

**BOARD OF EDUCATION REPORT 032-16/17**  
**August 23, 2016**

**NOTICE TO**  
**EL CAMINO REAL CHARTER HIGH SCHOOL**  
**(Title 5, section 11968.5.2, subdivision (a))**

In accordance with Title 5, section 11968.5.2, subdivisions (a) and (b), the Los Angeles Unified School District's Board of Education ("LAUSD Board") provides the following notice to El Camino Real Charter High School and the Governing Board of the El Camino Real Alliance, at least seventy-two (72) hours prior to the **August 23, 2016**, LAUSD Board meeting:

**PLEASE TAKE NOTICE** that at or about **1:00 p.m. on August 23, 2016**, the LAUSD Board will meet at 333 South Beaudry Avenue, Los Angeles, California and will consider whether to issue the Notice of Violations, attached hereto, based upon El Camino Real Charter High School's failure to meet generally accepted accounting principles and engagement in fiscal mismanagement; violations of laws; and breach of its charter.

**BOARD OF EDUCATION REPORT 032-16/17**  
**August 23, 2016**

**NOTICE OF VIOLATIONS TO**  
**EL CAMINO REAL CHARTER HIGH SCHOOL AND**  
**THE BOARD OF THE EL CAMINO REAL ALLIANCE**  
**(Title 5, section 11968.5.2, subdivision (b))**

This serves as official notification, pursuant to California Education Code section 47607, subdivision (d)<sup>1</sup>; the California Code of Regulations, Title 5, section 11968.5.2; and “Element 16” of the El Camino Real High School Charter Renewal Petition (“Charter”) between the Los Angeles Unified School District (“District”) and El Camino Real Charter High School (“ECRCHS”), approved by the Los Angeles Unified School District Board (“LAUSD Board”) on November 10, 2015 (September 18, 2015, 2016 – 2021 ECRCHS Charter Renewal Petition), of the District’s immediate concerns regarding aspects of ECRCHS’s operations. These concerns, if not cured, can lead to revocation of ECRCHS’s Charter granted by the District. This Notice of Violations (“Notice”) is issued by the LAUSD Board in accordance with action taken at its meeting of August 23, 2016. The LAUSD Board reserves its right to immediately revoke the Charter upon its written determination that any violations constitute a severe and imminent threat to the health and safety of the pupils. (§ 47607(d).) The LAUSD Board also reserves the right to consider additional evidence presented to substantiate the violations enumerated below.

**I. LEGAL AUTHORITY**

Pursuant to section 47607, subdivision (d), the authorizing entity of a school’s charter is required to notify the charter school in writing of any violation and give the charter school a reasonable opportunity to remedy the violation prior to revocation. Pursuant to section 47607, subdivision (c), the authorizing entity may revoke the charter of a charter school if it finds, through a showing a substantial evidence, that the charter school:

- (1) Committed a material violation of any of the conditions, standards, or procedures set forth in the charter;
- (2) Failed to meet or pursue any of the pupil outcomes identified in the charter;
- (3) Failed to meet generally accepted accounting principles, or engaged in fiscal mismanagement; and/or
- (4) Violated any provision of law.

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<sup>1</sup> All statutory references herein are to the California Education Code, unless otherwise indicated.

The chartering authority is to consider increases in pupil academic achievement for all groups of pupils served by the charter school as the most important factor in determining whether to revoke a charter. (§ 47607(c)(2).)

## II. BACKGROUND INFORMATION

The LAUSD Board approved the initial charter for the conversion of El Camino Real High School to ECRCHS on March 1, 2011. (March 1, 2011, LAUSD Board of Education Report, 186 – 10/11, attached hereto as **Exhibit 1**, p. 00001-000014; November 10, 2015, 2010 – 2015 ECRCHS Charter Conversion Petition, attached hereto as **Exhibit 2**, p. 000015-000125; ECRCHS currently operates under the renewal of its petition, dated September 18, 2015, approved by the LAUSD Board on November 10, 2015. (September 18, 2015, 2016 – 2021 ECRCHS Charter Renewal Petition, attached hereto as **Exhibit 3**, p. 000126-000349; November 10, 2015, LAUSD Board of Education Report, 149 – 15/16, attached hereto as **Exhibit 8**, p. 000397-000436. Its current Charter is set to expire on June 30, 2021.

ECRCHS is located at 5440 Valley Circle Boulevard, Woodland Hills, CA 91367. California Education Code section 47607, subdivision (d). ECRCHS is approved to service 3,600 students in grades 9 through 12. It is governed by the nonprofit corporation El Camino Real Alliance and its Board of Directors (“ECRA Board”).

Upon the District’s annual oversight visit to ECRCHS on September 29, 2015, the District discovered a number of deficiencies in ECRCHS’s fiscal policies and procedures, and raised questions about the spending activities of ECRCHS administrators. (October 28, 2015, Fiscal Notice to Cure, attached hereto as **Exhibit 6**, p. 000391-000393.) The District, therefore, issued another Notice to Cure to ECRCHS (“Fiscal Notice to Cure”) on October 28, 2015, requesting action by ECRCHS to resolve apparent credit card usage and check disbursement issues. (**Exhibit 6**, p. 000391-000393.) Through ECRCHS’s responses to the District’s Fiscal Notice to Cure and subsequent inquiries, the District received additional information which confirmed the District’s original concerns and revealed other significant details, issues and irregularities in ECRCHS’s practices and operations. (**Exhibit 6**, p. 000391-000393; November 3, 2015, Response to Fiscal Notice to Cure, attached hereto as **Exhibit 7**, p. 000394-000396; January 26, 2016, Requested Update Regarding Fiscal Notice to Cure Response, attached hereto as **Exhibit 9**, p. 000437-000441; April 7, 2016, Responses to Fiscal Notice to Cure, attached hereto as **Exhibit 10**, p. 000442; April 12, 2016, Second Update to Fiscal Notice to Cure Responses, attached hereto as **Exhibit 11**, p. 000443-000444; June 17, 2016, Requests for Additional Information, attached hereto as **Exhibit 12**, p. 000445-000447; July 1, 2016, Requests for Additional Information, attached hereto as **Exhibit 13**, p. 000448-000458; July 8, 2016, Initial Reply to ECRA’s Response to the District’s Requests for Additional Information, attached hereto as **Exhibit 14**, p. 000459-000460; July 22, 2016, District Initial Reply to ECRA’s Response to the District’s Requests for Additional Information, attached hereto as **Exhibit 15**, p. 000461-000469.) The LAUSD Board of Education has determined that these issues and irregularities, enumerated below, amount

to multiple grounds for potential revocation in accordance with Education Code section 47607, subdivision (c)(1).

