

Fiscal Oversight of Federal Stimulus Dollars



June 11, 2009

Commonwealth of Pennsylvania
Office of the Budget

Outline

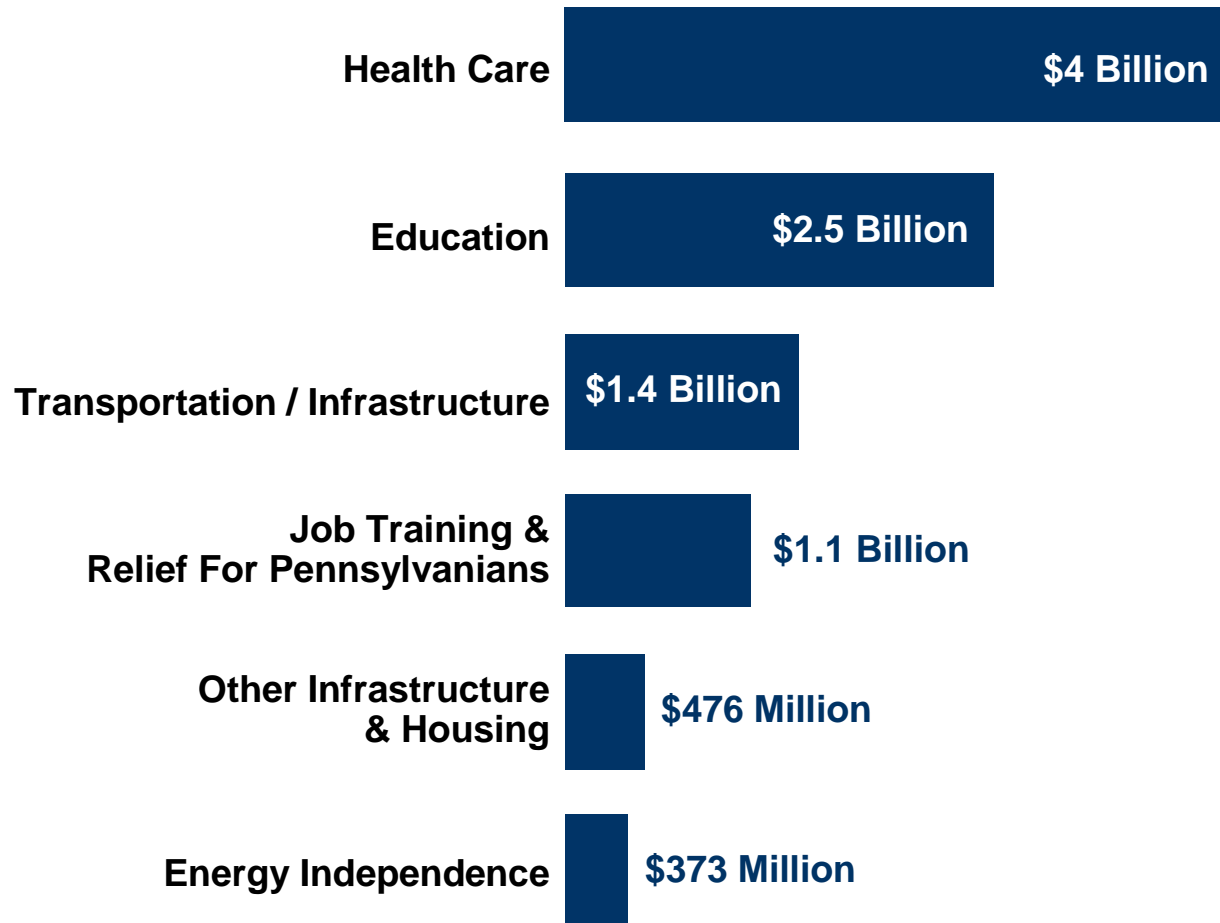
- **Accountability Objectives of the American Recovery and Reinvestment Act**
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Accountability Objectives of the American Recovery and Reinvestment Act

- 1. Recovery funds are awarded and distributed in a prompt, fair, and reasonable manner.**
- 2. The uses of all recovery funds are transparent to the public, and the benefits of these funds are reported clearly, accurately, and in a timely.**
- 3. Recovery funds are used for authorized purposes and at every step, action is taken to prevent fraud, waste, error, and abuse.**
- 4. Projects funded under the recovery legislation avoid unnecessary delays and cost overruns.**
- 5. Projects meet specific goals and targets, and contribute to improved performance on broad economic indicators.**



ARRA Funding Streams



How will the money be distributed?

