



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF MUNICIPAL AUDIT**

John G. Morgan
Comptroller of the Treasury

**SUITE 1600
JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-0271
PHONE (615) 401-7871
FAX (615) 741-1551**

Dennis F. Dycus, CPA, CFE, Director
Division of Municipal Audit

May 9, 2006

Members of the Board of Commissioners
Watts Bar Utility District
P.O. Box 910
Kingston, TN 37763

Board Members:

We have completed limited procedures related to selected records of the Watts Bar Utility District. Our examination focused on the period October 1, 2003, through September 30, 2005. However, when the examination warranted, this scope was expanded. Our examination revealed the following issues:

- District minutes did not include documentation that bids were obtained for at least two applicable projects, including a water booster project for which C. R. Barger Construction Company received at least one check in September 2005 for \$39,284.
- The district paid for expenses of certain employees of Holiday Shores to attend Tennessee Association of Utility Districts conferences. We noted that the Manage, Operate and Maintain (MOM) contract specifically excluded expenses for conferences and other meetings related to the utility. However, we noted no provision in the contract for the district to pay for such expenses on behalf of the contractor.
- The utility district appears to have paid for a new roof on the office building and tank connector. According to the MOM contract, Holiday Shores Water Services shall provide at a lump-sum cost per month, for office space to be used by the utility district. We noted no provision in the contract for the district to pay for any repairs, maintenance, renovations, etc. on the leased office building.

Members of the Board of Commissioners
Watts Bar Utility District
May 9, 2006
Page 2

As the board is aware, due to the lack of separation of Holiday Shores Water Services, Watts Bar Utility District, and C. R. Barger & Sons, an “appearance” of a conflict of interest exists. In addition, Mickey Barger’s ownership/management of both Holiday Shores and C. R. Barger & Sons Construction could possibly be construed as a major internal control weakness especially related to bid procedures. Although according to Mr. Barger, the district uses Ivins and Ivins Engineering Company to solicit bids for Watts Bar Utility District projects, it is our understanding that Holiday Shores determines which projects are bid and which projects are completed in-house by Holiday Shores under the MOM contractual agreement. To reduce the risk of irregularities, and the perception of possible irregularities arising from the perceived conflict of interest, district commissioners should exercise intense scrutiny over all aspects of district operations.

If you have any questions concerning these matters, please contact me.

Very truly yours,

A handwritten signature in black ink, appearing to read "Dennis F. Dycus", is written over a light gray rectangular background.

Dennis F. Dycus, CPA, CFE, Director
Division of Municipal Audit