



**Book on**  
**Vigilance Cases in Coal India Limited**  
**Volume - III**  
**Year 2016-2017**



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**Coal India Limited**

कोल इण्डिया लिमिटेड

**Vigilance Department**

**Coal Bhavan, Premises-04 MAR, Plot No.-AF-III**  
**Action Ares-1A, New Town, Rajarhat, Kolkata-700 156**

**Website वेबसाइट : [www.coalindia.in](http://www.coalindia.in)**



गोपाल सिंह

अध्यक्ष-सह-प्रबंध निदेशक

Gopal Singh

Chairman-Cum-Managing Director



कोल इण्डिया लिमिटेड

COAL INDIA LIMITED

(A MAHARATNA COMPANY)

A Govt. of India Enterprise

"COAL BHAWAN"

Premises No. 04 MAR, Plot No. AF-III

Action Area-1A, New Town, Rajarhat

Kolkata-700 156

### Foreword

Integrity, ethics, morals and values should have precedence over any other attributes for an employee – be at any level. Dishonest practices should be shunned consciously. Monitoring illegal and dishonest practices are not a task for law enforcement officers alone. The awakening has to come from within in every individual. Self restraint and contemplation of after-effects of a corrupt practice will certainly make an individual see the things in right perspective and prevent from indulging in it.

So, the idea is to spread the ills of corruption and dishonest practices through sharing potential case studies where glaring irregularities have been observed during investigation. Sharing of cases and constant renewal of pledge to combat corruption, perhaps, may invoke a sense of awareness in people and keep them away from corruption. This book will provide insight in the areas of operations where corruption is likely to raise its head and curb those areas vigilantly.

I am sure, the 'Vigilance Case Study Book Volume-III' compiled by Vigilance Department of Coal India Limited would provide apt guidelines to the employees on finer aspects of being vigilant in performing their official duties. I sincerely hope that the take-away from it are put into effective practice in discouraging corruption and elevating moral standards.

Best Wishes,

(Gopal Singh)

Chairman-cum-Managing Director  
Coal India Limited



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## **CASE STUDY - 1**

### **IRREGULARITIES IN PROCUREMENT OF TIPPERS**

On receipt of a letter from MOC vide ref. xxxx. dated 30.12.2015, investigation was done regarding necessity to procure additional tippers during 2011-12 and 2013-14 and its utilization in the Company.

#### **CASE BRIEF**

- i) 161 nos. of 35 T Dumpers of different Areas of the Company were due for replacement. Out of 161 no. 35 T Dumpers, it was proposed to procure 100 nos. 35T Dumpers on one to one replacement basis as per mine conditions of the Company. For balance 61 no. 35T Dumpers, it was proposed for consideration on up-gradation basis to 60T Dumpers in line with the directives issued from Coal India Limited.
- ii) Indents for 100 nos. 35T Dumpers valued Rs.133,77,46,400.00 (based on budgetary offer by a PSU) were approved. Estimated cost of MARC (Maintenance and Repair Contract) for 6 years period for this 100 nos. 35T Dumpers was Rs. 250,15,52,667.69 on the basis of MARC agreement with same PSU, based on which total cost of 100 nos. 35 T dumper was calculated as Rs.383,92,99,067.69 and was approved by the Management.
- iii) Technical specifications of the equipment was drawn and was approved by the competent authority. But, the specifications of Dumper was such that even the Tipper suppliers could also be able to participate in the tender. As per Purchase Manual clause 5.4.4 if there is any variation in requirement, clearance of CMPDIL is to be obtained but in instant case no-clearance from CMPDIL was obtained. Such specification prepared by Technical Department was approved by the competent authority.
- iv) Subsequently, e-tender was invited on the above. In response, four tenders were received. But, only one tender was responsive. Accordingly, Price Bid was opened; rate quoted by the single valid tenderer was Rs.332,44,19,964.00. During the process of price justification from the single valid bidder, other two bidders made a representation with the Independent External Monitor (IEM).
- v) The IEM in his report had very specifically criticized Company's Management for introducing Tipper in the NIT against the indent approved for 35 T Dumpers. Also, the IEM had elaborated technical superiority of 35 T Dumpers over Tippers. Accordingly, suggested for cancellation of the tender in question, and to invite fresh tender either for dumpers or for tippers singly without combining the features of

both together. In view of the above report of the IEM, the TC recommended for cancellation of the tender and revision of technical specification in line with IEM's recommendation. The same was approved by the competent authority with a note on the IEM's observation to decide Dumper or Tipper in next tender.

- vi) Thereafter, the subject tender was cancelled. Matter regarding purchase of 35 T Dumper or Tipper was discussed at various levels. Finally, decision was taken to purchase 35 T Tippers with MARC for 6 years. Proposal for purchase of 35 T Tippers (indented/estimated cost Rs. 95,90,20,215.00) with MARC for 6 years (indented/estimated cost Rs. 212,12,56,440.00) was initiated with total estimated cost of Rs. 309,23,96,440.00 and subsequently got approved by the Competent Authority. It took just 7 days' time in preparation, checking and approval of the proposal.
- vii) e-Tender (Domestic) for 100 nos. 35T Tippers with MARC for 6 years was invited. In response, three tenderers submitted their tenders. Price-Bid of techno-commercially qualified 2 nos. bidders was opened, and status is as below:

Sl. No.	Name of the bidders	Cost of equipment	Cost of MARC	Total
1	Bidder-1	79,58,88,736.00	232,69,00,680.00	312,27,89,416.00
2	Bidder-2	106,20,63,485.00	205,91,56,448.00	312,12,19,933.00

- viii) NPV (Net Present Value) of MARC for 6 years was calculated for both the parties and total cost was calculated by TC as follows:

Sl. No.	Name of the bidders	Cost of equipment	Cost of MARC For 6 years	Total	Status
1	Bidder-1	79,58,88,736.00	147,54,06,734.00	227,12,95,470.00	L-1
2	Bidder-2	106,20,63,485.00	134,12,00,000.00	240,32,63,485.00	L-2

- ix) TC, on the pretext that company did not have the LPP of the 35 T Tippers, approached the L1 bidder to give price justification. TC asked the bidder to submit copies of the recent orders for price justification. The bidder informed that no recent orders were available with them but said that their rates were competitive. During discussion the bidder reduced the price of MARC to Rs. 229,99,00,600.00.
- x) Finally, the TC, due to the reason that LPP of 35T Tipper was not available. L1 cost was obtained through competitive bidding, considered

L1 rate reasonable and award of the order was recommended at a total cost of Rs. 309,57,89,416.00 and placed before the Board of Directors' for approval.

- xi) As supply point of the Tippers and spares and payment clauses were not deliberated by the TC in its recommendation, it could not be approved by the Board. Later on, a proposal was initiated for rectification of such clause in the purchase order, but the Purchase Order was issued on 10.07.2013 without approval of Board for such incorporation.
- xii) After supply of the Tippers, they were supplied to different Areas for deployment, but most of the Tippers remained idle and they are not in use.
- xiii) As on 23.03.2017, total payment of Rs. 114,13,01,078.00 was released to the supplier as per the break up cost given below:

1.	Supply of 100 nos. Tippers	:	Rs. 73,74,35,820.00
2.	Supply of spares and consumables	:	Rs.5,30,04,767.00
3.	MARC	:	Rs. 35,08,60,491.00
TOTAL			Rs. 114,13,01,078.00

## **IRREGULARITIES OBSERVED**

- i) It appeared that, though the Management approved indent for purchase of 100 nos. 35 T Dumpers in contravention of CIL's general policy to go for higher capacity equipment/Dumpers, but they covertly opted to purchase Tippers which is evident from the fact that in the 1st Tender, specification of Dumper was such that even Tipper suppliers could participate in the tender. Such specification prepared by technical department was approved by the competent authority.
- ii) The IEM in his report very specifically criticized the management for introducing Tipper in the NIT against the indent approved for 35T Dumpers. Also, the IEM had elaborated technical superiority of 35T Dumpers over Tippers. Still, the management decided to purchase 35T Tippers. Though, the then Director (Technical) was specifically directed by the then CMD to decide which equipment Dumper or Tipper was to be purchased, it is seen that CMPDIL which has the expertise in such matter and who prepares the Project Reports of the mines indicating the type, size and number of various HEMM equipment was not consulted and giving unjustifiable reasons contradicting its earlier stand, selected Tippers over Dumpers which was approved by then CMD. The 35T dumpers were earlier procured based on the Project Report prepared by

CMPDIL and duly approved by the Board. Any change in equipment configuration should have been vetted by CMPDIL and approval of Board should have been taken which was not done in the instant case.

- iii) It appears that Dumpers were purchased at exorbitant cost without inquiry/verification. In previous case of tender, the company had a policy to approach CMPDIL to get the justified cost in mining tenders, but in this case no inquiry was made from CMPDIL and even facts on records were not touched by the TC like;

It was on record (submitted by the L-1 bidder in the tender in support of their credential) that similar Tippers were supplied by the L-1 excluding customs duty and other charges on imported chassis at Rs. 43,00,000.00 vide Order date 23.07.2011, at Rs. 42,00,000.00 vide order dated 07.02.2011; at Rs. 43,00,000.00 vide order dated 04.12.2010; at Rs. 43,47,000.00 vide Invoice dated 30.04.2012; and at Rs. 42,39,000.00 vide order dated 12.08.2011. Against the above rates, L-1 had quoted their rate @ Rs. 64,82,000.00 which is considerably high (about 49% more) in comparison to the rate of Rs. 43,47,000.00 against the Tipper supplied on 30.04.2012.

- iv) First of all, while preparing indent for the Tippers, cost of Tipper and MARC was derived from the offer against NIT for procurement of 35 T dumper.
- v) While scrutinizing the quoted rate, the TC did not analyze the quoted rate for MARC of the L1 tenderer. It was Rs. 2,32,69,006.80 per Tipper for 6 years. After discussion (negotiation) with L-1, MARC rate was reduced to Rs. 2,29,99,006.00. Thus, per annum maintenance cost of Rs. 38,78,167.80 was 48.16% of the cost of the Tipper of Rs. 79,58,887.36 and it appears very high as in the same tender, as the L-2 party had quoted the rate for MARC at Rs. 2,05,91,564.48 per Tipper. The per annum maintenance cost was 34,31,927.41 which was 32.31% of the cost of the Tipper of Rs. 1,06,20,634.85.
- vi) The TC not only recommended for purchase of Tippers at exorbitant rate but also recommended exorbitant maintenance cost. The total excess cost of award is coming to the tune of Rs. 97,04,90,696.00 which was accepted and recommended at different levels up to CMD. In the note, the following vital information was suppressed:
  - a) The proposed purchase of 35T Tippers was for replacement of the existing 35T dumpers. Write up was such that it gave impression as the proposed purchase of 35T Tippers was for replacement of existing 35T Tippers.

