

Chapter-I: Introduction

1.1 CGHS coverage and salient features

The Ministry of Health and Family Welfare (Ministry) provides comprehensive health care facilities through the 'Central Government Health Scheme (CGHS)' to Central Government employees and Pensioners of the Central Government drawing pension from central civil estimates, Ex and sitting Members of Parliament, Freedom Fighters, and such other beneficiaries as notified by the Government under the scheme. The scheme was started in 1954 in Delhi. The medical facilities are provided to 38.50 lakh beneficiaries in 74 cities through 331 wellness centres. The facilities and drugs are provided through a large network of wellness centres, polyclinics and labs. CGHS has also empanelled private hospitals and diagnostic centres in different cities for carrying out investigations and indoor treatment facilities. Drugs against the prescription of CGHS doctors, doctors of Government hospitals and empanelled hospitals, are issued from the wellness centres. The procurement, storage and distribution of medicines are undertaken by the Medical Stores Organization (MSO)³ through Government Medical Stores Depots (GMSDs) on the basis of indents raised by CGHS.

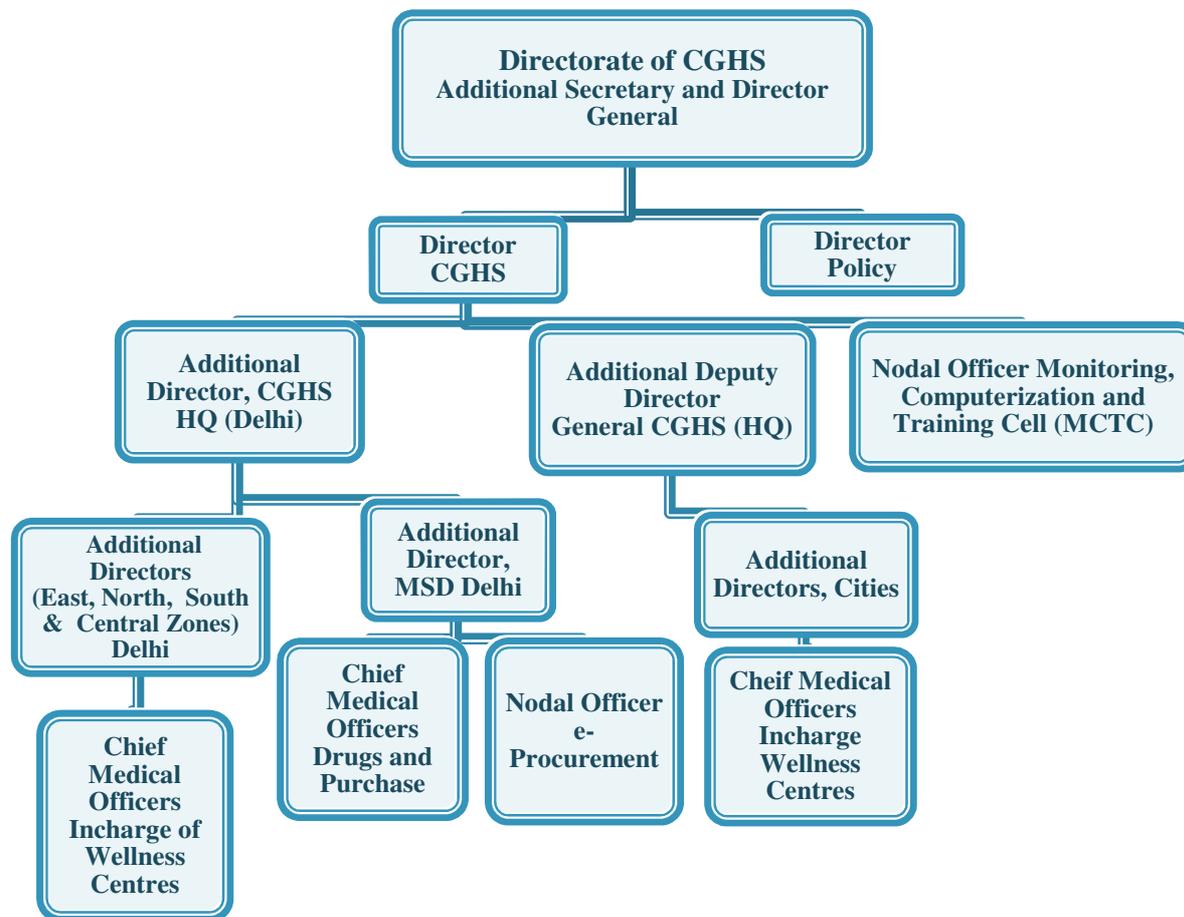
1.2 Organisational set-up

Directorate of CGHS (CGHS) is headed by Additional Secretary & Director General (AS&DG) who functions directly under the Ministry. The AS&DG at the apex level is assisted by Director CGHS and Director Policy. The Director CGHS is assisted by Additional Director (CGHS) HQ, Additional Dy. Director General CGHS (HQ) and Nodal officer Monitoring, Computerization and Training Cell (MCTC).

