Key Evaluation Objectives:

- ▶ Evaluate DHS' processes for verifying that child care subsidy funds are properly used.
- ▶ Identify risks for fraud or abuse within DHS' existing processes.
- ▶ Identify best practices or opportunities to mitigate risks for fraud and abuse.

Executive Summary

States receive Child Care Subsidy funds from the federal government to help make child care affordable for low-income families who are either working or participating in job training or educational attainment. Federal funds provide most of the funding for the subsidy, but states are required to contribute a set share of funding. For FY25, Oklahoma received $204.1 million in federal funds and contributed $24.7 million in state funds.

In January 2026 – amid widespread allegations of fraud and misuse of Child Care Subsidy funds and other federal assistance programs – the federal government froze funding to five states. Among that group of states was Minnesota, which garnered national attention for suspected fraud in its Child Care Assistance Program (CCAP). By June 2026, the Minnesota House of Representatives had released two investigative reports documenting more than a decade of internal concerns that large-scale fraud was occurring in the CCAP and other assistance programs. In July 2026, the owner of a Minnesota daycare center pled guilty to two fraud charges, including fraudulently obtaining $4.6 million in funds from the CCAP over a three-year period.

Seeking to assess the potential risks for fraud and abuse within Oklahoma's CCAP, the Legislative Office of Fiscal Transparency (LOFT) evaluated the processes used by the Department of Human Services (OKDHS) to ensure the proper use of the funds, including that only eligible families and child care providers benefit from the funds. Additionally, LOFT identified opportunities to strengthen processes to better guard against abuse or improper payments.

This evaluation resulted in two key findings:

Finding 1: Oklahoma's Child Care Subsidy Program is Unlikely to Experience Large-Scale Coordinated Fraud, but Other Risks for Fraud and Abuse of the Program Remain

LOFT's review of investigative reports of Minnesota's CCAP between 2019 and 2026 identified the following risk areas:

- Divided administrative authority
- Low barriers for provider enrollment
- Payments based on attestations of attendance instead of documentation
- Failure to act when risks or fraud are identified

LOFT compared Minnesota's processes for administering the CCAP to Oklahoma's to assess whether Oklahoma was at risk for the type of abuse alleged in Minnesota and determined that, based on the structural differences between the two states' programs, it would be unlikely for Oklahoma to experience the type and scope of fraud alleged to have occurred in Minnesota.

57,746

children received child care services under DHS' child care subsidy program in FY25

from

2,016

licensed and contracted child care centers and homes

The CCAP funds support two parties: the families, for whom the cost of childcare is made more affordable, and the child care providers, who are the direct recipients of the subsidies. Therefore, LOFT examined OKDHS' process for verifying the families and the providers, identifying any associated risks for fraud and abuse with each.

To ensure program integrity and protect taxpayer funds, a subsidy program must have clear administrative oversight, processes for verifying eligibility, and accountability. A key difference between the two states is that Minnesota divides administrative authority for the program among the State and local government agencies, which may also subcontract to community-based organizations, while Oklahoma centralizes its authority for approval and payments under OKDHS.

Minnesota was found to have enrolled providers without documenting operational capacity or conducting an in-person visit to the child care facility, enabling "phantom" operations where providers receiving the child care subsidy payments were later observed as neither having children present nor the required amenities. Comparatively, Oklahoma providers that seek to receive the subsidy must be an established, licensed facility that meets a minimum quality level. Oklahoma providers initially operate under a permit, during which time they are placed on a 6-month monitoring period that includes bi-monthly, unannounced visits from OKDHS. After the monitoring period, OKDHS conducts one unannounced visit annually. OKDHS' policy to conduct unannounced, in-person visits greatly reduces the likelihood that Oklahoma providers are not operating a legitimate child care facility. However, a review of OKDHS' processes revealed other risks for fraud and abuse, including:

Attendance Verification: OKDHS uses an attendance-based system designed to ensure that State payments for the child care subsidy comply with the plan submitted to the federal government, but the integrity of the payments is dependent on proper record keeping. Risks identified by LOFT include the current phone-based attendance app enabling parents to record a child as being checked in to a facility when they are not actually there or enabling a provider to request that a parent digitally check children in before they arrive, compromising the attendance data that is used to determine provider payments. Additionally, parents and providers have a 10-day window to manually correct attendance records, providing an opportunity for manipulation.

