



THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2014-2016)**

HUNDRED AND FIFTH REPORT
(Presented on 18-2-2016)

**SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM**

2016

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**COMMITTEE
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HUNDRED AND FIFTH REPORT

On

**Kerala Medical Services Corporation Limited based on the Report
of the Comptroller and Auditor General of India for the year
ended on 31 March, 2011 and 2013 (Commercial)**

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2014-2016) having been authorised by the Committee to present the Report on their behalf, present this Hundred and Fifth Report on Kerala Medical Services Corporation Limited based on the Reports of the Comptroller and Auditor General of India for the years ended 31 March, 2011 and 2013 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the years ended on 31 March, 2011 and 2013, were laid on the Table of the House on 23-3-2012 and 10-6-2014 respectively. The consideration of the audit paragraphs included in this Report and the examination of the departmental witness in connection thereto was made by the Committee on Public Undertakings constituted for the years 2014-2016.

This Report was considered and approved by the Committee at the meeting held on 17-2-2016.

The Committee place on record their appreciation of the assistance rendered to them by the Accountant General (Audit), Kerala in the examination of the Audit Paragraphs included in this Report.

The Committee wish to express their thanks to the officials of the Health and Family Welfare Department of the Secretariat and Kerala Medical Services Corporation Limited for placing before them the materials and information they wanted in connection with the examination of the subject. They also wish to thank in particular the Secretaries to Government, Health and Family Welfare and Finance Departments and the officials of Kerala Medical Services Corporation Limited who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

Thiruvananthapuram,
18th February, 2016.

K. N. A. KHADER,
Chairman,
Committee on Public Undertakings.

COMMITTEE ON PUBLIC UNDERTAKINGS

(2014-2016)

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Smt. P. K. Girija, Additional Secretary

Smt. M. R. Maheswary, Deputy Secretary

Shri P. S. Selvarajan, Under Secretary.

REPORT

ON

KERALA MEDICAL SERVICES CORPORATION LIMITED

AUDIT PARAGRAPH

Extra expenditure in procurement of medicines

The Company was incorporated (November 2007) for implementing a system for purchase and distribution of drugs, supplies and equipments in the Department of Health Services and Medical Education through a centralised procurement system to ensure savings by harnessing funds allotted through State Budget and from other sources.

As per Para 5 of the Stores Purchase Manual, the quantities of items for purchases are to be decided on the basis of consumption of previous three to five years and taking into account probable budget estimate for the next year. Requirements were to be correctly estimated so that after inviting tenders the quantities were not changed.

We observed (August 2010) :

The Company decided to call for tenders for supply of items for duration of one year from April 2008 to March 2009 vide tender No.001/Drugs/KMSCL/2008 dated 30th January, 2008. Based on the indents of two user departments required during 2008-09, the Company tied up for quantities valued for mere ₹ 31.90 crore only citing that the indents were artificially jacked up.

During the first quarter of 2008-09 itself, the Company procured (April-June 2008) drugs/medicines valuing ₹ 31.40 crore at the agreed rates i.e. exhausting the total purchase order. Due to incorrect firming up of quantities, it had to procure the balance quantities for the rest of the year at rates higher than the original agreed rates leading to extra expenditure of ₹ 2.09 crore (Annexure 17).

Management stated (June 2011) that the actual requirement of drugs could not be planned due to non-availability of adequate data. Further, the quantities were restricted to the budget provision of ₹ 95.30 crore. Due to wrong estimation of the quantity and price, the value of medical items tied up was lower (₹ 31.90 crore). As there was a provision in the tender to increase or decrease the quantity at the same rate, the initial quantities were restricted.

The contention of the Company was not acceptable as it did not assess the requirements of the indenting departments correctly and arbitrarily reduced their demands without even linking with the funds availability through State Budget and other schemes. The agreement with suppliers also did not prescribe the upper limit of variation in quantities for which the price quoted would be firm. It was for this reason that the suppliers were not willing to supply at the agreement rates beyond the quantities initially firmed up.

Thus, the avowed aim of setting up of the Company to ensure economy of purchase was defeated due to poor planning and co-ordination. We recommend the Company to evolve procedures to estimate demands correctly.

The matter was reported (May 2011) to Government, their reply was awaited (November 2011).

Violation of Government Orders by the State PSUs

Public Sector Undertakings (PSUs) in the State were adopting the rules and procedures laid down in Stores Purchase Manual (SPM) of the State Government following enforcement (February 1995) by a Government Order (G.O.). Paragraph 21 (a) of the SPM as revised by G.O. (December 2008) prescribed the cost of tender forms to be collected from bidders for the works and suppliers at the rate of 0.20 per cent of estimated cost of item tendered for tenders up to ₹ 10 lakh and thereafter at the rate of 0.15 per cent + Value Added Tax (VAT).

Scrutiny of records of PSUs (2010-11) revealed that three PSUs in the State collected only ₹ 14.89 lakh as cost of tender forms in 29 cases of works and suppliers as against ₹ 87.99 lakh to be collected as per the revised rates resulting in loss of ₹ 73.10 lakh (Annexure 22). In the process the State Government also suffered loss of Tax revenue worth ₹ 4.38 lakh since as against ₹ 5.75 lakh collectible as VAT, the Company/Corporation had collected only ₹ 1.37 lakh.

Management of KMSCL accepted (June 2011) the contention and agreed to review the tender rates in line with Government Orders while KMML stated (May 2011) that they had collected cost of tender forms at rates fixed in accordance with the purchase procedure approved (2011) by its Board of Directors but expressed that adoption of revised Government rates may result in small and

medium scale industries, refraining from participation in tender process. In respect of KINFRA, Government stated (June 2011) that no additional expenditure was incurred by the Company for tendering as it formed part of Architectural Consultants scope of work. The Company collected the cost of tender proportionate to the cost incurring for its preparation.

The replies of the Management of KMML and Government were not acceptable as the Government Orders were mandatory and the Government while issuing the orders had already considered the interests of all stake holders.

[Audit Paragraph 4.5 & 4.11 contained in the Report of the Comptroller and Auditor General of India for the years ended 31 March, 2011 (Commercial).]

Notes furnished by the Government on the Audit Paragraph is given in Appendix II.

AUDIT PARAGRAPH

Procurement of drugs without the stipulated shelf life

Tender conditions of KMSCL required that the drugs supplied should have the stipulated shelf life. There was also provision in the tender documents that the tenderers shall take back drugs which were not utilised by KMSCL within the shelf life period based on mutual agreement. To minimise the expiry of drugs in the hospitals and warehouses, an efficient system of First Expiry First Out (FEFO) method was to be followed by KMSCL. Audit scrutiny revealed that KMSCL procured 321 drugs comprising 16529 batches costing ₹ 92.66 crore without the stipulated shelf life during 2008-2013. KMSCL was also not following an effective FEFO method for issue of drugs to hospitals. During 2008-2013, drugs costing ₹ 2.91 crore became time expired and the KMSCL did not take any action to get the same replaced by the suppliers as stipulated in the tender conditions. Thus, failure on the part of KMSCL to follow the tender conditions resulted in a loss of ₹ 2.91 crore to State Government.

In the exit conference, Secretary agreed with the audit findings and stated that a detailed audit would be conducted at the KMSCL after consultation with the Finance Department.