In Delhi, Additional Director (AD), Medical Store Depot, who functions under administrative control of AD CGHS (HQ), is the nodal officer for procurement and storage of drugs for all CGHS wellness centres in Delhi NCR. In cities outside Delhi, ADs of respective cities, who function under Addl. Dy. Director General (CGHS) (HQ), exercise overall administrative control over CGHS wellness centres and are responsible for procurement of drugs for the wellness centres under their jurisdiction.

³ The Medical Stores Organization (MSO) of the Directorate General of Health Services (DGHS), under Ministry of Health and Family Welfare consists of seven Govt. Medical Stores Depots (GMSDs) located at Mumbai, Kolkata, Chennai, Hyderabad, Guwahati, Karnal and New Delhi. The procurement of drugs listed in formulary for CGHS is done by MSO through GMSD. MSO, after obtaining approval from the Ministry, finalizes rate contracts for drugs which are used by the various healthcare institutions in the country.

Chart 1.1: Structure of Directorate of CGHS:



1.3 Funding pattern

CGHS is fully funded by the Central Government. Budget and total expenditure during 2016-17 to 2020-21 for procurement of drugs for CGHS and reimbursement of medical claims is given in **Table 1.1**:

Table 1.1

(₹ in crore)

Year	Budget* allotment for Procurement of Drugs and Medical Treatment of CGHS Beneficiaries	Expenditure on Procurement of Drugs	Expenditure on reimbursement of Medical claims of HCOs
2016-17	1,515.57	981.13	586.08
2017-18	2,135.43	1,149.36	939.22
2018-19	2,282.89	1,217.06	895.44
2019-20	3,164.92	1,591.08	1,424.51
2020-21	3,435.65	1,684.38	1,570.33
Total	12,534.46	6,623.01	5,415.58

Source: CGHS

*Supplies & Materials (under Major Head 2210 and NE 2552) and PORB-Medical Treatment of CGHS Beneficiaries (under major head 2071)

1.4 Audit objectives

The Performance Audit of 'Procurement and Supply of drugs in CGHS' was being conducted in order to assess whether;

- System of procurement and supply chain of drugs was efficient and effective;
- System of local procurements of drugs by wellness centres was well managed so as to ensure both economy and efficiency;
- Quality assurance procedures and infrastructure were in place; and
- System of reimbursement of medical claims to hospitals/diagnostic centres was efficient and effective.

1.5 Audit Scope

The Performance Audit covered scrutiny of procurement and supply of drugs in CGHS for the period 2016-17 to 2020-21. The audit was conducted in the Ministry of Health & Family Welfare, MSO/GMSD, CGHS (HQ), AD MSD Delhi, selected Zonal Offices and wellness centres at Delhi and outside Delhi.

1.6 Audit sampling

Sample selection for this Performance Audit has been made on the basis of relevant data as on 31 March 2019. In Delhi NCR, apart from the office of the Director CGHS, AD CGHS (HQ), AD MSD Delhi, all four AD offices in the zones and 30 out of total 101 wellness centres have been selected for audit. Outside Delhi, 47 out of 205 wellness centres, under 11 out of 23 AD offices have been selected as detailed in **Annex-1.1**. Apart from offices in CGHS, MSO in Delhi and all seven GMSDs all over the country supplying drugs to CGHS have also been selected.

Selection of wellness centres in Delhi NCR has been done on the basis of beneficiaries in the wellness centres using Stratified Random Sampling without Replacement method (SRSWOR). Selections of Additional Directors and wellness centres outside Delhi have been done on the basis of average expenditure incurred on procurement of drugs and numbers of beneficiaries using Multi-Stage Sampling method.

1.7 Audit criteria

Audit findings were benchmarked against the criteria sourced from the following;

- i) Guidelines for Procurement of Drugs for CGHS;
- ii) Drug Formulary;
- iii) Procurement and Operational Manual for Medical Store Organization and Government Medical Store Depots;

- iv) Agreement with Authorised Local Chemists (ALC) for local purchase of drugs;
- v) General Financial Rules 2017;
- vi) Drugs and Cosmetics Act, 1940;
- vii) Drugs and Cosmetics Rules, 1945;
- viii) Relevant circulars, orders and notifications issued by the Ministry;
- ix) CVC Guidelines;
- x) Agreement with M/s. UTI Infrastructure Technology And Services Limited (UTIITSL) for reimbursement of medical claims to hospitals/diagnostic centres;
- xi) Agreement with hospitals/diagnostic centres;
- xii) Circulars/Office Memorandum relating to reimbursement of medical claims to hospitals/diagnostic centres.

