



Response to Notice to Cure

November 1, 2017

Aida Tatiossian, Specialist
Sandra Melendez, Fiscal Services Manager
Los Angeles Unified School District
Charter Schools Division
33 South Beaudry Avenue, 20th Floor
Los Angeles, CA 90017

SUBJECT: NOTICE TO CURE RE: IMMEDIATE ACTION REQUIRED

Allegations of Fiscal Management and Lack of Internal Controls, Conflicts of Interest, Governance Concerns, and Breach of Charter, for all Charter Schools Under PUC Los Angeles, PUC Lakeview Terrace, and PUC Valley

Charter Numbers (0213, 0331, 0600, 0603, 0797, 0798, 1091, 1092, 1241, 1354, 1626, 1657, and 1820)

Location Codes (8453, 8154, 5313, 8212, 8426, 2024, 7778, 7779, 7732, 7687, 5221, 2282, and 7554)

Dear Ms. Tatiossian and Ms. Melendez,

This letter serves as Partnerships to Uplift Communities Valley's, Partnerships to Uplift Communities Lakeview Terrace's, and Partnerships to Uplift Communities Los Angeles's (collectively, "PUC Schools") response to your Notice to Cure letter dated October 23, 2017.

In early October, while searching for and collecting documents in response to an October 5, 2017 California Public Records Act request by the Los Angeles Times, PUC Schools was shocked to discover the possible misspending of school funds and conflicts of interest involving payments made to Partners Developing Futures and Better 4 You Fundraising.

In response, PUC Schools took immediate, appropriate action by launching an internal investigation led by outside legal counsel. On October 9, it informed the LAUSD Office of Inspector General (OIG) in-person that it had discovered these checks. On the same day, PUC Schools began its investigation by interviewing Liz Melendrez. On October 13, PUC Schools filed a complaint with the California Fair



Political Practices Commission (FPPC) regarding the checks and asked Ms. Melendrez to resign. (Attachment A). On October 15, Dr. Jacqueline Elliot emailed the Director of the LAUSD Charter Schools Division (CSD) Jose Cole-Gutierrez informing him of PUC Schools' internal investigation into this matter. (Attachment B). On October 16, Dr. Elliot emailed the OIG the FPPC complaint. (Attachment C). In less than ten (10) days, PUC Schools discovered the issue (October 6), began its investigation (October 9), filed a complaint with the FPPC (October 13) and reported it to two (2) LAUSD oversight bodies (October 9, 15 and 16). According to PUC Schools' charters with LAUSD, it is required to "notify the CSD in writing of any internal investigations within one week of commencing investigation" (Attachment D). The October 15 email to Mr. Cole-Gutierrez was less than one week from the date the internal investigation began on October 9. Additionally, on October 18, the PUC Schools Board of Trustees was informed of the FPPC complaint. PUC Schools' transparency and willingness to comply with government oversight are beyond reproach.

In the letter, CSD stated that "only through media articles did CSD obtain the FPPC Complaint". Be that as it may, we fully complied with our notification requirements under our charters. Specifically, we are obligated to "notify the CSD in writing of any internal investigations within one week of commencing investigation." PUC Schools did. Additionally, after Dr. Elliot emailed Mr. Cole-Gutierrez, he responded by emailing "Thank you, Jackie". (Attachment E). There was ample opportunity for Mr. Cole-Gutierrez to ask for the FPPC complaint, which we certainly would have provided it as we did for the OIG a day later. PUC Schools has demonstrated time and time again its willingness to work in partnership with the CSD throughout its long and successful 18-year history.

The introduction of CSD's letter also insinuated that PUC Schools should have made these findings earlier. We must respectfully disagree for the reasons as follows:

1. Three of the checks signed by Dr. Rodriguez were fundraising checks out of fundraising accounts at three different PUC schools he led. (Attachment F)
2. On June 2, 2014, Dr. Rodriguez signed six additional checks out of six different PUC schools main accounts.
3. These same six checks which totaled over \$160,000 should have been brought to the PUC Schools Board, but they were divided over six checks so that none of the checks were above the \$50,000 threshold that requires Board approval.
4. Dr. Elliot was unaware of these six checks because her signature stamp was used without her knowledge or approval.
5. Four of the checks signed by Dr. Rodriguez were coded to a Suspense account, so that they did not show up on PUC Schools' Statements of Revenues and Expenses, and they were not reclassified until June 30, 2016 to an expense site at all of the Los Angeles PUC schools. The delay in reclassification occurred because previous employees in the finance department were waiting for clarification from Dr. Rodriguez.



