

**CHAPTER VII : MINISTRY OF HEALTH AND FAMILY  
WELFARE**

**Department of Health**

**7.1 Non-implementation of computerised Management Information  
System for Food Control Organisations**

**Failure of the Ministry to ensure migration of complete data from State Food Testing Laboratories to the computerised system has resulted in non-achievement of objectives of establishing communication network between the Food regulatory agencies and the laboratories even after three years of the scheduled date of completion. The equipment worth Rs. 2.79 crore is lying idle at NIC, New Delhi and in State laboratories at different locations.**

Under the World Bank assisted Food and Drugs Capacity Building Project, the Ministry entered into a contract with M/s HCL Info Systems in July 2006 for establishment of a computerized Management Information System at a cost of Rs. 3.45 crore. The system was intended to enhance information flows and coordination between the Central and State regulatory agencies. The data collected across the testing laboratories and State Food Control Organisations was to be centrally stored, collated, analyzed and presented in an appropriate form to different authorities in the Food Control Organization on a need to know basis.

The project envisaged networking of 105 locations<sup>1</sup> across the country. In terms of the agreement, HCL was to provide application software, hardware for server, input/output devices and computers. It was also responsible for maintenance of the system hardware and software. The main data centre for operation of the project was located at NIC<sup>2</sup>, in Nirman Bhawan, New Delhi, while the Prevention of Food Adulteration (PFA) Headquarters at Nirman Bhawan was designated as the administrator for operation of the system. In terms of the agreement, the project was to be completed within six months of its commencement i.e., by December 2006.<sup>3</sup>

The implementation of the project depended on the successful migration of data maintained manually by various food laboratories and its regular updation

<sup>1</sup> Prevention of Food Adulteration (PFA) Headquarters, Nirman Bhawan, State PFA, Central/State Food Labs, Primary Health Organisations, National Institute of Nutrition, Hyderabad and Central Food Technological Research Institute, Mysore

<sup>2</sup> National Informatics Centre

<sup>3</sup> The period has been reckoned from the date of signing the agreement in July 2006

on to the computerized system for the benefit of the users. Audit examination disclosed that, as of December 2009, out of an estimated volume of 2,40,000 test reports pertaining to Central/State food laboratories, only 80,000 reports (33 *per cent*) had been migrated. The reasons for non-migration of the entire data were attributed to non-furnishing of the data by the state food laboratories. The Ministry however was not aware of the reasons for the State laboratories not furnishing data to the computerised MIS Centre. This indicated lack of adequate monitoring by the Ministry to ensure timely implementation of the project. Due to non-migration of data in respect of large number of laboratories, the system could not be fully operationalised even after more than three years of the launch of the project. Meanwhile, the server which had earlier been installed at NIC, Nirman Bhawan, was shifted to another location due to shortage of accommodation. The Central Server and the hardware installed in the State Food Laboratories were lying idle as of August 2009.

Audit further found that the agreement with M/s HCL provided for payment of 15 *per cent* of the lump sum amount of Rs. 3.45 crore evenly over the maintenance period of three years which was to commence after final user acceptance. The Ministry, however, released payment of Rs. 20.10 lakh on pro-rata basis towards maintenance charges without ensuring fulfillment of the terms of the agreement. The failure of the Ministry to include warranty clause in the agreement was also detrimental to safeguarding its interests and also violated Clause (xvii) of Rule 204 of General Financial Rules, 2005.

The Ministry admitted in December 2009 that only about one third of the requisite data had been migrated. It also stated that the question of reinstallation/reconfiguration of the system with restored database and the authority that was to operate the system was under active consideration of the Ministry in consultation with the Food Safety and Standards Authority, which was now in-charge of all food safety matters.

The reply underscores the need for the Ministry to immediately resolve the issues and review the modalities involved in convergence with the state laboratories, HCL and NIC so that the project that has been stalled and badly delayed could be revived. Delay in completing the project also poses a risk of the existing equipment involving an investment of Rs. 2.79 crore becoming obsolete/phased out with a possibility of the Ministry having to incur extra expenditure on its replacement and reinstallation.