Testing of Drugs

According to the procedure prescribed and followed by KMSCL, all batches of drugs procured were to be subjected to quality tests through its empanelled laboratories. According to the standard operating procedure followed by KMSCL for ensuring quality of drugs, the empanelled quality testing laboratories were required to submit test reports of sterile and non-sterile samples within 15 and 30 days respectively from the date of receipt of the samples by them. Drugs declared as 'Not of Standard Quality (NSQ)' were to be frozen and not to be issued to hospitals. It was also seen that out of 37112 batches, in 25342 batches the empanelled laboratories failed to submit the test result within the stipulated time. Analysis revealed that, in 970 batches the delay ranged from 50 to 100 days, in 155 batches the delay ranged from 101 to 200 days, in 41 batches the delay ranged from 201 to 300 days and in four batches the delay was between 300 and 395 days.

Audit noticed that during 2008-2013, only 37112 out of 47650 batches of 1158 drugs procured were tested for quality and 382 batches were declared as NSQ. Out of the above, only 260 batches of drugs were frozen at the warehouses of KMSCL and the remaining 122 batches of the substandard drugs were issued to hospitals due to delay in receipt of test results. In 23 out of the 33 hospitals test-checked, it was noticed that the delay in receipt of intimation of NSQ drugs resulted in administration of substandard drugs to patients.

Audit scrutiny also revealed that certain drugs like insulin, anti-venom and anti-rabies vaccine, paracetamol, antibiotics, etc., purchased by KMSCL were not subjected to quality tests despite KMSCL collecting Handling and Testing Charges of ₹ 3.58 crore from the suppliers of these drugs during review period. By not conducting the required quality tests, the risk of patients consuming substandard drugs cannot be ruled out.

The Secretary in the exit conference stated that the delay in obtaining results from the laboratories would be looked into. He also agreed that the risk of administering NSQ drugs to patients was a very serious issue and would be taken care of on priority basis.

Regarding non-testing of drugs, KMSCL stated (September 2013) that drugs requiring cold storage conditions, X-ray films and chemicals, etc., were not tested as no empanelled laboratory had provisions for their testing. However, the reply does not explain why drugs like paracetamol, antibiotics, etc. were not sent for testing.

Presence of expired drugs in hospital wards

Drugs with expired shelf life were to be reckoned as biomedical waste and not to be consumed. Audit noticed that in six hospitals, lack of monitoring of the life cycle of drugs resulted in their time expiry. Expired drugs were stored in various nursing stations and wards along with normal drugs for eventual distribution to patients. In TH Attingal, expired drugs like Metoclopramide Injection and Adrenaline Injection were kept along with normal drugs in the ward.

In the exit conference, the Secretary stated that presence of expired drugs in hospital wards was due to lack of computerisation of pharmacies and stores and assured that necessary instructions would be issued to hospitals.

Stock-out of drugs in warehouses/hospitals

Ensuring the uninterrupted supply of essential drugs to hospitals plays a vital role in the delivery of quality healthcare services in hospitals. KMSCL was to ensure stocking of sufficient quantity of essential drugs in its warehouses. Analysis of the stock of essential drugs in KMSCL as on 31st March of each year during the period 2008-2012 revealed that essential items of drugs including vital drugs such as Amoxicillin, Ampicillin, Cloxacillin, etc., were out of stock in the warehouses. It was observed that there was stock-out of 35 to 48 per cent of items of essential drugs in the warehouses as on 31st March of each year during the period 2008-2012. Maximum shortage of drugs ranging from 61 to 66 per cent was noticed in the Wayanad and Kasaragod District warehouses of KMSCL. Stock-out of drugs in warehouses resulted in stock-out of drugs in hospitals. In test-checked hospitals, audit noticed stock-out of essential drugs on the dates of visit by audit. The stock-out of drugs resulted in purchase of drugs by the patients from private medical shops. Superintendent, W&C Hospital, Alappuzha attributed the stock-out of drugs in the hospital to irregular supply of drugs by KMSCL.

Huge variation in physical stock and system stock of drugs

Audit analysis revealed that KMSCL had not conducted the annual/periodical physical verification of stock with the system stock from its inception in November 2007. The statutory auditors of KMSCL pointed out the variation in physical stock vis-à-vis system stock of KMSCL in the audit reports for 2008-09 and 2009-10. But, KMSCL conducted a detailed stock taking of drugs only in March 2013. The physical stock taking by KMSCL in its drug warehouses revealed variations to the extent of ₹ 21.23 crore, between the actual stock available in the warehouses vis-à-vis system stock maintained in KMSCL. KMSCL decided to introduce a process wherein the excess and shortage would be nullified and making the system stock equal to the stock physically available in the warehouses as on 1st April, 2013. For this, it was decided to create fictitious Purchase Orders (POs)/Material Issue Notes (MINs) in the name of fictitious suppliers/institutions. Based on these fictitious POs and MINs, the net shortage of stock of ₹ 21.23 crore in the warehouses was nullified and physical stock was taken as system stock. This is not a standard accounting procedure to set right a system stock, and hence the possibility of using this practice for stock misappropriation could not be ruled out.

The Governing Body of KMSCL while ratifying the action of the Managing Director in making the system stock equal to the stock physically available in warehouses as on 1st April 2013, directed to find out the reasons for the variation. But KMSCL did not analyse the causes of variation as of September 2013.

Audit observed that the deficiency in inventory management could have been rectified, if stock taking had been done periodically. Due to non-conducting of stock taking, there was accumulation of huge shortage of stock over the years making it difficult for KMSCL to evaluate the reasons for variation and take corrective measures.

Audit noticed that while in the case of time expired drugs, KMSCL obtained orders from the State Government to write off ₹ 1.13 crore, but shortage of stock worth ₹ 21.23 crore was nullified by the Governing Body without obtaining any orders from State Government. This requires detailed investigation. In the exit conference, Secretary stated that a detailed audit would be conducted in consultation with the Finance Department.

Procurement of medical devices at higher price

KMSCL in its tender documents stipulated that the type, nature and quality of evaluation tests were the prerogative of its technical committee. Audit noticed that in the case of supply of medical devices for 2011-12, tenders of 10 out of 11 firms were rejected on technical grounds. There was undue delay in finalisation of tenders and placing purchase orders resulting in stock-out position in warehouses and hospitals during 2011-12. Citing urgency of the situation, KMSCL placed supply orders with M/s B. Braun Medicals India Ltd., the only firm approved by the Technical Committee for 10 items of medical devices. The rates quoted and approved for procurement of six items from this supplier during 2011-12 were higher than the prices at which these products were procured by the MCT during the same period by ₹ 4.35 crore. Similarly, during 2011-12 the KMSCL procured I.V. set with needle at the rate of ₹ 24 per unit. KMSCL procured the same item during 2010-11 and 2012-13 at the rate of ₹ 3.28 and ₹ 10.10 per unit respectively. As the MCT rate was not available, audit made a cost comparison of this item purchased in 2011-12 with respect to the cost of the item procured in 2012-13 and found that the KMSCL incurred an extra expenditure of ₹ 3.05 crore. Thus, KMSCL incurred an additional expenditure to the tune of ₹ 7.40 crore in the above purchases. KMSCL admitted the audit observations and stated that they were forced to procure the drugs from M/s B. Braun Medicals India Ltd. due to acute shortfall of drugs in hospitals.

The reply is not acceptable as KMSCL also admitted that it had met fixed any timeline for finalisation of tenders. The delay in finalisation of tenders and resultant additional expenditure of ₹ 7.40 crore could have been prevented if specific timeline for finalisation of tenders was stipulated and adhered to.

[Audit Paragraph 2.1.10.1-2.1.10.6 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2013 (Commercial).]

Notes furnished by the Government on the Audit Paragraph is given in Appendix II.