### **III. GROUNDS FOR REVOCATION**

Pursuant to Education Code section 47607, subdivision (c)(1), the LAUSD Board has determined that ECRCHS has failed to meet generally accepted accounting principles and otherwise engaged in fiscal mismanagement; violated the law; and materially violated conditions, standards, or procedures set forth in the charter. Facts pertaining to each of these violations are discussed further in the sections below.

The primary focus of this Notice is ECRCHS’s fiscal mismanagement, and in particular, ECRCHS administrators’ use of school-issued credit cards and the governing board’s insufficient monitoring of these matters. Through the District’s Fiscal Notice to Cure and subsequent correspondences, ECRCHS has been given multiple opportunities to review and satisfactorily improve its policies. ECRCHS has failed to implement such improvements to this day. This goes beyond simply failing to “dot the ‘i’s’ and cross the ‘t’s’.” It has led to an inability to determine how public funds are being used and identify specific instances of their use for personal expenses. In total, the insufficient monitoring by the ECRA governing board representatives and inappropriate actions on the part of ECRA administrators demonstrate fatal flaws in judgment that call into serious question the organization’s ability to successfully implement the charter in accordance with applicable law and District requirements.

#### **A. Failure to Meet Generally Accepted Accounting Principles, and Fiscal Mismanagement (Ed. Code § 47607(c)(1)(C))**

##### *1. Lack of Adequate Fiscal Policies and Procedures Prior to January 1, 2016*

Between November 2013 and December 2015, ECRCHS failed to adequately review and update its Fiscal Policies and Procedures for soundness, and monitor its budget and finances to evaluate proper resource allocation. As a result, ECRCHS’s Fiscal Policies and Procedures remained substantially inadequate through December 2015, and failed to safeguard against abuses. During such time, numerous, seemingly exorbitant, personal, and/or improper expenses were incurred and processed without scrutiny.

##### *a. Inadequate Credit Card Policy*

As various times during the 2014 – 2015 and 2015 – 2016 school years, ECRCHS held American Express, California Credit Union, The Home Depot, and Smart & Final credit cards. These credit cards were used by Chief Business Officer Marshall Mayotte, Executive Director David Fehte, Assistant Principal of Curriculum Yvonne Halski, Assistant Principal of Athletics Dean Bennett, Human Resources Manager Terri Keas; and at times, ECRCHS staff members.

Despite the widespread use of credits cards as part of the school’s operations, ECRCHS’s credit card policy was severely lacking and credit card activity was not overseen, which ultimately led to significant abuses by employees. Deficiencies in the credit card policy were even identified in the June 30, 2015, Independent Auditor’s Report, which noted the lack of “written formal internal control policies...designed to provide a standard process that is followed and monitored on a regular and systematic basis to ensure that all expenditures made are [s]chool related, appropriate and properly documented.” (June 30, 2015, Independent Auditor’s Report, attached hereto as **Exhibit 16**, p. 000470-000513. The Independent Auditor’s Report further recommended that ECRCHS’s management “better monitor the usage of each credit card” and “modify the written policy to ensure that the ‘Who, What, Where, Why and When’” details are included for each credit card and ensure that all detailed receipts be attached to the recapitulation form for substantiation.” (**Exhibit 16**, p.000470-000513).

A sampling of 425 credit card expenses incurred by Mr. Mayotte, Mr. Fehte, Ms. Halski, Mr. Bennett, and Ms. Keas using ECRCHS-issued credit cards revealed that countless expenses were incurred without adherence to any uniform procedure, and without verification of the necessary details. (Sample Transactions and Related Documents, attached hereto as **Exhibit 37**. These expenses include, but are not limited to, the following:

- Dining charges
  - June 26, 2014, charge of \$630.09 at Monty’s Steak and Seafood (David Fehte) (**Exhibit 37**, p. 002234);
  - July 25, 2014, charge of \$247.56 at Nick & Stef’s Steakhouse (Marshall Mayotte) (**Exhibit 37**, p. 002370; 002379);
  - August 4, 2015, charge of \$151.30 at Cavarettas Italian (Yvonne Halski) (**Exhibit 37**, p. 003493; 003503);
  - October 2, 2015, charge of \$518.90 at Monty’s Steak and Seafood (David Fehte) (**Exhibit 37**, p. 003725-003727);
  - December 2, 2014, charge of \$1,139.38 at Monty’s Steak and Seafood (David Fehte) (**Exhibit 37**, p. 001301; 001306; 001315);
  
- Travel charges
  - June 19, 2014, charge of \$533.04 at Denver Airport Marriott, which included the lounge cost of \$37.55 (David Fehte) (**Exhibit 37**, p. 002234);
  - October 16, 2015, charge of \$1,469.30 at Delta Air Line (David Fehte) (**Exhibit 37**, p. 003725; 3729-3731);
  
- Miscellaneous charges
  - February 7, 2015, charge of \$27.22 at Bed, Bath & Beyond (Terri Keas) (**Exhibit 37**, p. 001578; 001579; 001581);
  - February 9, 2015, charge of \$30.00 at Verizon Wireless (Yvonne Halski) (**Exhibit 37**, p. 001589; 001592);
  - March 19, 2015, charge of \$225.67 at Macy’s (David Fehte) (**Exhibit 37**, p. 001763; 001770; 001789-001790); and

- July 28, 2015, charge of \$59.23 at Adil Limousine Service (David Fehte) (**Exhibit 37**, p. 003482; 003486).

