

Chair, Members of the Committee, thank you for the opportunity to speak with you today. My name is Scott Dexter. I am a retired law enforcement investigator with 28 years of experience, most of it spent conducting criminal and financial-fraud investigations, with experience in covert surveillance operations.

In 2013, after retiring from law enforcement, I joined the Minnesota Department of Human Services as part of a newly created investigative unit within the Office of Inspector General. Our mission was straightforward: identify and investigate fraud within the Child Care Assistance Program, or CCAP. I was one of the original four investigators hired, all of us former law-enforcement professionals with backgrounds in criminal investigations.

Our cases were not selected based on the name of a center, the owner, or the community it served. They were selected based solely on tips, complaints, and the amount of CCAP funding being paid out. The highest-funded centers were reviewed first, and many of those centers were referred to us through the public tip line or by licensing inspectors who observed activity inconsistent with a legitimate child care operation.

What we found was deeply concerning. Many centers operated out of commercial spaces with windows covered, no visible play areas, and very few children ever present. Through surveillance, data collection, and review of attendance and billing records, we repeatedly documented patterns of overbilling, nonexistent attendance, and in some cases, children being signed in for hours they were never actually at the center.

Our investigative process was thorough and methodical. We collected licensing and billing data, installed covert surveillance cameras, reviewed hours of video, identified parents and employees, and calculated estimated overpayments based on actual attendance. Completed cases were then turned over to the Minnesota Bureau of Criminal Apprehension for search warrants, interviews, arrests, and potential prosecution.

As our investigations progressed, we noticed a trend: many of the centers receiving the highest levels of CCAP funding were owned and operated by Somali individuals, and the families served were predominantly Somali. This was not the basis for selecting cases, but it did become the basis for accusations against us. We were labeled as racially biased, despite the fact that our case selection was driven entirely by funding data.

An outside review was launched into our investigative practices. We were questioned about how we selected centers and how we conducted surveillance. Following that review, new restrictions were placed on our work, including mandatory panel reviews before we could move forward with investigations. Investigators were also pulled from conducting new or current investigations in order to enter data from all previous complaints received by DHS, in a newly created data base, a process that took nearly a year to complete.

These changes significantly hindered our ability to do our jobs effectively. Ultimately, in 2019, I chose to retire because the investigative process had become so constrained that meaningful work was no longer possible.

Through collaboration with federal agencies—including the IRS, Homeland Security, and the U.S. Department of Health and Human Services—we learned that millions of dollars in cash from the Somali community was being flown out of the Minneapolis–St. Paul Airport by Somali couriers. At one point, nearly seventy million dollars had been documented leaving the country halfway through a single year. Although we could not prove that the cash was obtained fraudulently, we strongly suspected it was.

We also encountered situations where federal partners were prevented from opening cases due to concerns about political sensitivities surrounding the Somali community and the refugee resettlement program. These decisions had real consequences, allowing fraud to continue unchecked.

Throughout our work, we identified several loopholes that made CCAP highly vulnerable to fraud. Centers were allowed to bill for the full authorized hours even when children were present for only minutes. Billing records could be submitted up to thirty days later, creating opportunities for manipulation. Attendance records were handwritten, unreliable, and often incomplete. And despite our recommendations, no biometric attendance system, no electronic submission requirements, and no state-installed security cameras were ever implemented.

Chair and Members, the purpose of my testimony is not to cast blame on any community. It is to highlight systemic weaknesses that allowed large-scale fraud to occur and to emphasize the need for stronger safeguards, better oversight, and investigative processes that are allowed to function without political interference.

Thank you for your time and for your commitment to ensuring accountability within publicly funded programs. I am prepared to answer any questions you may have.

## Testimony of Scott F. Dexter

- In 2013 I retired from law enforcement after 28 years of service, most of which were spent conducting criminal and financial fraud investigations, including experience with physical and covert surveillance operations.
- After retiring, I joined the Minnesota Department of Human Services as part of a newly formed investigative unit within the Office of Inspector General - Office of Financial Fraud and Abuse Investigations Division. The unit's mission was to identify and investigate fraud within the Child Care Assistance Program (CCAP). I worked there from 2014 to 2019.
- I was one of the four original civilian investigators hired - all former law enforcement investigators with significant experience in criminal and financial investigations. ● Our assignment was to investigate child care centers receiving CCAP funds that were suspected of fraudulent activity.
- Centers were referred for investigation through multiple sources including but not limited to:
  - Public reports submitted through the fraud tip line
  - Observations and referrals from child care licensing inspectors
- Common concerns included:
  - Very few to no children present
  - Outdoor play equipment either non existent or in poor and unsafe condition
  - Inadequate or non existent outdoor play areas
  - Poor or suspicious overall facility conditions
- Many centers operated out of leased commercial spaces where all of the windows and doors were covered with plastic or paper, preventing visibility into the facility. ● A list - informally referred to as the "Top 100" - was created by identifying the highest amount of CCAP funding. ***This list was based solely on dollar amounts.*** ● Supervisors assigned centers from this list to investigators for review.

