for in tender enquiry.

(iii) The installation charges of Rs. 38,000 were allowed in favour of LI in the total cost of the project at the time of final negotiation, where as the same was not included in the tender enquiry and no other vendor had quoted for the same in their bids.

4. The case was thereafter received back again in October 2001. The unit intimated that only three vendors had submitted the quotation and it was confirmed only 6 UPS will be purchased. Regarding the installation charges it was stated that the cost of the installation charges was necessary to be paid and there was no loss to the state as TPC had already negotiated with the vendor to reduce the cost..

5. The comments of the unit regarding the installation charges were not accepted, as the cost of installation charges was not achieved on comparative basis. The unit was again advised that the negotiations must be made with the vendor to reduce the installation charges, which were very high, and the case was returned again.

6. The unit resubmitted the case in December 2001 with the comments of the chairman TPC justifying the cost of the overall project and the installation charges. It was further intimated that TPC had correctly negotiated with the vendor and members of TPC had put him under extreme pressure to reduce the cost and extremely competitive and low bid had been extracted. It was further commented by the chairman TPC that if IFA/CDA is not agreed to, re-tender may be opted for , however CDA must take the responsibility for a higher cost if achieved after re-tendering.

7. The case was again returned to the unit on with the following observations:-

(a) The cost of server accepted at Rs. 2,79,000/- compared with the cost of Rs. 136,000/-for server of the same specifications achieved in case of one of the other formations of Northern Command, during the current financial year was more by Rs 1,43,000/- as such highly un-economical. Similarly the cost of P-III computer with UPS @ Rs 47,500/- was high as compared to that of Rs. 48,650/-for P-IV with UPS achieved by the above formation. And hence the case needed to be considered by CFA for re-tender.

(b) It was further pointed out there was need to improve upon the mechanism through which vendor list was finalized. Out of 18 vendors to whom the tender enquiry was floated, only five had responded with their technical bid and only 3 had submitted their commercial bid which showed only 5 firms out of 18 were genuine firms dealing in the transactions of IT nature. It was further intimated to the unit that poor competition might have been one of the reasons to achieve such abnormally high rates. It was suggested that market survey is done and few more firms from Chandigarh, Delhi and Pathankot are added to the list of vendors to generate adequate competition.

© This office had received 3 separate cases of 20 lakh each from the same unit i.e. 21 Sub Area for concurrence. It was suggested to have a combined TEC and TPC for all the three cases along with this project to achieve the most economical rates through bulk purchase.

(d) The comments of 21 Sub Area that only three out of five firms offered their commercial bid were not acceptable because technical and commercial bids are submitted together and not separately. This was also communicated.

(e) It was conveyed to the unit that remarks of the Chairman TPC were unwarranted and not appreciable, as the responsibility of the IFA is to render the financial advice to achieve the economy in the interest of the state.

8. The re-tendering was ordered for the case and TPC was held for all the four cases on 25.2.2002. The prices achieved, which are shown below, were Rs. 2,95,175 less than the earlier cost.

SL. NO.	ITEM	QTY	RATE PER ITEM	TOTAL PRICE	REMARKS
1.	PC (P-IV)	7	40000	280000	
2.	Server	1	80000	8000	
3.	Server Stabilizer	1	4000	4000	

4.	UPS 625 VA	6	4000	24000	
5.	LAN Card	11	425	4675	
6.	Hub 16 Port	1	5000	5000	
7.	Cable Multicore QSL	1000 mtr.	12.65	12650	
8.	Printer Ink Jet 640	5	6500	32500	
9.	Cost of Training		Nil	Nil	
10.	Installation charges	Nil	Nil	Nil	
11.	Total			442825	
12.	Negotiated Price			442825	

9. Thus there was a saving of Rs. 2,95,175 due to the financial advice of the IFA.

Case Study 7

Army Service Corps - Lcal purchase

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A regular contract for supply of vegetables and fruits at Golkonda for the period from 1.10.1994 to 30.9.1995 was concluded by the Station HQrs, Secunderabad. The contract agreement also provided for a tolerance limit of 25% over and above the contracted quantity. The contractor made the supplies as per terms of the contract as and when supply orders were placed on him upto July '95. In August '95, the contractor represented to the Station HQrs that he has already supplied the quantities contracted under the contract and therefore he is not willing to continue the supplies any longer. When the station HQrs tried to persuade him to continue the supplies for the remaining 2 months also as the period of contract was not over, the contractor contended that in addition to the contracted quantities, he had also supplied the obligatory 25% over and above the agreed quantities as per the terms of the contract by July '95 itself and as such he can not continue the supplies at the agreed rates though the period of contract was not yet over. He therefore refused to continue supplies. The executive tried to conclude a short-term agreement for the remaining 2 months of the contract period but could not succeed. Having failed on both the counts, the requirement of fruits and vegetables for the troops in the station for August '95 and September '95 was met by the executive by continuous local purchases from the market, which resulted in an extra expenditure of Rs 3.20 lakhs. The store section of CDA's office came to know about this irregularity during payment of local purchase bills of market purchases in August '95 and Sept '95.

2. The Store Section carried out a thorough review of the whole case to identify the reasons for drawl of the entire contracted quantities plus

the excess permissible quantities under the contract 2 months before expiry of the contract period. The review revealed that there was no fresh induction of troops into the station during the period warranting extra drawls. Thus, it was found to be a clear case of drawl of supplies under the contract without proper regulation or rationalization. The injudicious operation of the contract which resulted in extra expenditure to State was placed under objection and regularization was sought. The executive was also advised to take appropriate remedial action to avoid recurrence of such cases and also to ensure proper and judicious assessment of requirements and operation of contracts in future.

3. Extract of orders on Audit of ASC contractors bills are place in the enclosed Annexure - A.

4. Please examine the above case and offer your comments on the following aspects:-

1. As all the contractor's bills were passed by us, don't you think that we could have alerted the executive of the impending crisis?

2. Do you think that the existing provisions / orders / checks on bills are adequate enough for us to detect such injudicious operation of contracts?

3. Are you sure that similar situations are not already existing in respect of ASC contracts in operation in your audit area ? If so on what basis ? And if not how do we over come this?

4. After studying the above case are you convinced that the audit has really played its assigned role of "Watch Dog"?

ANNEXURE - A

EXTRACT OF OM PART-II VOL-I

Audit of Contractors Bills:

Para 511: In auditing contractors bills the following main points will be observed :-

(xx) That all the conditions of the contract such as percentage varieties of fruits and vegetables are adhered to in the transactions covered by the bill.

(xxiii) That in cases where supplies have been made in excess of those specified in the contract, the executive authorities are informed of the quantities paid in excess, to enable them to keep a check over such supplies.

EXTRACT OF "JDS" ON AUDIT OF ASC CONTRACTORS' BILLS

3.e. In the case of the bill for the supplies made during the last month / fortnight of the contract period, check the amount of the total supplies received with reference to entities in "ITR" to see that the total cost does not exceed the amount of the sanctioned contract by more that 5%. If the cost exceeds 5% look for an amendment to the contract.

Case Study 8

MES works

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HQrs SC Pune convened a board of Officers on 4.7.1997 at General Area of old KV Bolarum Complex, Secunderabad for assessing the requirement of special repairs to a group of buildings vide convening order No:300050/97/2/Q(wks) dated 4.6.1997. The purpose shown in the Board proceedings is quoted below:

"To assess the requirement of special repairs to buildings and roads and recommend demolition of unsafe / uneconomical buildings at old KV Bolaram Complex".

FINDINGS OF THE BOARD:

The Board found that all the buildings located in the complex were of 1850 to 1910 vintage constructed with brick masonry and mud mortar and served more than their expected life. The buildings were in occupation by Kendriya Vidyalaya, Bolaram for a considerable time and were vacated during 1989-90. All buildings were in bad shape due to vintage and needed extensive repairs.

RECOMMENDATIONS OF THE BOARD:

The Board recommended urgent special repairs to 13 permanent / Temporary buildings in order to bring these buildings to habitable condition and to ensure structural safety. The special repairs was estimated to be Rs.40.18 lakhs.

The board also recommended six buildings for demolition as they were found to be in dilapidated condition and unsafe and beyond economical repairs. The board recommended sanction of demolition of the said six buildings and to initiate new works for recoupment of these buildings through a separate board of officers urgently (as the work on the new toilets is to be completed by the time of completion of the proposed special repairs so that troops occupying the buildings after special repairs will have toilet facilities).

Based on the recommendations of the Board, the GOC-in-C SC vide letter No:300050/97/2/2(wks) dated 25.10.1997 accepted necessity and accorded Admin Approval for the special repairs at an estimated cost of 42.05 lakhs. The Admin Approval included the demolition of old buildings also as recommended by the Board. 32 weeks time was given for completion of work. Based on the sanction a contract agreement was concluded for Rs.43.45 lakhs by CE(Fys) Hyd zone vide CA No: CE(Fys)/ Hyd / Sec / 16 of 97-98. In addition, the following works were also executed to bring the buildings into use

CA / Sanction No & Date	Amount	Nature of work done
1.CWE(S)/SEC-E/M/25 of 97-98	16.63 lakhs	Augmentation of external electrical, water supply, sewage disposal etc (capital work)
2. HQ ASA letter No:4045/OTM/Q3W dt.1.12.97 and CA No: 35/ASA/SEC/SR/97-98	3.97 lakhs	Repairs to Temporary Buildings T.12 (Revenue work)

HQ ASA letter No:4045/OTM/Q3w(i) dt.3.12.97	3.20 lakhs	Repairs to Temporary Buildings T.12-1 (Revenue work)
3. HQASA letter No:4093/Q3 dt.9.5.98	80,000	Provision of Gate for Army Dental College (Revenue Work)
	Total:24.60 lakhs	

Thus a total sum of Rs.68.05 lakhs (43.45 + 24.60 lakhs) was spent on the buildings in order to make them habitable. The work was completed in all respects in Jan '99 and GE(S) Secunderabad vide his letter No:2311/254/E2 dated 28.1.99 requested the station HQrs to instruct the users concerned to take over the accommodation from MES.

The RAO MES Secunderabad, during review of the GE's accounts found it curious that a huge sum of Rs.68 lakhs was spent on barracks lying vacant for almost 10 years and therefore probed the matter from the GE/CWE records. The detailed examination of the records brought out the following interesting facts:

1. HQrs convening order dated 4.6.97 to assess the requirement of special repairs to the unused barracks which ultimately resulted in spending of more than 68 lakhs on unused barracks was only a sequel to the proposal to establish an Army Dental College at Secunderabad to

be run by a regimental institution viz., Army Welfare Education Society (AWES).

2. As the project involved considerable expenditure, it was proposed to house the college initially in the unused barracks by carrying out special repairs and shift to permanent location later.

3. The cost, time and all other aspects involved in the matter were brought in the CWE Secunderabad Engineers appreciation dated 19.5.97 (copy enclosed as Annexure - A)

4. The need to re-appropriate the land & buildings for use by the Army Dental College was clearly brought out by the Engineering Appreciation report of CWE.

5. The necessary re-appropriation sanction was also called for from Station HQrs by CWE Secunderabad vide their letter No:24225/17/E2 dated 28.10.97 immediately after issue of Admin Approval dated 25.x.97 for which no action was taken by the Admin Authorities.

6. Neither the Board proceedings nor the Admin Approval and other subsequent sanctions brought out the purpose of the whole exercise thus effectively concealing the matter from audit.

In the light of the above findings, the RAO (MES) Secunderabad placed the entire expenditure under objection and reported the matter to CDA Secunderabad for further necessary action.

Here is a classic case where a regimental institution was financed from Public Funds through back door means by completely concealing the information. Assuming that you, as a member of Defence Accounts

Department happened to deal with these sanctions, bills and other documents during the course of your audit, please discuss the following aspects of the case.

1. Do you think that the AAO GE could have detected the irregularity and if so from which document and when? What possible objection he could have raised?

2. Comment on the role of E Section. Was there any scope in the E section to find out the real issues involved in the matter? If so how?

3. How does the RAO come to know about such cases and from which documents?

4. What action the FA Section should take on the RAO report in the matter?

5. What lessons do we learn from this case?

Annexure – A

ENGINEERS APPRECIATION

FOR

DEVELOPMENT OF INFRASTRUCTURE FOR PROPOSED

ARMY DENTAL COLLEGE

General

1. The proposal outlined in the project report envisages the raising of an Army Dental College at Secunderabad. The creation of a new project would involve considerable expenditure. Hence to minimise costs, it has been planned to house the College in accommodation vacated by Kendriya Vidyalaya, Bolarum, which is lying in a state of disuse at present and requires extensive repairs, renovation and additions / alterations.

2. Terms of Reference:

a. It has been planned to locate Army Dental College at the site of old KV Bolarum.

b. Site selected is Class A-I defence land, with existing bldgs being defence assets. The Army Dental College would be set up by re-appropriating land & bldg for use by Army Dental College. After shifting of the College to its permanent location at another site at a later date the land and bldg assets will be reverted back to their normal use as defence assets.

c. The wks for establishing Army Dental College will be completed in two phases as under:-

(i) Phase I: PDC is 31 May 98 and will incl all essentail wks required to make College functional in the first year.

(ii) Phase II: PDC is 31 Mar 99 and will incl wks to meet the subsequent requirements of the College.

d. Funds for carrying out wks for Army Dental College will be provided through 'Q' wks and AG's / AWES sources as under:-

(i) Spl repairs to bldgs and provision of External Services – Through 'Q' wks.

