

# Part-II

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## Audit Findings

Main objectives of the special audit were to examine whether due diligence was observed while deciding to take up Medical Education Projects, fulfilment of objectives envisaged for projects and compliance to General Financial Rules. For this, Audit examined background for amendment of the ESIC Act to enable it to set up Medical Education Projects at different locations selected by the ESIC management, feasibility/selection of locations, processes involved in selection of consultants, architects and executing agencies for establishing Medical Education Projects and financial resources arrangements for these colleges.

Significant issues arising from results of scrutiny and examination of records as made available by the ESIC are given in the succeeding paragraphs.

### **2. Setting up of medical colleges**

#### **2.1 Amendment of ESIC Act – a background**

**2.1.1** In the 139<sup>th</sup> meeting of the Corporation (17 July 2007), the issue of shortage of medical/administrative staff leading to the delivery of services under the scheme being adversely affected was raised by the Corporation members. The Chairman (ESIC) desired that there should be a well-considered time frame and action plan for filling up of vacant posts and directed Director General (DG) ESIC that a detailed and comprehensive report on this issue should be put up in the next meeting of the Corporation. The Chairman further mentioned that to ensure availability of sufficient medical/paramedical staff, ESIC should have its own Medical Colleges, training schools for paramedical staff and post graduate teaching facilities and directed the Director General to initiate action in this regard.

Audit observed that there was no agenda item in the 139<sup>th</sup> meeting regarding shortage of manpower in the ESIC hospitals. Further, to an audit query, the ESIC stated (May 2015) that no such report on the issue was prepared and submitted to the ESIC Corporation by the DG-ESIC.

**2.1.2** The issue of amendments to the ESIC Act keeping in view the changed economic scenario was an agenda item with details of amendments proposed. However, in the meeting, it was decided that a sub-committee be constituted to

review the existing provisions of the ESI Act and suggest amendments keeping in view the changed economic scenario. In pursuance of the above decision of the Corporation, Chairman ESIC constituted a sub-committee (30 July 2007) for the said purpose. The sub-committee consisted of nine members including representatives from governments of Maharashtra, Andhra Pradesh, Uttarakhand, and DG ESIC as convener. The sub-committee meetings were held on 08 August 2007, 30 August 2007, 8 October 2007. The committee's report was placed in 142<sup>nd</sup> meeting of the Corporation held on 18 February 2008. The report recommended comprehensive amendment of the various sections of the ESI Act which *inter-alia* recommended that in order to meet acute shortage of doctors and para-medical staff, the Corporation may establish medical colleges, nursing colleges and training institutes for its para medical staff. These doctors/paramedical staff would be required to render such minimum service in ESI hospitals/dispensaries as may be prescribed by the ESIC. The report was accepted by the Corporation which recommended comprehensive amendment to the ESI Act.

**2.1.3** Accordingly Corporation wrote to MoL&E to amend the ESI Act, 1948. The matter was placed in the Cabinet meeting held on 16 October 2008. The Cabinet decided that this matter may be considered, in the first instance, by a Committee of Secretaries. The Committee of Secretaries approved (January 2009) the proposed amendment. The matter was again placed in the Cabinet meeting held on 23 July 2009 and the same was approved by the Cabinet.

**2.1.4** The matter of amendment to the ESI Act was referred by the Speaker to the Standing Committee on Labour. Standing Committee in its report (9 December 2009), in addition to other amendments, recommended for establishment of medical colleges, nursing colleges and training institutions for paramedical staff with their establishments in such places where more number of insured persons and poor working class people live.

**2.1.5** By the amendment Bill of 2009, the ESIC Act was amended in May 2010 and section 59(B) was inserted which states "The Corporation may establish medical colleges, nursing colleges and training institutes for its para-medical staff and other employees with a view to improve the quality of services provided under the Employees' State Insurance Scheme." Further as per para 19 of the ESIC (Amendment) Act 2010, all things done and action taken during the period on or after 3 July 2008 and ending immediately before the commencement of the amended act were validated.

**2.1.6** Audit noted that during the processing for amendment, MoL&E communicated (21 August 2009) the comments of Integrated Finance Division on the proposed agenda of 147<sup>th</sup> meeting of the Corporation that setting up of medical colleges involved huge investment of funds and it would be appropriate either to wait for amendment of the Act or obtain legal opinion from the Ministry of Law. It further stated that no investment may be made till these issues are resolved in consultation with Ministry of Law. In the 147<sup>th</sup> meeting of the Corporation held on 25 August, 2009 the issue of advice of IFA was discussed and the Secretary (L&E) clarified that earlier IFAs never raised such an issue. Secretary (L&E) mentioned that there was absolutely no doubt about the fact that under section 28(iv)<sup>3</sup> of the ESIC Act, Corporation had full powers to start Medical Education Projects. Section 59<sup>4</sup> was being amended only to further amplify and focus the same.

## **2.2 Expenditure on construction of medical colleges prior to amendment of Act.**

It was observed that prior to the amendment of the Act, the Corporation had sanctioned 17 out of 21 Medical Education Projects and even started the construction of 16<sup>5</sup> medical colleges and incurred an expenditure of ₹ 1021.72 crore (which included mobilisation advance given to executing agencies). ESIC's records did not reveal specific administrative/financial approval of the Ministry of Labour and Employment in the matter of number and places for opening of medical colleges.

Ministry stated (August 2015) that their actions had been validated with the amendment of the Act in 2010. The validation of all actions by Parliament indicates that contention of Integrated Finance Division of MoL&E that no expenditure may be incurred on the project was justified and incurring of huge expenditure in anticipation of retrospective validation is not a prudent practice. Further, activities started prior to 3 July 2008 were not validated by the Amendment Act 2010.

