LOFT

LEGISLATIVE OFFICE OF FISCAL TRANSPARENCY

LOFT EVALUATION: DHS CHILD CARE SUBSIDY

Meeting of the Legislative Oversight Committee

August 27, 2026

Background: Program Funding Sources

$370.2 Million in Total Funding
for Child Care Assistance Program for FY25

Background: Program Funding Sources

$204.1 million in federal appropriation through the Child Care and Development Fund (CCDF)

Mandatory Funds

$24.9 Million

Fixed allocation based on historical expenditures from the now-defunct Aid to Families with Dependent Children.

Discretionary Funds

$122.8 Million

Annual congressional funds based on the population of children under five and state income data.

Federal Matching Funds

$28.8 Million

Capped funds for children under 13, available only to states that provide matching state funds.

TANF Transfers

$27.6 Million

Federal statute allowing states to transfer up to 30% of their TANF allocation to the CCDF.

$24.7 million allocated by OKDHS from its appropriated State funds.

State Maintenance of Effort (MOE)

A flat amount of state spending required since 1996 to receive federal CCDF funds.

State Matching Funds

Appropriated state funds used to meet federal requirements and draw down federal matching dollars.

$141.4 million in supplemental funding allocated by OKDHS through TANF Direct payments.

TANF Direct Payments

$141.4 Million FY2025

Supplemental funds for recipients meeting TANF eligibility standards used to boost the state subsidy program.

Background: Eligible Subsidy Recipients

Be below income limits, based on family size

Demonstrate need (either to work or obtain training or education)

Have children under the age of 13

Background: Eligible Child Care Providers

Have a contract with DHS to receive the subsidy

Be licensed, permitted, and have a minimum quality rating

Can provide care in either a home-based environment or a child care facility

STATE OF OKLAHOMA
LOFT

Background: Eligible Child Care Providers

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

STATE OF OKLAHOMA LOFT

Background: National Fraud Concerns

Federal Fraud Conviction, July 2026:
$4.6 million in Child Care Assistance Program fraud by one daycare owner

Minnesota Investigative Reports:

- ***2019:*** Office of Legislative Auditor, Assessment of Fraud Allegations
- ***2019:*** Office of Legislative Auditor: Assessment of Internal Controls
- ***2025:*** Minnesota House Fraud Prevention and Oversight Committee
- ***2026:*** Minnesota House Committee on Oversight and Government Reform

> Fraudulent payments reduce program funds available for eligible parents who depend on child care assistance to maintain employment or attend education programs.
>
> *- U.S. Government Accountability Office*

STATE OF OKLAHOMA
LOFT

KEY OBJECTIVES

LOFT
LEGISLATIVE OFFICE OF FISCAL TRANSPARENCY

This evaluation was guided by four key objectives:

- Evaluate DHS' processes for verifying child care subsidies are proper and accurate
- Evaluate DHS' processes for properly reimbursing child care providers
- Identify risks within existing processes/controls
- Identify best practices or opportunities to mitigate risk

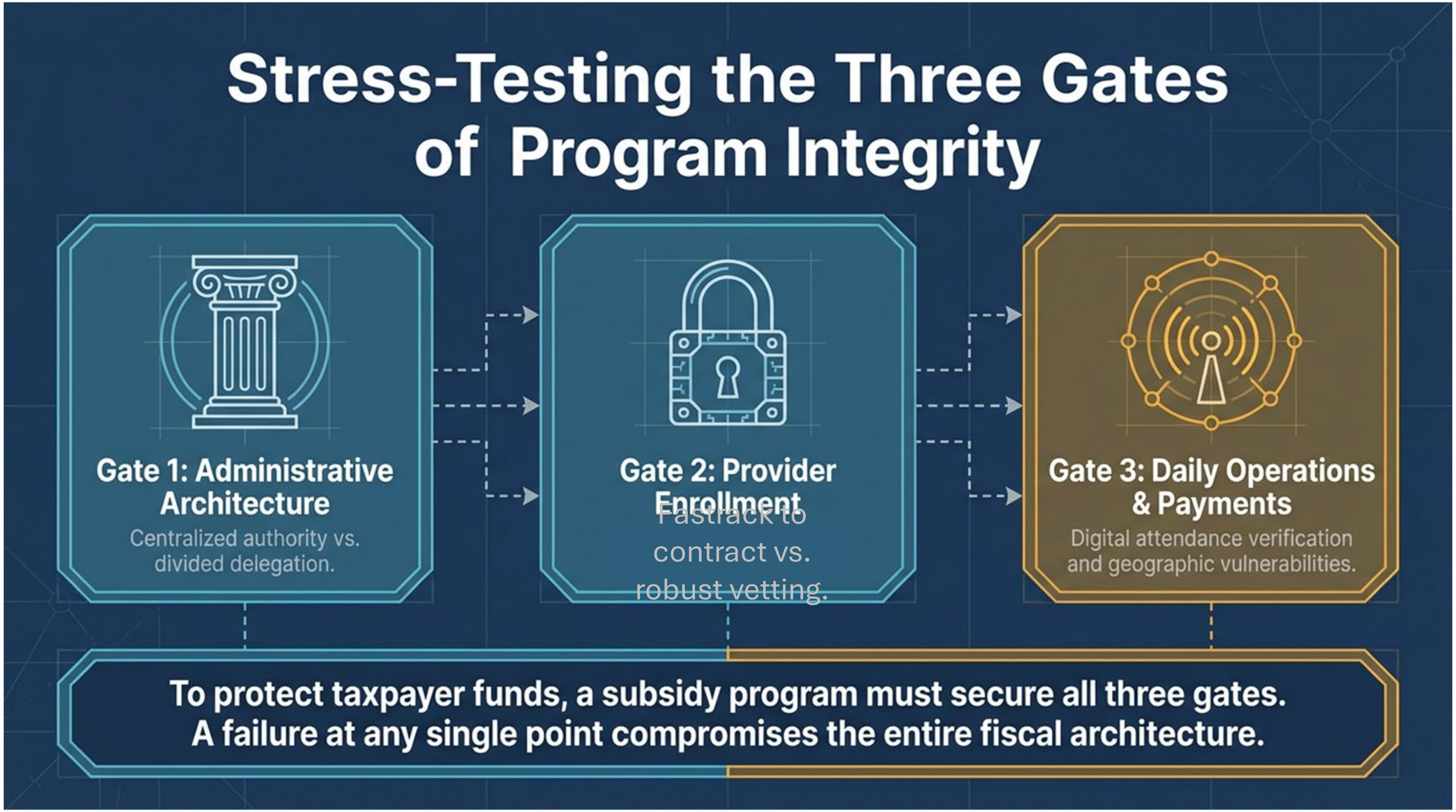
LOFT
LEGISLATIVE OFFICE OF FISCAL TRANSPARENCY

This evaluation resulted in two 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