## National Aids Control Organisation

### 7.2 Recovery at the instance of Audit

**At the instance of Audit, the Ministry recovered interest of Rs. 3.35 crore on funds of Rs. 49.55 crore prematurely released in March/July 2006 to M/s HSCC for procurement of ARV drugs.**

The Ministry entered into an agreement with M/s HSCC<sup>4</sup>, a Government of India undertaking, in January 2005 for procurement of ARV<sup>5</sup> drugs for World Bank aided HIV/AIDS<sup>6</sup> control programme. In terms of the agreement, the Ministry was to release 100 *per cent* estimated cost of drugs to HSCC on finalisation of orders with the suppliers. The cost of drugs was to be adjusted in the final bill/rendering of accounts after completion of indented supplies.

Examination of records disclosed that the Ministry released advance payments of Rs. 21.45 crore in March 2006 and Rs. 28.10 crore in May 2006 to HSCC for procurement of ARV drugs. As on 31 August 2009, HSCC had submitted the Statement of Expenditure (SOE) for Rs. 48.86 crore and SOE for the balance amount of Rs. 0.69 crore was awaited as of December 2009.

Release of 100 *per cent* estimated cost of the drugs as interest free advance had resulted in idling of unutilized funds ranging from Rs. 49.55 crore to Rs. 0.69 crore during the period from April 2006 to August 2009. HSCC earned an interest of Rs. 3.35 crore on the unutilized balances up to March 2009.

The Central Vigilance Commission's guidelines issued in January 2002 for improvement in the procurement system stipulate that the advance payment made to the contractor should be interest bearing so that the contractor does not draw undue benefit from the advance payment. However, the agreement with HSCC did not provide for payment of interest on the advance amounts placed with them.

Further, as per the terms of payment under the General Conditions of Contract between HSCC and the supplier, advance payment of only 10 *per cent* was to be provided to the supplier by HSCC. Thus the action of the Ministry to include a clause for 100 *per cent* interest free advance to HSCC in its bidding document was in contravention of CVC guidelines and also not in conformity with the standard terms of agreement between HSCC and supplier.

<sup>4</sup> Hospital Services Consultancy Corporation

<sup>5</sup> Anti Retro Viral

<sup>6</sup> Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome

The Ministry in its reply in October 2009 stated that the contract agreement did not include any clause with regard to interest earned on the advances transferred to HSCC. This clause has, however, been included in all PSA contracts entered into subsequently. However, on it being pointed out by Audit, interest of Rs. 3.35 crore earned by HSCC on the advance amount of Rs. 49.55 crore up to March 2009, was refunded by HSCC to the Ministry in January and October 2009.

## **National Institute of Communicable Diseases**

### **7.3 Delayed supply of equipment**

**Failure of the Ministry to ensure timely supply of ventilators through HSCC which was of emergent nature resulted in intended objectives remaining unfulfilled. Further, the Ministry prematurely released advance payment of Rs. 5.53 crore to HSCC even before an agreement was entered into by the latter with the supplier. The advance paid was much in excess of the value of goods procured. The unadjusted advance of Rs. 1.57 crore is yet to be recovered from HSCC.**

The Ministry, as a measure of preparedness against Avian Influenza, decided in January 2008 to procure 100 ventilators for NICD<sup>7</sup> through HSCC<sup>8</sup> on limited tender basis. HSCC completed the technical and preliminary commercial bid evaluation process in March 2008 and requested the Ministry for an advance payment of Rs. 5.53 crore, determined on the basis of a similar procurement made in the year 2006. This included the consultancy fee of Rs. 18.62 lakh charged by HSCC @ 3.5 per cent.

Audit found that the Ministry made an advance payment of the entire estimated cost of equipment of Rs 5.53 crore, including consultant's fee in March 2008 even though the procurement order had not been placed by HSCC with the supplier. HSCC placed orders with supplier in June 2008, with the stipulated date of delivery as September 2008.

Audit noticed that the Ministry did not ensure timely delivery of the equipment despite this being an emergency procurement. The equipment was delivered in May 2009 more than eight months after the scheduled date of delivery. While 10 ventilators had not been installed as of August 2009, the remaining had been installed between May 2009 and August 2009.

<sup>7</sup> National Institute of Communicable Diseases

<sup>8</sup> Hospital Services Consultancy Corporation (A GOI enterprise under the aegis of Ministry of Health and Family Welfare)

Audit examination further disclosed that the price bids of three techno-commercially qualified bidders were opened in May 2008 and the price quoted by the lowest bidder was Rs. 3.96 crore i.e. Rs. 1.57 crore less than the advance payment made.