Verifying Family Eligibility: The risks on the family side of the program primarily relate to fraudulently obtaining the child care benefit through falsifying income or misrepresenting the household. Families receiving the subsidy do not directly receive any funds; instead, the subsidy is paid to the child care provider. LOFT observed OKDHS workers only partially completing the agency's prescribed verification tasks when assessing a family's eligibility for the benefit.

Unpaid Provider Copayments: Both federal regulations and OKDHS' policies require families to pay a share of the child care costs in what is known as a copayment. However, LOFT's survey of child care providers found unpaid copayments to be a common issue. The agreement signed by families to receive the subsidy includes the obligation to pay the family copayment, but OKDHS does not confirm the copayments are being made. The financial gap presents a risk as providers may seek to recoup the losses through other means, such as agreements with the family to alter attendance records or submitting incorrect information to OKDHS.

Finding 2: Efforts to Prevent and Detect Fraud within the Child Care Assistance Program are Compartmentalized, and When Fraud is Found, DHS is Reluctant to Criminally Pursue

Child Care Subsidy Clients

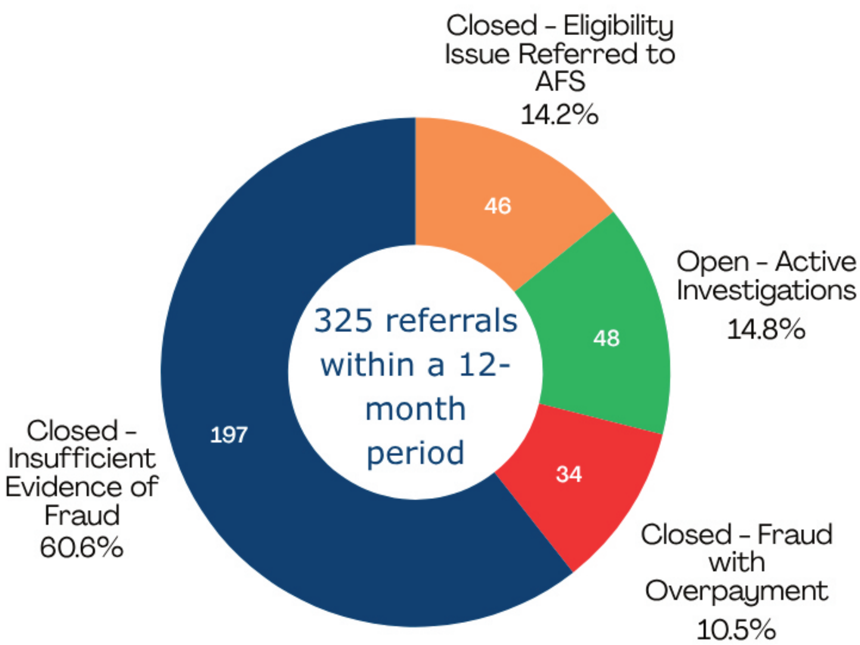
325 referrals
$551,249 in overpayments
76 cases
9 of which were referred for criminal prosecution

Child Care Providers

36 investigative audits
$25,392 in overpayments
0 referred for criminal prosecution

LOFT examined how OKDHS detects and treats suspected fraud and found the agency inconsistent in its decisions to label an action as criminal fraud, potentially allowing fraud and waste to occur at levels much higher than reported. OKDHS uses strong language in its documents, including calling actions "intentional" and labeling things as "fraud." Additionally, documents show that most clients admit to wrongdoing. Despite often having an admission of guilt and documentation, OKDHS does not submit the majority of cases for criminal fraud prosecution. **OKDHS' preference for handling cases administratively instead of through prosecution may not be a sufficient deterrent to would-be fraudsters, as often the cost of being caught is only repayment.**