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

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



STATE OF OKLAHOMA LOFT

MN v. OK

MN

- Decentralized authority
- Dispersed to local agencies; community-based organizations
- Lacks control over provider contracts

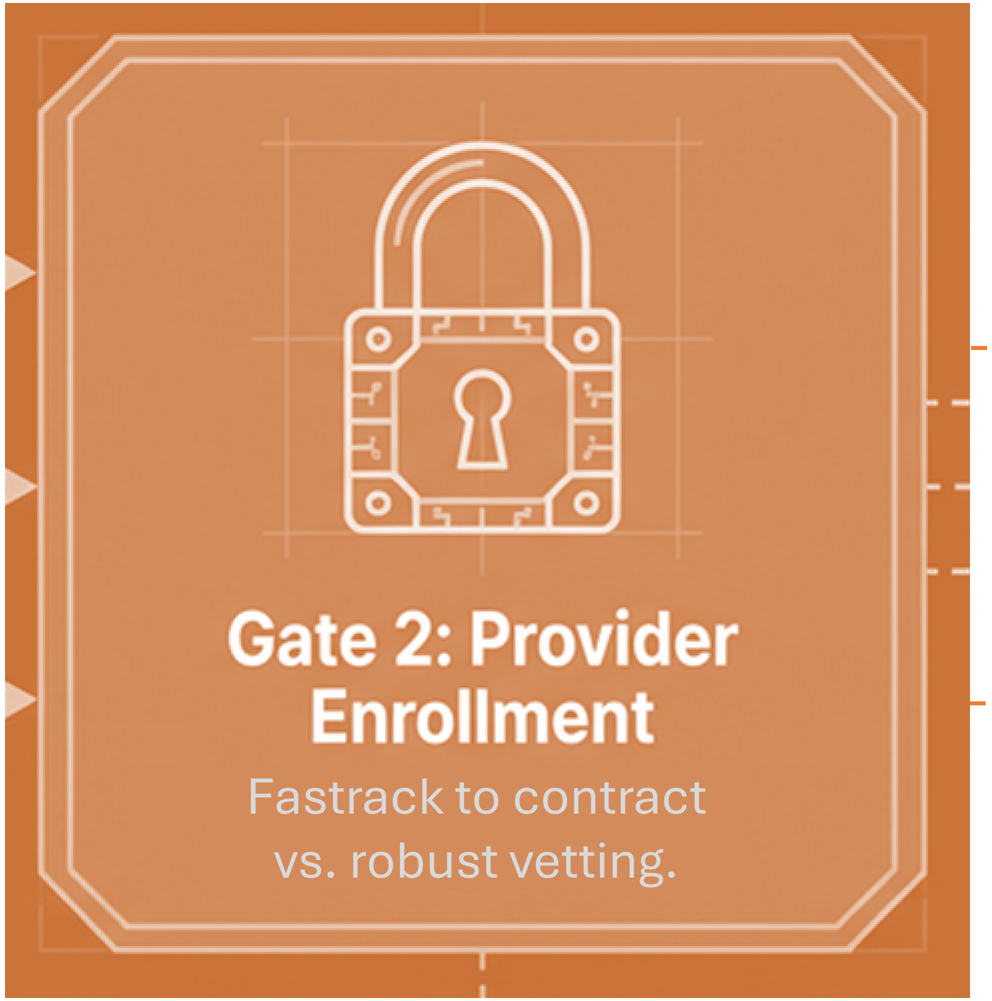
OK

- Centralized authority under DHS
- DHS approves and monitors all subsidy provider contracts

Division Name	Role	FTEs
Child Care Services: Licensing Department	The Child Care Licensing office licenses child care providers and confers quality ratings. This office inspects child care centers to ensure safety and quality standards are met.	106
Child Care Services: Child Care Subsidy Department	The Child Care Subsidy office manages contracts with providers that receive subsidy payments.	60

LOFT

MN v. OK



MN

- Minimal identifying information required
- MN agency rejected internal OIG request for driver license or state photo ID card
- Subsidy approval immediately upon licensure

OK

- Photo ID & background check
- Licensure before subsidy approval
- Quality rating requirements

