

CHAPTER-V

INTERNAL CONTROL SYSTEM AND INTERNAL AUDIT ARRANGEMENTS IN GOVERNMENT DEPARTMENTS

INTERNAL CONTROL SYSTEM IN MEDICAL DEPARTMENT

5.1 Highlights

Internal control uses a system of rules, orders and procedures to provide management with a reasonable assurance that, the entity is functioning in the manner intended and is likely to achieve its objectives. An evaluation of the internal control system in the Medical Department during the period 2003-04 to 2005-06 revealed weaknesses due to non-compliance with rules, manuals, and codes in the areas of budget preparation, expenditure control and operational control. Internal Audit function had also not been established in the Department.

- *Budget Estimates were prepared and submitted without receiving inputs from the Estimating Officers. Incorrect estimation and lack of monitoring led to substantial savings of funds.*

[Paragraph 5.8.2]

- *Expenditure exceeded the budget allotment in certain detailed heads of account.*

[Paragraph 5.9.1]

- *Indents for the purchase of medicines were issued to manufacturers of medicines but payments were made to distributors/agents instead.*

[Paragraph 5.9.4]

- *There was an idle investment of Rs. 42.35 lakh on incomplete Primary Health Centre, Buggawala (Haridwar) and State Allopathic Dispensary and residences, Bankot (Pithoragarh).*

[Paragraph 5.11.1 & 5.11.3]

- *Vacancies of 45 per cent in key posts such as senior and ordinary grade Medical Officers, District TB Officer, District Leprosy Officer due to which medical, health and family welfare facilities were not adequately provided to the people of the State.*

[Paragraph 5.12.1]

- *Internal Audit function was not set up in the Department, which contributed poor budgetary and administrative control.*

[Paragraph 5.13.1]

