Audit of Fraud
Fraud Detection Techniques & Forensic Audit

Fraudulent Procurement of Medical Equipment

भारतीय लेखा परीक्षा एवं लेखा विभाग
Indian Audit & Accounts Department

क्षेत्रीय प्रशिक्षण संस्थान
Regional Training Institute

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From PD’s Desk

As a part of our pursuit towards excellence in training in the area of “Audit of Fraud, Fraud Detection Techniques and Forensic Audit”, we bring out series of cases of frauds reported in the audit reports of Comptroller and Auditor General of India, as case studies. Simultaneously, we also endeavor to consolidate the approach and methodology followed by fraudsters in committing them as well as the manner in which they were prevented/detected.

This case study “Fraudulent Procurement of Medical Equipment” has been prepared based on the material reported under para 4.1.1 of the report of the Comptroller and Auditor General of India for the year ended March 2007 Government of Chhattisgarh.

I take this opportunity to extend my sincere thanks to Mr. Purushottam Tiwary, Sr. Deputy Accountant General, O/o the Pr. Accountant General (Civil & Comml. Audit), Madhya Pradesh, Gwalior who made us available all relevant documents of the case.

I hope that the readers would benefit from this. The suggestions, if any, would help us in future such attempts.

RTI, Nagpur
November, 2011

(Bhawani Shankar)
Principal Director
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Case study on fraudulent procurement of medical equipment

The case study has been developed on the methodology adopted by IDI, Norway as part of the E-enabled Blended Training Programme for Trainers. The case study is a real life situation based on an audit investigation conducted by me during my stint as Sr. DAG (Audit) in the Office of AG (Audit) Chhattisgarh, Raipur. The result of the investigation featured as Para 4.1.1 (Fraudulent supply of medical equipment worth Rs. 7.84 crore) in the Audit Report of AG Chhattisgarh for the year ended 31 March 2007.

Objectives of the Case study

- Encourage lateral thinking on a seemingly normal situation.
- Acknowledge the significance of joint physical verification and interview in audit.
- Appreciate the importance of CCO based audit in a normal transaction audit.

The Situation (real situation)

The state has 16 districts, each having its Civil Surgeons cum Hospital Superintendents under the Director of Health Services (DHS). The medical equipments and supplies are procured centrally at the DHS level on the basis of the demand furnished by the Civil Surgeons and subsequently supplied to the districts. Payment is released to the supplier (chosen after following the store purchase rules) on the basis of the receipt of the equipment in the district, installation and demonstration report of the Civil Surgeons and subject to fulfillment of the terms and conditions including quality in the supply order. In this case, the medical equipments were supplied by the firm to various districts and payment was made to the supplier by the DHS on the basis of installation reports. The payment was released to the supplier through demand drafts on the invoices of the supplier.

What happened?

During a meeting with the AG and the officers, it was decided to conduct audit of the Directorates (Director Health Services) followed by transaction audit in some of the selected districts (Civil Surgeons cum Hospital Superintendents/ DDOs) on the basis of the information gathered in DHS office. The thrust area in such audit was procurement as purchase was done centrally in the department at the directorate level. A list of all the procurements for the last three years was prepared from the cash book and Cheque/ DD register in DHS. The list showed that majority of the supply orders for medical equipment was placed on a big firm based in Chennai. Audit in the office of the DHS followed by audit and joint physical verification in four selected districts (Civil Surgeons cum Hospital Superintendents/ DDOs) revealed massive fraud in the supply of equipments in the districts. Though the equipments were supplied by the firm in the districts and the payment was released by the DHS on the agreed rates and installation reports, yet there was something amiss in the whole drama which was disquieting.

Necessary information was also collected from the banks, Commercial tax department as well as the intended original supplier in Chennai.
Documents provided to the participants

1. Supply order to the firm
2. Agreement for supply of equipment
3. Installation report (sample)
4. Invoice
5. Joint physical verification report (sample)
6. Payment release order
7. Correspondence with the bank
8. Letter from DC Commercial Tax

Task for the participant

Analyse the above situation and correlate it with the list of documents supplied to arrive at an audit observation bringing out fraud in the procurement of medical equipment in the state.

Debriefing notes for the instructor

- The participants can form a group and present their audit observation.
- The discussion can be guided by the instructor depending upon the clarifications required by the participants. The Audit Report para would clarify most of their queries.
- Each group may take 10 minutes to present
- The following key points need to be clarified to the participants
  (i) Basics of CCO based audit
  (ii) How to conduct joint physical verification
- The participants have to prove the fraud on the basis of the supplied documents.
- The participants should be able to suggest concrete and practical recommendations.