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<sup>3</sup> Section 28(iv) – ESI Fund shall be expended only for the purposes establishment and maintenance of hospitals, dispensaries and other institutions and the provisions of medical and other ancillary services for the benefit of insured persons and, where the medical benefit is extended to their families, their families.

<sup>4</sup> Section 59 – The Corporation may, with the approval of the State Government, establish and maintain in a State such hospitals, dispensaries and other medical and surgical services as it may think fit for the benefit of insured persons and their families.

<sup>5</sup> 1. PG Institute cum Medical College at Sanath Nagar, Hyderabad, 2. Medical College Bihta, Patna, 3. PG and Medical Collage Basaidarapur, Delhi, 4. Medical College at Faridabad, Haryana, 5. Medical College Rajaji Nagar Bangaluru, 6. Medical College Mandi, 7. Medical College Parippally, Kerala, 8. PGI and Medical College K K Nagar, Chennai, 9. Medical College Coimbatore, 10. PGI and Medical College Joka Kolkata, 11. PGIMSR, Andheri Mumbai 12. PGIMSR, Parel Mumbai 13. Dental College Pandu Nagar 14. PGIMSR Ayyanavaram, Chennai 15. PGIMSR Manicktala (WB) 16. Dental College Nacharam, Hyderabad.

### 2.3 Preparation of Feasibility Study Report for selection of sites/locations for establishment of medical colleges:

ESIC called (July 2007) expression of interest for preparation of feasibility report from the consultants/organisations having experience of establishing at least one medical college. Out of the 56 applications received, the offer of M/s. Medisys Projects Consultants Private Limited being lowest was accepted by the Corporation. The ESIC signed (February 2008) an agreement with M/s. MediSys Project Consultants Pvt. Ltd., New Delhi for a contract amount of ₹ 18 lakh for the assignment. The consultant was required to submit its report within four months. The scope of work included:

- 1) Collection of available data from ESIC.
- 2) Visiting all hospitals and collection of additional information required for preparing the feasibility report.
- 3) Identifying all types of colleges/Schools at all possible locations that can be set up throughout the country under the network of ESIC.
- 4) Detailing out the changes/addition, modifications required in these hospital buildings for setting up the above institutions.
- 5) Preparing the feasibility report as per the guidelines of Medical Council of India (MCI)/Nursing Council of India (NCI)/Dental Council of India (DCI).

The consultant submitted (17 March 2008) the feasibility report for the proposed ESI-PGIMSR projects for starting various courses.

The feasibility report of the consultant included details of 60 shortlisted locations, in 14 States (**Annex-II**). These locations had been shortlisted by the consultant on the basis of availability of land, availability of hospital beds etc. Out of these 60 locations, 14 locations in eight States (Delhi, West Bengal, Karnataka, Tamil Nadu, Andhra Pradesh, Kerala, Uttar Pradesh and Maharashtra) were selected by ESIC.

ESIC also selected seven other locations in eight states which were not included in the consultant's list (**Annex-II**). These locations were at Gulbarga (Karnataka), Bihta (Bihar), Mandi (Himachal Pradesh), Alwar (Rajasthan), Manicktala, Kolkata (West Bengal), Faridabad<sup>6</sup> (Haryana) and Bhubaneswar (Odisha).

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<sup>6</sup> New site was selected for construction of medical college and hospital at NH-3, NIT, Faridabad.

Audit noted that:

- The terms of reference for feasibility study were incomplete as it did not include issues such as capital and recurring expenditure involved, number of colleges required to fulfill the needs of ESIC, future needs and actual availability of doctors/para medical staff through these medical colleges, efficiency and cost of recruitment of doctors/paramedical staff with medical colleges projects vis-à-vis existing practice of recruiting doctors/paramedical staff from the open market, availability of doctors for faculty for these colleges, other pros and cons of this strategy etc.
- Reasons for selection of sites not recommended by Consultant were not made available to audit.

Thus, feasibility study conducted was, therefore, not comprehensive and the selection of sites by ESIC for construction of Medical Education Projects was also arbitrary.

Ministry stated (August 2015) that the consultant submitted feasibility report on setting up of Medical Education Projects as per the scope of work allotted. Sites other than those selected by consultant were in states who responded to demi official letter written by Director General, ESIC to the Secretaries for allotment of atleast 25 acre of land of medical college where there was no existing 300 bed hospital of Corporation. Land was allotted by state government and foundation stone were laid by the then Chairman, ESIC at some of these locations where construction was started.

The reply of Ministry indicates that objective of the amendment was ignored and Corporation failed to conduct comprehensive study before embarking on the Medical Education Project.

### **2.3.1 Appointment of an Advisor (Medical Education) on contract basis:**

ESIC engaged (on 26 May 2008), Dr. M. Shamsudeen, Managing Director of M/s. MediSys Projects Consultants Pvt. Ltd. engaged for feasibility study, as Advisor (Medical Education) for a period of six months on honorarium of ₹ 20,000 per month plus reimbursement of other entitlements on tour at par with the rank of Additional Commissioner of ESIC. The terms of the Advisor *inter-alia* provided liaisoning work with different regulatory authorities, to act in coordination with the Deans of ESIC Medical Education Projects to facilitate the setting up of different medical projects etc.

Audit observed that the advisor who was engaged for six months continued to work for four continuous years and his tenure was extended nine times. The amount of honorarium was also enhanced to ₹ 30,000 per month on 21 November 2008 and further to ₹ 50,000 per month on 22 August 2012. Moreover the approval of standing committee was not obtained at the time of appointment of consultant and even at the time of subsequent revisions of honorarium. Total expenditure of ₹ 20.72 lakh was incurred on account of honorarium and other expenses for the consultant. The records of ESIC did not reveal any assessment of the work done by the consultant.