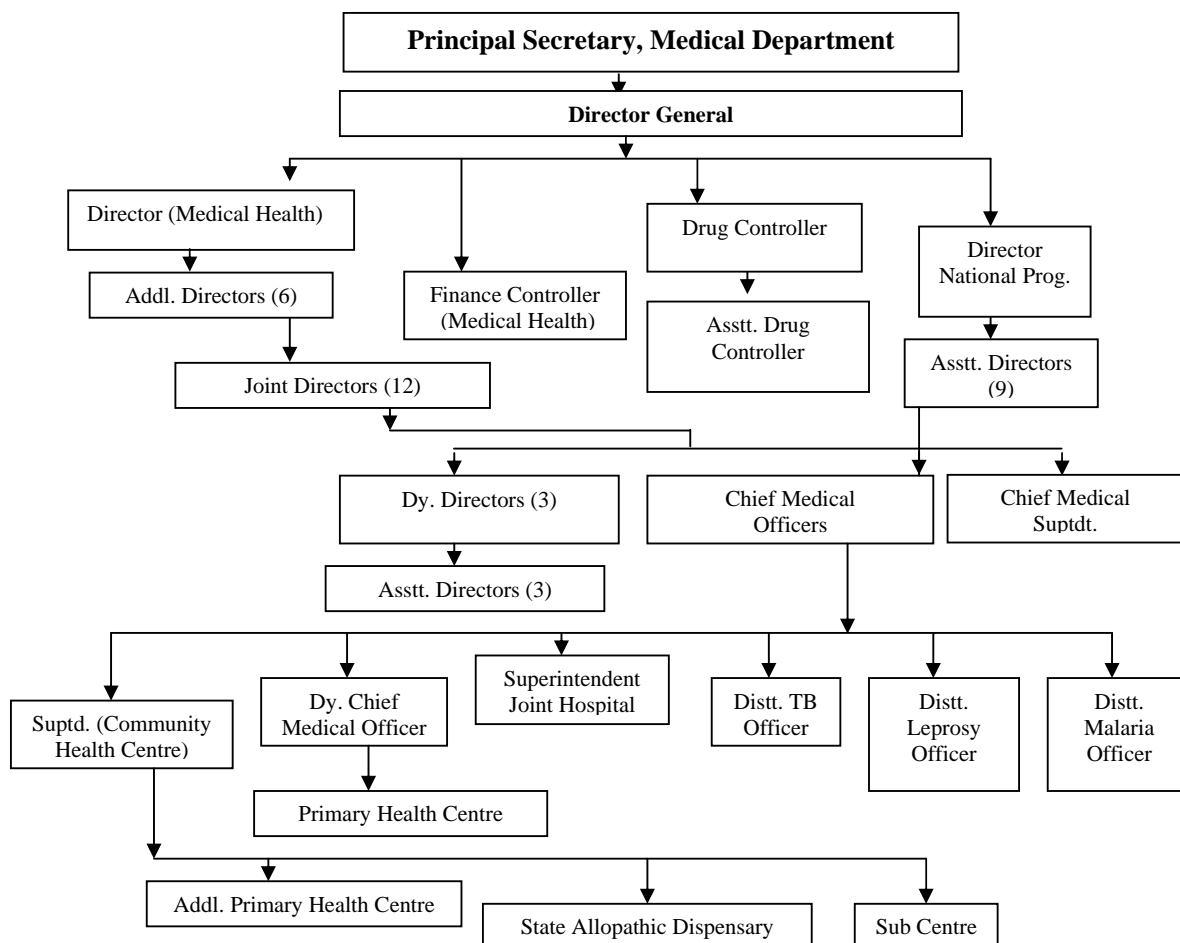
5.2 Introduction

Internal control is an integral process by which an organization oversees its activities to effectively achieve its objectives at the same time ensuring efficient, effective and economical use of its resources. It provides safeguards against errors and irregularities in operational and financial matters and ensures compliance with rules and procedures and highlights deviations therefrom.

The Medical Department is responsible for promoting good health through the use of modern systems of medicine (allopathy). It manages a system to expand the outreach of institutional health care through preventive and curative intervention to promote affordable and efficacious, medical, health and family welfare services.

5.3 Organisational Set-up

The organisational set-up of the Medical Department is given below:



5.4 Audit Objectives

The review of the internal control system in the Medical Department was conducted to assess whether the following general objectives were being achieved:

- fulfilling accountability obligations;
- ensuring orderly, ethical, economical, efficient and effective operations;
- identifying and minimising the risks faced by the Department in achieving its objectives and
- safeguarding its resources against loss.

5.5 Audit Criteria

The audit criteria set for achieving the Audit objectives were:

- Provisions of the State Financial Handbook, Budget Manual and the treasury rules;
- Rules, norms and procedures prescribed for the purchase of medicines and other stores;
- Prescribed guidelines for various schemes in operation in the Department and
- Monitoring mechanism prescribed.

5.6 Scope of Audit

The records of the Director General (DG), Medical, Health and Family Welfare, five¹ out of 13 Chief Medical Officers (CMOs) and eight² out of 26 Chief Medical Superintendents (CMSs) for the period 2003-04 to 2005-06 were test checked between April 2006 to July 2006 to evaluate the effectiveness of the internal control system in the Department. The results are discussed in the succeeding paragraphs.

5.7 Audit Methodology

The samples for review were selected from the offices of the Director General (Medical, Health & Family Welfare), Dehradun district units located in the Kumaon and Garhwal regions. Data on physical and financial progress etc. was collected from the DG, Chief Medical Officers (CMOs) and Chief Medical Superintendents (CMSs) of the Districts test checked.

¹ CMOs Almora, Chamoli, Haridwar, Pithoragarh & Dehradun.

² CMS (Male) Haridwar, Pithoragarh, Almora & Dehradun.

CMS (Female) Haridwar, Pithoragarh, Almora & Dehradun.

5.8 Budgetary Control

5.8.1 Delay in submission of Budget Estimates

According to Para 8 of the Budget Manual, Heads of Departments (Controlling Officers) and other estimating officers should send their budget estimates for the year to the Finance Department and also to the appropriate department of the Government by 31 October of the preceding year.

