

**Performance audit on Procurement of medicines and medical equipment in the
Ministry of Health and Family Welfare**

Highlights

- **In the absence of Ministry's own Manual of purchase procedure, procurements were being undertaken in terms of office memoranda issued from time to time. The only manual prescribing procurement procedures specifically for medical stores organization was the Medical Stores Depot Manual 1980 which was stated to be under revision.**

(Paragraph 7.1.1)

- **A comparison of essential drug lists followed by Medical Stores Organization (MSO)/ Central Government Health scheme (CGHS) and Government hospitals and Autonomous Bodies all under the Ministry of Health showed wide variation between the number and types of drugs included in them.**

(Paragraph 7.1.2)

- **MSO and CGHS Delhi made irregular and unauthorised purchase of cosmetics and toiletry items amounting to Rs. 0.90 crore during 2003-04 to 2005-06. Further expenditure amounting to Rs.13.58 crore was also made by MSO and CGHS Delhi on purchase of inadmissible tonics, vitamins and mineral preparations etc. in violation of specific instructions of the Ministry.**

(Paragraph 7.1.3)

- **Medical Store Organization (MSO) failed to meet the needs of various indentors. The responsibility for procurement of drugs/medicines for CGHS dispensaries in Delhi and for other various disease control programmes was outsourced to various Public Sector Undertakings which resulted in extra costs in the shape of consultancy fees. The HSCC alone had been paid Rs. 9.03 crore towards consultancy fee for the services of procuring drugs.**

(Paragraph 7.1.4 & 7.1.9)

- **Out of the total expenditure of Rs. 459.21 crore on purchase of medicines for CGHS dispensaries in Delhi during 2002-06, the value of purchase of medicines made through local chemists was Rs. 366.33 crore which constituted 80 per cent of the total purchase. Similarly the percentage of locally purchased medicines in CGHS Hyderabad, Bangalore, Allahabad, Patna, Kolkata, Mumbai, Pune and Guwahati during the year 2002-07 accounted for 74 to 91 per cent of total purchases.**

(Paragraph 7.1.5)

- **Based on the variation in discount rates between the minimum discount rate offered by suppliers under centralized purchase system and maximum discount offered by local chemists, the department incurred extra avoidable expenditure of Rs. 41.21 crore in local purchase of medicines.**

(Paragraph 7.1.5)

- **The irregularities relating to cartel formation, serious suspicions about the quality of drugs and delays in settlement of the claims of chemists persisted in CGHS supply since effective corrective measures had not been taken by the Ministry.**

(Paragraph 7.1.6)

- **Failure of the Department to make proper estimates of procurement requirements from time to time resulted in medicines valued at Rs. 5.87 crore becoming time barred in Government Medical Store Depots (GMSDs) and CGHS stores.**

(Paragraph 7.1.7)

- **The Central Government Hospitals and AIIMS had not drawn samples for testing by Central Indian Pharmacopial Laboratory (CIPL) Ghaziabad despite the instructions of the Ministry that random samples of drugs and medicines from the supplies received be drawn and sent to CIPL for testing. Most of the organizations were relying on the laboratory test reports of the suppliers.**

(Paragraph 7.1.8)

- **A long term and well documented plan for procurement of equipment had not been prepared either centrally in the Ministry or at the level of individual hospitals.**

- **There was no system in place for sharing the information on cost and quality etc of commonly used items of machinery & equipment costing less than Rs. 50 lakh in each hospital to bring about economy in their purchases. Similarly, the ministry did not have any documented policy on standardization of medical equipment.**

- **39 items of equipment valued at Rs. 31.94 crore received during 2004-05 to 2006-07 were installed after delays ranging from 2 to 23 months.**

- **Three hospitals had to incur avoidable expenditure of Rs. 69.86 lakh towards demurrage charges during 2002-03 to 2006-07 due to their failure in releasing the consignment within the stipulated period.**

(Paragraph 7.2.1)

- Machinery and equipment valued at Rs. 8.49 crore were purchased during the period October 2005 to January 2007 for Trauma Centre by Dr. R.M.L. Hospital even though the construction of building and other physical infrastructure was incomplete.

(Paragraph 7.2.2)

- Test check of 32 purchase cases contracted by DGHS, RML, Safdarjung, LHMC and BCGVL hospitals revealed that in 13 cases time taken from the date of invitation of bid to the placement of supply orders ranged between 18 to 36 months against the envisaged time of six months.

(Paragraph 7.3.2)

Summary of important recommendations

The Ministry (MH&FW) may:

- prepare a list of essential drugs and medicines and limit procurement to the formulary list as a standard practice. Purchase of medicines outside the list of essential medicines for addressing special needs should be permitted in a transparent manner,
- strengthen the Medical Store Organisation, identify reasons for large local purchases and take appropriate remedial measures for making procurement economical with due regard to quality,
- review the functioning of the Medical Store Organisation and outsourcing of procurement functions to the consultants for ensuring economies of scale and timely supply,
- review and rationalize the scheme for appointment of local chemists and local purchases from ALCs with a view to ensure most economical supplies, while ensuring that quality norms are adhered to.
- develop a policy on standardisation and rationalisation of commonly used medical equipment. Purchase of non-standardised product models should be permitted in a transparent manner as exceptions to the rule,
- properly plan, consolidate and coordinate the procurement needs of various hospitals and autonomous bodies in order to take advantage of bulk purchase discounts,
- strengthen MIS procedures, preferably for integrated IT supported MIS for better monitoring and control,
- strengthen internal controls and determine accountability for irregular purchases; and
- standardise the bidding documents in line with standard documents of the DGS&D across all the attached and subordinate offices of the Ministry.