Among the total sample of transactions reviewed, 378 were incurred on American Express credit cards. Seventy-six percent of these 378 transactions were not properly supported by receipts, invoices, statements, or other supporting documents to show the legitimacy of the transactions, with some instances of credit card use appearing to be for personal expenses. Dining receipts were provided without indication of the purpose of the meeting, items ordered, number of individuals in the party, or names of attendees. Sometimes the cost of the meal as shown on the receipt differed from the amount on the corresponding charge on the credit card statement due to the addition of gratuity. Without itemized receipts, it is also unknown whether alcohol was improperly purchased in violation of section 32435 of the Education Code. In addition, travel charges were incurred without: 1) pre-approval per ECRCHS policy; and, 2) explanation as to the nature of the travel, as will be discussed more fully below. Further, supplemental charges for first- and business-class airfare were incurred without supporting documentation to justify ticket upgrades. With regard to the charge to Verizon Wireless, ECRCHS's Fiscal Policies and Procedures did not outline acceptable usage charges to be paid by ECRCHS.

#### b. Personal Expenses

As previously mentioned, several personal expenses were incurred using ECRCHS credit cards. Among the 43 identified personal expenses in the sample of transactions reviewed, 7% were not reimbursed to ECRCHS. For example, on August 28, 2014, a charge of \$1,853.49 was incurred by Mr. Fehte at BSN Sports<sup>2</sup> (**Exhibit 37**, p. 002630; 002641; 002665-002666); on June 4, 2015, a charge of \$299.21 was incurred by Mr. Fehte at Marriott, Woodland Hills (**Exhibit 37**, p. 002234; 002240; 002245); and on November 20, 2014, a charge of \$84.93 was incurred by a staff member using Ms. Halski's credit card (**Exhibit 37**, p. 002928; 002935; 002972). These transactions were specifically marked as expenditures requiring reimbursement, but there is no documentation to evidence that they were reimbursed.

Even when personal expenses were reimbursed, payment was sometimes not received until months after the expenses were incurred. For example, on January 18, 2016, Executive Director David Fehte charged \$71.04 at National Car Rental. (**Exhibit 37**, p. 003011-003014) Reimbursement for this charge was not received from Mr. Fehte until two months later, when Mr. Fehte provided a personal check dated "March 23, 2017 [presumably March 23, 2016]" for the "accidental" charge. (**Exhibit 37**, p. 003011-003014.)

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<sup>2</sup> This transaction was noted in the documentation from ECRCHS as "reimbursement needed", therefore a personal expense. The District does note, however, that the purchase appears to be for softball equipment and may be school related. Either way, the District expects ECRHS to explain why reimbursement is expected for this transaction. If reimbursement is expected, why has it not been received?

In addition, there exist numerous other suspicious transactions which cannot be identified as being personal and/or improper expenditures due to lack of sufficient documentation. ECRCHS has not provided any evidence that the responsible employees have been held accountable for this misuse of public funds, and those employees remain in their administrative positions at ECRCHS.<sup>3</sup>

2. *Failure to Comply with Then-Existing Fiscal Policies and Procedures Through December 2015*

ECRCHS's fiscal mismanagement was further exacerbated by its lack of oversight to ensure that its employees acted in accordance with the existing, albeit deficient, fiscal guidelines. Indeed, the independent auditor noted that "[a]lthough [ECRCHS]'s management is fully aware of the policies in place it appears as though sometimes they are not being adhered to by certain employees." (**Exhibit 16**, p. 000470-000513.)

The Fiscal Policies and Procedures in effect prior to January 1, 2016, provided, in part, the following guidelines (November 20, 2013, ECRCHS Fiscal Policies and Procedures Handbook, attached hereto as **Exhibit 17**, p. 000514-000535):

- "The Governing Board must review all expenditures. This will be done via approval of a check register which lists all check written during a set period of time and includes check #, payee, date, and amount."
- Only the [Executive] Director, Chief Business Officer, and Assistant Principal(s) with signing authority are permitted to "authorize expenditures, without pre-approval, within the approved budget." Individuals other than those specified here, are not authorized to make purchases without pre-approval.
- "The [Executive] Director and/or Assistant Principal(s) must approve all purchases. Purchase requisitions, authorizing the purchase of items greater than \$100, must be signed by the [Executive] Director and/or Assistant Principal and submitted to [Back Office Provider, Excellent Education Development ("ExED")] ExED with related invoice."
- "Any individual making an authorized purchased on behalf to the school must provide ExED with appropriate documentation of the purchase."
- "The board approved credit card holder may authorize an individual to use a school credit card to make an authorized purchase on behalf of the school, consistent with guidelines provided by the School Director, Chief Business Officer and/or Governing Board."

It appears that the above guidelines were implemented, in part, by compiling credit card expenses on Credit Card Recap summaries for review and approval by the Executive Director and Assistant Principal prior to payments on the credit cards were due. This, however, was not consistently and appropriately implemented, as Credit Card Recap summaries were sometimes prepared after payment on the credit card was made, or not prepared at all. Descriptions of expenditures were frequently inaccurate on Credit Card

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<sup>3</sup> With the exception of Yvonne Halski, who has since retired from her employment with ECRCHS.