1. At the outset, the Committee sought explanation for the delay occurred in forwarding the reply to the audit paragraphs and directed to take action against

those who were responsible for it. The Committee enquired why the Corporation had purchased medicines only for ₹ 31 crore when the budget provision was ₹ 130 crore. The witness replied that the medicines were purchased by the Central Purchase Committee at that time and the details available with them were not accurate. Due to the non-availability of actual data, it was decided to bid the tender for ₹ 31 crore. The Committee opined that the explanation was not satisfactory and the Corporation ought to have an idea about the requirements of drugs by holding timely discussion with the Departments of Health Services and Medical Education.

2. The witness further explained that in the beginning, Corporation had to face many difficulties like the shortage of sufficient staff, inadequacy of warehouses to store medicine etc. The medicines purchased for 163 hospitals had to be stocked in 15 warehouses and for issuing all these medicines only one pharmacist was available at that time. Moreover data entry could not be done successfully for want of staff and the staff were appointed on contract and daily wage basis and through deputation.

3. The Committee again pointed out the audit objection that medicines were purchased for only ₹ 31 crore when the budget allocation was ₹ 130 crore and also by procuring the balance quantities for the rest of the year at rates higher than the agreed rates leading to an extra expenditure of ₹ 2.09 crore. The witness informed that it was due to the problems in data entry and that the work had to be done manually.

4. The Committee criticized the Corporation for not giving orders for even ₹ 100 crore, when the budget provision was ₹ 130 crore and when there was an opportunity to supply medicines for ₹ 300 crore to the DME and DHS. The Committee observed that Corporation could not implement its intention fruitfully because of the lack of proper planning and monitoring and gave direction to realize the loss from concerned officers, for creating a loss of ₹ 2.09 crore. With regard to the audit objection in the short collection of tender forms it was submitted before the Committee that at present tender forms were issued to the bidders at the rates prescribed in the Government Orders.

5. Then the Committee examined the objections pointed out by AG in the Report (Civil) for the year (2013-14) regarding procurement and management of drugs and medical devices in Kerala Medical Services Corporation Limited. To the queries of the Committee regarding the quality test of medicines, the witness replied that medicines were supplied without testing its quality during 2008-2013, due to the lack of well-equipped laboratories and it was difficult to follow the F.O. system as there was no proper warehouse facilities to stock medicine. The Committee remarked that the ultimate aim of setting up of the Corporation was to make available quality medicines to the Public Health care Institutions in the State but it had failed to implement its very objective and the Corporation could not supply medicines effectively even during the rainy season especially in the month of June-July when medicines were most needed.

6. The Committee further pointed out that, as per the Audit Report, the variation between the physical and system stock was ₹ 21.23 crore and that the Corporation had created fictitious documents to tally the accounts. The witness informed that physical verification was not done accurately up to 2011 due to the shortage of Pharmacists and the problems connected with data entry. The Committee pointed out that the act of creating fictitious documents to tally physical and system stock was a severe crime and criticized the witness for being a part of the crime. The Committee observed this as a serious irregularity on the part of the officials and wanted to know the explanation in this regard. The witness admitted that it was done as a part of stock adjustment and that fictitious bills were not issued and accounts were not settled with the suppliers. The witness added that they had placed the matter before the board for consideration.

7. The board members were also liable in the matter and the Committee directed to take action against the then Managing Director, for not verifying the physical stock accurately. The witness explained that as the stock was found accumulating, he had only tried to verify the actual stock, and to rectify the system by adjusting the stock. The witness further informed that a third party inspection had been arranged in the matter as per the direction of the Accountant General.

8. The Committee was astounded to notice that drugs costing ₹ 2.91 crore became time expired due to the laxity from part of the officers in taking action to

get the same replaced by the suppliers as stipulated in the tender conditions. The Committee sought explanation for the act of procuring drugs costing ₹ 92.66 crore without stipulated shelf life and the reason for not following FEFO (First Expiry First Out) method for issuing drugs to hospitals.

9. The witness replied that, of the procured drugs some were without the stipulated shelf life period and out of ₹ 2.91 crore an amount except ₹ 5.35 lakh was recovered from the supplier, and hence no loss had occurred in the matter. The Committee wanted to have documental evidence for the explanation and enquired whether any detailed Audit was conducted by KMSCL in this regard as pointed out in the audit para. The witness replied that since actual payment was not done, KMSCL did not conduct audit. The witness further responded that at present the Corporation was provided with NABL Certificate before the supply of drugs and the main reason for the expiry of drugs was that some institutions abstained from taking the drugs after intending it on the ground that drugs ordered were beyond their requirement. The Committee remarked that one could easily surmise some misappropriation on the part of the Corporation since almost all activities by them were not transparent. The Committee directed to furnish a detailed table structure showing the purchase order, the Supplier Company, quantity of drugs, date of receipt of drugs, details of payments made, payments withheld, etc. with supporting documents to the Committee within seven days.

10. The Committee sought explanation for the supply of substandard drugs to hospitals and the procurement of certain medicines which were not subjected to quality tests. The witness replied that some drugs were sent to hospitals before the receipt of test results and of these, some drugs were consumed and some were frozen at warehouses. To the query of the Committee regarding the availability of laboratories with facilities for testing X-ray films, the witness informed that X-ray films and vaccines were sent along with the test result of central laboratory of the Government of India and therefore further testing was not required.

11. The witness admitted that the Corporation could not deny some facts in the audit findings and explained that 122 batches of substandard drugs were issued to hospitals due to the delay occurred in receiving test results and by the time the Corporation had issued orders to freeze the substandard medicines, but some drugs

were already consumed in hospitals. The Committee remarked with displeasure that the corporation had lost its fidelity among the public due to the failure in convincing them of the matters. The Committee directed to fix the liability upon the persons responsible and to take stringent action in the matter. The Committee also directed to furnish the list of officers who are responsible for the lapse during the period.

12. To the query of the Committee about the presence of expired drugs in hospitals the witness explained that the expired drugs were not supplied by the Corporation but when surplus medicines were supplied to the hospitals as per the indents of the DHS or DME, the drugs were retained there even after the expiry date. The Additional Secretary, Health Department replied that steps were being taken to constitute an institutional store verification team for identifying and disposing of expired drugs periodically under the guidance of DMOs and DPMs of the concerned districts. The Additional Secretary also informed that computerization of pharmacies will be done through e-Health programmes and as a part of it all PHCs and CHCs will be connected with the warehouses to ensure the availability of medicines in the above centres.

13. The Committee criticized that the responsible officers in the department had no idea about the actual requirement of medicines for each hospital and therefore only vague indents were submitted by the DMO's. The Committee directed that a foolproof system, should be evolved to promote accuracy in assessing the actual requirement of medicines to each hospitals and also to identify the fast moving and highly essential medicines. The Committee remarked that the main intention behind the constitution of the corporation was to ensure the supply of quality medicine to hospitals. But due to lack of an effective monitoring mechanism nowadays activities of Medical Services Corporation was not appreciable so that they could neither ensure the availability of essential medicines to needy public nor could assure the quality of medicines being supplied to the poor. The Committee recommended that steps should be taken by the Government to strengthen the functioning of the Corporation by providing sufficient staff and also by modernizing the pharmacies and stores to check the process of distribution of medicines. The Committee criticised that the Corporation had failed in ensuring

the uninterrupted supply of essential drugs to hospitals as per their needs and directed to evolve an effective monitoring system for ensuring the supply of essential medicines and also to check whether the required quantity of them would be available in each hospital.

14. The Committee finds a great variation to the extent of ₹ 21.23 crore between the actual stock available in warehouses and the system stock maintained in the Corporation due to the failure of the Corporation to conduct periodical physical verification of the stock. The Committee deprecated the malpractices done by the Corporation to invalidate the shortage in order to make the system stock equal by creating fictitious purchase orders for ₹ 21.23 crore. The Committee expressed its distress at the failure on the part of the Corporation to report the matter to the Government in time and remarked that the inert attitude in conducting stock verification periodically had resulted in the disorders.