Test check of records of CMOs (estimating officers) of Haridwar, Pithoragarh and Dehradun and CMS of Haridwar, Pithoragarh and Almora during April to July 2006 revealed that budget estimates for 2003-04 to 2005-06 were sent late to the DG (Controlling Officer) as detailed below:

Table-1

Year	Dates of Submission of Budget Estimates by					
	CMO Haridwar	CMS Haridwar	CMO Pithoragarh	CMS Female Pithoragarh	CMS Almora	CMO Dehradun
2003-04	18.7.2003	-	28.4.2003	10.4.2003	5.2003	30.6.2003
2004-05	5.5.2004	30.4.2004	28.4.2004	5.5.2004	5.2004	30.4.2004
2005-06	12.5.2005	13.6.2005	25.4.2005	2.4.2005	5.2005	8.4.2005

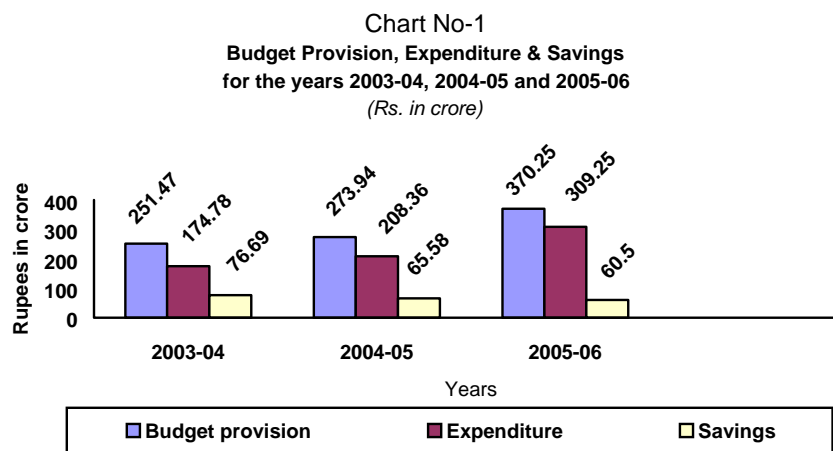
Source: From the Departmental figures

The DG prepared and submitted the budget estimates to the Secretary, Medical, and Health and Family Welfare Department without receiving any budget estimates from the estimating officers. This resulted in incorrect estimation and preparation of unrealistic budget estimates as discussed in the following paragraphs.

5.8.2 Savings due to excess provision

According to the Financial Rules and Budget Manual, the DG, assisted by the Finance Controller, is to ensure that the grant of the year is fully spent and any money, which is not likely to be needed during the year, is promptly surrendered.

The budget provision and expenditure of the Department for the years 2003-04 to 2005-06 are shown in the chart below.



Source: From the statement given by Director General

The unspent balances for the years 2003-04 to 2005-06 were surrendered at the close of the financial years on 31 March, in contravention of the provisions of the Budget Manual. Had the savings been identified and surrendered in time to the Government earlier, these could have been re-appropriated and optimally utilized for other activities of the Government. The persistent savings showed that the budget proposals were unrealistic and monitoring and control over expenditure was also inadequate as discussed in paragraph 5.9.

5.9 Monitoring and Control over Expenditure

The Budget Manual requires the DG to monitor the receipt of monthly expenditure statements with a view to watch the progress of expenditure and achievement of targets.

It was noticed that the monthly statements received from the CMOs and other Drawing & Disbursing Officers (DDOs) were not scrutinised by the DG to ensure proper utilization of funds.

5.9.1 Excess expenditure against budget allotment

As per the Budget Manual and Financial Rules, the expenditure in any detailed head of account should not exceed the budget allotment.

Test check of records (July 2006) of the CMO, Dehradun revealed that expenditure exceeded the budget allotment under certain heads of account under the Major Head 2210- Medical & Public Health during the year 2005-06 by Rs. 1.23 lakh (*Appendix-5.1*).

5.9.2 Purchases made in the month of March

According to Paragraph 207 of the Budget Manual, read with Para 162 of Financial Hand Book (FHB) Part V, Vol I, only material and goods, which are absolutely necessary, may be purchased after 15 February.

Test check of records (April to July 2006) of CMOs Haridwar, Pithoragarh and Almora for the years 2003-04 to 2005-06 revealed that there was a rush of expenditure in the month of March to avoid the lapse of funds, as detailed below.

Table- 2
Rush of Expenditure in the month of March

(Rupees in lakh)

Month/Year	CMO Haridwar	CMO Pithoragarh	CMO Almora
March 2004	14.29	5.5	15.98
March 2005	34.45	14.94	3.57
March 2006	22.03	2.65	17.88

Source : Departmental figures

5.9.3 Government money remained out of cashbook

The State Financial Rules provide that as soon as Government money is received or disbursed, it should be immediately accounted for.