6. Dr. Rodriguez was serving as interim CFO during the relevant time period (July 2014 to May 2015).

This was not a case of a finance department lacking proper policies and procedures. In fact, we provided a number of these checks to the CSD during two of CSD's audits (2014 and 2015), and the CSD was also unable to determine potential wrongdoing as we ultimately did by viewing all of the checks issued and available back-up in their entirety. (Attachment G). Specifically, in the 2014-15 CSD Annual Oversight Report, the CSD wrote the following about PUC Schools' checks, "no discrepancies noted," and the following about PUC Schools' fundraising accounts, "no discrepancies found." However, in that audit, the fiscal services manager requested and viewed one check to Better 4 You fundraising for chocolate purchases out of one of school's fundraising accounts. For the 2015 -16 school year, five PDF checks were requested for review but the LAUSD fiscal services manager did not provide any details regarding discrepancy for those checks. For the 2016 -17 audit, no discrepancies whatsoever were noted.

LAUSD did not catch this and neither did PUC Schools. Yet we are both committed to transparency and integrity. Dr. Rodriguez has served and supported thousands of children over the past two decades and in the process, built a reputation for integrity that was unquestioned. But now, more than ever, he needs to explain these transactions, where the payments went and how they could have possibly benefitted the schools. Only Dr. Rodriguez can shed light on the documentation PUC Schools has uncovered, and by speaking out about where this money went, he can clear PUC Schools, the CSD and himself. We asked him about these transactions in a letter dated October 13, 2017 and we believe he needs to share what he knows quickly.

I will now address the specific concerns you raised in your letter.

Fiscal Mismanagement

In your discussion of this concern, you mention the OIG's Audit report dated April 2, 2015 and the CSD's related Notice of Concern dated May 19, 2015 covering PUC Schools activities from July 1, 2011 through June 30, 2013. The Audit report and the Notice of Concern specifically addressed the "issues with providing requested documentation in a timely manner and a finding in the most current audit available (2011/2012) concerning the lack of a systemic method of ensuring that timely and complete monthly reconciliation and closing procedures are followed." The result of this was that PUC Schools received a fiscal rating of 2 on the 2012-13 CSD Annual Oversight Report.

PUC Schools does not understand why CSD needs to rehash this 2015 Notice of Concern when there is no connection between the bank reconciliation issues covered in that Notice of Concern and the issues mentioned in the FPPC complaint. First, the Notice of Concern covers a completely different timeframe than the FPPC complaint. The Notice of Concern addressed activities from 2011-2013 while the FPPC



complaint concerns transactions in 2014. Second, as you stated, since 2013, PUC Schools has made “subsequent improvements.” Specifically, we have:

1. Improved our payroll systems by changing to Paycom. (Attachment H)
2. Made numerous changes in the finance team personnel.
3. Promoted a new CFO who has received extensive training to ensure her expertise such as Fiscal Crisis Management Assistance Team CBO certification training from FCMAT and additional training with School Services of California.

As a result of all of these changes, bank reconciliations have not been a concern as PUC Schools has not received a finding since 2013.

Furthermore, all PUC Schools with the exception of one received a fiscal rating of 3 in the 2016-17 CSD Annual Oversight Report.

Although we strongly disagree that there is evidence of fiscal mismanagement on the part of PUC Schools, we are always striving to improve. Before this letter, actions were taken that should prevent the issue from reoccurring:

1. Dr. Rodriguez left PUC Schools in 2015.
2. Our bank will not accept a stamped signature without calling for verbal verification by an authorized representative. This policy started in April 2016.
3. Ms. Melendrez was interviewed, her phone and computer were taken away to investigate, and she was asked to resign, which she did on October 13, 2017.

We are also taking additional steps:

1. Our internal investigation will consist of interviewing financial department members to ensure they understand the appropriate procedures and policies regarding check requests and approvals
2. Our revised fiscal procedures and policies will be brought forth again to the Board for their review at the next Board meeting
3. When staff members are trained on these policies, they will sign a document certifying that they have received such training
4. If trained staff members violate any of these policies, they will be subject to disciplinary action
5. Employees will be provided with a list of individuals to reach out to if they have reason to believe that another employee is acting outside fiscal policies and regulations.

Conflicts of Interest

In your discussion of Conflicts of Interest, you note that “on January 13, 2015, the CSD sent a Notice of Concern to Dr. Biroc, Dr. Elliot, and Dr. Rodriguez regarding the appearance of a potential conflict of



interest, raising the issue of Dr. Elliot and Dr. Rodriguez's dual roles as employees of certain PUC corporations and member of one or more PUC organizations. The CSD noted that Dr. Elliot's participation in and execution of the three School Administrative Service Agreements ("Service Agreements") executed between each of the three PUC regional boards on June 26, 2013 and PUC National may present issues pursuant to Government Code section 1090 and breach of the charters."