Ministry stated (August 2015) that the appointment of the advisor was made with the approval of DG, ESIC under his delegated powers. Extension was given on the basis of requirement and satisfactory performance. The reply is not acceptable as documents relating to the assessment of work of the consultant were not furnished to audit.

#### **2.4 Appointment of Architectural and Engineering Consultants**

ESIC issued advertisement in November 2007 for empanelment of Architectural and Engineering Consultant/Project Management Consultants for construction of its hospitals, dispensaries, offices and housing facilities in different parts of the country. The eligibility for empanelment was that the firm should have provided comprehensive services for at least two similar projects whose construction cost exceeds ₹ 20 crore in last five years and average turnover in terms of consultancy fees earned in the last three years of at least ₹ 50 lakh. Based on the offer received, the Corporation empanelled 15 firms as Architectural and Engineering Consultants. The Corporation awarded 21 Medical Education Projects to eight Architectural and Engineering Consultants out of the 15 empanelled architects and engineering consultants (**Annex-III**) on nomination basis. Audit observed that:

- Different projects with the total value of ₹ 8611.94 crore were awarded to different consultants on nomination basis without any specific criteria.
- The advertisement given for empanelment of consultant did not specifically mention that ESIC want to empanel consultants for medical colleges.
- Out of the total 21 Medical Education Projects, works relating to eight projects were awarded to M/s. Design Associates.

- Basis of awarding large block of works to the M/s. Design Associates (eight works with original estimated cost of ₹ 3020.09 crore and till date consultancy fees payment of ₹ 63.39 crore) was not on record.
- At no stage the ESIC assessed the capacity and capability of M/s. Design Associates to complete the projects.
- Execution of all the works handled by M/s. Design Associates had been delayed by two to five years.
- In all, a payment of ₹ 173.82 crore had been made to all architects and engineering consultants (**Annex-III**).
- As per CVC guidelines (25 November 2002) the consultants tend to increase the cost of the work for more fees as generally the fee of the consultant is fixed at a certain percentage of the final cost of the project. Consequently CVC directed that the consultant's fee should be pegged based on the original contract value. As per agreement entered by ESIC with architectural and engineering consultants the contract price payable shall be three *per cent* of the final value of work executed. However, total contract price payable shall be restricted to (capped at) the fee payable at the agreed rate for the approved estimate of work at the time of award of work. Audit has, however, observed that in six projects at Sanath Nagar, Telangana, Maniktala, West Bengal, Joka, West Bengal, Coimbatore, Tamil Nadu, Mandi, Himachal Pradesh and K.K. Nagar, Tamil Nadu the fees payable to architectural and engineering consultants has not been capped at the original contract value as done in other contracts. The original cost of these six projects had been revised from ₹ 2618.51 crore to ₹ 3441.24 crore as on 31 March 2015. Consequently, extra fees payable to architectural and engineering consultants due to non-inclusion of above clause would be to the tune of ₹ 24.68 crore.

Thus the award of different works to different architectural and engineering consultants was not only carried out in arbitrary manner but also resulted in undue favour to some of these consultants.

Ministry stated (August 2015) that the credentials of all the empanelled consultants were evaluated by a Committee constituted for scrutiny of application and further recommendations for empanelment. The allotment of the eight projects to the M/s. Design Associates has been done with the approval of Director General, ESIC.



The reply of the Ministry is not acceptable as the empanelment criteria was that the firm should have provided comprehensive services for at least two similar projects whose construction cost exceed ₹ 20 crore in last five years and average turnover in terms of consultancy fees earned in the last three years of atleast ₹ 50 lakh. But the quantum of work allotted to the Design Associate was not comparable as it had a turnover ranging from ₹ 37.88 lakh to ₹ 64.18 lakh during 2004-05 to 2006-07 and ESIC has already made payment of ₹ 63.39 crore to the Design Associates. (as of March 2015)

## **2.5 Non-execution of specific job by Architects**

The ESIC entered into contract agreement with Architectural and Engineering Consultants to provide comprehensive architectural or engineering consultancy services. As per agreement with the architect consultants, they were to be paid at three *per cent* of the final value of the work executed. Further interim payments shall be released on the latest available estimate for the work.

The scope of work of the architects *inter-alia* included the submission of concept design and drawing report, preliminary design report, material report, certificate from statutory bodies and height clearance certificate from Airport Authority of India (AAI) and a model of the project, technical specifications, rate analysis, cost estimates, bill of quantities (BOQ), tender document and tender drawing including priced BOQ specifications, test procedure, project clearance report, tender documents, as built drawings, completion drawings etc. The stages of payment were provided in the agreement based on the completion of various volumes of work.

As per agreement with the architects, they were required to prepare tender documents including invitation to tender, instruction to tenderers, general and particular conditions of contract, specifications, drawings etc. based on ESIC standard format and obtain, in principle, approval of ESIC, invite competitive tender on behalf of ESIC, evaluate the tender received and submit recommendation with full justification for award of work and finalise contract agreement between client and contractor after approval of ESIC.

Audit observed that ESIC subsequently awarded all the projects on nomination basis without following the competitive tendering to government construction agencies/companies. Consequently, a number of works which were required to be performed by architect and engineering consultants were not performed by these agencies. Thus, huge payments were made to the architectural agencies and their services were not utilised as per the contract by ESIC.



Ministry stated (August 2015) that in most of the projects architects had only been given the work of architectural and engineering consultancy services. Simultaneously, ESIC had entrusted construction work of the medical projects to Government construction agencies (Central State PSUs). Hence the need for floating tender by architectural and engineering consultants did not arise.