- Test check of records (May 2006) of CMO, Haridwar, revealed that two cheques (No. 594968 & 594962 dated 28.10.05) for Rs. 16,800 and Rs. 58,599 were received by the Dy. CMO, Haridwar but not entered in

the subsidiary cash book for three months and were returned on 25.1.2006.

- Test check of records of CMS, Almora (July 2006) revealed that the cash book had not been closed each month and the Drawing & Disbursing Officer did not physically verify the closing balance of the cash book at the end of the month.

The delayed account of Government money in the cash book and non-verification of entries of cash book by the Drawing and Disbursing Officer is fraught with the risk of possible misappropriation and embezzlement.

5.9.4 Medicines purchased from the Distributor/Agent and not from the Manufacturer

As per Government notification dated 22.12.2004 issued by the DG, the indenting officer will indent and pay for medicines and chemicals purchased directly to the manufacturer and not to the agent/distributor/whole seller.

Test check of records (April and July 2006) of CMOs Chamoli, Haridwar, Pithoragarh and Dehradun and CMS Haridwar, Pithoragarh, Almora and Dehradun revealed that indents for the purchase of medicines were issued to the manufacturer but the supply of medicines was made by the agent/distributor of the manufacturer. The Department made payments to the agents/distributors instead of to the manufacturers, which was contrary to the Government notification, and the possibility of supply of substandard medicines is not ruled out.

5.9.5 Expenditure split up to avoid sanction of competent authority or calling for tenders

Financial rules provide that orders for purchase of material/goods should not be split up to avoid calling for tender/quotations and approval of higher authorities. For the purchase of goods worth more than Rs. 15,000, tenders should be invited as per government order dated 14.10.1996.

Test check of records of CMO Haridwar, Almora, Pithoragarh and Dehradun and CMS Almora, Dehradun (April to July 2006) for the year 2005-06 revealed that most of the purchases of medicines and other materials were made on the same date and subsequent dates of the same month to avoid calling of tenders or to avoid the need for sanction of competent authority.

5.9.6 Expenditure on local purchase of medicines in excess of limits

According to government order No. 1224 dated 23.8.2003, local purchase of medicine is to be restricted to 30 *per cent* of the funds available. 70 per cent of the available funds were to be utilized for purchase of medicines as per rate contract.

Test check of records (July 2006) of Chief Medical Superintendent, Doon Hospital, Dehradun revealed that during the years 2003-04, 2004-05 and 2005-06 medicines were purchased locally beyond the prescribed limit of 30 *per cent* as detailed on the next page:

Table- 3

Year	Total Expenditure (Rs. in lakh)	Local Purchase (Rs. in lakh)	Percentage of local Purchase
2003-04	55.53	29.67	53
2004-05	86.53	63.25	73
2005-06	103.90	87.24	84

Source: Departmental figures

Thus, Doon Hospital failed to comply with the internal control for local purchases.

5.10 Store Management and Inventory Control

5.10.1 Physical verification of store and stock not done

State Financial Rules require the competent authority to physically verify the stores/stock of the Department at least once a year and set right the discrepancies noticed, if any.

Test check of records (April & July 2006) of CMO Almora, Chamoli, Haridwar and CMS Pithoragarh revealed that physical verification of stock had not been carried out during 2003-04 to 2005-06 by the competent authority.

5.10.2 Non disposal of unserviceable X-ray machines and other miscellaneous goods amounting to Rs. 2.99 lakh

According to the financial rules, as soon as any equipment/machinery is found unserviceable, it should be disposed off by auction.

Test check of records (May 2006) of CMO Chamoli and CMS District Hospital, Almora revealed that an X-ray machine and 88 different types of stores amounting to Rs. 1.86 lakh and Rs. 1.13 lakh respectively were lying unserviceable. The Department had not taken any action for their disposal till the date of audit (May 2006).

5.11 Operational Controls

5.11.1 Idle investment of Rs. 29.86 lakh on incomplete PHC

Government sanctioned Rs. 29.86 lakh (November 2002) for the construction of a hospital building and residential quarters of PHC at Buggawala, Haridwar, to provide medical facilities to the people. Rs. 10 lakh was released to the executing agency, PACSFED, a cooperative federation (November 2002).