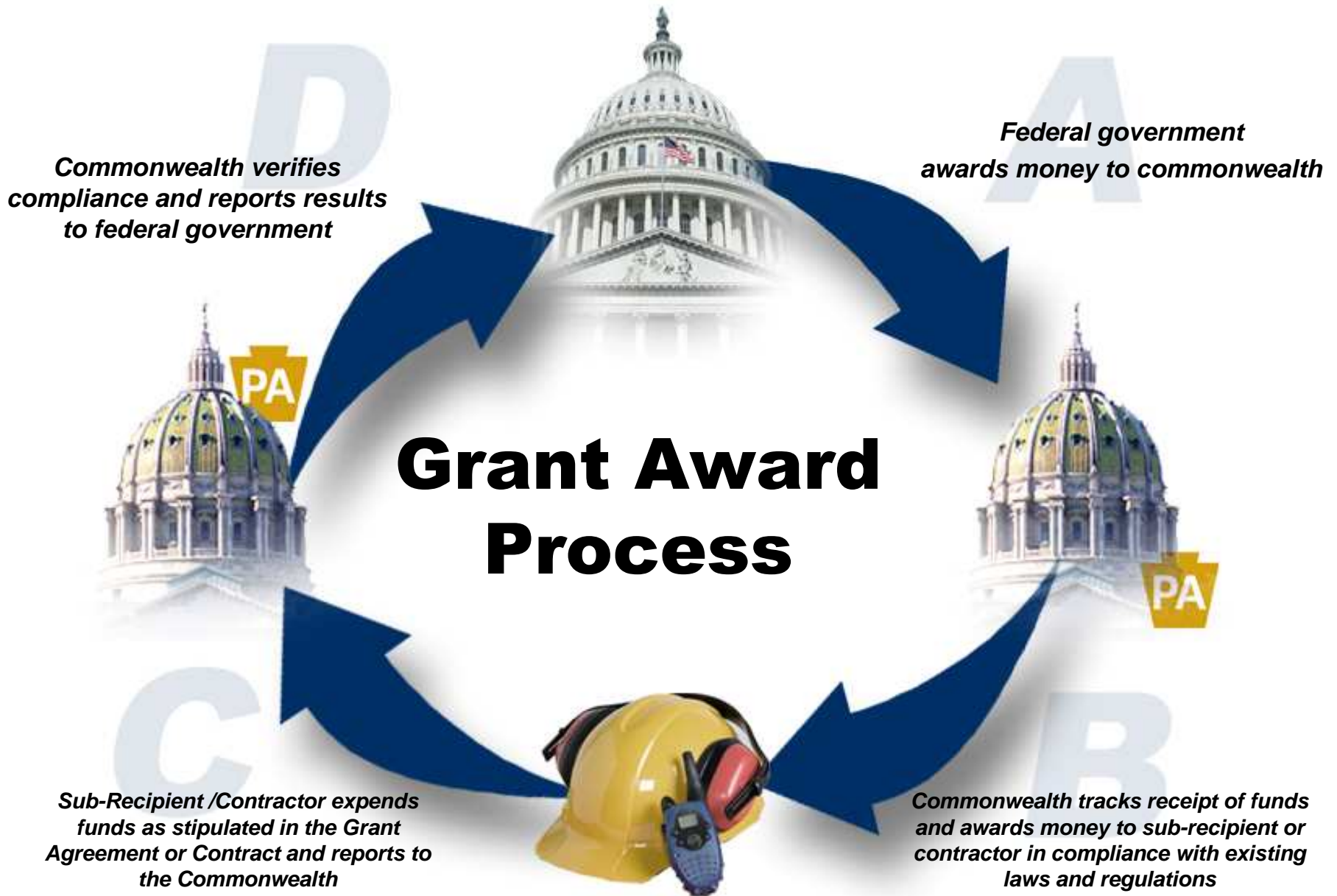
Stimulus funds will be distributed as grants or contracts. Most of the stimulus funds will be administered in accordance with procedures already in place for existing programs.