Participants should be given a copy of the Audit Report para to match their findings.
To
Ms. Trivitron Medical System Pvt. Ltd.
Chennai

Subject: Supply of medical equipment

We require to procure medical equipments based on demands by the CMHO/ CS cum Hospital superintendents as per details given below. Kindly arrange to supply the medical equipments at the rates, specification and other conditions mentioned below within 90 days of receipt of this supply order. You are also required to furnish a performance security of 10 per cent of the contract amount and sign the agreement.

<table>
<thead>
<tr>
<th>s. no</th>
<th>Equipment</th>
<th>Name of district</th>
<th>Number</th>
<th>Rate (Rs.)</th>
<th>Total amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ICCU Multipara monitor Central Station machine (Nihon Kohden, Japan)</td>
<td>Dantewada Mahasamund Kawardha Durg Korba Raigarh Surguja Janjigir Rajnandgaon Korea</td>
<td>10</td>
<td>2949075</td>
<td>29490750</td>
</tr>
<tr>
<td>2</td>
<td>Colour Doppler (Aloka Prosound SSD 3500)</td>
<td>Dantewada Dhamtari Mahasamund Raipur Kawardha Kanker Raigarh Surguja Janjigir Rajnandgaon Khairagarh Dongargarh Bastar Korba Bilaspur Narayanpur</td>
<td>16</td>
<td>2495000</td>
<td>39920000</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Total</strong></td>
<td></td>
<td><strong>69410750</strong></td>
<td></td>
</tr>
</tbody>
</table>
Conditions

1. No advance payment would be made
2. All rates include Commercial Tax/VAT
3. Supply of equipments would be on FOR basis
4. The specification of the equipments is enclosed. If the supplied equipments are not as per specification, the supplier has to take back the equipment at his own cost.
5. Payment would be made only after a satisfactory report on installation and demonstration is received from the CMHO/CS cum hospital superintendent.

Enclosure: approved specification of the equipments

Sd./
Director Health Services,
Chhattisgarh

No.../ Store/2006/188 dated 10-08-2006

Copy
1. Secretary, Chhattisgarh Government, Health and Family Welfare Department
2. DDO, DHS
3. CMHO/ CS cum Hospital Superintendent, Dr...........for information and necessary action. It is directed that the required installation and demonstration certificate as per specification should be sent to this office.
4. Store in charge for information and necessary action.

Sd
Jt. Director (Stores)
<table>
<thead>
<tr>
<th>Order No.</th>
<th>Date</th>
<th>Name of Item</th>
<th>Qty</th>
<th>Rate (Rs)</th>
<th>Amount (Rs)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>137</td>
<td>10/08/2006</td>
<td>ICU Multi parameter Central Station Monitor</td>
<td>5 Pcs.</td>
<td>2949075.00</td>
<td>14745375.00</td>
<td>1 Pcs-Maharashtra, 1 Pcs-Maharashtra, 1 Pcs-Maharashtra, 1 Pcs-Maharashtra, 1 Pcs-Maharashtra</td>
</tr>
<tr>
<td>137</td>
<td>10/08/2006</td>
<td>Central Doppler Machine</td>
<td>6 Pcs.</td>
<td>2495000.00</td>
<td>14970000.00</td>
<td>1 Pcs-Maharashtra, 1 Pcs-Maharashtra, 1 Pcs-Maharashtra, 1 Pcs-Maharashtra, 1 Pcs-Maharashtra</td>
</tr>
<tr>
<td>221</td>
<td>11/08/2006</td>
<td>ICU Multi parameter Central Station Monitor</td>
<td>4 Pcs.</td>
<td>2949075.00</td>
<td>11796300.00</td>
<td>1 Pcs-Maharashtra, 1 Pcs-Maharashtra, 1 Pcs-Maharashtra, 1 Pcs-Maharashtra, 1 Pcs-Maharashtra</td>
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<tr>
<td>300</td>
<td>11/08/2006</td>
<td>Station Doppler Machine</td>
<td>4 Pcs.</td>
<td>2495000.00</td>
<td>9980000.00</td>
<td>1 Pcs-Maharashtra, 1 Pcs-Maharashtra, 1 Pcs-Maharashtra, 1 Pcs-Maharashtra, 1 Pcs-Maharashtra</td>
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<tr>
<td>129</td>
<td>04/09/2006</td>
<td>ICU Multi parameter Central Station Monitor</td>
<td>1 Pcs.</td>
<td>2949075.00</td>
<td>2949075.00</td>
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</tr>
<tr>
<td>129</td>
<td>04/09/2006</td>
<td>Station Doppler Machine</td>
<td>6 Pcs.</td>
<td>2495000.00</td>
<td>14970000.00</td>
<td>1 Pcs-Maharashtra, 1 Pcs-Maharashtra, 1 Pcs-Maharashtra, 1 Pcs-Maharashtra, 1 Pcs-Maharashtra</td>
</tr>
</tbody>
</table>