The Corporation awarded various architect works on nomination basis. The scope of work *inter-alia* included tendering work. Subsequently when Corporation decided that construction works to be awarded on nomination basis to the construction agencies then it should have reviewed the contract agreement with the architect and engineering consultants and necessary deductions made from the architect fees.

### **Case Study-1: Unfruitful expenditure on Medical College Project at Bhubaneswar**

ESIC approved the medical college at Bhubaneswar. Architectural work of the project was entrusted to M/s. Mukesh Associates. The estimated cost of project was ₹ 700 crore. It was observed that an amount of ₹ 13.21 crore was incurred on the project (cost of land ₹ 2.54 crore, construction of boundary wall ₹ 2.13 crore and architect fees of ₹ 8.54 crore). Subsequently ESIC in its 163<sup>rd</sup> meeting held on 4 December 2014 deferred the construction of Medical Education Project at Bhubaneswar since Bhubaneswar has less than 1 lakh IPs which is not adequate for a 500 bedded hospital and it would fall short of MCI norms for clinical material. Audit observed that this condition already existed at the time of selection of project. Hence ESIC should not have taken up this project. Thus the expenditure incurred by the Corporation on the project was rendered unfruitful.

## **2.6 Medical Education Projects**

### **(i) Irregular/non-viable sites for Medical Education Projects – Non-fulfillment of prescribed norms: Insufficient number of IPs**

The Standing Committee of Parliament on Labour in the Report for the year 2009-10 concurred with proposal of the Government to establish medical colleges/nursing college/training institutes etc. due to acute shortage of doctors and paramedical staff in ESIC Hospitals/dispensaries. However, the Committee recommended that these medical colleges and hospitals should be established in such places where more

number of IPs and poor working class people were living so as to provide them the much needed health care.

Audit noted that:

- The justification for selection of different sites for Medical Education Projects was not made available to audit.
- Due diligence to ascertain the number of colleges required to be opened, to fulfill the future requirement of doctors and other paramedical staff was not carried out.
- Project-wise approval of the ESIC Corporation for different sites/number of Medical Education Projects was not available.
- As per Section 59 of the ESI Act and Regulation 9 (e) of ESIC (General) Regulations, 1950 the approval of ESIC Corporation is required for constructing the hospital. ESIC had constructed new hospitals at Bihta, Faridabad, Mandi, Gulbarga and Alwar under the Medical Education Projects. But no approval for the same from the ESIC Corporation was on record.
- In six<sup>7</sup> out of 21 places the minimum requirement of IPs as per ESIC norms was not fulfilled. This also violated the recommendations of the Standing Committee wherein it was stated that “these Medical Colleges and Hospitals should be established in such places where more number of IPs are living so as to provide them the much needed health care”.
- At Baddi, Basvagundi and Bhiwadi, the IP position was relatively higher than Bihta, Mandi, Gulbarga and Alwar. These locations were, however, not selected by the ESIC for setting up of Medical Education Projects.
- ESIC had decided to open Medical Education Projects alongwith new hospital buildings at Gulbarga, Mandi, Alwar and Bihta where it neither have existing hospital nor did it meet its own norms of IPs for opening new hospital.

**(ii) Tie up Arrangement:** Tie up arrangement was resorted to by ESIC when its own hospital infrastructure was not available and the appropriate authority of the

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<sup>7</sup> 1. Bihta, Patna 2. Mandi, Himachal Pradesh 3. Gulbarga, Karnataka 4. Alwar, Rajasthan, 5. Paripally, Kollam Kerala, 6. Bhubaneswar, Odisha.

Government hospital has no objection and agrees, in principle, to permit teaching faculty of ESIC medical college to carry out teaching and research.

ESIC had made a tie up arrangement with district hospitals at Mandi, Faridabad and Gulbarga. The opening of medical colleges without ensuring fulfilment of basic norms/requisites was against the established principle of having its own hospital and was not judicious.

Ministry stated (August 2015) that tie up arrangements were essentially required for starting medical colleges. Medical college at Gulbarga has been started from 2013-14 while medical colleges at Faridabad and Mandi are yet to be started.

It was evident that ESIC did not have complete infrastructure of the hospital in place before starting the construction of the medical colleges.

## **2.7 Non-receipt of approval due to non-fulfilment of norms of regulatory bodies**

Audit examined the details of Medical Education Projects with reference to norms of IPs, availability of approvals from regulatory bodies (e.g. MCI, DCI, NCI, etc.) availability of land and hospital infrastructure etc. Status of these projects is given in **Annex-IV and V**.

Audit noticed that the process of applying for mandatory approval of regulatory bodies started in 2008-09. This was followed by inspection of the ESIC colleges by the MCI inspectors and certain deficiencies were pointed out. A few examples of deficiencies pointed out by MCI inspectors were absence of Dean, absence of teaching faculty, inadequate library, inadequate infrastructure and instrumentation, etc. These deficiencies were subsequently removed by the corporation and the approvals for courses started from 2010. Till date only in 10 Medical/PG colleges/dental colleges<sup>8</sup> out of 21 Medical Education Projects MCI approval had been received. In other cases, mandatory approval of the regulatory body to commence the Medical Education Projects had not been received. ESIC applied to the Medical Council of India for starting five medical colleges at Mandi, Faridabad, Sanath Nagar, Coimbatore and Paripally for the academic session 2014-15. The same had not been approved till date.

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<sup>8</sup> Medical Colleges and PGIMSRs at Rajaji Nagar , Bangalore, .K.K. Nagar, Chennai, Joka, Kolkata and Medical college at Gulbarga, Karnataka PGIMSRs at Basaidarapur, New Delhi, Parel, Mumbai, Andheri. Mumbai, Manicktala Dental College at Rohini, Delhi and Nursing College at Indira Nagar Karnataka.

