

Jay Swanson  
Retired Minnesota Department of Human Services Manager  
May 20, 2026

Chair Ernst, Ranking Member Markey, and Committee members;

Thank you for inviting me to be here today. From 2014-2019 I was the Manager of Recipient and Child Care Provider Investigations in the Office of Inspector General at the Minnesota Department of Human Services. My team and I investigated child care centers that were defrauding the Child Care Assistance Program, also known as CCAP. In hindsight, it is clear to me that what our team saw was the early stages of a somewhat loosely organized criminal enterprise beginning to pillage Minnesota's public benefit system.

Prior to joining the Department of Human Services, I was a Minnesota state trooper for over 34 years, and retired with the rank of Captain. During my time as a trooper I had many assignments, including conducting and supervising criminal investigations, including felony cases that were prosecuted in both state and federal courts. Our CCAP fraud investigative unit consisted of retired police officers with between 20-35 years of criminal investigative experience.

In Minnesota the child care fraud investigation unit was formed in 2014, after the Child Care Center Licensing unit, and the original Inspector General & Deputy Inspector General, saw what they believed to be very suspicious behavior on the part of certain new child care center owners. After consulting with their peers in Wisconsin and Ohio, and having been advised what those and some east coast states had experienced, these Minnesota officials became convinced that what they were seeing was likely evidence of large scale CCAP fraud.

The suspicious behavior included: individuals applying for a child care center license who had no background in child care, and no comprehension of what is required to obtain a child care center license as well as training requirements for various staff positions. Centers submitting requests for the license to reflect a change in ownership at a rate never seen previously. It was not uncommon for a single center to report several changes in ownership in a single year. Centers that if Licensing made an appointment to see the owner, it would appear the center was operating normally with staff and children present. However, if Licensing staff made an unannounced visit during normal business hours, these centers would often be empty, with no students or staff present. On one unannounced visit, Licensing staff observed no children present, but did see four adult males sitting at a table clearly filling out and signing fraudulent attendance records.

Our investigations always began with our unit receiving information which led us to believe that CCAP fraud may be taking place. This information came a wide variety of sources, and in many different forms. For instance, one day we received a call from a mother enrolled in the CCAP program, who reported that the owner of her children's day care center had stopped paying her the monthly cash kickback of \$200 per month per child that they had agreed upon. Over time our unit learned that a cash kickback of this amount was the standard for fraudulent centers at that time, although over time the kickback amount increased.

On another day, we received a call from a local fire department asking if a particular day care center was still operating, because they had been attempting to conduct a fire safety inspection, but despite stopping multiple times, on various days of the week, at various times of the day, there was never any staff or children at the center. When I checked, I learned that the center was listed as being active, that they had been paid approximately \$1M in CCAP funds in the

past twelve months, and claimed to be caring for approximately 90 children at a time, during two shifts, from 6 am to 10 pm seven days a week.

Yet another day, our unit received a call from a county human services supervisor. That county supervisor told us that in the process of reviewing a woman's application for CCAP, it was noted that there was no documentation showing that the applicant was engaged in an educational or work activity required by CCAP. When the applicant was questioned, she admitted she was not attending school or working. She was advised to return once she was attending school or working, and to bring proof of that, and that if she was working, to bring paystubs showing 4 weeks of work. The supervisor advised us that the woman returned the next day and showed paystubs purporting to show that she had been working for the past four weeks at the child care center she wanted her children to attend. When questioned, the woman admitted that she had not worked a day at the center, but that the child care center owner had given her the false paystubs so she would qualify for CCAP. In each of these three examples, our investigators determined that large scale CCAP fraud was taking place.

From the time our CCAP Fraud Investigation Unit was formed in 2014, we received outstanding support from the original Inspector General and Deputy Inspector General. These leaders went above and beyond what could be expected, to find funding for our unit to buy investigative hardware, software, and other necessary investigative equipment. We spent many hours together with our original leaders brainstorming possible changes to policy and laws that could reduce the level of fraud in CCAP.

By 2016, after approximately two years of operation, our unit was receiving so many leads on possible child care fraud that we simply couldn't investigate all of them. We were forced to prioritize these leads, and frankly we would only open investigations on centers if they were receiving \$700K-\$1M annually in CCAP funding. Even with this restriction there was often a significant delay from the time we received the information until we had the investigative resources to investigate. During this delay, unfortunately, the funding kept flowing to the fraudulent centers.