Recap summaries, such as dining expenses categorized as “Other Supplies.” In addition, the Credit Card Recap summaries were improperly reviewed and approved, as they were frequently signed after payment on the credit card was made and by persons seeming to lack approval authority. Finally, several instances of late credit card payment were discovered, though the amount of penalty and interest accrued could not always be determined due to incomplete credit card statements.

a. Unauthorized Miscellaneous Expenses

Numerous charges incurred using ECRCHS’s credit cards, even those appearing to be for legitimate school-related purposes, did not comply with existing policies and procedures in place at the time the purchases were made. These transactions include, but are not limited to, the following:

- November 7, 2014, charge of \$262.97 at Maneri Sign Company, Inc. (Dean Bennett) (**Exhibit 37**, p. 002928; 002936; 002977; 002978);
- July 14, 2015, charge of \$1,961.32 at Real Volleyball (Dean Bennett) (**Exhibit 37**, p. 003999-004001; 004002-004004);
- October 7, 2015, charge of \$91.70 at Woodland Warner Flower (Terri Keas) (**Exhibit 37**, p. 003717; 003720-003721);
- October 16, 2014, charge of \$261.98 at The Home Depot (**Exhibit 37**, p. 002781; 002792; 002798);
- October 20, 2014, charge of \$485.73 at The Home Depot (**Exhibit 37**, p. 002781; 002782; 002802);
- December 17, 2014, charge of \$205.37 at Smart & Final (**Exhibit 37**, p. 001423; 001427);
- January 22, 2015, charge of \$535.00 at Amazon.com (Yvonne Halski) (**Exhibit 37**, p. 001442; 001450; 001546);
- May 28, 2015, charge of \$146.52 at Smart & Final (**Exhibit 37**, p. 002111-002112; 002118);
- October 7, 2015, charge of \$474.66 at BigRentz.com (Dean Bennett) (**Exhibit 37**, p. 003702-003703; 003704-003706);
- December 11, 2015, charge of \$262.48 at Keurig Green Mountain (Terri Keas) (**Exhibit 37**, p. 004098; 004101-004103); and
- December 18, 2015, charge of \$73.30 at Woodland Warner Flower (Terri Keas) (**Exhibit 37**, p. 004090; 004096.)

To begin, some of the above-listed purchases appear to have been made by individuals other than those identified as authorized purchasers. Therefore, per ECRCHS’s Fiscal Policies and Procedures, the purchasing party/parties were not authorized to incur these charges without necessary pre-approval. Additionally, for purchases in excess of the \$100 threshold, purchase requisitions and authorization by the Executive Director and/or Assistant Principal were required. No evidence of such purchase requisitions or prior authorization for the above-listed transactions were found to validate the transactions. Not only did these expenses lack sufficient supporting documentation and evidence of prior approval to ensure that the purchases were budgeted, allowable, appropriate and/or



consistent with school-wide purchasing policies and procedures; the majority of the charges were not properly reconciled in Credit Card Payment Recap summaries, or reviewed prior to the deadlines for payment on the credit cards.

b. Unauthorized Travel Expenses

The travel policy in ECRCHS's November 20, 2013, ECRCHS Fiscal Policies and Procedures, provided that all out-of-town travel must be pre-approved by the Assistant Principal(s). It, however, failed to account for any checks or balances to authorize travel expenses incurred by those in superior positions, namely Mr. Fehte and Mr. Mayotte.

Among the unauthorized transactions were numerous travel expenses which lacked requisite pre-approval by the Assistant Principal(s):

- June 1, 2014, charge of \$2,528.00 at Southwest Airlines (Yvonne Halski) (**Exhibit 37**, p. 002341; 002343-002344; 002348-002350);
- July 2, 2014, charge of \$857.88 at Mandalay Bay in Las Vegas, Nevada (Marshall Mayotte) (**Exhibit 37**, p. 002370; 002378);
- July 16, 2014, charge of \$423.50 at Marriott Hotel in Woodland Hills, California (Marshall Mayotte) (**Exhibit 37**, p. 002370; 002375);
- January 27, 2015, charge of \$335.60 at Southwest Airlines (Yvonne Halski) (**Exhibit 37**, p. 001442; 001449; 001540-001542);
- March 10, 2015, charge of \$412.20 at Southwest Airlines for travel between Burbank and San Antonio, Texas (David Fehte) (**Exhibit 37**, p. 001763; 001769; 001783);
- March 13, 2015, charge of \$885.96 at US Airways for travel between Los Angeles and Greensboro, North Carolina (David Fehte) (**Exhibit 37**, p. 001763; 001769; 001784);
- March 21, 2015, charge of \$695.85 at Sacramento Marriott (David Fehte) (**Exhibit 37**, p. 001763; 001770; 001792);
- March 23, 2015, charge of \$1,846.77 at Citizen Hotel in Sacramento (David Fehte) (**Exhibit 37**, p. 001763; 001770; 001816-001821); and
- November 19, 2015, three charges of \$422.38 at Hyatt Hotel in Burlingame, California (Marshall Mayotte) (**Exhibit 37**, p. 003840; 003853).

The above-listed charges not only lacked pre-approval by the Assistant Principal(s) as required by its Fiscal Policies and Procedures, they were also unsupported by documentation indicating the purpose or details of travel; and were not reviewed to verify that the charges were budgeted, allowable, appropriate, and/or consistent with school-wide purchasing policies and procedures. Furthermore, several transactions were not included on a Credit Card Recap summary to undergo review. Even when the transactions were included in Credit Card Payment Recap summaries, they were not reviewed by the appropriate individuals before payments on the credit cards were due.

The June 1, 2014, charge of \$2,528.00 at Southwest Airlines by Yvonne Halski appears to have been incurred in connection with the Academic Decathlon. (**Exhibit 37**,

p. 002341; 002343-002344; 002348-002350.) However, the 2014 Academic Decathlon was held in April 2014. There is no documentation to support this charge, other than a confirmation receipt.

