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Principles of Life

- You would achieve more, if you don't mind who gets the credit.
- If you don't stand for something, you'll fall for everything.
- All progress has resulted from unpopular decisions.
- Change your thoughts and you change your world.
- Management is doing things right. Leadership is doing the right things.
- If you are not failing you're not taking enough risks.

Corruption Perception Index - 2008

The Corruption Perception Index, prepared on the basis of surveys conducted in 180 countries by 13 international agencies associated with Transparency International, puts India's integrity score at 3.4 as against 3.5 last year. Corruption in India has increased marginally in the last two years, taking its position from 72 to 85 in the list of world's corrupt countries, according to global watchdog, Transparency International. India and China were at par last year in the corruption index. But this year, China's position is 72. Pakistan, with 2.5 integrity score, has been ranked at 134 in the list.

Our new CVO

Sri K. Vidyasagar, IAS, has assumed charge as Chief Vigilance Officer of Rashtriya Ispat Nigam Limited on 4th August, 2008. Sri K. Vidyasagar joined Indian Administrative Service in 1985. He belongs to Jharkhand Cadre. He had done his post graduation and M.Phil from Jawaharlal Nehru University, New Delhi and MBA from University of Birmingham, UK. He worked in various capacities in Government of Bihar, Government of Jharkhand and Government of India. In the state governments he worked as SDM,



Dy. Development Commissioner, District Collector, Secretary of Excise & Registration Department and Secretary, Energy Department and in Government of India he worked in the ministries of Commerce & Industry, Railways, Urban Development & Poverty Alleviation and Power. Prior to joining RINL, Sri Vidyasagar was the Executive Director, Rural Electrification Corporation Limited (REC), Ministry of Power, New Delhi. "Spandana" wishes him all success in his present assignment.

from CVO's Desk.....

It gives me great pleasure to join as CVO of this prestigious organization. I hope I will be able to contribute my best to achieve excellence in the functioning of Vigilance department and to protect the interests of RINL with the support of management and dedicated Vigilance team. I firmly believe that a congenial working atmosphere enables employees to function in a transparent, fair and fearless manner, which ultimately enhances the image of the organization.

It may not be out of place to mention here the equation of Robert Klitgaard, as per which "Corruption= Monopoly + Discretion - Accountability". By increasing transparency, promoting equity and fairness in dealings and leveraging technology for wider dissemination of information, monopoly can be countered. Further, by reducing discretion and increasing the accountability of the employees, interest of the organization and public at large, will be safeguarded. We will make every effort to maintain purity and integrity in the organization and to raise the morale of the honest.

In this issue, emphasis has been laid on the tender process covering the pre-tender stage deficiencies in power sector noticed by CVC. Hope the dealing officers will find this useful and improve their efficiency while processing the tenders.

Wish you all a very happy Dusserah.

(K. Vidyasagar, IAS)



Mahatma Gandhi (1869-1948)

The life of Mahatma Gandhi, the father of the nation, was a saga of simple living and high thinking, truthfulness, honesty and integrity and action born out of deep conviction. Such were his virtues that one of the greatest scientists of all time, Albert Einstein, had said about him, "the future generation would not believe that a man like him had ever walked on the earth". On the occasion of Gandhiji's birthday on 2nd October, we salute this great soul and pay our heart-felt homage to him.



PREVENTIVE VIGILANCE IN PUBLIC PROCUREMENT

The Chief Technical Examiner's Organisation of Central Vigilance Commission has released a book on "*Preventive Vigilance in Public Procurement*" during 2007. Some excerpts from the same are reproduced below for the information of our readers:

The process of Public Procurement can be categorized in three distinct Stages-

- i) Pre-tender Stage
(Project formulation, Appointment of Consultants, Preparation of Detailed Project report / Detailed Estimate)
- ii) Tender Stage
(Preparation of tender documents, inviting & opening of tenders, prequalification, tender evaluation & award of work)
- iii) Execution Stage
(Compliance of agreement conditions, making payments, ensuring quality & timely completion)

The Pre-tender stage can be further sub-divided into two stages

- i) Appointment of consultant
- ii) Preparation of Detailed Project Report (DPR) / Detailed Estimate