Total: 694010750.00

Note: The agreement is between the Director of Health Services, Chhattisgarh, Raipur (hereinafter referred to as the purchaser) and Trivitron Medical Systems Pvt. Ltd. (hereinafter referred to as the supplier) of Cairo and Chennai (C.G.) for the supply of 50 ICU Multi-parameter Central Station Monitors and 50 Station Doppler Machines to various hospitals and other Govt. institutions. The agreed price is 50 rupees. The terms and conditions of the agreement are as follows:

- The purchaser agrees to purchase the goods listed above at the agreed price.
- The supplier agrees to supply the goods listed above.
- The delivery of the goods will be made within 30 days of the date of the agreement.
- The payment for the goods will be made within 30 days of the date of delivery.
- The supplier agrees to provide warranty for the goods.
- The agreement is subject to the laws of the State of Chhattisgarh.

(Signature)
contract price in words and figure) (Here in after called the contract price)

all in this agreement words and expression shall have the same meaning as are respectively assigned to
them in the conditions contract referred to

2. The following documents shall be deemed to form and be read and construed as part of this agreement

viz.

a. The bid form and the price schedule submitted by the bidder.
b. The schedule of requirements.
c. The Technical specification.
d. The General Conditions of Contract.
e. The special Conditions of Contract; and
f. The purchaser notification of award.

3. In consideration of the payment to be made by the purchaser to the supplier as here in after mentioned
through local letter of credit, the supplier here by covenants with the purchaser to provide the goods and
services and to remedy defects there in conformity in all respects with the provisions of the contract.

4. The purchaser here by covenants to pay the supplier in consideration of the provision of the goods and
services and the remedying of defects there in the contract price or such other sum as may become
payable under the provisions of the times and in the manner prescribed by the contract.

WITNESS: Where of the parties here to have caused this agreement to be executed in accordance with there
respective laws the day and year first above written.

[Signature]

Contract Agreement is in duplicate stamp original copy for purchaser and duplicate copy for suppliers
Terms & Conditions and specification agreed by purchaser is enclosed here with,
Signed sealed and delivered by the

[Signature]

In the presence of (Name of witness)

Proprietor
INSTALLATION/ACCEPTANCE CERTIFICATE OF EQUIPMENTS

Name of Customer: CIVIL SURGEON CUM CHIEF HOSPITAL
SUPDT. - KORBA
DIST.- KORBA (C.G.)

Name of Equipments: ICCU MULTIPARAMONITORCENTRAL STATION MACHINE

Make:

Equipment Quantity: 1 SET COMPLETE

Order No.: 187 Date: 10.08.2006

Name of User: Hospital/ Institute: HOSPITAL

Name of Dealer: TRIVITRON MEDICAL SYSTEMS PVT. LTD,
CHENNAI : 600-018

Signature of Dealer Signature of Engineer

Signature of Hospital or charge: [Signature]

Regional offices: MUMBAI (+91 22 565 3756/3757/3758) DELHI (+91 11 2569 5251/5252)
KOLKATA (+91 33 2363 1310/1311) BANGALORE (+91 80 565 5171/5172) HYDERABAD (+91 40 3052 3341/3342)
Branch Offices: Nagpur, Pondicherry, Thrissur, Amravati, Coimbatore, Cochin, Pune, Chandigarh, Jalandhar, Amritsar...
INVOICE

To
The Directorate of Health Services
Raipur- Chhattisgarh

Ship To
The Directorate of Health Services
Raipur- Chhattisgarh

Invoice No. 1346  Date: 04/10/2006  Order No. 187  Date: 10/08/2006

<table>
<thead>
<tr>
<th>PARTICULAR</th>
<th>MFG</th>
<th>QTY.</th>
<th>PRICE</th>
<th>AMOUNT</th>
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</thead>
<tbody>
<tr>
<td>ICCU Multipara monitor</td>
<td></td>
<td>4 Pcs.</td>
<td>2949075.00</td>
<td>11796300.00</td>
</tr>
<tr>
<td>Central Station Machine</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Items issued places</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Set- CS Raigarh</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Set- CS Sarguja</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Set- CS Korba</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Set- CS Rajnandgaon</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td>11796300.00</td>
</tr>
</tbody>
</table>

Invoice Amount in Words
Rs. One crore seventy nine lakh six thousand three hundred only.

Documents through _______ PAID & CANCELLED

Dispatched per _______ Cash Book Page No. 61 dt. 4.11.2006
A.S.
For D.H.S.
Raipur

L.R. No. _______ Date: _______ Challan No. 1248 Date: 19/09/2006

Tin No.
Mfg. Lic. No.

Subject to Chennai Jurisdiction

Terms & Conditions: * Payment should be made by D.D/Cheque to Trivitrons Medical Systems Dhamtari.