15. The Committee sought an explanation regarding the decision taken by the Governing Body to nullify ₹ 21.23 crore without obtaining orders from the State Government. The Committee directed to furnish the details of the action taken based on the detailed audit conducted by Finance Department and the Committee also proposed a Vigilance enquiry in this regard.

16. The Committee noticed that the corporation had purchased medical devices for higher rates incurring an extra expenditure of ₹ 7.40 crore due to the delay in the finalisation of tenders. The Committee remarked that if specific timeline for the finalisation of tenders was stipulated and adhered to by the corporation, the extra expenditure could have been avoided. The witness informed that Vigilance enquiry was going on in the matter. The Committee directed to furnish the details of the Vigilance enquiry and its final report to the Committee.

Conclusions/Recommendations

17. **The Committee expresses its displeasure for the delay occurred in forwarding reply to audit paragraphs and directs to take action against the concerned officers for their delinquency in the matter.**

18. The Committee is perturbed to note that the Corporation had curtailed the purchase to ₹ 31.40 crore when there was a budget provision for ₹ 130 crore to procure drugs. The Committee is not satisfied with the explanation of the witness that the Corporation decided to bid the tender only for ₹ 31 crore due to the non-availability of adequate data and according to the purchases made during the previous year by the Central Purchase Committee which was devoid of adequate data. The Committee is of the opinion that if the Corporation had timely discussion with the departments of Health Services and Medical Education about the requirement of drugs an amount of ₹ 2.09 crore spent for procuring the balance quantities at the rates higher than the agreed rates could have been avoided.

19. The Committee flays the Corporation for dissipating an opportunity instead of implementing fruitful ideas in the matter. The Committee finds that neither the officials responsible in the Health Department nor the Corporation had exact idea about the requirement of drugs and the Corporation procured drugs merely by the indent of DHS and DME and without ensuring the requirement of drugs. The Committee remarks this as the best example of lack of proper planning and monitoring. Therefore, the Committee recommends that a proper system should be evolved to assess the actual requirement before procuring the drugs at least in future.

20. The Committee is surprised to note that the Corporation supplied drugs to hospitals without ensuring its quality and 122 batches of substandard drugs were issued to hospitals before getting the test results. The Committee comment it as unjustifiable and seeks explanation for the supply of substandard drugs to hospitals and the procurement of certain medicines which were not subjected to quality tests. The Committee also directed to furnish the list of officers who are responsible for the lapse and recommends to fix liability upon the persons and to take stringent action in the matter.

21. The Committee criticise the failure of the laboratories to submit the quality test results of the drugs within the stipulated time which resulted in the administration of substandard drugs to patients as unpardonable. The Committee also points out the consumption of NSQ drugs as a sensitive issue since it directly affects the lives of people and the Corporation is responsible for the same.

22. The Committee suspects that the Corporation deliberately saved the suppliers by not taking any steps even though expired drugs could have been replaced as per the tender conditions. By expressing dissatisfaction over the statements made by the witness that out of ₹ 2.91 crore an amount except ₹ 5.35 lakh was recovered, the Committee directs to submit documental evidence regarding the same. The Committee also directs to submit a report in a tabular form showing the details such as purchase order, number, name of the supplier Company, quantity of drugs, date of receipt of drugs, details of payments made, payments withheld etc. with supporting documents.

23. The Committee blames the Corporation for its failure to follow First Expiry First Out (FEFO) system for issuing drugs to hospitals.

24. The Committee seeks explanation for the presence of expired medicines in the hospitals. The Committee is of the opinion that expired drugs were stored in various hospital wards due to lack of monitoring of the life cycle of drugs. The Committee concludes that the responsible officers in the department had no idea about the actual requirement of medicines for each hospital and hence vague indents were submitted by DMOs. The Committee directs that a foolproof system should be evolved to assess the actual requirement of medicines in each hospital. Fast moving and highly essential medicines are identified and procured in required quantity to ensure the supply of such medicines round the clock.

25. The Committee further remarks that the Corporation not only caused financial loss in procuring drugs but also brought great damage to the lives of common man by not intimating the NSQ drugs in time. The Committee is grieved to note that Corporation was procuring drugs despite knowing the fact that most of the drugs remain idle in warehouses and the patients are forced to consume NSQ drugs due to the non-availability of test results in time.

26. The Committee views that the Corporation was constituted for implementing a system for the purchase and distribution of quality medicines to people. The Committee is much distressed to note that by the supply of NSQ drugs and violating FEFO method, the Corporation nullified the very objective of the Corporation to make available quality medicines to public. The Committee remarks that the public could never trust in the Corporation since it supplies drugs to hospitals in such an irresponsible manner.

27. The Committee is shocked to note that the Corporation adopted lethargic attitude in the distribution of drugs even without testing its quality and spending crores of rupees in the procurement of drugs without assessing its requirement. The Committee is of the opinion that there exists an overall mismanagement and lack of proper planning in the procurement and storage of drugs. The Committee therefore recommends that the Corporation should be more serious, practical and vigilant in the procurement and distribution of drugs.

28. The Committee is perturbed to note that great variation to the extent of ₹ 21.23 crore was identified between the actual stock available in warehouses and the system stock maintained in the Corporation due to its failure to conduct periodical physical verification of the stock. The Committee finds that there is no proper system of stock verification in the Corporation and no one including DME and DHS have clear idea about the requirement of drugs. As a result, huge quantity of drugs purchased by spending crores of rupees were idling in various hospitals. The Committee consider it as a serious lapse and sees no justification for the same.

29. The Committee expresses its discontent over the manipulative action to create concocted documents, to overwhelm the variation between physical and system stock. The Committee observes the act as a serious criminal offence and criticises the then Managing Director for being a part of the crime. The Committee remarks that the Corporation is tripping on old mistake by creating fictitious documents instead of taking corrective measures to avoid such irregularities in future. The Committee directs to furnish an explanation regarding the clandestine act of the officers in the matter and recommends to take action against the Managing Director for the failure from his part on verifying the physical stock accurately. The Committee also recommends that stock verification shall be conducted quarterly and immediate action shall be taken to redeem the irregularities.

30. The Committee observes that the Corporation had purchased medical devices for higher rates incurring an extra expenditure of ₹ 7.40 crore due to the delay in the finalisation of tenders. The Committee finds with distress that, if specific timeline for the finalisation of tenders were stipulated and adhered to by the Corporation, the extra expenditure could have been avoided.

31. The Committee is surprised to note that the Corporation did not conduct physical verification accurately till 2011 due to the shortage of pharmacists and the issues connected with data entry even after its formation in 2007. The Committee criticise the Corporation for its failure to intimate the Government in time about its problems. The Committee recommends the Government to provide sufficient staff and modern amenities to strengthen the functioning of the Corporation. In order to modernize the system the pharmacies shall be computerised and all PHCs/CHCs and warehouses shall be networked together to evolve an effective monitoring system for ensuring the uninterrupted supply of essential medicines to every hospitals, PHCs/CHCs as their needs.

32. The Committee seeks explanation regarding the decision taken by the Governing Body to nullify ₹ 21.23 crore without obtaining orders from the State Government. The Committee directs to furnish the details of the action taken in this regard and a detailed audit by Finance Department. The Committee also proposes a vigilance enquiry in this regard and directs to furnish the details of the vigilance enquiry and its final report.

Thiruvananthapuram,
18th February, 2016.