While examining the contracts of power sector, it was observed that many estimates are prepared only on the basis of last accepted rates. While last accepted rates do help in preparation of the estimates, the estimates should not solely rely on last accepted rates only. The quoted rate needs to be reasonable and justified and compared with the estimated rates. If the last accepted rates are high for any reason, it results in award of the contract at higher rates since no analysis of circumstances under which the last contract was ordered is gone into and also this new awarded rate becomes the basis for estimation of rates for the next tender. Thus this problem has a cascading effect. This does not appear to be a proper system of preparation of estimates. In fact to avoid such problems, the organisations must preferably adopt a software based analytical method to prepare estimates based on various parameters that affect the rate including the prevailing market rates. It was also observed that organisations do not prepare estimates based on actual site conditions. Rather the estimates are prepared based on the borrowed quantities from some previous similar project, without incorporating the modifications required in foundation etc. for the current project. This has resulted in large-scale deviation, especially in foundation items. In one case, the quantum of pile work was reduced from Rs. 6.0 crores to Rs. 2.0 crores only.

A few examples of deficiency in detailed estimates are as under -

Case-I (05-SH-54)

In case of an 'earth filling package' of one thermal power project, an estimate amounting to Rs. 73 crores was prepared taking into account the local site conditions such as lead involved in the transportation of earth, cost of the earth etc. Open tenders were invited and L1 bidder quoted Rs.129 crores. Since, the L1 bid was very much on the higher side in comparison to the estimated rates, the Tender Evaluation Committee decided to look into the reasonableness of the estimated cost and after adding up certain non-standard stipulations such as certain local area taxes and particular circumstances prevailing at site, concluded that an amount of Rs. 100 crores could at best be justified. Since still the gap between the revised estimated cost and the lowest quoted bid was on higher side, the tenders were discharged. Thereafter, the total revision of estimate was carried out and in place of initially proposed borrow area involving 4-5 kms. lead, a fresh borrow area involving 14 kms lead was stipulated and an estimated cost of Rs.103 crores was worked out. This time in the open tender, lowest bid was for Rs.192 crores. Since again the lowest bid was much higher than the estimated cost, another option of assigning the work to some other PSUs engaged in construction work was explored. M/s Bridge and Roof Co. Ltd., NPCC, NBCC, HSCL and IRCON were considered, however, on one or the other flimsy grounds most of the PSUs were excluded and finally the work was assigned to NBCC at a cost of Rs. 118 crores. Since, the estimate of Rs.103 crores was worked out considering all the relevant factors and current rates, assigning the work to M/s NBCC at a cost of Rs. 118 crores thereafter, does not appear to be justified. Moreover, it was learnt that the work was being executed by way of borrowing earth from the area involving a lead of 4-5 kms only, whereas the estimate amounting to Rs.103 crores was prepared involving a lead of 14 kms. Thus, if the work was to be executed from a borrow area involving a lead of 4-5 kms only, then there appears to be no justification for preparing an estimate and justifying the cost of award of work considering a borrow area involving a lead of 14 kms.

Case-II (06-ET-05)

Detailed estimate for a power project 'X' was prepared based on the rates borrowed from another previously executed power project 'Y'. Project 'X' was an expansion project, where the electricity & water supply were supplied to the contractor free of cost. In project 'Y' contractors were to arrange electricity & water supply. Obviously, the estimated cost of project 'X' should have been less than for the project 'Y'. In the same estimate, quantity of 'extraction of rock' in the coal handling area deviated from 5000 cum to 56000 cum, which indicates that estimate was not prepared on the basis of actual site conditions. The organization should have prepared realistic estimates considering the local conditions.

Case(VR1)

In one PSU, the revised cost estimate for a work was prepared as Rs.5733 lakhs, which was based on the earlier awarded rates. The organization had arrived at the estimated rates simply by multiplying by a capacity factor, i.e. through extra-polation. However, on opening the price bids, it was seen that the L1 rates were Rs.3564 lakhs only, thus establishing the fact that the estimates that were prepared were not realistic.

CASE (VR2)

In another PSU, the estimate for a work was prepared for Rs.5570 lakhs and for the basis of estimation, it was mentioned that estimated cost of plants, equipments & auxiliaries have been derived from the L2 bid received for some similar ongoing work. The quoted rates of L1 bidder however were found to be Rs.3630 lakhs, which were approximately 35% low, giving an impression that the estimates were deliberately kept on the higher side.