The July 2, 2014, charge of \$857.88 at Mandalay Bay in Las Vegas, Nevada by Marshall Mayotte similarly appears to have a school-related purpose (Common Core Conference); however, only a receipt was provided in support of this charge and includes food and beverage costs in excess of \$250, as well as a spa tip of \$20. (**Exhibit 37**, p. 002371; 002378; 002400). A dining charge at SW Steakhouse, on July 3, 2014, in the amount of \$621.85, was incurred during Marshall Mayotte's travel for the conference, without an itemized receipt, names of those in attendance, or explanation as to the purpose of the meal.

Finally, ECRCHS's November 20, 2013, travel policy also provided that "employees will be reimbursed for overnight stays at hotels/motels when pre-approved by an administrator and the event is more than 50 miles from either the employee's residence or the school site." (**Exhibit 17**, p. 000531.) On at least one occasion, however, charges were incurred for hotel accommodations despite the employee's place of residence or school site location less than 50 miles from the hotel. For example, Mr. Fehte used ECRCHS's American Express credit card for a reservation at the Marriott at Burbank Airport on April 16, 2015, the day prior to his April 17, 2015, travel to Louisville, Kentucky. (**Exhibit 37**, p. 001950; 001957; 001972.) This, as with countless other charges, were made without documentation of the purpose of the expense; verification that the charge was budgeted, allowable, appropriate, and/or consistent with school-wide purchasing policies and procedures in advance of the transaction; and review through Credit Card Payment Recap summaries before payment was rendered or due.

### c. Inadequate Approval Process

As stated above, ECRCHS's Fiscal Policies and Procedures provided that the purchase of items greater than \$100 must be approved through purchase requisitions, signed by the Executive Director and/or Assistant Principal, with a related invoice. However, ECRCHS staff made purchases without requisition forms, and expenses were incurred first and followed with a review and approval based on a receipt or invoice with the purchase. ECRCHS explained that staff would informally make purchase requests to the Assistant Principal via email or handwritten note, and the Assistant Principal would approve such requests verbally or in writing, without documentation of invoices. (**Exhibit 9**, p. 000437-000441.) ECRCHS has indicated that it would make changes to its Enterprise Resource Planning ("ERP") system to facilitate the proper approval of purchases and its current Fiscal Policies and Procedures include guidelines for this process; however, as of April 12, 2016, ERP had yet to be fully implemented. (**Exhibit 11**, p. 000443-000444.) The District seeks confirmation that an adequate requisition system is in place that allows for the review of the nature of each expense, the estimated cost, and purpose.

ECRCHS's November 20, 2013, Fiscal Policies and Procedures further states that the "[ECRA Board] must review all expenditures." (**Exhibit 17**, p. 000514-000535).

However, expense reports submitted by the Executive Director were approved by the Chief Business Officer or Assistant Principal, with no indication of approval by the ECRA Board. As previously mentioned, Credit Card Payment Recap summaries were reviewed and approved by individuals seeming to lack such authority, and after payments on the credit card were due. For example, the Credit Card Payment Recap for the above-listed November 21, 2014, and November 30, 2014, purchases, was signed by Accounting Technician II Myra Geronimo and Ms. Halski, after the due date of December 16, 2014. (**Exhibit 37**, p. 002994.) Mr. Fehte also signed, but did not date, the Credit Card Payment Recap. The Credit Card Payment Recap for the November 7, 2014, charge was signed by Accounting Technician I Hunter Treuhaft and Ms. Halski after payment on the credit card was due; it was again signed, but not dated, by Mr. Fehte. (**Exhibit 37**, p. 002929.) The Credit Card Payment Recap for the January 8, 2015, charge was signed by Ms. Geronimo and Mr. Bennett after payment on the credit card was due.

*3. There is a Continued Lack of Adequate Fiscal Policies and Procedures After January 1, 2016 and July 1, 2016 Updates*

Once prompted by the District's inquiries into its fiscal operations, ECRCHS approved updates to its Fiscal Policies and Procedures on December 9, 2015, to take effect January 1, 2016. (January 1, 2016, ECRCHS Fiscal Policies and Procedures Handbook, attached hereto as **Exhibit 18**, p. 000536-00537.) Six months later, on June 22, 2016, ECRCHS approved yet another update to its Fiscal Policies and Procedures, effective July 1, 2016. (July 1, 2016, ECRCHS Fiscal Policies and Procedures Handbook, attached hereto as **Exhibit 19**, p. 000566-000600.) Among the updates were a separate credit card policy and revised guidelines regarding travel-related expenses. Despite having undergone two updates in an approximate seven-month period, ECRCHS has failed to satisfactorily remedy concerns and cure deficiencies in its Fiscal Policies and Procedures; and therefore, its current Fiscal Policies and Procedures continue to be inadequate and effectively address all of the District's concerns.

a. Credit Card Use

ECRCHS's November 20, 2013, Fiscal Policies and Procedures failed to include a clear and adequately detailed policy regarding credit card usage. As explained above, holders of ECRCHS account credit cards engaged in the practice of using these school-issued credit cards for personal and improper use. These personal purchases were seldom timely reimbursed before payment on the credit card was due, if at all. Given that this practice is inappropriate and inconsistent with the purpose of school-issued credit cards, the District directed ECRCHS to update its credit card use policy. This directive specified that such policy should be revised to include threshold amounts, qualify the types of transactions to be charged on school-issued credit cards, and specify that expenses which do not fall under the credit card use policy must be submitted and paid for through the check disbursement process. (**Exhibit 6**, p. 000391-000393.) Although ECRCHS updated its Fiscal Policies and Procedures to include a separate credit card policy, this policy still does not include threshold amounts, qualify the types of transactions to be charged on school-issued credit cards, and specify that expenses which

do not fall under the credit card use policy must be submitted and paid for through the check disbursement process. (**Exhibit 18**, p. 000536; **Exhibit 19**, p. 000566.)