Test check of records (May 2006) of the CMO, Haridwar revealed that PACSFED started the work in January 2003. The work was stopped by the orders of the Government and entrusted to the Project Engineer, Construction and Design Services, U.P. Jal Nigam, Uttaranchal (October 2004) and Rs.19.86 lakh released to them. The Jal Nigam, without starting the work, submitted revised estimates of Rs. 39.90 lakh (May 2005) on the ground of price escalation in the cost of materials and labour charges, which was yet to be sanctioned (May 2006).

Lack of monitoring and control by the Department resulted in non completion of the building and idle investment of Rs. 29.86 lakh. The intended benefit of providing medical facilities to the people of Buggawala, Haridwar had not been achieved.

5.11.2 Procedural lapses led to stoppage of construction

Financial rules provide that no work should commence on land which has not been duly acquired by the Department. Further, prior approval of GOI for use of reserve forestland for non forest purposes is necessary under the Forest Conservation Act, 1980.

Test check of records (May 2006) of Chief Medical officer Haridwar revealed that the Government sanctioned and the Department released (March 2005) Rs. 8.53 lakh to the U.P. Rajkiya Nirman Nigam, Haridwar, for construction of a Post-Mortem house at Haridwar. Construction could not be started due to non acquisition of land from the forest department. The construction was on forestland and prior approval of GOI had not been obtained.

Failure of the Department to obtain title of land led to avoidable blocking of Rs. 8.53 lakh with the executing agency.

5.11.3 Idle investment on incomplete dispensary and residential buildings

Government sanctioned Rs. 12.49 lakh (March 1984) for the construction of State Allopathic Dispensary and residential quarters to provide medical facilities to the public of Bankot (Pithoragarh). The work was entrusted to the Temporary Construction Division, Public Works Department (March 1984). Funds were released in 1984 and the work was to be completed in two years.

Test check of records (June 2006) of the CMO, Pithoragarh revealed that the executing agency had spent Rs. 20.21 lakh but only 50 *per cent* of the construction work had been completed (June 2006). The executing agency submitted revised estimates of Rs. 34 lakh in 1988 (four years after starting the work) which was not sanctioned. Despite the lapse of a period of 22 years, the construction of dispensary building and residential quarters had not been completed. The executing agency had spent Rs.7.72 lakh in excess of the amount released i.e. Rs. 12.49 lakh which also was not got regularised.

Lack of timely action and poor monitoring by the Department resulted in non-completion of the building and an idle investment of Rs. 20.21 lakh since 1984. The purpose for which the expenditure was incurred was also defeated.

5.11.4 Funds for Maternity Benefit Scheme remained unutilized

National Maternity Benefit Scheme under the National Social Help Programme is implemented by the Family Welfare Department. Under this scheme, Rs. 500 per delivery for upto two live children is paid 8 to 12 weeks before delivery to women belonging to BPL families whose age is above 19 years.

Test check of records of CMO Pauri revealed that a total number of 18,845 women should have been benefited during the period from April 2001 to January 2006. Only 1605 women benefited from the scheme during the period 2001-02 to 2005-06. The target was thus not achieved.

Although a budget allotment of Rs. 34.57 lakh was available during the period, only Rs. 8.11 lakh were, however, actually spent and 17,240 BPL women were deprived of the benefits.

5.12 Manpower Management

The Department is responsible for providing medical and health services to the people of the State. It is also responsible for implementation of Family Welfare schemes of the Central/State Government. Manpower management in the Department was inadequate, adversely affecting programme implementation and also leading to wastage of resources as discussed below:

5.12.1 Key posts lying vacant

A considerable number of key posts such as Joint Directors, Senior Grade Medical Officers, Ordinary Grade Medical Officers (Male and Female) Dentists, District Malaria Officers, District T.B. Officers, District Leprosy Officers were vacant in the State. Test check of records of the Director General, Medical, Health & Family Welfare, CMOs Almora, Chamoli, Haridwar, Pithoragarh and Dehradun and CMS Haridwar and Almora revealed that nearly 45 *per cent* posts of doctors were vacant. As a result the people of the area were deprived of medical health and family welfare facilities. The DG did not effectively pursue with the Government the matter of deployment of Medical Officers against the vacant posts.