CASE(VR3)

In yet another case of thermal power package, the estimates were taken from the award value of an exactly similar package of another work which was awarded at Rs.1860.33 crore in April'04. The estimates for the new package prepared in Nov.'04 were however, taken as Rs.2250.38 crores, i.e. almost 21% higher than the last award rates within a time span of 5 months only without any justifiable reasons on record.

CASE (VR4)

In a Power Project, initially the estimated cost was indicated as Rs.11 crores only. However, after opening of the price bids, the estimates were revised to Rs.13.25 crores, ostensibly, to justify the quoted L-1 rates. This practice of revising the estimates after opening of the price bids to justify the received L-1 rates is extremely objectionable and is against the ethics of the tendering system.

CASE (VR5)

In one Power Project, the rates of last awarded works were simply escalated by 10% to arrive at the estimate for the new work. Escalating the last rates by a fixed percentage may not always be the correct way of working out the estimates. Needless to say the quoted rates were nowhere near the estimated rates.

CASE (VR6)

In one PSU, the work was awarded on nomination basis to another Central PSU without arriving at a realistic estimated cost. As the initial cost was not properly worked out before award, an amount of Rs.30.50 crores was allowed in addition to the initial cost without any justification and after issuing the LOA, an amendment letter to this effect was issued later on. Even the sanction of the cost estimate was issued after approximately 15 months of issue of LOA. It is relevant to mention here that many a times the work awarded on nomination basis to the PSUs are getting executed through private agencies by a back to back arrangement. Keeping the estimates loose in the beginning results in award of work at higher rates to private parties in a non-transparent manner.

The estimated rate is a vital element in establishing the reasonableness of the prices being offered and, therefore, it is very important that the same is worked out in a realistic and objective manner on the basis of purchases made by other organizations, prevailing market rates, the market trend and assessment based on intrinsic value etc.

(Deficiencies noticed during 'tendering and execution stages' will be covered in subsequent issues)

EXERCISING THE OPTION OF FOB / CFR FOR IMPORTS

-A Case Study

During the examination of files pertaining to procurement of Ferro Silicon through a Global tender, it was observed that the tender was issued with FOB (Free on Board) and CFR (Cost and Freight) options. The tenderer was required to quote for the material and freight separately. In the present case, the Purchase Order was issued on the successful tenderer and the order quantity was to be shipped in 6 lots over a period of 6 months. The option of FOB or CFR, covering the total order quantity was to be exercised by VSP at the beginning of the 1st shipment. VSP took up the matter with TRANSCART under Ministry of Shipping, Road Transport and Highways (MOSRH) for making the necessary shipping arrangements covering the total quantity. Based on the confirmation from TRANSCART that they made necessary shipping arrangements at a freight less than the offer received by VSP through tender, VSP exercised the option of FOB with the supplier for the total order quantity. However, the freight had gone up and the Transchart finalized shipping agency could not make any shipping arrangements against any of the lots. Having exercised the option of FOB for the total quantity under A/T. RINL had to make shipping arrangements at a higher freight resulting in an additional freight of about Rs. 1.96 Crores. Considering the same, a suggestion was made to the concerned department to take up with TRANSCART for recovery of additional freight incurred from the Shipping agency. It was also suggested to examine the possibility of exercising the option of FOB/CFR with the supplier on lot to lot basis (instead of exercising the option initially for the total quantity as is being done now). This would facilitate RINL to opt for imports on CFR basis in case the freight as per the Purchase Order is less than freight rate of TRANSCART and opt for FOB basis in case the freight offered by TRANSCART is less than freight as per Purchase Order.

This suggestion was examined and a circular was issued for incorporation of suitable clause while issuing ITTs for purchase of materials from import sources reserving the right of RINL for exercising the option of FOB/CFR while giving clearance for each lot of shipment.