Thus, due to lack of adequate follow up by ESIC the Medical Education Projects at Mandi, Faridabad, Sanath Nagar, Coimbatore and Paripally did not receive the necessary MCI approval. Consequently, the appointment of Medical Advisor/ Consultant appointed for liaisoning work for getting approvals from regulatory bodies remained unjustified.

Ministry stated (August 2015) that grant of permission to start medical courses by the regulatory authorities was subject to the fulfilment of several conditions, i.e. infrastructure, equipment, clinical material, placement of faculty etc. Consultant had helped ESIC in effectively forming up all the regulatory matters with the regulatory bodies.

It would thus be seen that ESIC had not done complete ground work upfront to obtain approvals from regulatory bodies through consultant.

## **2.8 Selection of construction agencies for execution of projects**

As per GFRs Rule 204 (vii) Cost plus contracts should ordinarily be avoided. Where such contracts become unavoidable, full justification should be recorded before entering into the contract.

As per the agreements entered by ESIC with the architect and engineering consultants, the scope of work of the architects, *inter-alia*, included preparation of tender documents including invitation to tender, instruction to tenderers, general and particular conditions of contract, specifications, drawings etc. based on ESIC standard format and obtain, in principle, approval of ESIC, invite competitive tender on behalf of ESIC, evaluate the tender received and submit recommendation with full justification for award of work and finalise contract agreement between client and contractor after approval of ESIC. These entailed a competitive tendering process. Audit examined the process of selection of contractors for execution of 21 Medical Education Projects sanctioned during 2008-09 to 2011-12. Details of project cost, date of sanction and executing agencies are given in **Annex-VI**. Audit noted that:

- Based on the estimated cost of the projects prepared by architect and engineering consultants, ESIC assigned the work relating to the construction of 21 Medical Education Projects on nomination basis to various construction agencies like NBCC, UPRNN, EPI etc. on turnkey basis.

- ESIC's action to award the works on nomination basis was not as per the established norms and procedures. The basis of selection of these construction agencies was not on record and was, therefore, arbitrary.
- The justification for change of stand from tendering of the projects to award of projects on nomination basis was not on record.
- During 2009 and 2010, ESIC has entered into 18 contract agreements with architect and engineering consultants which state that these agencies would carry out competitive tendering for these projects. Simultaneously, ESIC was assigning these projects on nomination basis to construction agencies.
- Due to award of works on nomination basis, the ESIC could not avail of benefit of competitive rates as the original cost of the works amounting to ₹ 8611.94 crore was revised to ₹ 11997.15 crore.
- Construction agencies further awarded these projects to sub-contractors on back to back basis. Test check of two projects of Medical College, Coimbatore and Medical College, Bihta revealed that there were variations of ₹ 72.98 crore between cost of works awarded by construction agencies to sub-contractors and the rates on which works were awarded to construction agencies by ESIC.
- Since the ESIC is having its own full-fledged Project Management Division (PMD) since 2008 headed by a Commissioner, PMD, the need for engaging outside Agencies for execution of works raises a question mark on the role and existence of the PMD.

Thus, the award of works to construction agencies were not only arbitrary but also ESIC has lost the benefit of competitive rates.

Ministry stated (August 2015) that since inception, construction works were being executed through construction agencies like CPWD, NBCC, UPRNNL etc. on Deposit Work basis. The above said arrangement was not found to be satisfactory as this resulted into delays, cost overrun, poor quality of design etc. Hence it was decided to adopt turnkey system and to get the work executed through empanelled construction agencies. As regards variation in price awarded by ESIC to construction agencies and construction agencies to sub-contractors, the ESIC stated that the contract agreement had not provided for passing on to ESIC savings, if any, accruing to the construction agencies and accordingly works already awarded continue to be

implemented as per the contract agreement already signed. Standard Contract agreement for passing on the savings to ESIC has been implemented for works taken up subsequently. In the matter of PMD, the ESIC stated that it did not have adequate strength of staff.

The reply of Ministry is not acceptable as the shortcoming in Deposit Work System like time overrun, cost overrun, etc. still persists in the new system of awarding contract on turnkey basis. No justification for award of different works to different agencies was furnished. The revision of standard contract agreement with construction agencies for passing on the savings to ESIC prove that either sufficient due diligence was not done or estimated cost worked out by ESIC was wrong. Consequently, ESIC could not get the benefits of competitive rates and thus straining the resources of ESIC.

## **2.9 Physical and Financial Status of Medical Education Projects – Delay and cost overrun of projects**

Audit scrutiny of records and details provided by ESIC revealed that the Medical Education Projects were marred by delays and cost overrun. The position of time overruns, original cost, revised cost and cost overrun etc. in these medical colleges is given in **Annex-VII and VIII**. Audit observed that:

- All the Medical Education Projects taken up were behind schedule except dental college at Rohini and PGI, Ayanavaram Chennai. Extensions ranging from one year and two months to four year and nine months were granted to these projects. The work at Bhubaneswar had been deferred.
- The reasons for delays were attributable to delay in obtaining permission from authorities, delay in shifting of sites, handing over of parts of building under occupation etc.
- The total cost of the all the projects was revised from ₹ 8611.94 crore to ₹ 11997.15 crore resulting into cost overrun of ₹ 3385.21 crore due to delays caused by various reasons as indicated above.

This shows that ESIC had not done adequate planning before commencement of works so as to ensure timely completion/execution of works which has resulted in huge cost overrun of various projects.