Further, according to the notification of award of contract by HSCC to the supplier in June 2008, 80 *per cent* of the invoice value was to be paid within 30 days of documentary proof of receipt of invoiced goods. The balance 20 *per cent* was to be released within 30 days of receipt of a report on the satisfactory installation and commissioning of the equipment from the consignee<sup>9</sup>.

The decision of the Ministry to release advance payment in excess of the actual amount and well before the award of work by HSCC to the supplier resulted in idling of funds of Rs. 5.34 crore (Rs. 5.53 crore- Rs. 0.19<sup>10</sup> crore) with consequent interest impact of Rs. 46 lakh<sup>11</sup> during the period from April 2008 to April 2009.

The Ministry must recover the excess advance of Rs. 1.57 crore lying unutilized with HSCC along with interest of Rs. 21.98 lakh earned by it on unspent balance. Ministry must also ensure that its procurement policy and procedures are consistent with General Financial Rules in the matter of tendering and payment of advance to the contractors. The rate of commission paid to HSCC in such cases should also be reviewed and revised downwards.

The matter was referred to the Ministry in September 2009; their reply was awaited as of March 2010.

### **Safdarjung Hospital**

#### **7.4 Incorrect payment of service tax**

**Non-availing of the benefit of exemption from service tax liability under the statutory provisions of the Finance Act by Safdarjung Hospital led to irregular payment of service tax and education cess aggregating Rs. 22.63 lakh during the period from November 2006 to June 2009 for cleaning services received from M/s BVG India Ltd.**

<sup>9</sup> NICD in this case.

<sup>10</sup> Consultancy fee @ 3.5% of HSCC

<sup>11</sup> Worked out at the borrowing rate of 8% of Government of India (Source: Economic Survey)

Safdarjung Hospital entered into an agreement with M/s BVG<sup>12</sup> India Limited in September 2006 for providing conservancy/ housekeeping services in its two wards<sup>13</sup> including pest control services for a consolidated amount of Rs. 5.96 lakh plus taxes per month.

As per the statutory provisions of the Finance Act, 2005 cleaning services were included for levy of service tax on 'cleaning activity' from 16 June 2005. However, pest control services and cleaning services in relation to non-commercial buildings were specifically excluded from the ambit of service tax.

Examination of records disclosed that the contractor M/s BVG India Limited had been charging service tax and cess thereon at the prescribed rates on the cleaning and pest control services from Safdarjung Hospital. The Hospital being a non-commercial building was not liable to pay service tax on cleaning services received by it.

Thus, failure of the Hospital authorities to correctly apply the provisions of the Finance Act, 2005 resulted in unnecessary payment of service tax and education cess of Rs. 22.63 lakh to M/s BVG India Ltd. during the period November 2006 to June 2009.

The Hospital may take immediate steps to recover the service tax already paid and stop further payment of service tax to the contractor.

The matter was referred to the Ministry in September 2009; their reply was awaited as of March 2010.

## **Medical Stores Organisation**

### **7.5 Supply of medicines on unlimited credit period**

**Supply of medicines on credit basis by the Government Medical Stores Depots to various client departments and institutions resulted in accumulation of outstanding dues of Rs. 88.34 crore covering the period from 1975 to 2009.**

The Government Medical Stores Depots (GMSDs), at Chennai, Guwahati, Hyderabad, Karnal, Kolkata and New Delhi, working under the control of Medical Stores Organisation (MSO), New Delhi are engaged in procurement and supply of medicines and medical stores required by hospitals/dispensaries

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<sup>12</sup> Bharat Vikas Group Company

<sup>13</sup> Burns, Plastic Surgery & Maxillofacial Deptt. and Casualty ward

run by the Central and State Government departments and local bodies. GMSDs run on 'no profit no loss basis' and charge actual cost of procurement plus 10 *per cent* departmental charges.

Mention was made in Paragraph No. 5.1 Report No. 14 of 2008-09 of the Comptroller and Auditor General of India on the unrestricted supply of medicines on credit basis by GMSD, Mumbai to various client departments, resulting in accumulation of unrealized dues of Rs. 19.73 crore over a period of 18 years from 1990 to 2008. No Action Taken Note (ATN) has been submitted by the Ministry indicating remedial measures taken for recovery of these outstanding dues from the defaulting hospitals and institutions.