Additionally, ECRCHS assured the District that its Fiscal Policies and Procedures would be updated to “eliminate the practice of allowing employees to reimburse [ECRCHS] for personal use of [ECRCHS] credit cards.” (**Exhibit 7; Exhibit 8.**) The updates, however, do not eliminate this practice; but rather, maintain some degree of permissibility, as they advise that such use is “discouraged and should be minimized as it creates the appearance of possible fraud.” (**Exhibit 18**, p. 000536-000537; **Exhibit 19**, p. 000566-000600.)

In response to the District’s continued concern surrounding this issue, ECRCHS informed the District that the ECRA Board cancelled several credit cards and anticipated additional such cancellations; cardholders signed written acknowledgment of the ECRCHS’s credit card policies; and that its Fiscal Policies and Credit Card Policy would be further revised for approval by the May 2016 ECRA Board meeting “to prohibit the use of [ECRCHS] credit cards for personal use, and outline steps to follow if an employee inadvertently uses [an ECRCHS] credit card for personal use.” (**Exhibit 11.**) ECRCHS has not provided evidence that such further revisions were ever made. Although, as indicated by ECRCHS, the form documenting cardholders’ acknowledgment of ECRCHS’s credit card policies provides that cardholders are not to use ECRCHS credit cards for personal expenses, this prohibition still remains excluded from ECRCHS’s Fiscal Policies and Procedures. As such, ECRCHS’s Fiscal Policies and Procedures continue to merely discourage, but do not eliminate, the personal use of credit cards. Indeed, despite two updates to its Fiscal Policies and Procedures beginning January 1, 2016, ECRCHS credit cards continue to be used for expenses without prior approval or documentation beyond a receipt or invoice. These transactions, some of which are specifically identified as being personal charges, include:

- March 4, 2016, charge of \$82.02 at Woodland Warner Flower (Terri Keas)(**Exhibit 37**, p. 003311; 003313-003315);
- March 5, 2016, charge of \$125.50 at Cavarettas Italian (Terri Keas)(**Exhibit 37**, p. 003311-003317);
- March 8, 2016, charge of \$30.24 at American Airlines for a flight upgrade (David Fehte) (**Exhibit 37**, p. 004025; 004028-004029);
- March 16, 2016, charge \$521.96 at Southwest Airlines (David Fehte)(**Exhibit 37**, p. 004025; 004030-004031);
- March 20, 2016, charge of \$770.40 at Hyatt Regency in Long Beach, California (Marshall Mayotte) (**Exhibit 37**, p. 003323; 003341); and
- March 21, 2016, charge of \$520.51 at The Citizen Sacramento (David Fehte) (**Exhibit 37**, p. 004025; 004034).

b. Address Verification on Purchase Orders

An invoice for the purchase of Robotic Materials showed a delivery address other than the school address, and was addressed to an individual other than the person who requested the purchase. (**Exhibit 6.**) The District, therefore, requested that ECRCHS

“instruct the finance office to ensure that only the school address [is] used on the sales order prior to processing payments.” ECRCHS explained that this was a “one-time exception,” in which it “ordered equipment for the Robotics Club during the summer break and requested that the equipment be delivered to a student’s home so the Robotics Club members could utilize the equipment during summer break”. (**Exhibit 9.**)

In fact, there was a further transaction to reimburse an ECRCHS staff person who received an Amazon delivery at a West Hills Address rather than at school, and this transaction occurred during the school year. (**Exhibit 38**, p. 004149-004154.)

Proper remedial action would have been to “instruct the finance office to ensure that only the school address [is] used on the sales order prior to processing payments” as requested by the District to prevent future, unexempt misuse, and/or maintain appropriate documentation to warrant exception. Instead, ECRCHS simply explained the “one-time exception” and determined that “[n]o further update [was] needed” to address the issue. (**Exhibit 9.**)

#### 4. *Failure to Meet Generally Accepted Accounting Principles*

In carrying out and managing its financial activities, ECRCHS has failed to operate in accordance with even the most basic accounting principles. For purposes of Education Code section 47607, generally accepted accounting principles is defined on page 101-1 of the *California School Accounting Manual*, as follows:

“The term *generally accepted accounting principles* refers to the standards, rules, and procedures that serve as the norm for the fair presentation of financial statements. Conformity with generally accepted accounting principles (GAAP) is essential for consistency and comparability in financial reporting.” [italics in original.]

(CAL. DEPT. OF EDUC., CALIFORNIA SCHOOL ACCOUNTING MANUAL (2016), *available at* <http://www.cde.ca.gov/fg/ac/sa/documents/csam2016complete.pdf>, attached hereto as **Exhibit 20**, p. 000601-001248.)

As detailed above, countless expenses were incurred with no or insufficient supporting documentation; without verification that the charge was budgeted, allowable, appropriate, and/or consistent with school-wide purchasing policies and procedures in advance of the transaction; and without appropriate review through Credit Card Payment Recap summaries before payment was rendered or due.

Based on the above, it appears that ECRCHS’s fiscal mismanagement resulted from more than inadequate policies and lack of oversight to ensure compliance; it resulted, in part, from the actions of ECRCHS officers and administrators who took advantage of their authority and accessibility to public funds for their personal benefit, as well as the insufficient monitoring by the ECRA governing board representatives. At this point, there is no evidence the ECRA Board has fulfilled its responsibilities in to hold its

employees accountable for these actions. Inappropriate actions on the part of ECRA administrators demonstrate fatal flaws in judgment that call into serious question the organization's ability to successfully implement the charter in accordance with applicable law and District requirements.