(ii) Additions / Alterations / Improvements to bldgs through AC's / AWES funds.

e. Furniture will be procured by Army Dental College through AWES funds.

f. Point of assets after establishment of Army Dental College will be from AWES funds.

g. The Army Dental College is to be made functional from 01 Jul 1998.

<u>AIM</u>

3. To plan and execute wks in old KV Bolarum complex in a pha manner for utilization by Army Dental College.

Site Details and Plans

4. Land Details: Land is available at the location of old KV Bolarum and is A-I defence land. The area available is considered adequate to house the College initially.

5. Site Plan: It is planned to use all existing bldgs with modification / additions / alterations in Phase I and Phase II. A site plan showing the bldgs to be required as per phases is attached.

Status of Existing Accn.

6. All the bldgs existing in the site selected for Army Dental College have been out of use for more than 10 years and are therefore in need fo extensive repairs in terms of B & R and E & M wks, incl restoration of external services to make them habitable. Majority of the bldgs to be used for technical purposes will need addl wk of specialized nature such as work benches for laboratories, dado on walls, addl electrical power sockets, compressed air conduits, improved overall lighting and ventilation etc,.

Phases of the Project.

2. The project is planned to be executed in two phases as follows :-

a. Phase I (1997-98): Phase I is planned to be put into execution immediately after sanction of works and release of funds, so as to provide basic trg and administrative repairs / renovation modification and alteration / additions to the bldgs clinics, laboratories, as well as restoration functioning of external services is planned. Hostel accn for the students is also planned in this phase. The total requirement of funds for this phase is Rs.54.28 lakhs and out of this Rs.40.35 lakhs will be provided by 'Q' wks and Rs.13.93 lakhs by AG's Branch / AWES.

b. Phase II (1998-99): In this phase, certain addl requirements of Army Dental College in subsequent years are planned and these includes laboratories, additional hostel accn for students and augmentation of external services. The requirement of funds for this phase is Rs.29.23 lakhs, Rs.17.23 lakhs is to be provided by ‘Q’ wks and Rs.12.00 lakhs by AG’s Branch / AWES.

<u>Rough Cost :</u>

3. The rouch cost to execute this project will be Rs.83.51 lakhs approx. Details of Rough cost as per phases is att as Annexure I and II to this Annexure.

4. Details of Engineering aspects of development of Army Dental College with approx estimate are given at Annexure IV to this appendix.

RECOMMENDATIONS

5. The time available for planning, tendering and execution of the wks is just about 12 months till 31 May 1998, which is quite a tight and optimistic time frame for execution of wks amounting to Rs.83.51 lakhs.

In order that these wks can be executed in a limited time frame, following is recommended:

a. Boards of officers for the work be convened at the earliest by appropriate CFA.
b. Go ahead sanction for the works both through QMG’s Branch and AG’s / AWES channels be accorded by 15 Jun 97 latest and Adm Approval be issued by 10 Jul 97.
c. Works to be released aginst funds from AG’s Branch / AWES be sanctioned as deposit works to be carried out by MES.

d. A core team to execute the project be formed comprised of MH / Dental authorities / user reps, Engineers and staff.

e. Besides timely sanctioning of works timely release of funds as per phase be ensured.

f. Wks through QMG's Branch channel be sanctioned in view of certain laid down ceilings on funds during 1997-98 as under:-

1. Special repair to bldgs incl internal services amounting to Rs.34.85 lakhs, under special repairs category.

2. Works for restoration of external services inc provision of new wks related to external services amounting to Rs.18.35 lakhs as capital / original wks.

CONCLUSION

6. Timely sanction of works and release of funds is essential for timely execution of wks by MES. The summary of funds required phase wise is as under :-

Phase	Funds reqd in lakhs of Rs.	Work to be completed by
a) Phase I	54.28	31st May 98
b) Phase II	29.23	30th April 99
Total	83.51 lakhs	

Station : Secunderabad (CS Tiwari)

Col

Dated: 19th May 97 Commander

Works Engineer

Case Study 9

Purchase of “BRUSH CUTTERS”

****

A proposal for the procurement of Qty 105 Nos Brush Cutters for the clearance of the weeds/cutting of the wild undergrowth shrubs/grass for the formation under a Command HQrs, out of Army Cdr Special Financial Powers at an estimated cost of Rs 41.02 Lakhs was initiated by a Command HQr. The proposal was concurred in by the IFA from AON angle and approved by the CFA in Dec 2005. Thirty vendors were short listed for the Limited Tender Enquiry.

2. At the time of obtaining concurrence of IFA & approval of CFA, the draft TE was also vetted with enclosures Appendix (A) and Appendix (B) for the Qualitative Requirement and Technical Specification of the item respectively. However, while issuing TE, user formation at their own level enclosed QRs/Tech Specs wherein the make and model of the item was mentioned.

3. Tender Enquiry was issued to the short listed vendors in Jan 06.In response, two vendors made representation against mentioning the specific Brand (Make & Model) in the TE and objected that the eqpt having similar specifications can be supplied by them also but it is not in accordance with the CVC guidelines.

4. On the representation of the said vendors, the user formation took the case with HQ Command suggesting two options as under.

(a) Cancellation of previous Tender Enquiry and issue of fresh Tender Enquiry without mentioning Model & Make to all the vendors.

OR

(b) Issue amendment to all vendors to delete Make and Model of the item and quote for the given QRs/Tech Specs.

Extract of Para 4.7 (C) of DPM 2005 reads as under.

<u>Amendment of Bidding Document</u>

At any time prior to the date of submission of bids the purchaser may, whether at his own initiative or in response to a clarification requested by a prospective bidder, may modify bid documents by amendments. The amendments shall be notified in writing to all prospective bidders. In order to afford prospective bidder a reasonable time to take the amendment into account in preparing their bids, the purchaser may, at his discretion, extend the deadline for submission of bids.

Points for consideration:

(a) Discrepancy/Deviation at the time of issue of TE at Formation.

(b) Action required to be taken by CFA

Case study 10

Major Works Programme

****

Proposal for provisioning of 40 KVA Generator set with building and 3X1.5 Ton AC at Record Office of a Regimental Centre was received for obtaining concurrence from necessity angle and vetting of Approximate Estimates before issue of Admin Approval.

2. The proposal had been approved by Ministry of Defence and got listed in the Major Works Programme at an estimated cost of Rs 15.00 lakhs.

3. Board of officers had recommended installation of 40 KVA Generator set in a building by new construction and 03 ACs of 1.5 Ton capacity as special work since the same is not authorized as per provision contained in Scale of Accommodation 1983.

4. As per Statement of Case, Split ACs would be required to maintain the standard temperature for the automation cell of the Record Office especially during the winter seasons when the temperature drops to Zero degree.

5. While scrutinizing the proposal it had been found that the rates for the DG Sets were taken from the ED Rates for Rs 10.30 lakhs which is on higher side as compared to that of DGS&D rate contract approved by Govt. of India for the Gen Set of same capacity. Also, justification provided for the ACs in a hilly area to maintain the standard temperature for the automation cell was not suffice. Accordingly, it had been advised to procure the DG Set on rate contract, which will be economical and provision for ACs be dropped and heater with thermostat can be procured in lieu of.

Points for consideration – Deficiencies in proposal

Case Study 11

Procurement of packing material from Army Commander's Special Financial Powers

****

A proposal for purchase of Packing material for Garhwal & Kumaon Scouts for carriage & preservation of ration, fuel & critical items at high altitude was submitted to the Command Headquarters. The procurement was required to be made through limited tendering from Army Commander's Special Financial Powers.

2. Tender Enquiries were issued to 24 vendors but no response from any vendor was received. On examination it was found that proposals for similar items were concurred from necessity angle twice earlier, but the procurement could not materialize mainly due lack of or inadequate response from vendors.

3. In order to ensure that the proposal for re tendering does not go waste once again, it was advised to formulate fresh QR approved by an officer not below the rank of Major General. It has also been advised to check the status of vendors and the basis of their inclusion in the vendor list. Attention has also been called towards a broader issue regarding urgency/requirement of these items under Army Commander's delegated Special Financial Powers in view of the fact that the procurement could not be made despite the proposal being concurred from necessity angle twice over.

Points for Consideration

(1) Procurement of packing material out of the Army Cdr's special Financial Powers

(2) Reasons for lack of response from vendors

(3) Basis for vendor selection

Case Study 12

Procurement of Electrically Operated Dental Chairs from Army Commander's Special Powers

****

A proposal for purchase of qty 03 Electrically Operated Dental Chairs (EODC) for a Dental Centre on repeat order basis was submitted in 2005-06. The procurement was required to be made from Army Commander's Special Financial Powers.

2. It was found that the procurement of EODC proposed was over & above authorized quantity. Moreover, such equipments are required to be supplied through AFMSD.

3. It was later on revealed that authorization of officers at the Dental Centre was increased without matching revision of medical/dental equipments per officer. It was advised to review the authorization of no of dental chair in view of the revised manpower as also the specifications thereof in view of contention of the Dental Centre that dental chairs being supplied by AFMSD are of lower specifications / old vintage. A time bound action in this regard is required to be made to minimize the dependence of static units on funds provided under Special Power for operational requirements.

Points for Consideration

(1) Procurement of Medical equipment out of ACSFP funds

(2) QRs/Tech Specs of equipment

Case Study 13

Servicing & overhauling of an engine of Microlight Aircraft

****

A proposal for servicing & overhauling of an engine of Microlight Aircraft purchased by Army Aero Nodal Centre, ASC Centre (North), Gaya on PAC tendering basis was submitted vide File No 122527/MICRO/ASC/G(T) in March 2007. The work was required to be funded from Army Adventure Grant.

2. The quotation of the Original Equipment Manufacturer in this respect, including the cost of replacements was enclosed with the proposal which was found to be amounting to Rs 3,36,932/-. An allotment letter for the stated job and amount was also found enclosed with the proposal.

3. On linking the case with similar proposal of the previous year procurement of the same item, it was revealed that a new engine was purchased at a price of Rs. 3,39,373/-, which is nearly the same price at which the servicing & overhauling was proposed. It was advised that repairing an engine at the almost the cost of a new engine was not economical to state. The case was withdrawn and not submitted again.

Points for Consideration

(1) Funding under Adventure Grant

(2) Efficacy of proposal of repair at the cost of new purchase

Case Study 14

Hiring of services of security agency for Command Hospital (Central Command) Lucknow

****

A proposal for employment of services of security personnel for security duties in a Command Hospital was submitted to IFA in 2006-07. The work was proposed to be funded from I&M Grant.

2. IT was stated that in view of the security of the highly sophisticated & costly medical equipment & stores etc, the hospital is deploying technical manpower like Nursing Assistant etc for guard duties at vital points. As such it was proposed to employ the services of qualified security personnel to look after vital areas.

3. The proposal was examined and following comments were offered:

(i) As per DPM-2006 definitions of term 'services' does not include security service. As such proposal of hiring security guards from civil sources against authorized post is not provided in Govt orders.

(ii) Sanction under para 20 of Schedule XXII of GOI MOD letter dated 26th July 2006 can be accorded for any service required by the hospital which cannot be met by the authorized staff and not for the vacant post against any authorization.

(iii) Work of regular nature and recruitment of daily wagers may be made only for work which is of casual or intermittent nature or for work which is not of full time nature, for which regular post can not be created.

4. File was returned back with observations and not resubmitted.

Points for Consideration

(a) Temporary employment for security duties

(b) Right course of action in such cases

Case Study 15

****

A proposal bearing Job No. CC/2425: Provision of OTM accommodation for an Infantry Brigade at Dhana was received for obtaining financial concurrence due to shortfall of the amount.

2. The above work was sanctioned vide HQ CC in Feb 2004. Tender for entire work except cooling appliances and furniture of Admin Approval were issued by CEJZ in Jan 005. Tender for II call was issued in Mar 2005 and received back in Apr 2005. The lowest tender amount in II call has been reduced to the tune of Rs 8,27,748/- as compared to I call. The lowest tender had been scrutinized and found reasonable. Due to shortfall of amount, the FC case has been initiated.

3 While reviewing the proposal, it had been noticed that the built-in furniture items have already been incorporated in the contract as per the particular Specification. The same has also been included separately in the liabilities mentioned while arriving at the revised cost of the work.

4. The Formation was advised to recheck the actual liabilities with respect to the above.

Points for Consideration

(1) Justification provided for the revised cost

(2) Course of action

Case Study 16

Procurement of LPG Appliances for units/formations under HQ CC

****

A proposal for procurement of LPG Appliances for units/formations under HQr (Central Command) Lucknow was submitted vide File No 373101/LPG/TPC/ST-9.

1. The following advice was rendered in view of shortcomings found when the proposal was examined in detail in the light of DPM-2006:-

a. LPG Appliances fall under the category of stores/equip. of technical nature and accordingly their purchase would fall under two bid system (i.e. to obtain technical & commercial bids separately). The QRs for tech. bids should be laid down exhaustively. Commercial bids of only those offers should be opened which are found technically acceptable by a board of officers.

b. Warranty clause for 3 years require manufacturing guarantee of 3 years.

c. Repeat order can only be made for 50% of the last ordered quantity within a period of 6 months and not for 100% in a period of 12 months as mentioned in tender form.

d. Payment should be as per normal prescribed procedure i.e. through the concerned CDA and requisite funds should be obtained and need to be placed with the CDA. In the instant case, paying authority will be PCDA(CC) Lucknow. The payment term stating that payment will be made by CO ASC Battalion will not be applicable in this case.

e. The clause in r/o Liquidated Damages should be stated to be charged @ 0.5% for every week of delay or part thereof with a maximum of 5%.

f. Earnest money deposit is required to be submitted along with Technical bids and not at the time of collection of the tender form. As such tender enquiry needs to be modified in this respect also.