We strongly disagree that PUC Schools has engaged in a "pattern of disregard and ineffective adherence to conflict of interest laws".

PUC Schools never violated conflict of interest laws as claimed in 2015. Dr. Elliot was paid out of Partnerships to Uplift Communities- Lakeview Terrace and she never sat on that Board. Similarly, Dr. Rodriguez was paid out of Partnerships to Uplift Communities- Los Angeles and he never sat on that Board. Further, in 2013-14, when the first Service Agreements were signed, Dr. Elliot did sign the Agreements for PUC National but recused herself from voting on that item at the Partnerships to Uplift Communities board meeting. Dr. Rodriguez was not present at that meeting. (Attachment I). Even though there was no conflict of interest, the CSD requested that Dr. Elliot not sign any future Service Agreements. In the spirit of cooperation, when the 2014-15 Service Agreements were signed, Dr. Elliot did not sign any of the agreements. (Attachment J). Also, as you noted, Dr. Elliot and Dr. Rodriguez resigned from all of the PUC Schools Boards on June 30, 2015. While PUC Schools did not agree that this was necessary, in an effort to satisfy new demands from the CSD, PUC Schools nonetheless agreed to these resignations.

Second, you mention the MOU between PUC Schools and PDF as evidence that conflicts of interest concerns continued and were known by PUC Schools. Specifically, you write, "It seems that PUC only recently investigated and discovered that there had been conflict of interest violations in the execution of contracts between PUC Schools and PDF...It is perplexing that PUC or Dr. Elliot did not address these conflict of interest issues until now since by the very signatures on the MOU, PUC had to be aware that Dr. Rodriguez was the President/CEO of PDF when the MOU was executed." The focus of the FPPC complaint related to the PDF-PUC MOU is that the MOU was apparently not implemented or followed. PUC Schools' obligation under the MOU was to reimburse the salary of Angela Bass. The checks that were requested by PDF and approved and signed by Dr. Rodriguez involved consulting services that had already been paid by PDF. PDF received reimbursements from PUC Schools for these payments even though those reimbursements were not covered in the MOU and we suspect were not related to any services rendered to PUC Schools. As explained above, because of how the checks were coded, how they were requested and approved, how they were signed, and as a result of viewing them in their entirety, the discovery of the concerns relating to these checks did not occur until October 2017. Again, CSD had possession of several of these checks in September 2014 and September 2015 and did not flag them as a concern.



Third, the CSD mentions that PUC Schools should have been aware that Dr. Rodriguez had a financial interest in Better 4 You Fundraising because “the CSD issued a follow up letter dated July 16, 2015, requesting, in part, that PUC provide a description of the relationship of any of the PUC 501(c)(3)’s or charter schools and the company Better 4 You Fundraising including articles of incorporation, bylaws, list of current board members for Better 4 You Fundraising.” The CSD’s conclusion is that CSD’s requests should have alerted PUC Schools of Dr. Rodriguez’s interest in Better 4 You Fundraising. However, Better 4 You Fundraising and PUC Schools are different entities. We appreciate that CSD would like to review Better 4 You Fundraising’s governance records. For purposes of our internal investigation, PUC Schools would like to review that information as well. However, the fact that the CSD requests these documents does not change the fact that Better 4 You Fundraising is a separate private company, and PUC Schools has no right to obtain those records. Further, Dr. Rodriguez left PUC Schools on July 15, 2015 (one day before your July 16, 2015 letter), so no additional investigation at the time would have uncovered information relating to Dr. Rodriguez’s financial interest in Better 4 You Fundraising. That is precisely why PUC Schools was unaware of Dr. Rodriguez’s financial interest in Better 4 You Fundraising until KPCC published a September 28, 2017 article with that information. (Attached K). Also, please note: when you sent that request for information relating to any known relationships between PUC Schools and Better 4 You Fundraising, we fully complied in a letter to you dated August 14, 2015. (Attached L).

Finally, you mention the March 2015 finding from the California Department of Education (CDE), which relates to a conflict of interest between Jacqueline Duvivier Castillo and the PUC Schools food program. Immediately after the March 2015 finding, PUC Schools took a number of steps to ensure that the food program would be in compliance moving forward:

1. PUC Schools’ conflicts of interest policies were updated and approved by the Board on March 25, 2015. (Attachment M)
2. Our General Counsel worked closely with the CDE’s contract specialists in the summer of 2015 to ensure that the procurement process was done appropriately. The CDE congratulated PUC Schools for its procurement process. (Attachment N)
3. Jacqueline Duvivier Castillo no longer works at PUC Schools.
4. A new food services manager, Rosa Arrington, was hired. She and her assistant, Andrea Alvarez, have attended trainings on the food services procurement process.