## Typical Investigative Steps

- Collected all available data from state databases, including licensing records, ownership information, billing history, and employee information.
- Conducted surveillance to assess the premises, document entry and exit points, and identify suitable locations for covert video surveillance.
- Installed covert video systems capable of real-time monitoring and recorded footage. Hard drives were swapped every 30 days, and all video evidence was stored on a secure server with back up storage.
- Obtained the center's attendance record for the same time period covered by surveillance.
- Reviewed recorded video to determine the number of children actually present and compared those counts to the attendance sheets.
- Collected vehicle license plate information to help identify parents, employees, and other

associated individuals.

- Identified parents who signed children in despite the children not being present, then reviewed billing records to calculate overpayments. Holidays and absent days were excluded to ensure accuracy.
- Once the investigative package was complete, it was turned over to the Minnesota Bureau of Criminal Investigation (BCA) agent assigned to our unit. The BCA agent applied for and executed search warrants on locations related to the investigation, which included the center, residences, and vehicles.
- Investigators assisted with searches after the locations were secured, seizing records, computers, cell phones, and other evidence.
- Attempts were made to interview individuals on site during the searches. All custodial interviews and arrests were conducted by BCA agents.
- Completed cases were prepared for criminal prosecution and/or administrative hearings.

## Observations and Challenges During Investigations

- Over time we discovered that many of the centers under investigation were owned and operated by Somali individuals, and the families served were predominantly Somali ● ***Centers were selected based solely on tips, complaints, and CCAP funding levels - not on ownership, ethnicity, or community affiliation.***
- The only exception occurred when an investigated center was found to be linked to other centers receiving CCAP funds as well as shared ownership.
- Although we were able to obtain some corroborating statements from women receiving CCAP assistance, we frequently encountered significant challenges during interviews. Language barriers, cultural dynamics, and the presence of Somali men who appeared to monitor our arrival often created an atmosphere of intimidation. Many of the women lived in predominantly Somali populated apartment complexes, and Somali men would make their presence immediately known when a woman opened the door to us. Based on my investigative experience, this behavior was intended to discourage cooperation by making the women fearful or reluctant to provide information.
- Due to the concentration of cases involving Somali-owned centers, investigators were accused of racial bias and targeting the Somali Community.
- MN DHS leadership hired Public Financial Management Inc. to assess our investigative practices. Investigators were questioned extensively about:
  - How centers were selected
  - How investigations were conducted
  - Surveillance tactics and investigative techniques
- Following this review, we were required to work with the Continuous Improvement Program and modify our investigative process. This included:
  - Submitting preliminary case information
  - Presenting cases to a review panel
  - Receiving direction from the panel before proceeding
- Investigators were also required to enter data from all previously received complaints into

a new database - a process that took nearly a year and diverted resources from new or ongoing investigations.

- My primary responsibilities at that time involved managing surveillance equipment and digital evidence, and assisting other investigators, so I was not directly subjected to the panel review process. However, the imposed changes significantly hindered investigative effectiveness, and I ultimately chose to retire early.

## **Interagency Collaboration and Additional Findings**

- Collaboration with federal partners - including the U.S. Department of Health and Human Services, IRS Criminal Division, and Homeland Security Investigations - provided a broader understanding of the scale of CCAP related fraud.
- During interagency meetings, we learned that millions of dollars in cash from the Somali community was being flown out of the Minneapolis-St. Paul International Airport by Somali couriers. We could not prove that the cash was obtained fraudulently, though we strongly suspected it.
- At one point, approximately \$70 million had been documented leaving the country halfway through a single year.
- At a meeting involving IRS and DHHS investigators, we attempted to initiate a joint investigation that would also involve the federal food program as well as potential wire fraud, however we were informed that under direction from the U.S. Attorney for Minnesota at the time, Andy Luger, neither the IRS or DHHS would be permitted to open a case. The stated reason was the concern that the Somali individuals were being disproportionately targeted and that federal leadership did not want to create issues related to the Refugee Resettlement Program.
- These events occurred a number of years ago so I do not recall specific details.

## **Identified Loopholes in the CCAP program**

- Centers were allowed to bill for the full authorized hours even when children were present for only minutes. Surveillance documented multiple instances of extremely short visits being billed full four - six hour blocks.
- Centers were allowed up to thirty days to submit billing records, creating opportunities for double billing and overpayments to be overlooked and complicating investigative efforts. We recommended requiring daily electronic submissions, but this was not implemented at the time.
- Attendance verification was unreliable. Sign in sheets were handwritten, often incomplete, and provided no way to confirm who signed children in and out. We recommended a computerized biometric system with time-stamped entries and next-day availability. This recommendation was also not implemented at the time.
- When questions arose about the clarity of our surveillance video, we recommended installing state funded digital cameras that recorded activity at all entry and exit points, at all centers receiving CCAP funds. This recommendation was also not implemented at

the time.