Points for Consideration

(1) Should ASC equipment purchase procedure be different from the rest stores purchase procedure?

(2) Efficacy of points observed by IFA

Case Study 17

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In one case, a formation projected a requirement of 1500 life jackets for urgent operational use at the estimated cost of Rs 3.5 lacs for procurement under Army Commander's special powers under miscellaneous grant. TPC after price negotiation recommended procurement of 1500 life jackets from L1 vendor at the total cost Rs 16.63 lacs. File was put up to IFA for financial concurrence who observed the wide variation between the estimated and final cost and that the case does not fall within powers of Army Commander and needs a reference to next higher CFA for sanction. In response, the case was re-submitted with the proposal of 900 jackets to bring it within the powers of Army commander which was objected to by IFA for the splitting of requirements/powers.

Points for consideration –

(a) Variation in estimated and final cost of life jackets.

(b) Scaling down quantity at final stage.

(c) What will you do as IFA or CFA in such case?

Case Study 18

****

A Cat 'A' Estt projected a case for the sanction of the GOC-in-C for construction of two 'Over Head Sheds' for storage of IT equipments at a estimated cost of approx Rs 6.70 lakhs out of I&M Grant in 2004-05. The work involved use of bricks, cement, steel, asbestos sheets, glass etc among other material. The SOC included a CST along with quotations of four general order suppliers duly recommending the L1 vendor by a TPC as also recommendation of the Commandant.

After examination, the IFA returned the case with observations. The main observation was that the proposal does not fall under the purview the objects of expenditure covered under the Miscellaneous Grant. Reply is still awaited.

Points for Consideration

The merits and demerits of the proposal.

Case Study 19

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A Cat ‘A’ Estt sent a proposal for the dust proofing of the Technical Lab approximately 3695 sq ft at the estimated cost of Rs 4.99 lakhs (Rs 135 per sq ft including fixing charges) out of ATG seeking concurrence & approval of IFA & CFA in the Command Hqrs in 2004-05. Proposal was accompanied with a SOC, five quotations, CST with L1 vendor, duly recommended by the Commandant.

The case was returned by the IFA office with observations including inadequate competition, unregistered firms and exorbitant rates (prevailing market rates of similar tiles of Kajaria brand being Rs 25-30 per tile). The case was finally approved at the total cost of Rs 1.55 lakhs (Rs 42 per tile including fixing charges).

Points for Consideration

1. Initial proposal of the Cat ‘A’ Estt and
2. Sustainability of IFA’s observations

Case Study 20

****

A limited tender action was taken by a Command Hqrs in 2004-05 for the procurement of a set of relief and rescue tools during natural disasters. On receipt of TEC report, it transpired that all vendors had quoted a single source for the supply of the equipment. Thus it turned out to be a case of proprietary article in which OEM was not included in the vendor list. It was also observed that the CFA in the Command Hqrs does not have financial powers for the purchase of the items of proprietary nature. Proposal also included certain miscellaneous items such as cutting and mountaineering equipment commonly available in market. It was observed that maximum vendors of same locality with two of them having same address and phone number were selected.

Please discuss:

(a) Market survey and vendor selection;

(b) Purchase of items of proprietary nature;

(c) Offer solution to the above imbroglio.

Case Study 21

****

In one case, Sub Area Commander sanctioned a proposal of Rs two lacs fifteen thousand in March 2004 for purchase of summer appliances such as coolers, matkas, tumblers etc. Office of the CDA returned bills under observation that sanction of competent authority was not taken for the proposal. A Brigadier has power up to Rs twenty five thousand without IFA concurrence and he can incur expenditure up to Rs one lac per transaction with the concurrence of IFA. In reply, ten bills were preferred with ten separate sanctions each less than twenty five thousand.

Please discuss –

(a) Sanction accorded by Sub Area Commander

(b) Observation of the office of CDA

(c) What will you do in such a situation?

Case Study 22

****

During the month of March 2002, a Regimental Centre forwarded 27 bills to the office of a regional CDA. These bills each relating to similar stationery items for the amount Rs 3000 to Rs 4000 were prepared within a span of 2-3 days for a total amount of Rs 1,03,500. During audit of bills, it was observed that balance allotment was only Rs 55,360 and sanction was accorded by Commandant (a Brig) without consultation of IFA. Bills were put under observation but did not reach destination. In April, 2002 during the visit of CDA to the Regimental Centre, the issue of non-payment of bills was raised by the Commandant. On return, during the investigation under the order of CDA bills were traced which were lying un-dispatched in the cupboard of the official concerned transferred out recently to an outstation. CDA ordered provisional payment of bills against anticipated allotment, action against erring official and advised Commandant to avoid splitting of sanction and prior concurrence of IFA in future.

Please comment –

(a) Action of Regimental Centre in purchase of stationery items and processing of bills

(b) Passing of bills in CDA office

(c) Assuming you are CDA, what action you would have taken?

Case Study 23

****

In case of procurement of collapsible shelters for one of the units of a strike corps, tender action was taken on 'limited tender' basis and the TEC short listed only one vendor after technical evaluation out of three quotations received. CFA accepted the recommendations of TEC and staff evaluation clearing way for commercial negotiation. TPC assembled, carried out hard negotiation with vendor and brought down total cost from Rs 7.36 lacs to Rs 4.65 lacs and 4% CST. During staff evaluation at the Command Headquarter, re-tender was recommended in view of the norms of avoiding single vendor situation. Recommendation of staff evaluation was not accepted by IFA who recommended placement of order on the firm based on the recommendation of TPC.

(Note – During that period resultant single vendor situation was acceptable treating as if requirement of competitive bids is complete.)

Please comment –

(a) What would you do as staff officer to CFA?

(b) What would you do as IFA in such case?

(c) What would you do as CFA?

Case Studies

Navy

Case Study 1

Re-engining of 1241 P/E ship of INS Abhay

****

A Case to offload re-engining of 1241/P/E ship of INS Abhay based on study report submitted by GRSE, Kolkata on turn key basis was received for concurrence against 'No Capacity' certificate from ND(MB). In order to minimize the ship's stay at Kolkata, as well as the overall cost of the refit, MR/MLU & re-powering of Abhay, the refit was planned to be undertaken in three phases below:

(a) Phase I Part of Lull/MLU work package to be undertaken at ND(MB), prior to sending the ship to GRSE, Kolkata.
(b) Phase II Re-engining and only minimum refit work package at GRSE, Kolkata.
(c) Phase III Weapon Work package, STW/HATs of equipment at ND(MB).

The financial implication were as under:-

(a)	Cost of re-engining work package:	Rs	7.00 Crores
(b)	Cost of concurrent refit work	Rs	0.50 Crores
(c)	Statutory levis/taxes @ 12.5%	Rs	0.9375 Crores
(d)	Margin for 15% growth of work	Rs	1.2656 Crores
			Rs 9.703125 Crores

Accordingly, the case was concurred for AIP of RS 9.703125 Crores & DTE vetted. Based on AIP issued, ND(MB) had issued RFP to M/s

GRSE. GRSE forwarded techno commercial bid for Rs 11.90 Crores vide their no. GM(S)(FOJ) 01/17/06 dated 24/08/06.

However, on going through the techno commercial bid, it was noticed by the IFA that part of MLU/hull/PGO package was to be done in Naval Dockyard (MB) in phase I. From the firm's quote, it appeared that entire work relating to refit of Hull/PGD package was also being done at GRSE which escalated the cost. The approximate financial implication was Rs 11.90 Crores/- Clarification in this regard was asked for and Naval Dockyard (MB) agreed to this point. A revised estimate was submitted and the total work package was brought down to Rs 9.58 Crores. This resulted in saving of Rs 2.32 Crores.

PNC meeting for installation of new MTU engines, gear box, controls and part of work package of NR/MLU of INS Abhay with M/S GRSE Kolkata was held on 14th Dec 06, under the chairmanship of CSO(Tech), HQWNC. The PNC was attended by the IFA. The PNC could not be completed since the chairman had requested the rep GRSE to forwarded clarification with regard to cost of labour, services and material by 18 Dec 06. Further, GRSE was also requested to comment on the cost estimates if the are to be undertaken at Mumbai. In response to the discussions held during the PNC, M/s GRSE broadly indicated the following.

a) Detailed breakdown of cost of labour, service and material cannot be given.

b) Important issue of the job being undertaken at Mumbai has not been commented upon.

c) Taxes and duties will be payable on actual payments made.

d) Jobs that are not required/have already been completed by ND(MB) are not applicable and will be deleted.

e) Payment terms expect the clause of last payment of 10% on completion of one-year guarantee are acceptable.

Second round of PNC was held on 21st Dec 06 under the Chairmanship of CSO(Tec), HQWNC, The IFA was also present. During the meeting AGM(PL) started that the actual cost of work which is Rs 7.62 crores may be negotiated as lump sum and overall discount could be sought. Taxes and duties on the final agreed price could be paid on actuals. The overall quoted (without discount) by M/s GRSE were as follows:-

(a)	Cost of services of ship repair yard:		Rs	9591600/-
(b)	Cost of re-engining work package:		Rs	3,77,35,200/-
	(Add Trials)	+	Rs	20,00,000/-
	(add transportation of weight)	+	Rs	80,000/-
	(Delete Serial 1 of Annex E, Labour Remov.)			
-	Rs 51,49,440/-			
	(Delete Serial 6 of Annex E, Labour accom):		Rs	7,44,000/-
(c)	Cost of material (upgraded equipment):		Rs	1,71,66,840/-
	& installation material for re-engining			
	(delete serial no 3 of annexure F)	-	Rs	16,77,600/-
(d)	Cost towards specialist		RS	1,49,22,000/-
(e)	Cost of upgraded equipment		Rs	18,56,400/-
(f)	Cost of repairs of NR/MLU work package			
	For hull, engineering & PGD	-	Rs	2,61,77,000/-
(h)	Other Charges		Rs	4,46,000/-
		Total:	Rs	762,29,000/-
(g)	Taxes and duties:		at actuals	

M/s GRSE agreed for a lump sum discount of Rs 60 Lakhs. Taking into account the discount, taxes, duties and assuming a growth of work of 15% ND(MB) estimated a total cost of Rs 9,65,86,384/-. However 15% growth of work was not agreed to by the IFA, as ND(MB) had already done the work on Hull, MLU,PGD work package and GRSE has to merely prepare the site for fitting of new engines, cost of which is not included in this work. ND(MB) re-examined the anticipated of work and it was estimated to be at 7% only. The case was finally concurred for Rs 8,98,67,331/- which included 7% growth of work. A total saving of Rs 29132669/- were achieved.

Case Study 2

Hiring of trawlers: HQMNA

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A proposal for hiring of one trawler for round the clock petrol of the area outside south break water for a period of one year commencing 01/01/07 on contract basis was received for accord of AIP. The current contract was expiring on 31/12/06. The total annual financial implication was indicated as approximately Rs 12,60,000/- i,e @ 105000/- per month. It was stated by the command that existing contract monthly price is Rs 1,11,500/- per month. Eight vendors were identified for of tender.

On going through the file it was noticed that the current contract rate was for Rs 11.75 lakhs only which amounts to Rs 97,900/- per month and not Rs 1,11,500/-. The proposal was concurred for AIP on OTE basis at an approximate cost of Rs 12 lakhs under Sl no 34 Annexure II of NI 1/S/06. DTE was vetted by IFA. Tendering on OTE basis was done and file received for formal financial sanction for Rs 19,80,000/- @ Rs 1,65,000/- per month through M/s Ravi Kiran Boat services, New Ferry Wharf, Mumbai. It was seen that the L1 firm in this case was the current contract holder and rate achieved now was more than 60% higher than LPP whereas the vendor is the same. The case was recommended for PNC by the IFA. It was also suggested that if substantial reduction is not achieved in PNC, retendering can be done on OTE basis. During the PNC the firm, viz, M/s Ravi Kiran Boat services agreed to reduce the rate from Rs 1,65,000/- to Rs 1,05,000/- per month. Total price for one year worked out to Rs 12,60,000/- against quotation of Rs 19,80,000/-. Thus overall reduction of Rs 7,20,000/- was achieved. The case was concurred for Rs 12,60,000/- under Sl no. 34 of Annexure II of NI 1/S/06.

Case Study 3

Procurement of Spares for **Russian yard material** – Indent No. 05VINC049 (DPRO: **File No:-** DPR/MR/05VINC049/05146)

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The case file requesting Expenditure angle clearance (Acceptance of Necessity) relating to procurement of spares for Russian yard material having estimated financial implications (indent value) as Rs 3,92,80,796.00 was received in IFA (Navy) Office on 09.12.05. While examining the case in the first instance, PDPRO was requested to review requirements w.r.t. stock, dues-in, dues out, obsolescence aspects, residual life of equipment etc. NHQ responded while stating that projected requirements are based on review, which is a dynamic function. However, while accessing review parameters on ILMS as a sample check for few items, projected requirements were not in line with the ones the system reflected on ILMS. NHQ was accordingly requested again to have the requirements reviewed w.r.t. data on ILMSN. NHQ after having reviewed their requirements, confirmed deletion of 43 items while quantity in r/o 25 items was also reduced. This resulted in the reduction of estimated financial implications (indent value) from Rs. 3,92,80,796.00 to Rs. 2,82,20,930.00 thereby causing substantial savings to the tune of Rs. 1.10 crores while avoiding over provisioning. The proposal was therefore concurred in for 'Acceptance of Necessity' for an estimated cost of Rs. 2,82,20,930.00.