Ministry stated (August 2015) that it had appointed government construction agencies (PSUs) to monitor the jobs. Again architect and quality auditors were also

appointed for Architectural and Engineering Consultancy work and maintaining quality. Monitoring was done by ESIC through monthly meetings with Construction Agency/Architect and through Video Conferences. Thus, ESIC had monitored the projects despite limited technical manpower.

The reply is not acceptable as the reasons for delay were foreseeable with advance planning and despite regular monitoring by ESIC the project was marred by delays and heavy cost escalation.

**Case Study-2: Wasteful expenditure at PG Medical College Basaidarapur, New Delhi**

ESIC decided to construct PGIMSR and Medical College at Basaidarapur. In order to start PGI courses from academic session 2009-10, Corporation proposed to start the PG course in the store area/DMD (Director Medical Depot) block by renovation and refurbishment of the existing structures. The work of renovation and refurbishment old DMD block was allotted to M/s. UPRNNL on nomination basis at a cost of ₹ 6.91 crore. The work was started in June 2009 and finished in September 2009. Audit observed that the renovated DMD block was demolished to take up construction of new ward. Further, PGI courses which were proposed to be started from 2009-10 were actually started from the academic session 2011-12. As such, entire expenditure on renovation was rendered wasteful.

Ministry stated (August 2015) that the initial space was created for accommodating PG course which was mandatory as per the MCI guidelines. Since building work of college could not be started due to delay in approval of plans submitted, DMD block was renovated to create space for PG faculty. Before demolition of DMD block where new ward blocks were to be erected, alternate space was created in the ground floor for the newly constructed academic block. The reply of the Ministry that alternate space was created before demolition of renovated DMD block to run PGI courses indicate that by better planning the expenditure on renovation could have been avoided.



## 2.10 Financial Impact of Medical Education Projects

The ESIC was created to provide social security for IPs. Setting up of medical colleges is a capital intensive project including a onetime expenditure of around ₹ 800 crore<sup>9</sup> per medical college with 100 annual MBBS admissions and 500 bedded attached hospital and recurring cost of around ₹ 180 to ₹ 200 crore per year for running the institutions.

Capital Construction Reserve Fund (CCRF) had been set up to meet the expenditure on purchase of buildings, construction of hospitals/dispensaries, other medical institutions and offices of the Corporation together with staff quarters attached to it. As per the approval of ESIC Corporation and Ministry of Labour and Employment a certain *percentage* of income from contribution (currently one *per cent*) is transferred to Capital Construction Reserve Fund. ESIC in addition to annual transfer of one *per cent* also transferred ₹ 16914 crore<sup>10</sup> from Surplus to CCRF during 2009-10 to 2013-14. The expenditure on 21 Medical Education Projects was met out of the surplus available/transfer from CCRF.

Audit observed that capital commitment on 21 Medical Education Projects had increased from ₹ 8611.49 crore to ₹ 11997.15 crore as on 31 March 2015. Against the revised cost of ₹ 11997.15 crore, the ESIC had incurred expenditure of ₹ 5955.03 crore on 21 projects as on 31 March 2015. The summary of fund committed for 21 Medical Education Projects is given in **Annex-IX**. Audit also found that:

- The cost of the Project was revised two to 12 times. The reason for frequent revisions were the changes in DSR and non DSR rates due to delays in all the projects.
- Even after incurring a total expenditure of ₹ 5955.03 crore on 21 Medical Education Projects none of the project (except two projects at Rohini and Ayanavaram) were physically completed and an additional liability of ₹ 6042.12 crore (as on 31 March 2015) is required to be incurred by ESIC for the completion of construction of these projects.

Thus, the income of the ESIC which was required to be spent on core function of providing medical and cash benefits to the beneficiaries was spent on Medical Education Projects which remained incomplete.

<sup>9</sup> White paper submitted to ESIC Corporation in 161 meeting held on 28 January 2014.

<sup>10</sup> ₹ 5000 crore in 2009-10, ₹ 3000 crore in 2012-13 and ₹ 8914 crore in 2013-14.

## 2.11 Effectiveness of Strategy to meet the shortage of doctors

The objective of setting up of Medical Education Projects was to get medical and other para medical staff for ESI hospitals/dispensaries and improve the quality of services provided under the Scheme. The ESIC Corporation in its 139<sup>th</sup> meeting held on 17 July 2007 decided that to meet the shortage of doctors and other para medical staff, ESIC should open its own medical colleges.

Audit observed that there was no agenda item in the 139<sup>th</sup> meeting regarding shortage of manpower in the ESIC hospitals. As per minutes of the meeting, the Chairman observed that there was shortage of doctors and other para medical staff in ESIC hospitals which has impacted the quality of services provided to IPs. The Chairman further mentioned that to ensure availability of sufficient Medical/ Paramedical staff, ESIC should have its own Medical Colleges, training schools for paramedical staff and post graduate teaching facilities and directed the Director General to initiate action in this regard. Director General, ESIC was also directed to put up detailed and comprehensive report on this issue in the next meeting of the Corporation. However, no such report was prepared by the DG-ESIC.

In pursuance of above decision, a consultant (M/s. MediSys Projects Consultants Pvt. Ltd.) was appointed to identify all types of colleges/Schools at all possible locations that can be set up throughout the country under the network of ESIC as per MCI norms. However the Corporation did not feel the need to prepare a detailed project report/feasibility report before taking up the Medical Education Projects.

### 2.11.1 Sanctioned strength and Men-in-position of Doctors/Para Medical Staff as on 31 October 2014 in ESIC

As per ESIC norms, the staffing pattern of the hospitals is based on bed strength and specialty services being provided. The table below indicates overall growth in the sanctioned strength of doctors, men in position and vacancies during the period 2008-09 to 2013-14.

