

# **Combining Common Sense Oversight and Increased Investment in Early Childhood Education**

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I serve as the Co-Founder and CEO at [Acelero Learning](#), where we provide full-day preschool for nearly 5,000 low-income children, ages birth-to-five, across six states and 61 centers, with every child funded through a combination of the Head Start program, the Child Care Development Block Grant (CCDBG), the Child and Adult Care Food Program (CACFP), and public Pre-K programs. Through our [Shine Early Learning](#) division, we also provide support and services to child care providers, states, and municipalities to enable the implementation of high quality early childhood programs in 30 states, impacting more than 250,000 children annually.

Our foundational belief is that every child, regardless of socioeconomic status, is capable of succeeding at the highest level and deserves the opportunity to achieve their full potential. Publicly funded programs like CCDBG and Head Start are not just work supports for parents; 50 years of research have demonstrated that high quality early childhood education can change the trajectory of low-income children's lives and close the income-based achievement gap before they enter Kindergarten. This is Acelero's north star, and external evaluations of child outcomes conducted by researchers at [Brown University](#), [MDRC](#), and the [National Institute for Early Education Research](#) at Rutgers, among others, have repeatedly demonstrated superlative child outcome gains in our programs.

Operating child care centers or family child care homes for low-income children is challenging, even for high-quality providers with the expertise and infrastructure required to braid multiple funding streams. The fragmented early childhood system is severely underfunded, and headwinds are even stiffer when annual cost of living adjustments for programs like Head Start and CCDBG fail to keep pace with inflation. The inevitable consequences are teacher labor shortages, foregone learning gains, and lost economic productivity for parents who cannot find care. Rate freezes and waitlists, which are in place in many states, severely harm working parents and their children.

This context highlights the imperative that investment in the CCDBG not be compromised by fraud. I believe child care fraud is extremely rare—the vast majority of providers make personal and economic sacrifices because they are committed to serving children and families—and the existence of bad actors should not obscure the fundamental reality that Head Start and CCDBG need greater investment. I also believe that to safeguard and expand this essential program, states must implement common sense measures to ensure CCDBG funding reaches its intended beneficiaries.

In 2008, Governor Jim Doyle established the Wisconsin Department of Children and Families (DCF), merging child care licensing and subsidy functions into a single organizational unit for the first time. The DCF Secretary, Reggie Bicha, and I were asked to launch the new department, and our early listening sessions with staff consistently raised concerns: child care licensors in Milwaukee noted an implausibly high number of child care facilities with very few children present, while the small child care subsidy unit, overwhelmed by processing nearly \$350M per year in payments, lacked the capacity to meaningfully investigate the concern. We submitted a budget proposal to add program integrity staff to better understand the issue.

Before that proposal's approval, Raquel Rutledge of the *Milwaukee Journal-Sentinel* published

the first story in what became a Pulitzer Prize-winning series exposing widespread child care fraud, which proved to be beyond the scope of what we could have imagined. Rutledge's reporting validated licensors' suspicions and succinctly outlined the mechanism: "In some ways, the scam is simple. All it takes is three players: an employer, a child-care provider and a parent."

The fraud relied on collusion. Parents needed an eligible work activity and work schedule (demonstrated via pay stubs) to be approved by a state or county worker to receive a subsidy authorization. Once approved, as long as the provider produced documentation that children regularly attended the program, payments were made. In Wisconsin, fraudulent providers would recruit parents of young children, generate fake pay stubs to verify employment and hours (either at the center itself or a fictitious employer) and fake attendance records to verify participation -- but no work was performed, and no care was provided. The provider would collect the subsidy payments and pay the parent a share of the proceeds. This method of defrauding the state became so well understood and prevalent in Milwaukee that by the time we intervened, dozens of fraudulent providers had taken advantage over the course of a decade, and millions of dollars had been stolen.

At the direction of the Governor and with the support of the legislature, the Department responded immediately: creating an investigatory team; publicizing a fraud hotline; forming a joint task force with the FBI, Milwaukee Police, and District Attorney; tightening procedures around employment authorizations; granting DCF authority to suspend suspicious payments; and adding licensors. However, from my perspective, the most sustainably impactful actions we took built on work we already did in the Department, and though some incremental financial investment was required, we did not initiate significant new policing or place extraordinary additional burdens on providers:

### **1. Connecting the dots between child care licensing and child care subsidy.**

Licensors, the state's "eyes and ears" for facility safety, entered centers and licensed homes for visits without data on subsidy authorizations. A provider with 50 child care subsidy authorizations but only three children present during an unannounced licensing visit should have triggered immediate suspicion, but historically, it had not been considered the licensor's purview. This disconnect was compounded by the share of fraud attributed to theoretical second- and third-shift care, when licensors did not even visit. We made three important policy and resource changes:

- *Review subsidy counts during licensing visits.* New policies required licensors to know the status of subsidy authorizations when doing onsite visits and alert the program integrity unit of significant disparities.
- *After-hours licensing visits.* New policies required licensors to conduct visits during all licensed operating hours.
- *Increased licensing field staff.* This allowed us to make more unannounced visits to providers, which both enhanced child safety and provided additional touchpoints to identify potential fraud to forward to the program integrity unit.