Subsequent audit scrutiny of the records of the MSO, New Delhi in September 2009 disclosed that supplies to Central and State Government hospitals & dispensaries and non-government departments were made on credit basis. The client departments were to make payments within the financial year of purchase. As on 31 March 2009, Rs. 88.34 crore remained to be recovered from various organizations that had received supplies on credit basis during the period 1975 to 2009. The GMSDs wise position of outstanding dues is given below.

**Table-1**

Name of GMSD	Total number of indenters	Number of defaulting indenters	Amount outstanding (Rupees in lakh)	Amount outstanding for more than five years (Rupees in lakh)
Chennai	324	55	1032.44	544.51
Guwahati	237	210	218.95	98.46
Hyderabad	41	18	1982.28	1111.44
Karnal	340	111	251.10	5.17
Kolkata	224	58	2201.56	429.84
New Delhi	59	55	3147.81	2762.19
<b>Total</b>	<b>1225</b>	<b>507</b>	<b>8834.14</b>	<b>4951.61</b>

This indicates that nearly 41 *per cent* of the indenters were defaulters and 56.05 *per cent* of the arrears were outstanding for more than five years. Further breakup of the outstanding dues pertaining to various types of indenters is given in **Table-2**.

**Table-2**

**Outstanding dues against various types of indenters**

*(Rupees in lakh)*

GMSD	Type of indenter				
	Central Government Hospital	State Government hospital	Dispensaries	Local bodies	Non-Government institutions
Chennai	37	412.36	431.00	152.08	-
Guwahati	50.17	151.40	17.38	-	-
Hyderabad	48.42	478.42	1411.03	-	44.40
Karnal	96.72	-	144.86	-	9.51
Kolkata	36.36	949.30	1215.90	-	-
New Delhi	1172.50	785.72	1189.59	-	-
<b>Total outstanding</b>	<b>1441.17</b>	<b>2777.2</b>	<b>4409.76</b>	<b>152.08</b>	<b>53.91</b>
<b>Per cent*</b>	<b>16.31</b>	<b>31.44</b>	<b>49.92</b>	<b>1.72</b>	<b>0.61</b>

\*Figures indicate percentage amount outstanding against the indenter types

The major defaulters with outstanding dues exceeding Rs. 1 crore are detailed in **Annex-I**.

As per the MSO Manual, for supplies to non-government institutions and local bodies, the payment has to be received in advance in the form of pre-deposits to adequately meet the cost of stores plus appropriate freight charges. The fact that outstanding dues of an amount of Rs. 2.06 crore pertained to the non-government institutions and local bodies, indicated weak safeguards to ensure interest of the concerned GMSDs.

Audit observed that MSO Manual does not specify the terms of payment applicable in case of medical stores supplied by GMSD to state government hospitals and dispensaries. In October 2008, however, MSO issued an order stating that from the year 2009-2010, requests of indenters not under the control of the Ministry of Health & Family Welfare would not be entertained if their outstanding dues were not cleared before the placement of the indents. Effective action needs to be taken by GMSD and the Ministry to ensure that outstanding dues are cleared promptly by the state governments, local bodies and private institutions.

The matter was referred to the Ministry in December 2009; their reply was awaited as of March 2010.



**Annex-I**  
**(Referred to in paragraph No. 7.5)**  
**List of major defaulters**

Sl. No.	Concerned GMSD	Name of Indentor	Amount (Rupees in lakh)
1.	Chennai	Andaman & Nicobar Admn. Port Blair	346
		Corporation of Chennai	111
		CGHS, Tamil Nadu	354
2.	Guwahati	Assam Govt.	145
3.	Hyderabad	CGHS Hyderabad	576
		CGHS Nagpur	284
4.	Karnal	P&T Dispensary	144
5.	Kolkata	CGHS Kolkata	890
		DHS, Port Blair	643
		DHS, Bihar	115
		DHS, Orissa	153
6.	New Delhi	CGHS, Jaipur	104
		CGHS, Allahabad	201
		CGHS, Lucknow	148
		DHS, Bhuwaneshwar	211
		DHS, Bihar	320
		CGHS, Gole Market, New Delhi	826
		Safdarjung Hospital	642
NICD, New Delhi	199		