- b) CIL's policy to procure up-graded/higher capacity HEMM equipment in case of replacement was not deliberated in the proposal.
- c) Company's management submission before the IEM that it was going to purchase the Tippers for the first time for economic reasons and the following issues/observations made by the IEM were not deliberated and countered in the Board Agenda note: -
  - i) The aspect of financial benefit to the Company vis-à-vis safety and security of the mining personnel/operators due to switch over from Dumper to Tipper
  - ii) The compelling reasons for altering time tested practice of use of dumpers for mining operation
  - iii) Instance that other subsidiaries of CIL or any other mining company were using such equipment (Tipper) was not furnished
- d) Cost comparison of L-1 with LPP/Last Supplied cost of approx. Rs. 43.47 lakh by the same bidder (L-1) on 30.04.2012 (date of invoice) was neither deliberated in the TC recommendation nor brought out in the Board Agenda note.
  - i) Thus, the proposal for Purchase of 100 nos. 35T Tippers from L-1 at a total cost of Rs. 309,57,89,416.00 was finally approved by the Board in its nth meeting held on 26.06.2013 which put the Company in loss of crores of rupees.
  - ii) In view of the meagre use of the purchased dumpers, it appears that not only the award was made at an excess cost of Rs. 97,04,90,696.00 but, a major portion of total cost of Rs. 309,57,89,416.00 (committed to be incurred) from which Rs.114,13,01,078.00 has already been incurred, has been largely infructuous and a drain on public money.

## **ACTION TAKEN**

Total 42 nos. of officials were found responsible at various stages at below Board Level position in the instant investigation. Accordingly, Departmental Action has been initiated against them. Involvement of three nos. officials of Board Level position was also revealed during the investigation and accordingly the matter was referred to the MOC.

## **CASE STUDY - 2**

### **IRREGULARITIES IN FORECLOSURE OF OUTSOURCING CONTRACTS**

#### **CASE BRIEF**

On receipt of a complaint forwarded by the MOC vide ref. xxxxx dated ddmmyy, investigation has been undertaken regarding foreclosing of outsourcing patches awarded to private parties.

- i) Hiring of HEMM for removal of OB, extraction and transportation of coal from one of the Areas of the company was awarded in November, 2012 for a period of 36 months for 202.10 LCM OB, 14.50 LCM of loose OB, 20.90 LMT of Jhama and 26.80 LMT for award value of 145,86,80,000 at diesel base price of Rs. 43.30 per litre.
- ii) After award of the contract, the recommendation of High Power Committee (HPC) on the wage enhancement of Contractors' Workers engaged in mining w.e.f. 01.01.2013 was approved by the CIL Board on 13.02.2013. Accordingly, in the CMDs meet held on 12.03.2013, it was decided that difference of wages payment i.e. what is actually payable as per NIT and what is payable due to recent wages hike decided in the High Power Committee Meeting shall be admissible to the Contractor's workmen deployed in mining operation.
- iii) Subsequently, on a reference from the Company, in the meeting of CMDs on ddmmyy, CMDs suggested that wherever feasible, the contract may be foreclosed without penalizing the contractor in the event contractor fails to produce valid claim against enhanced wages and also not willing to continue the work at the existing terms, fresh tender may be floated against the said work.
- iv) The contractor vide their representation in March, 2014, requested for foreclosure of the contract without imposition of penalty, mentioning that in the NIT, the payment to workmen as recommended by the HPC. CIL was not consulted that the workmen are demanding the wages as recommended by the HPC and are frequently stopping work. The contractor requested to foreclose the work without imposing penalty. Later on, the work was discontinued by the contractor from May, 2014.
- v) Accordingly, proposal for administrative approval of foreclosure of contract for the work was initiated by the Area Management, and was forwarded for approval of the Board. Further, the proposal for foreclosure and for non-deduction of amount to carry out the incomplete

work at the risk and cost of contractor was considered as per minutes of meeting of CMDs held in November, 2013.

- vi) The proposal for foreclosure was placed in the Board held in April, 2014 which resolved as under:
  - (a) Administrative approval for foreclosure of the contract for the work of Hiring of HEMM with imposition of penalty as per clause No. 6.2 of the General Terms and Conditions of the tender document of any, as per terms and conditions of contract, reserving the rights and remedies available to the Company.
  - (b) Recovery of any amount or penalty proposed to be imposed on the contractor and other dues, if any as per terms and conditions of the contract, from the final bill of the contractor and as per terms and conditions of the contract under clause 8.7 under General Terms and Conditions.
  - (c) Non deduction of any amount for carrying out the incomplete work at risk of the contractor under clause no. 9.2 of General terms and conditions of the contract in view of point no.9.3 of minutes of 80th CMDs meet held on 11.11.2013.
  - (d) Placement of final financial proposal before the Board for approval, after conducting final survey measurement by Inter subsidiary team, consequent upon administrative approval for foreclosure of the contract under reference.
  - (e) Fresh tendering of revised work shall be done based on approved revised estimate.
- vii) Thereafter, open e-tendering was done on the basis of revised estimate in June, 2014 for the remaining portion of the work. The Board approved the award of execution of remaining work to the same contractor for a period of 24 months with financial involvement of Rs. 186,20,10,296. Subsequently, Work was awarded in December, 2014.

## **IRREGULARITIES OBSERVED**

- i) During the execution of the contracts in question, the wage rates of contract workers was revised as per decision of High powered Committee. There was a clear decision from the Company (dt 12.05.2013) as well CMDs' meeting (73rd) that the difference of wages payment i.e. what is actually payable as per NIT and what is payable due to wages hike decided in the High Power Committee Meeting will be admissible to the Contractor's workmen deployed in mining operation. A reference of this effect was also made to CVC.

- ii) The company made another reference to 80th CMDs' meet. CMDs in the said meeting merely suggested that wherever feasible, the contract may be foreclosed without penalizing the contractor in the event contractor fails to produce valid claim against enhanced wages and also not willing to continue the work at the existing terms. This was only a suggestion and not decision. Moreover, no such proposal to foreclose contracts was made to CVC in the first place.
- iii) From the letter of contractor, it appears that there was demand for enhanced wage by workers which could have been easily met by decision of 73rd CMDs' meeting. The financial implication of the enhanced wage was less than 1.0 crore. Instead, the Company used the suggestion made in 80th CMDs' meeting to foreclose the contract without penalty. Moreover, the company went beyond the suggestion of 80th CMDs' meeting and waived the Risk Purchase Clause.
- iv) Because of foreclosure of contract, huge financial loss was caused to the company and corresponding gain to the contractors. The additional financial implications of the wage revision were much smaller compared to loss caused due to foreclosure without penalty and risk purchase. Thus, wage revision was used as an alibi to foreclose contracts given at lower rate and award the same at a higher rate. In one of the cases, contract was foreclosed and given to the same firm at a much higher price leading to direct financial gain to the firm.
- v) In the case of another work awarded to the same contractor, had clear stipulation in the LOA that revised wages as per HPC recommendation will have to be paid. So, there was absolutely no justification of foreclosure of the contract and extend undue benefit to the contractor.
- vi) In case of contracts awarded for Hiring of HEMM for some other Areas of the company, the contractors had claimed difference of wages as per guidelines of Office Order by the then Dir (P&P) and the same had been reimbursed by the company. Despite of financial implication arising out of wage revision, the said contract was foreclosed. Obviously, the contract could have easily continued with grant of additional wage as per revision, but the management foreclosed the contract and extended undue benefit to the contractor.
- vii) The entire sequence of events smacks of a conspiracy to cause loss to the company and corresponding gains to the private firms. It is ascertained that all the four tenders foreclosed were Ahmedabad based and related parties. This further strengthened the conspiracy angle.

- viii) The total loss caused to the company because of foreclosure of four numbers of outsourcing contracts due to non-forfeiture of Security Deposit and fresh awards of work at higher rate was Rs. 315.48 crores.

#### **ACTION TAKEN**

During investigation, officers responsible at all levels right from initiation of the proposal for foreclosure to approval of the same have been fixed, and involvement of total 44 executives was found, of which 31 executives are below Board level and 13 are Board level executives. The matter has been referred to the MOC and CVC.

### **CASE STUDY - 3**

#### **IRREGULARITIES IN PROCUREMENT OF TWO NOS. ROAD- HEADER MACHINES FOR UNDERGROUND MINE**

#### **CASE BRIEF**

During investigation against a compliant forwarded by the PMO, the following facts were revealed: -

1. Tender for procurement of 2 nos. Road Headers through open Tender was invited in 2006, in which four bidders participated. Later, due to technical reasons, tender was cancelled and fresh Global Tender was invited in 2008.
2. In response to above, two nos. of offers were received. During technical scrutiny of only valid bidder, some deviations were observed regarding height of the machine; the required height was less than the technical specifications of the machine mentioned by the bidder. However, during clarification, the bidder had assured that they will prepare the customized drawing depending on the parameters of NIT after the receipt of the order.
3. Finally, TC deliberated that a condition may be incorporated in the supply order that the machine shall be dispatched only after obtaining approval from the Company for the machine drawing with hydraulic roof bolt arrangement.
4. Accordingly, after assessing the reasonability of quoted rate, Supply order was placed to the supplier (firm located in China) for supply of 2 nos. Road Headers along with spare parts for 2nd & 3rd year of operation for an amount of Rs 22.93 crore. After incorporating relevant clauses as mentioned during technical scrutiny and TC deliberation, Order was placed in favour of the supplier.
5. As per payment terms mentioned in the Supply Order, for imported supplies, 80% value of each equipment and the accessories will be paid against LC which will be opened after receipt of an authenticated copy of valid DGMS approval or field trial permission accorded by DGMS, India for its use as per duty requirement indicated in the NIT. Accordingly, 80% of the payment was made to the supplier.
6. Since, height of the machine was not matching with the specification mentioned in Supply Order, accordingly, the machines were not accepted by the ultimate consignee.

7. The matter was taken up with the supplier who replied that they will take back the machine to their workshop in China for necessary modification, but the Company will have to send back the machine to China at its cost for modification and fresh DGMS approval has to be obtained by the company. On receiving the reply of the supplier, a committee was constituted to examine the reply of the supplier, wherein the Committee did not accept the said conditions of supplier. Accordingly, the Committee recommended for the following:
  - i. The payment made to the firm which is substantial will remain unutilized and sending the machines back to China for suitable modifications seemed to be risky proposition.
  - ii. If the supplier ensures that the machine can cut stones/intrusions safely to accommodate 2.5 m overall height of machine in 16 seam of the Colliery where the thickness varies from 1.9 m to 2.9 m, the machine may be used and then the payment already made to firm will not be wasted.
8. The matter was placed before Board of Directors of the company. The Board of Directors of the company in their nth meeting held on 21.04.2012 deliberated on agenda "Acceptance of Road Header supplied by M/s Jiamusi Coal Mining Company Limited, Beijing, China".

The Director Technical in the reply enclosed the Board's approval in which Company Secretary stated as below:

### **Quote**

"Board approved the proposal for acceptance of 2 nos. of Road Header supplied by M/s. Jiamusi Coal Mining Machinery Co. Limited, Beijing, China against order no. xxxx dated 24.07.2009 subject to the condition that a written affidavit should be submitted by the party agreeing to the following condition as recommended by the committee.

- i) The cost of installation, erection, commissioning & training charges of USD \$24334.43 and Indian Rs. 2,26,12,581.00 may be released within 30 days of successful drive of 600 mtr. For each machine, testing of equipment, DGMS field trial approval and final acceptance of equipment along with accessories by Project Officer and Technical Head of the area against an additional BG of Rs. 2,29,39,021.00 i.e equivalent to earlier BG submitted by the firm.
- ii) Balance 20% of equipment cost may be released after 03 months of final acceptance subject to achieving the guaranteed availability of 85%.