After the retirement of the original Inspector General in late 2016, I was advised by the Deputy Inspector that she had been advised by Senior DHS officials to meet with a newly formed group of child care center owners operating under the name "Minnesota Minority Child Care Association" (MMCCA). I was offered the opportunity to attend, but after seeing the list of attendees, I realized that our unit had open fraud investigations involving centers owned by two of the approximately four attendees representing this group. The Deputy Inspector General and I decided that I would not attend, but that she would brief me immediately after the meeting.

As soon as the meeting concluded, the Deputy Inspector General came to my office and briefed me on what had transpired. I was advised that MMCCA officials adamantly opposed our proposed legislation that would lower the burden of proof for disqualifying center owners from "Clear and Convincing" evidence to proof "By a Preponderance of the Evidence". The Deputy Inspector General also advised me that the leaders of MMCCA wanted DHS to implement a rule stating that once CCAP eligible parents registered their children at a child care center, that they could never switch child care centers. I was told that the leader of the MMCCA stated that there were too many mothers switching child care centers to get a higher monthly cash kickback, and that "If we make \$50,000 a month, but have to pay out \$30,000 a month in kickbacks, that cuts into our profit". The Deputy Inspector General told me she advised the MMCCA members that DHS would never agree to a policy like that.

After the Deputy Inspector General retired in March of 2017, I was advised by the DHS Commissioner's Office to attend another meeting DHS was holding with the MMCCA. I was one

of two DHS officials at this meeting, at which three members of the MMCCA attended. The meeting began with the other DHS official briefing the group on the DHS legislative initiatives that were going to be put forth.

After approximately 30 minutes, the lead MMCCA official interrupted the meeting, and pointed his finger across the table at the other DHS official and stated 'Enough! We don't want to hear any more about this.' He went on to say "The person we want to talk to is Mr. Jay (pointing finger now at me), because when your people come to our center's they close them down and shut off the money". I agreed with the official that this is what my people did.

At this point the MMCCA official told me "You're going to give me your cell phone number, I will call you and tell you which centers are committing fraud, and you will go out the next day and shut them down and shut off their money". I advised the official that this was not how fraud investigations worked, that if someone wanted to report fraud, they could do so on our website, or by our fraud tipline, and they could remain anonymous both ways. The MMCCA official stated "No, you're going to give me your cell phone number and I will tell you which centers you're going to shut down". I advised the subject that this wasn't going to happen. The official then asked me "Are you refusing to give me your cell phone number?", to which I replied "that's exactly what's happening". At this point, all three MMCCA members stood up and walked out of the meeting.

During the period before the new Inspector General was hired, I was asked to provide an Assistant DHS Commissioner with a briefing regarding the current state of Child Care Provider Investigations. I provided that official with a briefing lasting approximately one hour, with numerous power point slides, describing exactly the scope and method of fraud we were seeing in CCAP, as well as the MMCCA group purporting to be a legitimate industry association & their statements and action with DHS officials thus far (which clearly indicated their interest lay in criminally defrauding CCAP).

When the new Inspector General and then Deputy Inspector General were hired in mid-late 2017, I supplied the same briefing to them. To my dismay, I became aware that senior DHS officials continued to meet with this group in late 2017 and through 2018. Because DHS Child Care Licensing staff were frequently directed to attend, I learned of these meetings generally occurred on weekends, and not at DHS offices. Twice I advised the Deputy Inspector General that because of suspected and admitted criminal activity by at least some of those representatives, that any future meetings should be kept to a minimum, and that if they had to be held, that they absolutely should be held at DHS offices during normal business hours. I advised the Deputy Inspector General that in my opinion the MMCCA's prime motivation in these meetings was to co-opt DHS officials. I later learned my warnings were ignored.

In August of 2017 I was advised by a DHS Child Care Center Licensing staff person that the MMCCA had recently made unannounced visits at two child care centers that received CCAP payments. I was advised that the center owners (who were Somali) reported being visited recently from members of the MMCCA, and that the owners were told that they needed to join this association, and that the dues were either \$1,200 per month or per quarter (the owners couldn't remember which). When these owners refused to join, the MMCCA representatives told them that if they didn't join, that MMCCA would report them to MN DHS for fraud, and their money would be shut off. The two center owners advised that the MMCCA representatives told them "We meet with the Governor and the (DHS) bosses, and we have the right to do whatever we want to do".

By mid-2017 our unit had stopped payment to eleven child care centers that we could prove had defrauded CCAP, and had obtained felony convictions on five individuals for fraud related

crimes. What we saw in these cases were individuals who opened a day care center with no intention of operating legitimately.