* Return the document if not paid within three months from the date of presentation.

* All Taxes & other charges are included.

* Drawn under L.C. No.

For, Trivitrons Medical Systems

E. & O.E.
Joint physical verification report

Today a joint physical verification for ICCU Multipara Monitor Central Station (equipment) was conducted in the office of the Civil Surgeon Cum Chief Hospital Superintendent, Korba. The Civil Surgeon along with the store in charge of the hospital were present. The following are the results of the verification.

1. The signature of the Hospital in charge on the installation report is fake.
2. The purchase order issued from DHS was not received in the office of the Civil Surgeon Cum Chief Hospital Superintendent, Korba.
3. The make of Multi para monitor is Medi Aid while the make of the Central station is “China”.
4. The installation guide and the CD (recordable) along with other accessories have the make as “made in China”.
5. The make of the Colour Doppler is Lenovo.
6. The installation guide is a photo copy rather than an original booklet.
7. The capacity of ICCU is for 4 beds while the hospital received 8 stations.
8. No demand for the above equipment was sent to the DHS.

Civil Surgeon Cum Chief Hospital Superintendent, Korba (Sd/)

SAr AO (Audit Team) (Sd/)

Store in charge (Sd/)
FULLY VOUCHED CONTINGENT BILL

(For use in the office of Heads of Departments and other offices mentioned in the notes below subsidiary Rule 308)

<table>
<thead>
<tr>
<th>District</th>
<th>Detailed bill of contingent charges of the office of __________________________ for the month of October 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raipur</td>
<td>HEAD OF ACCOUNT</td>
</tr>
<tr>
<td></td>
<td>माँग संख्या 19</td>
</tr>
<tr>
<td></td>
<td>पी.सी.ओ. कोड 1384</td>
</tr>
<tr>
<td></td>
<td>सी.डी.ओ. मेजर हेड 4250</td>
</tr>
<tr>
<td></td>
<td>सी.डी.ओ. मेजर हेड 03</td>
</tr>
<tr>
<td></td>
<td>माइनर हेड 103</td>
</tr>
<tr>
<td></td>
<td>सेंट्रल कोड 0101</td>
</tr>
<tr>
<td></td>
<td>स्कीम कोड 5998</td>
</tr>
<tr>
<td></td>
<td>उद्योग क्षेत्र कोड र 28</td>
</tr>
<tr>
<td></td>
<td>वित्तीय कोड 003</td>
</tr>
<tr>
<td></td>
<td># 28 - 003 Machinery &amp; Equipment</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of Sub-voucher</th>
<th>Description of charge with number and date of authority for all charges requiring special sanction</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Rs.</td>
</tr>
<tr>
<td>1.</td>
<td>Payable to M/s Trivitron Chennai vide Invoice No. 1346 dated 4.10.2006</td>
<td>1,17,96,300</td>
</tr>
<tr>
<td>2.</td>
<td>Payable to M/s Trivitron Chennai vide Invoice No. 1345 dated 10.08.2006.</td>
<td>1,47,45,375</td>
</tr>
<tr>
<td>3.</td>
<td>Payable to M/s Trivitron Chennai vide Invoice No. 1347 dated 4.10.2006.</td>
<td>29,49,075</td>
</tr>
</tbody>
</table>

**Counter signed**

Director of Health Services
Raipur (Chhattisgarh)

Carried over

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,94,90,750</td>
</tr>
</tbody>
</table>

Notes:
1. Details classification should be recorded prominently in RED INK in manuscript or by a rubber stamp in the blank space provided at top.
2. Erasures are absolutely for bidden. Incorrect entries must be cancelled neatly in RED INK and the correct entry interlined. Each correction must be attested by the Drawing Officer, it is in the bill and by the Treasury Officer if it is in the order payment.
To
The Sr Dy AG
O/o AG Audit, Chhattisgarh
Raipur.

Sir

Kindly refer to your letter dated 10.07.2007 on the subject “Trivitron Medical Systems”. As required, the following information is furnished.

1. Date of opening of account- 12.04.2005
2. Account number- 30031
3. Present status of the account- closed on 19.01.2007
4. Any other Government transaction in the account- No
5. Name and address of the Account Holder- Sh. Subhash Kr. Lal, S/o
   Sh. Brij Kumar Lal, Ratnabandha Road, Dhamtari

Yours faithfully

Sd
Br. Manager
To
The Sr Dy AG
O/o AG Chhattisgarh
Raipur.

Sir,

Kindly refer to your letter dated 10.07.2007. It is stated that “M/s. Trivitron Medical Medical System, Dhamtari” is not registered as a dealer with the Commercial Tax Department.

Yours faithfully
Sd/-
Deputy Commissioner
Commercial Tax Div 1
Raipur