- iii) Payment towards domestic supply of spares and balance agency commission may be released half yearly on Pro- rata basis subject to achieving the guaranteed availability. These half yearly period will be counted from the date of final acceptance of the equipment.
- iv) The BG shall be released after successful completion period of 36 months.
- v) Board Further directed that a comprehensive procedure should be drawn to deal with such cases in future and same should be brought to the board for discussion.

As a guideline, Board desired that in future procurement cases like the instant case it should be part of NIT that an additional BG should be submitted equivalent to LC payment before opening of LC so that in case of rejection, cost of LC amount can be recovered immediately.

### **Unquote**

As per the recommendation of the committee and acceptance of the Board, the machines were deployed in the Colliery. But, the performance was not satisfactory and up to the mark. After approval of the Board, the machines were deployed at another location. The machines were operated with Trial Run permission from DGMS; but, till date DGMS did not approve the usage of machines in the mines for trial run at the Colliery. The company has made payment of Rs. 11.12 crores against the said Purchase Order.

### **ACTION TAKEN**

Forfeiture of security deposit of the supplier has been done. Proposal has been initiated by the Management to blacklist the supplier along with Indian Agent. Further, legal action for recovery of amount has already been initiated.

## **CASE STUDY - 4**

### **PAYMENT AGAINST FAKE BILLS TO THE CONTRACTORS**

#### **CASE BRIEF**

Upon receipt of information about the alleged irregularity, a Surprise Check was made by the Vigilance team in March'16 at one Area of the Company. The case pertains to the alleged payment made by the officials of the Company against fake bills submitted by the three contractors. The bills pertain to the contractual work executed at the Project under "Repair and Maintenance" for the FY 2015-16.

For thorough investigation of the subject case, the entire system of billing and payment was analyzed. It was found that a 2(two) tier system was followed i.e. the bills were initiated & processed from the Project level. The bills were further processed and audited at the Area level before the indent for fund was raised and payment was made at the Area level. All the bills were required to be dispatched and received through the peon book.

As the alleged payment was related to 104 no. of fake bills, all the bills and related documents were seized from the Area Office and analyzed in the following way:

- (i) The details of bills actually processed for the FY15-16 from the Project level in respect of 3(three) contractors for all the contractual works during FY15-16 were found as under:

Sl. No.	Name of the Contractor	No. of Bills	Total Amount (Rs.)
1	M/s. A	01	14,97,380.59
2	M/s. B	Nil	Nil
3	M/s. C	15	8,34,628

- (ii) The details of bills in respect of of 3(three) contractors received from Project and actually processed & paid by Area Finance for all the contractual works during FY15-16 were found as under:

Sl. No.	Name of the Contractor	No. of Bills	Total Amount (Rs.)
1	M/s. A	60	65,18,947
2	M/s. B	45	29,84,233
3	M/s. C	15	8,34,628

- (iii) From the above tables, it is revealed that excess amount for the FY2015-16 has been paid to the above contractors, detailed as under:

Name of the Party	No. of Bills	Total excess Amount paid (Rs.)	Stoppage of fake bills (Rs.)
M/s. A	59	50,21,567	Payment of 5 fake bills for an amount of Rs.4,43,284/- in respect of M/s. A were stopped
M/s. B	45	29,84,233	--
M/s. C	0	0	Payment of 3 fake bills for an amount of Rs.1,72,550/- in respect of M/s. C .
Total	104	80,05,800	6,15,834

The above 104 bills for FY15-16 were purportedly shown to be initiated/processed from the Project level through the alleged signature of project officials, though the Project Officials denied to have put their signatures on these fake bills and other associated documents. Further, the above bills were audited and paid at Area Finance Office.

### **IRREGULARITIES OBSERVED**

All the above bills were received in the Dispatch Section of the Area not through peon book but by hand. The role of dispatch clerks at Area Office prima-facie became doubtful. The role of bill passing clerk and concerned finance executives at Area Office also appeared to be doubtful, as the bills were not properly examined. As the indent for fund was finally signed by the Area Finance Manager (AFM) before release of payment, therefore it was obligatory on the part of AFM to ensure that payment to be released to the contractor was in order. Further, the role of AFM in the superintendence and control of overall system was not up to the mark. The signatures of Project Officials on these fake bills and other associated documents have not been verified by the Vigilance Department as it was beyond its expertise.

It has been revealed that payment to the tune of Rs.80,05,800/- against 104 fake bills of purchase /repair has been made in favour of two contractors. Further, eight (8) fake bills in respect of two contractors had been processed/ passed and were due for payment in cash section, however, these eight fake bills amounting to Rs. 6,15,834/- has been stopped.

## **ACTION TAKEN**

- (i) 10 (ten) officials posted at Project as well at Area such as Dispatch Clerks, Accountants/ Bill passing Clerks, Finance Officers, Overseer(Civil), Sub-ordinate Engineer(Civil), Project Engineer(Civil), Project Officer, Area Finance Officer, etc. were immediately transferred and subsequently released to other subsidiaries of the Company
- (ii) As above case involves financial fraud valuing more than Rs.25 Lakh which needs expertise for verification of signatures and also involves outside parties/ firms, the instant case was referred to CBI for conclusive findings in the light of Circular No.03/03/15 dated 19th March, 2015 of CVC, New Delhi.
- (iii) Total Amount to be recovered from M/s A is Rs. 50,21,567.00/-, out of which Rs. 15,47,442.24/- has been recovered from EMD, SD/BG and bills and Rs. 29,45,867/- is proposed to be deducted from the Pending Bills.

Total Amount to be recovered from M/s B is Rs. 29,84,233.00/- out of which Rs. 4,90,775.00/- has been recovered from EMD, SD/BG and Rs. 49,089.00/- is proposed to be deducted from the Pending Bills.

## **SYSTEMIC IMPROVEMENT**

Following measures were suggested to the Director (Finance) of the company

- (i) Suitable action against the contractors for submission of alleged fake bills and recovery of amount paid fraudulently to them.
- (ii) Adequate measures as per extant rules of the company to strengthen the existing system of receipt/dispatch and processing of bills etc. for prevention of such frauds henceforth.
- (iii) Appropriate measures for early implementation of File and Bill Tracking System at Project/Area level across entire company to eliminate the possibility of recurrence of such fraudulent activities.

The above investigation put a check on the fraudulent activities of the contractors which would otherwise have continued unabated in the Area and caused loss of Lakhs of Rupees to the Company.

**CASE STUDY - 5**  
**IRREGULARITIES IN DEDUCTION OF PENALTY FOR**  
**NON ACHIEVEMENT OF MONTHLY OB REMOVAL AND**  
**COAL EXTRACTION TARGET IN RESPECT OF AN**  
**OUTSOURCING AGENCY**

**CASE BRIEF**

Investigation revealed that the methodology used for calculation of penalty for non-achievement of monthly OB removal/coal extraction target by the project officials was beneficial to the contractor and these amounts to less penalty deduction of Rs. 11,18,670.98 in OBR & Rs. 12,16,924.28 in coal respectively. This action led to a financial loss of Rs. 23,35,595.26 to the Company.

1. An outsourcing agency was awarded the work of removal of overburden and extraction of coal from one of the projects of the Company for three years.
2. The sub clauses 6.2&6.3 of sec.3 of GTC of NIT of the outsourcing work at the said project, stipulates that in case of non-achievement of monthly target as per agreed progress chart the contractor shall without prejudice to any other right or remedy available under the law to the company on account of such breach, shall become liable to pay or penalty as under:

If the daily progress of work during the calendar months is less than the stipulated rate indicated in the detailed tender notice, penalty as detailed below will be levied:

- i. If the average daily progress of work executed during the calendar month is more than 80% and less than 100% of stipulated rate of progress, penalty equal to 10% of the contract value of the short fall in work shall be levied.
- ii. If the average daily progress of work executed during the calendar month is less than 80% of stipulated rate of progress, penalty equal to 20% of the contract value of the short fall in work shall be levied.
- iii. The aggregate of the penalties so levied shall not exceed 10% of the total contract value. Penalties will be calculated every month and withheld. The contractor shall be allowed to make up the shortfall in the succeeding three months within the stipulated time of completion. Once the shortfall is fully made up, the so withheld penalty will be released.

3. The standard method for penalty calculation for non-achievement of monthly target of OBR and Coal is as follows:

- i. Actual Target in a month: = A
- ii. Total hrs available in a month: = T
- iii. Hindrance hrs due to company's fault in a month: = H
- iv. Actual hrs available: = T-H
- v. Reduced Target due to hindrance: =  $A - \{(A/T) * H\}$
- vi. Actual Achievement = B
- vii. Amount of penalty (P) to be imposed only if B is less than the figure at (v).
- viii. Calculation of penalty:
  - a) If B is more than 80% but less than 100% of the figure at (v) Penalty (P) = 10% of  $[\{A - (A/T) * H\} - B] * \text{Rate per unit of quantity as awarded.}$
  - b) If B is less than 80% of figure at (v).

Penalty(P) = 20% of  $[\{A - (A/T) * H\} - B] * \text{Rate per unit of quantity as awarded.}$

But after scrutiny of the monthly bill of the Project paid to the contractor revealed that a different methodology was adopted by the project for calculating the penalty which was as follows:

- i. Actual Target in a month: = A
- ii. Total hrs available in a month: = T
- iii. Hindrance hrs due to company's fault in a month: = H
- iv. Hindrance quantity: =  $(A/T) * H$
- v. Actual Achievement = B
- vi. Total Achievement with hindrance quantity =  $B + (A/T) * H$
- vii. Amount of penalty (P) to be imposed only if  $(B + (A/T) * H)$  is less than A
- viii. Calculation of penalty:
  - a) If B is more than 80% but less than 100% of the figure at (v) Penalty (P) = 10% of  $[A - \{B + (A/T) * H\}] * \text{Rate per unit of quantity as awarded.}$
  - b) If B is less than 80% of figure at (v).

Penalty(P) = 20% of  $[A - \{B + (A/T) * H\}] * \text{Rate per unit of quantity as awarded.}$

## **IRREGULARITIES OBSERVED**

- a. It is evident from the above that while calculating the penalty amount the project officials have considered the total hindrance hour in a month obtained from hindrance register agreed by both the parties on day to day basis and then hindrance quantity is calculated by multiplying hindrance hour with the targeted quantity per hour.
- b. It clearly indicates above that hindrance quantity is calculated and added in Actual Achievement to enhanced the monthly achievement quantity.
- c. The methodology used for calculation of penalty by the project officials was beneficial to the contractor. It was not proper to add the hindrance quantity for enhancing the achievement quantity of a month as it affected the slab of penalty to be applied and contractor gets benefited.
- d. With the addition of hindrance quantity in achievement, the achievement % was enhanced and the slot of penalty moved from 20% to 10% segment, hence less amount of penalty Rs 11,18,670.98 in OBR for the period 01.10.13 to 30.06.16 and Rs 12,16,924.28 in coal for the period 03.11.2014 to 31.07.16 was imposed and total financial loss of Rs 23,35,595.26 to the Company therein.

## **ACTION TAKEN**

The irregularities committed by the officials of the Company resulted in loss to the company. The CMD/DA decided to issue charge sheet for minor penalty for non-fulfillment of duties and obligations against the connected three executives (i) The Project Officer of the Project (ii) The Manager of the Project & (iii) The Finance Officer of the Project. Also the Sr. Surveyor of the Project was issued charge sheet as per Certified Standing Order of the Company.