## **2. Using existing state data systems to “Moneyball” fraud.**

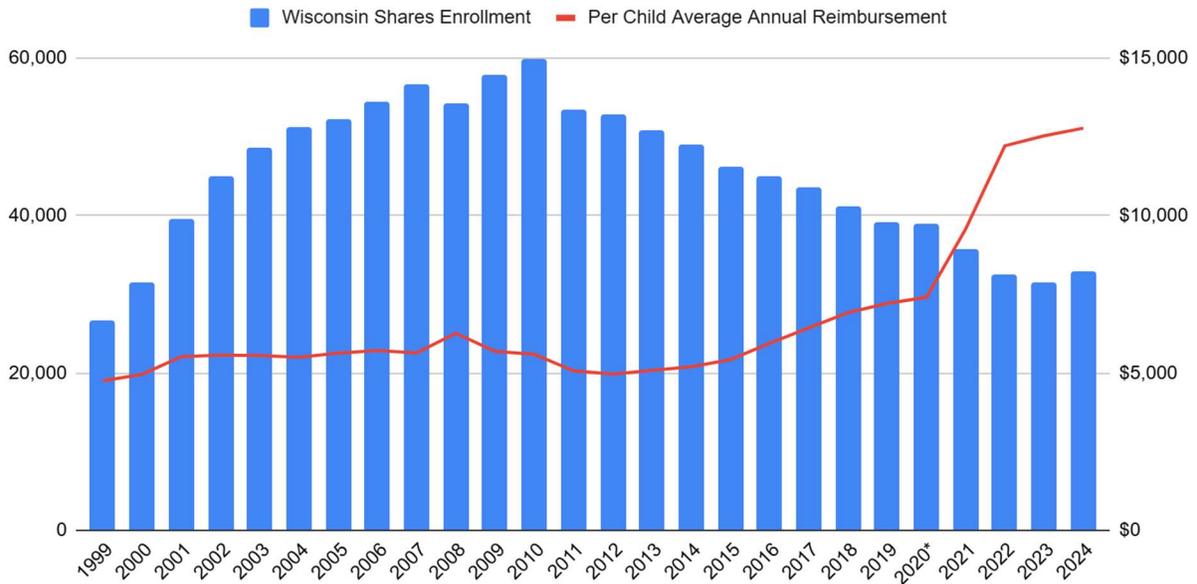
While individual investigations were straightforward to conduct, detecting fraud at scale required data analytics to identify anomalous patterns and automate red flags for prioritized scrutiny. The state had collected mountains of data but had never used it this way. This involved connecting data across antiquated and siloed state systems, including Unemployment Insurance, the Department of Revenue, and licensing records to create automatic alerts that cross-referenced high reimbursement rates with licensed child care capacity, past licensing violations, employment records, and tax payments to identify providers warranting further investigation. Examples of red flags included:

- *Child care capacity utilization.* The most efficient centers in the country rarely, if ever, exceed 95 percent utilization during the normal workday or operate full second or third shifts. Fraudulent providers were found billing the state as if they operated at 100 percent capacity for 24 hours per day, 7 days per week, and in some cases, received reimbursement for up to four children per licensed slot—which high quality providers know to be a logistical and scheduling impossibility.
- *Total CCDBG reimbursement/licensed slot.* While high total payments to a center are not inherently problematic, significantly exceeding the performance of the industry's best-managed centers on a per slot basis indicated likely fraudulent billing.
- *Children enrolled with the child care licensee as their authorized employer.* At Acelero Learning, we consider it a positive indicator when staff children attend one of our centers, because it is a testimony to the quality of our services. However, DCF's data analysis revealed a subset of cases in which more than 90 percent of children in a center were subsidized children of the licensee's own employees—theoretically implying that their employees went to work at the center to care for only their own children. What occurred instead was that fraudulent providers collected reimbursements from the state, provided payments to the parents (who would just stay home with their children), and the center would sit empty.

## **3. Link payments to quality.**

Among our reforms, we launched YoungStar, a Quality Rating and Improvement System, which tied a portion of reimbursements to meeting a set of objective quality indicators, including standards requiring onsite observations. Fraudulent providers were capable of setting up facilities to meet minimum licensing standards, but they could not easily fabricate more rigorous measures of quality. Tying reimbursement rates to meeting higher quality standards drove funding to legitimate operators.

Our anti-fraud efforts yielded tangible results: after more than doubling in size over a ten year period, enrollment in the Wisconsin child care subsidy program steadily declined in the wake of our reforms. We do not know what percentage of the change was attributable to our efforts to shut down illegitimate providers, though the trendline before and after 2010 is clear. But I do not think the enrollment trend is the most important takeaway from Wisconsin's experience.



After we put in place common sense program integrity measures, the state’s subsequent Governors and Legislatures did not waver from their commitment to early childhood education and working parents. Wisconsin has never allowed there to be a waitlist for child care subsidies. The state has not tightened income eligibility. And in recent years, the state has explicitly recognized that inadequate reimbursement rates have penalized committed providers and, by extension, limited options for families. Following nearly two decades of flat rates, the subsidy reimbursement rate has more than doubled over the past ten years.

Our efforts also confirmed that as extensive as the problem was in Milwaukee, child care fraud was extremely localized and not pervasive throughout the state. Almost 100 percent of the providers we determined to have committed fraudulent activity were located in just one of Wisconsin’s 72 counties. Child care fraud within the CCDBG program is the exception not the rule, perpetrated by a few to exploit an essential support system for low-income working parents and children. Wisconsin’s problem metastasized in one specific geography, because as the scheme became more lucrative over time and was not caught, the roadmap became an open secret. The primary lessons were that common-sense measures utilizing existing structures and data were the most effective strategies for identification and eradication. Enhanced program integrity must be paired with increased investment in high-quality child care to ensure providers can operate and continue to serve children and families.