Year	Sanctioned strength of Doctors	Men in Position	Increase in sanctioned strength from previous years	Vacancy	Vacancy (in per cent)
2008-09	1397	931	--	466	33
2009-10	1707	1113	310	594	35
2010-11	2050	1269	343	781	38
2011-12	2598	1690	548	908	35
2012-13	2758 <sup>11</sup>	1930 <sup>12</sup>	160	828	30
2013-14	3040	1937	282	1103	36

<sup>11</sup> Includes 578 teaching faculty of doctors for medical colleges.

<sup>12</sup> Includes 211 teaching faculty of doctors for medical colleges.

The sanctioned strength of doctors increased from 1397 to 3040 during the period 2008-2014. During this period men-in-position had also seen an increase from 931 to 1937. It was, however, observed that against the sanctioned strength of 2180 doctors in ESIC hospitals in 2012-13 (excluding teaching faculty of doctors for medical colleges), it has 1719 men-in-position. This indicates that actual vacancy of doctors in ESIC hospitals/dispensaries was only 461 during 2012-13. Further during 2012-13 against the sanctioned strength of teaching faculties of 578, the ESIC had 211 faculties leaving vacant posts of 367 which comes to 63 *per cent*.

This shows that ESIC was not able to get sufficient faculties/doctors for medical colleges which were being opened to fill the shortage of doctors in ESIC hospitals/dispensaries.

### **2.11.2 Admissions and Availability of medical personnel pass outs from Medical Education Projects**

Students were admitted under following three categories in ESIC Medical Colleges:

- (i) All India Quota (AIQ) – 15 *per cent* of total available seats in each of the medical institutions shall be made over to an All India Quota.
- (ii) State Quota - Based on the location of the ESI's Medical Education Projects, a State Government Quota would be made over as per the policy of respective State applicable to unaided non-minority institutions.
- (iii) ESIC Management Quota - Balance seats left over after contributing to AIQ and State Quota to be bifurcated into All India ESIC management quota and state ESIC management quota.

**2.11.3** To ensure that the doctors passing out from the Medical Education Projects of ESIC serve in ESIC, the condition of the Bond for serving ESIC institutions was approved by the Corporation in its 145<sup>th</sup> Meeting. As per the terms of the bond, students taking admission in ESIC medical colleges, dental colleges and post graduate medical institutes had to furnish a Bond for serving ESI institution i.e. hospitals and dispensaries for a minimum period of five years. The duration of the bond is five years and non-compliance to the conditions of the Bond involves the payment of an amount of ₹ 7.5 lakh with interest @ 15 *per cent* towards failure to fulfill obligation. ESIC in addition to under graduate and PGI colleges also started Dental College at Rohini and Nursing College at Indira Nagar.

Admissions were started in four medical colleges at Rajaji Nagar (Bangalore Karnataka), Gulbarga (Karnataka), K.K. Nagar, Chennai (Tamil Nadu), Joka, Kolkata (West Bengal) with 398 under graduate seats as indicated below.

Name of the Medical College	Medical College Started in the year	Intake Capacity for UG course	Number of Students enrolled UG
ESIC Medical College Rajaji Nagar, Bangalore Karnataka	2012-13	100	100
ESIC Medical College Gulbarga Karnataka	2013-14	100	99
ESIC Medical College K.K. Nagar, Chennai, Tamil Nadu	2013-14	100	99
ESIC Medical College Joka, Kolkata West Bengal	2013-14	100	100

An analysis was made in respect of graduate doctors likely to be available from the operational medical colleges of ESIC. From the above table it is evident that Rajaji Nagar, Bangalore would be able to produce 100 doctors per year from 2017-18 and other colleges at Gulbarga, K.K. Nagar and Joka would be producing 300 doctors per year from 2018-19. Hence, there would be around 400 doctors produced by operational medical colleges of ESIC from the year 2018-19.

ESIC had taken up the construction of 12 medical colleges with 1200 under graduate seats. ESIC had 461 vacant post of doctors to man the ESIC hospitals/dispensaries as on 31 March 2013. This indicates that even one year of pass outs would exceed the available vacancies and future pass outs would be of no use to ESIC hence would not be able to contribute to improving medical care. This would defeat the very purpose of establishment of Medical Education Projects. This shows that no due diligence was carried out to assess the requirements of medical personnel and huge capital cost and recurring costs was incurred with no clear cut benefits to ESIC's core activity.

**2.11.4** Seven ESIC Medical Education Institutes had started admission to PGI courses from 2010-11 to 2013-14. The course duration was three years. The year-wise number of students admitted and passed out is given below:

Sl. No.	Name of Colleges	Year of start of admission	Number of students admitted	Number of students passed out
1.	PGI, Rajaji Nagar, Karnataka	2010-11	156	46
2.	PGI, Basaidarapur, New Delhi	2011-12	59	20
3.	PGI, K.K. Nagar, Tamil Nadu	2011-12	53	21
4.	PGI, Joka Kolkata	2011-12	10	4
5.	PGI, Manicktala, Kolkata	2013-14	8	Nil
6.	PGI, Andheri, Mumbai	2011-12	53	16
7.	PGI, Parel, Mumbai	2011-12	18	8

Audit noticed that ESIC had issued 107 offers of appointment to post graduate students passed out from different colleges during 2013-15. Against a total of 107 appointment orders issued, only 15 medical personnel (14 per cent) had joined. This indicates that the strategy of opening medical colleges for filling the vacant posts had failed.

Ministry stated (August 2015) that the PGs pass outs were issued appointment letter to comply with the condition of bond. Those candidates who had not complied had been issued notice for payment of bond amount.

Thus, the aim of ESIC of imparting medical education for developing their own trained medical personnel did not materialise.