K. N. A. KHADER,
Chairman,
Committee on Public Undertakings.

APPENDIX I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl. No.	Para No.	Department concerned	Conclusions/Recommendations
1	2	3	4
1	17	Health and Family Welfare	The Committee expresses its displeasure for the delay occurred in forwarding reply to audit paragraphs and directs to take action against the concerned officers for their delinquency in the matter.
2	18	..	The Committee is perturbed to note that the Corporation had curtailed the purchase to ₹ 31.40 crore when there was a budget provision for ₹ 130 crore to procure drugs. The Committee is not satisfied with the explanation of the witness that the Corporation decided to bid the tender only for ₹ 31 crore due to the non-availability of adequate data and according to the purchases made during the previous year by the Central Purchase Committee which was devoid of adequate data. The Committee is of the opinion that if the Corporation had timely discussion with the departments of Health Services and Medical Education about the requirement of drugs an amount of ₹ 2.09 crore spent for procuring the balance quantities at the rates higher than the agreed rates could have been avoided.
3	19	..	The Committee flays the Corporation for dissipating an opportunity instead of implementing fruitful ideas in the matter. The Committee finds

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			<p>that neither the officials responsible in the Health Department nor the Corporation had exact idea about the requirement of drugs and the Corporation procured drugs merely by the indent of DHS and DME and without ensuring the requirement of drugs. The Committee remarks this as the best example of lack of proper planning and monitoring. Therefore, the Committee recommends that a proper system should be evolved to assess the actual requirement before procuring the drugs at least in future.</p>
4	20	Health and Family Welfare	<p>The Committee is surprised to note that the Corporation supplied drugs to hospitals without ensuring its quality and 122 batches of substandard drugs were issued to hospitals before getting the test results. The Committee comment it as unjustifiable and seeks explanation for the supply of substandard drugs to hospitals and the procurement of certain medicines which were not subjected to quality tests. The Committee also directed to furnish the list of officers who are responsible for the lapse and recommends to fix liability upon the persons and to take stringent action in the matter.</p>
5	21	..	<p>The Committee criticise the failure of the laboratories to submit the quality test results of the drugs within the stipulated time which resulted in the administration of substandard drugs to patients as unpardonable. The Committee also points out the consumption of NSQ drugs as a sensitive issue since it directly affects the lives of people and the Corporation is responsible for the same.</p>

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6	22	Health and Family Welfare	The Committee suspects that the Corporation deliberately saved the suppliers by not taking any steps even though expired drugs could have been replaced as per the tender conditions. By expressing dissatisfaction over the statements made by the witness that out of ₹ 2.91 crore an amount except ₹ 5.35 lakh was recovered, the Committee directs to submit documental evidence regarding the same. The Committee also directs to submit a report in a tabular form showing the details such as purchase order, number, name of the supplier Company, quantity of drugs, date of receipt of drugs, details of payments made, payments withheld etc. with supporting documents.
7	23	..	The Committee blames the Corporation for its failure to follow First Expiry First Out (FEFO) system for issuing drugs to hospitals.
8	24	..	The Committee seeks explanation for the presence of expired medicines in the hospitals. The Committee is of the opinion that expired drugs were stored in various hospital wards due to lack of monitoring of the life cycle of drugs. The Committee concludes that the responsible officers in the department had no idea about the actual requirement of medicines for each hospital and hence vague indents were submitted by DMOs. The Committee directs that a foolproof system should be evolved to assess the actual requirement of medicines in each hospital. Fast moving and highly essential medicines are identified and procured in required quantity to ensure the supply of such medicines round the clock.

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9	25	Health and Family Welfare	The Committee further remarks that the Corporation not only caused financial loss in procuring drugs but also brought great damage to the lives of common man by not intimating the NSQ drugs in time. The Committee is grieved to note that Corporation was procuring drugs despite knowing the fact that most of the drugs remain idle in warehouses and the patients are forced to consume NSQ drugs due to the non-availability of test results in time.
10	26	..	The Committee views that the Corporation was constituted for implementing a system for the purchase and distribution of quality medicines to people. The Committee is much distressed to note that by the supply of NSQ drugs and violating FEFO method, the Corporation nullified the very objective of the Corporation to make available quality medicines to public. The Committee remarks that the public could never trust in the Corporation since it supplies drugs to hospitals in such an irresponsible manner.
11	27	..	The Committee is shocked to note that the Corporation adopted lethargic attitude in the distribution of drugs even without testing its quality and spending crores of rupees in the procurement of drugs without assessing its requirement. The Committee is of the opinion that there exists an overall mismanagement and lack of proper planning in the procurement and storage of drugs. The Committee therefore recommends that the Corporation should be more serious, practical and vigilant in the procurement and distribution of drugs.

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12	28	Health and Family Welfare	<p>The Committee is perturbed to note that great variation to the extent of ₹ 21.23 crore was identified between the actual stock available in warehouses and the system stock maintained in the Corporation due to its failure to conduct periodical physical verification of the stock. The Committee finds that there is no proper system of stock verification in the Corporation and no one including DME and DHS have clear idea about the requirement of drugs. As a result, huge quantity of drugs purchased by spending crores of rupees were idling in various hospitals. The Committee consider it as a serious lapse and sees no justification for the same.</p>
13	29	..	<p>The Committee expresses its discontent over the manipulative action to create concocted documents, to overwhelm the variation between physical and system stock. The Committee observes the act as a serious criminal offence and criticises the then Managing Director for being a part of the crime. The Committee remarks that the Corporation is tripping on old mistake by creating fictitious documents instead of taking corrective measures to avoid such irregularities in future. The Committee directs to furnish an explanation regarding the clandestine act of the officers in the matter and recommends to take action against the Managing Director for the failure from his part on verifying the physical stock accurately. The Committee also recommends that stock verification shall be conducted quarterly and immediate action shall be taken to redeem the irregularities.</p>

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14	30	Health and Family Welfare	The Committee observes that the Corporation had purchased medical devices for higher rates incurring an extra expenditure of ₹ 7.40 crore due to the delay in the finalisation of tenders. The Committee finds with distress that, if specific timeline for the finalisation of tenders were stipulated and adhered to by the Corporation, the extra expenditure could have been avoided.
15	31	..	The Committee is surprised to note that the Corporation did not conduct physical verification accurately till 2011 due to the shortage of pharmacists and the issues connected with data entry even after its formation in 2007. The Committee criticise the Corporation for its failure to intimate the Government in time about its problems. The Committee recommends the Government to provide sufficient staff and modern amenities to strengthen the functioning of the Corporation. In order to modernize the system the pharmacies shall be computerised and all PHCs/CHCs and warehouses shall be networked together to evolve an effective monitoring system for ensuring the uninterrupted supply of essential medicines to every hospitals, PHCs/CHCs as their needs.
16	32	..	The Committee seeks explanation regarding the decision taken by the Governing Body to nullify ₹ 21.23 crore without obtaining orders from the State Government. The Committee directs to furnish the details of the action taken in this regard and a detailed audit by Finance Department. The Committee also proposes a vigilance enquiry in this regard and directs to furnish the details of the vigilance enquiry and its final report.