Examples of Stimulus Funds that will be distributed as grants and based on formulas:

- **Health Care \$4 Billion**
- **Education \$827 Million**
- **Unemployment Compensation \$700 Million**
- **Job Training & Youth Development (Workforce Investment Areas) \$100 Million**

Examples of Stimulus Funds that will be distributed as competitively awarded grants or contracts:

- **Transportation Infrastructure \$1.4 Billion**
- **Weatherization \$253 Million**



Appropriations Process

- **ARRA funds are required to be appropriated, like all other federal funds that flow through state agencies. Act 117 of 1976 provides for some exceptions for special funds such as federal highway and bridge funding in the Motor License Fund.**
- **Federal funds are appropriated by line item and for specific dollar amounts within state agencies.**
- **If additional federal dollars are received, these funds must also be appropriated.**
- **Use of all federal dollars is governed by federal or state law.**

Budget Actions to Date

- **In February, the Governor's proposed budget assumed budgetary relief from two key ARRA funding streams:**
 - **Enhanced FMAP – nearly \$4 billion over 27 months to help fund existing Medical Assistance costs.**
 - **State Fiscal Stabilization Fund – Nearly \$1.906 billion over 2009-10 and 2010-11 fiscal years to support PreK-12 education (\$1.47 billion), higher education (\$88.7 million) and other government services (346.8 million).**
- **In May, both the House and Senate introduced appropriations bills that contained appropriations for the ARRA funds for both fiscal year 2008/09 and fiscal year 2009/10. The bills are now in House Appropriations.**
 - **On May 4, the House introduced House Bill 1417, a supplemental appropriations bill for fiscal year 2008/09, and House Bill 1416, an appropriations bill for fiscal year 2009/10.**
 - **On May 7, the Senate introduced Senate Bill 850, an appropriations bill for fiscal year 2009/10 and a supplemental appropriations bill for fiscal year 2008/09.**
- **Governor's Budget Office will provide updated information on ARRA funds to the Appropriations Committees prior to enactment.**



Existing Preventive Controls

- **SAP Accounting System Controls** – provides the proper segregation of duties to reduce the risk of fraud and ensures the commonwealth pays for no more than what was ordered at no more than the approved rate. SAP allows tracking of funds by appropriation and by grant or project.
- **Agency Quality Control functions** – mitigate the risk of fraud, waste and abuse. Examples of those measures include.
- **Comptroller Operations pre-audit** – ensures that proper supporting documentation, including fully executed contracts and grant agreements, exist before *initiating* payment.
- **PA Treasury pre-audit** - ensures that the proper supporting documentation, including fully executed contracts and grant agreements, exist before payments *are processed*.



SAP System Controls

Role Authorizations — control the ability of employees to view and/or input data into SAP.

- **Roles define a user's ability to access certain transactions or to view particular reports based on a specific job function.**
- **Roles are assigned to positions rather than individuals.**
- **Role authorizations are monitored and controlled centrally by the Office of Administration and the Office of Budget.**

SAP System Controls – Cont'd

Workflow Approvals - Workflow approvals are activities that flow electronically through SAP on a predetermined route for review and approval. Examples of workflow approval include:

- **Bidding** – the Commonwealth issues bids electronically, obtains proper approvals through workflow, and suppliers submit bid quotations through the online portal. The process ensures that proper approvals are obtained prior to the posting of bid documents and award process.
- **Tolerances for Non-Contract Service Procurements** - Workflow automatically routes all non-contract service procurements over \$25,000 (Contracts & Purchase Orders) to the Attorney General's office for review and approval.
- **Purchase Order Invoicing** – Through the use of workflow, the accounting system requires a three-way match to ensure the goods ordered, goods received, and goods billed all match. ensures the Commonwealth pays for no more that what was ordered and at the correct price.
- **Contractor Responsibility Program (CRP)** – SAP automatically checks the CRP to ensure the recipient of payments do not owe the Commonwealth money. No payments can be processed until clearance is obtained.