Case History reveals that procurement quantity is not being arrived at in a professional manner. There is a need of co-ordination between provisioning and procurement directorates while it is more essential that all indents emanating from commands/lower formations should be analysed on ILMS by NHQ before requesting concurrence of IFA (N).

Case Study 4

Subject Procurement of Sky Diving Parachutes and Accessories for Eastern Naval Command.

Directorate Principal Directorate of Adventure Physical Fitness & Sports Activities**.**

File No: TR/1630/SP-ADV/PRO-PARA/ENC

The case relates to procurement of Sky Diving Parachutes and Accessories for Aero Nodal Center at INS Dega, Eastern Naval Command under Sr No. 61 Annexure I to NI I/S/03. The proposal was concurred at a total cost of Rs. 1, 30,00,000.00 on not exceeding basis. Accordingly, IHQMOD(N) floated Limited Tender Enquiry on 06th May 2005, only 06 firms out of 08 firm who had collected tender enquiry forms responded. Technical Evaluation Committee evaluated technical bids and found that technical bids of M/s Sky Technical Solution, New Delhi & M/s Shradha Outdoor Ltd met laid down technical parameters/specifications. Copy of technical Evaluation Report is available at encl. 57 'A' of file No. TR/1630/SP-ADV/PRO-PARA/ENC.

Subsequently on recommendation of a team leader, who had undergone Accelerated Free Fall 'Instructors' Course in Feb 05 at Australia certain change were proposed in the specifications of Sky Diving Equipment, through the changes did not have any change in financial implication viz-a-viz the expenditure angle clearance accorded by the IFA office. Even through the approval of VCNS had been obtained for the revised specifications at note below 71 MF, however, IFA (N) advised that if specifications are to be revised then fresh TE needs to be floated with new specifications, so that equal opportunity could be given to prospective vendor.

As stated, the proposal had been initially submitted for Rs. 1.3 crs. Consequent upon the reason of specifications and having accepted IFA (N) advice for re-tendering, the total financial implication were reduced to Rs. 82,52,509.00, leading to a saving of Rs 48,00,000.00 (Appx.) to the state.

Study of the captioned case reveals that requirement was projected/TE was floated without carefully going in to the detailed specifications of Sky Diving equipment required. The Specification promulgating authorities need to carryout careful scrutiny of specifications before floating TE and if changes in specifications after floating TE/receipt of quotations are inescapable, a fresh TE needs to be issued to provide equal opportunity to all bidders and obtain best prices.

Case Study 5

Subject:- Procurement of Islander Spares (ARD 2003-04)

Directorate Directorate of Naval Air Material

File No SM/05/A/I/C/077

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A proposal was submitted for according concurrence for procurement of 1000 items of spares of Islander Air craft against ARD 2003-04. The estimated financial implications were worked out to PDS 773388.94 equivalent to Rs. 6,77,17,935.

For scrutinizing the case, the file relating to ARD of year 2002-03 was obtained and it was found that sanction of MOD was obtained for procurement of 696 items worth Rs. 9.46 crores and Dues in for year 2001-02 and 2002-03 were not taken into account while processing ARD of 2003-04 accordingly it was suggested to submit the proposal after taking into account all dues in.

The proposal was resubmitted for 832 items with financial implications of Rs. 5,36,77,920 but on further examination it was found that all Dues in head still not been correctly accounted for. As such DNAM was against requested to do the needful.

The proposal was re-worked out by DNAM, Naval Hqrs and the same was revised for 788 items with financial implications of Rs. 5,31,32,873/-

As a result of scrutiny of IFA (Navy) office the proposal of 1000 items was brought down to 788 items and financial implications reduced from Rs. 6,77,17,935 to Rs. 5,31,32,873/- resulting in a saving of Rs. 1,45,063/- to state. Over provisioning was also avoided in the process.

ARDs are not carefully scrutinized and Dues in are not taken into account. Necessary instructions need to be issued and to all lower formations/initiating ARD that indented Dues in and ordered Dues in may be taken into account before determining final PQ. Last purchase price also needs to be based on orders resulting out of previous ARD.

Case Study 6

Subject Procurement of UAV Spares

Directorate Directorate of Naval Air Material

File No SM/2005/A/V/C/3506(MF)

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The proposal relates to procurement of 165 items of UAV spares at an estimated cost of RS. 6,71,85,114 on FCA and RS, 7,39,03,625 on CIP basis.

HQNA had forwarded requirement of 168 items of spare and test equipments of UAV (Unmanned Aerial Vehicle) on 26 Jul 05 to cater for requirement of 3 years. It was brought out in file that requirement had been worked out based on experience gained in past three years. The proposal by NHQ was submitted for 165 items for IFA's concurrence in Sep 05 after obtaining approval of DCNS.

While examining the case it was observed by IFA's office that requirement was not worked out on the basis of Annual Review taking into account the stock, Dues in, Dues out, Annual consumption pattern etc and the qty was also not vetted by PCDA (NAVY).

IFA (N) suggested that requirement be worked out taking into account the above factors and proposal be submitted linking previous Annual Review file DNAM was also to clarify as to why proposal had been initiated for 165 items as against requirement of 168 items projected by HQNA.

Based on IFA observations the requirement was analyzed on ILMS (Air) by NHQ (DNAM) and following was observed by DNAM:

Out of 165 items.

1. 80 items had enough float available with MO(K);
2. 25 items had no consumption pattern;
3. 47 items could not be identified on ILMS (Air);
4. Only 13 items having Zero float were proposed eventually for procurement.

The above facts were intimated by DNAM to Flag Officer Naval Aviation in Oct 05 and HQNA was suggested to review the requirement of UAV spares during ARD in Sep 06. The original proposal of 165 items was accordingly shelved. ACNS (Air) was apprised by DNAM accordingly and file withheld by DNAM.

The file was latter called by IFA's office to know the position as to result of IFA's observations. As a result of efficient scrutiny by IFA's office a proposal of 165 items worth Rs. 7.39 Crores was pruned down to just 13 items. The whole proposal amounting to Rs. 7.39 Crores was dropped for the year 2005-06 resulting in saving of Rs. 7,39,03,625/-.

Study of the captioned case reveals that requirements was projected without verifying stocks, Dues in, Dues out, consumption pattern etc. Had this office not raised relevant queries procurement worth Rs. 7.39 crores would have been made which would have resulted in accumulation of non moving inventory and additional/infructuous loss to state. Careful scrutiny needs to be carried by DNAM of all procurement proposals.

Case Studies

Air Force

Provisioning

Case Study 1

Case NO. MC/8801/PR-13(04-09)/PV

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29 ED, AF had carried out periodical review (PR) No.13 for (04-09) of mechanical spares in respect of AN-32 aircraft at an estimated cost of Rs.10,47,19,989/- ,the break up indent of which is given below.

Nature of proposal Code head	Source of supply	No. of lines	Total cost (in Rs)
1. Import indent on 742/19 Air HQ (VB)	Ex-Russia	52	3,43,98,493/-
2. Indent on Depot 742/19	LC Vendors	11	26,51,724/-
3. RMSO Indent 742/08	HAL B'lore	03	3,38,43,317/-
4. LM Task Indent -	1 BRD	36	3,37,85,295/-
5. LM Task Indent -	3 BRD	02	41,160/-
			10,47,19,989/-

Financial concurrence for the procurement was proposed 'ex-import' for 52 lines at a total cost of Rs.3,43,98,493/-& 'indigenous' procurement of 52 lines at a total cost of Rs.7,03,21,496/-.

After due scrutiny of the case, it was suggested by the IFA that,
(1) repair of plates with segments being taken up for the 1st time, it is prudent that performance of few plates be first assessed before procuring more segments,
(2) special review be carried out as dues-in quantity as per last PR not taken as assets & concurred cases not either indented/processed or cancelled,
(3) reasons for requirement of huge quantities raised now was questioned as PR for the items was raised only previous year for MPE period,
(4) Statue of various SRs were asked to be confirmed with dues-in taken if indents were concurred or indents cancelled.

Based on the advice of the IFA, 29 ED was instructed to carry out special review catering for ARS as well as overhaul repair requirement, as a result various items were deleted and the case was finally concurred on the following lines.

Nature of proposal	source of supply	No. of lined	Total cost (in Rs)	Code head
Import indent on 742/19 Air HQ (VB)	Ex-Russia	50	3,20,14,315/-	
Indent on Depot do--	Indigenous	10	8,41,980/-	--
LM Task indent	1 BRD	32	2,00,535/-	-

LM Task indent	3 BRD	02	41,160/-	-
			3,30,97,990/-	

Thus on persuasion from IFA, a substantial saving of Rs. 3,77,78,682/- was effected and over provisioning was avoided & proposed RMSO on HAL Bangalore was cancelled.

Case Study 2

Case No : MC/8884/1/11BRD/PR/MIG-29/12NM/2004-09/PR-VI
11BRD/PR/MIG-29/12NM/2004-09/KOLS- Non Mandatory Spares
MIG-29

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Initially 11 BRD submitted SOR for 36 lines for Rs 3,05,84,365. HQMC reviewed the same and deleted certain lines and submitted a proposal for 32 lines at a cost of Rs.2,56,12,660/- The Working sheet and PR were checked with reference to task allocation, and it was found that the Forecast Factor in number of cases was not correctly calculated. This was brought to the notice of HQMC vide N-3 dated 17/12/04. The observation was accepted by HQMC and the requirement was reduced to 27 lines, and revised proposal amount worked out to Rs.73,67,841 vide N-4 dated 03/01/05 thereby net saving of Rs.1,82,44,818.84 has been achieved.

Case Study No.3

Provisioning of spares of Radar System

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The proposal was received for 157 lines at an estimated cost of Rs.3,06,19,325/- for placing indent on Air HQrs.

The following observations were raised:

(1) The asset shown in the LLB check (for the depot) and the PR did not tally.

Many items were NIF (not indegenised but feasible), therefore MPE in such cases should be 24 months (as these items would be indegenised in near future) and not 57 months as applicable for procurements Ex-Abroad.

(2) Indigenisation certificate of the depot also mentioned that number of items would be indigenised within 6 to 12 month.

(3) In many cases the requirement recommended was much higher than actual, however no justification was given as to how the higher quantity were arrived at, it was just mentioned that as equipment is growing old requirement would increase.

(4) LLB showed many items as NTC (No Tally Cards), therefore low CAR, Assets etc. taken was not realistic.

HQMC took up a fresh LLB check, and –

(1) Many NTC items were deleted, as there was hardly any consumption or dues-out.

(2) For items under indegenisation, procurement was reduced to 12 months requirement instead of 57 months.

(3) Allocations were made from other depots for few items.

(4) NIF items where requirement was low were deleted, as it would be uneconomical to procure these items Ex-Abroad.

Thus the indent reduced to 89 lines and estimated cost to Rs.1,91,58,507/- instead of Rs 3,06,19,325/-.

Case Study 4

Pricing of item by M/s HAL

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During the course of scrutiny of various proposals it was observed that Justification of prices was usually not sought by HQMC, before placing RMSO on M/s HAL. Even exorbitant increases in prices within a span of few months were never justified. Therefore, this office advised HQMC to justify such price increase or take up the matter with M/s HAL, and seek cost breakup details as a result in many cases the prices came down considerably. In one such case RMSO was initially proposed for Rs. 2,62,64,318/-, finally the case was concurred for Rs.1,73,36,366/- i.e. a reduction of Rs.89,27,952/- was achieved.

It is noteworthy that if estimated cost gets inflated:-

(i) Subsequent PR will be priced as per this inflated price.
(ii) The advance paid to M/s HAL may be more, and actual prices paid may be less.
(iii) The booking under the budget head gets inflated.

Case Study 5

Provisioning of Scaled Rotables for Chetak/Cheetah Helicopter:-

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PR for 04-08 for Scaled Rotable was received for 3 lines at an estimated cost of Rs. 54,77,905/- to be placed on M/S. HAL. The calculations for the required quantities projected in the SOR were correct and could be concurred without any objections. However, it was observed from the PR, that many items (though not being procured in the current PR/SOR) were held over and above the MPE period requirement as a result of over provisioning done in the past. It has also been the experience of the Provisioning Group of IFA Cell, that a lot of items under scaled rotables, which were concurred earlier are now coming back for cancellations.

This implies:-

(a) Provisioning details like assets, dues-in, stocks at depot and repair agency, % yield of repair, anticipated liabilities for MPE period, depot reserve were not correctly taken.

(b)The system of provisioning of scaled rotables itself may have some flaws. It was noticed that PR for 03-07 which was initially found correct and concurred for Rs.5,26,67,065/- was revised to Rs. 4,67,75,560/- by HQMC under the advise of AOC-in-C. Requirement of Item “Tail Rotor Blade” initially projected as Qty.27, was reduced to Qty. 15 without assigning any concrete justification. All these points confirmed that the current PR might not have been prepared correctly.