LOFT

MN v. OK

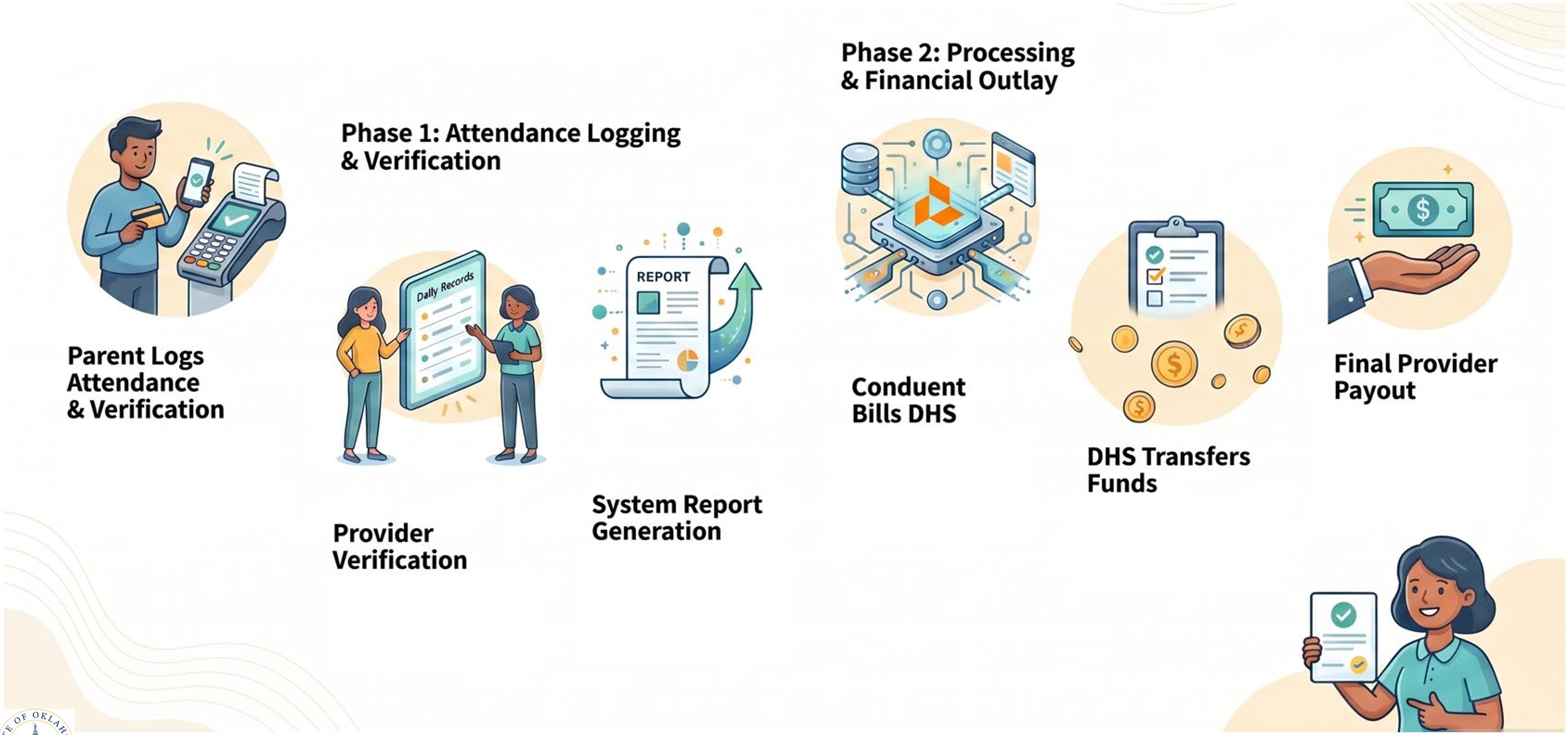
MN

- "Unreliable" attendance records
- Partial attendance=full day payment
- Bill processing and verification handled by two different agencies
- Failed to regularly conduct site visits

OK

- Attendance verification mechanism
- Digital record
- DHS in-house attendance log/billing verification
- Regular unannounced visits

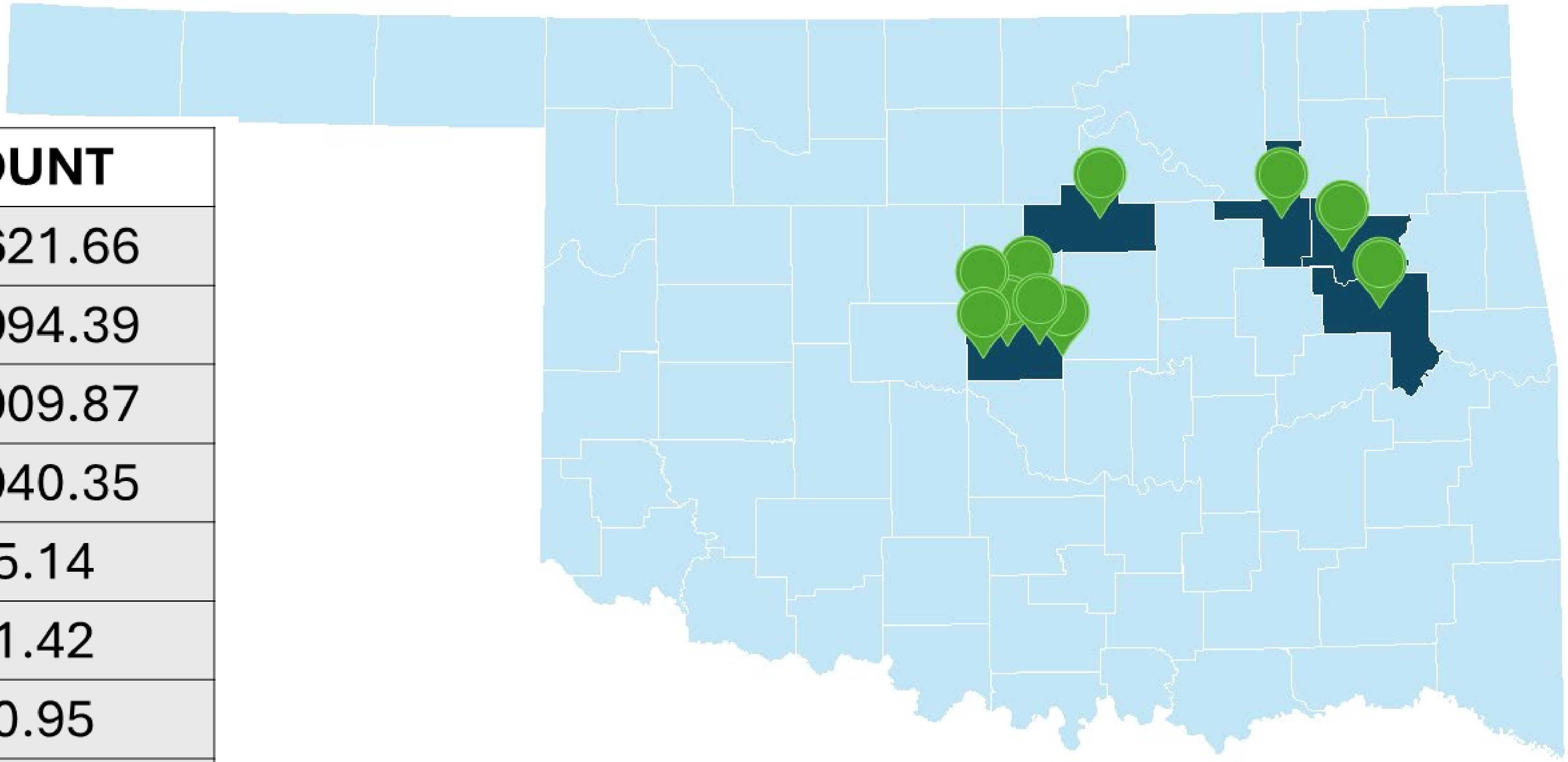
LOFT


Phase 1: Attendance Logging & Verification
Parent Logs Attendance & Verification
Daily Records
Provider Verification
REPORT
System Report Generation
Phase 2: Processing & Financial Outlay
Conduent Bills DHS
DHS Transfers Funds
Final Provider Payout