SAP System Controls – Cont'd

Additional Controls –

- **Unique account codes for ARRA funds**
- **Integrated accounting system reduces opportunities for data entry errors**
- **Central vendor registration – The Commonwealth utilizes a central vendor registration process to maintain vendor data across the enterprise.**



Federal Grant Programs

- **Formula Grant Programs**
- **Entitlement Grant Programs**
- **Competitive Grant Programs**



Formula Grant Programs

Formula Grant - A grant for which funds are provided to specific grantees on the basis of a formula as prescribed by legislation or regulation. The formula is usually based on such factors as population, enrollment, per-capita income, or a specific need.

Applicants do not compete for these funds.

Education Payment Process

Education funding is distributed through the Department of Education's Financial Accounting Information (FAI) system. The FAI system currently processes Education project and subsidy payments in excess of \$11.2 Billion per year.

- **The PA Department of Education awards funding based on state and federal formulas. As funding is awarded, project agreements are entered into between the PA Department of Education and the Local Education Agencies.**
- **Project agreement documents are reviewed and approved by the Department of Education, the Department of Education Office of Chief Counsel, the Attorney General (if over \$1M), and the Comptroller's Office before funds are committed.**



Education Payment Process – Cont'd

- **After a project agreement is fully executed, it is input into FAI's system.**
- **FAI system controls include:**
 - **A project agreement cannot be entered into FAI unless a Master Agreement, Administrative Number, Program Area Code, and Account Code are already in the system.**
 - **A project cannot be created in FAI without a fully executed project agreement.**
 - **A payment request cannot be initiated prior to the project's start date.**
 - **A payment request cannot be initiated after the project's end date.**
 - **A payment request cannot be initiated if it is in excess of the total approved project amount.**



Education Payment Process – Cont'd

- **FAI calculates payments based on the project period that creates and sends payment requests.**
- **Comptroller Operations reviews and approves payments to ensure the existence of adequate supporting documentation.**



Education Payment Process – Cont'd

- **The PA Treasury reviews payments to ensure the existence of adequate supporting documentation prior to initiating payment.**
- **After payment has been disbursed by the PA Treasury, the Commonwealth is reimbursed for actual expenditures incurred by drawing down the funds from the federal government.**
- **Grantees must submit quarterly Reconciliation of Cash-On-Hand Reports. These reports are used to monitor the cash status of a project. Failure to report results in the suspension of future payments, pending the submission of the report.**

Entitlement Grant Programs

Entitlement Grants are similar to Formula Grants in that funds are provided to specific grantees on the basis of a formula as prescribed by legislation or regulation. However, entitlement programs guarantee that all individuals who meet the eligibility criteria receive funds. Two examples of entitlement programs that will receive stimulus funding:

- **Medical Assistance:** Funding related to Medical Assistance is distributed by the federal government to the commonwealth based on an increase in the percentage of federal reimbursement related to allowable expenditures. Approximately 2 million Pennsylvanians receive health care through Medical Assistance.
- **Unemployment Compensation:** The Commonwealth receives reimbursement from the federal government based on actual expenditures. Recipients of unemployment compensation received an increase of \$25 per week and extended unemployment benefits as a result of the enactment of ARRA.

Medical Assistance Payment Process

- **Medical Assistance funding is controlled by the Department of Public Welfare's PROMISE claims management system. The PROMISE system verifies, calculates, and creates payment requests, which total more than \$16 Billion annually.**
- **The only difference related to ARRA funding is an increase in the federal share of the \$16 Billion – from 54.52% to 64.32%. This federal share is the amount of money that the commonwealth receives as a reimbursement on Medicaid disbursements.**

