

**WRITTEN TESTIMONY OF**

**The Honorable Walter Hudson**

**Member, Minnesota House of Representatives**

**Before the U.S. House Committee on Oversight and Accountability**

**Hearing:**

**“Oversight of Fraud and Misuse of Federal Funds in Minnesota: Part I”**

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**INTRODUCTION**

Chairman, Ranking Member, and Members of the Committee:

Thank you for the opportunity to submit this written testimony for the record.

I serve as a Member of the Minnesota House of Representatives and as a member of the House Fraud Prevention and State Agency Oversight Committee. In that role, I have reviewed extensive audit findings, agency records, and legislative oversight materials concerning Minnesota’s administration of federally funded human services programs.

This testimony is grounded entirely in **nonpartisan Office of the Legislative Auditor (OLA) reports** and **legislative hearing records**, all of which are compiled in **Exhibit A**. My purpose is not to allege criminal conduct by any individual or entity, nor to comment on matters currently under investigation. Rather, I seek to explain — using Minnesota’s own records — **how the structure of these programs creates incentives that reliably produce fraud, waste, and abuse across multiple service areas, regardless of program intent or stated safeguards**.

The recent focus on **childcare fraud** is not an isolated scandal. It is the latest manifestation of a pattern that has repeated itself for decades across different programs, populations, and funding streams.

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**I. FRAUD AS AN OUTCOME OF INCENTIVES, NOT AN ANOMALY**

Public discussion often treats fraud as an aberration — a deviation from an otherwise functional system caused by a few bad actors. Oversight records in Minnesota tell a different story.

Across multiple programs — including Personal Care Assistance (PCA), Home and Community-Based Services (HCBS), the COVID-era program abused by Feeding Our Future, autism services, adult day care, housing stabilization services, childcare assistance, and others — the same structural features recur:

- 1. Rapid expansion of funding and provider participation**
- 2. Payment systems that prioritize access and speed**
- 3. Verification mechanisms that occur after funds are disbursed**
- 4. Oversight capacity that does not scale with spending**
- 5. Diffuse accountability across agencies and contractors**

When these conditions are present, fraud does not require criminal ingenuity. It becomes a predictable outcome of program design, enabling even those who act within the confines of the law to monetize programs well beyond the public good for which they were intended.

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## **II. PERSONAL CARE ASSISTANCE: AN EARLY WARNING THAT WENT UNHEEDED**

The Personal Care Assistance program provides an early and well-documented case study of this dynamic.

In a comprehensive evaluation, the Office of the Legislative Auditor concluded that Minnesota's PCA program was:

**"Unacceptably vulnerable to fraud and abuse."**

(Exhibit A, p. 449)

Between fiscal years 2002 and 2007, PCA expenditures increased by **164 percent**, from **\$153 million to over \$400 million annually**, without a corresponding expansion in oversight capacity (Exhibit A, p. 28).

The OLA documented that DHS routinely paid claims that were facially implausible, including billing for more than **24 hours of work in a single day** and consecutive 24-hour shifts (Exhibit A, p. 59). These were not subtle schemes; they were visible anomalies that the system nonetheless processed and paid.

The lesson is not merely historical. The OLA's findings illustrate a recurring pattern: **when payment precedes verification, oversight becomes reactive, not preventive.**

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### **III. FROM PCA TO CHILDCARE: THE SAME STRUCTURE, NEW PROGRAMS**

The same structural vulnerabilities identified in PCA later appeared in other programs.

#### **Childcare Assistance and Childcare Centers**

The recent focus on childcare fraud reflects the convergence of familiar risk factors:

- Rapid program growth driven by expanded eligibility and emergency funding
- Heavy reliance on provider self-reporting
- Limited front-end licensing and verification capacity
- Post-payment enforcement that depends on whistleblowers or external reporting

As with PCA, the system assumes compliance at scale and investigates only after irregularities become large enough to trigger attention. By that point, losses are already significant.

#### **Feeding Our Future**

The OLA's review of the Minnesota Department of Education's oversight of Feeding Our Future similarly found that warning signs were present but not acted upon decisively before losses escalated (Exhibit A, p. 568).

Here again, federal funds flowed rapidly through intermediaries with limited verification, while oversight mechanisms lagged behind the pace of expansion.

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### **IV. AUTISM SERVICES, ADULT DAY CARE, AND HOUSING STABILIZATION**

Oversight records demonstrate that this pattern is not confined to one agency or service population.

In **Home and Community-Based Services**, the OLA found that DHS:

**“Does not collect adequate information to conduct financial oversight of all HCBS providers,”**

including information necessary to verify that services were actually delivered. (Exhibit A, p. 403)

Adult day care and autism services share similar risk profiles:

- Services delivered without direct supervision
- Reliance on provider attestations

- Limited real-time verification of service delivery

Housing stabilization services further illustrate how program intent — preventing homelessness — can be undermined by payment structures that reward volume without proportional verification.

Across these programs, **the same incentive structure recurs**: revenue is generated by navigating program rules rather than by producing independently verifiable outcomes.

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## V. CULTURE FOLLOWS INCENTIVES

Over time, these structures produce more than isolated incidents. They produce a **culture**.

When programs allow providers to:

- Enroll easily,
- Bill quickly,
- Expand rapidly,
- And face minimal front-end scrutiny,

an ecosystem develops in which consulting, coordination, and optimization around public funds becomes a business in itself.

This does not require widespread criminal intent. It requires only that participants respond rationally to the incentives embedded in program design.

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## VI. LEGISLATIVE OVERSIGHT CONFIRMS THE PATTERN

Records from the Minnesota House Fraud Prevention and State Agency Oversight Committee in 2025, included in Exhibit A, reflect repeated acknowledgment by agency officials that:

- Oversight responsibilities are fragmented across agencies, counties, and managed care organizations;
- Enforcement capacity is limited relative to program size;
- Oversight mechanisms remain largely post-payment.

These are not sworn proceedings, but they are formal legislative records documenting the state's own recognition of persistent systemic weaknesses.

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## VII. WHY THIS MATTERS NOW

The current focus on childcare fraud is understandable and appropriate. But it should not be treated as an isolated scandal or a unique failure.

Minnesota's own oversight record shows that **the same structural conditions that produced PCA vulnerabilities in the early 2000s are still present today**, merely expressed through different programs and funding streams.

Absent structural reform, attention will move from childcare to the next program — and then the next — without addressing the underlying design flaws that make misuse predictable.

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## CONCLUSION

The evidence compiled in Exhibit A demonstrates that misuse of federal funds in Minnesota has been **systemic, foreseeable, and repeatedly documented**.

Oversight must therefore focus not only on enforcement after the fact, but on **program design, incentive alignment, and verification capacity before funds are disbursed**.

If fraud is defined solely as what has already been prosecuted, oversight will always arrive too late.

Thank you for the opportunity to submit this testimony for the record.

Respectfully submitted,

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Walter Hudson

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**Walter Hudson**

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