With these centers, the norm was to pay monthly cash kickbacks to the CCAP mothers of \$200 per child, in exchange for the mothers telling their human services caseworker that their children attended the center 8-10 hours a day. These owners also provided the mothers with fraudulent employment verification documents such as pay stubs, ect. which purported to show that the mothers fulfilled the CCAP work requirement by working at the center, often as a "toy washer" or "book washer".

In employee personnel files we routinely saw fraudulent documentation of teacher training that some employees admitted they had not completed, or in some cases were not even aware they needed to complete. We routinely saw lunch menus posted in centers purporting to show nutritious food being served every day. Our surveillance showed that the center did not have the kitchen facilities or ingredients to make this food, and our surveillance showed that the only food entering the center over a period of weeks was carry out pizza usually delivered by the owner of the center. This was what was served daily for those centers that actually had some children present.

Additionally, the centers we investigated almost always billed the maximum amount for all children they had received authorization to care for, generally 6-7 days per week. We normally saw billing that indicated all children were present every day, with no indication that a child was ever absent or sick-something we found very unusual when one considers the illness rate among young children spending time in a day care setting.

In a number of cases the mothers admitted they were paid to care for their children at home in exchange for the kickbacks. These mothers told us they were generally required to come to the child care center once a week or once every two weeks to fill out the attendance records claiming that their children were present for the maximum days and hours they were approved for.

Our team was assisted by the DHS Digital Forensics Lab which performed forensic examinations on cell phones & computers seized from owners during search warrants. These exams revealed incriminating text conversations and emails. In one conversation, a friend asked the owner "how much longer are you going to do the day care scam?", and the owner, who was on public assistance, on vacation in Dubai at the time, replied "another year or two, I'm going to buy some nice homes in Nairobi".

During our early investigations, in approximately 2015-early 2016, the forensic exams also frequently showed owners making large wire transfers from their business accounts to bank accounts primarily in the Middle East as well as Africa. This activity seemed to have mostly stopped by late 2015, and instead what we began seeing was owners writing and cashing large checks payable to themselves, and in the memo line writing "repairs" or "supplies". This was being done several times a month by some owners.

Beginning in approximately 2015 we learned from federal law enforcement of bulk cash couriers, affiliated with Hawala networks, arriving at the airport in Minneapolis and other cities, booked on flights to primarily Middle Eastern or African countries, who were transporting currency in amounts of hundreds of thousands up to a million dollars at a time, on a weekly basis. Federal investigators from HSI asked us if we felt amounts of this size could be generated from CCAP fraud only, or if it would more likely be comprised of proceeds from various illegal activities. After studying the matter, it was the collective opinion of our group along with the federal investigators that it was much more likely to be fraud proceeds from

CCAP as well as the various types of Medicaid fraud such as home health care, medical transportation, autism treatment, adult day care and possibly other similar programs.

During this timeframe, I was advised by federal law enforcement that it was considered to be a near certainty that a percentage of the cash carried by these Hawala associated couriers would be siphoned off by one or more designated terrorist organizations due to the control they exert in certain countries that these funds were destined for.

It is my understanding from public sources that the dollar amount of cash transported by these couriers from MSP has increased from approximately \$14M in 2015 to over \$349M in 2025. Based on my experience, this can likely be attributed to increased state and federal funding to CCAP and the high-risk Medicaid programs being siphoned off by fraudulent providers.

In mid-2017 my team and I began receiving pushback from the upper management at MN DHS regarding our investigations, and this increased in frequency and severity in 2018-2019. The only concern expressed to me by senior DHS officials involved the fact that nearly all our fraud cases to date involved Somali owned child care centers. In mid-2018, possibly due to publicity of the CCAP fraud cases our unit was involved in, the Minnesota legislature directed the Office of Legislative Auditor (OLA) to conduct a special review of CCAP.

By the end of 2017, our unit had significant fraud concerns involving 72 of the top 100 centers in terms of CCAP payments received. I say this because all our fraudulent centers exhibited the same of very similar fraud indicators. It was as if the fraudulent business plan was simply a copy/paste from the previous one. By this time, we actually knew this to be the case, because we became aware of an individual, of Eastern European descent who had opened a child care consulting company. He was assisting individuals in finding a suitable location, and with meeting all the requirements to become licensed, including creating policies for the center, as well as providing required equipment and personnel files complete with necessary evidence of required training. All this was done in exchange for a percentage of future profits.