## **B. Violations of Law**

### *1. Violation of Open Meeting Laws*

ECRCHS has violated provisions of law, including the following provisions of the Brown Act contained in the Government Code:

- Section 54954.2: This section requires, in part, meeting agendas to contain descriptions, in clear and unambiguous terms, of each item of business to be transacted or discussed at the meeting, including closed session items; and limits action or discussion to items appearing on the agenda only. Section 54954.2 also requires that the agendas include information regarding requests for disability-related modifications and accommodations to facilitate participation in public meetings.
  - On at least four occasions since October 2015, the ECRA Board has violated section 54954.2 of the Government Code by taking action at meetings on items agendized as informational and for discussion only. The agenda for the ECRA Board meeting on October 26, 2015, included an item for the "Discussion on bylaws, voting and membership," with the purpose indicated as "Discuss" only. However, the minutes and audio recording of the meeting reflect that this discussion item resulted in the ECRA Board's vote to "create a committee to nominate a community member to fill the Board vacancy." (October 26, 2015, ECRA Board Meeting Agenda, attached hereto as **Exhibit 21**, p. 001249-001250; October 26, 2015, ECRA Board Meeting Minutes, attached hereto as **Exhibit 22**, p. 001251-001254.)

For the ECRA Board meeting on November 18, 2015, the agenda included an item to "Discuss Chart Oversight Committee – Roles and Election committee," with the purpose indicated as "Discuss" only. The minutes and audio recording of the meeting, again, reflect that the ECRA Board improperly took action by vote on this item designated for discussion only, voting to "form an ad hoc committee...to review, digest and receive recommendations and feedback from stakeholders to create an Oversight Committee that is in accordance with the ECRCHS Charter." (November 18, 2015, ECRA Board Meeting Agenda, attached hereto as **Exhibit 23**, p. 001255-001256; November 18, 2015, ECRA Board Meeting Minutes, attached hereto as **Exhibit 24**, p. 001257-001260.)

According to the December 9, 2015 ECRA Board meeting agenda, the ECRA Board was to “Review and Approve the Updated Fiscal Policies;” however, this item was presented on the agenda as “FYI” only. Rather than being limited to an informational item, however, the ECRA Board took action to approve updated fiscal policies. Recognizing that this item was listed on the meeting agenda as informational only, ECRA Board member Jackie Keene abstained from the vote for the reason that she was not prepared to vote on the updated policies. (December 9, 2015, ECRA Board Meeting Agenda attached hereto as **Exhibit 25**, p. 001261-001262; December 9, 2015, ECRA Board Meeting Minutes, attached hereto as **Exhibit 26**, p. 001263-001267.)

The agenda for the ECRA Board meeting on March 16, 2016, included an “FYI” item for an update on a Unified Teachers of Los Angeles (“UTLA”) agreement. The meeting agenda further explained that the agreement would be approved at a later board meeting “to provide an update of what is in the agreement.” The minutes of the March 16, 2016, meeting, however, show that the ECRA Board moved and approved to vote on the agreement after the closed session at the end of the March 16, 2016, meeting, upon a teacher’s request to approve the contract that evening and the UTLA representatives’ requests for the Board to convene a special meeting for such action. The UTLA agreement does not appear on the agendas or minutes of subsequent meetings. (March 16, 2016, ECRA Board Meeting Agenda, attached hereto as **Exhibit 34**, p. 001285-001289; March 16, 2016, ECRA Board Meeting Minutes, attached hereto as **Exhibit 35**, p. 001290-001295.)

- ECRA’s meeting agendas have routinely failed to include clear and unambiguous item descriptions. For example, the agenda for the May 18, 2016, meeting states, “Four candidates are running for the upcoming teacher and community representative spots.” However, the candidates are not identified in the agenda; and the minutes reflect that a meeting participant complained of the failure to provide candidate information for public review in advance of the meeting. (May 18, 2016, ECRA Board Meeting Agenda, attached hereto as **Exhibit 36**, p. 001296-001300.)
- Finally, ECRA’s meeting agendas do not include any information regarding the accommodation of individuals with disabilities, such as how, to whom, and when a request for disability-related modification or accommodation may be made in order to enable participation in the meetings. (See, e.g. March 25, 2015, ECRA Board Meeting Agenda, attached hereto as **Exhibit 27**, p. 001268-001269; June 17, 2015, ECRA Board Meeting Agenda, attached hereto as **Exhibit 28**, p. 001270-001271; August 12, 2015, ECRA Board Meeting Agenda, attached hereto as **Exhibit 29**, p. 001272-001273; September 16, 2015, ECRA

Board Meeting Agenda, attached hereto as **Exhibit 30**, p. 001274-001275; **Exhibit 23** (p. 001255-001256); **Exhibit 34**, p. 001285-001289.)

- Section 54956(b): This section provides that a “legislative body shall not call a special meeting regarding the salaries, salary schedules, or compensation paid in the form of fringe benefits, of a local agency executive.” On the agenda for the December 16, 2015, special board meeting, appears an agenda item to “Review and Approve Executive Salary Table” for the Executive Director and Chief Business Officer. (December 16, 2015, ECRA Special Board Meeting Agenda, attached hereto as **Exhibit 32**, p. 001279-001281.)
- Section 54957.5(b): This section requires that meeting agendas list the address of the location where members of the public can access public records relating to agenda items for open sessions. ECRA has failed to include such information on its meeting agendas. (See, e.g. **Exhibit 27**, p. 001268-001269; **Exhibit 28**, p. 001270-001271; **Exhibit 29**, p. 001272-001273; **Exhibit 30**; **Exhibit 23**; **Exhibit 34**.)
- Section 54954.5: This section establishes the required information for agenda descriptions on closed session items regarding conferences with labor negotiators. Substantial compliance is satisfied by including the following information: (1) “Agency designated representatives: (Specify names of designated representatives attending the closed session) (If circumstances necessitate the absence of a specified designated representative, an agent or designee may participate in place of the absent representative so long as the name of the agent or designee is announced at an open session held prior to the closed session.)”; and (2) “Employee organization: (Specify name of organization representing employee or employees in question),” or “Unrepresented employee: (Specify position title of unrepresented employee who is the subject of the negotiations).”