LOFT Fieldwork

COUNTY	AMOUNT
Payne	$1,308,621.66
Oklahoma	$1,177,994.39
Oklahoma	$1,159,009.87
Muskogee	$1,077,040.35
Oklahoma	$954,435.14
Oklahoma	$928,051.42
Oklahoma	$920,040.95
Tulsa	$919,754.40
Oklahoma	$919,650.61
Tulsa	$918,328.97

Top 10 Child Care Providers by Subsidy Amount



LOFT Fieldwork: Client Eligibility

Contacted the employer to verify income and work schedule — **COMPLETED**

Confirmed the selected provider is a contracted provider eligible to receive the subsidy payment — **COMPLETED**

Confirmed documentation or advised client of missing documentation — **COMPLETED**

LOFT Fieldwork: Client Eligibility

Verify household composition for income consideration	PARTIAL
Verify household resources (assets), which cannot exceed $1M	NOT COMPLETED
Inform client of requirement to report household income changes that exceed threshold within 10 days	PARTIAL
Inform applicant about EBT responsibilities; training video	NOT COMPLETED
Verify the identity of the applicant	PARTIAL

STATE OF OKLAHOMA LOFT

Unpaid Provider Copayments Present Program Risk

"The family share copayment is applied ***before*** OKDHS pays a child care subsidy."

OKDHS Child Care Subsidy Provider Handbook, Section E

"DHS pays the rest of the family's cost of care ***after*** the co-payment has been met."

Administrative Rule 340:40-5-1

Unpaid Provider Copayments Present Program Risk

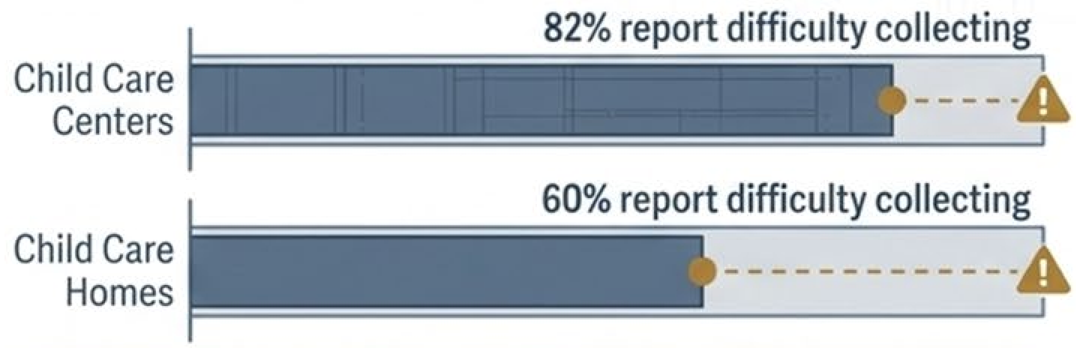
$403,773 in Unpaid Copayments

LOFT surveyed 367 child care providers. The data reveals a systemic failure in copayment collection that OKDHS is currently ignoring.

80% of surveyed providers have subsidy clients responsible for copayments.