## **CASE STUDY - 6**

### **SYSTEM IMPROVEMENT FOR ADMINISTRATIVE FUNCTIONING OF ALL THE HOSPITALS AND DISPENSARIES**

A complaint was received in Vigilance Department of one subsidiary of CIL, regarding (i) use of expired items in hospital kitchen which were being used for preparing patients' diet and (ii) non-availability of few doctors in their respective work places.

Subsequently, one vigilance team was formed and was directed to conduct a surprise inspection at one of the Central Hospitals of that subsidiary to inspect mainly

- (1) The Kitchen Store.
- (2) Physical verification of Doctors.
- (3) General cleanliness mainly, the condition of the hospital toilets.

During the surprise Inspection, some serious irregularities were observed by the vigilance team as described below: -

- (a) Mustard oil, stored in the hospital kitchen for use was beyond the period of "Best before use".
- (b) The Emergency Medical Officer was not available either in Casualty Ward or Emergency patient's examination room or in doctor's rest room. He was found gossiping in Dental OPD.
- (c) Few other doctors were remained unavailable in their specific work place during Hospital OPD hours without informing the Competent Authority as observed in Medicine OPD.
- (d) Toilets were not properly cleaned and not up to the mark.

Accordingly, report was prepared by the vigilance team and submitted before Chief Vigilance Officer of that subsidiary who then in turn forwarded the report to the Disciplinary Authority to take necessary action in this regard.

Disciplinary Authority (D.A) then advised CVO to send a proposal for "System Improvement". On behalf of CVO, the Vigilance Team then prepared a proposal for "System Improvement" in this regard and the same was sent to the CMD. As per directive of CMD, Director (Personnel) of that subsidiary issued an order for implementation of the "System Improvement" as described below: -

- (1) While purchasing kitchen food items, the expiry date is very important to be checked. Proper records need to be maintained indicating the

items, date of purchase, date of packaging, date of expiry/ best before use, likely period of consumption (of that particular food item) along with other required details. The required provisions like date of packaging/manufacturing, date of expiry/best before use, likely period of consumption etc. as per guidelines of standardization institutes like 'AGMARK', must be the N.I.T and subsequently in the Purchase Order. The challans to be submitted by different agencies at the time of delivery should clearly indicate the above said provisions, which are mandatory to be checked/verified by the receiving official/personnel at store/kitchen. Where the period of best use may be considered as date of expiry.

- (2) Doctors and Para-medical staff are required to remain at their places of work during the period of duty and, if required to leave the place for important official obligations within Hospital premises, must keep their Controlling Officer informed with proper reasons and Movement Register entry to be made;
- (3) Doctors on duty at Casualty Department are more vital and must not leave their places of work without specific permission;
- (4) Toilets need to be kept properly cleaned. In case of any default action to be taken on the defaulter.

Continuous monitoring by the Vigilance Department thereafter has resulted in all round improvement in the functioning of Central Hospital which is an example of transformation in the Company and the stakeholders are getting immense benefits from the same.

## **CASE STUDY - 7**

### **NON-EXECUTION OF AGREEMENT FOR THE WORK OF HIRING OF PAY LOADERS FOR MECHANICAL TRANSFER OF COAL INTO ROAD-SALE TRUCKS AT PIT-HEAD STOCK OF XXXXXX OCP, XXXXXX AREA OF MCL**

#### **CASE BRIEF**

e-Tender for the hiring of Pay Loaders for Mechanical Transfer of Coal into Road-sale Trucks at Pit-head Stock of xxxxx OCP, XXXXXX Area of MCL was floated vide NIT no-731 dtd 03.10.2016 for a total quantity of 62,30,185 Te amounting to Rs4,52,31,143.00. M/s yyyyyy was the L-1 bidder with the offer of Rs 2,11,20,327.15 @ 3.39 Rs/Te for 1095 days. The offered value was 53.56% lower than the updated estimated value thus it was an Abnormally Low Rate (ALR).

The Letter of Acceptance (LOA) was issued to the contractor by the GM(CMC), MCL on 22.12.2015 in which the contractor was advised to contact the General Manager, XXXXXX Area within 10 days of issue of the letter to start the work and the formal Work Order would be issued by Area Authority.

The Work Order was issued to M/s yyyyyy on 31.12.2015 by the then SO(Min), xxxxx Area advising to deploy the equipment as per the NIT-731 and to start the work immediately. The site was handed over by the then Project Officer, xxxxx OCP on 01.01.2016.

A surprise inspection was conducted by the Vigilance Department at xxxxx OCP, on 24.08.2016 to ascertain the status of execution of work under the aforementioned NIT-731. It was observed that although, the work was commenced by the contractor w.e.f. 01.01.2016, till the date of inspection of the vigilance team, neither the party had entered into the agreement nor had deposited the Performance Security (as per clause no 4.2 & 4.3 of the NIT) and Additional Performance Security (as per clause no 4.7 of the NIT) which were major violations of the Terms & Conditions of the NIT. It was observed that there had been inordinate and unexplainable delay on the part of the contractor in depositing the Performance Security as well as Additional Performance Security and the execution of the agreement, which is evident from the following facts:

- a) Date of issue of LOA by the GM(CMC), MCL : 22.12.2015
- b) Date of issue of Work Order by the SO (Min)  
of the Area : 31.12.2015
- c) Date of Site Handover by the Project Officer : 01.01.2016
- d) Date of Work Commencement : 01.01.2016

As per the Clause no-4.2 of the NIT document, the Performance Security amounting Rs3,52,006.00 which was 5% of the annualized value of contract amount, should have been submitted within 28 days of receipt of the LOA by the contractor. Similarly, as per the Clause no-4.7 of the NIT, the Additional Performance Security, as applicable in the instant NIT, amounting Rs1,75,69,121.70 should have been deposited by the contractor along with the normal Performance Security. Although the work was commenced by the contractor w.e.f. 01.01.2016, the contractor had neither deposited the aforementioned Performance Security and Additional Performance Security nor had entered into the Agreement till the date of intervention by the vigilance secretariat as on 24.08.2016.

Consequent to the Vigilance intervention, an advisory note was initiated by the Vigilance secretariat on 26.08.2016 and forwarded to the CMD, MCL.



File No. MCL/SBP/Vig./MHC/2016/1480	Date 24.08.2016	Sheet No. 1
Dealing Asst:	Name of Officer: Deepuk Srivastava, IFS	

**Sub : Non-execution of agreement for the work under NIT-731 at Hingula OCP, regarding...**

Based on discrete information, the undersigned along with the vigilance team conducted surprise inspection at Hingula Area on 24<sup>th</sup> Aug-2016 to ascertain the status of execution of work under NIT-731, work order of which was issued to M/s Uttkal-Amrit (JV) on 31.12.2015 for hiring of pay loaders for mechanical transfer of coal into road sale trucks at pit head stock of Hingula OCP with awarded quantity of 62,30,185 Te @ 3.39 ₹/Te for 1095 days.

During the examination of the aforementioned work it was observed that there has been inordinate and unexplainable delay on the part of the contractor in the execution of the agreement and deposition of Performance Security as well as Additional Performance Security as seen from the following facts:

- a) Date of issuance of LOA by the GM(CMC), MCL: 22.12.2015
- b) Date of Issuance of Work Order by the SO(Min), Hingula Area: 31.12.2015
- c) Date of agreement: Not yet executed
- d) Date of Site Handover by the PO, Hingula OCP: 01.01.2016
- e) Date of Work Commencement: 01.01.2016  
& continued

The LOA dtd 22.12.2015 issued by the GM(CMC), MCL stated that the party will have to enter into an agreement with the Area Authority after submission of the requisite documents and observing necessary formalities as per the Terms & Conditions of the NIT. The party was also advised to furnish Performance Security as well as Additional Performance Security at Area. As per the Clause no-4.2 of the NIT document, the Performance Security amounting ₹3,52,006.00 which is 5% of the annualized value of contract amount, should have been submitted within 28 days of receipt of LOA by the contractor. Similarly as per the Clause no-4.7 of the NIT, the Additional Performance Security, as applicable, amounting to ₹ 1,75,69,121.70 should also be deposited by the contractor along with the normal performance security. An intriguing fact was revealed that although the work had been commenced by the contractor w.e.f. 01.01.2016 and is still continuing, neither the contractor has entered into the agreement nor has deposited the aforementioned performance security and additional performance security till the date of intervention by the vigilance secretariat on 24.08.2016 which are in gross violations of the terms & conditions of the NIT.



During the scrutiny of the documents, it also transpired that the monthly bills for the last seven months were not raised due to non-existence of agreement whilst the party has executed about 10,79,906 Tc till 31.07.2016 and the work is still continuing. As the instant tender involved loading of road sale vehicles at Hingula OCP, it was shocking to note that the contractor is working without an agreement and even without payment which may be due to the probable involvement of the contractor in other illegal source of earning from the tendered work to sustain its economics. Discrete information in the past has also revealed illegal collection of money from road sale trucks by the loading contractor. Therefore the unethical practices in the instant case may not be ruled out.

As the contractor has failed to enter into an agreement within the stipulated period, the so-called L-1 bidder has not complied with the terms & conditions of the NIT, hence its status as the L-1 bidder does not exist any more w.e.f. 19.01.2016 i.e. 28 days after the issuance of LOA. It is pertinent to mention here that as per the clause 4.7 of the NIT in case of failure to submit additional performance security, there was scope for termination of the work/contract which the Area as well as the MCL HQ authorities did not act upon which is indicative of extending undue favouritism to the contractor.

Thus there has been a serious deliberate lapse on the part of the Area GM (the EIC), the SO(Min) of Hingula Area and the Project Officer of Hingula OCP on the following counts:

- Allowing the work under NIT-731 to continue for more than 07 months without execution of agreement as per the NIT terms and conditions, thus making the work illegal.
- Extending undue favouritism to the contractor by way of not getting the additional performance security deposited on or before 19.01.2016 and not terminating the work as per the provision of clause no 4.7 of the NIT due to the failure to deposit the same within the scheduled date.

Further, as per the LOA issued by the GM(CMC), MCL, the contractor has to report to the Area GM within 10 days of issuance of LOA to start the work and it has to deposit the Performance Security & Additional Performance Security and execute the agreement within 28 days of issuance of LOA as per the NIT conditions. Instead it could have been appropriate and ethical to get the work started only after the Performance Security & Additional Performance Security are submitted by the contractor and after the execution of the agreement procedures. These processes should have been completed within 28 days of



issuance of LOA, eliminating any scope of use of discretionary power by the authorities for the benefit of the contractor.

In view of the foregoing facts, the contractor as on date does not qualify as an eligible L-1 contractor in the view of facts & circumstances noted in the preceding para. While the investigation is being done to fix the responsibilities on the officials based on the degree of lapses committed by them for the aforementioned lapses in the instant tender, immediate rectifiable measures are required to be initiated to arrest such type of instances with an immediate effect so as to avoid any such gross irregularities in future.

For favour of kind information and necessary action as deemed fit.

  
(दीपक श्रीवास्तव)  
मुख्य सार्वजनिक अधिकारी

**CMD, MCL**

Subsequently, an Office Order was issued on 02.09.2016 by the CMD, MCL advising all the concerned authorities at the HQ & Area level to follow the NIT terms & conditions scrupulously so that the contracts are carried out in a fair and transparent manner. In order to verify the compliance of the said Office Order of CMD, MCL, a surprise inspection of xxxxx Area was made by a Vigilance Team on 26.09.2016 and it was found that the L-1 bidder had neither deposited the aforementioned performance security and additional performance security, nor entered into the agreement, but the aforementioned work was continuing. Another advisory was sent to the CMD on 29.09.2016.