Medical Assistance Payment Process – Cont'd

- **PROMISe** is a sophisticated claims processing system that integrates with both CIS and SAP to process Medicaid payments. Payments can be either approved fee-for-service claims or capitation payments to managed care organizations. Fee-for-service claims are only paid when billed by the provider and capitation rates are paid based on contracted services with the managed care organization.
 - **PROMISe has system controls built in to mitigate fraud, waste and abuse.**
 - For each claim, **PROMISe** integrates with CIS to verify MA eligibility and health care benefits.
 - No provider can be reimbursed for claims before they are pre-qualified by DPW and registered in **PROMISe**. This eliminates the chance of a provider billing for services they are not eligible to bill for.
 - For each claim **PROMISe** reviews the claim for appropriateness of payment.
 - No claim can be processed that exceeds the approved fee schedule.
 - Prior to approval of a claim **PROMISe** reviews the claim history for duplicate payments.
 - Prior to approval of a claim **PROMISe** reviews the claim history for period of service eligibility.
- After claims are reviewed and processed by **PROMISe**, a payment request is created and sent to Comptroller Operations for review and approval.



Medical Assistance Payment Process – Cont'd

- **PROMISE calculates the amount of federal dollars that will be reimbursed to the commonwealth.**
- **The commonwealth is required to submit quarterly on the actual program benefit costs and administrative expenses to the Centers for Medicare & Medicaid Services (CMS).**

Medical Assistance Payment Process – Cont'd

- **Comptroller Operations uses the Commonwealth's integrated accounting system - known as SAP - to account for and ensure availability of funds.**
- **After recording the information in SAP, Comptroller Operations reviews and approves the payment requests in PROMISE**
- **After review and approval by Comptroller Operations, the PA Treasury pre-audits the payment documentation and initiates payment.**
- **Based on a series of risk factors, Comptroller Operations Bureau of Quality Assurance also completes a post-audit review of payments using a sample of claims.**

Medical Assistance Payment Process – Cont'd

- **DPW verifies the following applicant information for every individual applying for medical assistance to ensure eligibility & combat fraud:**
 1. US citizenship & identity
 2. Wages (reported to PA)
 3. Income in other states
 4. Wages (reported to IRS)
 5. Public benefits in other states
 6. Supplemental Security Income (SSI)
 7. Social Security disability and other benefits
 8. Unemployment Compensation
 9. Unearned income reported to the IRS
 10. Verification of Medicare buy-in benefits from the federal government
 11. Crosscheck with the federal deceased persons database
 12. Criminal justice databases including Commonwealth Judicial Inquiry System and National Fleeing Felon information from the FBI
 13. PA Lottery winnings
- **Upon verification of the applicant's information, it is input into the Department of Public Welfare's Client Information System (CIS). DPW uses CIS to determine the type of Health Care Benefit the individual is eligible for.**
- **After a client receives treatment, the provider submits a claim to DPW for reimbursement.**



Agency Controls Related to Medical Assistance

The Department of Public Welfare uses the Fraud and Abuse Detection System (FADS) to Detect Fraud through Data Mining.

- All claims for services to recipients are reviewed using the FADS data mining system. Key reports on recipient utilization patterns flag:
 - Recipients with multiple pharmacies
 - Controlled substances filled the same day at different pharmacies or by different doctors
 - Actiq drugs without cancer diagnosis
 - Recipient with multiple ER visits

- DPW analyzes FADS results and can restrict at-risk persons to a single doctor and/or pharmacy for 5 years through the Recipient Restriction Program -
 - 1,715 recipients were restricted as of October 2008
 - DPW also referred 53 cases of suspected fraud to the Office of Inspector General in 2007-08 for prosecution

- DPW tracks cost avoidance savings for recipients who are placed in the restriction program -
 - Savings in SFY 2007-08 (\$13.2 million)



Agency Controls Related to Medical Assistance – Cont'd

The Department of Public Welfare reduces provider fraud using FADS data mining

- **All provider claims processed through PROMISe are subject to data mining through FADS**
- **Based on analysis of FADS reports, 1,677 cases of suspected fraud or abuse were flagged for further review by medical staff in SFY 2007-08**
- **In addition to FADS, DPW reviews possible cases of provider fraud and abuse that are received through complaints and reported incidents**
 - **In SFY 2007-08 the bureau investigated 1,172 complaints**



Agency Controls Related to Medical Assistance – Cont'd

The Department of Public Welfare removes problem providers from the Medical Assistance Program

- **Most cases involve correctable errors or provider repayments however, in serious cases DPW ends provider participation in the Medicaid program**

- **145 providers were terminated in 2007-08**

- **Three provider categories account for over half the disenrollments:**
 - **RNs (22.8%)**
 - **LPNs (18.6%)**
 - **Physicians (13.1%)**

Competitive Grant Programs

Competitive Grants are awarded for a fixed or known period of time and for a specific purpose. Recipients must apply for the funds. The applications are scored against one another to determine which applicants will receive funding and the amount of funds received.