Table- 4

Name of the Post	Sanctioned Posts	In Position	Vacant Posts
1. Joint Director	66	51	15
2. Senior Grade Medical Officer	248	171	77
3. Ordinary Grade Medical Officer Male	1465	776	689
4. Ordinary Grade Medical Office Female	283	132	151
5. Dentist	66	42	24
Total	2128	1172	956
1. Chief Food Inspector	14	06	08
2. Food Inspector	149	56	93
Total	163	62	101

Source: Departmental figures

5.12.2 Vacancies in Para Medical and Technical Staff

Test check of records (February, April-May 2006) of CMO Almora, Chamoli, Haridwar, Pauri, Pithoragarh and Dehradun and CMS of District Hospitals Haridwar and Dehradun revealed that there were considerable number of vacancies in the posts of Health Education Officers, Deputy District Health Information Officers, Health Workers Male/Female, Physiotherapists, Operation Theatre Technicians and Pharmacists ranging from 38 *per cent* to 100 *per cent* in the above districts, due to which adequate and proper medical and health services could not be provided to the public (*Appendix-5.2*).

5.12.3 Equipment worth Rs. 20.65 lakh remained idle for want of specialist doctors and trained staff

Test check of records of CMO, Udhamsingh Nagar (December 2005) revealed that the following equipments were purchased and installed during the year

2004-05 at a cost of Rs. 20.65 lakh at Community Health Centres (CHC) at Sitarganj, Gadarpur, Kashipur, New Sitarganj and Allopathic Hospital, Bazpur of Udham Singh Nagar district.

Table- 5

(Rs. in lakh)

Name of Equipment	Name of CHC	Amount
1. Dental Unit & Dental Chair	SAD Bagipur	2.83
2. Auto Clave 3 pieces	CHC New Sitarganj, Gadarpur L.D.Bhatt Hosiptal, Kashipur	2.82
3. Ventilators 2 pieces	CHC Sitarganj, CHC Gadarpur	9.38
4. Economy phototherapy 10 pieces	CHC Sitarganj, CHC Gadarpur	1.87
5. X-ray machine 2 pieces	CHC Sitarganj, CHC Gadarpur	2.11
6. Auto Analyser	CHC Kashipur	1.63
Total		20.65

Source: Departmental figures

The above equipments remained idle for want of specialist doctors and trained staff resulting in idle investment of Rs. 20.65 lakh and denial of health facilities to the patients.

5.12.4 Test check of records (February 2006) of CMO Pauri revealed that a ventilator, two X-ray machines, a semi auto analyser and other equipments valuing Rs. 15.74 lakh were purchased during the year 2004-05 for CHC Thaliland, Zorokhol and Borokhol of Pauri District. The aforesaid equipments remained idle in store and were not installed for want of specialist doctors and trained staff. Prior to purchase of equipments, the purchase department did not ensure the availability of specialist doctors and trained staff, which resulted in blockage of fund amounting to Rs. 15.74 lakh.

5.12.5 Key posts lying vacant in remote areas of state

A number of key posts such as Dy. CMO, Senior Medical Officer, Senior Specialist Doctors, District Malaria Officer, District TB Officer, District Leprosy Officer, and Superintendent of CHC, Medical Officer are vacant in remote areas of the districts of the State, as detailed below:

Table-6

Name of Office	No. of sanctioned strength	No. of vacant post	Percentage of vacancy
CMO Pithoragarh	164	99	60
CMS Almora, District Hospital Male & Female	34	18	53
CMO Almora	206	115	56
CMO Chamoli	142	85	60

Source: Departmental figures

Thus there were a large number of vacancies of Senior Medical Officers, Medical Officers and Specialist Doctors in remote areas due to which medical and health facilities to the people of above districts could not be provided adequately and effectively.