95 providers carry balances exceeding **$1,000.**

7 providers carry balances exceeding **$10,000.**

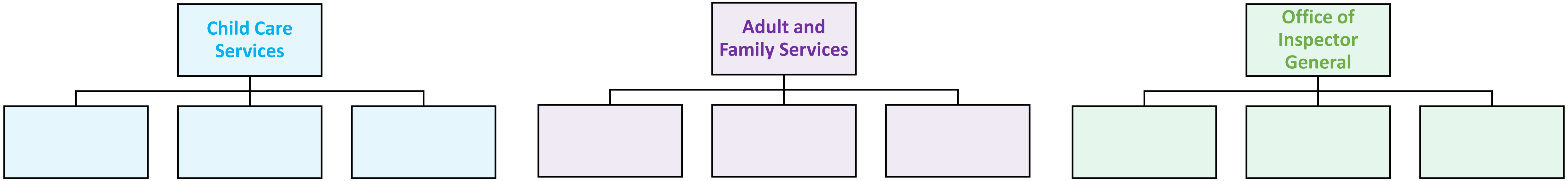


72% of providers reported difficulty in collecting copayments from parents

LOFT
LEGISLATIVE OFFICE OF FISCAL TRANSPARENCY

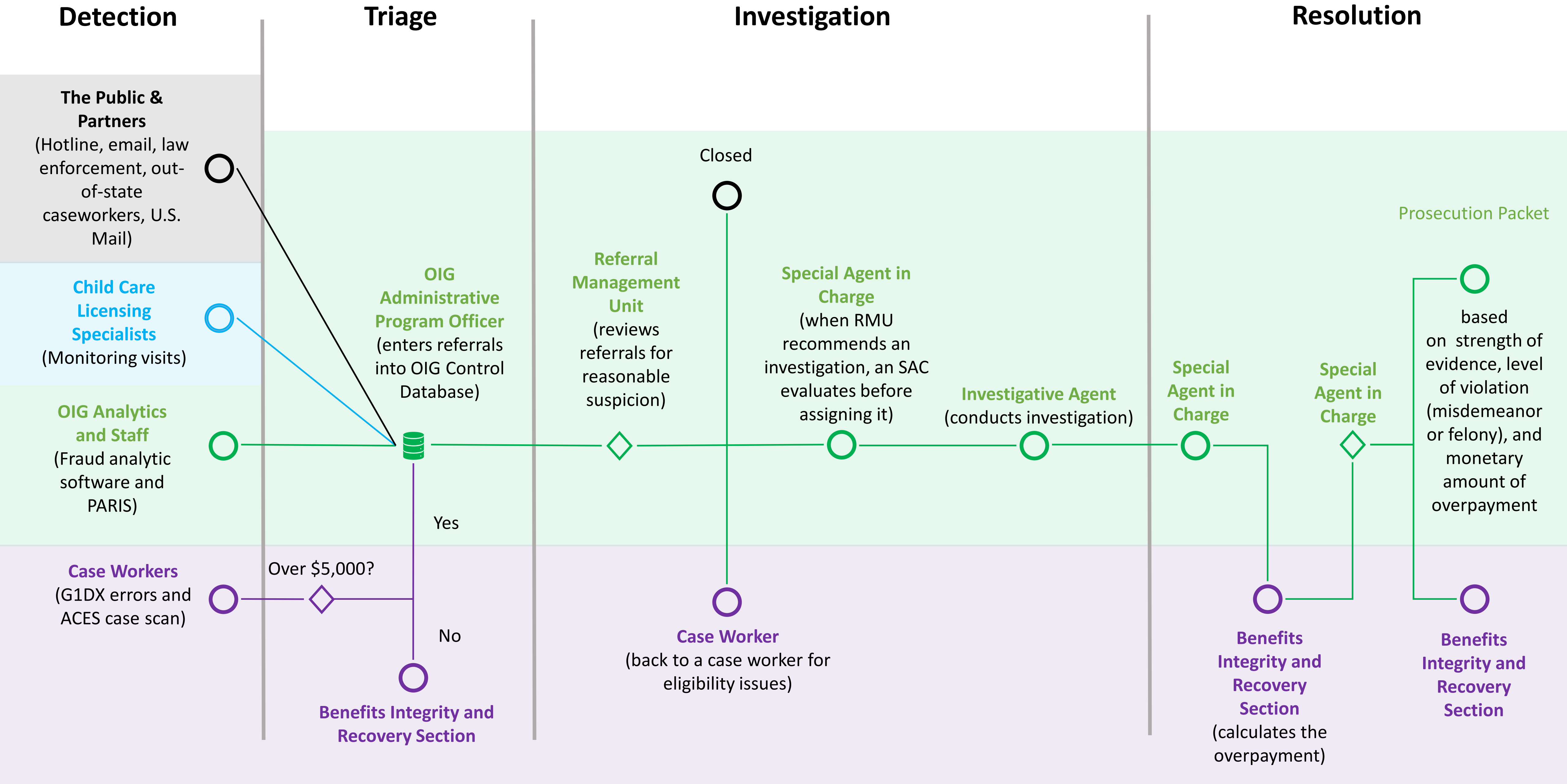
Questions on Finding 1

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



LOFT

Fraud Referral Lifecycle



12-Month Review of OIG Cases with Child Care Overpayments

$551,248.70

Total Child Care Overpayments

9

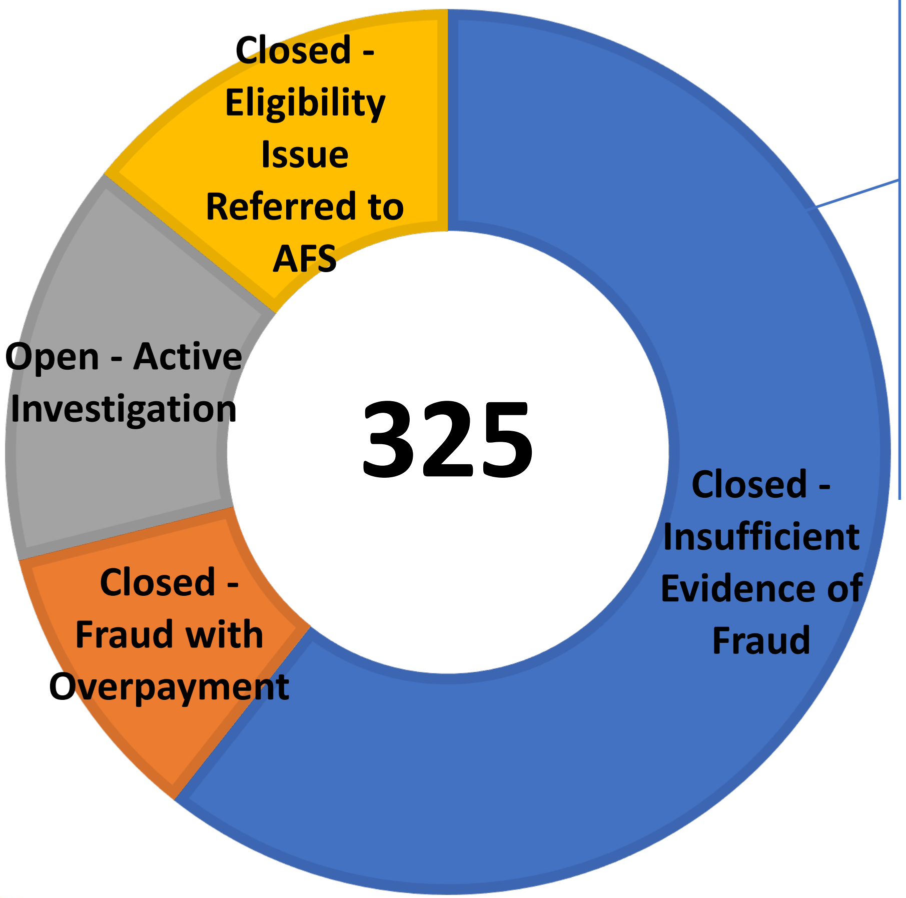