Transportation Highway Infrastructure Investment is the largest competitively awarded stimulus grant program. Total awards are estimated to be \$1.4 Billion.

Transportation Highway Infrastructure Project Process

The award process is the same for both stimulus and non-stimulus Transportation Highway Infrastructure Projects.

- **PennDOT established a Project Delivery Operations Center to manage delivery of the ARRA projects.**
- **Contractors must be pre-qualified based on three criteria prior to being able to bid on contracts:**
 - **Audited Financial Statements**
 - **Organization and Experience Statement**
 - **Affirmative Action Statement**
- **Each contractor must submit all three statements.** The Organization and Experience Statement and the Affirmative Action Statement are reviewed by PennDOT. The Audited Financial Statements are reviewed by Comptroller Operations. If a contractor does not submit an Audited Financial Statement, they will only be eligible to complete work on a sub-contractor basis and cannot bid on projects.

Transportation Highway Infrastructure Project Process – Cont'd

- **Contractors cannot bid on a contract until they are pre-qualified and entered into the Electronic Contract management System (ECMS). ECMS is a contract management system used to manage the entire project process from advertisement of projects to payment requests for vendors.**
- **PennDOT, in conjunction with Metropolitan and Rural Planning Organizations, determines the use of ARRA funds based on the following:**
 - established formulas between MPOs/RPOs,
 - deliverability,
 - completion by February 2011,
 - and Economically Distressed Area designations.
- **All ARRA projects are required to follow federal regulations. PennDOT also complies with reporting requirements from the Federal Highway Administration (FHWA), the Transportation and Infrastructure Committee, and the Government Accountability Office (GAO).**
- **Once a project is identified, it is advertised on ECMS. Contractors and the public can view bids by visiting <http://www.dot14.state.pa.us/ECMS/>**

Transportation Highway Infrastructure Project Process – Cont'd

- **Prospective contractors submit electronic bids in ECMS.**
- **Bids are reviewed by PennDOT and an award is made to the lowest responsible bidder. The criteria used to review the bids are:**
 - **Contractor must have 50% of the bid amount applicable to the work class codes in the bid.**
 - **Contractor is limited to a pre-defined maximum capacity.**
 - **Contractor funding issues.**
 - **All contractors are reviewed for debarment by PA, other states, and the federal government.**
 - **Bid amount in relation to PennDOT estimates.**

Transportation Highway Infrastructure Project Process – Cont'd

- **The contract, including terms and conditions, is reviewed and approved by the PennDOT Bureau of Design, PennDOT Contract Management Division, PennDOT Chief Counsel, the contractor, and Comptroller Operations.**
- **Comptroller Operations is the last step in the approval process – they review and approve the agreement and post the commitment into the SAP Accounting System.**
- **All Construction projects are inspected to ensure specifications referenced in the contract are followed. Inspectors review construction throughout the building process.**
- **Contractors cannot submit a request for payment before inspections for each phase are completed. PennDOT receives and reviews payment requests through ECMS to ensure unit price and quantity match the contract.**
- **Before payments to contractors are approved, Comptroller Operations reviews for appropriate supporting documentation and against the contract to ensure the terms and conditions of the agreement were met. Comptroller Operations then inputs the payment request in SAP to track and monitor expenses.**

