

June 21, 2006

The Honorable Rodney S. Melville  
Presiding Judge of the Superior Court of California, County of Santa Barbara  
Cook Division, Department SM1  
312-C East Cook Street  
Santa Maria, CA 93456

Santa Barbara County Grand Jury  
Grand Jury Room  
Santa Barbara County Courthouse  
Santa Barbara, CA 93101

Dear Honorable Judge Rodney S. Melville and Members of the Grand Jury:

Santa Maria-Bonita School District hereby submits its responses to the Grand Jury's Report on Santa Maria-Bonita School District's Construction Plan.

## **FINDINGS**

### **Finding 1**

The Santa Maria-Bonita School District undertook a complex \$100,000,000 construction project with a Board of Education and staff that were lacking knowledge and experience in construction. The District lacked procedures to manage and control a project of such size and complexity.

### **Response 1**

Santa Maria-Bonita School District disagrees wholly with this finding.

The Santa Maria-Bonita School District undertook a complex construction project; however, according to prevailing industry standards, it relied on construction managers and an architect to assist because of the complexity of the project. Further, the District had experienced construction personnel on staff.

### **Finding 2**

Public Contract Code 20118 did not authorize the purchase of factory built school buildings directly from a vendor.

### **Response 2**

Santa Maria-Bonita School District disagrees wholly with this finding.

At the time that the District entered into contracts with TurnKey Schools of America, Inc., the prevailing interpretation of Public Contract Code 20118 was that it authorized the District to purchase factory built school buildings directly from the vendor. The opinion of the Attorney General to the contrary was not published until January 24, 2006, well after the District utilized the piggy-back process.

**Finding 3**

By purchasing buildings that did not comply with the specifications of the original contract, the purchase by the District was not eligible for the piggy-back process.

**Response 3**

Santa Maria-Bonita School District disagrees wholly with this finding.

The District is unaware of the factual and legal basis for the Grand Jury's conclusion that the purchased buildings did not comply with the specifications of the original contract, and its further conclusion that the purchase was not eligible for the piggy-back process.

**Finding 4**

The Santa Maria-Bonita School District did not require performance and payment bonds to be provided by TurnKey as project manager, architect or contractor.

**Response 4**

Santa Maria-Bonita School District disagrees wholly with this finding.

The District's Board and Superintendent took appropriate steps to protect the District by requiring that TurnKey provide payment, performance, and multiple other types of bonds. Moreover, Turnkey agreed in more than one written contract that it would provide these bonds.

**Finding 5**

Although TurnKey had not provided payment bonds, the District paid money due to trade contractors to TurnKey and TurnKey did not pay the trade contractors, opening the District to financial liability to the trade contractors.

**Response 5**

Santa Maria-Bonita School District disagrees partially with this finding.

Santa Maria-Bonita School District required TurnKey to provide payment bonds, and then TurnKey's failure to do so ultimately resulted in financial liability to the District.

**Finding 6**

The Santa Maria-Bonita School District failed to provide adequate supervision of the construction projects.

**Response 6**

Santa Maria-Bonita School District disagrees partially with this finding.

The Santa Maria-Bonita School District relied on its experienced staff, construction managers, and an architect to supervise every step in the construction project.

**Finding 7**

The Santa Maria-Bonita School District has incurred estimated additional costs of more than \$1,000,000 for legal expenses and will incur costs related to construction of approximately \$5,000,000 to \$6,000,000.

**Response 7**

Santa Maria-Bonita School District partially disagrees with this finding.

Santa Maria-Bonita School District's insurer paid the majority of the litigation defense costs associated with the TurnKey litigation.

**RECOMMENDATIONS****Recommendation 1**

The Santa Maria-Bonita School District should review the construction and finance transactions related to the TurnKey projects to determine the validity of such transactions.

**Response 1**

The Santa Maria-Bonita School District has implemented this recommendation.

The District has reviewed, via outside auditors, claims analysts, accountants, and legal counsel, the validity of the construction and finance transactions related to the TurnKey projects.

**Recommendation 2**

The Santa Maria-Bonita School District should establish internal procedures with a separation of duties and functions under more than one official to ensure that a proper check and balance procedure exists.

**Response 2**

The Santa Maria-Bonita School District has implemented this recommendation.

Santa Maria-Bonita School District has established internal procedures assigning duties and functions to many officials, thus creating checks and balances over expenditures of District funds.

Sincerely,

David M. Francis

Superintendent of Santa Maria-Bonita School District

On Behalf of the Board of Education of Santa Maria-Bonita School District