This consultant was so integral to the center becoming licensed that new owners would have the consultant on site when the DHS Licensing staff would perform pre-licensing inspections. Licensing staff reported to us that once the consultant opened his business, that most of the time when they posed a question to a new center owner, that owner would defer to the consultant to answer basic questions regarding the center or its staff.

In CY 2017 these 100 highest paid centers received \$118.2M in CCAP funding, (54% of the state's total), for an average of \$1.182M per center. The remaining 993 CCAP centers accounted for the remaining \$99.01M in 2017 funding, or an average of \$99,711 per center. During 2017 onward I continually expressed concern to DHS upper management about we saw as fraudulent centers consuming a large part of our state's CCAP budget, but was repeatedly advised that these figures were of no concern.

I was personally troubled by this complete lack of concern by DHS upper management in late 2017 onward, because if our fraud concerns were justified (and we had every reason to believe they were), when looking at just 100 out of 1,043 centers receiving CCAP payments, the suspected 72 fraudulent centers would result in a fraud loss of approximately \$85.11M in CCAP funding (.72 x \$118,208,722 in total funding received by the 100 centers). I use the total CCAP funding paid to the suspected fraudulent centers, because our fraudulent centers were not providing any type of legitimate child care service, and in no respect were operating as a legitimate business. This was not a case of a center billing for a few more kids on any given day. I knew, because it was pointed out to me often by county human services staff in many areas of the state, that many counties had waiting lists of families to get onto CCAP due to

budget constraints. If we were losing \$85M+ to fraud involving just 72 of the top 100 centers, that if that alone could be eliminated, we would preserve enough funding to eliminate the family waiting list all across Minnesota. This was not a victimless crime, but senior management at DHS refused to admit this should be a concern.

In August 2018 I received an email from the OLA asking, among other things, for a summary of the CCAP fraud trends our unit was seeing. The CCAP Fraud Investigation Supervisor and I wrote a response to this question, and forwarded it to Senior DHS management as I had been instructed. I soon had a senior official in my office, red faced and angry, holding a hard copy of my document, telling me "You can't send this, it'll make us look bad". This official pointed to the document and directed me to delete a number of paragraphs regarding the large-scale fraud we believed were occurring. I told this official, that I believed what they were telling me to do was unlawful, because Minnesota law requires state employees to cooperate with the Legislative Auditor, and to supply them with information requested.

A few days later, this same DHS official was in my office again, and told me "I just came from the Commissioner's office, they're sending your document to the OLA. You better be ready for the #%@! storm that's coming". In my opinion that last statement by the DHS official was clearly a threat, as well as a promise of things to come, for my unwillingness to hide information about fraud from the Office of Legislative Auditor.

The Office of Legislative Auditor completed their report in March of 2019. During my interview with them, they appeared shocked when I told them, not in response to any question, that a certain high ranking DHS official (who I named) had ordered me to hide information from them regarding the scope of the suspected fraud.

Prior to the report being released publicly, the Legislative Auditor called me on a Saturday morning asking if I would be ok with him releasing my memo on fraud trends as an appendix to his report. He stated that it was the most comprehensive summary of CCAP fraud he had seen. I advised him I had no issue with it being released. It can be found on pages 49-61 of the OLA report (Appendix B). <https://www.auditor.leg.state.mn.us/sreview/ccap.pdf>

Soon after I received the threat from the senior DHS official, in the early fall of 2018, our Fraud Investigation Unit was bullied and harassed by high level DHS officials in the following manner: DHS signed a \$90K contract with a consulting firm. The focus of the contract was not to evaluate the internal controls of CCAP, but to discredit the fraud claims our unit made and how we operated. In the fall of 2018, the consultants arrived in Minnesota and began interviewing staff. During my interview, I learned the consultants had experience in public sector financing and assisting government agencies in the preparation for bond sales. I inquired of the consultants if they had any experience in evaluating the program integrity of public benefit programs or in financial fraud investigations, and was told they did not. During my interview, the discussion became heated when the consultants told me I had no basis for making the allegation that fraud in Minnesota CCAP was at least \$100M per year (approximately 40% of the budget). At that point I advised the consultants that I really didn't care what they put in their report, but if they said there was no fraud, or that our investigators were making this up, that when the scale of fraud became publicly known, that their company would lose all credibility. I advised them that the level of fraud was so massive, that sooner or later it would come to light.