APPENDIX II

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS

Serial No.	Audit Paragraph No.	Reply furnished by Government
1	2	3
1	4.5 (2010-11)	2009-10 സാമ്പത്തിക വർഷം മുതൽ കോർപ്പറേഷൻ ആരോഗ്യ വകുപ്പ് ഡയറക്ടറേറ്റ് (DHS), ആരോഗ്യ വിദ്യാഭ്യാസ ഡയറക്ടറേറ്റ് (DME) എന്നിവിടങ്ങളിൽ നിന്നും മരുന്നുകളുടെ വാർഷിക ഉപഭോഗം ഇൻഡന്റ് വഴി വാങ്ങുകയും അതിന്റെ അടിസ്ഥാനത്തിൽ ടെൻ്റർ വിളിച്ച് മരുന്നുകൾ സംഭരിക്കുകയും ചെയ്തുവരുന്നു.
2	4.11 (2010-11)	ബഹു. അക്കൗണ്ടന്റ് ജനറലിന്റെ പരാമർശം വന്നതിനുശേഷം തുടർന്നുള്ള സാമ്പത്തിക വർഷങ്ങളിലെ ടെൻ്റർ ഫോമുകൾ വിൽക്കുന്നത് സർക്കാർ ഉത്തരവുപ്രകാരം നിശ്ചയിച്ചിട്ടുള്ള തുകയ്ക്ക് തന്നെയാണ്. ആ കാലയളവ് മുതൽ ടി പരാമർശിച്ച നഷ്ടം കോർപ്പറേഷന് ഉണ്ടായിട്ടില്ല.
3	2.1.10.1 (2012-13)	As per the terms and conditions in the tenders invited by the Corporation during 2008-2013 the drugs covered in Schedule P of the Drugs and Cosmetics Rules 1945, shall have a shelf life in accordance with the schedule and in respect of all the other items, a period of minimum 2 years from the date of manufacturing and the supplied items should have minimum 75% shelf life from the date of manufacture when supplied to the Corporation. Even though the condition of two year shelf life is insisted in the tender conditions, drugs like Adrenaline injection, Blood Diagnostic kits like Hepatitis B test kits, Hepatitis C test kits, HIV Elisa kits, other blood products etc. have shelf life less than two years.

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		<p>KMSCL is procuring drugs/supplies for the requirement of Govt. Hospitals for each financial year based on the annual indent furnished by the Directorates of Health Services and Medical Education. Some of the items with less than two years shelf life had been taken into stock and issued to the hospitals to meet the urgent requirement of critical items in the hospitals.</p> <p>During 2008-2013, time expired items costing ₹ 2.91 crore were proposed for condemnation and based on the approval from the Government, these items were handed over to the approved biomedical waste disposal agency—IMAGE. Of these, except value of items for ₹ 5.35 lakh, all others items are Not of Standard Quality batches, products supplied by blacklisted firms etc. for which the value was recovered from the supplier, hence no financial commitment to the Corporation or Government.</p>
4	2.1.10.2 (2012-13)	<p>Audit Observation: Audit noticed delays ranging from 1 to 395 days in receipt of test results from laboratories and resultant delay in freezing of drugs and intimation to hospitals.</p> <p>Remarks: It may be noted that <i>immediately on receipt of the complaint/substandard report from the empaneled labs</i>, Stop memo is issued to all the Warehouses and from there to the user institutions, to stop the distribution and usage of the particular batch. Hence delay in getting test report of analysis, will not lead to the further utilization by the patients.</p> <p>However, if complaint of a batch has been received/drug Inspector has drawn sample, long after the supply, there will not be any physical stock of the particular batch in any of the Warehouses and hence would not freeze the item in the Warehouse part of the system. Instead, the</p>

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		<p>Warehouse Managers forward the freeze Memo copy to the institutions where it was supplied and direct to freeze at hospital level.</p> <p>Audit Observation: Though 382 batches of drugs were declared as Not of Standard Quality by both empaneled laboratories and the Government Drugs Testing Laboratory, only 260 batches were frozen by KMSCL. Remaining 122 batches of substandard drugs were issued to Hospital.</p> <p>Of the 122 batches of substandard drugs which were not frozen by KMSCL, 98.93% of the drugs were issued to Hospitals.</p> <p>Remarks:—The procedure adopted by KMSCL for preventing further supply of drugs of which complaint has been received/reported as substandard by empaneled labs as follows:</p> <ol style="list-style-type: none"> (1) Instruction will be issued to all the warehouses to stop the issue of drugs immediately on receipt of complaint/substandard report from empaneled labs. (2) The item will be sent for confirmatory analysis at Government Drugs Testing Laboratory, Thiruvananthapuram. (3) On receipt of the test reports, Release Order/Freeze Order will be sent to the Warehouses based on the result of analysis. The above orders are generated by the system. Signed hard copies of the orders will be issued from QC Section to all Warehouses to take action in accordance with the orders. <p>It may be noted that stop issue direction of all the batches failed in empaneled labs/complaints were issued on</p>

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		<p>receipt of the rest report of empaneled lab/complaint. Out of 382 batches of Not of Standard Quality drugs in Govt. DTL, 216 batches are of the above category. Remaining 166 batches were failed on the analysis of samples drawn by the drug inspector of Drugs Control Department. The Freeze Memos would be generated from the system on updating the report.</p> <p>In response to the audit query that distribution of 122 batches of substandard drugs were not frozen by KMSCI, the matter was examined in detail and found that the direction to stop the distribution of all these batches were issued. The date at which the direction given to stop the distribution/use of the above 122 batches (Details attached as Annexure V) in question and the hard copies of the same are attached for your reference.</p> <p>It is also to be noted that, if complaint of a batch has been received/Drug Inspector has drawn sample, long after the supply, there will not be any physical stock of the particular batch in any of the Warehouses and hence would not freeze the item in the Warehouse part of the system. Instead, the Warehouse Managers forward the Freeze Memo copy to the institutions where it was supplied and direct to freeze at hospital level.</p>
5	2.1.10.3	<p>District Store verification team will not be able to cover all the institutions in a financial year. Being so, Government directed to constitute verification team with the existing Staff. As per the Government direction institutional store verification team were constituted and a circular in this regard has been issued for avoiding such kind of incidence in future.</p> <p>Computerization of pharmacies will be done through e-Health Programme.</p>

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6	2.1.10.4	<p>Kerala Medical Services Corporation Limited (KMSCL) procures drugs based on the annual indent furnished by the Directors of Health Services and Medical Education by inviting National Competitive Tenders. KMSCL was unable to supply drugs for which no offers received in the tenders. For all other items, the Corporation had issued purchase orders based on the annual requirement of items as informed by the Directors of Health Services and Medical Education. In case of any default supply by the bidders, the items were purchased from alternate sources as per the terms and conditions in the tender which might have resulted in the stock-out position of the items till the supply from the alternate supplier is received.</p>
7	2.1.10.5	<p>Corporation was using software called Drug Distribution Management System (DDMS) for management of inventory from its inception in 2008 to 2012. During the financial year 2012-13, new software TASK was introduced for managing the inventory and till October 2012, both the softwares were run parallelly and from November 2012, DDMS software was discontinued and entire process was routed through the new software TASK.</p> <p>During the start of financial year 2012-13, closing stock of 31-3-2012 as per DDMS was ported to the new software TASK as the opening stock of 1-4-2012 and all other transactions were keyed in from warehouses in the new</p>

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		<p>software as well as old software till October 2012. The porting of data pertaining to closing stock from DDMS, had technical issues while porting, and variations were recorded in the quantity and value in many of the drugs. These variations were not rectified and continued even after the discontinuation of DDMS during November, 2012. With this variation of quantity and value in many drugs, the closing stock as per system was arrived at 31st March, 2013.</p> <p>Corporation had conducted a physical verification of stock as on 31st March, 2013 at all the warehouses across the State. The data of physical quantity taken was compared with the System Stock as on that date with the help of TASK software since variation was found. It was decided to create Fictitious supplier for the excess quantity between Physical Stock and System Stock and Fictitious institution for the shortage between Physical Stock and System Stock. This process was intended for equalizing the System Stock with physical Stock and later to scrutinize the difference and rectify it. The report generated by the Software people for the actual shortage and excess value of the drugs was not given to the Corporation. During the time of Performance Audit, the stock position as on 31st March, 2013 was required. As it was not available with the Corporation, the audit team directly collected the data from the software developer, since it has not been handed over to Corporation. The audit team gave a report to the Corporation showing Total Shortage Value of ₹ 37.87 crore and Excess Value of ₹ 16.64 crore resulting in nett shortage of ₹ 21.23 crore.</p>