# NOTING SHEET



**MCL**

Dept : VIGILANCE

File No. MCL/SBP/Vig.[Misc]/2016/ 1704	Date : 29.09.2016	Sheet No. 1
Dealing Asst:	Name of Officer: Muhawar Khursheed, CVO, MCL	

**Sub : Non-execution of agreement for the work under NIT-731 at Hingula OCP, regarding---**

Based on discrete information, a vigilance team conducted surprise inspection at Hingula Area on 24<sup>th</sup> Aug-2016 to ascertain the status of execution of work under NIT-731, work order of which was issued to M/s Utkal-Amrit (JV) on 31.12.2015 for hiring of pay loaders for mechanical transfer of coal into road sale trucks at pit-head stock of Hingula OCP. During the examination of the aforementioned work, it was observed that the contractor has not deposited the Performance Security as well as Additional Performance Security in violation of the terms & conditions of the NIT. Surprisingly, it has not even entered into the agreement with MCL and has been allowed to initiate and carry on the work.

As per the Clause no-4.2 of the NIT document, the Performance Security amounting ₹3,52,006.00 which is 5% of the annualized value of contract amount, should have been submitted within 28 days of receipt of the LOA by the contractor. Similarly as per the Clause no-4.7 of the NIT, the Additional Performance Security, as applicable, amounting to ₹ 1,75,69,121.70 should also be deposited by the contractor along with the normal performance security. It was revealed that although the work had been commenced by the contractor w.e.f. 01.01.2016 and is still continuing, neither the contractor had entered into the agreement nor had deposited the aforementioned performance security and additional performance security.

An advisory note was thereby initiated from the vigilance secretariat on 26.08.2016 for initiation of immediate rectifiable measures to arrest such type of instances with an immediate effect so as to avoid any such gross irregularities in future. Subsequently, an Office Order was issued from your office on 02.09.2016 advising all the concerned authorities at the HQ & Area level to follow the NIT terms & conditions scrupulously so that the contracts are carried out in a fair and transparent manner.

To verify the compliance of the said office order, a Vigilance Team was once again sent to make surprise inspection at Hingula Area on 26.09.2016 and it has been brought to the notice of the undersigned that neither the work has been terminated by the area authorities nor the L-1 bidder has deposited the aforementioned performance security and additional performance security and

the L-1 bidder still had not entered into any agreement which is indicative of complete disregard of your office order by the area authorities.

As the instant tender involves loading of road sale vehicles, the working of the contractor without an agreement and even without payment raises the probability of involvement of the contractor in other illegal source of earning from the tendered work to sustain its economics. Therefore it is felt that appropriate deterrent action needs to be undertaken expeditiously and on urgent basis the Vigilance Secretariat may kindly be advised for information and further necessary action/cross checks as and when necessary.

For favour of kind information and necessary action as deemed fit please.

  
(मुनश्वर खुर्शैद)  
मुख्य सनकीला अधिकारी

CMD, MCL

Finally, the work was discontinued w.e.f. 01.10.2016.

#### IRREGULARITIES OBSERVED

- The L-1 bidder had not complied with the Terms & Conditions (T&C) of the NIT and had failed to enter into an agreement within the stipulated period, its status therefore as the selected bidder/contractor ceased w.e.f. 19.01.2016 i.e. 28 days after the issuance of the LOA.
- During the scrutiny of the documents, it transpired that the monthly bills for the last seven months were not raised due to non-existence of agreement whilst the party has executed about 10,79,906 Te till 31.07.2016 and the work was continuing. The instant tender involved loading of Road-Sale vehicles at xxxxx OCP. Therefore, the continuation of the work by the contractor without any agreement and even without payment raised suspicion of probable involvement of the contractor in other illegal source of earning from the tendered work to sustain its economics.

- c) The pay loaders of M/s yyyyyy under the instant NIT was allowed to operate in the xxxxx OCP by Colliery Manager of xxxxx OCP in the capacity of the Project Officer for which no competent approval from the General Manager, xxxxx Area & the Engineer In-Charge (EIC) of this contract was obtained. This is indicative of use of discretionary power by the Colliery Manager.
- d) In the LOA dated 22.12.2015 issued by the GM(CMC), MCL it had been stated that the contractor would have to enter into an agreement with the Area Authority after submission of the requisite documents and observing necessary formalities as per the T&C of the NIT. By the same letter the party was also advised to furnish Performance Security as well as Additional Performance Security at Area. Further, as per the LOA the contractor had to report to the Area GM within 10 days of issuance of LOA to start the work and it had to deposit the Performance Security & Additional Performance Security and execute the agreement within 28 days of issuance of LOA. This means that ample discretion was offered to the contractor to make financial gain by starting the work by the 10th day after issuance of LOA and, not depositing the Performance Security & Additional Performance Security and not executing the agreement within 28 days since its work had already started.

#### **ACTION TAKEN**

Penalty was proposed on 07 officers involved in this case. As this is a case involving E-8 Officials, Investigation Report was sent to the CVC, New Delhi for seeking the 'First Stage Advice' (FSA). On the advice of the CVC, Penalty Proceedings have been initiated against the officers involved.

#### **SYSTEMIC IMPROVEMENT SUGGESTED**

- a. As per the prevailing practice, the Tendering Cell/Contract Management Cell is issuing the LOA of the Major Mining Contracts from MCL HQ. Thereafter the Area issues the Work Orders to Commence the Work. After issuance of LOA, a period of 28 days is given to the L1 Contractor/Bidder for depositing the Performance Security & Additional Performance Security (if any) and to execute the Agreement. There is possibility that the contractor with mala-fide intentions may not deposit the required Performance Security & Additional Performance Security (if any) and may also not execute the Agreement, but keep on continuing the work in connivance with the Officials of MCL as has happened in the instant case. Keeping in view of the above facts, the Terms & Conditions of the NIT need a revisit. Formal Work Order should be issued after execution of the Agreement and only after that the contractor should be allowed to commence the work. By doing so the recurrence of similar irregularities may be arrested.

- b. The modus-operandi of the Loading Contractors of Road Sale has been found to be different. These contractors bid for the Road Sale Loading Contracts at Abnormally Low Rate (ALR). Except in this particular case, these contractors deposit the Additional Performance Security (difference between 85% of the estimated cost put to tender and the quoted price) along with the Performance Security as per the Terms & Conditions of the NIT. It is found that there is a well-established and well-oiled system of collection of money from the Road Sale Consumers through the agents of Road Sale Transporters and their Truck Associations and Pay Loader Contractors. This is presumably done so that the Pay Loaders load the right type of coal within minimum time onto the road sale trucks and without damaging the transporter's vehicles. This is slowly-slowly, taking the shape of an organised crime. That's why, following systemic improvement were suggested for mitigation of such occurrences:
- i. Installation of CCTV Cameras with 360° view & night vision at all vulnerable points including Road Sale Entry and Exit Points and inside the Weighbridges dedicated for Road Sale.
  - ii. Installation of High Mast Tower Lights to cover the entire active loading areas.
  - iii. Installation of weighbridges dedicated for road sale should be at Entry/Exit Point only, so that after loading the trucks, once final weighment has taken place, movement of trucks will not be possible through the coal stockyard.
  - iv. Installation of Automatic Drop Gates (as being used in Toll Plazas) with IP Camera & arrangement for Printing of Entry/Exit Slips at the Main Entry/Exit Gates for computerized automatic monitoring of private road sale vehicles.
  - v. Installation of GPS monitoring devices in the Contractual Pay-loaders engaged at Mines, Stock yards and Sidings.
  - vi. To completely do away with the loading of Road Sale Vehicles by Pay Loaders and to switch-over to the Automatic Loading System. The loading of the Road Sale Vehicles through Multi Hopper with belt conveyor fed system with inbuilt Pre-Weigh Arrangement can be a suitable alternative. The existing highly under-utilised Coal Handling Plants (CHPs) with their conveyor belts and hoppers at various Projects can be productively used for this purpose with minimal and highly economical modifications. Thus, not only it would result in marked reduction in the illegal activities, but also be more environment-friendly and will reduce the dependence of the Company on the Contractors.

## ACTION ON THE RECOMMENDATION FOR SYSTEMIC IMPROVEMENT

Subsequently a preliminary study by the Vigilance Department in this regard was submitted to the PSU Management on 24.05.2017 for their deliberations and consideration. Subsequently, the Director(Tech./Op), Mahanadi Coalfields Limited has issued an office order on 07.06.2017 for introduction of Automated CHPs as an alternative to the Road Sale Loading of trucks by Pay Loaders. The existing CHPs at Lajkura OCP, Belpahar OCP and Lingaraj OCP have been selected as pilot projects for introduction of Alternate Loading System of Road Sale Trucks by CHPs. It is pertinent to mention here also that the Director(Tech.), Coal India Limited has also issued a Circular Instruction on 07.07.2017 in which it has been instructed that the coal loading by the Pay Loaders on Road-sale Vehicles to be stopped by the end of the FY 2017-18 and to construct Alternative Automated- Loading system accordingly in all the Mines of Coal India Limited.

**कोल इंडिया लिमिटेड**  
(आयन वायुमय का उपकरण)  
महाराष्ट्र अंतर्राष्ट्रिय शोध परियोजना  
सी आई एनः L23109WB1973GO101844  
परिचलन म. 04एम व. 3एम, प्लॉट नं. 4, एफ. 30,  
एफएम रायिका, 1A, न्यू टाउन,  
राजवृद्ध, कोलकाता-700156  
फोन 033 23244024, फैक्स 033 23244082  
ईमेल [dr.col@coindia.in](mailto:dr.col@coindia.in)  
वेबसाइट [www.coindia.in](http://www.coindia.in)



**Coal India Limited**  
(A Government of India Enterprise)  
A Maharashtra PSU  
CIN: L23109WB1973GOI02844  
Premises No: 54 MAR, Plot No: AF-6,  
Action Area 1A, New Town,  
Rajarat, Kolkata-700156  
Phone: 033 23244024, Fax: 033 23244024  
E-mail: [dlc@coindia.in](mailto:dlc@coindia.in)  
Website: [www.coindia.in](http://www.coindia.in)

REF. NO.: CIL/DT/069|17|492

DATE : 07/07/2017

**CIRCULAR**

While investigating a case of engaging Contractual/Hired Pay-Loader for loading coal in Trucks of Road Sale Consumers/ Traders in one of the subsidiaries of CIL, it was apprehended that corruption appeared to be involved and as such, the system of loading coal by pay loader is to be done away with.

Therefore, necessary system for loading of coal on Road Sale Vehicles through bunker/hopper need to ensure. In the existing CHPs possibility of introducing truck loading system to be explored and in other cases where it is not possible, action for installation of mini CHP near suitable place for truck loading is to be ensured.

Supply of sized coal, creation of separate dump for new coal and evacuation based on first come first out should be ensured mandatorily in compliance to the Circular of Chairman, CIL having reference No.CIL/VIG/2016/16015/02/539 dated 03.06.2017.

It is therefore suggested that Coal loading by Pay loaders on Road Sale Vehicles to be stopped by end of this Financial Year 2017-18. Necessary arrangement may be made as alternative loading system accordingly.