5.12.6 State Allopathic Dispensaries & Additional Primary Health Centres were without Medical Officers and Pharmacists

Test check of records of CMO Pithoragarh (June 2006) revealed that thirteen State Allopathic Dispensaries were without Medical Officers and Pharmacists since the date of their establishment. In some dispensaries only Ward Boys and Sweepers were posted since 1992. In five additional PHCs and one State Allopathic Dispensary(SAD), only, Pharmacists were posted and Medical Officers were not posted. In two SADs and three Additional PHCs only Medical Officers were posted and Pharmacists were not posted.

Lack of Medical Officers and Pharmacists resulted in people of these areas being deprived of medical, health and family welfare facilities.

5.12.7 Excess posting of Specialist Doctors

Test check of records of CMS Doon Hospital, Dehradun revealed (July 2006) that there were excess postings of two Senior Orthopedic Surgeons, one Senior Medical Officer and two Senior Eye Surgeons against the sanctioned strength. It is noteworthy that there were several vacancies of Senior Medical Officers/Senior Specialists in other District Hospitals of the State.

5.12.8 Targets of food sampling not achieved due to vacancies in the post of Food Inspector

Under the Prevention of Food Adulteration Act 1976, each Food Inspector should take 60 samples of food per year and Chief Food Inspector should take 36 samples of food per year and the samples collected be sent to Food Analyst for testing.

Test check of records (April to July 2006) of CMO Almora, Chamoli, Haridwar, Pithoragarh revealed that the number of food samples collected ranged between 7 per cent to 88 per cent during 2003-04 to 2005-06 (*Appendix-5.3*).

Thus, the target of taking samples was not achieved due to the shortage of Food Inspectors, which ranged between 33 to 92 per cent as detailed below.

Table -7

Name of CMO	Sanctioned Posts	Men-in-Position	Vacant Posts	Percentage of Vacancy
Almora	17	5	12	71
Chamoli	14	1	13	92
Haridwar	6	4	2	33
Pithoragarh	8	2	6	75

Source: Departmental figures

5.13 Internal audit Set-up

Internal audit is part of the internal control system. It is an independent function within the organization, which helps an organization to accomplish its objectives by bringing about a systematic disciplined approach to evaluate the level of compliance with the departmental rules and procedures so as to

provide assurance to the management on the adequacy of the internal control system of the department.

5.13 Test check of records of Director General (Medical Health & Family Welfare), Dehradun (April & May 2006) revealed that there was no internal audit set-up in the Department. The Department replied that no structure for internal audit had been approved for the Department so far. Failures were noticed at various control levels (budgetary, financial, expenditure, manpower management) as discussed in the above paragraphs, which could have been avoided had there been a system of Internal Audit in the Department.

5.14 Conclusion

Although an internal control existed in the Department, the control exercised are inadequate and unsatisfactory. Because of poor budgetary control of the funds provided, 30 *per cent* in 2003-04, 24 *per cent* in 2004-05 and 16 *per cent* in 2005-06 remained unspent leading to avoidable savings. Chief Medical Officers and Chief Medical Superintendents submitted budget estimates late to the Controlling Officer resulting in unrealistic budget estimates, which in turn inhibited a planned growth. There were idle investments of 29.86 lakh and Rs. 12.49 lakh on incomplete buildings of Primary Health Centre, Buggawala, Haridwar and State Allopathic Dispensary Bankot, Pithoragarh. On account of 45 *per cent* vacancies of Senior Medical Officer/Medical Officers in the State, the people of the State were deprived of their rightful medical, health and family welfare facilities. A number of State Allopathic Dispensaries and Additional PHCs were without Medical Officers and Pharmacists even though they were constructed long time back, thus depriving the public of those areas of medical and health facilities. Targets of food sampling were not achieved. Internal Audit function was not set up as required, thereby depriving the department of an independent internal assessment mechanism.

5.15 Recommendations

- Proper scrutiny and timely submission of budget estimates should be ensured for optimum utilization of funds and to avoid excess budget provision and avoidable surrenders. Adequate internal expenditure control measures need to be established to ensure optimum utilisation of budgetary grants.
- Prescribed procedure should be followed for the purchase of medicines.
- The Department should expedite the process of filling the posts of medical officers and para medical staff particularly in remote areas.
- Internal Audit Wing should be established in the Department to examine and evaluate the level of compliance with rules and procedures so as to provide assurance on the adequacy of the internal control framework.
- A system should be evolved and enforced to monitor various operational activities of the department.