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		<p>When the audit paragraph was received, the software developer was asked to furnish the detailed database for the excess and shortage value (drug wise). But the drug wise detailed shortage value was received (a copy of the same is attached as Annexure I) from the backup and the detailed excess value was not received.</p> <p>An analysis of the data received from the software developer for the shortage value of ₹ 37.87 crore reveal that:</p> <p>(a) For the drug Disposable Surgeon's Mask (Double Layer) the total quantity to be procured for the year 2012-13 is 56,54,600 and the value of it is ₹ 59,37,330 @ ₹ 1.05 per piece as per Purchase Orders issued. (copies attached as Annexure II.) But the difference of System Stock and Physical Stock (i.e. the total value of difference as per data) as on 31-3-2013 shows an amount of ₹ 6,80,23,932 for this drug in Kozhikode Warehouse itself.</p> <p>(b) For the drug Prednisolone the total value of Purchase Order issued is for ₹ 92,86,220 (copies attached as Annexure III) but the value of shortage in system is ₹ 6,02,81,041 at Pathanamthitta warehouse and ₹ 73,53,040 at Thrissur warehouse.</p> <p>(c) With respect to the drug Norfloxacin only ₹ 45,93,600 worth Purchase Orders (copies attached as Annexure IV) have been issued for the year but the system is showing a difference value of ₹ 2,13,19,143 at Kozhikode warehouse.</p>

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		<p>The difference in value of these three drugs analysed itself into the tune of ₹ 15,91,52,809 out of ₹ 37,87,05,320 total shortage value as per the AG audit.</p> <p>Moreover there can be minimal mismatches of data on the following basis:</p> <ul style="list-style-type: none"> (a) Data mismatch occurred due to porting of data from the old software to the new software on 1st of April, 2012. (b) Missing of data has occurred when both the softwares were running parallely till 31st October, 2012. (c) Mistakes in entry of data occurred while data was entered by the warehouse people and suppliers. <p>From the above representation of figures it is obvious that the software developed had:</p> <ul style="list-style-type: none"> (a) Significant functional and structural errors in the new developed software. (b) Basic architecture of the software is poor when the inward/outward data is loaded. <p>Since the software developed had functional and structural errors and being very poor with respect to its architecture, Board of Directors of Corporation decided to discontinue the new software and returned to the earlier software DDMS. It was also decided that the data for the two years i.e. 2012-13 and 2013-14 shall be re-entered into the DDMS Software.</p>
8	2.1.10.6	<p>As stated in the observations and findings of the Accountant General, there are three stages for Technical evaluation of tender by different committees:</p>

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		<p>(1) The Technical Evaluation of documents were done by a team comprising of senior officers from State Drugs Control Department, faculties of Government College of Pharmaceutical Sciences, Medical College, Thiruvananthapuram and Officers of KMSCL.</p> <p>(2) Factory inspection is done by another team consisting of Doctors either from DHS or DME, Senior officers from State Drugs Control Department and faculties from Government College of Pharmaceutical Sciences.</p> <p>(3) Sample evaluation is done by a third committee consisting of expert doctors in the relevant fields, nominated by Directors of Health Services and Medical Education.</p> <p>Six bidders have participated for the two products I.V. Set with Needle (S27096) and Blood Administration Set with Micro Aggregate Filter (S27009) which were alleged as procured at higher rates. Two of them were rejected in Technical Bid evaluation (i.e., Sisco Medical Devices and National Small Industries Corporation). Another two bidders were rejected both in Factory inspection and sample evaluation (i.e., Eastern Medikit and M/s Polymedicure Limited) and M/s IVE Links rejected in sample evaluation.</p> <p>For the products Blood Administration Set with Micro Aggregate Filter (S27009) and I.V. Set with needle (S27096) only one bidder i.e. M/s Links was rejected based on sample evaluation alone. It may be noted that the samples of I.V. Set of the above firm was rejected</p>

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		<p>in 2010-11, 2011-12 and 2012-13. The rejection of bidders participated for the items were made at different stages by different committees on solid grounds like failure to meet the annual turnover, non-compliance of GMP etc. and cannot be attributed to the sole decision of the Technical Committee for sample evaluation.</p> <p>The Committee submitted a single evaluation sheet for each sample code approved by all the committee members. Moreover, the offers of the other competitive tenderers except one were rejected not only in sample evaluation, but in the technical, bid evaluation/factory inspection which were done by other expert committees. Medical Devices like I.V. Cannulae, I.V. Sets etc. play a crucial role in the administration of drugs to the patients. Technical aspects like sharpness of needle, leakage, chances of thrombophlebitis, back flow of blood, improper fitting with infusion set, anti-kinking property etc. are considered by the doctors in selecting the devices. Previously products were awarded to small time manufactures who had quoted lowest rates. Some of the products supplied by the Corporation are not being accepted for use by the doctors on the ground that the above properties are not complied with and was being wasted leading to loss to exchequer. In such cases, the patients were directed to purchase from outside at their cost. In the two bid system tenders, price of the products is not the sole criteria for deciding the selection of a product and the rates will be considered only for technically qualified bids.</p>

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		<p>The Hon'ble High Court in W.P.(C) 16084 of 2005 filed by M/s Centennial Surgical Sutures Limited against State of Kerala had held that the decision of the Technical Committee is final and conclusive. Hence the Corporation has moved to the opening of price bid based on the recommendations of the Technical Committee. The same strategy has been adopted for all the categories/items of the tender.</p> <p>Only on the evaluation of price bid, it is noticed that rate of some products quoted by M/s B. Braun Medical (India) Private Limited are high compared to the previous years. The Corporation had made several attempts to bring down the rates, but the steps taken were in vein.</p> <p>Since these items are very essential in hospitals and the stock in warehouses became almost exhausted, the matter was placed before the 16th meeting of Board of Directors held on 14-9-2011. The Board had accorded sanction to issue LOI for 40% of the tendered quantity of the items where M/s B. Braun Medical (India) Private Limited became the eligible supplier and it was also decided to float another short tender for the remaining 60% of tendered quantity. Subsequently LOI for 40% and purchase orders for 25% of the tendered quantity was issued. Later when the stock of the item I.V. Set with Needle exhausted, it became necessary to place another purchase order for the item for the remaining 15% of the LOI quantity on 23-2-2012.</p> <p>In the meantime, a short tender was invited for 60% quantity against which M/s B. Braun Medical (India) Private Limited had filed a Writ Petition W.P.(C)</p>

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		<p>No. 34852 of 2011 before the Hon'ble High Court of Kerala requesting to issue purchase orders for the entire LOI quantity issued to the firm.</p> <p>Price bids for the tender for the year 2012-13 was opened on 26-3-2012. The rates in the 2012-13 tender were less than the Short tender rate for 2011-12 for the items I.V. Set and Blood Administration Set. The matter was intimated to Government in detail mentioning rate difference of the item comparing with that of the year 2012-13 vide letter No. KMSCL/DRG/FS/22-BM/2011 dated 29-6-2012. The Government vide letter No. 20512/J1/2012/H&FWD dated 16-7-2012 directed the Corporation to honour the orders (LOI) placed to the suppliers. As the orders (LOI) have been placed, it could not be withdrawn from the orders. Based on the Government direction, purchase orders for the balance LOI quantity (15%) of items were placed to M/s B. Braun Medical (India) Private Limited.</p> <p>It may please be noted that the main lapse incriminated on the part of officials of the Corporation, was delay occurred in finalizing the tender for 2011-12. The Corporation may submit the following facts for your kind consideration:</p> <ol style="list-style-type: none"> (1) The Corporation floated eight separate tenders for 620 items of drugs and supplies for the year 2011-12 in the following categories on 31-12-2010:

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		Category	Particulars	No. of items
		I	Drugs	354
		II	Drugs requiring cold storage	23
		III	Medical Devices	86
		IV	Blood Diagnostic kits and reagents	30
		V	Consumables	31
		VI	Disinfectants and Chemicals	13
		VII	Surgical sutures	68
		VIII	X-ray Films and Accessories	15
			Total	620

(2) In previous tender years, firms with limited manufacturing capacity have participated in the tenders of the Corporation, acquired big orders and later failed to execute orders due to insufficient infrastructure/capacity. The shortage of drugs in hospital invited criticisms from various ends. Delay in supplies lead to non availability or shortage of drugs in Government Hospitals. This forced the Corporation to increase the turnover criteria so as to ensure the participation of firms having adequate manufacturing capacities. The decision was taken with good intention to avoid shortage/non availability condition in hospitals.

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		<p>(3) Tender for the procurement of Surgical Sutures (Category VII) was deferred due to complaints regarding specifications of items tendered. The Technical bid opening and scrutinizing for the remaining 7 tenders were conducted from 28-1-2011 to 3-2-2011. After evaluation it was found that there were no bidders or only single bidder for 209 products and the matter placed before the 12th meeting of the Board of Directors held on 11-2-2011. The Board resolved to re-tender 209 items by reducing the turnover to 50 per cent of the existing criteria. The technical bids after re-tender were opened on 11-3-2011. Simultaneous processing of 15 tenders (7 tenders + 8 re-tenders) for the purchase of 620 items following different stages of evaluation by different committees had made the tender evaluation and finalization hard and tedious.</p>
		<p>(4) During that period, Sri Biju Prabhakar, IAS was the Managing Director of the Corporation and he was deputed as Election observer in connection with the general election at Namakkal (Tamil Nadu). Vital decisions related to tender processing could not be taken due to the absence of Managing Director.</p>

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		<p>(5) Sri K. J. John was the Purchase Manager of the Corporation during that period, who was on deputation from Drugs Control Department, got relieved from KMSCL on 5th April, 2011 and joined his parent department in connection with his service promotion, before the opening of price bid and the finalization of the tenders for the year 2011-12. After that his service was made available on working arrangement basis from 3-5-2011 to 8-6-2011. The vacancy of Purchase Manager was advertised in dailies, but no eligible candidate was received. The post of Purchase Manager who is the most essential officer for the drug procurement division of the Corporation is filled three months back.</p> <p>The members of the Board of Directors or the officials of the Corporation had no deliberate intention to delay the tender process or cause any loss to the Corporation or the Government. There was no wilful action on the part of the Board to help any of the firms as stated in the recommendations of inspection team instead, the Board of Directors has taken appropriate steps in limiting the LOI and purchase order quantity of M/s B. Braun Medical (India) Private Limited to 40% of the tendered quantity. It may please be noted from the above that the finalization of tender for the procurement of drugs and supplies for the year 2011-12 was delayed due to the facts happened beyond the</p>

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		<p>purview of the Corporation. The tenders were floated on 31-12-2010 for the procurement of 620 items of drugs and supplies followed by re-tender of no bidder/single bidder items. The tenders were finalized and purchase orders were issued from 25-8-2011. There was no intentional delay in finalizing the tenders from the part of KMSCL officers. The purchase orders for the items for which B. Braun was the eligible bidder were not issued along with other items. Considering the criticality of the item, the matter was placed in the meeting of 16th Board of Directors held on 14-9-2011 and orders were issued as per the decision of the Board of Directors as detailed above.</p>

**KERALA MEDICAL SERVICES CORPORATION LIMITED -
SHORT COLLECTION OF COST OF TENDER FORMS**

Sl. No.	Item	Tender No.	Estimated cost of supplies	Cost of tender form collected		No. sold	Cost of tender forms to be collected		Short collection			Gross amount to be collected		Gross amount collected		
				Cost	VAT		Cost	VAT	Cost	VAT	Cost	VAT	Cost	VAT	Cost	VAT
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15		
				Cost	VAT		Cost	VAT	(8-5) x 7 (9-6) x 7			Cost	VAT	Cost	VAT	
1	Drugs and Supplies	007/DRUGS/KMSCL/2010	Rs.152.79 Crore	5000	625	181	25000	1010	3620000	69685	4525000	182810	905000	113125		

Summary									
Name of the Company	Amount to be collected			Amount Collected			Short Collection		
	Total Cost	Total VAT	Total Cost	Total Cost	Total VAT	Total Cost	Total Cost	Total VAT	Total VAT
KINFRA	2232600	202609	410750	16603		1821850	186006		
KMML	2041800	189801	174000	7017		1867800	182754		
KMSCL	4525000	182810	905000	113125		3620000	69685		
Total	8799400	575220	1489750	136775		7309650	438445		

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Annexure 17
Statement showing extra expenditure on medicines procured at higher rate in Kerala Medical Services Corporation Limited
(Referred to in paragraph 4.5)

1	Paracetamol Tab IP	708712	708712	13.68	9695180					1700005	16.25	444000	1141080	1141080
2	Black Disinfectant Fluid	13816	13816	161.2	2227139					41878	265	41878	4346936	4346936
3	Amoxicillin 1q IP	1627570	1627570	3.69	6005733	2293808	4.12	2277718	979419	3000000	4.33	3600000	2304000	3283419
4	Tropenone Linctus	69621	69621	38.48	2679016					256031	46.92	256031	2160902	2160902
5	Multivitamin NFI Tab	56837	56837	14	795718					211295	23.77	211295	2064352	2064352
6	Doxycycline Cap IP	26682	26682	42.64	1137720	58584	44.65	58584	117754	98606	56.41	98606	1357805	1475538
7	Ranitidine HCL Tab	194029	194029	19.6	3802968	396842	20.35	396842	297632	225000	22.83	225000	728750	1024382
8	Contriconazole Oint	158014	158014	4.41	696842					585015	5.91	585015	877523	877523
9	Silver Sulthiarbio Cream IP	21872	21872	17.90	391509	21669	22.55	21669	100761	65311	23.9	65311	391866	492627
10	Albendazole Tab	424273	424273	1.97	835818	347258	2.29	347258	111123	349495	2.45	349495	167758	278800
11	Clonidine Capsules	46162	46162	79.56	3672649					107968	81.84	107900	246012	246012
12	White Soft Paraffin	1404	1404	99	138996	1229	112.2	1229	16223	3950	124.1	3950	99145	115348
13	Dexamethasone IP	11542	11542	6.38	73638	25707	8.13	25707	44987	43020	7.85	43020	63239	108227
14	Diabyl	9615	9615	10.09	97015					23400	13.1	23400	70434	70434
15	Carbamazepine Tablets	4491	4491	39.2	176047	3206	41.6	3206	7694	11545	44.2	10977	54965	62679
16	Aspiric Cream BP	3705	3705	6.6	24483	9448	7.58	9448	5339	13729	7.2	13729	8237	13576
17	Pipenzacine Cream Elixir	413	413	37.44	15463					1548	45.4	1548	12322	12322

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