1.8 Audit Methodology

The performance audit commenced with an entry conference with the Director, CGHS on 17 March 2020 where the audit objectives, scope and methodology were explained. However, due to the sudden spread of the COVID 19 pandemic the entire country was placed under lockdown and audit was also withheld and subsequently recommenced from 1 April 2021. A meeting with the Director, CGHS was held at the Central level on 7 April 2021 for the recommencement of audit. Simultaneously, in the States entry conferences were held with the Additional Directors, Cities and Deputy Director General (Store), GMSD. After the completion of audit, an exit conference was held with the Ministry on 30.03.2022 to discuss the audit findings. Exit conferences were also held at the state levels where state specific findings were discussed. The draft audit report was issued to the Ministry on 28 February 2022 and the reply was received in April 2022. The replies of the Ministry/CGHS have been duly incorporated in this report at relevant places.

1.9 Reporting methodology and structure of the Report

The results of audit at both the central and the State level were taken into account in arriving at audit conclusions. The audit findings on procurement and supply chain of drugs are discussed in Chapter-II, and the findings on reimbursement of claims made by Health Care Organisations (HCOs) are discussed in Chapter-III. CGHS provided the data for the period April 2016 to March 2021 in June 2021 *via* an online link. Audit analysed the data tables related to prescription, procurement, storage, supply of medicines and reimbursement of medical claims of HCOs. The outcomes of the analysis are discussed in **Chapter-II** and **Chapter-III**. Conclusions and Recommendations are given in **Chapter-IV**.

1.10 Previous audit findings

The Procurement of Drugs in CGHS was also reviewed earlier by the C&AG and the audit findings were included in Para no.6.3 of CAG's Audit Report no.19 of 2013. The Report was discussed by the Public Accounts Committee and the observations and recommendations on 'Procurement of Allopathic Drugs in CGHS' were brought out in their 22nd Report (13 August 2015, 16th Lok Sabha). The Public Accounts Committee (PAC) further brought out the 52nd Report (22 November 2016, 16th Lok Sabha) on Action Taken by the Government on the observations/ recommendations contained in their 22nd Report. Recommendations of the PAC in this regard and present status of compliance by the Ministry is detailed in **Table 1.2**:

Table 1.2

Recommendations of PAC	Assurance given by Ministry to PAC	Status of compliance
Ministry should formulate a comprehensive and reliable policy for procurement of drugs in CGHS so as to ensure that the entire procurement process becomes more transparent.	Ministry replied that there have been systematic improvements in different modes of procurement and procurement of drugs only at lowest price, and increase in reliance on procurement of generic drugs. Nevertheless it is true that as in any other system there is scope for improvement.	Procurement policy has not been formulated by the Ministry. Accordingly, substantial amounts of drugs are procured through Authorised Local Chemists (ALC) instead of MSO.
Ministry should revise drug formulary at regular intervals.	Ministry replied that views of the committee are noted and it is admitted that there is need to remove the perceived shortcomings in the procurement system of CGHS.	Drug formulary has been revised after a gap of seven years in February 2022. Audit observations in this regard are included in Para 2.2.2
Ministry should make earnest efforts for finalisation of rates of all generic drugs in formulary.	Ministry submitted that tenders have been floated for finalisation of rate contract of drugs.	Out of 2030 drugs listed in formulary rates of only 220 to 641 drugs were finalised during 2016-17 to 2020-21. (Para 2.2.3)
Ministry should make complete shift towards procurement and distribution of good quality generic drugs.	Ministry submitted that guidelines have been issued from time to time for promoting use of generic drugs.	CGHS has incurred 93.61 <i>per cent</i> expenditure on procurement of branded drugs through Authorised Local Chemists and only 6.39 <i>per cent</i> on generic drugs listed in formulary. (Para 2.7.1)

1.11 Good Practices in CGHS

CGHS follows several good practices with the objective of providing good services to beneficiaries as detailed below:

- CGHS Beneficiaries can avail medical facilities in any Wellness Centre across cities covered by CGHS all over India.
- CGHS has started (August 2020) Tele-consultation services through e-Sanjeevini application to facilitate beneficiaries.
- Restricted Drugs (Life Saving Medicines) are now delivered at CGHS Wellness Centres at Noida, Faridabad, Ghaziabad and Gurugram of NCR region. Earlier these medicines were available only at CGHS, MSD, Gole Market New Delhi.
- CGHS has launched a mobile app called myCGHS on which services like booking appointment, medical history, card details, medical re-imburement details, etc can be accessed by the beneficiaries.
- CGHS has introduced an SMS alert system for appointment with doctors and issue of medicines to CGHS beneficiaries.

1.12 Acknowledgement

Audit acknowledges the co-operation and the assistance extended by the Ministry of Health and Family Welfare, Director CGHS, CGHS (HQ), Additional Director (MSD Delhi), Additional Directors, Zonal Offices, CMOs of Selected wellness centres, MSO/Dy. Director General (Store) and GMSDs during conduct of this Performance Audit.