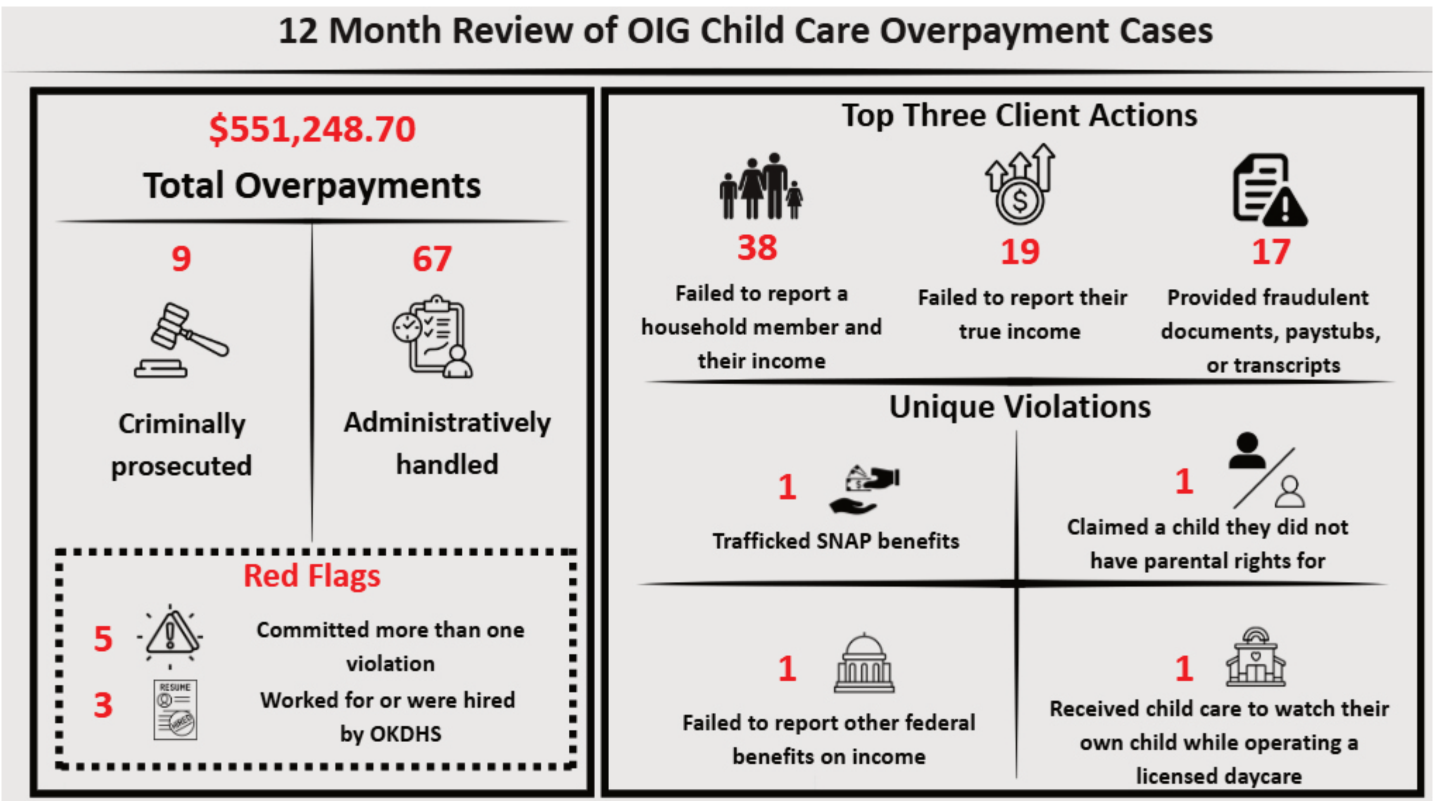
OKDHS Action on Referrals



Federal regulations require the Lead Agency (OKDHS) to identify fraud, investigate and recover fraudulent payments, and impose sanctions on clients or providers. The Lead Agency is also required to prevent improper payments, which include any instance where a client or provider receive more benefits than entitled to, whether due to fraud or error. The entity responsible for pursuing fraud and overpayments is the Office of the Inspector General (OIG), which is a department within OKDHS. The OIG receives what the agency calls "referrals" to investigate; the suspected occurrence of fraud can come from the public, OKDHS staff that works with either the client or the provider, or OIG personnel. The referral is investigated by OIG and, if it is determined that funds should not have been paid, OKDHS is required to recover the improper payments. The State Plan that OKDHS submits to the federal government also states that overpayments due to fraud are referred to the courts for prosecution, but LOFT found this is rarely the case, even when the amount of fraud exceeds the threshold for a felony offense. Further, OKDHS does not have a disqualification period for those found to have abused the program, allowing both clients and providers to reapply for the benefit at any time.

Throughout this evaluation, LOFT identified opportunities for OKDHS to strengthen its ability to both prevent and detect fraud, which should begin with the agency incorporating fraud awareness and detection training across all of its programs. LOFT observed an agency practice of compartmentalizing fraud to only certain positions, which overlooks the opportunities of personnel that have direct contact with clients or providers to identify potential fraud flags. For example, LOFT observed workers examining providers' attendance sheets to confirm the number of children present but overlooking potential violations in recording attendance and not questioning the age of older children being cared for during school hours.

