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## **SEC Charges Los Angeles County School District and Two Officials with Defrauding Investors in \$100 Million Bond Offering.**

*Litigation Release No. 24602 / September 19, 2019*

*Securities and Exchange Commission v. Ruben James Rojas, No. 5:19-civ-01799 (C.D. Cal. filed September 19, 2019)*

The Securities and Exchange Commission today charged Montebello Unified School District (“Montebello” or the “District”), its former Chief Business Officer, and its Superintendent of Schools with defrauding investors by failing to disclose fraud and internal controls concerns raised by the District’s independent auditor.

According to the SEC’s complaint and order, immediately before and concurrently with the District’s sale of \$100 million of general obligation bonds in December 2016, Montebello’s independent auditor repeatedly raised concerns about allegations of fraud and internal controls issues to the District’s Board of Education and management. In response, Montebello allegedly refused to authorize the fees needed for the audit firm to complete its audit and instead decided to terminate the audit firm. The offering documents for Montebello’s December 2016 bonds failed to disclose this information to investors and instead included a copy of the District’s audit report from the prior fiscal year, which included an unmodified or “clean” audit opinion from the firm. The SEC alleges that Ruben Rojas, Montebello’s former Chief Business Officer, helped prepare the misleading offering documents and also concealed the audit firm’s concerns by providing deceptive updates about the status of its pending audit to various gatekeepers, including the disclosure lawyers who worked on the bond offering. The SEC’s order found that Anthony Martinez, Montebello’s Superintendent of Schools, signed the final bond offering document and made false certifications in connection with the bonds.

The SEC’s complaint, filed in U.S. District Court for the Central District of California, charges Rojas with violating the antifraud provisions of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder as well as Section 17(a) of the Securities Act of 1933, and seeks permanent and conduct-based injunctions as well as a financial penalty.

Montebello and Martinez agreed to settle with the SEC and consented to the SEC’s order without admitting or denying the findings. Montebello was ordered to cease and desist from future violations of the antifraud provisions of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder as well as Section 17(a) of the Securities Act of 1933. It also agreed to engage an independent consultant to evaluate its policies and procedures related to its municipal securities disclosures. Martinez was ordered to cease and desist from future violations of Section 17(a)(3) of the Securities Act of 1933 and also ordered to pay a \$10,000 penalty.

The SEC’s investigation was conducted by Jason H. Lee and Creighton Papier, and supervised by Monique Winkler, of the Public Finance Abuse Unit. The litigation against Rojas will be led by John

Yun and Mr. Lee.

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