In addition to above, following measures may be taken to avoid illegal activities including pilferage of coal while loading on road sale trucks, weighment thereof.

1. Installation of C/V Cameras with 360° view & night vision at all vulnerable points including Road Sale Entry and Exit Points and inside the Weighbridge dedicated for Road Sale.
2. Installation of High Mast Tower Lights to cover the active loading areas.
3. Installation of weighbridges dedicated for Road Sale should be at Entry/ Exit Point only, so that after loading of trucks, once final weighment has taken place, movement of trucks will not be possible through the coal stockyard.

Contd.....

## कोल इण्डिया लिमिटेड

(भारत सरकार का उपक्रम)

**Coal India Limited**

(A Govt. of India Enterprise)

**"COAL BHAWAN"**

Premises No. 04 MAR, Plot No. AF-III

Action Area - 1A, New Town, Rajarhat

Kolkata 700156 (WB)



A Maharatna Company

## सतर्कता विभाग

### VIGILANCE DIVISION

Phone - (033) 2324 4134/4152

FAX: (033) 2324 4055

E-Mail: [cvo.cil@coalindia.in](mailto:cvo.cil@coalindia.in)

CIN.L23109WB1973GOI028844

Website: [www.coalindia.in](http://www.coalindia.in)

- 2 -

4. Installation of Automatic Drop Gates (as being used in Toll Plazas) with IP Camera & arrangement for Printing Entry/Exit Slips at the Main Entry/Exit Gates for computerized automatic monitoring of private Road Sale Vehicles.

Confirmation about the action taken may please be sent to this office at the earliest

(Shekhar Saran)

Director Technical, CIL

Circulation:

The CMD, All Subsidiaries of CIL

The CVOs all Subsidiaries of CIL

GM (Vigilance), CIL

Copy for kind information to: The Chairman, CIL

Accordingly, MCL Management has started taking action in this regard.

**CASE STUDY - 8**  
**SYSTEMIC IMPROVEMENT MEASURES IMPLEMENTED TO**  
**CURB CORRUPT PRACTICES IN PROCUREMENT OF PLANT &**  
**MACHINERY (P&M) UNDER THE GUISE OF SPARES RESULTING IN**  
**SAVING OF MORE THAN RS. 20 CRORES TO THE COMPANY.**

**CASE BRIEF**

During surprise inspection of one of the Mines, 54nos. of new P&M items like Motors, Switches, Gear Boxes and Transformer Oil Filtration Machines were found lying unused at Stores and Workshop. On enquiry, it transpired that these P&M items were received from Main Stores as assembly in lieu of their spares. Further scrutiny revealed that these machines were received at Stores as assembly although supply orders were placed for individual spares of such equipment. All these equipment lying at different locations were received during the period 2014 to 2016.

As per guidelines, P&M items are centralized for procurement at corporate HQ through competitive bidding. However, in case of emergency, procurement can be done by the Mine, only with the approval of Director. The officials adopted unethical practice to procure these P&M items under the guise of spares on proprietary basis flouting guidelines and delegation of power (DOP) of the company. The consideration made for purchase of spares is much higher than the price of complete P&M. The officials did not explore the possibility of repair of such equipment before raising indents for its spares as the repairs are cost effective. As per relevant excise rules, the spares for mining operation, if procured from manufacturer or their dealer, are eligible for set off as input /CENVAT credit. The officials did not obtain CENVAT credit causing loss to the company.

- a) In case of Motor, indents for two major components of Motor viz Rotor Assembly and Stator Assembly of one/two ratings were prepared either in one indent or two indents. These indents were prepared intermittently to look like a genuine proposal. The value of all these indents were kept within DOP of mines to avoid scrutiny at HQ level.
- b) The officials processed 82 indents intermittently for Rotor Assembly and Stator Assembly of different make and ratings, against which 54 Purchase Orders amounting Rs. 8.00 Crore were placed, thereby generated 77 new motors of different ratings.
- c) Procurement of these spares of Motors was processed separately and supply orders placed accordingly. However, the supplies of matching two spares of one rating viz Rotor Assembly and Stator Assembly covered either under one order or two orders were received together in

assembly. The spares received in the form of Assembly were inspected, accepted and issued to the mines as individual spares, mostly on the same day.

- d) Similarly, 25 indents for major 03 components of Gear Box (i.e. Rotating Assembly Input, Rotating Assembly Output and Repair Kit Major and Minor) were processed intermittently and 25 Purchase Orders amounting Rs. 4.81 Crores issued on Dealer of OEM, thereby generated 41 new Gear Box of different ratings.
- e) In another case of Transformer Oil Filter machine 06 indents were processed intermittently for 04 spares (i.e. Filter Assembly, Housing Assembly, Gauge Assembly and Heating Assembly) of Fowler Westrup make although there was no population of such machine. By placing 06 purchase orders worth Rs. 77.60 lakhs on the dealer of OEM on Proprietary basis, the mines had procured 06 nos. of new machines under guise of its spares.
- f) Similarly, indents were processed for various switch spares of ACB, VCB and DOL Starter and 47 Purchase Orders placed on OEM for Rs. 7.46 Crores on proprietary basis to secure supply of complete assembly.

#### **IRREGULARITIES OBSERVED**

- i) Fictitious & inflated indents were processed intermittently in split manner keeping the value of each indent within the DOP of mine to avoid scrutiny, concurrence and approval of the Company HQ.
- ii) These indents were processed with an ill motive of securing supplies of new P&M items under the guise of spares.
- iii) Although purchase orders were placed for spares but supplies were received as Assembly. However, supplies were received, inspected, accepted and issued as spares.
- iv) The spares were procured on proprietary basis without ascertaining existing population and make of available equipment in mine which indicates that wrong proprietary certificates were issued by the Technical department.
- v) The pattern of indenting, supplies, inspection, acceptance and issue clearly indicates that Motors, Switches, Gear Box and Transformer Oil Filtration machines were procured by the Area by placing supply orders for their spares.
- vi) The price of P&M procured as assembly under the guise of spares was approx. 2 to 3 times higher than the rate of new machine.

## **ACTION TAKEN**

- a) The investigation revealed an unholy nexus of some officials with a section of suppliers thereby facilitating purchase of P&M items in the guise of spares at exorbitant price causing loss of Rs.6.5 crore.
- b) Initiation of Major penalty proceedings recommended against the connived 13 officials which includes 03 General Manager rank officials (E-8 Grade) of the Mine, which has been agreed by CVC while rendering 1st stage advice. The case has also been referred to CBI by CVC for their investigation.
- c) The systemic improvement measures have resulted in reduction in procurement expenditure by more than Rs. 20 crores.

## **SYSTEMIC IMPROVEMENT MEASURES**

In order to prevent recurrence of such irregularities, following measures have been taken: -

- 1. Proper indenting with justification to be ensured
- 2. In case of procurement of spare parts on proprietary basis, population of existing machinery should be considered for assessment of requirement.
- 3. Possibility of economical repair/reclamation of existing machine/spares to be explored before proceeding for procurement.
- 4. Requirement of spares and new equipment should be planned in advance and properly budgeted for time bound procurement action at different level.
- 5. Circular for availing CENVAT credit to be circulated by Finance Department SECL HQ so that loss on this account can be avoided.
- 6. List of P&M items available in each mine may be identified with distinct number & record should be maintained in mine, to facilitate proper assessment of spares required for available P&M items in mine.

## **CASE STUDY - 9**

### **INTENSIVE EXAMINATION ON SUPPLY OF MEDICINES**

#### **CASE BRIEF**

Based on the outcome of an investigation in the matter of supply of counterfeit CCM tablets by the dealer of manufacturer with whom the company had concluded long term rate contract, major penalty proceedings were initiated in consultation with CVC, against 3 Medical Officer including one of GM rank and 2 pharmacists, besides banning of the dealer and corresponding recovery.

In the above backdrop, an intensive examination of procurement of Group-A medicine through long term Rate Contracts (RC) with offtake of Rs.14.18 crore was carried out.

1. Procurement of medicines is done by Regional Hospitals against long term Rate Contract (RC) concluded by company HQ under three categories viz; A, B & C.
2. Rate Contract (RC) for supply of medicine is being finalized through Limited Tender issued to sources identified by a group of Doctors way back in 2006 and thereafter the same sources have been considered for subsequent rate contract.
3. In respect of Group A, covering 260 medicines, sub- grouped into 12 categories based on application, limited tender was issued to 27 shortlisted reputed pharmaceutical manufacturers.
4. In case of Group-A medicine, RC dated 17.12.09 expired on 16.12.11 but the next RC was concluded after a lapse of 7 months on 02.07.12 valid upto 01.07.2014. Similarly, subsequent RC was concluded after a lapse of 18 months on dated 16.01.16 valid upto 15.01.2018.
5. Non finalization of Rate Contract in time and long periods with no rate contract in force, has resulted into reimbursement at MRP prices which are evidently higher than RC price.
6. The price of medicine paid through individual reimbursement is made on MRP as no discount is offered to the individual. However, at company HQ a discount of 16.5 % on MRP is being availed due to an agreement with local medical shop. Since no such arrangement has been made with any Medical shop in the vicinity of Regional Hospital available in the mines, hence the company is losing such discount in case of individual reimbursement.

7. During study at one of the Regional Hospital, it was found that the expenditure on account of reimbursement during such period of non-availability of RC was more than 70% of medicines purchased through RC.
8. The price in respect of 14 sample medicines reimbursed to the employees during non-availability of RC was higher ranging from 2 to 10 times of past RC price.
9. In respect of 260 medicines covered in the NIT of Group A, no offers were received for 55 medicines and only single offer received for 65 medicines which appears to be due to non-review of sources identified 10 years ago.
10. Testing of medicine is not being done by the hospital at regular interval, which might have prompted the dealer to supply counterfeit /spurious medicine in the guise of hospital supply.
11. The evaluation report was silent regarding fulfillment of submission of valid WHO GMP certificate as per prequalification criteria of NIT.
12. The offtake of medicines being considered for conclusion of RC is not realistic as no records are being maintained in respect of the total value of medicines consumed through individual reimbursement.

## **SYSTEMICIMPROVEMENT**

Subsequent to the findings of the intensive examination, the management of the company has accepted for implementation of following systemic improvement measures suggested by Vigilance Department.

- a) Action for conclusion of fresh Rate Contract to be initiated before 9 to 10 months of expiry of RC to finalize the next RC in time to avoid reimbursement of such medicines at much higher price.
- b) In order to avoid overlapping Rate Contract, a clause to be incorporated in the tender document stating that RC shall be concluded from next date of expiry of existing RC or actual date of issue of RC whichever is later.
- c) All Regional Hospital shall explore the possibility of concluding an agreement with local medical shops operating in their vicinity in line with Company HQ, so as to avail maximum discount on MRP.
- d) The list of reputed manufacturers of medicines identified in 2006 for conclusion of RC to be reviewed afresh by a committee of Doctors.