Case records also demonstrate a willingness of OKDHS workers to accept blurred or unreadable documents, and an unwillingness to validate documents that are missing key information or appear doctored. Workers also deprioritize an automated system alert that generates when there is an income discrepancy; these alerts are often cleared without a review by either management or investigators, or are set aside. Last, a supervisor of caseworkers informed LOFT that caseworkers do not use the fraud detection tools referenced in the agency's training materials as they "are not investigators," and that verifying employment is a "best practice" but not a requirement.



LOFT reviewed OKDHS' internal investigations where an overpayment of the child care subsidy occurred and found that $551,249 was overpaid over a 12-month period. **All but one of the overpayments were attributed to parents intentionally reporting inaccurate information on their application.** While some of OKDHS' investigative audits of providers revealed that providers were paid for days they should not have been, the amounts were small and not widespread. However, this may be attributable to the brief audit period, oftentimes around 6 months.

Clients who became subject of these cases either provided fraudulent paystubs, failed to state their true income, or failed to report another household member's income. Because the same application is used to apply for multiple benefits from OKDHS, such as SNAP, utility assistance, and the Child Care Assistance Program, **in almost all cases, when there is an overpayment in one benefit program, there is an overpayment in all benefit programs the client is a recipient of.** For example, the total child care fraud among the 9 criminal cases totaled $154,000, but when including all benefit programs, the total amount of overpayment due to fraud across these cases was $270,767.

As demonstrated in Minnesota, fraud is a crime of opportunity, and when there is no deterrent to fraud, it scales. While Oklahoma's DHS has not yet experienced the level of fraud found in Minnesota, it is following some concerning trends observed in that state, such as choosing not to pursue criminal charges for fraud and instead handling cases administratively, with few consequences, and labeling fraudulent actions as overpayments.

Summary of Policy Considerations and Agency Recommendations

The Legislature may consider the following policy changes:

- Require that OKDHS refer all cases that meet the statutory definition of fraud to the district attorney.
- Establish whistleblower laws that define protected activities and adverse actions against an employee.
- Add the Office of the Auditor and Inspector as a recipient of whistleblower complaints.

The Oklahoma Department of Human Services should:

- Adopt a clear position on the pursuit of fraud over administrative penalties.
- Submit all substantiated fraud cases to a District Attorney or Assistant United States Attorney first for potential criminal prosecution, with OKDHS pursuing recovery through administrative processes only if the case is declined.
- Institute new training and procedures to incorporate fraud identification into monitoring visits by licensing workers to child care providers.
- Require that any system alerts generated due to income discrepancies be forwarded to the agency's investigative unit for review before being cleared from the system and require Adult and Family Services workers to process G1DX errors within 30 days.
- Transfer the staff from the Benefits Integrity Recovery Section to the Office of Inspector General (OIG), as the unit determines overpayment amounts and leads collection efforts.
- Dedicate more personnel to the OIG's investigative branch, potentially reclassifying the current three program auditors under the Quality Audit Unit as additional law enforcement agents that could be available to conduct investigations.
- Adopt policies to reject any documentation that is blurred or unreadable and require verification of all documentation as a standard practice. Incorporate these policies into annual employee training.
- Ensure completeness of the applications for the child care subsidy by ensuring that information collected during the application for other benefits is transferred to the child care application.
- Use the agency's recently acquired access to a credit reporting service to verify income on a monthly basis, and also request a waiver from the federal government to reassess eligibility as needed.
- Expand its user agreement to include language prohibiting manipulation of the new app's ability to confirm physical attendance.
- Require OKDHS conduct an address verification of the responsible parent(s) or guardian(s) of the child through:
    - Entering into a memorandum of understanding with Service Oklahoma to use the State's driver's license database for address verification.
    - Coordinating with OKDHS' Child Support Services Division to confirm the last known address of the absent parent.
- Require that all referrals entered into the Office of the Inspector General's database include documentation of all attempts to assess the strength of the allegations.
- Periodically have OKDHS OIG test the strength of the agency's fraud detection by submitting fraudulent documents for OKDHS workers to process.

- In accordance with Administrative Rules and the State Plan, require child care providers attest to whether client copayments have been paid.
- Consider administrative action against clients that fail to remit copayments to providers.
- For providers whose actions are found to have intentionally resulted in overpayment of the Child Care Assistance Funds, reduce the provider's quality rating status and corresponding reimbursement rate by one level.