Cases criminally prosecuted

67

Cases administratively handled

12-Month Review of OIG Cases with Child Care Overpayments

OKDHS ACTION ON REFERRALS



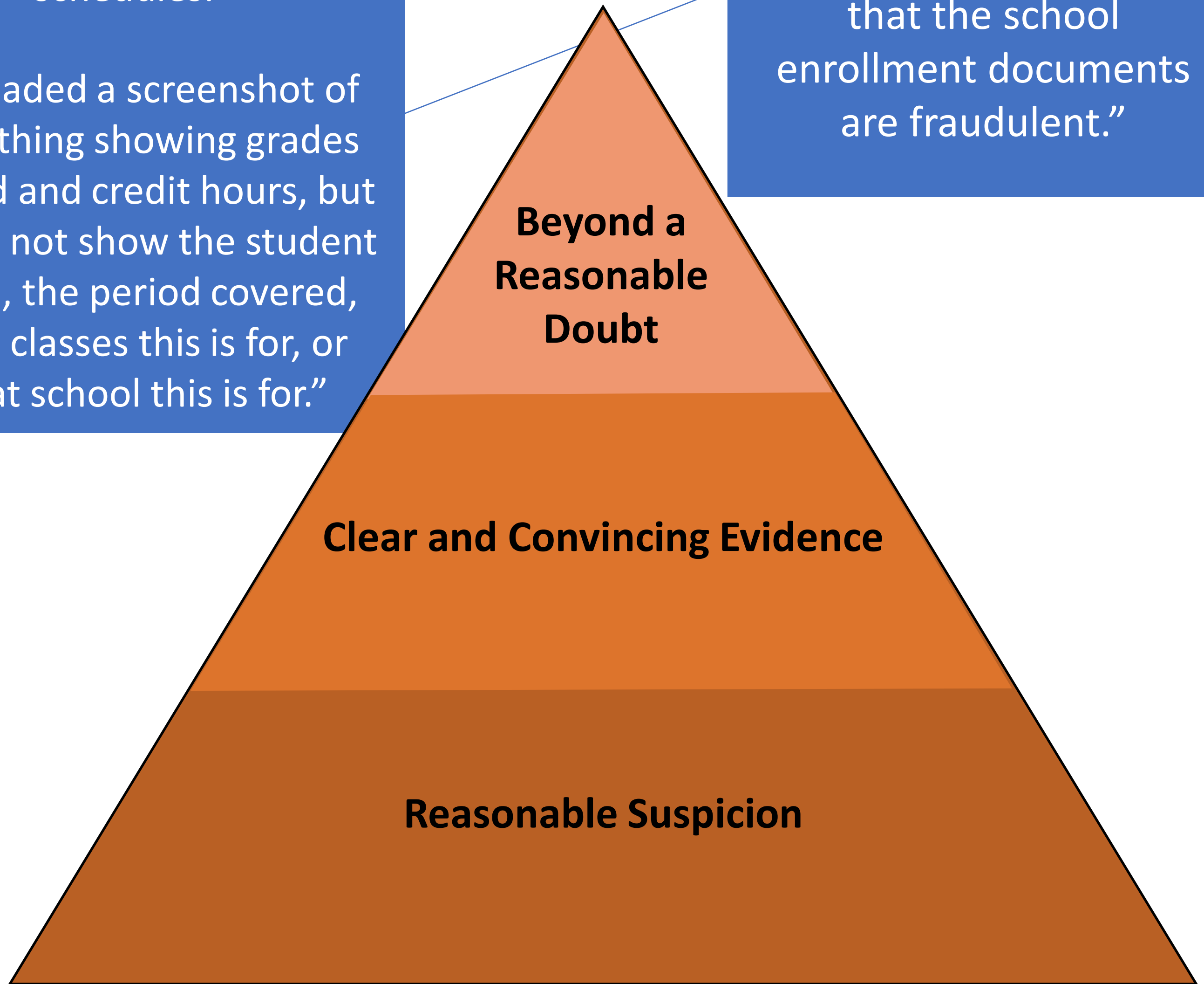
AFS WORKER

"Client claims the school does not provide class schedules."

"Uploaded a screenshot of something showing grades earned and credit hours, but it does not show the student name, the period covered, what classes this is for, or what school this is for."

OIG CLOSURE COMMENTS

"AFS worker has not provided any verification that the school enrollment documents are fraudulent."