Additionally, PUC Schools is planning to launch the following next steps to avoid possible conflicts of interest in the future:

1. A nepotism policy will be created and presented to the board for its consideration at a November meeting.
2. A conflict of interest form will be signed by every employee requiring them to disclose any other businesses they own or are employed by in order to alert supervisors, board members, and HR to possible conflicts in duties, responsibilities or obligations.



3. Training on these new policies will be provided and employees will sign a document certifying that they have been trained.
4. Violations of these policies will result in disciplinary action.
5. Employees will be provided with a list of individuals to reach out to if they have reason to believe that another employee is acting in violation of conflicts of interest policies and regulations.

Governance and Leadership

PUC Schools Board and executive leadership have always demonstrated strong leadership, capacity and accountability, but since 2015, the Board's membership completely changed further strengthening those functions of leadership, capacity, and accountability. Our schools have improved and earned a fiscal score of 3 in the most recent audit. The executive leadership showed true courage and transparency by immediately alerting three government agencies (the CSD, the OIG, and the FPPC) upon discovery of the issues related to the payments. Further, PUC Schools has pursued this issue diligently. It has sent letters to both Dr. Rodriguez and Better 4 You Fundraising. (Attachments O and P). In addition, the PUC regional Boards met on October 18 to discuss this issue. (Attachments Q). Direction was given in closed session, which cannot be shared, but in the next Board meeting, the Boards will discuss the status of this situation and determine next steps. PUC Schools is confident in saying that its Board and executive leaders should be truly proud of how they have handled this matter and they are a model of courage and leadership that hopefully others will emulate in the future.

With all due respect, I must resist when anyone questions the integrity of the education that PUC Schools and all of its amazing administrators, teachers, and staff have provided since the first school opened in 1999. Few would debate the value that PUC Schools has added to our communities. PUC Schools' leaders are proud and grateful to have been a part of a school system that is making a difference in the communities they serve and creating hopeful pathways for those that may not have had the opportunity to succeed otherwise.

We have not only helped thousands of students reach college graduation that would have been impossible before PUC Schools opened in their communities. Our high schools consistently have a 90% graduation rate year after year with approximately 70% accepted into four-year universities. Recently, Ms. Melendez came to the PUC Sylmar Education Complex and praised PUC Schools for all of the wonderful achievements it has accomplished for its students, families and communities. In addition, our schools have earned many distinctions over the years including but not limited to Gold Ribbon Awards, California Distinguished School Awards, Title 1 Achievement Awards, and more.



We are ready and willing to continue to be partners in this work, and remain reflective practitioners always looking for ways to improve in every aspect of our work. We are not, however, ready and willing to accept what feels to be an attack on our ability to educate our students and dedication to uplifting our communities.

Failure to Provide Information

The CSD notes that PUC National has not provided requested information to the CSD on the basis that PUC National is a private organization and is not part of the CSD's oversight reach. We stand by that past decision, and there is nothing in the FPPC complaint that involves any of PUC National's transactions. However, PUC Schools will provide the relevant PUC National records that have been shared with PUC Schools. In fact, the OIG currently has access to the PUC National general ledger and many other PUC National documents, which we willingly provided to them in the spirit of cooperation. We are more than happy to do the same for you.

I urge you to remember that Partnerships to Uplift Communities is an 18-year-old organization with a proven track record of success both academically and in its operations. It accomplished that with employees who showed up to work every day with the single goal of wanting to make a difference in the communities we serve and in the lives of the students we educate. The transactions that took place in 2014 were executed by one person who acted either alone or with the help of one other employee—both of whom are no longer with our organization. Ref Rodriguez was the treasurer, the interim CFO of the organization he helped found and an educator with a sterling 20-year track record and reputation. He had a vested interest in making sure these schools are successful. You're talking about someone who's created opportunities for thousands of children and who demonstrated a commitment day in and day out to acting in the best interest of students. His track record was unquestioned. His reputation, leadership and oversight were unquestioned. Since then, the CSD has recognized the changes we've made by granting our schools strong fiscal and governance scores. We will continue to do what is right and look forward to your partnership as we do what's best for our students.

It is our hope that we can address and resolve all issues that have been raised. We are eager to collaborate with you in order to continue to serve the thousands of students who are benefiting from our outstanding schools.

Requested Action

All attachments mentioned in this letter are in Sandra Melendez's Dropbox account. In addition, all items requested in the Notice to Cure letter will be produced in Ms. Melendez's Dropbox account by November 1, 2017.

Partnerships to Uplift Communities



Sincerely,

A handwritten signature in black ink, reading 'Manuel Ponce, Jr.', positioned above a horizontal line.

Dr. Manuel Ponce, Jr., Governing Board President
PUC Schools