Transportation Highway Infrastructure Project Process – Cont'd

- **After Comptroller Operations approves the payment request, the PA Treasury pre-audits for appropriate supporting documentation.**
- **Comptroller Operations submits a Financial Accounting Federal Project Costs Detail Report on a weekly basis that lists all expenditures incurred by the Commonwealth by project. This report is used by the Federal Highway Administration to reimburse the Commonwealth the portion of Federal funding related to a particular project.**
- **On a monthly basis Comptroller Operations prepares and submits to the FHWA a Financial Accounting Federal Status Report. This report is a detailed history of all costs incurred on a project.**
- **Periodically the Federal Highway Administration audits particular projects to ensure compliance. FHA takes a sample of projects from the Financial Accounting Federal Project Costs Detail Report and requests all supporting documentation.**



State Oversight

- **Agency Internal Audit Investigations** – Ensure compliance with laws and regulations, makes recommendations regarding internal controls.
 - All agencies receiving federal stimulus have procedures in place for monitoring and compliance oversight of grants and contracts.
- **Comptroller Operations Bureau of Audits** – Performs program-specific audits to ensure internal controls are functioning and agencies are complying with specified laws and regulations.
- **Comptroller Operations Bureau of Quality Assurance** – Performs post audit of payments, selected for review on the basis of established risk criteria.
- **Pennsylvania Office of Inspector General (OIG)** – The OIG investigates fraud, waste, and abuse in the commonwealth's programs, operations, and contracts from a legal perspective. Investigations resulting from reported cases of suspected welfare fraud against individuals or business, as well as reported cases of suspected fraud, waste, misconduct or abuse in other commonwealth programs, have resulted in savings of millions of dollars.



State Oversight – Cont'd

Pennsylvania State Ethics Commission – Established by the act of October 4, 1978 (P.L. 883, No. 170), the Public Official and Employee Ethics Act (“Ethics Act”), which provides that public office is a public trust and that any effort to realize personal financial gain through public office is a violation of that trust. The Ethics Act applies generally to public officials and public employees.

- Individuals covered under the Ethics Act are prohibited from engaging in conduct that constitutes a “conflict of interest”.
- Conflict of interest is defined as the use of the authority of one’s office or employment for the private pecuniary benefit of oneself, one’s immediate family members, or a business with which an official/employee or an immediate family member is associated.
- No former executive-level state employee may for a period of two years from the time that he terminates his state employment be employed by, receive compensation from, assist or act in a representative capacity for a business or a corporation that he actively participated in recruiting to the Commonwealth of Pennsylvania or that he actively participated in inducing to open a new plant, facility, or branch in the Commonwealth or that he actively participated in inducing to expand an existent plant or facility within the Commonwealth, provided that the above prohibition shall be invoked only when the recruitment or inducement is accomplished by a grant or loan of money or a promise of same from the Commonwealth to the business or corporation recruited or induced to expand.
- Individuals covered under the Ethics Act are required to file annual financial interest statements that are inspected by the Ethics Commissions and accessible to the public in an online database.



Independent Oversight

- **Pennsylvania Department of the Auditor General – Independently elected state auditor whose staff performs financial, compliance, and performance audits of commonwealth agencies and various forms of local governments (i.e., commonwealth-wide Financial Statement Audit, Single Audit, County Assistance Audits, etc.) The AG performs departmental program audits, performance audits, basic financial statement audits and Single audits of federal program funds.**
- **Independent Auditor (Ernst & Young) – Public accounting firm engaged to perform the Commonwealth’s financial statement and Single audit jointly with the Department of the Auditor General. The independent audit firm’s managing partner and the Auditor General jointly sign the Commonwealth’s audit opinions expressed on the basic financial statements and the federal funds received and awarded through the state including ARRA funding.**
 - **Financial Statement Audit** - As part of the Commonwealth’s financial statement audit Ernst & Young is required to follow *Statement on Auditing Standards (SAS) 99 – Consideration of Fraud in Financial Statement Audit* requires the auditor to identify risks of material misstatement due to fraud.
Statement on Auditing Standards (SAS) No. 112 & 115, Communicating Internal Control Related Matters Identified in an Audit requires the auditor to inform management of any control deficiencies identified during an audit.
 - **Single Audit** – The Commonwealth and sub-recipients that receive \$500,000 or more in a year in Federal awards are required to have an organization-wide audit conducted. The Single Audit encompasses both financial and compliance components and is to ensure the use of federal funds are in accordance with regulations.