- e) All the medicines which are not covered in RC but being prescribed regularly to be brought in the ambit of RC to avoid reimbursement and also get such medicines at cheaper price.
- f) The periodicity of purchase of medicine through RC has been revised from 3 months to 4-6 months in case of medicines having higher shelf life to avoid stock out and reimbursement.
- g) For those medicines against which no offers were received, such medicines to be procured from manufacturers through open tender.
- h) NIT document should be designed in such a manner that interdisciplinary responsibility of evaluation of bids is distinctly defined so as to avoid non-evaluation of certain terms and condition. NIT document may contain different sections like:
  - i) Methodology of submission of bid which covers EMD, date of submission of Bid, date of opening of Bid etc.
  - ii) Commercial parameters
  - iii) Technical parameters which includes requirement, eligibility, Potency, No Conviction certificate, Drug License etc.
- i) A schedule of testing of different medicines received against RC be drawn by CMS and circulated to all Regional Hospitals and monitoring to be done at HQ level. In order to build confidence and improve industrial relation (IR), copy of such lab test may also be pasted on the notice board.
- j) Considering the high value of medicines being consumed, a computerized data management system in line with OMMS be developed for recording of reimbursement of medicines to ascertain the realistic off take and better control mechanism.
- k) Supply of medicines through dealer network has been discontinued and DDOs have been reduced from 12 to 4 Hospitals.

The systemic improvement measures would reap in substantial saving of around 5 to 6 crore considering the total offtake of Rs.54.32 Crores for all the three groups of medicines besides reimbursement on account of non-coverage of medicine in the rate contract.

## **CASE STUDY - 10**

### **SYSTEMIMPROVEMENTINHIRING OF VEHICLES**

#### **CASE BRIEF**

Sunset Coal company is one of the leading Coal producers of Central India. It has corporate office located in Vidharbha Region. Operational areas are located in central India spread over state of Madhya Pradesh and Maharashtra. It extracts coal from 25 Underground mines and 30 Opencast mines. Annual Coal production of the company is approx. 50 Million tones. Annual turnover of the company is approx. Rs. 10000 crores. Its main customers are power plants of NTPC, MSEB, MPEB and Industries located in Central India.

The company hires vehicles for movement of its manpower, materials and other welfare activities. Various type of vehicles being hired by Sunset Coal Company are: -

1. School Bus/ Manpower Bus
2. Truck
3. Explosive Van
4. Pick Up Van
5. Ambulance
6. Jeep/Car/other LMV
7. Water Tanker & Others

Total expenditure incurred by Sunset Coal Company for last three years towards hiring of vehicles are given in the table below: -

Category of Vehicles	Expenditure (Rs./ Lakhs)		
	2014-15	2015-16	2016-17
Bus	1855.65	2186.06	2039.56
Truck/Explosive Van	738.34	779.30	875.31
Ambulance/Pick up Van	492.39	515.04	618.20
Jeep /Car ( Tata Sumo / Bolero/ Indica etc)	2229.69	2522.50	2587.70

Rise in volume of business led to increase in number of vendors. As on March 2017 there were almost 100 vendors operating in various operational

areas of Sunset Coal Company. Area wise numbers of vendors operating are summarized below: -

Name of Area	Number of vendors	Name of Area	Number of vendors
AB	21	AN	28
AC	34	AP	15
AW	20	AK	34
AWN	16	APP	14
AM	16	WS	6
AU	24	HQ	5

A large number of vendors at the first instance gives an impression of competitive bids being received by Sunset Coal Company. On the contrary hiring charges over the years moved northward.

Vigilance department of Sunset Coal Company received a number of complaints from various vendors regarding irregularities in tenders for hiring of vehicles and manipulation in operation of contract awarded for pecuniary advantage by a few. This necessitated a thorough investigation in the complete process of Hiring of Vehicles by Sunset Coal Company.

Investigation in the whole process of Hiring of Vehicles revealed following:

## **1. PREPARATION OF ESTIMATES**

Estimates for Hiring of Vehicles were prepared under three categories: -

- A) Hiring for 12 hours with one driver
- B) Hiring for 16 hours with two drivers
- C) Hiring for 24 hours with three drivers

Estimates were prepared considering Cost of vehicles, Financing cost, Depreciation, maintenance cost, minimum wages as applicable, Average km per Liter of High Speed Diesel. Guidelines in this respect were issued by HQ. of Sunset Coal company in the year 2014.

Estimates prepared based on the parameters circulated in the year 2014 resulted in lower estimated value / tender value.

## **2. PREPARATION OF BID DOCUMENT, EVALUATION OF BIDS AND AWARD OF CONTRACT**

Estimated value was considered as tender value. Requirement of each vehicle was considered as a separate job. A bid document incorporated many Jobs (one vehicle requirement was termed as one Job) naming them as Job 1, Job 2,

Job 3, Job 4 and so on. Bid value was value of all estimates taken together, however Earnest Money was fixed for all job taken together as well as for each job Earnest Money was mentioned separately in the Bid document. A bidder was at liberty to quote for one job, more than one job or all jobs in the same tender.

### **3. QUALIFYING CRITERIA**

- a) Past experience of similar nature of job for 65% of the tendered value. Work order copy, work completion certificate and RTO permit for vehicles deployed against the work order were to be submitted as documentary evidence.
- b) Ownership of minimum 50% of the tendered quantity of vehicles.
- c) Quoted vehicles should not be more than three years old. RTO registration of quoted vehicles, taxi permit, Insurance were to be submitted as proof.
- d) Bidders were also allowed to quote for new vehicles with an undertaking that within a month of issue of Letter of Acceptance (LOA) they would submit details of new vehicle for deployment.
- e) Submission of Driver's license as proof towards availability of drivers with the bidder.
- f) Undertakings by the bidder that they have no relative as employee of the Company I.e. Sunset Coal Company.

Lower estimate value, as same were prepared based on conditions prevalent in the year 2014. It gave an opportunity to revisit the price by means of preparation of Justified cost enabling negotiation in each and every case and award of contract at comparatively higher price. Bidders were favoured by granting Fuel charges re-imbursement based on average mileage of Km/Ltr. Prevalent in the year 2014. Due to technological advancement average mileage of all vehicles in general improved over a period of time e.g. four wheelers like Swift Dezire / Tata Indigo gives an average mileage of approx 20 - 22 kms/ ltrs. But re-imbursement was made at the average mileage of 10 kms/ ltr.

Bid document was prepared by splitting the requirement into different jobs thus giving an opportunity to a set of bidders to form cartel and quote for different job in a single tender. Probably this could have been one of the reasons for large number of vendors operating in Sunset Coal Company. Tendering authority had tendency to appease all. Receipt of competitive bids was a misnomer and only on paper. Bid document failed to define

Similar Nature or ill-defined Similar Nature leaving scope of ambiguity in the bid document resulting in granting favour to a set of bidder. Bid evaluations were done beyond the scope of criteria set in Bid document. For example, bidder who had not submitted copy of past work order were qualified, similarly a bidder who had not submitted experience certificate of satisfactory completion of work for the desired value was qualified. There were also instances of successful bidders deploying vehicles whose ownership lies with third party or ownership lies with employee of the organization having business interest in the tendering processes.

Bid document had no provisions for distribution of tendered quantity. In the existing practice, a bidder eligible for one job became eligible for all jobs though they did not have capability as defined in the NIT/ Bid document.

In collusion with tendering authority bidders formed cartel. Each bidder quoted for job of his choice depending upon his area of operation. Thus against a tender numerous bids were received which was normally considered as competitive bid and as predecided norms, bidder stood lowest bidder for the job of their choice and work was awarded to them.

The above is substantiated by the fact that: -

There are large numbers of vendors.

Prices have not come down.

LOA was issued to the lowest bidder / successful bidder on approval by the competent authority. Bidder was given 28 days to submit security money and commence work, otherwise contract will be cancelled. Subsequently within next 2 days, work order was to be issued and agreement was to be signed. Normally, above timeline was not maintained either by the successful bidder or by the tendering authority. In certain cases, work had commenced within 28 days but for the two years, work order was not issued and agreement was not signed. Successful bidder was not paid their bill for want for copy of agreement by the finance department. No suitable justification was submitted by the authority. There were cases where successful bidder was asked to deploy the vehicle immediately pending issue of LOA and then after a month the vendor was asked to discontinue running of vehicle on pretext of complaint lodged by an Individual or a firm with respect to irregularities in the tendering process. No payment was made to firm for the period for which vehicle was deployed.

There were cases where successful bidder did not submit security money within the scheduled date and no punitive action was taken by the authority. In certain cases, successful bidder failed to deploy the required

vehicle and no action was taken and firm was allowed to quote in the subsequent tender. There were instances where in vehicles having same registration number were running at different locations against different contracts. Bidder forged the RTO paper and same were accepted by officials to favour the successful bidder.

Sometimes vendors in collusion with officials had deployed lesser capacity vehicles than the awarded capacity. Since diesel cost depends upon the capacity of vehicles and average per km/litre as defined in the contracts, the above action was intentional favour to the vendor.

There were instances of processing of bills of firm for the vehicles which had not been deployed. Log books were either not maintained or vehicle registration number was not entered in the log book. As per the guidelines of Government of India, minimum prescribed wages as applicable to transport services are to be paid. EPF/CMPF contributions are to be made in the name of employee. It is the responsibility of the employer to ensure that minimum wages are paid and EPF/CMPF contribution are made by the contracts.

There is no proper system in place to ensure that contractor pays minimum wages and their contribution to the EPF/CMPF account of the worker. Some of the drivers and contractors revealed that on paper the contractor pays them minimum wages and shows their contribution to EPF/CMPF but in reality they don't get the minimum wages, however due to fear of losing job they continue with the same contractor.

## **SYSTEMATIC IMPROVEMENT MEASURES**

Vigilance department of Sunset Coal Company studied the irregularities and it was observed that reasons for common irregularities were: -

1. Absence of Standard Operating Procedure.
2. Absence of Manual
3. Absence of set guidelines

Vigilance Department of Sunset Coal Company organized stakeholder's meet to eliminate the irregularities. Following system improvement measures were suggested: -

1. Every Year in the month of April, circular in respect of estimate preparation shall be revised considering the prevalent market price of vehicle, average mileage on date, minimum wage applicable, present cost of financing. This would enable proper estimation and need for preparation of justified cost shall be eliminated resulting in negotiation as an exception rather than a practice.

2. Qualification criteria / Experience criteria may be drawn from approved Manual for Works and Services. This would bring uniformity in the bid document / NIT.
3. To arrest submission of fake and forged documents, provisions of punitive action such as banning of business with the firm, suspension of business be incorporated in the Bid Document / NIT.
4. Splitting to be stopped completely. If requirements are received in same period then a single tender for all requirement should be floated.
5. Distribution clause should be pre-defined in the NIT /Bid Document.
6. Award of work order/Agreement must be done within 30 days of issue of LOA.
7. Punitive action must be taken against vendors who defaults on contract terms.
8. Designated Officer -in- charge must ensure that vehicles are deployed as per the work order awarded to the contract, RTO registration of the vehicle is in the name of the vendor on whom contract has been awarded and same is valid, Insurance paper of the vehicle is in the name of the vendor, Valid taxi permit is available and driver's license is valid. Original copy of above documents should be on possession of Officer-in-charge.
9. Designated Officer-in-charge shall maintain proper log book and it should be countersigned by driver as well as Officer-in-charge every day and record the total kms run on day to today basis. Log book duly certified by Officer-in-charge shall be submitted alongwith bill for payment.
10. To ensure that workmen engaged in the services are paid minimum wages and EPF /CMPF contributions are made for them, Officer-in-charge shall forward the name of the workmen to the personnel department, who would ensure before release of payment to the firm that workmen are paid minimum wages and they own EPF/CMPF account and every month contribution is made to their account. IT enabled tracking system for deployment of manpower, payment of wages and deduction of EPF/CMPF would ensure above and eliminate malpractices in the system either at vendor's end or at user end. In order to ensure payment of minimum wages during the period of contract, bid document should incorporate a variable clause where in minimum wages as applicable on the date of bid is mentioned and in case of any change same would stand revised. This would give level playing field for vendors.
11. Future tenders should be invited for vehicles with GPRS facilities and payment to the bidders should be made based on number of kms run as indicated by GPRS. This would eliminate human interferences and ensure payment on actual.