©It was advised to review both the PR. The earlier PR for which RMSO was already raised and sent to M/S. HAL may be reviewed and items shown surplus in current PR be deleted from the RMSO of Dec 03. Further the projection for 04-08 may also be reviewed so as to avoid over-provisioning. It took a number of notings, before HQMC finally agreed to review the already concurred RMSO. Two items i.e. “Main Rotar Head” and “Tail Rotor Blade” were cancelled and reduced respectively. This reduced the cost of RMSO from Rs.4,67,75,560/- to Rs. 2,96,83,715/- a saving of Rs.1,70,91,845/-.

Similarly, the PR for the current review was also amended and cost reduced to Rs. 46,40,590/- from Rs.54,77,905/- a saving of Rs. 8,27,315/-. It requires a lot of patience and persuasion from IFA, before the executives actually agree to open-up a case already cleared.

Following points that are highlighted from this case:-

(i) Dues-in details are not correctly taken, at times for one type of review we may have an Indent being finalized at HQMC and a PR being initiated at depot, for transmission to HQMC. In such cases neither the depot nor HQMC updates the dues-in column, with reference to the indent under finalization.

(ii) There could still be some gray area in provisioning system of Scaled Rotables, as surplus in scaled rotables in all aircrafts show large surplus stocks.

(iii) Provisioning does not necessarily mean checking/projecting of correct requirement. For surplus observed corrective action must be taken like canceling of any quantity already projected in earlier indent, if contract not yet finalized, or if within the preview of contract conditions.

Case Study 6

Procurement proposal of socks (Terry pile Black) at an estimated cost of Rs.74,90,000/- for quantity 3,50,000. The proposal was concurred after bringing to the notice of HQMC, that for many sizes (though not being projected for procurement in current review) the stock held is very high where as consumption appears to be low. HQMC did not agree for consumption-based procurement of the item as requirement was correctly projected as per scales.

After a few months the case come back for cancellation of quantity 56000 (Medium size), which was slow moving. However, as per 23 ED, the actual requirement based on consumption pattern worked out to Qty 1,50,000 only, therefore the IFA office suggested for restricting the quantity to 1,50,000, which was not acceptable to HQMC and resubmitted the proposal for 2,94,000. This was not accepted by IFA and HQMC was asked to review the requirement *de novo*.

After review the quantity was restricted to 1,50,000 only.

Case Study7

Replacement of Pneumatic Artificial Horizons (AH) and Directional Gyros (DG) with Electrical Version.

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It was decided with a view to reduce the weight of the helicopter and improve the reliability to switch over from Pneumatic AH, DG to electrical version in all Chetak & Cheetah helicopters.

In case of Cheetah fleet, firm and fixed price order was placed on M/s. HAL (H/C Div.) by the Air HQ and the rates are as under.

	Qty.	Rate
Electrical AH	42	Rs.4,50,900/-each
Electrical DG	42	Rs.2,29,954/-each
Installation Kit	35	Rs.35,000/-each

Air HQ also directed HQMC to place order on M/s. HAL (H/C Div.) for upgradation of Chetak fleet since the provisioning and procurement of Chetak is with HQMC. Air HQrs also advised HQMC to negotiate with M/s. HAL regarding the prices and after sales support.

While scrutinizing the case, following observations were made :

(i) Air HQ had asked for modification of Chetak fleet (88 + 15 % float) which comes to 101 No. but the projection was for 107 Nos.

(ii) Already there were three old RMSOs for Pneumatic AH & DG which required cancellation as there was no point in purchasing Pneumatic AH & DG when they were to be replaced by electrical version.

(iii) In case of Installation Kit also the projection was more than that of SO of Air HQ. Hence it was brought to the notice that only 88 nos should be procured.

All the observations were accepted by the HQMC and necessary reduction in quantity was done.

But in respect of negotiation for rates and product support and setting up of repair facilities, nothing concrete materialized, except for a letter from M/s. HAL which gave vague assurance that product support and repair facilities will be established. Regarding prices, it was stated that since the item was BOI, the rates were beyond the control of M/s. HAL.

Above argument was not acceptable in view of Air HQrs direction and especially when a new start was being made for an important spare.

On deeper study and examination, the following was revealed by M/s. HAL:

(i) Installation of Electrical AH & DG was cleared for Cheetah H/C only. In case of Chetak H/C, trial evaluation was to be taken up and MOD leaflet is to be finalized.

(ii) Considering this position, M/s. HAL intimated that prices for Mod Kit and Standardized Instrument Panel can be worked out after completing the trials. The budgetary rates were as under. Further these are subject to actuals being BOI. However Air HQ order was firm and fixed.

	Qty Reqd.	Price per unit
Electrical AH	101	Rs.8,68,906/-

Electrical DG	101	Rs.3, 87,253/-

It can be seen that these rates were almost double of Cheetah rates.

This was observed by IFA and negotiation with M/s. HAL on technical and financial matters was insisted.

In response, HQMC has intimated that rates of M/s. HAL were reduced from Rs.8,68,906/- to Rs. 8,08,582/- in case of Electrical AH and in case of Electrical DG from Rs.3,87,253/- to Rs.3,59,298/-.

However, since the rates were still high it was decided during discussion with AOC-in-C that the case may be sent to Air HQrs for buying the item directly from OEM and in case of increase of prices by the OEM, feasibility of identifying alternative source might be explored.

The case stands at this point as on date.

Case Study 8

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A proposal for provisioning of 1950 bulletproof jacket at a cost of Rs 5.22 crores was received in this office. The items were proposed to be procured from DGEOF. From the case file it was observed that the items were being purchased for the first time based on the Govt letter and initial entitlement works out to 960 numbers only. However, HQMC projected the requirement as 1950 Nos. i.e. cater initial requirement of 960 numbers and MPE requirement of 63 months.

. This office observed that MPE for this item is 54 months and not 63 months, further considering the life of Jacket to be 60 months, the extra quantity projected to cater MPE requirement will only lie in stock for considerable period unutilized ,therefore this office advised HQMC to review the requirement and restrict the quantity to initial requirement plus to cater some unforeseen future contingencies .

The IFA suggestion was accepted, and HQMC submitted a revised proposal for 1133 Nos. only. The case was finally concurred for Rs.3.03crores, which resulted in saving to the extent of Rs.2.19 Crores.

Case Study 9

MIG – 23 Aircraft were going to be phased out by the year 2005-06, with only the training version of MIG – 23 UB continuing is Air force beyond that period.

A proposal, for first overhaul of MIG 23 was received from 11 BRD, at an estimated cost of Rs.4,47,93,912/- as per instructions issued by Air HQrs in June 2002, i.e. prior to the decision of phasing out being taken which was communicated vide letter dated 29/07/03.

The necessity for FOH at an exorbitant cost of Rs.4.5 crores was not agreed. to. The lead time by M/s. HAL is generally One Year, by which time phasing out would have already begun.

As per leaflet No. 42 of IAF 1541, HQMC was asked to confirm from Air HQrs the actual FOH to be carried out.

The case shuttled to & fro 3 – 4 times and in Nov 2003, HQMC referred the matter to Air HQrs and revised FOH was communicated by Air HQrs. This lead to the total cost being reduced to Rs.87,29,112 from Rs.4,47,93,912/-.

Requirement of spare for the above proposal projected initially and finally were drastically reduced.

Case Study 10

Provisioning of ARS Spares:

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An RMSO for 23 lines, at an estimated cost of Rs.2,62,63,518/- was received, priced as per budgetary quotes received from M/s. HAL..

On verifying the current prices with reference to LPP of M/s. HAL, it was noticed, that prices of quite a few items had increased exorbitantly with-in a span of 1 – 2 years. HQMC was advised to verify the reasonability of prices and reasons for exorbitant increase in price from M/s. HAL, along with the cost break-up.

M/s. HAL reworked the prices of 4 items, supporting it with cost breakup, which lead to prices being reduced, estimated cost which worked out as Rs.2,62,63,518/- reduced to Rs.1,73,36,366/-.

Unrealistic prices would lead to inflated estimated cost causing more amount being paid as advance to M/s. HAL.

Case Study 11

Provisioning of Air force blanket blue:

Proposal was received for Qty 57,000 of Blanket. The requirement was worked out for airmen, NCE and 50 % extra for catering to seasonal issues.

As per Para 53 of Chapter 15 of IAP 1501 addition Blankets are to be issued to personnel in extreme cold climatic regions, on the recommendations of Medical Officer of the region. AF was catering at 50 % for such seasonal issues. However the 50 % was not based on any past consumption on this account 20 % extra requirement was being catered for in every six monthly review. The requirement being projected for NCEs were also changing in different PR cycles. The quantity authorized for NCEs and basis of 50 % seasonal requirement was asked to be clarified.

As per provisions of IAP 1501, the seasonal issues made, are to be taken back after the winter season, defumigated and stored in the depots, for issue once again during next winter. Therefore there was no reason to cater for seasonal requirement in every PR, as was being done. As blankets have very long life, the quantity catered once for seasonal requirement, will continue to be used again and again, therefore the quality projected under seasonal issues was not accepted, as quite a large quantity was already catered for during earlier PRs. NCEs are also not entitled to blankets, so this quantity was also reduced. The quantity projected as 57000 was finally concurred for 35000 quantity only for PR raised for April 2003.

Further no PR has been raised during the next cycle in OCT 2003, which shows the quantity concurred by IFA was more than sufficient to cater for MPE period.

Procurement

Case Study 1

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A proposal for procurement of cover water proof was received recommending L3, as L1 and L2 have deviated from DP specified in TE and as per Rule 130 FR Part I such offer can be treated as unresponsive.

Delivery specified in TE " within 5 months from the date of supply order including time required for approval of sample".

The delivery period quoted by the firms are as under

L1 firm within 5 month + time required for approval of sample

L2 firm within 6 month + time required for approval of sample

L3 firm within 5 month

IFA examined the case and observed that provision exists for treating offers which do not conform to the delivery schedule specified in TE as unresponsive. However, in the larger interest of the state advised for placing order on L1 based on the following facts:

If L1 and L2 offer is rejected, we are left with one valid tender and it will be treated as single tender.

There is huge variation in rates between L1 and L2 and L3. The difference was Rs.14,87,005/- in case of L1 and L3 and Rs.14,80,523/- between L2 and L3 rate was roughly 70.56% higher than L1 rate.

IFA also pointed out that retendering may not give desired result as in past several occasions these 3 firms only had responded.

The L1 firm only had bagged the order in all previous occasions and supplied the item in time.

Further the price trend of past occasions of all the three firms was carried out for better appreciation of the case and armed with all facts and figure MC was advised to place order on L1 firm after conducting PNC with L1 firm for delivery as this would result in saving of Rs.1487005/- to the state.

MC accepted the advice of IFA and placed order on L1 firm after PNC which resulted in saving of Rs 14,87,005/-

Case Study No. 2

Stitching of summer uniform i.e. Trouser and Shirt for Airmen

Quantity: 1 Lakh Trouser, 1 Lakh Shirt

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The case file for stitching of summer uniform for trouser and shirt was examined and it was observed that the L1 firm had quoted different rate for different size which are detailed below.

Size	Trouser	Shirt
S7	68	54
S8	74	58
S9	79	62
S10	85	64

The IFA office advised HQMC that different stitching charges for different size is not admissible and stitching charges should be uniform for all size and this office also observed that many important terms, which has financial bearings have not been clearly specified in the TE viz.

(i) Collateral security for the cost of uniform cloth +5% departmental charges on the cloth that will be issued to the firm for stitching.
(ii) Collection and delivery of material.
(iii) Mode of delivery of cloth.
(iv) Security deposit in addition to collateral security.
(v) Quantity of fabric required for Trouser and Shirt
(v) Income Tax (TDS).
(vi) Insurance of cloth etc.

The case file was returned to HQMC to clarify the above points and also it was suggested to conduct PNC with L1 firm, in addition to above HQMC was advised to fix the Quantum of cloth for each trouser and shirt at a minimum possible level

As per the advice of this office a PNC meeting was conducted with L1 firm M/s Lords Stitch Wear Pvt.Ltd. on 17th and 19th July 2002. In the PNC meeting the firm agreed to stitch the trouser and shirt @ of 75 and 59 respectively as a result of above advice a saving of Rs. 3,35,000/- was achieved and the details are as under.

TROUSER

Value of SO before PNC				After PNC
Size	Qty.	Stitching Firm Charge	Quoted by	Qty *stitching charges fixed at PNC=Rs.75
S-7	12000	68/-	8,16,000	1,00,000*75=75,00,000
S-8	33000	74/-	24,42,000	
S-9	35000	79/-	2765000	
S-10	20000	85/-	1700000	
	1,00,000		77,23,000	77,23,000-75,00,000=2,23,000

SHIRT

Value of SO before PNC After PNC

Size	Qty.	Stitching Charge	Quoted by Firm	Qty *stitching charges fixed at PNC
S-7	12000	54	648000	1,00,000*59=59,00,000
S-8	33000	58	1914000	
S-9	35000	62	2170000	
S-10	20000	64	1280000	
	1,00,000		60,12,000	60,12,000-59,00,000=1,12,000

Further this office had also advised for reducing the quantum of cloth for trouser and shirt since in the previous Stitching contract concluded by HQMC, 1.50 mtr & 1.60 mtr cloth was given for stitching of trouser and shirt respectively and as per the advice of this office the Quantum of cloth for trouser and shirt fixed at 1.30 mtr thereby substantial saving has been achieved which is detailed below.