LOFT

12-Month Review of OIG Cases with Child Care Overpayments

38 Failed to report a household member and their income

19 Failed to report their true income

17 Provided fraudulent documents

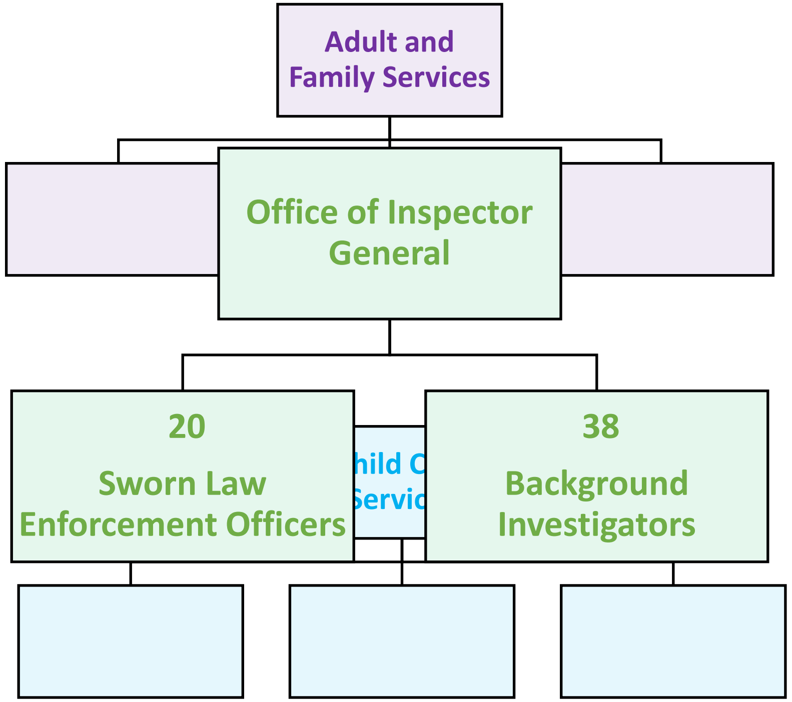
STATE OF OKLAHOMA LOFT

12-Month Review of OIG Cases with Child Care Overpayments

5 Committed more than one violation

1 Claimed a child they did not have parental rights for and sold her SNAP benefit

1 Received child care benefits to watch her own child at her licensed daycare resulting in $37,670.90 in overpayment

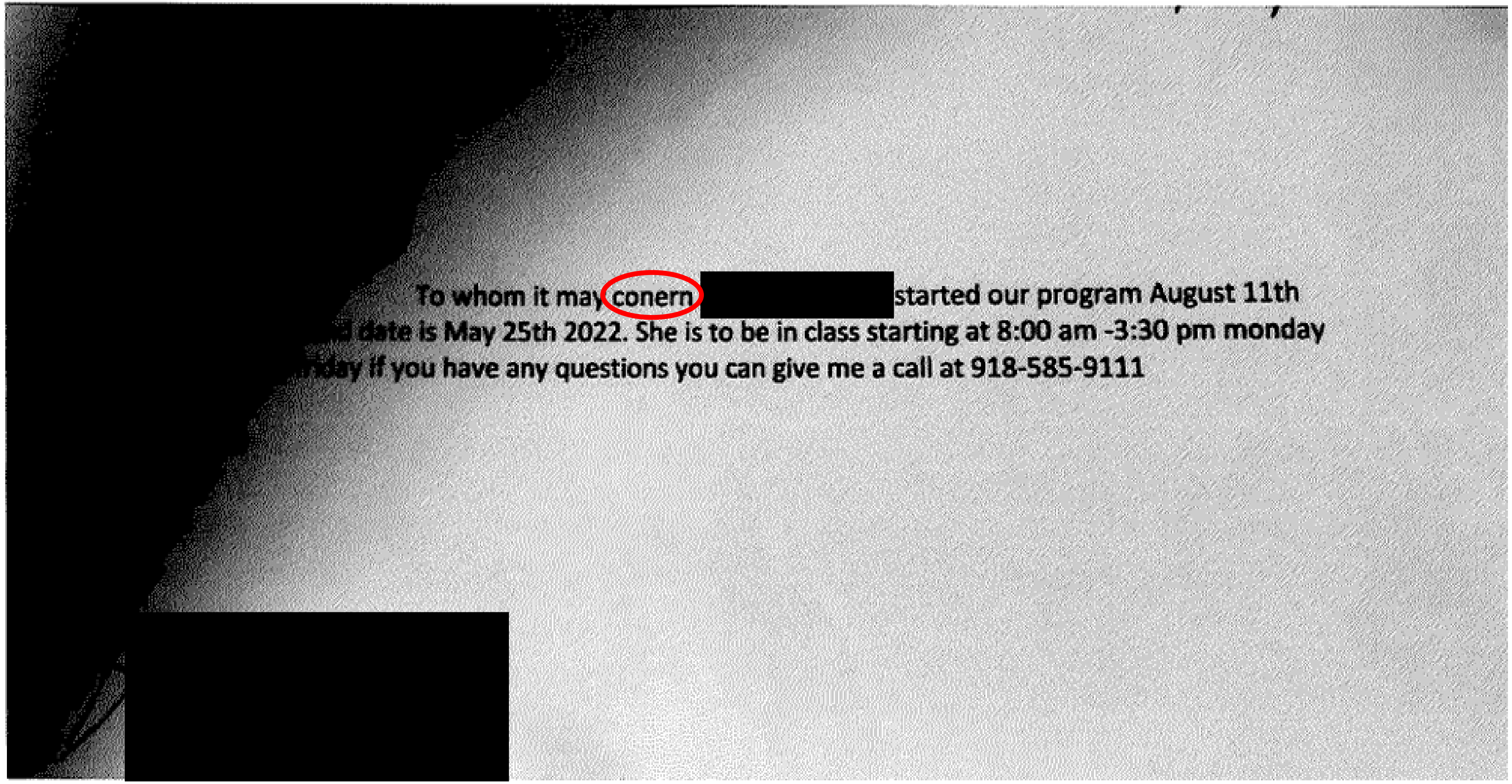


LOFT

12-Month Review of OIG Cases with Child Care Overpayments Administrative Case Study

- Benefits began in February 2022.

- In 2022 and 2023, Client turned in this letter, with the same word misspelled.