In late 2018-early 2019 our CCAP Fraud Investigations unit was advised that we would be the subject of a "Continuous Improvement Project". This project began with a team meeting where the top DHS Continuous Improvement official berated our entire group for approximately 30 minutes, telling us essentially that we were incompetent and terrible employees. I had never heard of something like that happening to any group of state employees in my 40 years in state

government. An Assistant DHS Commissioner was present in the room for this entire meeting. Over the next approximate six months, our team was required to attend many group meetings where the investigative process was discussed at length. We were each given multiple "homework assignments" to complete between meetings. These meetings were led by the same DHS official who had berated us so badly in that first meeting. The huge amount of time our team spent in these meetings, and on the outside assignments, resulted in investigators and supervisors being unable to complete hardly any investigative activity over the roughly six months of this program.

As a result of this program, in mid-2018, significant changes to our fraud investigative process were dictated to us by the lead Continuous Improvement. These changes included: The decision on which child care centers were to be investigated would no longer be made by the Fraud Investigation Unit Supervisor and I (together we had 70 years of criminal investigative experience). Instead that decision would be made by a committee of three, two would be DHS officials with no experience conducting public benefit or financial fraud investigations, and I would be the third committee member, although I would clearly be outvoted.

The amount of CCAP funding a center received would no longer be a factor in prioritizing cases for investigation. We would spend an equal amount of time investigating centers receiving a relatively small amount of funding as those receiving a large amount of funding. This meant that 50% of our investigative resources would be spent on centers receiving less than \$100K per year, and would also mean we would spend 50% fewer hours investigating centers receiving \$1M+ CCAP funding per year.

CCAP Fraud Investigators could only contact Minnesota Bureau of Criminal Apprehension (BCA) Special Agents after receiving permission from a DHS official. Since our inception, DHS had contracted with the MN BCA to have two special agents dedicated to assisting us in investigating CCAP fraud. Lastly, DHS officials advised the BCA agents to vacate our building. They would no longer have an office in our building as they had since our unit was formed.

At this point, in June 2018, I advised our Fraud Investigation Unit that I would not be a party to these changes. In my opinion these changes were clearly designed to take the focus off of those individuals committing the most egregious fraud, since we had practically no suspected fraud cases involving centers receiving much smaller CCAP payments. I also believed that the motive behind requiring approval from a DHS official before an investigator could speak to the Bureau of Criminal Apprehension, and the move to evict the BCA Special Agents from the DHS office, was to drastically reduce or eliminate the possibility of a major CCAP fraud suspect from being criminally prosecuted. I turned in my resignation/retirement notice effective July 2019.

In closing, I would like to make some suggestions to this committee that might improve program integrity not only in child care, but in the many Medicaid funded benefit programs. I want to emphasize that many of the same persons and families involved in CCAP fraud are also involved in defrauding Medicare funded programs such as home health care, autism treatment, medical transportation, adult day care, and probably several other programs. In my dealings with the fraudulent providers, I am left with the impression that they view these different programs as simply a different faucet they can turn on to siphon large amounts of cash from our government.

Eliminate the block grant fund that programs such as states receive for programs like CCAP. This should be replaced by funds where the federal government controls who is a provider as well as a recipient such as in Medicare. Our country will always have certain states that place little or no importance on program integrity. By setting national standards better control can be put in regarding provider and recipient enrollment. Currently, Minnesota and probably other

states gather little in the way of identifying data on providers, and have no way of knowing if the same parents or children are being used as vehicles to bill for the same services from different states at the same time. There needs to be a national registry of recipients and dependent children, with individual identifying data (similar to a Medicare or social security #) for everyone involved with all these programs. There should be national vetting of providers and recipients before enrollment in any of these programs. In Minnesota we have little or no confidence that the parents and children are living in Minnesota, or that they even exist. This needs to be corrected nationally before any real headway can be made in program integrity.

There should be far greater disqualification penalties for providers found to have committed fraud against any public benefit program, regardless if they are being disqualified for a criminal conviction or an administrative action. While I would suggest a lifetime ban from becoming a provider receiving federal or state funds is reasonable, at a minimum this disqualification period needs to be measured in decades, not years. There needs to be a national disqualification database that an applicant would be vetted through before they could become a provider in any program.

There are people involved in program integrity positions in the various states that will advocate for administrative fraud investigations in these programs that can be conducted quickly with the end goal being administrative disqualification from that program, as opposed to criminal prosecution. While I would agree that administrative disqualification should be a tool, we must consider the minimal deterrent effect this has on individuals if the primary enforcement tool is disqualification. A provider in these programs can reap multi-million dollar amounts in a few years. If they carefully hide their criminal proceeds, and all they receive is an administrative disqualification, walking away with several million dollars, the threat is nowhere near enough to deter many people from becoming involved in this type of crime.