TROUSER

Quantum of cloth reduced from 1.50 mtr to 1.30 mtr
Cloth saved on each trouser 1.50-1.30= .20 mtr
Total cloth saved 1,00,000*.20=20,000 mtr
Cost of cloth per meter= 79.03
Saving effected in terms of amount=79.03*20,000=15,80,600

SHIRT

Quantum of cloth reduced from 1.60 mtr to 1.30 mtr
Cloth saved on each Shirt 1.60-1.30= .30 mtr
Total cloth saved 1,00,000*.30=30,000 mtr
Cost of cloth per meter= 79.03
Saving effected in terms of amount=79.03*30,000=23,70,900

Total amount saved in cloth trouser and shirt=15,80,600+23,70,900=39,51,500/-

Further as per the advice of this office in the PNC meeting the firm has agreed to submit collateral security deposit for cloth and security deposit for the performance of the contract. The firm also agreed to insure the cloth against theft, fire, and deliver the stiched cloth to various destinations free of cost. The firm also agreed for recovery of income tax as per section 194(iv) of income tax act.

Because of the efforts taken by this office the contract was concluded safeguarding the Government interest and at a cheaper rate.

Case Study 3

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IAF had only two sources for supply of Ni-Cad Batteries of various specifications i.e. M/S.HBL Nife, Hyderabad and M/S. HEB (I),Hyderabad. The matter was taken up with Air HQrs, HAL and other defence establishments to ascertain the sources from which they are buying the Ni- cad batteries. All of them have confirmed that they are buying the item from the above two sources only.

On the insistence of IFA an alternative source was developed (NI-Cad Battery 1.2 V 140 AH) to break the monopoly of M/s HBL Nife & HEB(India). M/S AMCO, Bangalore successfully developed the battery and supplied. As a result the prices of the battery came down drastically, as seen from the following illustration:-

SL. NO.	S.O NO.	DATE	RATE OF HBL
1.	2001-078	19.11.01	5100+ TAXES
2.	2002-036	30.08.02	5100+ TAXES
3.	2002-061	11.10.02	5100+ TAXES
4.	2003-010	08.02.03	5400+TAXES
5.	2004-018	14.06.04	2380+TAXES

Developing new sources is utmost important not only for arresting drying up of sources, but also to increase competition and achieve reasonability of prices.

Case Study 4

Procurement of cover outer against indent No. 010469 dt 15-06-2001

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A procurement file for purchase of cover outer of different size was received along with CST, Original Quotations etc. HQMC on the basis of ranking statement proposed to place order on the following lines.

1)	M/s Balakrishna Tyres	1,15,905/-
2)	M/s Ceat Ltd.	1,40,26,493/-
3)	M/s J.K.Industries	83,86,222/-

On scrutiny of procurement file it was observed that though M/s Ceat Ltd. Has quoted rates inclusive of 32% ED however break-up cost detail the firm has actually charged less ED however HQMC while preparing CST has added 32% ED on basic cost. This was brought to the notice of HQMC and was advised to prepare a revised CST, which resulted in saving to the extent of Rs. 38257/-

Further this office has also brought to the notice of HQMC that these items are available under DGS&D Rate Contract and advised them to ascertain details of RC held by the firms. Accordingly the matter was taken up by the HQMC with the firm and the firm has agreed to supply as per DGS&D rate which resulted in saving to the extent of Rs.3, 98,414/-

Further preparation of revised CST has effected a change in the ranking statement and as per revised CST the firms got order on the following lines.

1)	M/s Balakrishna Tyres	30,81,521/-
2)	M/s Ceat Ltd.	1,09,44,972/-
3)	M/s J.K. Industries	83,86,222/-

CASE STUDY 5

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ITEM: - GS table large MK-I
Indent No. 010337 dt.24-04-2001
Quantity 2000 Nos
Estimated Cost 26,20,000/-

HQMC has proposed to place order on L2 firms who have quoted same rate and rejected the offer of L1 stating that firm has not supplied the item in the past and has not specified the packing charges.

The proposal of HQMC was to place order on M/s Krishna Industries at a cost of Rs.25, 85,440/- each and total cost was 5170880/-

The proposal of HQMC was returned with observation stating that capacity and performance of L1 firm M/s Durga Engineering Works should have been verified before floating TE and this is not a valid reason for rejecting the offer of L1 and moreover the L2 firm has also not supplied these items in the past as verified from the document submitted by the firm. Therefore this office advised HQMC to consider the offer of L1.

HQMC has accepted the above advice and submitted a fresh proposal for placing order on L1 firm M/s Durga Engineering Works at a total cost of Rs.42, 94,000/-. Though as a result of the advice of this office saving to the extent of Rs. 876880/- was achieved i.e. Rs. 5170880-4294000 = 876880/-, this office advised HQMC to call the L1 firm for PNC meeting since there was huge variation in the estimated cost Rs.1310/- and rate obtained Rs.2147 i.e. 2147-1310=Rs.837 per number.

Accordingly the L1 firm was called for PNC and the firm has regretted. This office advised HQMC to re-tender the case with additional vendors.

HQMC has accepted the advice of this office and re-tendered the case .Now orders have been placed on M/s Unique Industries Ambala at a total cost of Rs.3421520/-

Due to the efforts taken by this office saving to the extent of Rs.17,49,359/-[51,70,880-3421520=1749359] was achieved.

Case Study 6

Shoes Leather Black leather oxford DMS; Quantity 78,000; Indent no.020181 dt.2-2-2002.

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In this case HQMC after opening of tender and preparation of CST sent a proposal for enhanced cost sanction of indent cost enclosing a copy of CST however other relevant documents were not enclosed.

The idea was to get concurrence for enhanced cost sanction of estimated cost since the rate obtained was Rs.304.01 which is 65.22% more than the estimated cost (Rs.184) and as per Para 4 of leaflet 38 of IAP 1541 Central Purchase Organization can accept higher rate than the estimated cost up to 50% within Rs.10 lakhs.

This office had returned the proposal stating that enhancing the estimated cost after opening of tender is not authorized since the estimated cost are fixed on the basis of LPP or budgetary quote or cost assessed by Specialist officer and which is one of the important aspect based on which the reasonability of rates is justified.

Further from CST this office has observed that four firms have quoted same rate i.e. Rs.252+16%ED+4%CST and have become L1.It is apparent that the firms have formed a ring/cartel, to break the ring formation /cartel this office has suggested for re-tendering with additional vendors including the firms registered with DGS&D.

HQMC dropped the proposal for enhanced cost sanction of indent and re-tendered the case.

The re-tendered case was submitted to this office along with original Quotation, CST and other relevant documents. On scrutiny of case file it was observed that L1 firm has quoted Rs.211+4%CST i.e. 219-44 [which is Rs 84.57 less than the rate obtained in the previous tendering] however the L1 firm has quoted a longer delivery period of 18 months whereas as per TE the delivery date specified was 11 months [3 months for approval of prototype sample and 8 month for delivery]. The capacity of L1 firm was 5000 pairs per month and as per CVC guidelines if the Quantity to be ordered is much more than the L1 alone can supply, in such cases quantity order may be distributed in a transparent and equitable manner, therefore this office suggested to distribute among L1, L2 & L3 after fully exhausting the capacity of L1 and give counter offer to L2, L3 to match the rate of L1.

Accordingly the TPC met on 14-08-2002 and decided to call the L1, L2 &L3 firms for PNC meeting for negotiating on price and delivery period in a sequential manner.

A PNC meeting was held at HQMC, first negotiations were conducted with L1 firm M/s Swastik Boot Factory and the firm reduced their rate from 211 to 210 and as per their capacity PNC/TPC decided to place order for 40000 pairs of Shoes and L2 firm M/s Yash Enterprises was given counter offer of Rs.210 which the firm has accepted and as per their capacity TPC decided to place order for rest of the 38000 Quantity. Further the delivery period was also reduced to 9 $^{1/2}$ months i.e 1 $^{1/2}$ month for approval of prototype sample and 8 month for delivery.

In view of the efforts taken by this office substantial savings has been achieved and details are as under.

Rate of L1 in first time tendering Rs.252+16%ED+4%CST=304.01

Order Quantity 78000*304.01=2,37,12,780

[Total value of contract had the offer been accepted]

Rate obtained after re-tendering and PNC=210+4%CST=218.40

Value of order after re-tendering and PNC=78000*218.40=1,70,35,200

Saving achieved Rs.2,37,12780-1,70,35,200= 66,77,580/-

Case Study 7

Procurement of Gyro Tester UPG- 48; Quantity 11; Indent No 010334 dt.20/04/2001 at saving of Rs.7,15,000/-

During the course of scrutiny of the procurement file this office has observed that the firm had quoted Rs. 5,39,000/- and subsequently reduced the rate to 5,29,400/.

This office observed that the competition is inadequate and rate quoted by L1 firm was on the higher side by 27% if compared with the estimated cost and no reasonability of rates was furnished therefore suggestion was given for conducting PNC with L1 firm.

HQMC has stated that there is no vast variation in the estimated cost and actual rates and resubmitted the case for concurrence.

However IFA insisted for conducting PNC since the firm has earlier developed and supplied the item @474000/- Thereafter HQMC took up the matter with L1 firm m/s Sigma electro system Nasik to reduce their rates and the firm reduced the rate to Rs.507180/- each.

Since there was scope for reduction of price as advised by this office a PNC was held with L1 firm on 18.10.2001 at HQMC. In the PNC meeting the firm was asked to give break-up cost and justify their rates and finally the firm was asked to accept the rate of Rs.474000/- Which the firm had quoted at the time of developing the item.

The L1 firm M/s Sigma Electro system has agreed to supply the item @4,74,000/- and accordingly supply order placed on the firm, which resulted in saving to the extent of Rs.7,15,000/-

Rate quoted by the firm	Rs.5,39,000/
Rate after PNC	Rs.4,74,000/
Savings	Rs. 65,000/

Total savings 65,000X11 = Rs.7,15,000/-

Case Study 8

Balancing Dynamo machines with accessories
Indent no 020161 dt.29-01-02

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A proposal for procurement of balancing dynamo machine on PAC basis was received in IFA (MC) office.

The firm had quoted basic price of Rs.24,30,250 which was inclusive of 4% packing charges in addition the firm had quoted 2% erection and commissioning Charges and 4% ST.

The C.S.T and original quotation were verified it was observed that TEC has recommended the officer without “electrical cranking system” worth Rs.35,000/- though amount has been deducted in the CST however 2% commissioning charges has been worked out including the electrical cranking system this was objected to by this office and the same has been accepted by HQMC.

Further the firm has demanded 100% payment on receipt of machine at Consignee end, however this office advised HQMC that payment term should be 80% on receipt of machine at consignee end in acceptable condition and balance 20% after erection and commissioning against 10% performance bank guarantee. Which should be valid till the warranty period expires.

The firm had quoted warranty period of 12 months from the date of dispatch. It was suggested to amend the same as 12 months from the date of commissioning.

The firm has requested that infrastructure and manpower is to be provided by consignee and the firm has not specified their role in erection and commissioning.

In order to sort out these issues and also reasonability of rates quoted by the firm cannot be assessed on the basis of a machines procured from Russia 25 years back this office advised HQMC to call the firm for negotiation.

Accordingly PNC meeting was held on 18/6/02 and the firm representative agreed for reduction of commissioning charges from 2% to 1.25% and packing charges from 4% to 3.75. The firm also agreed for the payment term of 80% payment on receipt of machine at consignee end in acceptable condition and 20% balance payment after erection & commissioning against 10% performance bank guarantee valid up to 12 month from the date of commissioning i.e. the warranty period.

After PNC the firm has worked out the total cost of equipment as Rs.25, 15,050/- however HQMC has worked out the total cost as Rs.25,21,001/- and sought clarification from the firm to ascertain the correct cost and also referred the case file to JCDA (AF) Nagpur office.

The calculation were examined in-depth and in this office prepared that amount worked out by the firm and HQMC were incorrect. The correct amount was worked out on the following lines. Since the firm had quoted 4% packing charges inclusive of basic cost Rs.24,30,250 to avail .25% discount on packing charges basic cost bifurcated.

Basic cost	2430250	If basic cost is 104	Packing charge is 4

Less packing charges 4%	93471	If basic cost is Rs.2430250	?
Less electrical crank not required with the machine	2336779 35000 2301779	4 2430250 ? =	93471
Add packing charges 3.75%	86316-71 2388095-71		
Add 4% CST	95523-82		
Erection and commissioning charges 1.25%	2483619-53 28772-23 2512391.76	Say 2512392	

The firm accepted the above calculations and Supply Order placed for Rs.25,12392/- thereby saving of Rs.27,273/- has been achieved.

Case Study 9

Procurement of Precision Surface Grinding Machine

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A proposal for provisioning of above machine was received at an estimated cost of Rs.26,91,750/-, as per quotation of M/s. HMT.

From the enclosures in the file, it appeared that the item quoted by M/s. HMT was proposed for procurement without assessing the actual specifications required by the user depot. The depot was asked to confirm whether the item conforms to the job requirement. The reply given by the depot/HQMC was not satisfactory. Finally HQMC cancelled the indent.

A revised SR was raised in Nov 2003. The earlier model quoted was CNC version i.e. Model SCG – 1, which it was confirmed by Tech. Officer is not required, for the job carried out by the depot i.e. 3 BRD.

The Model now recommended was SFW – 1, the price of which was only Rs.13,75,000/- which was then concurred.

Procuring machine with higher/better and advanced specification at nearly double the cost would have lead not only to under utilization of the facilities provided by the machine, but also anfractuous expenditure.