Suggestions for Systemic Improvement

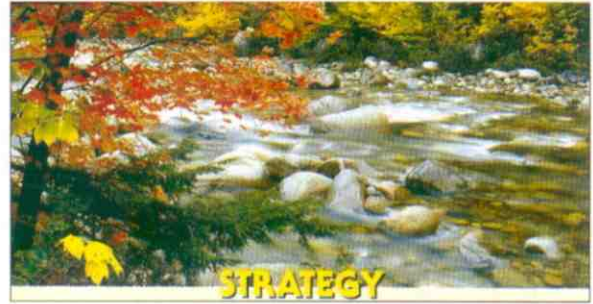
- ❖ On a report submitted on a tender for the appointment of Consignment Agent, CVC suggested that while finalising tenders, the rates received / awarded at other locations should be kept in view and price reasonableness should be established properly. This is all the more essential in cases where there is lack of competition. It was also advised to formulate the eligibility criteria in such a manner so as to ensure adequate competition but without compromising the interest of the organisation.
- ❖ During the investigation of a complaint it is noted that the same contractor was awarded two works in the adjacent working areas. In one contract the consumables were free issue and in the other contract the consumables were in the scope of contractor. To avoid misuse by the contractors in similar situations Vigilance department suggested to advise all the departments to maintain proper records of free issue of material and to the extent possible, similar scope of work should be maintained regarding the free issue of material in different contracts and departments should be more vigilant where already such contracts are in existence.

Latest CVC Circulars

Sl.No	Subject	CVC Circular No & Date
1.	Referring cases of procurement to the Commission References of a general nature having elements of managerial decision making and concerning a particular procurement should be avoided.	008/CRD/008 dt. 24/07/2008
2.	Adoption of Integrity Pact in major government procurements CVC emphasized the necessity to adopt Integrity Pact (IP) in Government Organisations in their major procurement activities and also directed that in order to oversee the compliance of obligations under the IP, by the parties concerned, Independent External Monitors (IEMs) should be nominated with the approval of the Commission, out of a panel of names proposed by an organization.	No.24/8/08 dt.05/8/2008

Vigilance Checks carried out during July - September 2008

Sl.No	Description	Total
1	Surveillance checks	81
2	Road re-weighments	40
3	Rake re-weighments	08
4	Quality checks	11
5	Stores checking	05
TOTAL:		145



Those who are victorious plan effectively and change decisively.
They are like a great river that maintains its course but adjusts its flow.

NEWS & EVENTS

TRANSFERS & POSTINGS

- Sri PK Satapathy, DGM (Vigilance) was transferred and posted to Projects Division as DGM (CEZ) on 23.07.2008.
- Sri G Srinivasa Rao, Dy Manager (Staff) was transferred to Personnel Department on 12th August 2008.
- Sri SK Bose, DGM(Project Monitoring) was transferred and posted as DGM (Vig.) and joined the Vigilance Department on 01.08.2008.
- Sri GSN Murthy, JM (Staff) has joined CVO's Secretariat on 25.07.2008 as PS to CVO.

Promotions

Spandana congratulates the following employees of Vigilance Department on their recent promotions and wishes them all the best.

1. Sri TK Ghosh AGM (Vigilance) & TA to CVO
2. Sri PSN Murty AGM (Vigilance)
3. Sri RND Prasad Dy Manager (Vigilance)
4. Sri G Srinivas Asst. Manager (Vigilance)
5. Sri B Karuna Kumar Asst. Manager (Vigilance)
6. Sri K Madhusudhana Rao Asst. Manager (Vigilance)
7. Smt PSSB Kamakshamma Jr Manager (Staff)

Long Service Awards

As a token of recognizing 25 years long service in RINL, the following were presented with Long Service Award and a Silver coin on 29.07.2008.

1. Sri D Ramachandra Rao Dy Manager (Vigilance)
2. Sri G Srinivasa Rao Dy Manager (Staff)
3. Sri RND Prasad Dy Manager (Vigilance)

Congratulations!

Ms K Bhavya, D/o. Sri K Madhusudhana Rao, AM (Vig.) has participated in VIII All India Ryu Shinkan Shito Ryu Karate Championship held at Chennai and secured first place in Black/Girls/Individual/Kumite Championship and 3rd prize in Kata. She is studying in 9th Class in DAV Public School, Ukkunagaram. Congratulations!

RINL, Vigilance Fax Nos. : CVO's office - 0891-2518674, GM(Vig)'s Office - 0891-2708160

Editorial Board: K. Srinivasa Rao, AGM (Vig.), RND Prasad, DM(V), G. Srinivas, AM(V) & E Srinivasa Rao, JM(V)

Note: Spandana can be viewed at <http://www1.vpsite.org/vigilance/spandana/tabid/70/default.aspx>

Feedback for improvement is welcome and may be sent to spandana@vizagsteel.com

Views and Opinions published in this Newsletter do not necessarily reflect the Management's thinking and Policy.