**CASE STUDY - 11**  
**SYSTEMIMPROVEMENTMEASURES SUGGESTED IN THE E-  
PROCUREMENT SYSTEM WHICH RESULTED INTO SAVINGS OF  
RS. 985 CRORES**

Public Procurement is exposed to risks of corruption, inequity and cartel formation, though visibly it may appear to be competitive and there may not be any documentary evidence to establish this fact. With leveraging of technology in the best possible manner, preventive measures are to be taken to eradicate/mitigate the menace of cartel bidding and corruption. The objective of the e-procurement and e-Reverse Auction is to get the goods/service of specified quality at best price with least human interference. An in-depth study of e-procurement process was carried out by Vigilance division and based on the suggestions of Vigilance Division, a modified system with following salient points has been adopted in the Company for e-procurement and e-reverse auction process:

- (i) All Open and Limited Tenders are floated through Company's e-procurement portal. In case of Limited tender, there is a provision to allow other bidders also, who meet the eligibility criteria, to quote.
  - 1. All the tenders are floated with a techno-commercial parameter sheet (TPS) / General Technical Evaluation (GTE) etc., designed by the concerned tender inviting authority and a BOQ (price bid) and also with a provision to upload relevant documents.
  - 2. On the date of opening of the tender, system automatically evaluates the techno-commercial acceptability of the bids based on the acceptance of logical response of technical and commercial parameters given by the bidders.
  - 3. The price bid of the techno-commercially acceptable bidders (evaluated by the system) are opened automatically and system displays the comparative statement.
  - 4. The supporting documents against eligibility, proveness and other terms & conditions of the NIT of the lowest bidder are downloaded and verified for its conformity to NIT terms.
  - 5. Upon acceptance of the lowest bidder's documents, the case is processed for recommendation subject to the reasonability of L1 - price.
  - 6. If lowest bidder defaults even after asking shortfall documents twice (10 days each), its offer is bypassed and the documents of next

lowest bidder is downloaded, checked and verified. This process is repeated till techno-commercially acceptable L1 bidder is determined.

7. Provision for penalty of the defaulting bidders is kept in terms of forfeiture of EMD in case of tenders for Works and Services. In case of tenders for procurement of Goods, presently the penalty is limited to Rs. 1,00,000/-
8. For tenders of estimated value more than 1 Crore, reverse auction is carried out with a start bid price, which is the system generated L1 price. In case of Tenders for Works and Services, the start bid price is capped to 10% of the estimated value of tender. There is no such capping in tender for Goods as the estimated value of tender of MM department are not updated at the time of tendering and purely based on Last Purchase Price.
9. Complete anonymity of bidders is maintained during reverse auction process which continues initially for two hours and subsequently extended, if bids are received within last 10 minutes of the closure of RA.

While the pre-qualification stage is made automated by self-declaration in TPS and GTE with appropriate penalty for default, the qualification documents are required to be uploaded before bids are opened. This speeds up the process and reduces chances of Departmental officer having any collusive arrangement with bidders. Cartel formation is controlled as identity of bidder is not disclosed till end.

A study of the data taken from Company' e-procurement portal for the period 01.02.2016 to 31.01.2017 (one-year period) reveals the following:

- a. Total number of tenders finalized during this period is 14965 (approx.) amounting Rs 13,600 Crores (approx.).
- b. Reduction in average cycle time of procurement: Average cycle time of procurement has reduced to 80 days approx. from 180 days approx. A tender valuing Rs 1,45,31,300/- was finalized in a record time of two days after opening of the bid.
- c. Competitiveness in tendering process: The real benefit of the new "Modified Single Cover System" lies in increasing the competitiveness of the tender process, especially the tenders over Rs. 1 crore where e-reverse auction is followed. In a normal two bid system, the list of vendors eligible to participate in reverse auction gets disclosed before the start of reverse auction and such qualified

bidders may contact with each other and rig the bidding process. This aspect was experienced practically where such two-bid process with reverse auction was followed in Outsourcing tenders and the result of reverse auction process was not very encouraging, even though there were more than 3-4 qualified vendors.

In the new system, the number of bidders eligible to participate in e-reverse auction and their identity is disclosed only after the auction process is over. The complete anonymity prevents the bidders to rig the bidding process to a large extent. A reduction ceiling limit of 2% of start bid price or last quoted price whichever is lower, over and above decrement value of 0.5% has been introduced and the quantum of penalty for defaulting bidder is forfeiture of EMD amount. To avoid complications in forfeiting the EMD, the bidders are required to submit EMD through e-mode like NEFT/RTGS/Net banking.

- d. Transparency in tendering process: The new "Modified Single Cover System" is fully transparent as all the rules and processes are displayed in the tender for the information of bidders. The technical and commercial scrutiny is done by the system without any human intervention and there is no scope for compromising with the transparency of the process.
- e. Fairness of "Modified Single Cover System": The fairness of the method/modalities of tender process lies in the fact that the firm eligible for getting the order should not be deprived of its legitimate right. In the new system, due care has been taken in this regard. It is explained by means of an example hereunder:

Let there be 5 bidders in a tender, A, B, C, D and E. Say 4 out of these 5 bidders meet all the eligibility and proven criteria stipulated in the NIT. One firm, say E, is not in possession of the documents towards proven criteria. In a two cover system, the offer of E will be disqualified and their price-bid not opened. Out of the balance 4 firms, the order would be placed on the L1 firm, say A, provided the L1 rates are found to be reasonable.

In the new system also, firm E's offer will not be techno-commercially accepted by the system if they do not declare to confirm of being in possession of documents towards proven criteria. The system will display the L1 bidder, say A, and order processed on A subject to meeting all NIT criteria. In case the bidder E gives false declaration and succeeds to submit its bid and offers a rate lower than A, their

offer will be disqualified while verifying their proven documents. Penalty will be imposed on this firm for giving false declaration. The offer of next bidder, A, will be considered and A, who has the legitimate right to be considered for placement of order, will get the order in the new system also. Similar process will be followed in tenders with e-reverse auction.

- f. Ease of doing business for the procuring entity and the bidders: In the conventional two bid system, offers containing voluminous documents of all the bidders are scrutinized. Moreover, if any issue like past performance/any complaint, comes up for any bidder(s), lot of time gets wasted in resolving/verifying the issues and the whole tender process gets stalled/delayed. If after price-bid opening it is found that such bidder is not the lowest bidder, the delay in tender finalization, apparently, was avoidable. In the new system, the initial technical scrutiny of offers is done by the system itself based on the confirmations given by the bidders. This process eliminates the human intervention in the scrutiny process and the scrutiny is done in an objective manner. Only the documents (mainly towards eligibility and proveness of the lowest bidder is required to be verified. This reduces the time consumed in scrutiny of offers thereby reducing the time for finalizing the tender.

The bidders are required to register themselves with the service provider, NIC. Once they get registered for any class of stores, automatic alert in the form of e-mail goes to them whenever any such tender is hoisted on the web-site. The EMD of the unsuccessful bidders are also being returned on-line immediately after finalization of tender.

- g. SAVINGS MADE: The new e-procurement system has resulted in savings of Rs. 985 crores approx. for the Company in one-year period as indicated below:
  - i) Works tender: Rs. 152 crores (11.58 % below estimated cost of tender)
  - ii) Services tender: Rs. 801 crores (9.60 % below estimated cost of tender)
  - iii) Goods tender: Rs. 32 crores, for RA tenders only (compared to Start bid price)

**CASE STUDY - 12**  
**PROCUREMENT OF STEEL FABRICATION ITEMS BY**  
**SUBSIDIARIES OF CIL**

**CASE BRIEF**

Numerous complaints were received against procurement of fabricated items in the name of rest shelter, blasting shelter, mobile pit shelter, spacious rest shelter, watch tower various types of fencing item, conveyor brackets on different names, steel cogs, steel props, steel sleepers, various fabrication items for belt conveyor with varying nomenclature (like discharge guard for conveyors, self-aligning adjustable roller bracket, hangers for bottom roller, loop take up assembly, tail end assembly, walkway plates, dust collector, wiper assembly etc). All these items are basically steel fabricated items and do not have requirement of any sort of special / specialized technology. However, it was observed that the NIT conditions towards proveness required the bidders to submit past credentials for items matching exactly with the description of the tendered item. The description of the tendered items was also observed to be very specific and not generic causing very restrictive participation and qualification of bidders.

Study of some procurement cases revealed that the same irregularity/mistake were being committed by different procuring entities.

**SYSTEMIC IMPROVEMENT**

Based on the observations, the following guidelines were issued for increasing Competitiveness of tenders for procurement of such fabricated items:

- i) Possibility should be explored to manufacture the required fabricated item departmentally in the same Area or in other Areas of the Subsidiary.
- ii) Consolidated requirement of the Area / Company should be considered for floating Open Tender with detailed specification, dimensional drawing, approximate weight and scope of work. Splitting of requirements should not be allowed.
- iii) The description of indented items should be clear. The indent should be accompanied with a certificate from the indenting authorities to the effect that the specification/description and drawing are complete and without any ambiguity.

- iv) The cost estimation may be got prepared from Civil Engineering Department in the light of prevailing rate as per SOR and market rate for the items not covered in SOR. This estimated value shall be considered for preparation of Indent, if found to be lower than LPP.
- v) While scrutinizing the indent, the HOD of concerned technical department shall examine that the details of the item provided in the indent is correct, complete and cost estimation has been done properly. If not so, necessary correction shall be made by them before forwarding the indent for concurrence and approval. A certificate need to be provided by the HOD of concerned technical department to this effect.
- vi) The concurring authority and the approving authority shall ensure that the proposal is complete in all respect before according concurrence/approval of indent.
- vii) MM department shall ensure compliance of the above guideline before initiation of procurement of such items.
- viii) The proveness criteria should include tendered items as well as similar items. General fabrication work of same or higher Quantum of Work Done in terms of Weight shall be considered as similar items irrespective of nomenclature. Wherever, technical parameters and testing norms are to be complied as per DGMS circular (like steel cogs, steel props etc.), the same may be made a part of Technical specification.
- ix) The cost estimation of Civil Engineering department. (the cost of raw materials and other input costs like labour cost etc.) shall also be considered for justification of L-1 offered Price in addition to LPP by the Tender Committee, concurring authority and approving authority.

On close monitoring, as regards to implementation of the above guideline it is revealed that Company has saved a lot. Moreover, participation of the bidders increased and cases of such irregularities are prevented.

# पर्यावरण की सुरक्षा का संकल्प

इस संकल्प ने हमारे मन-मानस  
में गहरी जड़ पकड़ ली है।



## कोयला इण्डिया लिमिटेड

विश्व की बृहत्तम कोयला उत्पादक संस्था  
A Maharatna Company

प्रकृति के अस्तित्व में ही हमारा अस्तित्व है



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