Case Study 10

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A proposal for procurement of radial tyres for various vehicles was received in the IFA (MC), the proposal was returned with suggestion to procure non-radial tyres, which were all-along in use in IAF and also authorized as per existing provision. Further this office also pointed out that incurring huge expenditure on radial tyres without carrying out cost benefit analysis and reviewing the of life of tyre may not be beneficial to the state therefore advised them to procure non-radial tyres, which has been accepted by HQMC and as a result Rs.1.07 Crore had been saved.

Case Study 12

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Tenders were invited for procurement of 3 CNC Lathe machines for 3 BRD Chandigarh.

M/s. HMT in their quotation had quoted transportation/freight charges as Rs.25,000/- each. Two machines will be supplied from their Jaipur plant and one will be supplied from Bangalore.

The distance between Bangalore to Chandigarh and Jaipur to Chandigarh was worked out and M/s. HMT was asked to review the freight charges in r/o Machines to be supplied from Jaipur in view short distance involved.

M/s. HMT reduced the freight charges from Rs.25000/- to Rs.10000/-.

Case Study 13

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In case of purchase of a clothing item, M/s. 'X' quoted different rates in figure and words. If the rates quoted in figure is considered then the firm is L1 and if rate quoted in words is taken into account then some other firm becomes L1.

IFA advised that incase of difference between words and figure, the rates quoted in words only should be taken into consideration. Further the firm's representative was present at the time of opening of tenders, opportunity was there for him to rectify the error as their quotation was opened first.

Re-tendering option in this case was not considered since it was a re-tendered case and only few firms who have supplied/responded were responding each time, and also because of the fact that the rates quoted in words were the same as that of the earlier occasion.

Post Contract Management

Case Study 1

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A proposal for according D.P. extension against Supply Order No. MC 2003-021 Dated 30-03-2003 was received in the office of IFA(MC). The supply order was placed for procurement of Jersey Woolen Dark Blue Grey for 18000 Nos. of four different sizes @ of Rs.473/-+ 4 % CST.

The proposal was examined, it was observed there was downward trend in prices. As fresh TE No.2003 NR-029 dated 25-07-03 rates were less than existing order rates. Further scrutiny of the file revealed that the firm has also demanded 10% ED due to imposition of ED by Govt. This office had suggested for canceling the order, if requirement is there the same can be met by invoking option clause, or repeat order against the order that will be placed against TE 2003 NR-029 dated 25-07-03. The file was returned with above observation with a request to offer executives comments.

The file was resubmitted stating that item is critically required and canceling the order at this juncture would worsen the situation therefore D.P. extension needs to be granted.

This office suggested before we consider D.P. extension counter offer may be given to the firm to match TE L1 rates of fresh T.E opened.

Accordingly HQMC gave counter offer to the firm and the firm accepted the counter offer.

The file was resubmitted for D.P. extension as well as for amending the rates. During scrutiny it was observed that HQMC has given counter offer to size 105 cm where the rates of fresh TE was on the higher side, and further rates obtained in fresh TE were after taking into account 10 % ED whereas HQMC counter offer was silent on this aspect. Therefore concurrence was accorded on the following lines.

MC 2003-021		Counter offer	
	Quantity	Rate	
Size 90	2400	473+ 4 CST	435-60 + 4 CST
Size 95	5600	473+ 4 CST	447-58 + 4 CST
Size 100	7000	473+ 4 CST	466-09 + 4 CST
Size 105	3000	473+ 4 CST	473-00 + 4 CST (10 % ED inclusive)*

* HQMC gave counter offer 483-52 + 4 CST for size 105 not concurred by this office.

Finally amendment was issued to the Supply order for size 90, 95 and 100, which resulted in saving of Rs.250791/- on account of counter offer and Rs. 827289/- on account of ED. A total saving of Rs.1078080/- was achieved.

	Quantity	Old rate	Counter offer rate	
Size 90	2100	491-92	453-02 = 38.90 x 2100 =	81690
Size 95	4900	491-92 (-)	465-48 = 26.44 x 4900 =	129556
Size 100	5500	491-92 (-)	484-73 = 07.19 x 5500 =	39545
			ED	827289
			Total	10,78080

<u>Civil Work Case</u>

Case Study 1

Provision of Swimming pool at AF Station 'X'

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A proposal for provision of swimming pool at AF Station 'X' at an estimated cost of Rs.125.10 lakh was received. The SOC prepared has not taken into consideration the following points.

(1) Details of existing swimming pool if any.

(2) AF Station 'X' is one of the oldest AF Station, the requirement was never been projected in the past, how the need has arised now.

(3) The station has a long history of water scarcity, how the requirement of water will be met and source.

(4) In another proposal for construction of married accommodation it was certified that water is not available whereas in case of swimming pool it is certified as available.

(5) The periodicity in which the water will be replaced as no proposal made for treatment plant.

6) The proposal was silent on changing rooms for officers, ladies airmen as per authorization.

(7) Similarly toilets and bathroom required not catered to in the rough indication cost.

(8) Manpower requirement/availability not indicated.

(9) Advice for using the facility available with Army.

The case has not been resubmitted even after a lapse of 2.1/2 years which implies the requirement was not adequately justified.

Local Purchase Cases

Case Study 1

Local purchase of Tube Inner

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Provisioning of Tube-inner for various vehicles is carried out by 23 ED. PRs are raised for MPE period of 36 months.

However, while auditing cash vouchers for Local Purchase, it was seen that Tube-inner for CFT was procured locally, on STE form M/S.Sanghvi Tyres at the rate of Rs.2,125/- for quantity 75. The total cost of the LP being Rs.1,59,375/- with concurrence of Local IFA/LAO.

However, the price of the item under central purchase as per supply order of June 02 WAS Rs.1,400/- from M/S. Agarwal who has been a regular supplier of the item.

The points of interest in this case are:-

1. As Central Purchase is being done annually, why 23 ED had to resort to Local Purchase.
2. Even if in case of urgency/non availability of stocks, local purchase is resorted to, the rates at which earlier supply orders are placed locally and Centrally must be verified before justifying the rate.
3. Whether M/S. Agarwal was issued with tender enquiry.
4. Local Purchase is not advisable as a matter of routine, as smaller quantities of procurement leads to higher prices.
5. The powers for local purchase under STE is Rs.80,000/- only as per Sch. VIII (E).

Case Study 2

Local purchase of clothing items

****

23 ED is the stock holding depot for various clothing items. However depots/ASPs resort to local purchase, in case certain sizes, items are out of stock in the depot/ASP, 23 ED being mother depot for clothing items stocks MPE requirement. So as to provide the depots/ASP if required.

Proposals are received (for local purchase) from 30 ED for items Brief cotton white, socks nylon, vest summer white and sheet barrack. The total cost of all proposal put together was Rs.8,01,648/-.

The items were proposed on STE from CSD, for which no powers are restricted to Rs.80,000/- only as per Sch VIII. The prices offered by CSD; was much higher than the prevailing contract rates for these items.

30 ED was advised to obtain the items from 23 ED, thus saving of Rs.8,01,648/- and proper use of items stocked at 23 ED, for the very purpose.

Case Study 3

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A depot has submitted a local purchase proposal for procurement of NI-CAD battery at a cost of Rs. 32.50 lakhs. Ifa (mc) office observed when periodical review is being carried out regularly an item procured centrally by MC, how come such huge requirement has arisen in the depot has not been clarified.

For the same item proposal received from the MC was also under consideration for a lesser quantity. This requirement was based on the provisioning review carried out earlier. When the matter came up for discussion during TPC meeting, command authorities stated that the unit is being advised to drop the proposal.

Case Study 4

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A case for hiring of low bed trailor was received from a unit. The unit authorities have conducted PNC with the L2 firm stating that L1 firm has backed out. The IFA (MC) advised the unit for re-tendering the case since as per CVC guidelines no negotiation could be conducted with L2 if L1 backs out.

Unit has re-tendered the case, however landed up in the similar situation. On both the occasion tenders have been floated to 15 firms, however response received from 3 or 4 firms only. Tenders have been floated to firms who are not dealing with trailors. Efforts made to identify the correct sources not indicated.

This was a no go situation.

Case Study 5

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A firm had submitted tender well within the scheduled time, the officer who received the tender has gone on leave and tender was not put in the tender box. In the meantime other tenders were opened on the schedule date and time, except this one.

What should be the future course of action :

(a) Admit the mistake and open the tender

In case the firm happens to be L1 :- comment

After opening if the firm happens to be L1 then re-tender the case otherwise place order on original L1.

(b) Treat the tender as late tender

In this case, it was decided that since the tender has not been put in the tender box and not opened in public, the same should be treated as late tender. Opening the tender would set a precedent and is a matter of subjectivity. As regards to lapses on the part of individual/officer it was decided to take administrative action.

Case Study 6

Fabrication of Qty 3 of 45 KL Refuellers with Chassis

File No. AIR/HQ/03 NR 018/IPW/PUR

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Facts of the Case

- For the indent dt. 27.1.2003, the procurement proposal was initiated by Dte of purchase on 19.02.2003.

- DGAQA had recommended on 25.02.2003 two vendors viz M/s Standard Casting (P) Ltd. New Delhi and M/s Globe-Hi-Fabs Haryana. Dte of purchase suggested that as 45 KL refuellers are being procured for the first time, pilot-sample clause should be incorporated in the TE.

- TE was floated to M/s Standard Casting (P) Ltd and M/s Globe-Hi-Fabs with due date of opening on 07.03.03

- Technical bids with remarks given against paras/technical details of major sub-assemblies were vetted by DGAQA on 24.04.03.

- DGAQA was requested to obtain confirmation & clarifications from firms wherever required.

- DGAQA gave the confirmation on 02.05.03 with recommendation to include the prototype clause.

- Opening of commercial bids was fixed for 08.05.03.

- The purchase proposal was initiated on 21.05,03 along with CST, details of terms and conditions etc. Price quoted by M/s Standard

Casting Pvt Ltd at the rate of Rs. 1, 07,12,000(inclusive of taxes and duties) for each refuellers was found to be lower. Being first time procurement no LPP details were available.

- The purchase proposal was received in IFA's office on 26.06.03. IFA returned the file on 16.07.03 with queries on ascertaining of the reasonability of price quoted by the L1 firm being the first time procurement and also advising that the indent be advertised in leading newspaper as open tender for obtaining more economical rate.

- Reply sent to IFA on 31.07.03/01.08.03 stating that the PNC meeting has been recommended, as the rates are unreasonable. How the rates are considered to be unreasonable was not explained but it was mentioned that in the absence of LPP details, the pricing aspect would be looked into by the PNC, DGAQA explained that open tender enquiry was not feasible for specialist vehicle.

- On 01.08.03 IFA sought confirmation on how the procurement can be considered first time procurement.

- On 14.08.03 PDMT confirmed that A/C refueller of 45 KL capacity was being procured for the first time & intimated about its requirement for the Squadron which is formed for "air to air refueling" of fighter air-crafts, hence authorized for high fuel capacity bowzers; the projection of requirement by Dte of Ops in their letter dated 07.08.02 and raising of indent on 27.01.03.

- IFA again raised the issue on 11.09.03 that more than two firms should be invited to quote their rates.

- On 03.10.03 Dte of Purchase replied to IFA that TE was floated to the two firms viz. M/s Standard Casting Pvt. Ltd & M/s Globe-Hi-Fabs as these vendors were developed and the refuellers of 45 KL being the specific to the requirement of the IAF, OTE was not resorted to.

- IFA did not agree to the arguments given by the Air HQrs and asked them on 13.10.03 to resort to OTE.

- On 24.10.03 DGAQA intimated that 45 KL refueller being specialized vehicle resorting to OTR is not recommended and also stated that the two firms have adequate expertise and have supplied it to IOC. Dte of two firms have adequate expertise and have supplied it to IOC. Dte of purchase reiterating the intimation given by DGAQA requested to IFA on 03.11.03 to concur the purchase proposal.

- IFA reiterating their stand on OTE returned the file on 05.11.03. When the matter was discussed with IFA on 02.12.03 it was once again advised by the IFA on 03.12.03 to increase the vendor span.

- IFA was once again requested on 10.12.03 to give concurrence to the proposal to hold the PNC meeting. On 02.01.04, PDMT informed IFA that as advised by IFA when they checked up with IOC, the latter confirmed that they are procuring the 45 KL refueller from these two firms. IFA gave concurrence as a special case on 08.01.04.

- PNC was conducted on 20.01.04 with L1 firm M/s Standard Castings Pvt. Ltd and the purchase proposal put upto IFA on 25.02.04 was concurred on the same day.

- Supply order dt. 08.03.2004 was placed on the firm who was to deliver to the pilot sample for inspection within 5 months from the date of S.O. the firm sought extension upto 30.11.04 which was granted with imposition of LD and denial clause. The firm has requested for further extension upto 31.01.05 on the grounds of strike at the factory of M/s Ashok Leyland.

Observations:

- The proposal at the initial stage itself should have been very comprehensive, detailed, informative and self-contained. This would avoid queries/delay.

- When the requirement was projected by Dte of Ops during 8/2002, the Air HQrs/DGAQA should have been more proactive and should have initiated action to explore more vendors for placement of development orders. When all along it was known to them that for different capacity of KL refuellers eg 4,9,11,27 etc. there are only two firms ie. M/s Standard Casting (P) Ltd. And M/s Globe-Hi-Fabs Haryana, in the approved list. Perhaps attempts could have been made for floating TEs well in advance for developmental orders so that there would be adequate number of vendors to generate healthy competition instead of depending repeatedly on two firms only resulting to some sort of monopolistic situation.