**2.11.5 Operational Costs for running Medical Education Projects:** The estimated costs of running MBBS courses for 500 students is ₹ 55.50 crore. The average cost per student per year is about ₹ 11.10 lakh<sup>13</sup> (if 500 students are admitted). Four and a half years of study and one year internship is likely to cost ESIC about ₹ 61.0 lakh per MBBS graduate. Financials of the corporation is a critical issue which cannot be ignored. In addition to the construction cost of medical institution the ESIC will have to bear the financial burden of running these medical colleges along with the cost of running the associated hospital.

<sup>13</sup> As per white paper on medical education placed in 161<sup>st</sup> meeting of the ESIC Corporation.

## **2.12 Exit from Medical Education Projects**

Corporation decided to exit from the field of medical education in its 163<sup>rd</sup> meeting held on 4 December 2014 as it was not one of its core functions. Thus, the strategy adopted by ESIC to meet the shortage of medical and paramedical staff was thoroughly ineffective and the expenditure incurred on this was infructuous. Later on, the ESIC decided to continue with a few projects.

Scrutiny of records and further information made available by ESIC revealed the following:

- A white paper on medical education was placed in 161<sup>st</sup> meeting of the Corporation held on 28 January 2014 for appropriate decision of the Corporation. The Corporation authorised its Chairman to constitute a committee to look into these issues.
- The report of the committee was discussed in 162<sup>nd</sup> meeting of the Corporation held on 31 July 2014. It was decided that decision on continuation or otherwise of Medical Education Project would be decided in the next meeting of the Corporation. In the meantime discussion should be held with Central/State Governments on modalities for transfer of ongoing medical colleges.
- The ESIC had taken up the matter of transfer of Medical Education Projects with Government of India (Ministry of Health and Family Welfare) who responded vide letter dated 3 September, 2014 that it will not be feasible to take over these medical colleges from ESIC. In the alternative it was suggested that the Ministry of Labour and Employment may explore possibility of collaborating with the respective State Governments in taking over these colleges.
- Further Director General, ESIC on 05 September 2014 wrote to the State Governments concerned seeking their “in-principle consent” for taking over of medical colleges and related Medical Education Projects located in the respective states.
- In this regard five states (Rajasthan, West Bengal, Delhi, Himachal Pradesh, Kerala) out of 12 had responded till December 2014, but no positive responses were received from any state.

- The Corporation in its 163<sup>rd</sup> meeting held on 4 December 2014 decided to exit from medical education as it was not the core function of ESIC and objective of Section 59B of the Act was unlikely to be met.
- The Ministry of Labour informed the PMO (9 January 2015) on further decisions taken in regard to 13 medical colleges. These included exit from medical education, no further admissions, not to start new medical colleges, handing over ongoing medical colleges to State Governments willing for transfer, to create center of excellence for Super Speciality Treatment in cases where State Governments were not willing to take over the medical colleges. Reasons for not apprising the PMO about the true and complete status of 21 Medical Education Projects was not on record of ESIC.
- Subsequently ESIC in 165<sup>th</sup> meeting held on 7 April 2015 decided to protect the interests of the students and insured persons and continue with ongoing courses at Medical Education Projects.
- Secretary MoL&E, intimated the following position on 25 March 2015 to PMO.
  - Three ESIC medical colleges at Rajajinagar (Benguluru), K.K. Nagar (Chennai) and Joka, (Kolkata) respectively will be continued to be run by the ESIC.
  - Three ESIC medical colleges at Faridabad (Haryana), Coimbatore (Tamil Nadu) and Sanath Nagar, Hyderabad (Telangana) were offered to be run by the respective State Governments failing which the ESIC will run them on PPP mode on its own.
  - ESIC medical college at Gulbarga (Karnataka) was offered to be run by the State Government failing which by the ESIC on PPP mode.
  - Four ESIC medical colleges at Alwar (Rajasthan), Mandi (Himachal Pradesh), Bihta, Patna (Bihar) and Paripally, Kollam (Kerala) were offered to be run by the respective State Governments failing which by the ESIC on PPP mode, failing which the assets may be divested.
  - ESIC wished to continue the admissions to ongoing MBBS/BDS/PG courses at ESIC Medical Education Projects.
  - The proposed ESIC Medical Education Project in Basaidarapur, Delhi would be in the interest of IPs. This would be modified into a Centre of



Excellence for providing enhanced secondary care as well as Super Specialty Treatment facility.

- ESIC will neither set up any other Medical College nor any other new Medical Education Project.

Ministry stated (August 2015) that Medical College Projects were proposed to be setup by the ESIC at 21 locations. Construction work of the medical colleges was taken up only at 12 locations. The status of these medical colleges was as under:

- a. ESIC to continue to run ESIC Medical Colleges at Joka (Kolkata), K.K. Nagar (Chennai) and Rajajinagar (Bengaluru), The Ministry had also taken decision recently to continue to run the medical college at Gulbarga (Karnataka).
- b. ESIC would run the proposed Medical Colleges at Faridabad (Haryana) and Sanath Nagar, Hyderabad (Telangana).
- c. The respective state Governments had consented (in-principle or otherwise) for takeover of ESIC Medical colleges at Paripally (Kerala), Coimbatore (Tamil Nadu), Bihta (Bihar) and Mandi (Himachal Pradesh).
- d. The proposed Medical College at Basaidarapur, Delhi would be in the interest of IPs and modified into a centre of excellence for providing enhanced secondary care as well as Super Specialty Treatment facility for ESI beneficiaries. Decision on proposed Medical College at Alwar was yet to be finalized.

Thus ESIC had to exit from the Medical Education Project segment which was taken up with the IPs contribution. This happened due to imprudent and faulty planning and lax attitude of the ESIC from the very beginning.