

Child care welfare fraud

Easy to perpetrate, difficult to prove.

In May 2018, KMSP-Fox 9 aired a story about \$100 million in child care welfare fraud, some of which allegedly funded terrorists in Somalia and the Middle East. These allegations primarily concerned the Child Care Assistance Program known as “CCAP,” a program meant to assist low-income parents with child care costs so they can work or go to school. In 2017, CCAP spending totaled \$248.2 million, rising to \$254 million in 2018. The source of the fraud allegations was former investigator Scott Stillman of the Minnesota Department of Human Service (DHS).

The Legislature tasked the Office of Legislative Auditor (OLA) with investigating the fraud claims, and on March 13, the OLA released the first of two long-awaited reports. This first report focused on Stillman’s allegations; a follow-up report, due in April, will examine “whether DHS’s oversight of CCAP was adequate to safeguard financial resources of the program.” In a preview of the April report, prosecutors told the OLA that a lack of internal controls “makes fraud easier to perpetrate and more difficult to prove.”

The March report also revealed a “serious rift” between the Office of Inspector General (OIG) at DHS—who is tasked with overseeing the integrity of DHS programs—and its own 14-member CCAP Investigative Unit. The OLA stated the OIG “lacks independence” because it reports to the DHS commissioner (a political appointee of the governor) and recommended that the OIG be independent of management. Moving the investigative unit to the Bureau of Criminal Apprehension (BCA) to improve the gathering of evidence needed in these “labor intensive” prosecutions was recommended, as well.

The Somalia connection. While the OLA was unable to substantiate Stillman’s specific allegations, the report contained credible sources for the allegations of widespread CCAP fraud centered in the Somali community, as well as CCAP funds going overseas to fund terror. It also outlined a dozen federal and state criminal prosecutions that lend further credibility to the allegations. All the prosecutions involved members of the Somali community over-billing CCAP. Most cases involved kick-back schemes, wire and tax fraud, and substandard conditions at the involved child care centers.

The CCAP Investigative Unit. Jay Swanson, manager of the Investigative Unit for CCAP, sent a lengthy email on August 24, 2018 to Inspector General Carolyn Ham at DHS. The email lays out the case for widespread CCAP fraud. Swanson said his investigative team found “providers using a similar scheme to successfully steal large sums of taxpayer money from this program... It is our opinion that while a

significant amount of responsibility for this large scale theft...rests with the sophistication and daring of the criminals exploiting the program, an equal amount of responsibility rests with the lack of internal controls...that dictate how this program operates.”

Swanson said, for example, that besides large-scale overbilling and money laundering, some centers are opened solely to defraud CCAP (operating with 100 percent CCAP families). He said that mothers are recruited as “employees” so their children qualify for CCAP. Centers then falsify employment and attendance records. In a typical case, mothers get cash kick-backs for cooperating and may only be at the centers to pick up the cash. “Providers do this to attract as many parents/children to the center as possible, so that providers can bill CCAP for the largest number of children possible.”

Swanson estimated that the fraud involved more than \$100 million in 2017. “Investigators believe auditors and elected officials should be very concerned about the high number of the highest paid child care centers that display indicators of fraud.” Swanson said that investigators “believe that the overall fraud rate in this program is at least 50 percent of the \$217 million paid to child care centers in 2017.”

According to the OLA, “Swanson based the 50 percent fraud rate on...concerns [that] involve not only overbilling, but also substandard child care that is so severe that Swanson called these DHS licensed centers ‘fraudulent centers.’”

Federal law enforcement agencies cited. Swanson said bank records obtained by the BCA “clearly show that some owners/controlling individuals have made large wire transfers to banks primarily in the Middle East or Africa, often soon after they receive a large CCAP payment.... [I]nvestigators have been advised by federal officials... that it is a near certainty that at least a percentage of the fraud proceeds that go overseas are being siphoned off by one or more Designated Terrorist Organizations (DTOs).... [S]ome of these... individuals have purchased or are in the process of purchasing expensive homes in stable foreign countries.” No prosecutions, however, have linked CCAP funds to any terror group.

The Muslim Coalition of ISALAH and Somali child care providers protested at the Capitol following the release of the March OLA report, saying the allegations were “baseless” and calling for “an apology and action from legislators.” Imam Mohamed Omar, executive director of Dar Al-Farooq, a Bloomington mosque, said, “The Republican legislators who perpetuated this rumor irresponsibly fed islamophobia and hatred that leaves my community vulnerable to harassment and attacks every day.”

DHS response. Inspector General Ham, who has been placed on administrative leave with pay, met with other DHS investigative units when she came on the job in 2017 *but never met with the CCAP unit, even after the news story broke*. Instead, DHS paid an outside firm \$90,000 to assess the work of the CCAP Investigative Unit. Ham, calling herself a “scapegoat,” told MPR news, “The reason there was distrust between me and the fraud unit is because I was pushing them on their unsubstantiated beliefs.”

DHS denies the credibility of the allegations made by its own investigative unit, though there have been successful prosecutions. As of May 2018, there were ten other on-going investigations.

DHS does, however, agree that it needs to improve management of CCAP by, for example, replacing paper attendance records with an electronic billing system. DHS called the problem “complex” and asked for “greater state investments” so it can hire an “equity coordinator,” develop “culturally competent practices in our investigation process” and establish a “stakeholder advisory group.”

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