- Though it was the first time procurement for IAF, it was known to Air HQrs that the above two firms are the only suppliers to the IOC, they should have done cost-analysis of the offer of the firms by obtaining the price-details from IOC.

- Observation/queries of IFA are repeatedly the same.

- A proper presentation of the case with full details of facts, timely action to increase the no. of vendors having capacity to develop the requisite specialized vehicle, their verification, expertise, infrastructure, proper cost analysis/price-comparison with the IOC, avoiding piecemeal, observations/repetition of same observations again and again would have cut short the delay.

- A thought is to be given for a check-list for all concerned broadly covering all the aspects/details to be given in the proposal at the stage when it is initiated and if a time-frame with accountability is to be laid down for all concerned.

Case Study 7

Tail Drive Shaft

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Indent No. M-020410 F for Qty 10 of 8A-1516-000 TDA for MI-17 and indent No. M-020412F for Qty. 15 of TDS for M1-8 were raised on 03.08.02 by HQrs maintenance command and forwarded to Air-HQrs, New Delhi on the same day. But action to process the case was initiated for procurement of 10 Qty. of TDS for M1-17 only. No action was taken for the other indent pertaining to the same item (Qty.15) required for M1-8.

Dte of Engineering intimated Purchase Dte on 23.08.2002/05.09.2002 the names and addresses of 5 foreign firms.

- M/s ROSO BORON Export
- M/s AVIA EXPORT
- M/s AVIA ZAPCHAST
- M/s AVIA BALTIKA
- M/S HELISOTA

Proposal initiated on 09.09.02 and concurred by IFA on 19.09.02.

TEs were floated by Dte. Of Purchase vide their letter dt. 24.09.02 indicating the time and date for tenders to reach Air HQrs and also opening of tenders on 14.11.02.

Three firms at (a), (b), (c) above responded to the TE.

Dte. of Purchase initiated on 29.11.02 the clubbing of another indent No. M-020412F dt. 3.08.02 for Qty 15 sets for Mi-17 along with the indent for Mi-8 indent, at the PNC Meeting.

Approval of ACAL (Log) obtained and sent to IFA on 3/12.

IFA sought clarification on 04.12.02 how indents for the same items were floated.

Clarification to IFA on 23.12.02.

- IFA restricted the qty. for Tail Drive Shaft for MI-17 to 9 and not 15 as proposed.

- Air HQr's decision to go ahead with procurement of 15 Nos. TDS for MI-17 and 10 for MI-8 and to call L1 vendor for negotiation as per note dt. 16.01.03

- The firm requested to have a meeting with their delegation regarding Price reduction etc. on 03.02.03.

- The firm was requested to reduce the price in view of the increased Qty.(10+15) but declined to any discount vide their letter dt. 21.02.2003.

- Draft contract finalized and forwarded to the firm on 08.04.03 and signed on 24.04.03 and delivery completed by 26.11.03.

Observations:-

- It is observed that requirement categorizing, as 'Urgent/Critical' for TDS for M1-8 and M1-17 was projected to Air-HQrs vide indent No. M-020412F and M-020412 on the same day i.e 03.08.2002 by HQrs Maintenance Command. However, Air-HQrs initiated action in 9/2002 to obtain approval of CFA and IFA and take tendering action on the indent dt. 03.08.02 for MI-8 only. It was decided on 29.11.02 only to club the indent dt. 03.08.02 for M1-17 while calling for the firm for the PNC meeting.

  If the tender enquiry was initiated for total 25 no. of sets, perhaps there would have been more competition and delay of at least three to four months could have been avoided.

- When IFA restricted the Qty. of TDS for MI-8 to 9 from the proposed 15 Nos., the justification if any was not intimated to IFA and without obtaining the concurrence of IFA for 15 Nos. of TDS for MI-8, Air HQrs decided to go ahead for procurement of 15 Nos of TDS for M1-8 by clubbing it with 10 Nos for M1-17 and the firm was requested to reduce the price on the ground of increase in quantity form 10 TDS to 10+15.

- There seems to be need for check-list at least on broad lines for Directorates entrusted with procurement activities. The proposal does not incorporate any comprehensive statement of case giving justification for the procurement and proposed quantities making it clear to the IFA particularly the working out/need for the proposed quantity.

- When the decision of clubbing both the indents and invite the firm for the PNC meeting for obtaining 'bulk discount' (Note 14 dt. 29.11.2002), the cost-analysis details if worked out are not given. As per LPP of 5/2002, M/s AVIA EXPORT had quoted USD 10,850.00 and in 11/2002 M/s AVIA ZAPCHAST quoted USD 19995.00 and regretted to reduce the price on the grounds of drastic price hike, which happened early 2002. If the TE was floated for 10+15 sets during 9/2002, perhaps the price-hike could have been avoided.

Case Study 8

Fabrication of 27 KL A/C refueller :- AIR HQ/02NR/096/IPW/PUR

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Factual Narration

- Indent no. Air HQ/64004/316 A/202040/FS M/MT/LGS dt: 03.09.2002 for fabrication of quantity 6 of 27 KL A/C refueller was forwarded to DGAQA for vetting the indent. Requirement of these refuellers was stated to be due to formation of new squadrons in Dec. 2002.
- Reminder was sent to DGAQA by Dte of MT vide letter dt. 18.10.02. DGAQA forwarded vide their letter dt. 18.11.02 to Dte of Purchase the technically vetted indent intimating the names and addresses of two firms-
  - M/s Standard-Casting (P) Ltd., New Delhi and
  - M/s Globe-Hi-Fab, Haryana
- On 29.11.02 Dte of Purchase requested if additional vendors list can be added to increase competition DMT conveyed the request to DGAQA on 12.12.02 for increasing the no. of vendors keeping in mine that-
  - the refuellers are to be used by IL78 squadron being formed in Dec. 2002.
  - the vendor should be a past successful supplier of 27 KL refueller to central/any state Govt.
  - should have requisite infrastructure, technical competence, sound financial background and
  - should be able to complete supplies within 3 months of offering chassis by IAF:
  - DGAQA should carry out capacity verification of the firm before

forwarding the names.

- DGAQA forwarded the name of M/s Usha Industrial Corporation, Noida on 20/12/02 informing that the firm has a good track record and they have fabricated 18 KL refuellers in addition to 4,9 & 11 KL refuellers.
- The proposal to float TE on three firms viz.
  - M/s Standard Casting (P) Ltd.
  - M/s Globe Hi-Fab
  - M/s Usha Industrial Corporation

  was initiated and approved on 27.12.02
- Draft TE was approved on 06.01.03 and floated on 08/01/03.
- On 15/01/03 it was noticed by Air Hqrs. that wrong specification no. has been quoted in the TE and the TE dated 08.01.03 was cancelled issuing a fresh TE on 16.01.03
- TEs were opened on 20.02.03. Technical evaluation of the bids were carried out vide Note 28 dt. 21.04.03. All three firms were found to be technically qualified. DGAQA suggested on order of one no. of 27 KL refueller on M/s Usha Industrial Corporation since the refueller of this capacity was going to be manufactured by them for the first time
- Once again on 01.05.03 Dte of purchase sought confirmation from DGAQA regarding technical acceptability of the firms. Confirmation given by DGAQA on 02.05.03 with suggestion to include prototype clause and user's trial.
- Commercial bids were opened on 08.05.03. Purchase proposal with recommendations to hold price negotiation with L1 vendor M/s usha Industrial Corporation were put up o n 28.05.03. Dte of purchase were of the opinion that a development order should have been recommended at the time of technical vetting of the firm, therefore it was

decided for placement of order on L1 after price-negotiation was conducted.

- DGAQA pointed out on 11.06.03 that M/s Usha Industrial Corporation in their technical bids have stated that they will be able to supply the prototype within 6 months from the date of receipt of chassis and balance Qty in 6 months from the date of accord of BPC. DGAQA reiterated placement of order for one only on M/s Usha Industrial Corporation as in their opinion the firm did not have enough capacity to fabricate 27 KL refueller and recommended price negotiation to be held with L2 for balance quantity.
- file was referred to IFA on 13.06.03. IFA queried on 11/07/03 on the reasonableness of the price quoted by L1 firm the procurement being the first time. They also sought clarification on the working out of estimated cost.
- Some replies were given on file on 31.07.03 and file sent to IFA. IFA raised some more queries vide note 66 A dated 20.11.03.
- Some clarifications were given on 08.12.03. IFA sought some more clarifications on 26.12.03.
- Reply was given to IFA vide Note 68 dt. 29.12.03. It was recommended by Dte of Purchase to place order for one on L1 firm because of low capacity and being first time manufacturer and also call L2 for PNC meeting for the Balance quantity.
- Proposal concurred by IFA on 12.2.04.
- PNC meeting was conducted on 24 & 25.02.04 with M/s Usha Industrial Corporation (L1 firm) & M/s Standard Casting Pvt. Ltd (the L2 firm). It was decided to place supply order initially for Qty. 1 Refueller on the L1 firm and in case the pilot sample submitted by the firm within 07 months from the date of supply order is cleared in all respects by the inspecting agency, additional qty. 01 would be ordered under the optional clause. If not, the optional clause 01 Qty. kept reserved for the firm will be given to L2 firm. It was also decided to place orders for qty

04 on the L2 firm (M/s Standard Castings Pvt. Ltd.). The unit price of M/s Usha Industrial Corporation was Rs. 65,00,000/- and that of M/s Standard castings Pvt. Ltd was Rs. 68,84,381.00

- Minutes of PNC approved by all. IFA while approving the minutes of the PNC advised on 29.03.04 that since 18 KL refueller is already in use in IAF, therefore the order should be placed or qty 01 only on L1 firm and in case of failure of L1 firm's quote should be given to the L2 firm.
- The proposal was reexamined by the concerned directorates/IFA and a note was put up for concurrence of IFA on 26.04.2004 recommending the decision taken during the PNC meeting on 24 & 25.02.2004 in view of the criticality of 27 KL refuellers.

- On 07.05.2004 IFA sought clarification on any order outstanding on M/Standard Castings Pvt Ltd. and current order book position in respect of M/s Standard Casting and M/s Usha Industrial Corporation.
- Clarification given by Dte of Purchase on 12.05.2004, IFA pointed out on 14.05.2004 that since the price variation between L1 and L2 firm is substantial, another round of price-negotiation should be held.
- Air HQrs replied on 15.05.2004 that since L2 firm had not accepted their counter-offer during the PNC meeting held on 24 and 25.02.04, they may be called for price-negotiation on 18th or 24th May 2004.
- In the second PNC meeting held on 24.05.2004, the L2 firm was requested to reconsider the price but on 27.05.04 they intimated that since M/s Ashok Leyland has already increased the price of the chassis (their offer was valid upto 31.05.04 by Rs. 90,000/- the increase effective after 31.05.04 will have to be borne by IFA cover and above their offered cost of Rs. 68,84,381/- (Note 95 dt. 31.05.04 giving all these details) with reference to this note dated 31.05.04 giving all these details) With reference to this note date 31.05.04 it was decided on 01.06.04 that

since L2 firm has short closed their offer, therefore total orders to be placed on L1 firm IFA's approval to this decision was obtained on 01.06.04.

- The purchase proposal dated 24.06.04 was concurred by all members of the PNC and IFA on 02.07.04 and order was placed on M/s Usha Industrial Corporation on 15.07.04. As per the contract, the pilot sample is to be delivered within 07 months from the date of supply order for submission and completion of inspection by DGAQA/GE. After completion of inspection the Refueller will be subjected to user's trial before grant of BPC by the inspection agency. Balance qty will be supplied within 6 months from the date of BPC.
- As per note 122 dt.14.12.04 M/s Usha Industrial Corporation vide their letter dt. 01.12.04 has requested for issue of CDE certificate for five items for CIF value of Rs. 13,03,040/- for qty. 01 prototype refueller agsinst a total of 10 items as they are procuring 5 items directly from the foreign manufacturers and these items will be custom cleared in Delhi whereas remaining 5 items will be procured from dealers of foreign manufacturers situated in India and are custom-cleared in Mumbai.

Observations:

- The proposal at the initiating stage was not comprehensive, no detailed justification for procurement was given. It was too sketchy and not self-contained.
- The requirement is for the squadron to be raised in Dec. 2002 but the indent is raised in Sept. 2002 only. Repeatedly, there are two firms only in the list registered with DGAQA. No advance action was taken to develop additional source of supply.
- With reference to position of orders placed, their performance etc., no proper capacity verification, infrastructure, expertise of the firms seem to have taken place resulting to difficulties in decision-making and delay in procurement of items.

- Piecemeal observations/queries by IFA, at times raising queries after the PNC meeting was held.
- Despite the firm particularly M/s Standard Casting Pvt. Ltd giving details under their letter No. 19.02.2003 of their supplies of 27 KL refuellers to various organization including Air Force, it was repeatedly emphasized that being first time procurement no LLP details are available as a result no cost analysis was done. The firm in the enclosure to their letter dt. 19.02.2003 have given the details of supply orders of 27 KL refuellers from IOCL (4.2.85), Nepal Oil Corp, HPCL (1.9.86), Air Force (15.09.86), BPCL (13.12.89) but no efforts were made to obtain the price-details from the firm or from the customers.
- There is no accountability/time-frame laid down for different agencies dealing with the proposal/concurring the proposal.
- There does not seem to be any checklist/SOP as an integrated system (to be upgraded as and when required) for any of the agencies entrusted with procurement activities to carry out their role timely.