Independent Oversight – Cont'd

- **Pennsylvania Attorney General** – Pennsylvania's top law enforcement official, with a wide range of responsibility to protect and serve the citizens and agencies of the Commonwealth. The Attorney General investigates and prosecutes allegations of fraud, waste, and abuse.
 - The Civil Law Division defends the constitutionality of Pennsylvania law, represents commonwealth agencies, defends the commonwealth in tax appeals, collects delinquent taxes and other debts owed to the commonwealth, handles or supervises various appeals and reviews commonwealth contracts, regulations and bond issues for form and legality.



Federal Oversight

- **U.S. Government Accountability Office (GAO)** – known as the “investigative arm of Congress” – supports Congress in meeting its constitutional responsibilities and helps improve the performance and accountability of the federal government. The American Recovery and Reinvestment Act tasks GAO with a range of responsibilities to help promote accountability and transparency and ensure that these ARRA funds are used as specified. Pennsylvania is one of 16 states where the GAO is presently:
 - Conducting bi-monthly reviews on how funds are used by selected states and localities
 - Submitting quarterly reports on states’ actions on stimulus to Congress
 - Reviewing specific areas, such as trade, education, small business, and health care
 - Commenting on reports filed by fund recipients.
- **Federal Office of Inspector General** – Most federal agencies have an Office of Inspector General (OIG). Each Agency OIG has a responsibility to report both to its Secretary and to the Congress any program and management problems and recommendations to correct them. Thus far, Federal OIG have begun active oversight of ARRA programs, including the Department of Education.
- **Federal Agencies** – Stimulus funding is subject to oversight by the federal agencies providing those funds. Thus far, the Federal Highway Administration has begun active oversight of ARRA programs within the commonwealth.



Transparency and Accessibility of Information

- **Open Records Law** – As a result of the Open Records Law that became effective January 1, 2009, a broad variety of information in all agencies is easily accessible to the public. The Office of Open Records enforces the state’s Right-to-Know law and serves as a resource for citizens, public officials and members of the media to obtain public records of their government.
- **Recovery.pa.gov** – This website serves as a resource for citizens, public officials, and members of the media to understand and track stimulus money as it flows through the Commonwealth. The website allows for greater transparency and accountability of spending. - www.recovery.pa.gov
- **Pennsylvania Contracts e-Library** - An online, centralized source of comprehensive information about Pennsylvania government goods and services contracts. The e-Library is hosted by the Pennsylvania Treasury Department and makes contract information available to the public. - <http://www.patreasury.org/Right-to-Know/RTKWelcome.htm>
- **Department of the Auditor General Files and Records Office** – Used as a resource by the AG to perform their audit responsibilities. The office stores all warrants (records of payments) from the Treasurer. Members of the public may view these records by visiting this office.
- **Department of Community & Economic Development (DCED) Investment Tracker** – an online source of information that lists all DCED approved grants and loans. - <http://www.dced.state.pa.us/investmenttracker/>

Financial Reporting Requirements



- Where applicable and defined in the award document, sub-recipients or contractors submit financial and programmatic progress reports to the Commonwealth.
- The Commonwealth reviews these reports and uses them to monitor activities and ensure compliance with terms and conditions of the award document.
- Commonwealth gathers, compiles and submits required data related to sub-recipients and federal funds received to the Federal Government.

Reports include:

- **Schedule of Expenditures of Federal Awards** - The Schedule of Expenditures of Federal Awards includes the activity of all federal award programs administered by the Commonwealth.
- **Financial Status Reports**
- **Miscellaneous reports required by Federal Agencies**

An example of a Miscellaneous report required by a Federal Agency is the form CMS-64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program. This reports actual program benefit costs and administrative expenses to the Centers for Medicare & Medicaid Services (CMS). CMS uses this information to compute the Federal Medicaid Assistance Percentage (FMAP) for the State's Medicaid Program costs.

Accountability Objectives of the American Recovery and Reinvestment Act

Recovery funds are used for authorized purposes and at every step, action is taken to prevent fraud, waste, error, and abuse.