ECRA has failed to include the required information relating to a conference with labor negotiators. The agenda for the March 16, 2016, meeting includes the description, “Conference with Labor Negotiators (i.e. David Fehte and Marshall Mayotte)” as an item for closed session, appearing to be in reference to the review and approval of the UTLA agreement, mentioned above. (**Exhibit 34**, p. 001285-001289.) Although the ECRCHS designated representatives are identified in the agenda, the employee organization is not specified.

- Section 54957.7: This section sets forth the requirement that items to be discussed in closed session be disclosed in advance in open meetings. ECRA has failed to properly detail closed session items in agendas or document that such items were properly reported out in open sessions. (See, e.g., **Exhibit 30**, p. 001274-001275; September 16, 2015, ECRA Board Meeting Minutes, attached hereto as **Exhibit 31**, p. 001276-001278; **Exhibit 32**, p. 001279-



001281; December 16, 2015, ECRA Board Meeting Minutes, attached hereto as **Exhibit 33**, p. 001282-001284.)

**C. Material Violation of Any of the Conditions, Standards, or Procedures Set Forth in the Charter**

Based on the above-described fiscal mismanagement and violations of the Brown Act, ECRCHS has materially violated “Element 4: Governance” of its Charter.

Pursuant to ECRCHS’s initial and renewal charter, the governing board was charged with being “fully responsible for the operation and fiscal affairs of [ECRCHS]” and “monitor[ing] the implementation of general policies of [ECRCHS];” as well as the Executive Director’s duty to “[o]versee school finances to ensure financial stability.” (**Exhibit 2**, p. 00015-000125, Element 4: Governance, page 40; **Exhibit 3**, p. 000126-000348, Element 4: Governance, p. 109.) The governing board violated these provisions of the Charter, in part, by failing to have adequate policies and practices to ensure that purchases were accompanied by sufficient documentation and bore proper approval.

Furthermore, the governing board failed to address repeated instances of unsubstantiated purchases and hold responsible employees accountable for their misconduct. Such action is properly within the scope of the governing board’s duties and responsibilities, as the Charter states that the governing board is responsible for the direct supervision of its Executive Director and Chief Business Officer. This includes the “supervis[ion], evaluat[ion], discipline, and dismissal of the Executive Director.” (**Exhibit 2**, p. 00015-000125, Element 4: Governance, page 40; **Exhibit 3**, p. 000126-000348, Element 4: Governance, p. 109.) As an employer, the governing board has the same responsibilities to supervise and discipline its Chief Business Officer as the person responsible for financial oversight. ECRCHS has materially violated these provisions of its Charter, as demonstrated by the lack of accountability to which ECRCHS holds its employees for their misuse of public funds and failure to comply with ECRCHS policies and procedures.

Finally, through the above-described violations of the Brown Act, ECRCHS has violated multiple provisions of the Charter which explicitly state that the governing board will comply with the Brown Act. (**Exhibit 2**, p. 000015-000125, Element 4: Governance, p. 40, “The Board of Directors of the [ECRCHS] will meet regularly, at least once a month (except during the summer) and in accordance with the Brown Act.”; **Exhibit 2** (p. 00015-000125), Element 4: Governance, p. 41 “[ECRCHS] shall comply with the Brown Act.”; **Exhibit 3**, p. 000126-000348, Element 4: Governance, p. 105 “[ECRCHS] shall comply with the Brown Act.”)

#### **IV. REASONABLE PERIOD OF TIME TO REMEDY VIOLATIONS**

The aforementioned violations must be addressed and remedied on or before **September 23, 2016**. Pursuant to California Code of Regulations, Title 5, section 11968.5.2, subdivision (c), ECRCHS is entitled to respond in writing to this Notice and attach supporting evidence of its refutation, remedial action, or proposed remedial action, if any. Please submit this response to LAUSD's Charter Schools Division:

José Cole-Gutiérrez, Director  
Charter Schools Division  
333 South Beaudry Avenue, 20th Floor  
Los Angeles, CA 90017

Upon the conclusion of the reasonable time to remedy, the LAUSD Board shall evaluate ECRCHS' response and any supporting evidence. ECRCHS' failure to remedy the violations specified herein, will lead to a recommendation to the LAUSD Board to issue a Notice of Intent to Revoke. (5 CCR 11968.5.2(d).) ECRCHS is also hereby placed on notice that, pursuant to section 47607, subdivision (i), should the LAUSD Board revoke the Charter of ECRCHS based on the above-specified violations, ECRCHS shall cease operations pending appeal.

#### **V. CONCLUSION**

Pursuant to section 47607, subdivision (d), and California Code of Regulations, Title 5, section 11968.52, all of the above matters must be remedied.

Through this Notice, the District is affording ECRCHS the opportunity to remedy the violations noted above on or before September 23, 2016. If ECRCHS fails to remedy the issues and provide the requested information on or before September 23, 2016, the LAUSD Board will notify ECRCHS of its intent to revoke the charter. To the extent required by Education Code section 47607(c)(2), the LAUSD Board shall consider increases in pupil academic achievement for all groups of pupils served by ECRCHS as the most important factor prior to acting upon a recommendation for revocation of the ECRCHS Charter. This Notice does not limit the LAUSD Board's ability to issue a subsequent Notice of Violations should additional issues be identified beyond those specified herein.

**SERVICE**

Upon the LAUSD Board's approval of issuance of the Notice of Violations at the LAUSD Board Meeting on August 23, 2016, the LAUSD Charter Schools Division shall issue the Notice of Violations to:

Jonathan Wasser, ECRA Board President  
El Camino Real Charter High School  
5440 Valley Circle Blvd.  
Woodland Hills, CA 91367  
Email: j.wasser@ecrchs.net

**EXHIBITS ATTACHED**