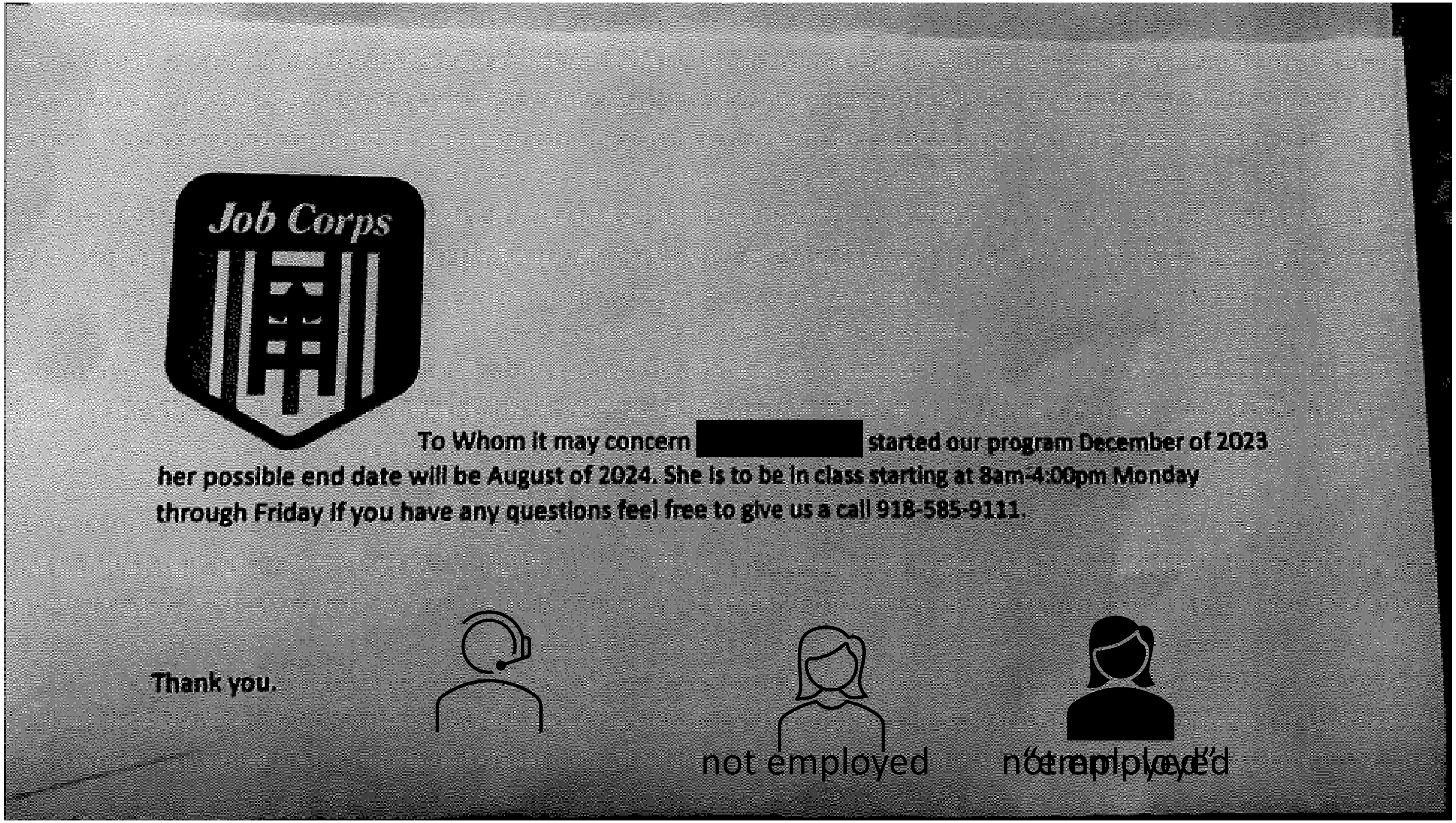


To whom it may conern [redacted] started our program August 11th
d date is May 25th 2022. She is to be in class starting at 8:00 am -3:30 pm monday
nday if you have any questions you can give me a call at 918-585-9111

[redacted]

12-Month Review of OIG Cases with Child Care Overpayments Administrative Case Study

- Client provided a new letter in 2024.
- Case worker called to verify and was told the Client had not been enrolled since 2018.
- Client provided a different phone number.
- Case worker called that number and the person verified the Client’s employment.
- Case worker called the original number again and Job Corps again verified the Client was not enrolled and there was no employee by the name who verified Client.


Job Corps

To Whom it may concern [redacted] started our program December of 2023 her possible end date will be August of 2024. She is to be in class starting at 8am-4:00pm Monday through Friday if you have any questions feel free to give us a call 918-585-9111.

Thank you.

12-Month Review of OIG Cases with Child Care Overpayments Administrative Case Study

- Client was told to provide official verification.
- Client called OKDHS back and attempted to get a different case worker to certify her application.
- The Client used these documents on five certifications/renewals. (2022-2024).
- Fraud resulted in an overpayment of $31,505.00.

Job Corps

To Whom it may concern [redacted] started our program December of 2023 her possible end date will be August of 2024. She is to be in class starting at 8am-4:00pm Monday through Friday if you have any questions feel free to give us a call 918-585-9111.

Thank you.

The Hidden Multiplier: Same Application

Child Care Fraud:

$153,998.90

+SNAP Fraud:

$113,322.00

+LIHEAP Fraud:

$3,446.00

Grand Total:

$270,766.90

*9 criminal cases for a 12-month period

36 Investigative Audits Completed

25 Providers with Overpayments

$25,391.78 in Overpayments

0 Prosecutions

Metro Area Five-Star Facility

- Referral alleged clients were being asked to enter in electronic attendance for children on days when they did not attend.
- The claim was substantiated.
- Provider's second violation.

$3,101.60 in overpayments

Rural Five-Star Facility

- Referral alleged the provider was asking parents to swipe their children into daycare on days they were not present.
- Three clients confirmed the providers actions.
- The claim was substantiated.

$2,656.30 in overpayments

Metro Area Four-Star Facility

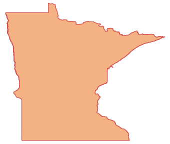
- Referral claimed the daycare was allowing children to be swiped in when the facility was closed.
- The claim and other violations were substantiated.

$4,630 in overpayments

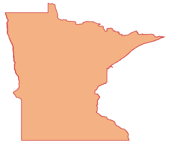
One provider would not let OKDHS audit them.

STATE OF OKLAHOMA LOFT

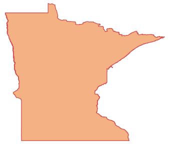
Comparative Vulnerabilities



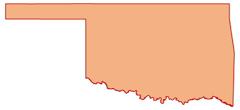
Relabeled “fraud” as “overbilling”



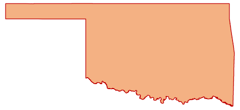
Dissolved criminal investigation unit and focused on administrative issues



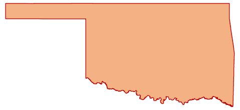
Whistleblower laws in state statute and the creation of an independent state level OIG



Labels “fraud” as “intentional program violation” and “contract violation”



Diverts most cases to administrative recoupments more than criminal prosecution



No whistleblower laws in state statute and limited guidance on reporting wrongdoing

STATE OF OKLAHOMA LOFT

Policy Considerations

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.

Agency Recommendations

The 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 DHS 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 all referrals entered into the Office of the Inspector General's database include documentation of all attempts to assess the strength of the allegations.
- In accordance with the agency's administrative rules and the State Plan, require child care providers attest to whether client copayments have been paid.

STATE OF OKLAHOMA LOFT

LOFT

LEGISLATIVE OFFICE OF FISCAL TRANSPARENCY

LOFT EVALUATION:
DHS CHILD CARE SUBSIDY

Meeting of the Legislative Oversight Committee

August 27, 2026